APPLIED

WJEC Level 3 Applied Certificate in

BUSINESS

REGULATED BY OFQUAL
DESIGNATED BY QUALIFICATIONS WALES

UNIT 1
THE ORGANISATION – SURVIVAL AND PROSPERITY

CONTENT THEORY
COMPANION RESOURCE



Contents

Page

LO1 Understand the influences on how organisations function within their environment

AC1.1	Describe and distinguish between the main sectors and classifications of the UK economy	2
AC1.2	Analyse the relationship between organisations and their stakeholders	13
AC1.3	Explain the relationship between an organisation's ownership, control and financing	16
AC1.4	Discuss the importance and influence of enterprise in organisational contexts	20
AC1.5	Analyse how the activities of an organisation are influenced by its mission, aims and objectives	22
AC1.6	Explain the value to organisations of business planning	29
AC1.7	Evaluate the varying impacts on organisations of their external environment	32

LO2 Understand how organisations function internally

AC2.1	Describe the types and roles of the main organisational functions and structures	72
AC2.2	Explain the importance of resources to organisations	87
AC2.3	Explain the role and importance of quality initiatives in organisations	89
AC2.4	Analyse the nature and efficiency of information and communication	95
AC2.5	Evaluate the extent to which ICT provision supports organisational activities	103

LO3 Understand the contribution made by an efficient workforce towards achieving organisational goals

AC3.1	Explain the importance to organisations of employing suitable people	108
AC3.2	Explain the importance of training and developing employees	116
AC3.3	Evaluate the effectiveness of the ways in which employees can be motivated	122

AC1.1 Describe and distinguish between the main sectors and classifications of the UK economy

Businesses operate in different sectors of industry. Their activities can be summarised into the following categories:

- The primary sector extracts or harvests products from the earth such as raw materials and basic foods (agriculture and extractive).

- The secondary sector produces finished goods from the raw materials extracted by the primary sector (manufacturing, processing and construction).

- The tertiary sector (also known as the service industry) sells the goods produced by the secondary sector and provides commercial services to both the public and to businesses (wholesale and retail, transport and distribution, tourism, catering).

- The quaternary sector involves intellectual activities often associated with technological innovation. It is also referred to as the knowledge economy (information and communications, administration and support, culture, arts and entertainment, scientific research, education and information technology).

- The quinary sector includes the highest levels of decision-making in a society or economy. (top executives in government, science, universities, health care, culture and the media).

Ownership

Public sector

The public sector is made up of organisations that are owned and run by the government. This part of the economy is huge and includes some of the largest employers in the UK. The government spends over £450 billion a year running public sector organisations and providing public sector services. The largest public sector organisation, the NHS, is the biggest civilian employer in Europe, costing nearly £120 billion a year to run.

Why do we need a public sector?

Some goods and services which we need in our everyday lives would simply not be provided by the private sector who are looking to make profits. These necessities include street lighting, defence (army, navy, air force) and the police. The problem with these goods is that we can all benefit from them without paying for them. So, if someone paid for, and installed street lighting, anyone walking down that road would benefit. If you are benefiting without paying, why pay? These goods which will only be provided by the government are called **public goods**. Public goods (and services) have two features:

Non-excludable: this means that individuals cannot be prevented from enjoying the benefits of the provision of public goods or services. We all gain from having violent criminals kept behind bars, as the threat to our family's well-being is reduced. No individual is excluded from this benefit. The same non-excludability would apply to having public goods such as street lighting – if street lights are provided by a local authority all will benefit from this provision as nobody can be excluded from the benefits.

Non-rivalry: this means that one person gaining from consumption of a good or service does not prevent others from also gaining from the good or service. If an individual eats an ice cream for example, then less ice cream is available for others to consume. Rivalry exists here. However, if an individual benefits from gaining justice in the Law Courts, this does not prevent any other individual from also being able to benefit from such a public service. They are not rivals for this service.

Not all goods provided by the public sector are public goods. There is another group of goods and services that is supplied by both the private and public sectors, but if left to just the private sector the quantity supplied of these goods and services is likely to be much less than the level of provision which is most efficient for the economy.

The two best examples of these **merit goods** are education and health care. There are of course private schools and private hospitals, but most patients are treated by the NHS, and most children go to state schools. The government spends a great deal of money trying to ensure that we have an effective Health Service and schools and colleges that supply a well-educated and trained workforce. We would under consume merit goods if it were left to the market. Some consumers could not afford the goods; others would fail to see the full benefit of consuming these goods.

These merit goods are said to have positive externalities. This means that the consumption of these goods will have positive effects not only on the individual that consumes them, but also on society in general. By attending school, individuals become better educated and skilled. Some individuals may use their knowledge and skills to set up businesses which employ people who themselves will pay tax and contribute to society. So, there are positive externalities to education. Also, if individuals succeed in school, they are less likely to commit crime or require the safety net of the benefits system.

It is because of these positive externalities and likely underconsumption if left to the market, that the government provides merit goods (mainly) free at the point of delivery. Instead of paying to consume these goods or services directly, we pay for them through general taxation.

The public sector is focussed much more on needs than wants. There are public-owned leisure facilities, theatres, museums and so on that look to attract paying customers, but the core role of the public sector is to create a fair and just society and, if possible, an efficient economy.

Private sector

This is the part of the UK economy that is operated by businesses owned by shareholders or private individuals.

Although making profits and giving a return to owners (increasing shareholder value), will always be the number one and two priorities of businesses in the long run, in the short term there can be other important objectives to pursue.

Objectives of the private sector:

- To make a profit
- To increase shareholder value
- Survival
- Gaining market share
- Improving ethics

Within the private sector there are different ownership types, including sole traders, partnerships, limited companies, co-operatives and businesses who have expanded through franchising.

Sole trader

Sole traders are the most popular form of business in the UK and are run by a single individual. A quick examination of a business directory such as Yellow Pages will show that there are thousands in every town or city. Sole traders are easy to set up; it is just a matter of informing the Inland Revenue that an individual is self-employed and registering for class 2 National Insurance contributions within three months of starting in business. Costs are low due to the simplicity of setting up and no legal formalities, so there is little administrative cost. Also, no formal audited accounts are required, though it makes good business sense to keep a full set of business records. The sole trader benefits from fast decision-making and may (within employment law) hire and fire as they please.

However, there are a number of problems that arise with the sole trader structure:

Firstly, there is often limited capital. Sole traders often rely on their own savings and perhaps secured business loans. It is likely that the sole trader will have a limited range of skills. A sole trader may be an expert plumber, but is he or she an expert at marketing, managing staff, and controlling cash flow? With the need to be effective at all these tasks comes immense pressure. All the decisions and the future success of a business rest with one person. The sole trader has unlimited liability. This means that the business owner is liable for all the debts of the business, up to and including the value of all assets held.

One of the major problems of running a small business is the likelihood of falling into debt. With one in three businesses failing within two years of starting, it is probable that a good proportion of those unsuccessful entrepreneurs will not only lose the money that they initially invested, but additional money too.

Imagine a situation where a sole trader opens a shop selling fashion accessories. The shop premises are let on a two-year lease; she (the entrepreneur) arranges a phone contract for the shop, leases equipment like a checkout till and shop fittings – all for the same two years. The total amount payable per month comes to £1 300. Unfortunately, after 9 months she has run out of cash, sales were dismal and she can't afford to continue.

She tries to walk away, handing the keys back, cancelling the phone contract and the lease deals. However, it is not that easy, she is in fact liable for ongoing costs – paying for a further 15 months charges, a total of £19 500 (15 months times £1 300). Her creditors (those she owes money to), will chase her through the courts for payment, and if she has assets, the creditors can ask the courts to seize and sell these assets to pay the money owed. Assets can be anything of value – a car, computer, TV or even a house. The problem is that sole traders (and most partnerships) have unlimited liability – the owners of the business are liable for all the debts of their business and have to pay those debts if they are able.

Partnerships

Partnerships involve the joint ownership of a business. Normally there can be between 2 and 20 partners, but in certain businesses such as accountancy firms, there can be many more partners than this. Partnerships are often found in professions such as lawyers, accountants and doctors, but can be found in any type of business activity.

The rules of partnership are laid down in a Partnership Agreement, or the Deed of Partnership. The Deed of Partnership lays out such rules of operations as the amounts of capital invested, the share of profits each partner is to receive, the roles and responsibilities of each partner, the voting shares of the partners, what is to happen on the death of a partner and the rules for dissolution of the partnership. A partnership agreement is not a legal requirement, and some partnerships will not produce one.

Should a dispute arise without a partnership agreement giving methods of settling the dispute, then the dispute would be settled according to the 1890 Partnership Act. This is best avoided, particularly where unlimited liability is involved, as the act states that each partner is equally responsible for any debts – each partner is 'jointly and severally' liable.

There are a number of advantages of the partnership structure over that of a sole trader. These include a wider range of skills, greater availability of capital, shared decision-making and pressure is likely to be reduced with different partners having separate key roles.

However, becoming a partner does not overcome all the disadvantages of being a sole trader:

Capital can still be limited, with the same problems of raising external capital that a sole trader has. The partners still have unlimited liability of partners (sleeping partners who invest but take no part in the day-to-day running of the business can have limited liability). Also, partnerships are dissolved on the death of a partner and this can cause complications in re-establishing the partnership. Although there are many advantages when partners become involved in a business for the first time (such as increased capital, greater input into decision-making, a wider spread of skills), new partners can, and do, cause strains within a business

Limited companies

There are two types of business structure that have limited liability:

- private limited companies (Ltd)
- public limited companies (PLC)

These businesses exist separately from their owners, who are known as shareholders. Employees are employed by the Ltd or PLC, and assets (buildings, machinery) are owned by the Ltd or PLC. This separate legal existence is known as incorporation – the business exists in the eyes of the law. Any legal action is taken against the business and not the shareholders. Shareholders are only liable to lose the amount of money they have invested in the business – hence, their liability is limited.

Although they have the same type of liability there is one major difference. Public limited companies trade their shares on the stock market. In the UK there are two main stock markets. These are:

- The Alternative Investment Market (AIM) – for smaller companies
- The London Stock Exchange (LSE) – for larger businesses

Shares on these stock markets are freely bought and sold, so, in effect the ownership of PLCs are changing all the time. This change of ownership normally has very little impact on the running of the business. One small shareholder sells their shareholding, another small shareholder buys, and this happens thousands of times a day.
Advantages **of private limited companies** include:

- Limited liability

- Shares can only be sold if all the shareholders agree – control is not lost to outsiders
- Capital can be raised through increasing shareholders
- Other businesses and lenders are more likely to trade and invest
- The business continues if one of the owners dies
- Possible tax advantages for the owners

However, disadvantages include:

- Legal procedure in setting up, increases costs
- Profits have to be shared with shareholders
- Shares cannot be sold to the public which may restrict the investment of additional capital
- Financial information is in the public domain

Advantages of **public limited companies** include:

Limited liability:

- The business continues if one of the owners dies
- Capital can be raised through selling shares to the public
- It is easier to raise finance from banks and other lenders who are more willing to lend to PLCs
- They are likely to have economies of scale
- Increased market presence and dominance

However, disadvantages include:

- Increased costs in setting up
- Anyone can buy shares so there is an increased threat of losing control
- Increased legal requirements
- The company accounts are in the public domain – more information has to be published than private limited companies
- Divorce of ownership and control
- The increased size may result in inefficiencies, increased costs and distance from their customers

Cooperatives

Business co-operatives were initially set up in the 19th century as part of a social movement by working people. They were established around workplaces or in districts of industrial towns and were designed to prevent profiteering and exploitation by company shops and tallymen (door-to-door lenders).

A co-operative is an organisation owned by its members. Employees of co-operatives automatically become members after a short probationary period, and shoppers at co-operative shops such as 'the Co-op', can apply to become members: acceptance is automatic. Members benefit through the payment of a dividend (their share of the co-operatives profits) in the form of money-off vouchers. Just like any business, co-operatives have managers and there is a business hierarchy, but it is much flatter than that found in a typical business – there are fewer layers to the hierarchy. Pay differentials between the most senior and most junior workers may be just 2 or 3 times (it is likely to be 30 times or more in a PLC). When major decisions need to be made, each member has an equal vote. Shoppers at the 'Co-op' have the right to vote for elected members and can actually stand in the election for representatives of the Co-operative Group.

Worker co-operatives are businesses which are owned and controlled by those who work in it. They often take the form of producer co-operatives, where people work together to produce a good or a service. As owners of the business, all employees are likely to be well motivated because they are all working towards the same goal. Some examples in the UK include various farmers' co-operatives and the Edinburgh Bicycle Co-operative, which retails bicycles.

Franchises

Franchising is a growth strategy used by some businesses. A franchise is the legal right to use the brand name, products and business style of an existing business. McDonald's restaurants, for example, often operate as franchises: a businessperson has paid McDonald's a fee to open a franchise of McDonald's. The franchisee (the person who has bought the franchise) now has the right to use the business model, brand, business style etc. in a specific area.

The British Franchise Association is an organisation that promotes and supports franchising; the following information is taken from their website:

What is franchising?

Business format franchising is the granting of a license by one person (the franchisor) to another (the franchisee), which entitles the franchisee to own and operate their own business under the brand, systems and proven business model of the franchisor.

The franchisee also receives initial training and ongoing support, comprising all the elements necessary to establish a previously untrained person in the business. The legal contract, or franchise agreement, between the two parties sets out the obligations and rights of both franchisor and franchisee and determines how long the franchise arrangement will last (including renewal options).

The principle is simple – rather than developing company-owned outlets, some businesses instead expand by granting a franchise to others to sell their product or service. There are clear advantages to both franchisors and franchisees, just some of which are:

- You don't have to come up with a new idea - someone else has had it and tested it too!
- Larger, well-established franchise businesses will often have national advertising campaigns and a solid trading name
- Good franchise businesses will offer comprehensive training programmes in sales and, indeed, all business skills
- Good franchise businesses can also help secure funding for your investment as well as, for example, discounted bulk-purchases for outlets when you are in operation
- If customers are aware that you are running a franchise business, they will understand that you offer the best possible value for money and a consistent quality of service - although you run your 'own show', you are part of a much larger organisation
- You grow the business and, when you are ready to move on, can sell it for a profit

Who is in control?

Each franchise business outlet/unit is owned and operated by the franchisee. However, the franchisor retains control over the way in which products and services are marketed and sold and controls the quality and standards of the business.

What are the cost implications?

The franchisor will receive an initial fee from the franchisee, payable at the outset, together with ongoing management service fees - usually based on a percentage of annual turnover or mark-ups on supplies. In return, the franchisor has an obligation to support the franchise network, notably with training, product development, marketing and advertising, promotional activities and with a specialist range of management services.

http://www.thebfa.org/about-franchising

Franchising is a method of achieving growth, often in a quick way since the business model is duplicated by selling the rights to other people to run the business rather than the owners having to organically grow the sales. In the UK, the franchise industry is worth £10 billion a year to the economy and now employs over 360 000 people.

The option of growth through franchising is only possible if the business is a successful business, with an efficient business model, a good reputation, a recognisable brand and a good supply chain.

The advantages from the franchisor's (the person selling the franchise) point of view are:

- Fast growth – with lower risk. The franchisee finances the growth. Franchisees have to pay the franchisor for the right to join the franchise.
- Economies of scale can happen quickly; the franchisor now is involved in bulk buying for the franchises.

- Increased income from franchise fees, this includes upfront payments and on-going royalty payments.
- The franchisees who are committed to the success of the business and are likely to be hardworking, helping to give a greater chance of successful growth, not least because they have had to pay for the franchise.
- However, there can be problems with using the franchise model of growth. These include:
  - Loss of control – franchisees may be harder to manage than appointed managers.
  - Not all profits return to the franchisor.
  - Potential loss of reputation if franchisees act unprofessionally.
  - Growth may occur too quickly, with the possibility of diseconomies of scale.

Examples of businesses who have used franchising as a growth strategy include Dominos Pizza, Autoglym, Marston's, Thorntons, Cash Converters, Toni & Guy, CeX, Clarks Shoes, Stagecoach and Subway.

Location/frequency

Local

A business that operates at a local level is often small, limited in size, the number of people it employs and the revenue it creates. (Revenue is different from profit. Revenue is the number of sales made multiplied by the price charged to customers. Profit is revenue minus the costs.)

A local scale business is often owned and run by the same person and may employ a small number of workers. The business activity is based in a local area focusing on customers who live, or visit, the area.

Characteristics of local and small-scale businesses include:

Ownership – small number of owners, usually one person, the ownership structure is simple with clear communication.

Finance - relatively low amounts of money invested in the business (low start-up costs), generates lower amounts of revenue with lower costs than larger businesses. Low levels of money are available for marketing activities, technological improvements and business growth.

Market – a much smaller market than larger businesses, often serving local communities. However, many small businesses sell to customers across the world through the internet. Because of the low quantity they sell and the other characteristics present, these businesses are still considered to be small scale.

Locations – usually focusing on a single area, many are run from home and do not have multiple outlets.

Production – small scale, making small numbers.

Employees – usually very few, owners will often staff the business themselves and may employ workers at busy times.

Flexible – owners have to be willing to do what it takes to be successful; they will often have to be prepared to change the way they do things in order to react to challenging situations.

Community based – attract loyal customers who see the business as a vital part of the local community.

Technology – the growth of social media and blogs have been utilised by many small businesses due to its effectiveness and low cost.

Typical examples of local scale businesses include service or retail outlets such as local newsagents, convenience stores, butchers, florists, garages, pubs, restaurants and fast-food outlets, taxis, plumbers, electricians and hairdressers. Small scale manufacturing and farming also exist as do professional services such as lawyers, accountants, dentists and vets. Internet-related businesses such as web design and computer services and programming can also be small scale.

Local scale businesses vary a great deal in their size; some will be owned and run by one person from home, whilst others may be a small company employing 20 – 40 people from a factory.

Regional

Regional businesses will operate almost exclusively in a particular region. They will normally have strong brand recognition in a particular region, however outside that region the brand recognition will be fairly low. The same is true of the market share, within a particular region the business will have a strong market share and loyal customers. The business may have multiple outlets, offices or other units within the regional area.

An example of this type of business would be Jenkins Bakery in South Wales. Jenkins Bakery has numerous outlets between Bridgend in the east and Carmarthen in the west. All outlets are exclusively within this region.

National

A national business will operate all over one country. It may have multiple factories or retail outlets throughout the country and a distribution network to make sure it can distribute its products to where they are being sold. A national business will offer the same products or services, usually at the same prices, to customers all around the country or over a large area of the country.

Compared to a local business, a national business will have more resources to use in carrying out its activities, including greater amounts of capital (money available to invest in the business), more and different types of employees with a wider range of skills. This extra capital can be spent on more technical and efficient production processes, superior marketing activities, such as national TV adverting campaigns and attractive sales promotions, employing highly skilled workers and efficient support systems such as IT, legal services and transport.

The ownership of national businesses is more complicated than a local business, often having multiple owners and a separate management structure.

The market size of a national business is much greater than a local business so there is a great opportunity to attract a greater number of customers to obtain a high level of sales.

The population of the UK is 65 million, for a national business these are all potential customers. When this total population is divided into cities, towns and districts it is clear to see the benefits of operating on a national scale.

It is easy to recognise the businesses that operate at a national level. They are well-known businesses that can be seen as you travel throughout the UK and tend to advertise on national TV, on billboards, in magazines and national newspapers. If suitable, they also tend to have highly developed websites which allow for online purchases with quick delivery times.

Supermarkets, like most other national retail stores, will have a consistent approach to all its outlets, many will look exactly the same, selling mostly the same products at the same prices. Buying a packet of crisps or a bottle of tomato sauce will be the same price in Bristol, Norwich, Manchester or Cardiff, and most likely be positioned in the same aisles next to the same alternative products. This consistent approach helps a national business create a familiarity with all its customers no matter what part of the UK they live.

The rise of the large supermarket chains has resulted in the decline in independent small-scale retailers. Over the last 10 years the number of local retailers has fallen by a half, from 35 000 to 18 500.

Global

A global business will operate internationally and throughout the world. This includes businesses trading with customers in one or two countries and businesses that trade with many countries across the world. The factors of trading at a global scale include:

- **A much bigger market**. The UK population is 65 million; the world population is over 7 billion. The population of Europe is over 740 million; the population of the USA is over 320 million. The potential to sell products to more people across the globe is an obvious attraction to businesses who wish to increase their sales.
- **Manufacturing or sourcing products from different countries at lower costs**. Some UK businesses may not have the necessary raw materials to produce in the UK or other countries may be able to produce some goods and services more efficiently than we can.
- **Improved communications**. The world is now a smaller place, the use of the internet makes it possible to trade efficiently across the globe. Service industries such as insurance services and customer help centres have made use of these developments. Improved transportation systems have also led to cost effective transportation of materials and products across large distances.
- **Global brands**. These are products and services that are recognised throughout the world. The same products (maybe with some slight changes for different countries) are sold in numerous countries are easily identified by customers. Coca Cola, Apple and Ikea are examples of global brands.
- **Complicated ownership and management structure**. Many global businesses or brands will be owned by a parent company who in turn will own other businesses. An example is when Facebook (the parent company) bought Instagram (the subsidiary). Facebook has bought other companies (including WhatsApp) and other computer/technological based businesses.

A small-scale business may be an international business; it may carry out its main activity in its country of origin but may also import materials or products from other countries and export (sell) some of its products to customers in other countries.

However, a small-scale business will find it difficult to operate in numerous countries. Businesses who operate in many countries are usually large multinational companies that employ thousands of employees, manufacture and sell a large number of products and create vast amounts of revenue and profit.

Carrying out business activity at a global scale is expensive and complicated, most large global businesses will invest in factories, retail outlets and offices in a number of countries. There are numerous risks involved, however, the potential reward of increasing customer revenue and profit attracts many businesses to try and sell their products and services globally.

AC1.2 Analyse the relationship between organisations and their stakeholders

Types of stakeholder (internal and external)

Stakeholders in a business are any individual or group which is affected by the business and so has an interest in its activities. These stakeholders are not all driven by the same objectives; in fact, it is likely that different stakeholder groups will want very different things from the business concerned. Therefore, it is not unusual to find different stakeholders and stakeholder groups coming into conflict over a business's activities and objectives.

Shareholders are the owners of a limited company. In theory, all shareholders share the common objective of sustained long-term growth, giving both capital gain and increasing income. However, the reality is that even shareholders can come into conflict. Institutional shareholders (investment and pension funds) are often driven by the need to achieve in the short term. This means that they require high dividends and strategies to achieve short-term growth from the businesses that they have invested in. However, these strategies may be at odds with achieving long-term growth through reinvestment of profits and investing in brand value, which are what the individual, long-term investor may be looking for. Unfortunately for the small private shareholder, the institutional view is the one that often wins the day.

Directors and managers in large organisations focus their efforts on achieving the long-term objectives of the business. They use the resources under their control to achieve maximum benefits for the business and to gain the most from the assets that they manage. Often the success or failure of the business will be reflected in the rewards they receive. Unfortunately for some businesses, the main long-term objective of some managers is the protection of their position. This idea of self-preservation is sometimes a motivator for **middle managers** which can result in the establishment of whole layers of hierarchy whose role is to preserve their position. **Senior managers** are also sometimes accused of personal objectives ahead of those of the business by attempting to maximise their salaries and benefits, whilst cutting costs through redundancies and rationalisations.

Employees/workers from middle management down receive a wage and possibly fringe benefits such as pensions. Naturally, a major concern of this category of stakeholders is job security. With many businesses seeking to incorporate technology, and reduce the size of the workforce, there will be obvious conflicts in the views of stakeholders. In the past this conflict would have often led to industrial action. However, over the last two decades it seems that the labour force has become more aware of the realities of modern employment and are therefore less likely to take part in strikes. The labour force is more willing to accept job restructuring, and redundancy and to move jobs, relocate and retrain. However, industrial action does still take place and those employees who are members of strong trade unions are able to influence their pay and conditions to a greater extent than nonunionised workers.

Customers are an increasingly important stakeholder: satisfying customers' needs profitably, should lead to financial success to satisfy the other stakeholders. Customers want efficient service and a quality product, at a competitive price. These requirements should not be at odds with good business practice, but unfortunately sometimes they are. The short-term nature of businesses can mean that achievement of immediate profit comes ahead of long-term customer satisfaction. Also, customers like to feel needed and respected; it is all too easy to alienate your customer base. Maintaining good public relations is increasingly important – something which the banking and financial industry has come to realise in relation to the treatment of its customers.

Suppliers depend on the success of businesses for their sales – and businesses depend upon suppliers in order to carry on their operations. They are mutually dependent. Suppliers want a fair price for their products whilst businesses wish to minimise costs. Following supply and demand theory, each market should achieve an equilibrium price, which should allocate rewards between supplier and buyer efficiently in a competitive market. However, unfortunately for suppliers, the power in the market often rests with the buyer, and we are seeing this market imperfection more and more. The big four supermarkets dominate the UK's farming industry, continually forcing down the prices they pay to producers, reducing farm incomes (for example, consider the milk price war and its impact). The situation is often worse when suppliers are based in developing countries, with the original producer receiving a tiny proportion of the product's final sale value. Fair trade goods try to make the supplier – buyer relationship more balanced.

Government benefits from business success as it results in increased tax revenues, higher employment and lower benefit payments. However, the same economic success also means increased pollution, increased traffic, and loss of greenfield sites through development. In the past the priority was invariably given to growth, but increased environmental awareness has forced the government into limiting developments, encouraging development of brownfield sites, and into imposing taxes such as the Climate Change Levy and the Landfill Tax. These taxes on businesses increase business costs, reduce competitiveness, and potentially increase unemployment. As a stakeholder the government has to balance business and economic growth against external costs of business activity.

Local communities need to be considered as a stakeholder. There are a number of benefits to a local community that stem from local business activity. These may include employment, increased regional wealth, improved facilities and infrastructure. Often the economic prosperity of a community may depend on one large employer in their area – the presence of which may support a range of other businesses such as shops, garages and hairdressers. Businesses may also support local charities as well as being involved with local schools and colleges. However, conflicts can also occur between local communities and the businesses that operate close to them. This can involve potential pollution, environmental damage and loss of open space. Heavy transport moving 24/7 can affect the peace and quiet of a community.

Pressure groups are groups of people who get together to express their objections to a particular government policy, business decision, or the effects of an organisation's actions. An example of a pressure group would be an environmental organisational established to complain about the high pollution levels caused by industry. Pressure groups can persuade businesses to change their actions.

Reasons why organisations exist

To meet the goals of these stakeholders, e.g. to make a profit, to empower their members, to provide a service for individuals/society.
Different organisations exist for different reasons and their main aims reflect these differing purposes. Large scale multinational businesses operate with the aim of profit maximisation and growth so that the dividends paid to shareholders are greater. A social enterprise exists with the aim of providing for the community and for social good. Whereas a new, small business will aim to survive at the start of their existence.

The range of, and potential conflict between, stakeholder goals

Different stakeholders have different interests, these sometimes conflict with each other. An example of which is the conflict between owners/shareholders and workers. Business owners will want to maximise profits for greater return, whilst workers will want higher wages. These obviously conflict with each other as paying higher wages will increase costs, therefore reducing profit margins.

Another example of conflict could be between the long term and short-term goals of various stakeholders. Business directors might have the long-term aim of achieving growth by reinvesting profit into its expansion plans, whilst shareholders might have more short-term targets based around a return on their investment through higher dividends.

AC1.3 Explain the relationship between an organisation's ownership, control and financing

Implications of different legal status and ownership for the control of an organisation

The legal status of a business and its form of ownership will influence how it is controlled. Small-scale businesses, such as sole traders, partnerships and some private limited companies, usually result in a high level of control for the owners. The owner will usually play a large role in the day to day running of the business, often coming face to face with customers and making many hands-on decisions as well as making more long-term strategic decisions for the business. For larger businesses operating at national or global scale the control is delegated to many other employees, who may be directors or managers in different locations or sections of the business. The business is simply too big to be controlled by one person or even a few people. As a business grows the control of the original owners is usually diluted, many more decisions are needed and it becomes impossible to keep the original control, this is one negative of growth and becoming a larger business.

The divorce between ownership and control

For many larger businesses and limited companies, the shareholders (owners) do not have control of the business. The business is controlled by the management or board of directors who are appointed by the shareholders to run the business on their behalf. This results in a divorce between ownership and control where the owners have no day to day influence or control over the decisions made by the management. This is more common for public limited companies where the share ownership is more widespread and can lead to conflicts between the owners and the managers.

Implications of different legal status and ownership for the financing of an organisation – the ability to raise finance, sources available

For many businesses there are potentially a wide range of ways of raising funds. These are needed to help set up the business, to keep the business going when cash is short and to help the business expand and grow.

The sources of finance available to businesses will differ, often depending on the legal status and type of business ownership. Whether any money for investment is available will depend upon a number of factors:

- How well established the business is
- The amount of profit previously made
- How much security the business can offer (like buildings or other assets)
- Does the business have unlimited or limited liability?
- The type of business ownership (sole trader, partnership, private limited companies, public limited companies)

Businesses can raise finance from different internal sources and/or external sources.

Internal sources of finance

Sale of assets

A business can sell some of the assets it owns to raise finance. Businesses may have assets they no longer need, such as an old factory site, which can be sold. Often the selling of assets only happens when other ways of raising money have failed. In some cases, the business may lease back the asset, so that it still retains its use. Big businesses often do

this – e.g. the sale and lease back of office blocks. Selling assets and leasing the asset back improves cash flow in the short-term. If the cash raised from the sale of the asset is used effectively by the business, cash flow and profitability can also improve in the long-term.

Owners' capital

For small businesses, further investment of the sole traders or partners own capital (savings) may be the only method of raising money. Risk-taking entrepreneurs may sell their own assets (e.g. house) to raise money to invest.

Reinvested profits

When a business makes a profit, it can pay out the profit to owners or shareholders or it can reinvest the profit back in the business. Often both may occur, with some profits going to owners or shareholders and the rest reinvested in the business.

Reinvesting profit is a good idea as there is no interest to pay on the money invested (there would be interest to pay if all the profits had been given to the owners, and the money for investment had come from loans). Also, the owners should be happy to reinvest profits as the growth of the business will increase the value of their share of the business, and hopefully lead to higher profits in the future. However, there is a short-term cost – less profit to be shared amongst owners and lower dividends for shareholders of private limited and public limited companies, this can lead to conflict between the different stakeholders.

External sources

Share issue or new partners

For a sole trader, taking on a partner is a good way of helping fund investment. New partners not only bring in more capital (money) for investment but can offer new skills which help a business grow. For existing partnerships new partners are also an effective way of funding growth. New partners 'buy in' and will be given part-ownership of the business. Their share of ownership, responsibilities and profits should be made clear in a new Partnership Agreement.

A share issue is the offering for sale of new shares in a business. For the largest businesses like BP, Vodafone and Tesco, there are literally billions of shares in issue, with some shareholders owning perhaps a few hundred shares and other big investors (like pension funds) owning millions. The money raised from share issues can be used for investment in the business or for expansion into new ventures. Shares can be sold by both Private Limited Companies (Ltd) and Public Limited Companies (PLC) and can be issued at any time in the life of the business, not just when the business is starting up. For the largest PLCs hundreds of millions of pounds can be raised through issuing shares. The major problem with share issues is that ownership is spread over a larger number of existing shareholders and new shareholders. If new shareholders have purchased enough shares they may try to change the way a business is run, or even attempt to take over the business.

Overdraft from the bank

An overdraft is a form of bank borrowing. A business becomes overdrawn when it withdraws more money out of its account than there is in it, so the business will end up with a negative bank balance. Once an overdraft limit (perhaps £5 000) is agreed with the bank, the business can use as much of the overdraft as it needs at any time, up to the agreed overdraft limit.

The bank will of course charge interest on the amount overdrawn and will only allow an overdraft if they believe the business is creditworthy (capable of paying the money back). Interest rates on overdrafts tend to be very high.

Unfortunately, a bank can demand the repayment of an overdraft at any time. Many businesses have been forced to cease trading because of the withdrawal of overdraft facilities by a bank. Even so, for short-term borrowing, an overdraft is often the ideal solution and many businesses often have a rolling (ongoing) overdraft agreement with the bank. An overdraft is often the best way of solving short-term cash flow problems, e.g. funding purchase of raw materials, whilst waiting for payment on goods produced.

Bank loan

This is lending by a bank to a business. A fixed amount is lent for a fixed period of time and normally for a specific purpose. The bank will charge interest on the loan and the interest, plus part of the capital (the amount borrowed), will have to be paid back each month. The bank will only lend if the business is creditworthy, and it may require security. If security is required, this means the loan is secured against an asset of the borrower. If the loan is not repaid, then the bank can take possession of the asset and sell the asset to get its money back.

Trade credit

If a shoe retailer buys on credit from a shoe manufacturer, it may not have to pay the manufacturer for a month after delivery. This means it could sell the shoes at a profit and have the money at the end of the month ready to pay its bill to its creditor – the manufacturer. Extending a credit period will help short-term cash flow. Credit could be extended by delaying paying bills for an extra 14 days, meaning there will be more cash in the bank for this period. Unfortunately, if a business delays payment of money it owes to its suppliers it would be no surprise if the supplier becomes somewhat upset – after all they have their own cash flows to think of. Also, the next time the business requests credit from a supplier, they may be turned down and asked to pay cash.

Leasing assets

When leasing, a business pays monthly for the use of an asset but will never own it. Think of a partnership setting up a business as a parcel delivery service. They could lease a van from a leasing company. They will have to pay a monthly leasing fee, say £250, which is very useful if they do not wish to spend £15 000 on buying a van. This will free up other money the business has, which can now be used for other purposes.

A business looking to purchase equipment may decide to lease if it wishes to improve its immediate cash flow. In the example above, if the van had been purchased, the cash flow out of the business would have been £15 000. When leasing, the cash flow out of the business over the first year would be only £3 000, leaving a possible £12 000 for other assets and investment in the business. Leasing also allows equipment to be updated on a regular basis. However, in the long run, it may well cost more than the outright purchase and the business does not have the van as an asset on its balance sheet.

Hire purchase

This is similar to leasing, but at the end of the hire period the asset belongs to the business that hires it. Useful again for the business if it cannot not afford to buy the asset outright, but more expensive in the long-term.

Venture capital

Venture capital is money invested in a business by professional investors (venture capitalists).

When venture capitalists invest, they expect a say in how the business will be run and they also expect to make a good profit on their investment within two to three years.

The normal method of investment is for the venture capitalists to take an 'equity stake' – this means that in exchange for their investment they will be given a shareholding in the business. The percentage share will depend upon the amount invested relative to the value of the business.

The amount invested can be relatively small – perhaps £100 000, or quite large – say £20m. Of course, the amount invested depends upon the size of the business and what it is trying to achieve. The venture capitalist expects quick growth, and potentially large profits.

From the business's point of view this form of finance comes with no interest payments and ongoing professional advice, so it often makes a great deal of sense. However, it does mean the current owners can reduce the profit they take from the business and potentially lose control of the business they have built if the shares are sold on.

Debt factoring

Debt factors are finance companies that will pay the selling business part of the value of an invoice issued as soon as sale has been made. So, if company X sells goods on 30 days credit to company Y for £5 000, the debt factor will pay company X a percentage of this debt (say 90% – £4 500). The debt factor will hold the invoice and will collect the full value of the invoice (£5 000) from company Y after 30 days. Company X benefits because cash flow is improved and they can use the £4 500 to purchase raw materials and pay wages straightaway. Also, some aspects of debt management are moved outside the company. Of course, the full amount received by company X will be £500 less than the original invoice value. Debt factoring is normally only available to well-established businesses and the factor will carefully examine how creditworthy the debtors are before making any payment.

AC1.4 Discuss the importance and influence of enterprise in organisational contexts Enterprise

An entrepreneur is someone who starts and runs a business. Perhaps he or she makes a product and then sells that product, or perhaps they provide a service. They quite possibly employ people and, of course, try to make a profit. Enterprise requires initiative from the individual to start the business however it also carries an element of risk. Initiative is the ability to identify a business opportunity and do something about it. Starting a business is risky, there is no guarantee it will work. Starting a business will involve investing money, as there is no assurance that the business will work, it is possible that this money will be lost. An individual who has this initiative and is willing to take the risk is called an entrepreneur.

Many countries and governments place great value on entrepreneurs and how they create wealth in an economy. Many entrepreneurs are innovators. They bring new ideas to the market and drive the development of new technologies. James Dyson, of Dyson vacuum cleaner fame is a classic example of an entrepreneur, bringing a range of new products to the market.

Key skills and attributes of entrepreneurs

What are the key characteristics of an Entrepreneur?

- **Being a risk taker** – entrepreneurs are not always about new products or new ideas. They are often just doing things better than they were done before. However, they are all risk takers – they risk capital and their own time to try to create profits. They may re-mortgage the house, borrow from friends and family, or give up well-paid jobs to try to make a success out of their business idea

- **Taking the initiative and being proactive** – successful entrepreneurs are able to take the initiative when required. They do not panic and allow events to overwhelm them – they are proactive and able to change as needed.

- **Identify business opportunities** – entrepreneurs are able to identify a possible business opportunity by offering a new product or service or adapting an existing product or service, they see a way of making a profit from an idea that has not been thought of before or satisfying a new need or want.

- **Being an effective organiser** – an ability to organise effectively is central to running a business effectively. The entrepreneur may need to undertake a wide range of activities; from hiring labour and buying inputs, such as raw materials, to producing the finished product for sale

- **Having creativity and being innovative** – creativity in business means the ability to come up with innovative concepts and ideas or developing a better way of doing things. Two American college students working in their college dorm in 2003 had the view that there had to be a more efficient way of gathering data for internet search engines – we now have Google, one of the biggest brands in the world!

- **Being hard working and motivated** – successful entrepreneurs are, generally, hard working. It is estimated that entrepreneurs in the UK work for around an average of 52 hours a week, plus another 40 hours thinking or worrying about their business venture. Compare this to the average working week of 38 hours for an employed person.

- **Being determined and having perseverance** – entrepreneurs also need to be determined, as new businesses have low success rates. Entrepreneurs must also have considerable perseverance and be willing to keep trying if initial ideas fail.

The nature of innovation and its relationship to entrepreneurial activity
Research and development (R&D) is essential today for businesses to compete in a dynamic marketplace. It involves the identification of new ideas and turning them into products, services and processes. Businesses who invest in R&D are considered to be innovative and always looking to bring new ideas and products to the market. Bringing a new idea to the marketplace is known as innovation. Innovation is not cheap and resources have to be committed by the businesses to bring new products to the marketplace. Governments try to encourage innovation within the business community because an innovative culture will help grow the whole economy, creating both employment and wealth.

Potential business opportunities occur when a market need exists. This market need is preferably one that has not yet been targeted or not yet been targeted effectively. Therefore, a new entrepreneur wanting to start and run a successful business will need to find a product or service that isn't already available, or one that can be improved on. A starting point might be to find out what is missing in the local area.

Another way of investigating opportunities might be to ask the question: 'What can be offered to other businesses that would help them increase their sales, improve their service, or reduce their costs?' A business can service other businesses. These other businesses have customers who are different businesses. They may supply office equipment, cleaning, marketing services, transport, IT services, financial services etc.

Sometimes identifying a potential business opportunity can occur through word of mouth. Are people complaining about lack of access to a product, or describing a need, or criticising a business? All of these could present an opportunity.

Many new businesses are based on accessing customers through new marketplaces – products or services can be bought here. Moving away from bricks and mortar reduces costs and allows prices to be cut. Obviously, the internet is the best example of this – Amazon and Ebay are prime examples of new businesses which are based on price, buying opportunities and convenience. However, it is not only big businesses who can succeed through this method. The example of Foulgers Dairy shows how a small firm targeting a specific market (raw milk) can take advantage of new ways of accessing customers nationwide.

Often new businesses are founded on the idea of how innovative methods could help meet a need. For example, is there a kind of website or app that would improve what is already available or make it a more efficient process? Comparison websites have changed the way people buy insurance, book holidays and hotels, choose electrical goods etc. MoneySavingExpert, which covers the whole range of financial services and shopping, was founded by a sole trader – Martin Lewis. The site is focussed on allowing consumers to access the best deals on everything from buying cars to the weekly shop. Martin Lewis founded MoneySavingExpert.com in 2003 for £100. It's now the UK's biggest money site, with over 14 million monthly users.

Finally, business opportunities can come from an entirely new product developed by the entrepreneur/inventor. Fortunes used to be made by inventors working with limited resources, but times have changed, with most new consumer products now coming from large global corporations. However, exceptions still occur. Worldwide success and the rapid growth of small businesses have come through using marketing platforms such as the iTunes Store and the Android Market to promote and sell apps.

AC1.5 Analyse how the activities of an organisation are influenced by its mission, aims and objectives

Mission statements

An organisation's mission statement is a broad statement of its aims and values. It will guide the everyday operations and decision-making of the business.

The mission statement is sometimes seen as a crucial element in the strategic planning of a business organisation. The mission statement can be the foundation stone of an overall strategy and then be followed through into the development of more specific functional strategies. By defining a mission an organisation is making a clear statement of its purpose.

Examples of mission statements:

Coca Cola

Everything we do is inspired by our enduring mission: To Refresh the World… in body, mind, and spirit. To Inspire Moments of Optimism and happiness through our brands and our actions. To Create Value and Make a Difference.

Starbucks

To inspire and nurture the human spirit— one person, one cup, and one neighbourhood at a time.

McDonalds

McDonalds' brand mission is to be our customers' favourite place and way to eat and drink.

Ford

We go further to make our cars better, our employees happier and our planet a better place to be.

Some reasons for having a mission statement:

- Helps to ensure that all stakeholders are clear on the purpose of the business so everyone can be focused on the same goals and objectives
- Helps with the strategic planning since this should be the starting point
- Gives some transparency for investors – they understand how their capital will be put to use
- Helps customers understand the ethics and objectives of a company

One of the main purposes of a mission statement is to give an organisation cohesiveness, so that everyone in the organisation from the chief executive officer (CEO) to the worker on the shop floor, has a set of common aims. They know what the organisation stands for and what it is trying to achieve.

Mission statements tend to be vague and often express an aspiration or ambition rather than a reality. The job of the organisation is to try its hardest to turn the aspiration into a reality over a period time.

Clearly, the work of some organisations will never be completed. The mission statement of the Royal Society for the Prevention of Cruelty to Animals states that: "The RSPCA as a charity will, by all lawful means, prevent cruelty, promote kindness to and alleviate suffering of all animals." Despite the fact that the work of the RSPCA will always be ongoing the mission statement is a very good and succinct description of what they do.

Some people might argue that some mission statements are unrealistic and can never be achieved, but in a way that does not matter. At least to have an overall aim, however difficult to achieve, is better than having no aim at all.

What would you think of a school that did not have as its overall aim to make sure that all students reach their full potential, even if we know that, for a variety of reasons, this may not always happen?

It is sometimes an advantage to have a mission statement that is more specific. For example, many mission statements are expressed like this: "Our aim is to be the number one choice for product (or service) X, Y or Z."

This type of mission statement gives more focus to an organisation and because it is measurable, it is almost an objective. It is in fact a goal or target and one that can realistically be achieved. It could be argued that this type of mission statement is more effective than one which is too vague, but it would not be appropriate for some organisations. For example, it is unlikely that Greenpeace will state as its aim that it wants to be the number one green charity, even though some members of its organisation might secretly want that to be the case. Ultimately, it will depend on the type of organisation as to which type of mission statement it adopts.

Perhaps, the most important thing is that the mission statement is not simply a virtuous wish that is stated and then forgotten about. Unless an organisation affirms its commitment to its mission statement on virtually a daily basis it will hardly be worth the paper it is written on.

Business aims

Business aims are what the business wants to achieve in the future, and they tend to be quite generic and broad. They set out the goals for the business. Examples of business aims can be seen below:



Survival

Many businesses fail within 2 years of being set up, so for a small business, the initial aim is to survive the difficult time of gaining customers, establishing a good local name and building a reputation. Even for some big businesses survival can become a priority. Many established high street retailers have struggled in recent years. The main aim of these retailers was to survive in the short term however, retailers such as BHS, JJB Sports and Comet have all ceased to exist.

To survive a business has at least to break even. This means that it makes neither a profit nor a loss. If a business continually makes a loss it will almost certainly go out of business. During times of economic recession (when sales can be low) larger businesses will have to adjust its aims, they may be able to cope with making a loss for a short while, but eventually they will have to carry out actions to turn this around, this can involve making workers redundant or closing a number of outlets or factories.

Profit maximisation

Most businesses want to do more than just survive; they want to make a profit and lots of it. They want to make as much as possible. Maximisation means to make the most of something, to make the most possible profit is to maximise profit. Profit is what remains after all the costs of running the business have been met. Profit maximisation is possibly the main aim for most businesses and entrepreneurs. After all, why would you run a business or invest in a business if there is not going to be a worthwhile cash return? Profits can be maximised through increasing revenues and/or reducing costs.

Growth

A business cannot stand still it needs to change and grow in a dynamic and competitive environment. A business should aim to keep moving forward and not remain static. A business can grow in a number of key ways:

- Sell more of the same goods and services in the same market
- Sell more of the same goods and services in different markets
- Extend its range of goods and services
- Open new distribution outlets and/or factories
- Employ more workers
- Purchase new machinery and equipment
- Take-over another business either selling the same goods and services or different
- goods and services

Many businesses will focus on sales growth, which is selling as many of its goods and services as possible. This is linked to increasing market share.

Some businesses will spend large amounts of money to improve its growth. They hope that this will lead to greater profits in the long term. Growth is often based on reinvesting profits, which will reduce short term profits but leading to greater market dominance (a higher market share) in the longer term that can lead to greater profits.

Increase market share

The market share is the proportion of sales made by a business in relation to the whole market. The market share is calculated by the number of customers a business has and is usually given as a percentage. For example, if consumers as a whole buy 200 bars of chocolate and 50 bars are bought from one business, then that business will have a market share of 25%.

Market share is important as it shows how well the business is doing compared to the competition and it allows the business to measure the success of its activities in the market as a whole. Businesses that have a higher market share are usually more profitable and in a stronger position in the long-term. Being the market leader is also beneficial when negotiating with other businesses and improves its status and reputation.

Increased brand awareness

Through increasing brand identity some businesses may concentrate on establishing its brand name through customer loyalty programmes, advertising and new product development so they become the most recognised business in their market. In the short-term this may reduce profit but in the long term it could result in achieving higher sales and profits. They may even be able to force other competitors out of the market, by using loss making pricing strategies in the short term, that the competitors can't compete with.

Ethical and environmental

Not all businesses will look to maximise profits or aim for growth. Some businesses will have other aims. There are businesses that will try to minimise the impact of their business activities on the environment, consider the needs of society and have aims which are based on their beliefs. For example, businesses may try to ensure suppliers in developing countries have fair working conditions; ensure employees are earning a fair wage and sourcing raw materials from sustainable sources.

Having ethical and environmental aims may impact on the profit that can be made, however, businesses that focus on ethical and environmental aims are happy to do this as they believe that they have an important role to play and the focus for the business is not profit but society and the environment. Public sector organisations, such as the NHS and schools will aim to provide a service and improve the health and education of the public. Charities are established to promote a specific cause and this will be their main aim.

Examples of private sector businesses that have strong ethical and environmental aims include The Body Shop, Co-op, Google and Microsoft. This aim may come at a cost though in terms of lower profits for the business. However, modern businesses have to be respectful of the wider community and take their social and environmental responsibilities seriously.

Google has the motto: "Don't be evil." Through its Google Green Program, it has donated over $1 billion to renewable energy projects, and has decreased its own footprint by using energy efficient buildings and public transportation. Google employees have access to free health care and treatment from on-site doctors, free legal advice with discounted legal services and a free on-site nursery.

The aims of a business or organisation will vary based on a number of factors including:

- Type of ownership
- Size and scale
- Market conditions
- Level of competition
- Personal views and beliefs of the owners

Although profit maximisation might be the prime aim of most private businesses, it is not the only aim to pursue. Of course, businesses can work to achieve more than one aim at the same time.

Business objectives

Business objectives are more specific and measurable targets the business will set to achieve its aims. Objectives will give the business a clearly defined target. These can then be used to plan activities that can be carried out to meet the objectives and aims of the business. Specific objectives can be used to measure business progress and also to give clear direction to employees on what the business wants to achieve.

A business may have an aim to maximise profit and will set a number of quantifiable targets (objectives) in order to achieve the aim. Many businesses will do this by writing SMART objectives.

SMART objectives

Objectives should be written using the SMART model, in order to make them clearer and more meaningful to understand and achieve:

Specific – objectives should specify what the business wants to achieve. They should be clear so that all stakeholders understand what the objective is.

Measurable – objectives should be measured to make sure the objective has been achieved. This measurement should be numeric.

Achievable – are the objectives achievable and attainable? There is no point in setting an unrealistic targets, this can be demotivating. They also need to be agreed by all concerned stakeholders.

Realistic – is the business likely to achieve the objectives with the resources available?

Time limited or constrained – a timescale needs to be set for achieving the objectives.

Examples of SMART objectives could include:

- Growth objectives: to grow by 15% a year for the next five years by investing an additional £1m in advertising and opening 10 new stores.
- Market share objectives: to achieve 40% market share from our current level of 35% within 3 years.
- Profitability objectives: to reach a net profit margin of 11% in the next five years.
- Sales objectives: to increase sales by 5% from 2021 - 2024 in at least the following 3 product ranges - menswear, shoes and toiletries.
- Branding objectives: to make our brand of sports shoes the preferred brand amongst 15-25 year-old males within 3 years.

SMART objectives contain the potential to focus attention and gain commitment from all levels within a business to agreed performance targets. They will also encourage teamwork, and they direct resources to where they can be most effective.

SMART objectives also enable feedback and learning within the organisation, so that management can monitor achievement and make changes where necessary. One final point to note when setting SMART objectives is to check whether an objective has been well formulated, so those setting objectives should always ask: What will be acceptable evidence that we have succeeded in reaching our objective? i.e. How will a business know when it has achieved its objective?

The influence of organisation type and stakeholder activity on how and why mission statements, aims and objectives vary from organisation to organisation

Whatever mission statement, aims or objectives a business will choose will depend on many factors. There is no one correct mission statement, aim or objective that can fit all businesses, many influences will impact on what mission statement, aim or objective is used by the businesses. These influences have been included in the notes above and can be summarised as:

- The size and scale of the business
- The ownership of the business
- The purpose of the business – profit or not-for-profit
- The nature of the business
- The age of the business
- The competition
- The market the business operates in
- The external environment – economic/social/political
- The beliefs of the owners

Monitoring the achievement of organisational goals

Monitoring progress and results against the aims and objectives they set are essential for businesses. There is no point in setting SMART objectives if these are then not tracked and measured and used to help the business grow or address any problems it faced in not achieving its objectives. Monitoring achievement against targets is important for an organisation to ensure it can evaluate the success of its operations and strategies. This can then inform their future plans and resource allocation.

This can be done through numerous ways but are often categorised as either qualitatively or quantitatively.

Qualitatively can be carried out through surveys with various stakeholders such as customers, suppliers or employees. This gives qualitative data (subjective comments and opinions) and allows the business to receive detailed feedback, often with suggestions for improvement.

Quantitatively is completed through comparison of actual figures and numbers against targets using quantitative data, such as profit and sales figures and mark share percentages. This is often the most common form of monitoring as it gives a clear specific value to a business objective. For example, a business has set an objective to increase its sales revenue by 10% between January 2021 and January 2022 (its target). It managed to achieve a 12% increase (its actual) and therefore it is quite straightforward to see that it has reached its objective.

However, it could also carry out some qualitative monitoring to see in greater detail how this objective was actually achieved in practice by asking employees and managers or customers for their opinions, or if this had a negative or positive impact on its suppliers or its customers. For example, did the business maintain good relations with its supplier or did it seek a new supply deal that resulted in lower unit costs that the supplier was not happy about and can this be sustained going forward.

A business could use different quantitative data to monitor its performance, such as:

- Profit/loss per product/service
- Profit/loss for overall profit
- Sales revenue (turnover)
- Cost of wages
- Unit costs
- Market share
- Percentage change in growth/costs/profits
- Number of product returns
- Labour turnover (the number of employees who have left the business)
- Number of complaints

AC1.6 Explain the value to organisations of business planning

Business planning

The business plan makes clear the objectives of the business and how the business intends to achieve these objectives. A business plan is often likened to a map. This road map analogy is important – business plans are not to be written and forgotten, they are ongoing. The objectives that are set – whether financial, sales, marketing or production – are there for future guidance and not to be ignored. Start-up businesses that develop and follow a business plan are more likely to survive than those who do not.

A business plan will typically include the following sections:

The overview or executive summary

When preparing a business plan the entrepreneur should first of all clearly describe the business idea. This overview of the business will briefly describe the business opportunity that is to be exploited. It should summarise the strategies that will be employed and how finance will be obtained. This overview is very important in setting out the overall aims and objectives of the business. There is no set pattern for a business plan but there are key elements that need to be included – the plan needs to be flexible and able to adapt to changing market circumstances.

The marketing plan

This is an important part of any business plan and it should be based on both field and desk research. The market research carried out needs to establish if possible, the size of the market, the needs of the customers and the level of competition. Once market research findings have been examined then the marketing plan (strategy) can be prepared. If market research has identified weaknesses with the initial idea, this may be the time to adapt the product to more closely meet the needs of the customer or clearly differentiate it from the competition.

The operations plan

This will include details of where the business will be located, production methods and any equipment needed. In addition, information on the costs of production and where the business will buy supplies may also be included.

The human resources plan

The number of employees and the skills, experience and qualifications they require will be outlined. Any management team will also be identified.

The financial plan

A variety of forecasting will be necessary:

- a sales forecast indicating potential revenues
- a cash flow forecast for the first 12 months
- a profit and loss and balance forecast for the end of the first year
- a breakeven analysis

In addition, information should be provided on where the finance for starting and running the business will come from. This will indicate the available start-up capital as well as any potential borrowing.

Relationship of planning to organisational goals

A business plan should be clearly linked to the aims and objectives of the business, the business plan puts into action how the aims and objectives will be achieved. The business plan should help the business focus on what it needs to do and how it can achieve its goals. Planning the allocation of resources, including budgeting to the various aspects and functions of the business, is essential for the realisation of organisational goals. For example, if the goal is to increase sales, then allocating a greater budget to marketing would be expected.

Relevance of planning to entrepreneurs/to other stakeholders in obtaining resources

What are the potential benefits of a business plan?

When complete, the business plan presents the business owners with a clear set of instructions on how to run the business. A comprehensive business plan will allow business owners to check progress against objectives, monitor cash flow and take action when objectives are not being achieved. Business owners can clearly see when things are going wrong. A business plan is also needed for potential investors or when seeking finance from banks. Without a business plan it is highly unlikely that capital could be attracted from people or institutions outside of the business.

What are the potential drawbacks of a business plan?

Even with all these positive factors for having a business plan, there are downsides. Market research costs time and money, resources which might be better spent elsewhere in the business. For many start-up businesses this will be the hardest part of preparing a business plan. How do you predict what your income will be? Market research should provide an idea, but how reliable is the data? The estimate of sales revenue, money flowing into the business, should be based on accurate market research, but the truth is that most new businesses will at best be making an educated guess on how much money will be generated. The need for this guesswork is a potential weakness of any business plan.

An inaccurate business plan with unachievable objectives can give entrepreneurs false hope, leading to failed investments. Some experienced entrepreneurs have enough market and business knowledge to move from year to year without reference to marketing plans, or financial forecasts, and they do happily survive. However, for such businesses, growth is unlikely without forward planning. Identifying and adapting to change in the market may then result in crisis management.

Role of business planning in monitoring organisational performance

The business plan is a useful tool for entrepreneurs and more experienced businesspeople to monitor business performance. This is clearly linked to mission, aims and objectives, a good business plan will have sections on the different business functions, the resources needed to achieve its goals and reference to the expected performance of the business over time.

The process of planning will be beneficial to many business owners and employees and helps to assess how well the business is performing over time. The planning process can help to make sure that the right resources are bought and used, for example, employing the right people with the right skills and making sure they are undertaking the right roles within the business, the management of the cash flow of the business by identifying times when there may be cash flow problems and planning ahead to make sure the business can cope, or making the best use of machinery and equipment to make sure they are fully utilised and not being underused and being unproductive.

The business world is dynamic and many external factors will impact on the business, the business plan will therefore need to change and be flexible to take account of these external impacts, but by planning in the first place, the business will be in a stronger position to adapt and succeed.

AC1.7 Evaluate the varying impacts on organisations of their external environment

Businesses do not operate in isolation, there are other external factors that will impact on business activity. Some external factors may have a positive impact on the business, while the effects of others may be negative. A business will never be able to control these factors, but it is important that they take them into account in their planning and business strategy. These factors include:

- **P**olitical
- **E**conomic
- **S**ocial
- **T**echnological
- **L**egal
- **E**nvironmental

These influences are referred to as PESTLE. There are also other factors such as:

- Ethical
- Global
- Digital

All these factors can influence a business and impact its activities, performance and aching its aims and objectives.

Political and Economic

Often these two factors are grouped together as many political factors are closely linked to the economic performance of a country as the economic climate can be influenced by the actions of governments, though some economic conditions are beyond government influence and have a far-reaching global impact.

Instability – One of the major objectives of government is to provide a stable economic and legal framework within which businesses can operate and grow and individuals thrive. Competition needs to be fair; the rule of law and clear property rights must apply. Businesses that venture into countries that are politically unstable are taking considerable risks.

National security – This is an increasingly important issue for many countries as terrorist attacks have become commonplace across the world. As governments seek to protect their citizens, they introduce measures that may well restrict the movement of goods, people and capital. Many businesses may suffer negative impacts as a result, especially when attempting to resolve skill shortages.

Major trading partners – Whilst the UK has decided to remove itself from membership of the European Union, the 27 remaining countries are still a vital market for many UK businesses. The UK may not be the only country that decides to make such a move. Such uncertainty has the impact of disrupting financial markets and creating considerable uncertainty in the European Single Market.

Changes in government – New governments may well have a more, or less, positive attitude towards business activity. For example, legislation may be put in place that lifts restrictions on businesses in terms of such matters as pollution or workers' rights. This may result in cost increases for businesses and impact upon future profitability.

Pressure groups – The activity of such groups can have a significant impact upon political decision-making. Campaigns against the tobacco, alcohol and gambling industries have all had a significant impact upon bringing about changes in legislation. Businesses are required to put in place measures to comply with such legislation and this inevitably raises costs and lowers profits. Pressure groups are an increasingly significant factor in bringing about political change and businesses need to be fully aware of their activities.

Business activity can be hugely affected by the state of the economy. That state of the economy will affect how much consumers spend on goods and services. Consumer incomes will rise and fall depending on a number of economic factors. When consumer incomes increase the demand for goods and services will also increase. When incomes fall the demand for the product will decrease. So, the more a person earns the more they will spend. Businesses are concerned about disposable income which is the amount of money that households have available for spending and saving after income taxes and other mandatory costs have been deducted. For example:

A family have a household income of £120 000. The family have to pay an income tax rate of 40%. This household's disposable income would then be £72 000 (£120 000 - £48 000). Disposable income is what businesses hope consumers will spend on their products and services. If wages and salaries rise faster than a rise in prices, then disposable income will increase and this leads to a higher level of spending.

There are a number of factors that will influence the level of consumer income, including tax rates,
unemployment, interest rates and inflation.

Tax is paid by individuals and businesses to the Government. The revenue raised through tax is then spent by the Government on providing public services such as the National Health Service, education, housing, defence etc. The payment of tax is compulsory and the amount paid is calculated by a percentage of earnings.

Taxation

Taxes can be broadly split into two types. Direct taxation (taxation on income) and indirect taxation (taxes on spending).

Direct taxes	Indirect taxes
Income Tax	Value Added Tax (VAT)
National Insurance	Excise Duties
Corporation Tax	Custom Duties
Capital Gains Tax	Council Tax
Inheritance Tax	Business Rates

Income Tax is a tax on a person's income, this form of tax is a statutory (this must be paid) deduction from an employee's wages. Each person has an income tax personal allowance, and income up to this amount in each tax year is free of tax. People earning different amounts of income will pay a different amount of income tax, the more a person earns a higher percentage of their income is paid in income tax.

Individuals have to pay **National Insurance** contributions in order to pay for state benefits including the state pension. National Insurance is now used to pay for the NHS, unemployment benefit, sickness and disability allowances and the state pension.

An individual will have to pay National Insurance if they are 16 or over, an employee earning above £155 a week or self-employed and making a profit of £5 965 or more a year. If a person does not make any National Insurance contributions (for example they are unemployed) then they may not receive benefits, or the full rates of benefits, such as the state pension.

An individual is given a National Insurance number which is used to identify the amount paid in National Insurance contributions. The amount paid is directly linked to the amount earned – though it has a much more complicated rate and band structure than Income tax. In addition to individuals paying National Insurance, employers also have to make contributions for the people they employ; this is based on a percentage of the employees' earnings. Both income tax and National Insurance are paid to the government through the pay as you earn (PAYE) system, which is directly taken out of the pay an individual earns. The amount paid is noted on pay slips.

VAT is a tax on the purchase of goods and services. VAT is charged on most goods and services that consumers purchase (such as trainers and cinema tickets) and on goods and services that businesses purchase (such as accounting services and printer ink). The standard rate of VAT increased to 20% on 4 January 2011 (from 17.5%).

Food and drink for human consumption is usually zero-rated but some items are standard rated, including alcoholic drinks, confectionery, crisps and savoury snacks, hot food, sports drinks, hot takeaways, ice cream, soft drinks and mineral water. Physical education and sports activities, betting and bingo, lottery tickets, admission charges to museums, art exhibitions, zoos and performances, charitable fundraising events, care or medical treatment provided by a qualifying institution like a hospital, hospice or nursing home, education, vocational training and other connected services provided by an eligible body like a school, college or university are all exempt or have a zero rate of VAT.

Unlimited businesses, such as sole traders and partnerships, and limited companies are taxed differently:

- A limited company is taxed as a separate legal entity from its owners and directors, whereas sole traders and partners and their business are taxed as one single entity. Limited companies are subject to **Corporation Tax** on their annual profits.
- All sole traders and partners are taxed via a self-assessment system each year and pay Income Tax and National Insurance Contributions on their business profits after deductions for expenses.

The Corporation Tax rate for company's profits is currently 19%. For limited companies of any size, Corporation Tax is charged at 19%.

For a sole trader or partnership, profits are taxed at 20% on income between £12 501 to £50 00, 40% on income in of £50 001 to £150 000 and 45% over £150 000 (rates accurate for 2016/17).

Corporation Tax is a tax on company profits, it is paid before shareholders are paid their dividend. It is sometimes called Corporate Tax or Business Tax and is another example of a direct tax. The tax is calculated from the net profits earned by a company. Taxable profits include the money a business makes from trading, any investments they have and selling any assets for a profit. If a UK based company sells abroad then it has to pay Corporation Tax on all its profits from the UK and abroad. If a company isn't based in the UK but has an office or branch in the UK, it only pays Corporation Tax on profits from its UK activities.

Business Rates are a tax paid by businesses which is based on the property where the business takes place. They are charged on most non-domestic properties, such as shops, offices, pubs, warehouses, factories, holiday rental homes or guest houses and using a building or part of a building for non-domestic purposes (running a business from home). Business Rates are paid to local councils or authorities and based on the rateable value of the property.

Governments can affect business decision-making using fiscal policy. This involves both changing taxation and government spending to influence the economy.

Fiscal policy can be used to target political economic or social objectives so expenditure or increased taxation is sometimes targeted at specific industry sectors or alternatively subsidies can be paid to industries.

Increasing or decreasing the level of consumer spending will have an impact on the majority of businesses. For example, if the government choose to lower the level of income tax this will stimulate consumer demand. On the other hand, a rise in council rates will have the opposite effect and reduce demand for goods and services.

Prices can be impacted by a rise in VAT or Excise Duties. Businesses will try to pass such increases on to their customers if they can, but this will depend upon the degree of competition they face in the marketplace. The brewing industry often complains about the level of taxes on beers and spirits, arguing that increases in taxes on these products is depressing demand.

Increased rates of Corporation Tax or Business Rates will increase the costs of businesses, as will such measures as new landfill taxes.

National Insurance (paid by employer and employee), is sometimes described as a tax on jobs, as increases in this tax increase the costs of employing workers.

Subsidies

Subsidies are payments to producers. They have the effect of reducing costs and therefore increasing output. The main sources of subsidies in recent years have been payments from the EU to farmers (Common Agricultural Policy). The UK Government also pays subsidies to some businesses to encourage growth, for example large foreign manufacturers may receive money from the UK Government to set up a factory, employing thousands of workers in the UK. Subsidies in various forms are also paid to green power generators helping provide a guaranteed price for their electricity. The argument supporting payment of these subsidies is that green energy helps reduce the amount of CO2 emissions from fossil fuel power stations and therefore helps protect the environment.

Interest rates and their impact on business activity

The interest rate is the price of borrowing or saving money. Interest rates are shown as a percentage of the amount you borrow or save over a year. So, if you put £100 into a savings account with a 1% interest rate, you'd have £101 a year later.

The Bank Rate is the single most important interest rate in the UK. It's sometimes called the 'Bank of England base rate' or even just 'the interest rate'.

The Monetary Policy Committee (MPC) sets the Bank Rate. It's part of the Monetary Policy action taken to meet the target that the Government sets to keep inflation low and stable the Bank Rate influences, the rates commercial banks charge people to borrow money or pay on their savings.

The period 2009–2016 saw the Base Rate of Interest (set by the Bank of England) at a historically low level of 0.5%. In September 2016, the Base Rate reached a new record low of 0.25% and in 2020 was reduced further to 0.1%. The impact of such low interest rates on businesses has been generally beneficial. However, the very high rates of interest in the 1980s – when they reached a peak of 15% – were very damaging to many businesses. Using interest rates to help control the UK economy is known as Monetary Policy. If the government wishes to dampen demand in the economy, it raises interest rates in order to discourage people from borrowing money which they would use to purchase goods and services.

The effects on businesses of changing interest rates

If interest rates increase, the cost of borrowing increases which will limit demand in the economy. If interest rates fall, the cost of borrowing falls, so demand will increase. Businesses are not generally impacted by small changes in interest rates – say an increase from 0.5% to 0.75%. However, if there is an increasing trend over time, the cumulative impact can be significant.

When interest rates rise, domestic consumption falls. This is because people spend more on paying off mortgages and credit cards, so less money is left over for spending on other goods and services. In addition, higher interest rates discourage borrowing and encourage saving. As a result, demand falls but this fall in demand is not evenly spread. Those businesses that target people's surplus income are likely to lose out the most. Higher interest rates mean consumers cut back on luxuries like weekends away and restaurant meals; instead they might switch to day trips and having pizzas delivered. People are also less likely to borrow as the cost has increased; this will affect demand for products like cars, caravans and home extensions.

Higher interest rates mean that businesses borrow less for investment – firstly because higher interest rates mean that consumption is likely to fall, and also because the cost of investment has increased. Those businesses producing items such as machinery and new buildings find their sales decrease. Increased interest rates also push up the cost of existing borrowing, so increasing costs to businesses. These increasing costs can reduce profitability and reduce the competitiveness of businesses, meaning lost orders and exports.

With falling interest rates, the reverse effect is often seen, with people spending less on paying mortgages and credit cards, so there is more money left over for consumption. Borrowing by households increases, businesses are more likely to invest and also business costs are likely to have fallen – all leading to increased demand in the economy. Businesses who gain the most are those with large debts and those operating in the luxury end of the market. Middle-market businesses will adjust their product mix and marketing to target the extra disposable income.

Increasing interest rates:

- people spend more on paying mortgages, so less money left over for spending on other goods and services
- people are less likely to borrow as the cost of loans has increased, so less spending
- businesses borrow less for investment – too costly
- the value of the £ may increase against other currencies

Decreasing interest rates:

- people spend less on paying mortgages, so more money left over for spending
- people are more likely to borrow as the cost of loans has fallen, so there is more spending
- businesses borrow more for investment – greater chance of success
- the value of the £ may fall against other currencies

Inflation and its effect on businesses

Inflation is the rate at which the general level of prices is rising. The government measures inflation through the use of regular pricing of a nominal 'basket of goods'. This basket of goods is meant to reflect the spending habits of the average person within the UK economy and includes over 600 goods and services. So, the basket contains such things as petrol, cars, travel, holidays, consumer electrics, food, medicines, housing, and even lottery tickets and online dating. By judging and measuring the difference in the cost of purchasing this basket of goods on a monthly basis we are able to obtain an inflation figure. It is worth noting that there is more than one measure of inflation used in the UK. The target rate of inflation is known as The Consumer Prices Index (CPI). This is measured using the basket of goods as indicated: other measures of inflation include RPI, the RPIX, and a measure of Factory Gate Prices.

The United Kingdom is currently in an extended low inflationary period and relatively low levels of inflation have been with us for the last 18 years, with CPI inflation varying between 0% and 5%. This low level of inflation contrasts with inflation peaking at 27% in 1977 and an average rate inflation of around 10% during the 1980s. The annual inflation rates for the last few years are shown below:

2020	0.9%
2019	1.8%
2018	2.5%
2017	2.7%
2016	0.7%
2015	0.1%

The government has an inflation target of 2% and a range of 1-3%. The government regards achievement of the target level of inflation as being good for the economy. This is because low inflation encourages investment by business and spending by consumers. It also has the effect of increasing our competitiveness with overseas producers, so in theory limiting imports and increasing exports. In an attempt to control the level of inflation, the government has handed its main inflationary policy tool, which is the setting of interest rates, to the Monetary Policy Committee of the Bank of England.

Causes of inflation

Inflation is primarily caused by either cost-push factors or demand-pull factors.

Cost-push factors are those related to the costs of production and cause these costs of production to increase. Examples would be an increase in the cost of raw materials, increasing cost of labour or increasing interest rates and therefore the cost of capital increasing.

Demand-pull factors are those factors that enable businesses to increase prices because demand is increasing. Higher demand leads to higher prices. We often see this happening when demand outstrips supply, then prices start to increase. The main causes of increased demand are: increased confidence amongst consumers, higher real incomes (incomes allowing for inflation), or higher disposable incomes (incomes after taxation).

The effects of inflation on businesses

The major effect of high inflation on businesses is to discourage investment because of the uncertainty it creates. High inflation brings with it less predictable returns on capital purchased and also the expectation that demand will fall in the future. Low inflation will encourage investment and help businesses develop a long-term view. Remember that investment is not just capital investment but also investment in labour, such as training schemes, and the incorporation of modern working practices.

Increasing menu costs. If inflation is at a high level, businesses will have to continuously reprice goods. This repricing brings with it costs such as reprinting of brochures, sales details etc.

Increased management time spent negotiating wage increases with employees. If inflation is high, there will be more regular and continuing pressure for increase in wages. Negotiations with employees may be almost permanent and there will be an increased threat of industrial action.

International competitiveness. If inflation is higher in the UK that in competitor countries, costs of UK businesses are increasing faster. The effect of this will be to reduce competitiveness of exports and to encourage imports.

There is one major advantage of inflation, and that is it will reduce the real cost of repaying loans. However, this saving has to be balanced by the high interest rates that are likely to go with high levels of inflation.

Effects of deflation

It is worth noting that some level of inflation in the economy is desirable, hence the government's target of 2%. Deflation (a general fall in price levels) can be a real problem if it gets hold in an economy. For individuals it can lead to falls in wage levels and increasing real debt burdens (value of debts increase relative to value of assets and income). Both of these factors discourage expenditure.

Deflation also brings major problems to businesses. Firstly, as a result of the above described impacts on consumers, demand will fall; also, consumers will defer purchases, waiting for the price of goods to fall further, so again reducing demand. Businesses will also be nervous of investing as the return that investments will produce will be uncertain, as businesses do not know for how much the goods produced will be sold. Also, real debts of businesses increase, pushing up the risk of failure. These factors severely limit growth in an economy

Economic growth and the business cycle

The measure of the level of economic output in the UK is known as Gross Domestic Product (GDP). GDP is a measure of annual output of an economy. An increase in real GDP (real means allowing for inflation) has always been important. Without growth, people's standard of living will not increase. Growth reduces the real level of government debt in relation to GDP and increases tax receipts.

The underlying trend for growth in the UK economy has been around 2.25% a year, which, if sustained, doubles GDP every 25 years. However, since 2008 growth has averaged about half this rate.

Economic output (GDP), the amount of goods and services produced within an economy, does not increase steadily over time. Instead, we see a regular rise and fall in all types of business activity. This regular change is called the business cycle (also called the economic or trade cycle).

This rise and fall clearly has an impact on all stakeholders. Sometimes the economy is rolling along, people feel well off, they take out credit, buy expensive holidays, extend their houses and trade-up cars. Unemployment is low, jobs are plentiful, wages are good and bonuses are paid. However, there are other times when the economy is not doing so well: unemployment is relatively high, real wages may be falling, people do not like to spend a great deal and businesses, both large and small, may struggle to survive or even go out of business.

The elements of the business cycle

Boom

The boom period benefits most businesses and consumers. Unemployment is low, consumer demand is strong, profits for businesses are high and there can be a budget surplus for the government caused by high tax revenues and lower expenditure on Social Security. However high levels of demand can increase prices, workers often demand higher wages, thereby pushing up costs. Businesses focus on marketing goods that match with economic prosperity and look to invest in order to take advantage of high levels of consumption. Business confidence is high and lots of new businesses are set up by optimistic entrepreneurs.

Downturn

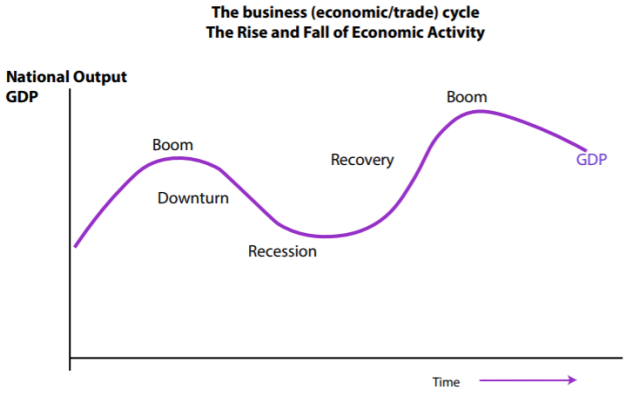
During an economic downturn, there is less investment by businesses and business owners and managers become nervous about the future and may start to cut back. Higher inflation in a boom may have caused the Bank of England to increase interest rates, so people are spending less and unemployment starts to creep up. The economy may still be growing, but at a much lower rate. In a boom, the economy can grow by 4% in a year; in a downturn, growth will slip to around 1%. Now businesses cut back on stockholding, worried that falling sales will leave them with unsold merchandise. Marketing strategies are based on providing value for money to customers in order to remain competitive.

Recession

Sometimes a downturn turns into a recession; the economy starts to shrink in size. The strict definition of a recession is two consecutive quarters where GDP growth is negative. If we have a recession, we see rapidly increasing unemployment, falling demand from consumers, falling investment by businesses and a decline in the levels of inflation and interest rates. Between 2008 and the middle of 2010 we saw in the UK the longest recession since the Second World War. Unemployment increased by over 1 million. A recession will have a material impact on businesses. Generally, demand will fall, there is likely to be the cost of redundancies, businesses will cut back on investment and levels of stock. Product ranges and pricing strategies will change to suit the new economic environment. Small businesses set up during a period of boom struggle to survive and many run out of cash – forcing them to close.

Recovery

Hopefully, the recession will soon turn into a recovery. Businesses start to see business opportunities, the cost of borrowing can be low and, therefore, investment by some businesses will start to increase. New jobs are created and unemployment falls and consumers start to spend again.



Exchange rates and their impact on businesses

An exchange rate is the value of one currency expressed in terms of another currency.

The fact that different countries use different currencies means that there is an impact on businesses when the price of these currencies changes in relation to one another. The price of a currency is largely determined by market forces – in other words, demand and supply. When the demand for UK exports rises in China, so will the demand for pounds: this is because Chinese consumers and businesses can only use pounds to purchase UK goods. They therefore have to exchange yen for pounds sterling.

This results in an appreciation of the pound i.e. the value of the pound has increased against the yen. This also works in the opposite way when the demand for UK imports falls. A fall in the exchange rate is known as a depreciation of the pound.

The impact of a fluctuating exchange rate on UK businesses can be very significant – depending on the degree to which they purchase goods and services from, or sell goods and services to, other countries.

Impact of a FALL in the value of the £ (Depreciation)

Importers

In terms of their own currency, importers will find imports more expensive to buy. They can react to this in one of two ways. Firstly, they can reduce their margins and so avoid passing the increased cost on to the consumer, or secondly, they can pass increased costs onto the consumer in the form of higher prices.

Exporters

Exports will be cheaper in terms of the purchasing businesses own currency, so businesses should find attracting export markets easier. They can react by increasing the price in £s, so maximising their profits; or keeping their prices the same and trying to win new customers.

Impact of a RISE in the value of the £ (Appreciation)

- Importers
  In terms of their own currency, they will find imports less expensive to buy. They can react to this in one of two ways. Firstly, they can increase their margins by not passing the reduced cost on to the consumer; or secondly, they can pass reduced costs onto the consumer and thereby increase sales. The decision will come down to balancing short-term profit maximisation against winning consumer loyalty.

- Exporters
  Exports will be more expensive in terms of the purchasing businesses' own currency. Businesses will find winning and keeping export markets a great deal harder. They can react by reducing the price in £s, so reducing their profits; or keeping their prices the same. How the business acts will depend upon factors such the strength of their brand or quality of their goods or services.

Fluctuating exchange rates create uncertainty for businesses because it is difficult for them to predict the demand for exports and the cost of imports. Planning and budgeting can be badly disrupted by a weakening or strengthening of the pound against another currency and could result in the closure of a business that operates in a very competitive market where profit margins tend to be low.

Unemployment

People are unemployed when they don't have a job. People are looking for work but for some reason they are unable to get a job. The unemployment rate for a county is the amount of people who are unable to find a job. When the economy is doing well unemployment tends to be low, but in times of recession or when the economy is not doing so well, unemployment tends to rise. The unemployment rate is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labour force.

Unemployment will always be with us as every economy has a natural rate of unemployment. This natural rate unemployment does alter over time and will depend on such things as mobility of labour, availability of training, trade union power and the skills of labour. In the UK, it is estimated that current natural rate unemployment is between 3% and 4%. Many economists argue a reasonable level of natural unemployment is good for the economy, as it discourages those in employment seeking higher wages.

Types of unemployment

Structural unemployment

This appears when then there have been large changes in patterns of demand or developments in technology which have caused long-term unemployment in regions or industries. These changes mean that the structure of the industry or service has changed, and that jobs in their previous form are unlikely to return. A good example would be the high levels of male unemployment in South Wales valleys and regions of Yorkshire which had previously large coal-mining and steel-producing areas. In this case, decline in the industries has been caused by cheap imports and by the switch to natural gas for heating and in power stations.

A change in technology can also cause structural unemployment. A good example of this is new technology used by Far Eastern textile manufacturers which has caused large unemployment in the previously booming textile industries in Lancashire. More recently, the adoption of automation and robotics is threatening large numbers of jobs across a range of industries.

Providing a solution to structural unemployment when it occurs is one of the largest problems facing any government. Quite often families have previously been employed for many generations within the same industry. It is difficult to encourage retraining and mobility of labour from these regions. It is also difficult to encourage businesses to move to the areas which are so obviously depressed.

Cyclical unemployment

Cyclical unemployment, as its name indicates, appears as part of the business cycle. As an economy enters a downturn, unemployment increases: this will peak during any subsequent recessionary period. This type of unemployment will fall during recovery and reach a minimum at the peak of the boom period.

The government has tried to tackle cyclical unemployment in two ways. Firstly, by encouraging wage flexibility, for example, by making part of employees' wages relate to profits of the company (profit-related pay). It is then not so expensive to employ workers when there is a downturn in profits. Also, the government has tried to reduce the nature of the economic cycle and the large variations between boom and bust. One important way of doing this is to encourage investment in labour and so make it more expensive to shed workers during an economic downturn. The benefit of this to business is that labour would be both more productive and flexible, therefore enabling workers to adjust to meet to the demands of new economic conditions. During the recession of 2008 and 2009, it was estimated that the level of cyclical unemployment reached approximately 1.5 million.

Frictional unemployment

This perhaps is the least problematic of the three types of unemployment and occurs when there is a delay in finding a job after losing a previously held job. This unemployment is obviously less long-term than structural unemployment; it tends to be temporary. Nonetheless, the government still tries to reduce it by increasing information available of vacancies that exist. This can be done through jobs centres and other employment recruitment services.

The impact of high levels of unemployment on UK businesses

The major impact of unemployment is to reduce demand for goods and services. The economic crisis of 2008 saw the unemployment figure reach 3 million and this had a very significant impact on the sales and orders of UK businesses. Sales forecasts were radically revised and survival became the major objective of the majority of enterprises. This fall in demand can result in a fall in output and then possible redundancies for some workers if they are not needed.

Unemployment causes problems for consumers, businesses and the government:

- Consumers – reduction in income if they become unemployed, resulting in a fall in living standards, the stress of finding a new job if businesses are not recruiting and the social and emotional effects of being unemployed.
- Businesses – the fall in consumer incomes results in a fall in demand for their goods and services, financial problems if they are a small business or a business with no or little savings/retained profit.

- Government – a fall in revenue from Income Tax, VAT and Corporation Tax and an increase in welfare payments (less income and more outgoings).

Employment levels tend to rise and fall as the economy grows and declines; this has both benefits and drawbacks for business:

Economic growth

- Consumer demand for goods and services is high.
- Businesses need employees in order to meet consumer demand.
- Most people who want a job are already employed.
- In order to attract new employees businesses have to offer higher wages.
- Businesses will find it increasingly difficult to recruit someone with the right skills and qualities for the job

Recession/slump

- Consumer demand for goods and services is low, as people have less disposable income to spend.
- A large number of people are unemployed and looking for work.
- If businesses decide to take on new workers, they will be able to choose from a wide pool of applicants.
- Wages will remain low as long as unemployment remains high

Social factors

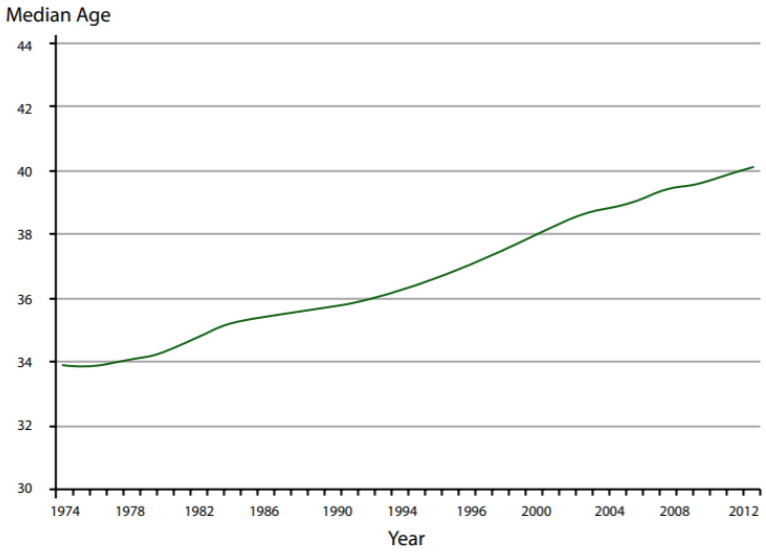
Businesses must be aware of the ever-changing social factors. These include fashion, tastes and population trends.

Social factors also affect lifestyle and include religion, age, changing family structures and wealth. These factors can change over a period of time and so all businesses need to be aware of these changes to sell products and services that consumers want.

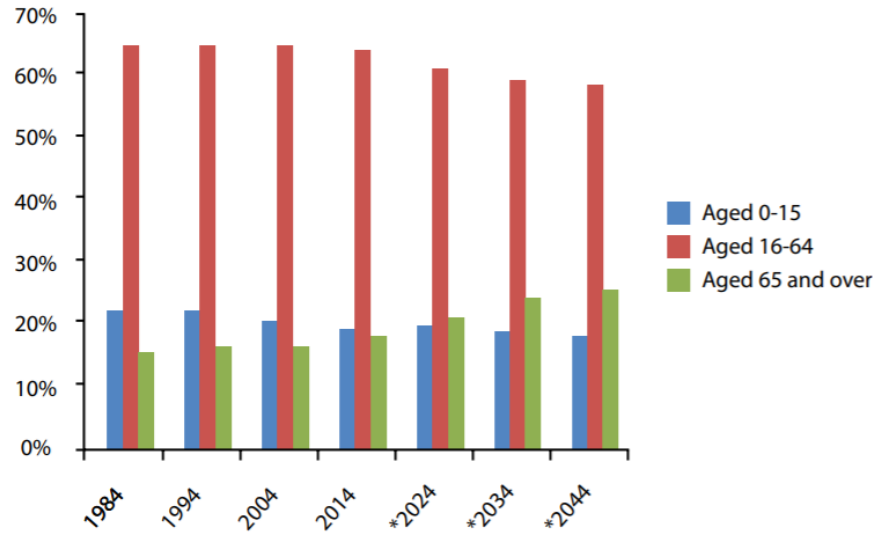
Demographic change

Demographics measure the changing structure of the population. The first important factor is the overall size of the population. This is of interest to businesses since, in general terms, if the population increases, the size of their market will increase and they will be able to sell more goods. Other things being equal, an increase in population will increase demand for a product. In the UK, we have an ageing population and this ageing population of the UK is driving changes in many markets. The baby boomers of the 50s and 60s are now entering or moving toward retirement. These people are generally a well-off section of society, the majority with their own homes and many with high-value final salary pensions. Baby boomers can have large amounts of savings and disposable income which can be used for holidays, conservatories, new cars, etc. The bank of 'Mum and Dad' is now being used to help with deposits for around 25% of first-time buyers.

The chart below (from the Office of National Statistics) shows how the median age of the UK population has increased since 1974, increasing from just under 34 to 40 years of age and this is expected to increase to 44.5 in 2050.



The second chart (ONS) divides the population into three groups and plots the changes in proportion of these groups since 1984. From this we can see that the group aged 65+ has increased from 15% to 18% of the population between 1984 and 2014 and is projected to reach 25% of the population by 2044. Given the past and projected changes, the changing structure of the population will impact the demand patterns across a whole range of industries.



Demographic change in the UK is not just about an ageing population. A range of demographic factors are concerned with the size, location and distribution of the population. The structure of the UK population is constantly changing and there are number of demographics that can affect businesses:

- population size – growing or declining
- immigration/emigration
- age distribution
- birth rate
- older population
- households – smaller families/single parent/working families
- ethnic minority groups
- income – increasing or decreasing

Demographic change in the UK is not just about an ageing population. Migration (people moving to the UK from other countries and UK people moving to other countries) is also a major part of the change in UK population structure.

Demographics can be used by businesses to see the trends in what products are popular with consumers, to make sure they are selling the right products to the right people.

Social factors also include lifestyle changes of the population. Over time people change the way in which they think and live their lives, and this can have an impact on retail businesses. These lifestyle changes include:

- Society is becoming more health conscious. Fitness is another sustained lifestyle change. This does not just impact on the demand for gyms but also related goods such as low-fat, low-sugar, vegan and organic foods.

- Family structure has changed with both parents working full-time. Supermarkets and other retailers focus on convenience, time-saving meals, home delivery and 'click and collect'.

- Many consumers use digital media to look for products and to purchase goods. Teenagers and people in their 20s mostly use smartphones and tablets to watch entertainment and to buy online. Marketing and selling to these shoppers must be focussed on this media, not just traditional methods such as TV adverts and newspapers.

- Social change also includes fashion changes. Consumers are now happy to pay £4.00 for a coffee – as long as it has the right brand on the takeaway cup. A retailer has to make sure it keeps up with changes in fashion.

- Changes in consumers' attitudes towards the environment have changed the way many consumers shop. Electrical goods need to be energy efficient. When consumers are purchasing cars, the focus can be as much on emissions and fuel efficiency as on performance. Packaging is important; consumers do not like retail businesses who sell products that use plastic or unnecessary packaging. Consumers are also concerned about ethics, and a retailer has to make sure it acts in an ethical way, otherwise it can obtain bad publicity and shoppers will stop buying from them.

- Cultural changes within a population can also have a major impact on business behaviour and the products they produce.

- Social change can also be seen within businesses in the way they determine objectives and strategies. There is a growing movement in the setting up of social enterprises, where businesses are primarily focussed on a social objective as opposed to profit. This is driven by, and a reaction to, big businesses traditionally having given little thought to their social impact. As a result, some large businesses today go as far as producing a social audit alongside their traditional accounts in order to improve public relations. The social audit measures the environmental and social impact of the business's activities and sets out strategies for reducing any negative impacts.

Technological factors

No matter what the business activity, some form of technology will be used. This can include communicating with customers using smart phones, using EPOS (electronic point of sale) in retailing or using robotics in manufacturing.

In the last 20 years the pace and advancement of technology has been countless and the increasing levels of automation (making a machine work without any input from a human) and use of information and communications technology (ICT) has had a major impact on all organisations and how they operate.

Many businesses have grasped these new technologies to the maximum extent, whilst others have not been so enthusiastic. Over the last decade, a greater understanding by business owners and managers of the potential impact of robotics and automation, plus the ability to communicate cheaply to any part of the world, means that all businesses in competitive markets must now accept that these new technologies will have to become an integral part of their operations if they are to stay competitive.

A range of computer packages are available to businesses to allow them to carry out a range of tasks. The introduction of these packages can improve the efficiency of the business, reduce long term costs and improve the quality of the work undertaken. Computer packages include:

Word processing – used to create documents that can be stored and edited. A range of documents are needed in a business, for internal and external use, and the use of word processing software has greatly improved the quality of presentation in these documents. Templates can be kept for frequently used documents and old documents can be saved and then edited to create updated versions.

Databases – used to store information. Businesses need to store a vast amount of information and before the introduction of electronic databases, this information was often stored on paper and information could easily be lost or take a long time to find. Databases have search facilities that allow users to find the information they need quickly and accurately. A business may use databases to store information on stock, customers, suppliers, employees, component parts, etc. The use of mail-merge allows databases to be linked with word processed documents to allow standard letters to be sent to hundreds or thousands of customers with a few simple clicks of the mouse.

Spreadsheets – used to keep accounting (financial) records and to carry out calculations. The amount of quantitative data used in business activity is vast, this data has to be recorded and used to produce financial and stock records for the business. A spreadsheet presents data in a constructive format that allows easy interpretation of the data. In addition, spreadsheets use of formulas allows for the efficient calculation of data. This data can also be presented in graphs and charts. Spreadsheets are used to produce cash-flow forecasts and income statements and the use of formulas allows for modelling (what happens when a value is changed to predict future events). In addition to standard spreadsheets, there are various accountancy software packages available to businesses to produce the financial records they need.

Video conferencing – used to connect people at different geographical locations. The connection is a live, visual and audio connection to allow for meetings to be held between locations anywhere in the world. Video conferencing can be used to hold meetings for employees located in different areas, or for communicating with customers. It can save time (no need to travel for a face-to-face meeting) and costs (travelling expenses).

It is more effective than a telephone call as participants can see each other and group discussion is possible. Video conferencing requires computers, webcam, microphone, speakers, internet and video conferencing software.

Presentational software – used to create presentations. The software allows the user to create professional and multimedia (text, pictures, video and sound) presentations, often through a series of slides. These can be used to present new products to customers or internal presentations between different workers in a business (for example, a marketing manager presenting to the sales staff the details of a new advertising or promotional campaign). In the age of the internet (presentations are often uploaded to websites), the use of presentational software is limitless and is an effective tool in giving information to potential customers and other stakeholders connected to a business.

Computer graphic packages – used to create graphical documents such as adverts, promotional material, logos and artwork. When marketing the business, or products and services of the business, computer graphic packages allow a business to create its own high quality material used to attract customers to the business. These can range from small businesses creating leaflets or business cards (desktop publishing software), to large businesses creating a suite of material that could include brochures, catalogues and magazines.

Website design – used to create and maintain websites. The importance of the internet in the current business environment is crucial. Whatever their size, most businesses today have some form of platform on the internet, ranging from a simple website for information to a fully interactive website allowing for e-commerce and instant interaction with online support personnel. There are now many software packages available to buy that help build a website, in addition many large businesses will have a whole dedicated website team of employees to build, improve and maintain its website.

The ever-increasing rate of progress in computer technology will result in even more software becoming available for business use. More advanced stock control software is already in use and new packages to monitor staff performance are being used by some businesses. Computer technology has an important and growing role to play. The areas below have experienced rapid growth in recent years:

- Internet marketing – internet sales are increasing year on year. Many businesses now use the internet to market their products instead of more traditional advertising media.

- Web-based customer relationships – some businesses have entirely web-based customer relationships, for instance many people now bank online.

- Electronic point of sale systems (EPOS) – this has moved on from just reading bar codes at checkouts. Systems now use EPOS to control its stock, automatic ordering from suppliers, determine promotions, selling space and staff requirements. Manufacturers can use EPOS systems to reduce stockholding to ensure that suppliers only send materials when they are required.

- Sourcing materials for businesses – when a business orders stock or materials from another business. For many businesses this can be done entirely through the internet through the use of business portals resulting in lower costs and good relationships between the businesses.

Automation used to simply mean robots carrying out repetitive tasks in manufacturing industry, but over the last 15 years the ability to combine different technologies within a process has resulted in widespread automation from the primary resource, to the retailer. In agriculture, product quality checking is carried out by machines that take digital photos of vegetables, clean, sort and finally package and label the vegetables to match customer needs.

The main business function where automation has had an enormous impact is in the manufacturing/production of goods. The car industry invests heavily in automation and robotics, and very few cars are built today that have not been produced by an automated process.

Automation is likely to be seen more and more in the following areas:

- Retailers – for retailers, automation has become one of the key issues in business efficiency. Whether it is automated ordering or the more visible self-checkouts.
- Banks – bank clerks are disappearing to be replaced by machines. Those bank staff that are visible are there just to help you use the automated systems and to sell you new products.
- Warehousing – staff functions are being replaced by robots that can do more and more tasks. Robots are not yet capable of removing all goods from shelves but can transport and pack goods.
- Online services – whole systems will be automated; mathematical analysis will determine which products are marketed, where they will be placed and what prices are charged.
- Utilities (gas and electricity) – smart meters will replace the need for manual meter reading; switching to the cheapest provider may become automatic.
- Delivery of products – businesses are looking in to the use of drones to deliver items ordered online.

Advantages of automation	Disadvantages of automation
Lower employee costs. Not just less wages to be paid, but other benefits like sick pay and pensions	Greater environmental impact
Increased productivity, faster production	Social costs
Increased quality and repeatability	Costs of investment
Increased safety	Less flexibility
Less management time spent in disputes and negotiations	

Computer-aided design (CAD) is a process whereby designs are displayed digitally, often in 3D, and can be viewed from all angles. CAD allows the design team to edit and test their design on the computer with minimal cost and correct any problems before they arise in the production process.

Modifications or changes can be easily made, without having to go back to the 'drawing board'. CAD also allows an infinite variation on design themes, allowing all possibilities to be tested. CAD can also be used to estimate production costs for the final product. This system has reduced lead-in time on products – that is the length of time between the initial design concept and actual production. The shorter the lead-in time, the more competitive the business remains. Once the designer is fully satisfied with the design they have produced, the plans can be fed into a computer for the product to be manufactured.

Computer-aided manufacture (CAM) is a process whereby designs are input into a computer system and the computer then controls the production of the item through automation and robotics. The use of CAM in production is widespread and is used in a number of ways, but mainly in the control of machinery – for example robotic welders in vehicle production. These machines always produce welds of the same quality, day in day out.

The use of CAM can aid in flexibility of production. For example, reprogramming is quite simple; but retraining a welder may be a great deal more complex and costly. CAM can also cut costs in even small businesses. Tailors and dressmakers use CAM machines to cut material in the most economical way, ensuring that waste is minimised.

CAM equipment can be expensive and in the past is was mainly used by large scale businesses, however, in recent years the cost of this machinery has reduced and more and more small and medium scale businesses are now using CAM in the production of its products. However, it can also be expensive to maintain, replacement parts are not cheap. One other drawback is that technology does break down from time to time and this can stop the whole production process, which can lead to missing deadlines with customers. The advantages of using CAM compared to manual machines include:

- Production is completed quicker
- Greater accuracy
- Greater consistency of finished product
- Greater quality of product
- Greater efficiency as machines don’t need breaks
- Human error is minimised

E-commerce and m-commerce

The development and widespread use of the internet over the last twenty years has had a huge impact on how a business sells its products and services. Online shopping, which is also referred to as e-commerce and e-tailing, is a form of electronic commerce which allows consumers to directly buy goods or services from a seller over the internet. The internet has changed buying habits and e-commerce is now a very important part of the retail industry, and is continuing to grow. More recently there has been an increase in sales from wireless handheld devices; this is referred to as m-commerce.

Online retailing allows customers to buy products without visiting a physical store. The constant development of new technology will result in the continuing development of new forms of online retailing. Examples of online retailing include:

- A retailer's own website
- A third party marketplace, such as Amazon, eBay, Etsy, etc.
- Social media, such as Facebook, Twitter and Pinterest.

The internet, and the use of search engines, has made accessing customers a great deal easier than in the past. All a business needs to sell its products is a decent website, some form of payment processing and 'shop' software. All of this can be created for less than £500. In fact, there are 1000s of entrepreneurs running their businesses through auction sites such as eBay, with hardly any fixed costs at all. All of these businesses mean extra competition for existing traditional businesses – as well as lowering prices for customers.

A comparison of prices has become a great deal easier for customers. Using the web, individuals can carry out their own research or use comparison sites, such as Money Supermarket, to find the best deal across a huge range of products. This access to pricing information has had an impact on prices charged by businesses. It has been argued by economists that the increase in internet shopping has had a direct impact on lowering inflation rates.

M-commerce is the buying and selling of goods and services through wireless handheld devices such as mobile phones and tablets. This means 'having your retail outlet in your consumer's pocket'. Through mobile technology, it is now possible to reach customers 24 hours a day. M-commerce does not just mean buying: it is about providing customers with product information and promotions. Consumers use m-commerce to compare prices online, take photos for future reference and research their potential purchases online.

'Clicks and bricks' is a marketing term which means that businesses need to have a web presence (clicks), plus a physical presence on the high street or in shopping centres (bricks). Examples of businesses using this to distribute their products include PC World, Argos and Tesco. Each of these businesses have been very successful in using a web presence to increase sales and customer loyalty.

In an era of rapid change and increasingly advanced technology, it is certain that online shopping will continue to evolve. Who can guess how we will be shopping in 5 or 10 years' time.

Businesses will have to keep up with the technological changes or face being left behind. Competitors will look to utilise new technology to gain sales and consumers will always demand new and improved experiences when spending their money. It is likely that m-commerce will continue to grow and the challenge to online retailers and smart phone manufacturers is to improve the online experience through more compatible software, multiple screens, easier checking out procedures and improved security procedures.

One other possible change in future years is the growth of the personalisation of the online shopping experience. With increased amount of data that is available online and the growth of social media it could be possible for the consumer to have more control of the buying of products online Another area of growth is social shopping where consumers interact with each other on social platforms, retailers can join this conversation and offer products that match the profile of the engaged consumers.

Digital media

The advancement in digital media has been one reason for the rapid growth of online shopping and social media websites. Digital media includes a wide range of computer software including imagery, videos, audio, webpages, games and e-books that can be communicated via the internet and computer networks.

The development of digital media has impacted on traditional media such as print and analogue media, for example the sales of newspapers and music through CDs, have declined as a result of consumers purchasing these digitally.

Digital media is used by a wide range of businesses of all sizes and digital methods of communication and marketing are faster and more versatile than traditional methods. Digital marketing is used on websites, blogs, internet banner adverts, online videos and email and mobile marketing. Digital marketing costs less than traditional offline marketing methods. An email or social media campaign, for example, can communicate a marketing message to consumers for much cheaper than a TV ad or print campaign and yet reach a wider audience. It can be used by businesses of all sizes and allows smaller scale businesses to compete with larger multinational companies.

Social media

Social media has drastically changed in the way in which a business can communicate with its customers. These interactive platforms are used by over 2 billion people in the world; most internet users use a social media website on a regular basis. The most popular of these social websites have become a huge source of information for businesses and a new platform to target consumers.

Having the right social media presence is very important for businesses. A recent survey carried out in the UK reported that nearly 80% of consumers would buy more often in the future because of a brand's presence on social media. Many businesses, small and large, will carry out social media campaigns as part of their marketing process.

Impact of technology in business

Location of business and ICT

The rapid increase in the quality of global communications technology and the matching fall in cost of use of this technology have allowed large businesses the option of outsourcing or relocating their ‘back office’ operations worldwide. For example, call centre operations in India. The costs of these operations are far lower than in the UK – in fact the estimated cost to the call centre operator of each 1 minute call is just 7p. This includes the cost of call and the employee costs. When we consider wages in India can be just $200 dollars a month, (approx. just 15% of UK wage costs), and that many posts are filled by graduates, we can see the attractions of this type of relocation.

Outsourcing production

Improvements in technology have also led to outsourcing of production. Because quality can be remotely monitored, the fear that outsourcing leads to quality problems or supply chain delays has, to a large extent, disappeared. This means that many large businesses can reduce financial risk by letting other businesses manufacture their products for them. Apple Computers do not build a single iPad or iPhone, but they still control and monitor production on a daily basis.

ICT in business used to be seen as an expensive method of solving problems. However, increased flexibility of applications and the falling cost of hardware have ensured that all types of business use ICT in many ways. There are of course still expensive mistakes, but ICT is now found in every process in the production chain, from stock ordering to marketing.

Communication

Technological advancements have made communication far more effective and time efficient for businesses. With the advancement is technologies such as wireless communication, businesses can communicate both internally and externally, across the world. This had also enabled the communication to be less costly. Video conferencing is a commonly used method for meeting with suppliers, customers and also internally across the world. The technology enables meetings to partake with participants in various locations.

Consumers and technological change

Consumers can benefit in a number of ways from the new technology introduced by businesses:

- Internet provides easy price comparison and much more information through review sites
- More choice
- Lower prices
- Improved quality
- Convenience through home shopping and pre-arranged delivery times

Although technology brings many advantages to businesses and its stakeholders it also has various disadvantages, these include:

- Cost – rapid developments in technology mean that businesses are constantly trying to adopt the latest technology, in order to gain an advantage over their competitors. Introducing new technology is not cheap and small businesses may not be able to afford the purchase of the equipment or services to maintain its operation. This could result in business closure if larger businesses are able to use technology and increase their dominance in the market.

- Increased dependence on technology – this can lead to problems when the technology breaks down as the business will not be able to conduct its activities and could lead to loss of sales and dissatisfied customers.

- Loss of jobs – technology will replace some jobs; the manufacturing industry now employs fewer workers as many tasks are completed by robots. The banking industry has also made workers redundant as services are now being carried out by automated machines and online banking services. However, the growing demand for computers, software and hardware, has created additional employment opportunities.

- Closure of high street shops – the increasing popularity of online shopping has resulted in more goods being bought online and less goods being bought in stores. The reduced costs for the retailer to sell online results in many high street stores closing and some traditional shops closing all together.

- Security breaches – paying for goods and services online does increase the risk of online fraud and many people who have experienced this don't even know that money has been taken from their account. As e-commerce requires details to be held online there is also the risk of identity theft.

Legal factors

There are a number of different laws that affect the way businesses can operate. These laws are designed to protect individuals, customers, employees and the environment from the potential negative acts of business. Those who set laws and add to existing legislation argue that without a strong legal framework businesses will operate in a way that will maximise their profits and this is likely to be a detrimental to many groups such as employees and customers. Business legislation covers a number of areas, namely company law, employment and anti-discrimination law, consumer protection, competition policy, health and safety legislation, data protection, intellectual property and minimum wage legislation.

Company law

When a business is incorporated, it exists as a separate legal entity. That is, it is separate from shareholders. The act of setting up a Limited Company (LTD or PLC) is incorporation. An incorporated business is responsible for its own debts and liabilities. The shareholders and, as a general rule, directors cannot be forced to pay them (unless fraudulent activity has occurred).

Many Ltd.'s employ professional company secretaries (who can carry out this role for a number of companies) to ensure that the company meets with required legislation. Failure to comply with company law can lead to company directors being fined, struck off or even to the compulsory liquidation (winding up) of the company. Compulsory liquidation or winding up can be requested through courts by creditors (often HMRC for non-payment of taxes due) and can also occur through failure to provide accounts to Companies House within the due period.

Employment law

There are a number of different types of legislation that regulate the relationship between employers and employees:

Health and safety legislation

Under the Health and Safety at Work legislation, employers have a duty to take all reasonable care to ensure the wellbeing and safety of their employees. Employers have a legal responsibility to ensure that working environments are safe and that employees are able to understand and are trained to deal with the risks involved in their jobs. Employees also have responsibilities, such as taking reasonable care and ensuring that they abide by health and safety rules – e.g. wearing hard hats on building sites. Businesses are also responsible for ensuring the health and safety of their customers.

Employment rights

This is the key legislation concerned with establishing workers' rights in regard to their terms and conditions of employment. Employees have to be provided with a written contract of employment within two months of starting employment. The contract must state levels of pay, holiday entitlement, rights for maternity pay, pension rights, disciplinary procedures and length of notice period.

It used to be the normal situation for men and women doing identical jobs or jobs of similar value to have very different pay. Since the mid-1970s this has been illegal. Anti-discrimination laws protect workers from being treated differently because of their race, colour or culture and employers with workforces of over 20 must make efforts to ensure that workplaces, where possible, are suitable for disabled employees.

The retirement age of 65 was abolished in 2011: retirement age is now when the employee chooses to take retirement. An employer can only retire a worker in particular circumstances, e.g. not being physically able to complete the tasks involved in the job.

The Equality Act 2010 legally protects people from discrimination in the workplace and in wider society. It is against the law to discriminate against anyone because of:

- age
- being or becoming a transsexual person
- being married or in a civil partnership
- being pregnant or having a child
- disability
- race including colour, nationality, ethnicity or national origin
- religion, belief or lack of religion/belief
- sex
- sexual orientation

These are known as 'protected characteristics'.

Any of the following is regarded as discrimination:

Direct discrimination – treating someone with a protected characteristic less favourably than others.

Indirect discrimination – putting rules or arrangements in place that apply to everyone, but that put someone with a protected characteristic at an unfair disadvantage.

Harassment – unwanted behaviour linked to a protected characteristic that violates someone's dignity or creates an offensive environment for them.

Victimisation – treating someone unfairly because they have complained about discrimination or harassment.

The law protects workers against discrimination at work in the following situations:

- dismissal
- employment terms and conditions
- pay and benefits
- promotion and transfer opportunities
- training
- recruitment
- redundancy

An employment contract establishes the rights, responsibilities and duties of an employer and an employee. An employer must give employees a written statement of employment if their employment contract lasts at least a month or more. This isn't an employment contract but will include the main conditions of employment. The employer must provide the written statement within 2 months of the start of employment. A written statement is the minimum requirement by law, many businesses will give a contact of employment which will include more details that allows an employer to specify an employee's duties and responsibilities – so an employee knows exactly what is expected of them. Every job will have a specific contract of employment, but most will include at least the following information:

- the business' name
- the employee's name, job title or a description of work and start date
- how much and how often an employee will get paid
- hours of work (and if employees will have to work Sundays, nights or overtime)
- holiday entitlement (and if that includes public holidays)
- where an employee will be working and whether they might have to relocate
- assessment of work
- information on pensions
- sick pay and redundancy pay
- the notice period to be given by either the employer or the employee to end the contract

An employer can only terminate an employee's job lawfully if the employer follows a fair procedure, acts reasonably and has a fair reason, in other words, employees are protected from unfair dismissal Employees are protected if their employment contract is terminated and their employer did not have fair reason to do so. It also includes situations when the employer did have fair reason but handled the dismissal using the wrong procedure.

Unfair dismissal can happen in the following situations when an employee:

- asked for flexible working
- refused to give up your working time rights – e.g. to take rest breaks
- resigned and gave the correct notice period
- joined a trade union
- needed time off for jury service
- applied for maternity, paternity and adoption leave
- exposed wrongdoing in the workplace (whistleblowing)
- were forced to retire (known as 'compulsory retirement').

Employees are entitled to take their case to the Employment Tribunal who will decide if the employer was unfair. If the tribunal decides that the employer was unfair, they can enforce the employer to reinstate the employee, offer an alternative job and can also order the employer to pay compensation.

The National Minimum Wage and The National Living Wage

The National Minimum Wage is the minimum wage per hour a worker is entitled to in the United Kingdom. When first introduced in April 1999, the National Minimum Wage intended to boost the pay of very low-paid workers. The legal minimum wage is reviewed every year by

the Low Pay Commission and has gone up each year since 1999. Businesses have to comply

with the new rates or face prosecution. The National Living Wage is a compulsory minimum wage payable to workers in the United Kingdom aged over 25, which came into effect on 1 April 2016.

It is argued that the National Minimum Wage has made the UK much less attractive to foreign companies who will look to invest in other countries with lower wage levels. Also, some businesses in the UK have moved production and investment to low labour-cost countries in the east of Europe and Asia. Small businesses have been most affected, especially those that are labour intensive, with an increase in their costs.

Overall wage costs could have increased because of the pressure to keep existing wage differentials in place – as the wage of the lowest paid workers increases, so must the wages of those on the next level up and so on.

Consumer law

Why do consumers need protection?

Many businesses are managed in an ethical fashion and focus on providing excellent quality goods and services to meet customer expectations. However, this is not always the case and the drive to maximise profit overwhelms some organisations resulting in them resorting to dubious tactics in order to increase sales and revenue. There are a huge number of suppliers and retailers operating in the UK and this gives the opportunity for unscrupulous traders to set up in business. Poor quality goods, substandard services, misleading information and pressurised selling tactics are among the practices that the UK government seeks to discourage.

In order to control the way in which businesses conduct themselves and offer protection to consumers, the government has passed a number of laws and set up various organisations. These laws and organisations are together known as 'consumer protection'.

When consumers purchase goods or services, a contract is formed between the consumer, the retailer and the producer of those goods or services. Legislation clarifies the nature of the contract and how suppliers of goods and services are required to behave. Legislation, for example, makes it a criminal offence to give untrue or misleading descriptions of goods in regard to their content, size, weight and price. As a result of this legislation, manufacturers and retailers have to take a great deal of care about information presented on their packaging or within advertisements and any other form of promotional material. Goods must also be of merchantable quality – fit for their intended purpose and be as described. This means that the goods must be capable of doing what they were designed to do and what the purchaser would reasonably expect them to be able to do.

The Consumer Rights Act 2015 is the major piece of law covering the purchase of goods, services and digital content. Every time a consumer buys a product or a service, they make a 'contract' with the retailer. The Consumer Rights Act regulates this contract (agreement). It states that all goods must be of satisfactory quality, fit for the purpose for which they were bought and must correspond with any description given. For example, if you buy a car it must be capable of reliably transporting its passengers or if you buy a pair of Wellington boots they should be waterproof. If a consumer buys a product that isn't satisfactory or doesn't match the description etc., they are entitled to return the goods to the retailer and ask for a refund. If the retailer refuses to reimburse the consumer, the consumer can then take court action, i.e. sue the retailer in court and ask for compensation or repair/replacement of the product.

The Consumer Rights Act 2015 also states that services must be carried out for a reasonable price (unless agreed beforehand), within a reasonable time, and with reasonable care and skill. For example, if you visit a hair salon to colour your hair, the hairdresser would not be providing a service with reasonable care and skill if they coloured your hair the wrong colour.

The Consumer Protection from Unfair Trading Regulations 2008 makes it a criminal offence for businesses to engage in unfair business practices.

This means that businesses can be prosecuted and fined for engaging in these practices, such as making untrue statements about a product or service, using aggressive sales techniques such as harassment or misleading consumers about the price of a product or service. For example, if a car dealer tells you that a vehicle has 50 000 miles on the clock but knows the true figure to be 70 000, they are omitting a key fact which would affect your decision to purchase the car. Manufacturers and retailers have to take a great deal of care about information presented on the packaging of their goods, or within advertisements and any other form of promotional material.

The Consumer Credit Acts 1974 and 2006 and the Consumer Credit Regulations 2010 control the way that businesses lending money operate. These laws require the creditor (lender) to give certain key information to the debtor (borrower) before the contract is made including the interest rate, how much the repayments will be and the cancellation rights of the debtor. Credit companies have to publish a figure known as the Annual Percentage Rate (APR). This percentage not only reflects the rate of interest charged but also how it is calculated and added and any arrangement fees. The APR enables consumers to compare credit deals. The laws also give the debtor a 'cooling off period' after signing a credit contract during which they can change their mind (in many cases this is 14 days). All organisations involved in credit must obtain a licence from the appropriate government authority – it is a criminal offence to operate without one.

The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 help to protect consumers who buy over the phone or online. These are distance sales, which mean that there was no face to face contact at the time of purchase. If businesses break these regulations, then the consumer is not bound by the purchase contract. These regulations provide the consumer with a cancellation period of 14 days: the 'cooling off' period during which consumers are entitled to change their minds and cancel the contract and receive a full refund, regardless of whether the product is defective.

These regulations also apply to goods or services purchased at your home, or 'off-premises'. For example, if a salesperson visits you at your home and you agree to buy a new mobile phone, you have the right to change your mind and cancel the agreement, within 14 days. Also, consumers are not bound by charges they have not expressly agreed to – such as hidden delivery or card payment costs.

Consumers can get help from Citizens Advice who provide free, independent, confidential and impartial advice to everyone on their rights and responsibilities.

Ombudsman services are available for various industries and offer complaints procedures for dissatisfied customers. Ombudsman services are set up by the government and are free for consumers to use. Examples of ombudsman services include the Health Service Ombudsman, the Legal Services Ombudsman and the Energy Ombudsman. Consumers can usually complain to the relevant ombudsman once they have tried to resolve any dispute with the relevant business and also followed up any other complaints procedures. The ombudsman services are the last port of call before full legal action in court is taken. When consumers take a complaint to an ombudsman, the ombudsman will look at all written information provided by the consumer and the business and make a decision accordingly. The decision is final and can only be overturned by a court.

All local authorities have a Trading Standards department. The department is responsible for checking that local businesses are complying with the various trading laws e.g. Consumer Protection from Unfair Trading Regulations 2008. Trading Standards officers visit businesses and carry out spot checks.

They investigate whether goods are correctly described, priced clearly and sold in the correct quantities (for example, if a restaurant has 'locally sourced Welsh beef' on their menu, the officers will establish whether this is a true statement). They will also ensure that no counterfeit goods are being sold. Trading Standards officers can prosecute businesses if necessary and this process can result in fines and, in extreme cases, imprisonment.

Competition law

The Competition and Markets Authority (CMA) was set up by the government in 2014 and replaced the former Office of Fair Trading and Competition Commission. Its mission statement is 'to make markets work well for consumers'.

The CMA carries out investigations into various markets such as the groceries market and the energy market. The purpose of these investigations is to ensure that the businesses operating in these markets are not engaging in any 'anticompetitive business practices' that restrict competition within the market. The CMA investigates markets and can make businesses change their business practice if they uncover anticompetitive activities.

The CMA also investigates proposed mergers if the merger would result in a company with such a large market share that it may restrict competition. They also control the power of big business. If businesses in a monopoly or near monopoly (where one business is very powerful in a market and has a market share of 25% or more) are able to hold a dominant market position, then they are likely to have control over price or the amount produced within the market. The Government will therefore put in place laws and regulators to limit the potential abuse of market power and thereby protect consumers.

One role of the CMA is to examine situations where companies act together, forming an illegal cartel to limit the competition within an industry.

Advertising and the law

All marketing and advertising in the UK must be:

- an accurate description of the product or service
- legal
- decent
- truthful
- honest
- socially responsible (not encouraging illegal, unsafe or anti-social behaviour).

A business must describe its product or service accurately. A business can't mislead consumers by, for example:

- including false or deceptive messages
- leaving out important information

Advertising codes of practice that describe how businesses should advertise are enforced by the Advertising Standards Authority (ASA). Anyone who thinks advertising rules have been broken can complain to the ASA within 3 months of the advert appearing. If an advert breaks the rules, it may be withdrawn. If the product doesn't match the description, or the advert breaks the law, a business could be prosecuted.

Intellectual property
Intellectual property refers to creative work such as inventions, literary and artistic works and designs, symbols, names and images used in business. Intellectual property is protected in law by copyright, patents and trademarks, which allows the creator to earn recognition or financial benefit from what they have invented or created.

Copyright laws protect people who have created original pieces of work and give them rights to control how their work is used by others. Examples of such work include:

- Music (including lyrics and the music itself)
- Written word (including books, poems and plays)
- Artistic works (such as sculptures, drawings, paintings and photographs)
- Films, videos and broadcasts
- Software and games

As soon as something has been created and put to paper it can be protected by copyright, this means that the law prevents:

- Unauthorised copying of the work
- The resale, redistribution or rental of a piece of work
- Unauthorised performance or display of the work

The growth of digital media in recent years has resulted in many cases of copyright infringement (the use of works protected by copyright law without permission) in films, music, social networking and online gaming. Piracy (the unauthorised copying, distribution and selling of works in copyright) costs the movie, music and software industry billions of pounds every year.

Other individuals or businesses can use the work if they agree a fee with the originator. Copyright protection automatically starts as soon as a work is created. Once the copyright has expired, anyone can use or copy the work.

A patent is a right granted to the owner of an invention that prevents others from making, using, importing or selling the invention without their permission. A patentable invention can include a new product, a new process or a technical improvement on how certain objects work. To get a patent the invention must have a new and original design. In the UK a patent is generally given for 20 years, which means that any other business who wants to manufacture the patented product or use a patented process will have to pay the inventor to do so. It is the responsibility of the inventor to apply for a patent, the inventor has to disclose the technical information about the invention to the public. The patent owner can give permission to, or license, other businesses to use the invention. The owner may also sell the right to the invention to someone else, who will then become the new owner of the patent. Once a patent expires, the protection ends, and an invention enters the public domain, which means that anyone can use the invention without infringing the patent.

A trademark is a distinctive design, graphic, logo, symbol, figure, letter words or phrase that uniquely identifies a business and/or its goods or services. The trademark gives its owner the legal rights to prevent the trademark's unauthorised use.

A trademark must be distinctive and registered with the appropriate authority to obtain legal ownership and protection rights. Trademark rights are protected worldwide by international intellectual property laws. In a competitive environment the use of trademarks is important to protect brands and to make clear to consumers the identification of a product or service from a specific business.

A trademark can be a logo, like the ones shown above, a slogan, or simply the name of a product. Some brands, like Xerox, Kleenex, Tippex and Pritt are so prominent that they have almost replaced the original word in everyday language. Trademarks can be bought and sold. Nike purchased the instantly recognizable Swoosh logo for only $35. Trademarks can also be licensed to other businesses for a period of time or under certain conditions, which can result in crossover brands. Lego has licensed many famous brands like Star Wars and DC Comics to produce Lego versions of popular products. Two symbols associated with trademarks are:

- the trademark symbol ™
- the registered trademark symbol ® T

The symbol is usually displayed after the trademark in superscript text.

Data protection

Data protection is concerned with how personal data gathered by organisations is used and kept secure. In 2018 the Data Protection Act adopted the general Data Protection Regulation (GDPR) rules which all businesses have to follow and make sure that the information they have is:

- used fairly, lawfully and transparently
- used for specified, explicit purposes
- used in a way that is adequate, relevant and limited to only what is necessary
- accurate and, where necessary, kept up to date
- kept for no longer than is necessary
- handled in a way that ensures appropriate security, including protection against unlawful or unauthorised processing, access, loss, destruction or damage

There is stronger legal protection for more sensitive information, such as:

- race
- ethnic background
- political opinions
- religious beliefs
- trade union membership
- genetics
- biometrics (where used for identification)
- health
    - sex life or orientation

There are separate safeguards for personal data relating to criminal convictions and offences.

Under the Data Protection Act 2018, individuals have the right to find out what information the government and other organisations store about them. These include the right to:

- be informed about how your data is being used
- access personal data
- have incorrect data updated
- have data erased
- stop or restrict the processing of your data
- data portability (allowing you to get and reuse your data for different services)
- object to how your data is processed in certain circumstances

The impact of legislation on business activity

The main impact of legislation on businesses is the cost and time it takes to make sure that they comply to all legal requirements. There are many laws and regulations that have to be followed by businesses to make sure they act legally:

- Health and safety laws require the employer to provide a safe working environment, provide adequate premises, equipment and training to protect workers – this will cost money.

- The human resource function of the business must make sure that all recruitment, employment and redundancy follow the strict guidelines - this will take time and expertise in the business.

- The Minimum Wage can increase the wage bill.

- Consumer law covers a wide range of business activity and businesses have to be vigilant to make sure they meet all the strict guidelines in advertising and selling their products and services – failure to do so could harm their reputation and result in substantial fines.

- Protecting new inventions and ideas can be time consuming to make sure all the legal protection is in place to make sure competitors can't copy original ideas. However, the laws do protect innovative and creative businesses from other businesses copying their inventions.

- Increased costs of complying with the many laws may affect profits and, in some cases, these laws are seen to put an unnecessary burden on new and small businesses and could even cause some businesses to close down or restrict their growth. Many large businesses will have large legal departments and human resource departments to make sure all the laws and regulations are observed. This is even more complicated for multinational businesses that have to follow the individual laws in each country they operate in.

- Businesses may have to increase prices in order to pay for the increased costs of implementing legislation – this could lose them customers.

- Maintaining quality products and making sure all products are produced to a certain standard will require businesses to use suitable production processes and quality control procedures - any products produced to a sub-standard level of quality should be thrown away.

- Businesses have no choice but to comply with these laws as failure to do so is unethical and could lead to fines, imposed restrictions and in some cases imprisonment.

Making the necessary improvements or adjustments to products in order to comply with consumer legislation can increase costs considerably. Quality control systems are expensive to implement but will benefit a business in the long run. Larger businesses have set up customer complaints departments to deal with increasingly aware customers who can be dealt with before they turn to the legal system with their concerns.

Compliance with employment legislation can be very costly indeed and human resource departments are constantly having to deal with increasing amounts of legislation in relation to recruitment, employee well-being and training. Minimum Wage legislation has an impact upon some businesses, although it must be remembered that the majority of businesses pay over that level already.

Many businesses complain that the amount of employment legislation introduced in recent times has made their operations inflexible and does not allow them to adapt to changing market circumstances. Nonetheless, employment legislation which prevents unethical businesses from paying very low wages in order to reduce costs does make it a much fairer market in which to compete. Complying with such legislation and improving employee welfare is likely to improve motivation, thus reducing absenteeism, improving productivity and retaining staff.

If company law creates a more competitive business environment, this will mean more opportunities for those businesses struggling to overcome barriers to entry, set up by the dominant businesses in the market. Some would argue that too much legislation slows down the progress of many business ventures and prevents mergers and takeovers that would prove very lucrative for their shareholders. To ensure that they comply with the vast amount of health and safety legislation that exists, businesses have to spend large amounts of money. Larger businesses have whole departments set up to ensure that they pass the inspections of the H&S inspectorate. Non-compliance results in heavy fines and bad publicity. However, a good health and safety record will benefit businesses and improve their image in the eyes of their customers. Employees will want to work in an environment which puts their safety first, especially where the tasks are potentially dangerous. Employee loyalty will be enhanced and motivation will improve. It is likely that workers operating in a safe and secure environment will prove to be more productive.

Consumers benefit from the legislation by making sure that businesses are honest and fair in their activities and they purchase quality products that are fit for purpose. Consumers also have a variety of ways in which they can report a business for non-compliance of legal requirements and obtain refunds or in some cases compensation. Workers benefit in many ways with increased protection from unfair dismissal, discrimination and working in safe conditions, for a minimum wage.

Environmental factors

The production, distribution and selling of goods and services has negative effects on the natural environment. These environmental costs include:

- Noise pollution
- Air pollution
- Water pollution
- Light pollution
- Litter
- Congestion
- Waste
- Climate change
- Use of finite resources – the natural resources available to us are limited, we only have them available to us on our planet and once these have run out it will not be possible to create more.

Protecting the environment is now a mainstream business issue. Businesses can no longer afford to ignore their own impact on the environment, or the implications of a changing environment for their operations. Whilst climate change has risen rapidly up the agenda as an issue of major concern, it must be remembered that this is just one of many environmental issues of which businesses should be aware if they are to remain viable in the longer term.

The negative externalities (environmental costs) of business activity used to be largely ignored by nearly all stakeholders: those stakeholders that did care were not listened to. Today things are very different. The government and pressure groups (whether local or global) have a strong influence on business activity and, to some extent, they are able to limit its wider environmental impact. As well as these external influences, many businesses now undertake the control of their environmental impact without the need for external pressure. Some produce and publish their own environmental audits, which measure their impact on the environment and set out plans for improvement.

All businesses are under increasing pressure from consumers and governments to act in a responsible manner and to ensure that our environment and resources are available for future generations to enjoy. This is often referred to as sustainability.

A business that acts in a sustainable way will strive to have a minimal negative impact on the global or local environment, community, society or economy. A business that aims to be sustainable will attempt to minimise its overall impact on the environment.

There are many ways that businesses can act in a sustainable manner:

- reduce the amount of packaging on products
- increase recyclability of packaging and the introduction of biodegradable packaging
- promote recycling schemes
- encourage the re-use of carrier bags
- introduce energy saving schemes
- use alternative sources of energy
- use more energy-efficient equipment
- reduce water consumption
- reduce their carbon footprint
- encourage smarter use of transport

- eliminate unnecessary business activities
- switch to more sustainable suppliers

Many businesses have improved the sourcing of local produce and often promote local and regional produce. This money is then put back into the local economy, enhances the viability of other local businesses and reduces emissions (carbon footprint) and congestion that result from the long-distance transportation of goods.

Waste is also a major issue for businesses. Waste impacts on many different areas of the environment, from the excessive use of materials and resources (e.g. unnecessary packaging), the production of pollutants as a by-product of the manufacture of goods and the safe disposal of waste generated. Pressure on landfill sites is at an all-time high and the identification of suitable alternative means of disposal presents some difficult problems for businesses. Businesses are increasingly recognising opportunities to reuse and recycle. This can even help to reduce costs and even improve profitability.

The impact on business activity

A sustainable business must first of all be a successful and profitable business. It is also one that continuously improves its productivity by taking action on the economic, social and environmental impacts of its business. That means a sustainable business takes a sustainable approach to what it produces, how it buys and sells, how it affects the environment, where it invests, how it recruits, trains and develops its own people, how it interacts with the wider community and how it respects the rights of people. A sustainable business must meet customer needs while, at the same time, treating the environment well.

There is no value in a business being the finest example of environmental good practice if it subsequently fails. Decision-makers in business should rightly consider the likely returns on their actions before adopting best practices. However, business leaders have become increasingly aware that profitability is not a separate function from environmental awareness and that both need to be part of the same strategy – there does not have to be a conflict between profitability and protecting the environment.

Resources are becoming increasingly scarce and prices are rising accordingly. Energy, water and waste often represent significant costs for businesses and any opportunity to drive these costs down is to be welcomed. Also, environmental legislation is becoming more stringent and businesses that take action to ensure that they are complying with the law avoid fines and prosecution.

We have seen that legislation can force action by businesses, but it is also possible to take action without external pressure. For example, ASDA has improved the sourcing of local produce and often promotes local and regional produce. This feeds back into the local economy, enhances the viability of other local businesses and reduces emissions and congestion that result from the long-distance transportation of goods.

Waste is also a major issue for businesses. Waste impacts on many different areas of concern within the environment, from the excessive use of materials and resources (e.g. unnecessary packaging), the production of pollutants as a by-product of the manufacture of goods and the safe disposal of waste generated. Pressure on landfill space is at an all-time high and the identification of suitable alternative means of disposal presents some difficult problems. Businesses increasingly recognise this as an area where by designing out waste where possible (e.g. through reduced packaging) and identifying opportunities for reuse and recycle, presents an opportunity for many businesses to drive down costs and even improve profitability.

The phrase 'reduce, reuse, recycle' summarises the core waste-reduction process. By addressing waste management in this order, managers can ensure that they are achieving the maximum reduction in creation of waste:

Reduce

Elimination at source is far more effective than dealing with waste as a product. Monitor what is coming in and where it goes.

Reuse

Can waste be turned into a new resource? Shredded paper can become packaging, broken items might be repaired, obsolete items put to an alternative use.

Recycle

Businesses are starting to get much better at turning waste into new products. Remaining waste (after reduction and reuse) should be separated into recyclable materials.

Environmental awareness can bring a number of advantages other than reduced business costs and avoiding legal penalties. These include:

- Improved business and brand reputation – environmental friendliness can be a highly effective marketing tool
- Recruitment of employees who commit themselves to ethical company objectives
- Greater customer loyalty from growing number of ethical consumers

The majority of consumers care (and like to show they care) about the environment. So, we have fair trade coffee, tea, chocolate, etc. Adverts showing toilet paper businesses replanting trees, supermarkets also offer recycling of waste products to customers, such as battery bins, and loyalty points for reusing carrier bags.

Working with environmental groups, and learning about the supply chain impact of activities, improves efficiency and helps achieve long term sustainability, not just for the business but also for the wider environment. For businesses, environmental issues used to be seen as a threat, a limit on behaviour and an increase to costs; however, today they are seen somewhat differently. Environmental factors consistently give rise to a key message – action upon the environmental impact of a business's activity presents an opportunity to reduce costs and develop a competitive edge. On the other hand, failure to act could spell financial, as well as an environmental, disaster.

Ethical factors

Ethics is about what is right and what is wrong. In business, ethics are the moral values that direct business behaviour.

An ethical business is one that considers the needs of all stakeholders when making business decisions. An ethical business, when setting objectives and considering strategy, takes into consideration its social responsibilities. Ethical businesses consider the moral rights and wrongs of any strategic decisions that are made. Acting ethically is regarded as good business practice in the modern business environment.

Examples of ethical issues include:

- Should we use suppliers who don't pay a living wage?
- Do we ensure all our marketing material is accurate and truthful?

- Do we sell products that were tested on animals?
- Should we reduce the price on harmful products, such as beer and cider, to gain higher sales?
- Do we support our workers when they require time off work when experiencing personal or family difficulties?
- Do we dispose of waste materials in the best way to reduce environmental impact?

Businesses today have a much wider set of social responsibilities than in the past. The view that shareholders are the only stakeholders that need to be satisfied is long gone. The stakeholders may include employees, suppliers, customers and a wide range of environmental and animal rights groups. Key issues include:

Employees - businesses should treat employees as their most valuable asset. This means taking care of their health and safety and conditions of work and also paying a living wage. Their ethical responsibilities should not stop with their own employees. Those working for suppliers are equally as important. It cannot be regarded as ethical if a business claims to pay its own employees a living wage if workers further down the supply chain, in perhaps a less developed country, earn the equivalent of 40p an hour.

Suppliers - should also be treated fairly, this means sticking to agreed contracts, and not forcing renegotiation upon suppliers. It means sharing burdens of developing and supplying products and paying on time and not putting pressure upon suppliers' cash flow. Fair trade claims should be backed by positive action, not just lip service. It is not fair trade to charge a customer an extra 30p for fair trade chocolate or tea or coffee and then pass on a fraction of the 30p price increase to the supplier.

Customers - above all, customers want a quality product or service at a fair price. Businesses which act unethically fail to fulfil this moral commitment to customers. For example, the PPI scandal was a double failure on the part of many of the major banks in the UK. Not only was the insurance cover provided through PPI often irrelevant to customer needs, it was massively overpriced. The end result has been £billions of compensation payments to customers who were mis-sold PPI.

Environmental ethics - environmental pressure groups have become increasingly effective in influencing business decision makers. Prominent international organisations such as Greenpeace or Friends of the Earth have been able to effectively change the course of action of numerous enterprises. Smaller pressure groups acting on a local issue have also taken on large business organisations with varying degrees of success. The increasing awareness of the effects of pollution caused by large businesses has also had an influence on the way even local residents perceive the costs and benefits of businesses being located near to their homes. It used to be the case that the opportunity for employment, especially in depressed areas, was grasped with both hands. This situation has now changed. The widespread protest against fracking demonstrates that, for many people, any environmental costs can sometimes outweigh potential benefits. Local residents, in a way similar to pressure groups, have become a great deal more aware of methods of preventing or changing potential developments. An ethical business is one that considers the needs of all stakeholders when making business decisions. An ethical business, when setting objectives and considering strategy, takes into consideration its social responsibilities. Ethical businesses consider the moral rights and wrongs of any strategic decisions that are made.

Animal welfare - is a major issue for those retailers with claims to be ethical. Grocers look down the supply chain to ensure the welfare of animals and can focus their marketing on how well supplying farmers treat their livestock.

The demand for ‘free range’ products is a good example of how retailers have responded to their customers’ concerns.

Clothing retailers too have responded to animal rights issues in relation to the raw materials they use. PETA (People for Ethical Treatment of Animals) has ensured that the argument has progressed well beyond fur skin coats, covering treatment of other animals used in the clothing supply chain. The company that perhaps has had the greatest volume of protests against its treatment of animals is SeaWorld. Welfare protesters have been targeting this company for a number of years, focusing on the SeaWorld’s treatment of killer whales. These campaigning actions have forced SeaWorld to change its breeding policies and how it operates Orca shows.

Fairtrade

This is a movement that supports the fair treatment of farmers in getting a fair price for their products. Farmers who engage in fair trade also aim to pay their workers a fair price and engage in environmentally friendly practices. Fairtrade aims to improve living standards for poor farmers in developing countries. Fairtrade offers consumers a direct way to reduce poverty through their everyday shopping. When a product carries the Fairtrade mark it means the producers and traders have met Fairtrade Standards. Fairtrade products are becoming more widespread and include tea, coffee, sugar, chocolate and cotton.

Corporate social responsibility (CSR)

This is the concept that businesses have a responsibility that goes beyond making profits for their shareholders. Businesses need to monitor and take responsibility for the impact they have on both social welfare and the environment.

Some large organisations now audit relevant activities and make a corporate responsibility report available to the public. This is similar to the way in which they audit their accounts, although the standards in this area are not universally established when deciding upon whether the evidence is a ‘true and fair’ reflection of what has actually happened. Nonetheless, such audits do reflect an organisation’s willingness to act ethically towards all its stakeholders. Different organisations will naturally use different measures in their audit. The activities of a construction company, for example, will differ considerably from those of a pharmaceutical company.

Social and Environmental Audits (SEAs) may address some of the following:

- How well do we ensure human rights?
- Do we use suppliers who use child labour?
- Do we discriminate when recruiting?
- Do we pay the correct level of remuneration for the job?
- How many women do we have in senior positions?
- Do we support any charities in the locality of our factories?
- Have we broken any laws?
- Do we compete fairly?
- Do we comply with all health and safety legislation?
- Is our advertising truthful?
- Have we caused any pollution?

It is fair to say that it is sometimes difficult to assess how well a business is performing in relation to the ethical issues that confront it.

Financial audits provide clear evidence in terms of profitability year on year, but SEAs do not have the same precise numerical data with which to make such judgements. Nonetheless, they act as a worthwhile indicator of the progress a business is making in relation to its ethical responsibilities towards all its stakeholders.

Ethics and profitability

Acting ethically, unless required to do so by law, can negatively impact upon profitability:

- Costs are likely to rise. For example, paying a 'living wage', as opposed to complying with the minimum wage legislation, will increase labour costs. Building improved canteen facilities or providing sports facilities for employees would prove to be very costly.

- Revenues are likely to fall. For example, a toy retailer that refuses to target children with blanket advertising prior to Christmas will no doubt lose sales to their competitors. A construction company that declines to offer a bribe to a Third World government official when tendering for a contract may well not be considered for that project.

However, an ethical approach can prove beneficial:

- Some customers are attracted to those businesses that adopt an ethical approach. Restaurants and coffee shops that source their ingredients from ethical suppliers appeal to a growing number of customers. Using 'ethics' at the heart of their marketing campaigns can boost sales in certain instances. The growth of the Fairtrade movement is evidence of such a trend.

- Acting ethically can improve public relations (PR) and have a positive impact on the image that a business portrays. No business wants to have its name splashed all over the newspapers for mistreating its employees or using low quality ingredients that may be harmful to consumers. The discovery of horsemeat in burgers supplied by a number of UK supermarkets is a crisis they could have well done without. Checking supply chains carefully is not only ethical, but can also prevent significant loss of revenue and reputation.

Can businesses be truly ethical?

Firstly, it is worth noting that businesses are being forced to take action to accept social responsibilities through increased legislation. For example, we now have the minimum wage, four weeks paid annual holiday, requirements for dealing with suppliers and green taxes. The majority of cases where ethics and social responsibilities are ignored have occurred when the profit motive has remained the major concern. This is to be expected; after all the priority of all businesses has traditionally been the satisfaction of the shareholder's needs – which means increasing the share value and increasing dividends.

Many businesses will be what many regard as ethical, only after profits are assured. For many companies, performance pressures mean that the short-term profits are the priority. These pressures mean that ethics have to be ignored or treated as a short-term PR exercise. It is only into the long term, when immense pressures have built, that social responsibilities have to be considered.

Small to medium-sized enterprises may well not have the time or resources to focus on drawing up an ethical code of practice.

However, many new enterprises are using an ethical stance as a USP and thriving as a result. Consumers and society are far more aware of ethical issues, and those businesses which ignore this growing trend run the risk of losing out to their competitors.

To be truly ethical and accept social responsibilities to the full, managers face many difficulties. To overcome these, they have to take into constant consideration the changing views of stakeholders of all types, stick to the relevant legislation, as well as put into place administrative procedures that tell them how the business impacts on their stakeholder groups. Although these actions cost money, which may mean smaller profits in the short-run, the hope for the ethical business must be that profits will grow in the long-run.

Globalisation

The increased level of international trade across the world has resulted in globalisation. Globalisation is the process of greater interaction and integration of people, businesses, cultures and governments of different countries across the world and allows product markets to operate across the globe. For example, global brands such as Coca-Cola, Starbucks, Ford and Samsung are sold in most countries in the world. The integration of business throughout the world has grown massively in the last 60 years.

This change, which continues to grow, has come about as a result of:

- Political changes
- Increase in the volume of international trade
- The lowering of transportation costs
- Improved communication systems
- Increased movement of people across the globe
- Increased movement of capital (money) across the globe
- Growth of multinational companies
- Digitalisation

Many of the products in your home have been produced to a high quality and relatively low cost as a result of the process of globalisation. International trade has been the engine of globalisation, with world trade in manufactured goods increasing more than 100 times since the 1950s. Key political changes have enabled the process to gather pace. For example, the ending of the old Soviet Union has seen the restructuring of the European economy with countries such as Latvia, Lithuania and Estonia opening up their economies and trading with the rest of the world. Most significantly, the political changes that began in China following the death of Chairman Mao in the 1970s have resulted in the gradual opening up of the Chinese economy. As Chinese consumers become more affluent, the opportunity to satisfy their desire for products from the rest of the world creates huge opportunities for businesses to target this market. The growth of the European Union in the last 50 years has also contributed to globalisation. Over the last 60 years increased trade has been made easier by international agreements to help create free trade by the lowering of tariff (import taxes) and non-tariff barriers on the export of manufactured goods, especially to rich countries.

The growth of trade has also been helped by falling transportation costs. Falling communication costs too have meant that the choice of location of customer service centres has become much more flexible. Since 1970, the cost of satellite use (for phone calls, TV and data transmission, etc.) has fallen by 98%. Since 1990, sea freight (shipping goods from one country to another) is down by 50%, and air transport is down by 75%. These figures help explain how flowers grown in Kenya can be sold in garages in the UK, why call centres are often based in India and how Chinese manufacturers can send goods 10 000 miles by sea to USA, UK and European markets, yet still be the lowest cost producer.

The movement of people across the world has also contributed towards great globalisation. Workers from less developed countries with lower living standards move to countries with higher wage rates and standards of living in order to improve their own living standards. These higher income countries have, until recently, been keen to accept migrants from other countries as it provides a constant supply of workers and helps keep wage rates from rising in their own country.

The impact of globalisation on UK businesses

Globalisation does present a range of opportunities for UK businesses; however, there are also some threats.

Opportunities include:

- They can reduce their costs and increase profits by producing in low-cost countries.
- They have a greater spread of risk. The impact of the decline in one market can be lessened by continued trade in other markets.
- Massive economies of scale occur. Selling to a number of countries and growing the business (which would not have been possible if they operated in domestic markets only) increases the scale of production; average costs fall, making them more competitive.
- New markets bring new sales opportunities. By selling in new markets sales can increase quickly. This has been especially important when the home market is saturated.
- Opportunities of partnerships with overseas businesses. For example, within the airline industry, British Airways (BA) has relationships with American, Australian and Far Eastern airlines. This improves the service that they are able to offer to customers.
- The opportunities available for employees of developing countries are now far greater. Skilled and educated workers can now compete in a global marketplace for high-paying positions.

Threats include:

- Increased competition from overseas businesses. For example, the growth of McDonalds and Starbucks in the UK has resulted in smaller UK-based fast-food businesses and coffee shops being forced out of business. Many manufacturing businesses in the UK have closed as they cannot compete with foreign manufacturers.
- Unskilled workers in richer countries have found their real wages falling or their jobs being taken by migrants who are willing to accept lower wages. Also, many UK businesses have relocated some aspects of their business activity to other countries where wages and other costs are lower, resulting in many UK workers losing their jobs.
- Global companies become more dominant – this can result in a large multinational business attempting to take over a UK business in order to get a foothold in the UK market. These large companies have so much capital from their profits they can afford to buy a number of smaller UK businesses. These takeovers may be agreed or may be hostile.

Multinationals are businesses that have their headquarters in one country but operate in many countries, this means that they may have offices and factories around the world. Many businesses will buy and sell goods around the world, but this does not make them multinationals, they are just trading in other countries. The growth of globalisation has resulted in a significant increase in the number of multinational companies.

Successful British multinationals include BP, HSBC, Tesco, and Vodafone. There is a large number of foreign-owned multinationals manufacturing in the UK, including Toyota, Ford, LG, Sony and Panasonic. Many more are operating in finance and retailing. Multinationals have, in many ways, started to dominate the global economy. Many of the biggest have a level of turnover larger than the GDP (a countries wealth) of some medium sized countries. This means that they have a huge amount of power and influence. Global branding is an important part of the success of multinationals. A global brand is a brand that is recognised throughout the world.

Global brands are desirable in different countries as the brand will have a good reputation and will wish to be purchased by millions of people. As the multinational will produce the product in huge quantities they will benefit from economies of scale and are able to reduce costs and gain huge profits. According to Coca-Cola, they sell more than 1.9 billion servings of their drinks in more than 200 countries each day. How much revenue and profit will this create each day? Multinationals operate in a world market and can overcome some of the disadvantages of businesses that just trade abroad. Advantages for multinationals may include:

- Multinationals are well-known around the world, attracting consumers to their products.
- It is easier to compete in foreign markets as multinationals are in effect local businesses being managed by local people.
- Multinationals can take advantage of economies of scale, due to their size.
- Multinationals may benefit from lower production costs. For example, labour costs may be lower in foreign countries than in the UK. For this reason, many UK multinational companies have moved production abroad.
- To take advantage of exchange rate movements. Setting up as a multinational means that there are few concerns caused by changes in the value of money if the business is selling locally or buying materials locally.
- Taxes on businesses may be lower in other countries.
- Grants may be available in other countries to encourage multinationals to set up, this means that capital costs may be lower. Governments are keen to give grants to multinationals if they create jobs in the country.
- Multinationals can overcome trade restrictions (tariffs) that limit imports, as they already produce in the particular country. Many American and Asian companies have located factories within the European Union to avoid paying tariffs.
- Transport costs may be reduced as goods and materials do not have to be moved as far. For example, Coca Cola sends the syrup used to make their drinks to factories around the world, where water and gas are added locally to produce the final product.

AC2.1 Describe the types and roles of the main organisational functions and structures

Organisational functions

When a business has a traditional hierarchical structure, it will be typically structured by functional departments i.e. departments with clearly defined roles and responsibilities. This division into functional departments helps with communication as people know who to speak to if a problem arises. It also helps workers understand their roles and how the business works, setting out the responsibilities of each part of the business.

Although departments are separate from each other, their roles are connected. For example, the human resources department is responsible for making sure that the other departments have enough workers with the right skills; the finance department ensures that there is money available to carry out activities across all departments. Marketing works with production by providing information about the products that customers want, whilst purchasing has the job of making sure that there are enough materials for production to manufacture.

In most large companies the functional areas are as follows:

- Marketing (Sales and Marketing)
- Human Resources (Personnel)
- Finance (Accounts)
- Operations (Production)

They may vary in name but essentially, they carry out the same functions. Depending on the type of business, there may be a range of other functional departments which specialise in performing a particular type of task. Typical examples are:

- Legal
- Transport, warehousing and distribution (logistics)
- Purchasing (procurement)
- Design
- Administration
- Customer service
- Research and development
- ICT/communications

Depending on the nature of the organisation in question, some departments are likely to be much larger than others. For example, in a car manufacturing business, operations management is likely to employ the majority of the workforce. Nonetheless, the other functional departments are essential to the success of the business. No matter how efficiently the production line is run, there is no point in producing thousands of cars per week if the sales and marketing department have not persuaded enough potential customers to purchase them. All functional departments must work in conjunction with one another in order to achieve a common set of objectives set out in the corporate plan.

The functional departments will have their own aims and objectives and if a business is to be successful then these objectives must be closely tied to the corporate objectives. For example, if the marketing department sets itself a goal of achieving 10% more sales over the next year, whilst the human resources department is seeking to reduce staffing by 5% across the company in the same period, then they are likely to be working against each other.

Goals must be carefully coordinated to ensure that they are consistent with the corporate objectives – in other words, all departments are working together to achieve the same overall objectives of the organisation.

Each business will have their own functional areas of the way the business is divided or organised. This helps workers understand their roles and the workings of the business. Each functional area will have its own objectives, and these should be aligned to the business aims, so that there is a synergy between the strategy of the functional areas and the overall strategic direction of the business.

Procurement

This is the purchasing of raw materials, goods and services for a business. A business needs to identify suitable suppliers who will provide the goods and services needed for the business to carry out its activities. When procuring supplies, a business needs to consider:

- The cost
- The quality
- The delivery time
- Reliability of the supplier
- Reputation of the supplier
- Ethical and environmental actions of the supplier
- Payment terms and contractual issues (late or non-delivery of stock penalties

Production (operations)

The production department are responsible for producing the products to the expected standard. This functional area controls all the production inputs and work closely with the human resource department to ensure the appropriate number of employees with the requisite skills are available for the production process.

Research and development

Research and Development (R&D) is a functional area that is responsible for the researching new, innovative and viable products and ideas and then develop these into commercially viable products. The extent of which this functional area is vital depends on a number of factors, such as the industry and the available finance. An example would be the pharmaceutical industry where research and development is essential to develop new medicines and treatments. Making a breakthrough could lead to enormous financial success for the company.

Logistics

Logistics is the management of the flow of products, services, equipment, people, money and information from the source to the end user. Logistics management is concerned about getting everything in the right place for when it is needed. The warehousing function is tasked with the control and management of stock. Ensuring that enough stock is kept is essential, and co-ordinating with the sales functional area and the purchasing team is a regular occurrence. Distribution is the process of getting the finished products transported to the customer, this may be to other businesses, such as retailers or directly to the customer. Logistics includes:

- Transportation of supplies
- Storage (warehousing) of supplies

- Storage (warehousing) of finished products
- Inventory of supplies and finished goods
    - Packaging of finished goods
    - Transportation and distribution of finished products
    - Organisation of individuals working in logistics
    - Security of supplies and finished goods

For small scale businesses, such as independent retailers, logistics is straightforward; the supplies are delivered by suppliers or picked up from a wholesaler and then stored in the shop, either on display or in a stock room, and the customers will visit the shop to buy the products. For large scale businesses, particularly manufacturers who use mass production to produce thousands of products, logistical decisions and organisation are more complicated and will have fulltime workers constantly ensuring the right supplies are procured, delivered and used to produce quality products for customers.

The growth of e-commerce and online shopping has changed the way many businesses organise their logistics. The growth of businesses such as online retailers Amazon, Ocado, ASOS, AO, eBay and the thousands of smaller online retailers, together with the expansion of online sales from supermarkets and other high street stores, have resulted in a huge expansion of couriers and parcel delivery businesses. Businesses such as DPD, Parcelforce, Hermes, DHL, FedEx and UPS play an important role in the logistical function.

Sales

The sales department is responsible for generating revenue through the sales of products and services; ultimately aiming for profit. The sales department often co-ordinates with the marketing department to create sales promotions, raise brand awareness and with the launch of products. Employees within this functional area will be tasked with developing ways to sell the products and services to the target audience.

Customer service

The customer service department is responsible for the interaction with customers. They will deal with everything from enquiries and advice to complaints and feedback. Creating and maintaining good relationships and rapport with customers is vital in creating loyal customers. This department will be responsible for customer interaction from before the sale, through to the after sales.

Marketing

This department is responsible for the promotion of the business and its goods or services with the aim of increasing sales. They will create and implement various marketing strategies from sales promotions to advertising. They do these with the intention of informing customers of the retail businesses' products and services.

Finance

This department manages the budget and the money within the business. The finance department is responsible for creating and monitoring the budget and the financial documents, such as the profit and loss account, and the cash flow. Managing the incomings and outgoings of the business is essential to ensure that the business has enough money to pay its costs and expenses at any one time.

Human resources

The human resource department is responsible for recruiting the correct people who have the appropriate skills, qualifications and experience. They are also responsible for the training and motivation of staff and for deciding the salaries of different levels of staff.

ICT and operations systems

This department is growing in importance to businesses with the advancement of technology. The ICT and operations systems department is responsible for all digital data, processes and platforms within the business. This department will offer advice and support to all other functional areas with their ICT or digital needs and dealings.

Organisations structures

All but the smallest businesses will have a recognisable internal structure and there are a wide variety of structural types that could possibly be adopted by any business. The form that a business's internal structure takes will depend on a number of factors.

These factors include:

- the views and philosophy of management - the type of manager that operates within the business will have a large impact on the internal structure of the business. Managers with a democratic leadership style will encourage workers to take responsibility; whilst managers with an autocratic leadership style will prefer a recognisable hierarchical structure.

- the need for different communication systems - where communication is controlled and closely monitored, the business structure is likely to contain many layers with narrow spans of control and definite paths of responsibility. However, where more open and free communication is encouraged, the business structure is likely to be less hierarchical and more flexible.

- the industry within which the business operates - retailing encourages a hierarchical structure, with clear-cut responsibilities and chains of command. In other industries, such as software development, the boundaries of responsibility are less clear and the chains of command tend to be much shorter.

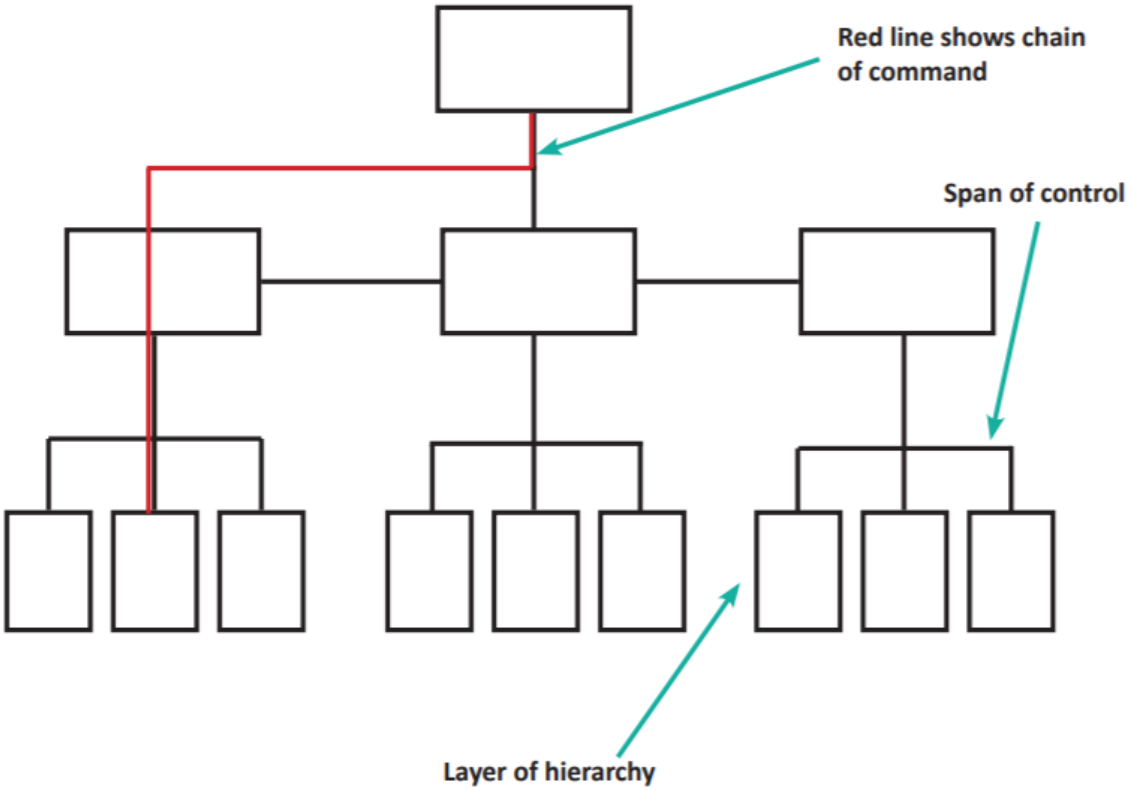
- the traditions of the business - the standard pyramid-shaped hierarchical structure is one that many businesses develop as they grow. Often businesses that have been owned by the government for many years have a traditional structure: when privatised these businesses find many difficulties in changing this hierarchical structure. Other businesses, often in the 'new economy', work towards achieving a less rigid organisational structure, consisting of fewer layers of hierarchy.

- the skills of the workforce - the more highly skilled the workforce, the more likely they are to need less supervision. This results in a flatter, more open structure where involvement in the decision-making process is encouraged at all levels.

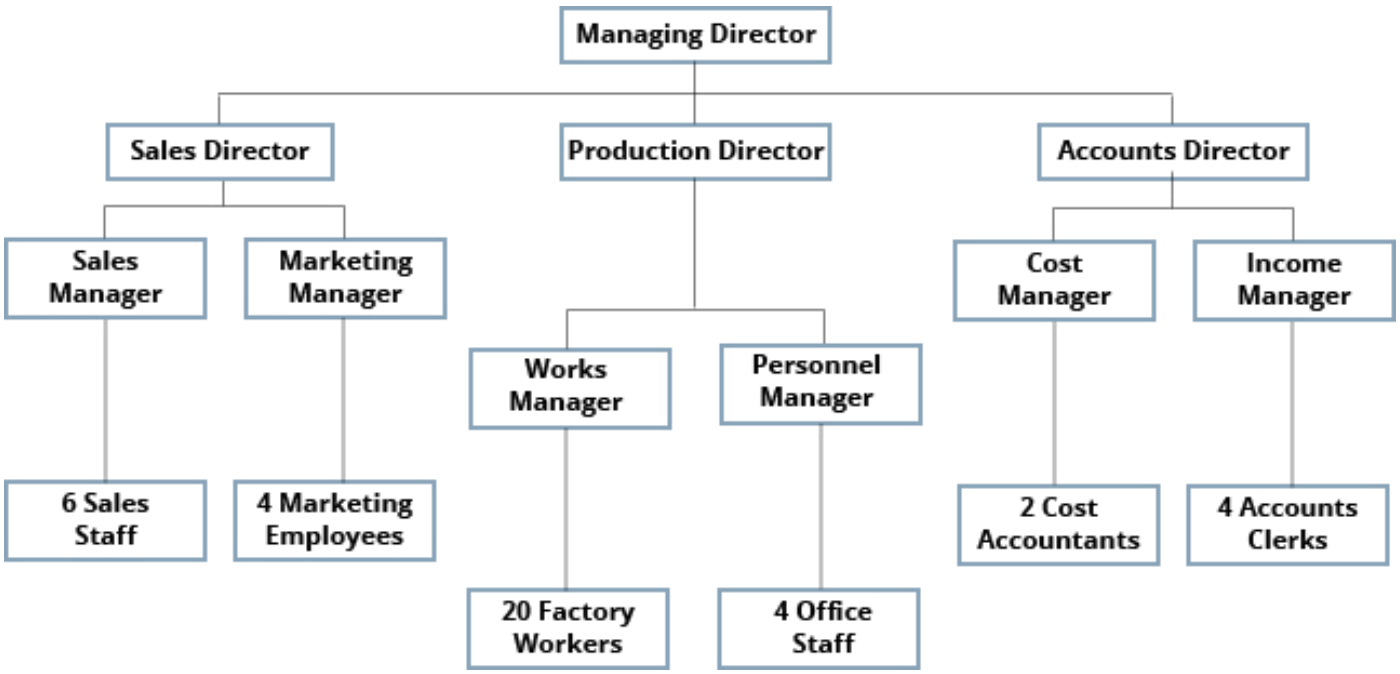
Whatever the influence and interaction of each of these factors, the outcome will always result in the creation of a structure made up of layers of hierarchy, spans of control, chains of command, communication pathways and levels of responsibility. It is these component parts that make up organisational design.

Traditional hierarchical structure

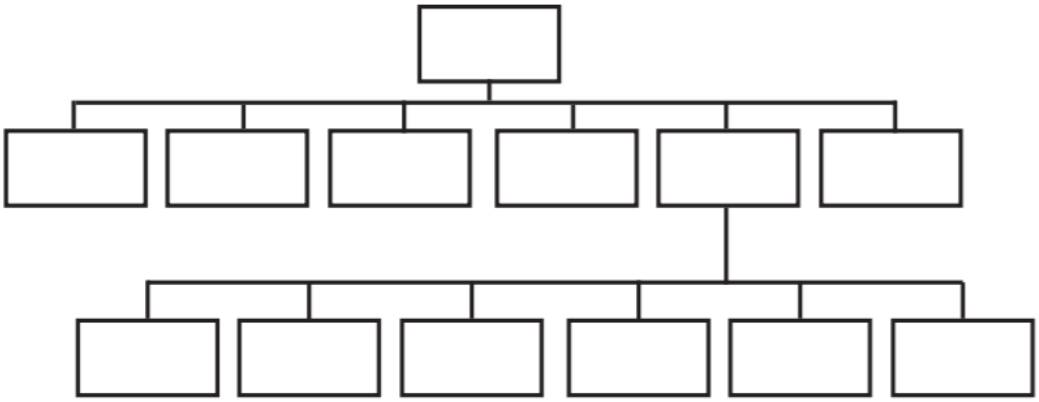
The hierarchy below is an example of the traditional pyramid-shaped hierarchy. Although only three layers are shown, there are many levels or layers to the hierarchy and the span of control is narrow at the top, but will widen somewhat at the bottom where supervisors' key role is to monitor performance. The path in red is one typical chain of command. At the top of the hierarchy are the senior management. At the bottom of the hierarchy are the shop floor workers; in between there are layers of middle management and supervisors. Functional departments in large organisations have been typically organised in this way. This type of organisational structure is often referred to as a 'tall' structure.



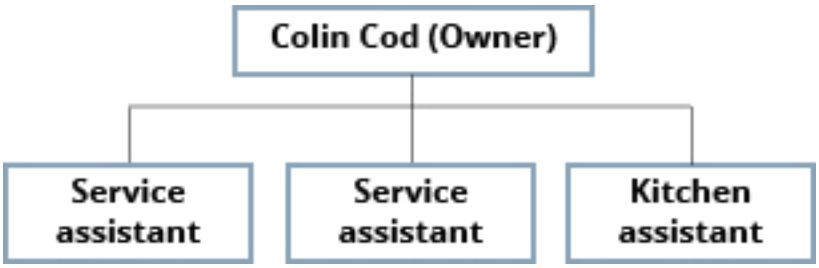
Tall organisational structures are suitable for businesses that employ many people and have a range of functions within the business. The structure helps to keep control of the business as all employees fully understand who does what and which responsibilities individual employees have. The chain of command is clearly defined and line mangers and subordinates clearly know who they are responsible for and to. Tall organisational structures tend to have narrower spans of control at the top of the hierarchy and then will widen towards the bottom where a number of supervisors/team leaders will monitor operative performance. Many large businesses will employ so many workers that the complete hierarchical chart is too large to fit onto a single page. Hierarchical charts for large businesses can therefore be very complicated. The chart below is an example of how a manufacturing business has organised its operations function.



Below is an example of a flatter organisational structure. The span of control is wider, the chain of command is shorter and there are fewer layers in the hierarchy.



Small businesses with few employees will have a flat (horizontal) organisational chart. However, some larger business may also decide to organise the business with a flat structure. For example: Colin Cod owns a fish and chip shop and employs 3 workers. The organisational chart for Colin's business is shown below:



Colin Cod is in charge, he has overall responsibility and authority of the business and each of the 3 workers are his subordinates. The 3 assistants may carry out different tasks, such as the kitchen assistant will prepare the food and the 2 service assistants will serve the customers, but they are all paid similar wages and they are all at the same level in the organisation.

The role at the top of the chart is in a position of authority over the roles further down the chart. The chain of command is shown in an organisational chart by the vertical lines with authority going down from one level to the one below. The horizontal lines show that job roles are of equal rank, or authority.

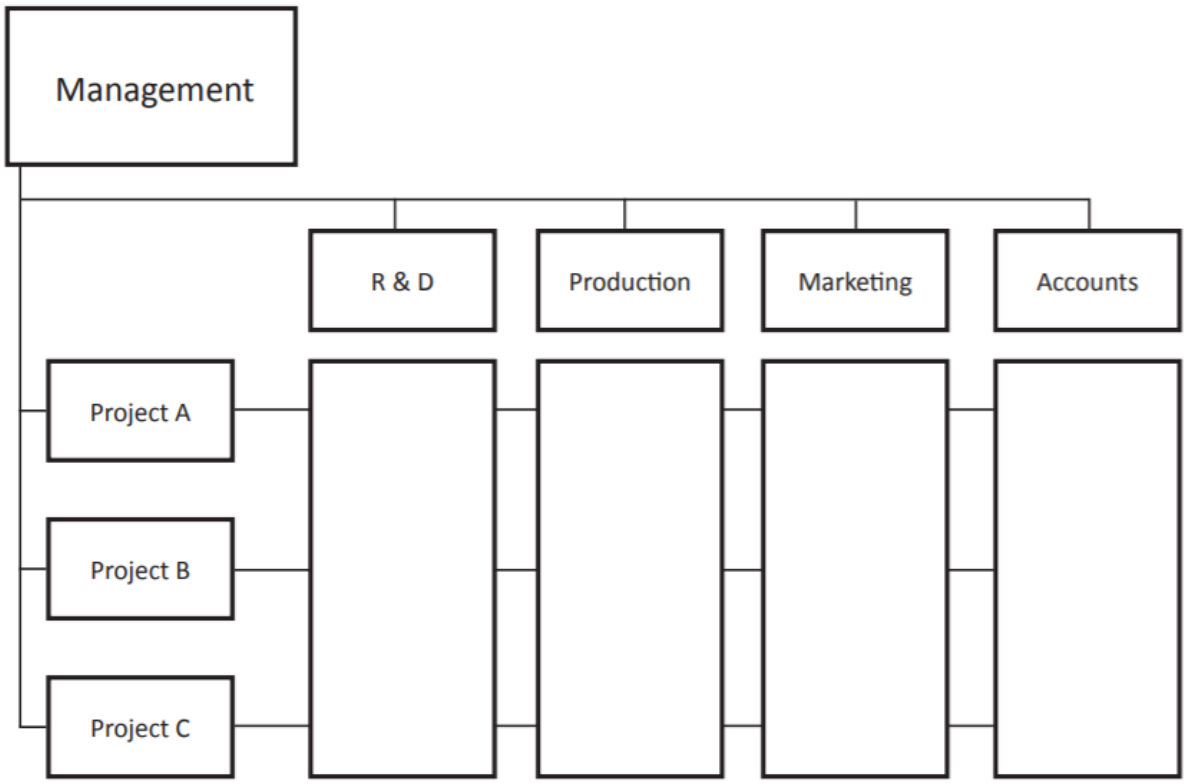
The length of the chain of command in this example is very short as the organisational chart is flat and only has two levels. The span of control is the number of subordinates that a role has direct control over. The role that is directly connected by a vertical line to the subordinates will be the line manager.

If existing traditional businesses wish to achieve this structure, delayering must occur. Delayering means the removal of whole layers of hierarchy and management. This is normally achieved through compulsory redundancy programmes.

	Flat structure	**Tall structure**
Advantages	Communication can be carried out quickly.	There is a narrow span of control so each manager has a small number of employees under their control so employees can be closely supervised.
	Greater level of communication between management and workers.	There is a clear management structure.
	Less bureaucratic which can save time and costs.	There will be clear lines of responsibility and control.
	Workers are motivated as they can have greater responsibility and authority.	Clear progression and promotion ladders for employees.
	Removes excess layers of management that might not be needed.	
	Quicker decision-making maybe possible.	

Disadvantages	Difficult to implement in large organisations.	Communication can be slow and difficult as it has to take place through many layers of management.
	High level of skills needed by the workforce.	Decision making can be slow as approval may be needed by each of the layers of authority.
	Span of control is very wide so can be difficult to monitor workers	High management costs.
	Management can lose control.	Employees can be demotivated by the bureaucracy.
	Limited promotion opportunities for workers so it is difficult to retain them.	Departments can make decisions which benefit them rather than the business as a whole especially if there is inter-departmental rivalry.
	Training costs may increase to improve employees' skills.	
	Can cause confusion for workers – what is their role?	

The matrix structure



Matrix structures attempt to organise the management of different tasks in a way that cuts across traditional departmental boundaries. This structure enables people with particular specialist skills to work together in project teams. In the example above, Project A could be the formation of a new product development team.

It might consist of a designer from the R&D department, an engineer from Production, a researcher from the Marketing department and a cost accountant from the Accounts department. Each individual in the team will have their own responsibility for certain aspects of the project but they will be working together to achieve a specific objective. In the diagram above three projects are ongoing: this means that more people will have the opportunity to use their abilities. However, this does mean that each member of a project team has two bosses and this can be problematic.

The matrix structure has a number of advantages:

- It allows individuals with specific skills to contribute to a number of different projects.
- It breaks down barriers to communication and ensures that projects can be better coordinated.
- It helps ideas and innovation spread throughout the business.
- There is more efficient use of human resources. The structure can improve flexibility and the motivation of employees

Possible disadvantages:

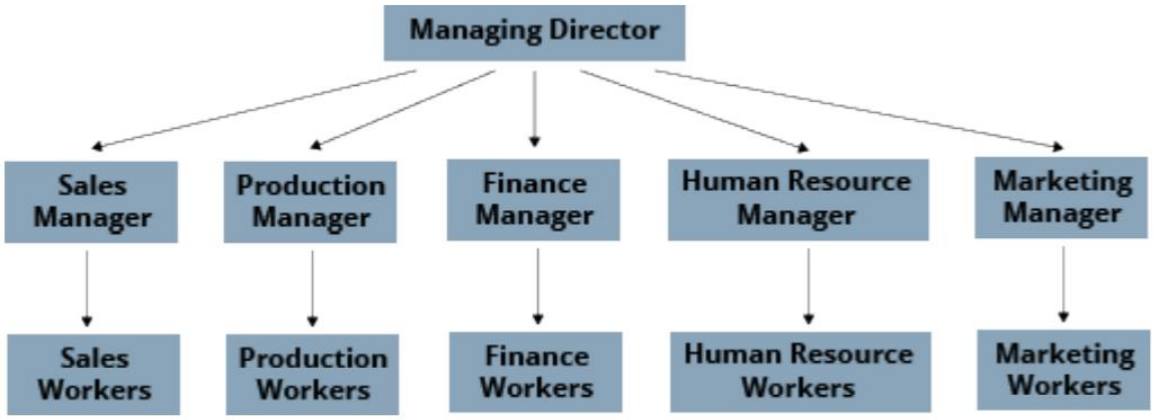
- Defining what each employee's main responsibilities are is difficult – being answerable to two bosses may put a lot of strain on individuals. Placing too great a burden on individuals may slow down decision-making.
- Project management using a matrix structure can be expensive because extra support systems, such as ICT and office staff, may be required.
- Coordinating a team drawn from a number of different departments may be difficult as the culture and methods of operation in each department may be very different.

Large businesses can organise themselves in different ways. The most common forms of organisation are by:

- Function – organisation based on roles such as finance, marketing, production, sales.
- Product – organisation based on what product is being produced such as Ford cars, Ford vans Ford HGV, Ford parts.
- Geographical – organisation based on where in the country or world a business is operating such as Pepsico N America, Pepisco Europe, Pepsico Asia, Pepsico S America.

Organisation by function

This is when the business is divided up by the jobs that people do. In other words, it is divided into departments which specialise in areas of the business. A typical business organised by function is shown below:



The departments within an organisation will depend on the nature of the business. For example, a factory making electrical goods will have a purchasing department, research and design department, engineering department and distribution department in addition to the departments shown in the diagram above. A call centre for insurance will have no production department, but a very large sales department and IT support.

Organisation by product

Very large businesses which make a wide range of products usually have separate groups or divisions for each product. So, within one large organisation there may be a number of smaller organisations based on the product or service they supply.

A good example of organisation by product is Virgin. Started in 1970 by Sir Richard Branson, the Virgin Group has gone on to grow very successful businesses in sectors ranging from mobile telephony, to transportation, travel, financial services, leisure, music, holidays, publishing and retailing.

Below are the individual companies that make up the Virgin Corporation.



Source: https://www.virgin.com/virgingroup/company/branded

Another example of organisation by product is Whitbread PLC who is the UK's largest hotel, restaurant and coffee shop operator with 50 000 employees. Whitbread is structured into different divisions based on their brands.

Organisation by geographical area

This is where the business divides its operations by geographical area. Global multinational companies divide their operations into several regions per continent or subcontinent. Companies like Toyota, Dyson, Kellogg's, etc. have European, Asian, African and North American divisions. Organising by area allows the business to be able to be responsive to local cultural needs.

When deciding on an organisational structure a business should consider:

- The most suitable span of control for the business – the number of employees that line managers control depends on certain factors:
  - The type of work – simple work needs less supervision
  - How good the managers and his or her subordinates are at their jobs
  - The ease of communication – people who are not in the same building are more difficult to control
  - The kinds of decisions that have to be made – if they are difficult, the span of control will be narrower because more time will have to be spent in making them.

- The chain of command – the chain of command runs right the way down an organisation. The more levels the organisation has, the longer the chain of command. The longer the chain of command, the more difficulties a business can face as messages can get lost or distorted as they go up and down the chain of command.
- Delegation – flat organisations tend to allow for higher levels of delegation than tall structures. If superiors have confidence in the skills and abilities of subordinates then delegation helps the superior manage their workload and allows them to have a wide span of control. The amount of delegation will depend on the personal style of leaders and managers (some may be autocratic, someone who likes to have total control and is not likely to delegate, or they may be democratic, someone who likes others to have a say in decision making and will be far more likely to delegate) in addition to the skills of the subordinates.

- Improving communication – the problems tall structures experience with poor communication can be reduced by improving the way in which all levels of the organisation communicates. Meetings can be held to discuss issues and employees can be encouraged to give their input on how the business is performing and how it could improve. In recent years communication has been improved through the use of technology. Many businesses will have internal email and intranet systems that help to improve communication, even if they are located in different locations. Many disadvantages of hierarchical organisations are linked to communication; if a business can address these communication issues then it is likely that this type of structure will be the most efficient way of organising the business.

- Delayering – some large businesses try to resolve the problems of a long chain of command by flattening it. This is called delayering. They cut out large numbers of middle managers, pushing responsibility and decision making down the line. This will remove a layer (or level) from the organisation. In a factory, supervisors and quality control inspectors can be eliminated if workers are organised into groups and made responsible for their own work in terms of output and quality. Delayering should lead to workers becoming more productive. Fewer workers are needed to do the same amount of work. Businesses can then downsize, making workers redundant whilst producing as much as before. Delayering is also used by businesses to reduce costs.

Advantages and disadvantages of different types of organisation structures

	Function	**Product**	**Geographical**
Advantages	Specialisation – each department focuses on its own work.	Specialisation – each subsidiary becomes an expert.	Knowledge of the local market, suppliers and workforce.
	Accountability – someone is responsible for each department.	Accountability – each subsidiary has to account for how it is performing.	Can reduce production costs if goods are organised locally.
	Clarity – everyone knows their roles.	The parent company can easily identify which parts of the business are performing well.	Can alter the product to suit the needs of the local market.

Disadvantages	Individual departments may become more interested in their department and their role rather than the business as a whole.	Can lose overall identity of the parent company.	Difficult to monitor.
	The organisation may become too large to manage effectively. The management at the top may become detached from the workforce.	Costs can increase as each subsidiary has to organise their own individual functions.	Can be inefficient – many functions repeated in different locations.
	Workers may be de-motivated because they feel an unimportant small part of a large organisation.		

Roles and responsibilities

All businesses need to be organised internally.

For small businesses the internal organisation can be simple and straightforward. For example, a local newsagent may have one owner and one assistant. The responsibility for all decisions will rest with the owner and the owner may communicate with the assistant verbally and direct in an informal manner. For larger businesses the organisation is more complicated. Large businesses with large workforces will need a structure and more formal ways of communicating. Large businesses will have to decide:

- How workers will be put into groups to work together
- Who is going to be in a position of authority, giving orders
- How many workers will be supervising the work of others
- How messages will be passed through the business.

The internal organisation is important as the workers need to know what duties their job involves, who they need to report to (who is their line manager) and if they have responsibility for other workers (subordinates).

The creation of an internal organisation structure will help a business organise its workforce in the most effective way so that it can achieve its objectives.

In all businesses, above the self-employment level, there must be people in authority who give orders and see that they are carried out. There should be a clear chain of command which runs all the way down an organisation from the top to the bottom. In most businesses there will be a number of different job roles that have different levels of authority and responsibility. These different job roles can be grouped into 4 main categories:

Owners/leaders/directors

These have the most senior and responsible positions in the business and set the aims and objectives of the business and will make the important decisions.

Managers

These will manage the business on a day-to-day basis. They develop tactics in order to achieve the aims and objectives. One business may have a number of managers that will be responsible for specific functions of a business.

Supervisors/team leaders

These will help the managers to run the business as effectively and productively as possible. Managers are likely to employ a number of supervisors to help them organise, communicate and monitor the operatives.

Operatives/shop floor workers

These will carry out the day-to-day activities assigned to them by managers and supervisors.

The characteristics of different job roles

Although job roles will vary between different businesses, they do have a number of common characteristics:

Responsibility

Owners/leaders/directors will have the greatest responsibility in the business as they will set the overall aims and objectives, strategy and culture of the business. Ultimately it is the responsibility of the owners/leaders/directors to make the business successful and ensure it makes a profit. Although managers will have less responsibility than the owners/leaders/directors, they will be responsible for carrying out the aims and objectives of the business and will be responsible for the short-term performance of the business, such as keeping costs under control and creating sufficient sales in order to make a profit. Managers will be responsible for organising the resources of the business in the most efficient way. Supervisors/team leaders will be given responsibility by the managers to help to organise the resources of the business for a small part of the business and report any concerns to the managers. Supervisors/team leaders will have responsibility over minor logistical issues. Operatives/shop floor workers will have little or no responsibility beyond their direct duties. They will have a responsibility to the business of carrying out their job in the most effective way and to make sure they contribute towards the success of the business.

Authority

Authority means having control or power over others. Owners/leaders/directors will have the greatest authority in the business. All other job roles within the business will be subordinate to the owners/leaders/directors. Managers have authority over supervisors/team leaders and operatives/shop floor workers and supervisors/team leaders have authority over operatives/shop floor workers. Operatives/shop floor workers have no authority over any other job roles within the organisation. Having many levels of authority in a business results in a hierarchical business organisation, this is a structure with many levels of authority and a long chain of command.

Decision-making

The most important decisions made in a business are made by the owners/leaders/directors. These decisions will affect all stakeholders in a business and will determine the overall direction the business takes. Managers will make many decisions that will focus on putting the decisions of the owners/leaders/directors into practice.

For example, the owners/leaders/directors will have decided on a strategy of growth and expansion through opening new stores, the managers may look at possible new sites and then shortlist possible sites and present these to the owners/leaders/ directors who will make the final decision. Supervisorsteam leaders will make day-to-day and minor decisions that will help run the business as smoothly as possible, such as work rotas for the operatives. Operatives will only make decisions that affect them, such as the order in which they carry out their duties.

Skills and qualities

It is likely that the more senior a person is in the business in terms of their job role, the more skills and qualities they will have. Owners/leaders/directors are likely to have the most experience and the greatest set of skills. Carrying out leadership or managerial roles within a business will require a person to have good organisational, communication, problem-solving and decision-making skills. They will also need a good understanding and knowledge of the business and the market they operate in. It is this reason why most senior positions in a business are often held by older people who have had time to develop their knowledge and skills and worked their way up the business hierarchy.

Pay and benefits

It will be no surprise that owners/leaders/directors will receive the highest level of pay in the organisation and the operatives/shop floor workers will receive the lowest amount. The high level of responsibility and authority that goes with the senior positions together with the increased levels of skills and experiences explains why they receive the highest pay. Senior positions will be paid salaries and likely to have bonuses and many fringe benefits, such as company cars. Operatives will be likely to receive wages based on an hourly rate of pay.

Delegation

This is when a person in a superior job role gives a subordinate the authority to carry out a specific duty. The subordinate is given limited authority in the completion of that duty. Owners/leaders/directors may delegate powers to a manager, or a manager who is very busy carrying out a certain task may delegate to a supervisor/team leader or to an operative/shop floor worker. It is essential that the person delegating authority has trust in the subordinate to complete the task. Delegation can only come from the person in the senior position and is a good way to develop the skills and experiences of subordinates.

AC2.2 Explain the importance of resources to organisations

Resources are vital for a business to survive and prosper. An organisation has many resources including human, financial, physical and informational. Businesses who make effective use of their resources are far more likely to prosper. Utilisation of various resources in an effective way is a key requirement of business success. Businesses will combine their various resources, such as on an assembly line in a manufacturing factory. Workers (human) will use equipment and machinery (physical) that may have been purchased (financial) to produce the product to the desired design. The product will be branded (informational) before being sold.

Human resources

Employees are an asset of a business and dependent upon the industry, are a vital component of success. In the example of a pharmaceutical company, having the best scientists coupled with the latest technology is essential in the research and development of new medicines and treatments. The development of these medicines and treatments, which are then made available commercially are what leads to business success. If the organisation provides a service, then customer service and interaction is a vital factor. Organisations that master customer service and after sales often gain loyal customers, therefore the employees are an important resource for success.

Financial resources

Financial resources often include cash, credit arrangements and the availability of sources of finance. All businesses need finance and capital to operate and greater financial resources enables businesses to take advantages of opportunities that are presented with the ultimate aim of prosperity. Businesses operating at different scales and in different markets will have varying access to finance resources, some businesses will require large amounts of financial resources to operate, to pay for raw materials or stock, wages, locational costs and the day-to-day running of the business.

Physical resources

Physical resources can include buildings, machinery, equipment, stock and any other physical assets. Efficient and effective use of their physical resources by a business is what often leads to success. If we look at a manufacturing business for example, they will need equipment and machinery, raw materials and components, and a logistics and distribution facility to produce and deliver the finished product.

Informational resources

These resources are often non-physical and intangible. These resources are often referred to as intellectual resources. Examples of which are brands, patents and trademarks and other intellectual property. Organisations will have copyright over the use of their branding. These resources are often what differentiates a business from its competitors, provides or creates an USP and increases value. Informational resources also include customer data and knowledge.

Apple have numerous copyrighted and patented features in their iPhone, including Siri, facial recognition software and Apple music. Dyson is another example with their vacuum cleaners, the technology is often patented and being innovative with strong branding increases the value of Dyson products.

A successful business needs to efficiently use its resources in order to achieve its aims and objectives. For example, there is no point in having vast amounts of financial resources if this is used ineffectively or by just sitting in the business bank account. Financial resources are used to purchase and utilise human, physical and informational resources which in time can be tuned back into increasing financial resources. Therefore, it could be said that money (capital) is the most important resource as this is needed for all the other resources.

The balance of the four different types of resources will depend on the business activity and what market the business operate in, for example a manufacturing business that uses technology to a great extent may use most if its financial resources to purchase and maintain advanced robotics and digital systems that require low numbers of human resources, whereas as global holiday tour operator will have to not only purchase or lease aeroplanes and an advanced online booking system, but also many employees in sales and as customer-facing tour guides and operatives in many destinations throughout the world.

A successful business or entrepreneur is one who can organise the resources they have at their disposal to achieve business success and growth.

AC2.3 Explain the role and importance of quality initiatives in organisations

Quality is a difficult concept to define. W. Edwards Deming, the American quality guru, stated that 'quality is defined by the customer'. Customers may require certain specifications or demand exceptional levels of comfort. It is true to say that consumers are increasingly conscious of quality and this is reflected in the mission statement of the successful computer manufacturer Dell. It states: 'Customers must have a quality experience and be pleased, not just satisfied'.

Quality is often defined simply as 'fitness for purpose'. After all, if the product does the job it was designed to do, it must therefore have some level of quality. Another way to define quality could be the features of a product or service that allows it to satisfy customers' wants.

Whichever way we choose to define 'quality' the importance of the concept continues to grow. Businesses are placing greater and greater emphasis on trying to provide quality goods and services in an increasingly competitive global marketplace.

Achieving quality

For large manufacturing and service companies, achieving quality is a complex task which combines the work of several separate functional departments within an organisation.

These departments typically include:

- Purchasing – ensuring that the right quantity and quality of raw materials or components are available for the production process.
- Operations – structuring and managing the manufacturing process.
- Finance – ensuring that capital is available for appropriate investment.
- Human resources – ensuring that the factor of production labour is available in the right quantities with the right skills.
- Marketing – providing market research information in order that customer wants can be satisfied.

There are two main ways a business can achieve quality:

- Quality control
- Quality assurance

Quality control is the more traditional method that businesses have used to manage quality. It involves checking and reviewing work that has been done. Inspection of products and services takes place during and at the end of the operation process. Quality inspection is carried out to prevent faulty products reaching the customer. This method requires specially trained inspectors, rather than every worker being responsible for his or her own work.

There are three main points during the production process when inspection is carried out:

- When raw materials are received
- Specific stages of the production process
- When products are finished – inspection or testing takes place before products are dispatched to customers.

A major problem is that individuals are not necessarily encouraged to take responsibility for the quality of their own work; someone else will check the quality. This method can be expensive and inefficient for a business.

Rejected products cannot be sold as the manufacturer does not want its name associated with substandard products, therefore these have to be thrown away and this will be a waste of resources and time and will increase costs.

For this reason, most modern businesses do not just use quality control they will build-in quality control throughout the production process. This is called quality assurance or total quality management (TQM) - Quality does not come from inspection but from improvement of the process.

Most manufacturers believe that quality must be 'built in'. This means that when the finished goods roll off the production line, management is confident that there is no need to check quality.

Inspection is carried out by workers constantly during the production process. The emphasis is placed on preventing the production of poor quality products, as opposed to checking quality at the end of the production line.

Quality assurance has now spread from the manufacturing industry to service industries. For example, in call-centres each worker will have a requirement to answer calls in a specific period of time, spend a certain amount of time on each call and achieve a targeted level of sales. Information Technology (IT) allows the performance of each worker to be monitored and any variation from required standards and targets will be responded to by management. Workers will be retrained to ensure that standards can be met.

Total quality management (**TQM)**

TQM creates quality through continuous improvement, development of systems and products and by creating an organisational culture of quality.

T stands for Total – it is the integration of the staff, suppliers, customers and other stakeholders. These are all seen as part of a single system, an unbroken chain of production – a chain of quality.

Q stands for Quality – quality can be the speed in which a service is delivered. It can be consistency. It can be innovation. It can be reflected in low maintenance or favourable repair history. According to W. Edwards Deming (one of the founders of the TQM system), 'a product or service possesses quality if it helps somebody and enjoys a good and sustainable market.'

M stands for Management – The need is for management to improve processes and to monitor them continually in order to identify improvement opportunities. The responsibility for ensuring the improvement of the processes in an organisation lies with top management. As part of the management of quality the system includes 'process owners' who coordinate the various functions and work activities at all levels of a process. Process owners have the authority to make changes in the process as required – they manage the process end to end so as to ensure optimal overall performance.

The aims of TQM is for zero defects (all products produced are at the required standard) and total customer satisfaction. Using TQM can result in products being cheaper to produce because there is no need to repair or scrap the end product. Also, the quality of the final product results is greater, meaning that consumers of the product will benefit.

For TQM to be effective a number of production management and control methods need to be used:

- Quality chains are based on cross-functional teams with workers (internal customers). The next person in the production process (chain) is treated as a customer and customer satisfaction is the objective.

- Empowerment – giving workers control over tasks completed.

- Monitoring – checking that standards at each link in the chain are being achieved and the use of statistical tools to measure levels of failure to achieve quality.

- Teamwork – a team approach to product or service improvement. A team is responsible for a production process. The team is empowered to check the quality of raw materials, interact during the installation process, and check the quality of the finished product. This implies that responsibility lies within the team. Teamwork can build trust and morale, whilst improving communication between members. It is regarded as a key element in achieving quality.

- Quality circles – employee involvement in the decision-making and product-improvement process. Employees meet to identify and solve problems. As employees are often at the forefront of the production process, they are often best placed to notice and suggest quality improvements. This greater empowerment of employees also increases motivation and worker morale.

- Zero defects – attempting to achieve perfect product quality, time after time. This is a target for most businesses as achieving the target, or close to the target, as it will mean that products are produced to the expectation of their customers, thereby satisfying the customers' needs and wants. Additionally, zero defects increases the efficiency of the business and also reduces the production costs.

- Benchmarking – standards based on the best of the competition. If the highest standards are to be achieved, what standards are to be targeted? There is no point in saying that we intend to improve our standard from one fault in 50 to one fault in 100 if our competitors are achieving one fault in 1000. Benchmarking is the process of setting standards of quality and output which are based on the best that competitors can offer. Benchmarking requires the setting of targets to be achieved in the manufacturing process which matches those of the best competitor. Methods of production need to be designed which ensure that the benchmark levels of productivity and quality are achieved.

Continual improvement/Kaizen

Kaizen is a Japanese word meaning continuous improvement. Continuous improvement is an important aspect of quality assurance and is a theme of all world-class businesses. These world-class businesses take the view that one of the main objectives of their existence is to be continually making small incremental steps in the improvement of quality, design and waste reduction.

The main working element of Kaizen is the use of Kaizen groups. These are groups of workers who have a common stake in part of the production process. For example, a Kaizen group may involve the designer of a component, the installation workers from the production line and the production managers. These groups will meet regularly to discuss problems and to suggest improvements.

Often improvements can be made at nil or minimal cost. This means that over time the whole cost base of the business can be reduced whilst indicators of quality and levels of production increase. All this is achieved with minimal capital investment.

Key elements of Kaizen:

- All employees, from the managing director down to the shop floor workers, should be asking, 'How can I do what I do better'? – 'How can we do what we do better'?
- Kaizen does not ignore the need for new technology or large-scale capital investment: however, it does recognise that these are not the only methods of achieving increased competitiveness.
- A motivated workforce – the workers must be committed to the business.
- A management with belief in the capabilities of the workforce.
- A trained workforce – the workers must have the ability to understand their roles and complete their tasks efficiently.
- Effective communication systems – workers must be able to communicate suggestions to superiors and other relevant employees. This can be done through Kaizen groups, but other methods of communication must also be available.
- Security of jobs. Workers will not suggest process improvements if their jobs are threatened by these improvements. Kaizen does suggest that demand for labour will fall, although this should be achieved through natural wastage.
- Management must have a clear understanding of the production processes in order that they can organise, control and plan to enable workers to meet the needs and quality requirements of the 'customers' within the organisation.

Kaizen will only work if there is a committed management and workforce. Each group must believe in the integrity and ability of the other group, so that all continually work towards the same goals. Kaizen is an ongoing system of beliefs, not something that can be used as and when management pleases and ignored when trading becomes difficult.

Quality engineering

Quality engineering is the practice and discipline of quality controls and assurance in the production process. Quality engineering includes everything from the initial idea through to the completion and analyses each step to implement quality suggestions and improvements. It will focus on the design and production of a product and ensure all the manufacturing stages follow the initial specifications. Quality engineering is different from quality assurance as the latter is the overall process of making a product and the former focuses on the engineering of the system to allow for quality assurance. Quality engineering also involves the monitoring of the system to see where it can be improved.

Importance of quality to a business

- Satisfying customer expectations – businesses want customers to become loyal and come back to the business to make repeat purchases. Customers will expect a certain level of quality when they purchase a product or experience a service, if this quality falls short then there are many other competing businesses that they can switch their loyalty too. Building a good reputation for quality helps with brand loyalty and the purchase of other products produced by the business.

- Increasing customer satisfaction – this is when the quality goes beyond what is expected and gives the customer an excellent experience with the product or service. This is important for new businesses when they are establishing a customer base and are building their reputation. If a customer receives quality that goes beyond what they expect they are more likely to become loyal customers. This may also allow the business to increase prices as customers are looking for excellent value for money.

- Increasing sales – if customers are happy with the product, they will become regular customers. If the business develops an excellent reputation in the market, then they will attract more customers that will lead to increased sales revenue and hopefully greater profits.

- Reducing costs – an effective quality assurance process will reduce waste, substandard products and customer refunds or replacement products. All these benefits of quality assurance will reduce the costs for the business and allow for greater profit margins.

- Reducing waste – with zero defects there is minimal waste which is not only good for the business by having reduced costs, but also good for the environment and for worker morale.

A business that does not provide products and services at the expected quality will face many problems:

- Customers will be lost – dissatisfied customers will look elsewhere
- The reputation of the business will suffer – they may develop a reputation for faulty or poor standard products and services
- Increased costs - in wastage and the recall and replacement of faulty products
- Storage costs – for unwanted products that consumers do not want
- Legal action – if the product causes harm to consumers

The view that the quality control department takes care of all problems of quality has largely changed – now all employees are responsible and this puts pressure on employees to adapt. When quality is the responsibility of the process operators, jobs may become more stressful. Often a TQM-based product is cheaper to produce because there is no need to repair or scrap the end product.

The quality of the final output produces a more marketable product, meaning that consumers of the product will benefit. Management now have to communicate the aims of the organisation to all members of the organisation and this may be difficult for some managers to adapt.

The traditional structure of many manufacturing businesses has changed, resulting in less management control and the loss of power of traditional groups such as unions.

Achieving quality is a complex task. Effective quality control involves the monitoring of the whole production process, feedback of requirements from marketing, management of resources and the use of external standards. The overall objective is greater efficiency, achieving product quality and improving productivity – all of which help the business achieve customer satisfaction.

AC2.4 Analyse the nature and efficiency of information and communication

The process of communication and managing information is very important to businesses and using the correct information systems and communication methods effectively will help the business achieves its aim and objectives.

Information systems

Businesses deal with a huge amount of information on a daily basis and need an effective way to receive, store, process and transmit this information. This is especially true of larger organisations located in multiple locations, employing thousands of employees and transacting with millions of customers. However, even small-scale business needs an effective way to manage the information that runs through the business.

Businesses will use a combination of electronic and non-electronic systems to manage their data, in recent years much of this data is managed mainly through electronic systems. Electronic information systems include a large variety of different technologies such as computers, databases, spreadsheets, communication systems, the internet, mobile devices and many different commercial software. The use of IT to enhance and support non-electronic systems will differ depending on the size and scale of the business and the type of products and services it sells. Examples include:

For transactions – transaction processing systems are used for data collection, storage, processing and outputting information to the end user.

For decision making- business intelligence systems are used to identify and analyse information to help businesses plan strategies and make decisions.

For marketing – customer relationship systems can help businesses to identify customers and coordinate sales and marketing activities.

Databases can be used to store staff records, stock information and customer details.

Spreadsheets can be used to calculate and present numerical and financial data.

EPOS – electronic point of sale has moved on from just reading bar codes at checkouts. Systems now use EPOS to control its stock, automatic ordering from suppliers, determine promotions, selling space and staff requirements. Manufacturers can use EPOS systems to reduce stockholding to ensure that suppliers only send materials when they are required.

EFTPOS – electronic fund transfer at point of sale is an electronic payment system. Customers pay using their debit or credit cards, mobile phone or smart watch at terminals at the point of sale.

EDI – electronic data interchange is the exchange of business documents between computers. Businesses can use this for sending and receiving documents such as invoices, purchase orders, quotations, loan or job applications to and from other businesses and stakeholders.

Typical information businesses store and process includes:

- Personnel records - these document an individual's employment history from appointment to retirement or termination.
- They may include correspondence, memoranda, letters of application, job advertisements, CVs, letters of reference, recommendations, letters of appointment and acceptance.

- Customer details **-** names, contact details, purchase history and spending habits.

- Stock control - purchasing, stock levels, automatic re-ordering, product tracking, transportation, product turnover, sales information and generating reports.

- Booking systems - online and outlet booking systems for products and services such as tickets for travel and events, accommodation, holidays and appointments.

- Financial records - data on revenue and costs can be taken and processed to produce financial accounts, graphs/charts and reports.

In the modern business environment and with the use of advanced technology it is often said that information is now considered a key resource for a business and successful businesses know how to use this information effectively to achieve their aims and objectives. Many businesses today pay other businesses for the customer information they have as this can help target products and services at customers who have certain profiles and spending habits.

The role of information systems is to make sure that in a data rich environment, where there is so much information about so many different things, a business can effectively and efficiently –

- Receive the right information they need that is valid and accurate
- Store that information in way that is secure but allows easy access for approved personnel
- Process the data through searches, filters and reports
- Use and communicate the correct processed data in the form required by the business and relevant stakeholders

Communication

Communication should be a two-way process – the giving of the information from the sender to the receiver and the feedback from the receiver to the sender. Feedback is needed to make sure the receiver understands the message in the information. If there is no feedback, then it is possible that the message may be misunderstood.

Communication is important for all businesses. Generally, the larger the business the more difficult it is to communicate. However, all businesses must make sure they communicate effectively to all their employees. Effective communication will result in:

- Increased employee involvement
  Employees who are clearly informed what is going on in a business are more likely to get involved with the business and accept decisions and any changes that are made. Employees have a range of experiences and skills that can be used to help the business achieve its objectives. By communicating clearly and effectively with employees, the business can include any ideas that employees have.

- Improved motivation
  Good communication will motivate employees as they will feel part of the business. Feedback from managers or other senior roles on employee performance is a good example on how communication can motivate employees. This could be a short conversation where the manager praises the employee or a more structured appraisal process. Employees can also be motivated by being included in decision-making and being encouraged to give feedback and suggestions on work processes. Improved motivation can also come about by the employee simply being clearly informed of their targets and any changes that may take place.

- Working towards the same aims and objectives
  In a large organisation, employees may have little contact with people in senior roles. It is important that all employees work in a way that contributes to the overall aims and objectives of the business. Effective communication can help to ensure that all employees are working to achieve the aims of the business. With clear communication, any realistic objective is achievable. Employees are aware of what is required and what the potential rewards are. This motivates them to do a better job and allows them to focus their energy in a certain direction.

- Helps decision-making
  In order to make the correct decision for the business all employees have to have accurate and up-to-date information. Effective communication is needed to make sure decision-makers have the correct information from the different parts of the business and a range of views are considered before a decision is made.

- Employee feedback
  Effective communication must allow the receiver to have the opportunity to give feedback. Employees that are encouraged to give feedback in meetings or discussions are more likely to be engaged with the business and be motivated. Effective communication should also involve employees receiving feedback on their performance. In addition to motivating through being praised, the employee may also receive constructive feedback on how to improve their performance in order to increase their productivity.

Poor communication will have negative consequences for a business:

- Low employee morale
  Employees like to know what is going on in a business and a lack of communication can lead to gossip and incorrect information being given. If employees are not given the right information or if incorrect information is allowed to grow and make employees unhappy then this can lead to demotivation which could affect employee work performance and reduce productivity.

- Increased absenteeism
  Poor communication can lead to conflict which can lead to increased absenteeism.

- Reduced employee co-operation
  When information, especially involving changes in the workplace, is poorly communicated employees can become un-cooperative as they are not informed of the reasons for the change. Employees will lack enthusiasm in carrying out their duties and will question the view of the managers. Poor communication can reinforce the view that the workers views are not important, and they are not trusted or valued.

- Incomplete actions/activities
  Without the correct information communicated by supervisors and managers, employees are likely to make errors in their work which can result in poor products being made and poor customer service being given to customers. Effective communication throughout the business is crucial in order to successfully complete duties. Poor decisions can be made if the communication is absent or incorrect.

- Reduction in efficiency
  Poor communication in business can obstruct the efficiency of the business. For example, vague email messages that requires clarification and documents that need rewriting due to errors, can greatly affect the flow of work. Most employee errors come from a lack of understanding, which comes from poor communication rather than them making a deliberate mistake. If an employee does not understand instructions, it is likely that they will perform their task incorrectly. Instructions need to be clear, concise and logical and employees should be encouraged to ask their superiors if they do not understand something, rather than being too afraid to ask.

Communication methods

There are a number of different communication methods that can be used by businesses electronically and non-electronically:

- Oral – face-to-face, telephone, one-to-one, meetings, teleconference, videoconference, online chat, interview, training sessions and presentation

- Written – letter, email, report, payslips, notice, electronic bulletin board, text, memo and newsletter

- Non-verbal – any communication that is not oral or written, the use of body language including posture, facial expressions and gestures

- Pictorial/graphic – any visual communication including pictures, posters, visual presentations, charts and diagram

Many of these communication methods can now be carried out through the use of technology and this has changed greatly the way in which people within the organisation communicate, for example:

- The use of emails
- The use of virtual meeting software such as Teams and Zoom
- The use of mobile phone software and apps such as Facetime for video calls
- Online training platforms and software

- Developments in business intranets and software to share multiple written and pictorial data allowing for instant and tracked changes to documents. When deciding on what communication method to use, the following criteria should be considered: Accuracy – when dealing with complex issues such as numerical data and detailed specifications it is important to give accurate and correct information to the recipient in a way that can be communicated clearly and correctly. If this involves a great deal of information then written methods may be more suitable, possibly in a meeting to allow for discussion and clarity.

- Cost – all businesses must consider cost and select methods that are not just effective but do not cost more than needed. For most communication, cost may not be an issue, such as emailing or having a conversation, but at times communication may have to be for people who are located throughout a country, work from home or require new hardware and software to use, these will have cost implications, is the purchase of new laptops or virtual meeting software worth the cost?
- Speed – sometimes communication is urgent and requires employees to communicate with others at very short notice, so methods should be chosen that allow the information to be communicated quickly, maybe a face-to-face or telephone call is needed. Emails are not suitable as they are not immediately read. Also, immediate feedback may be required from the recipient, so a method that allows for this should be chosen.
- Type of content – if the information is sensitive or confidential then this needs to be communicated privately, where others who should not be included can hear or read the information. A meeting behind closed doors or a private email or letter could be the best way to do this. If the content is complicated or technical then this may be best communicated in written form and then followed up by a meeting to allow for feedback, possibly an email sent ahead of a planned virtual meeting and then an opportunity for attendees of the virtual meetings to ask questions verbally or in a chat function.
- Status and expertise of the recipient – the audience of the communication is important to consider, do they need additional clarification of the information being communicated, do they have the experience or skills to be able to receive this information remotely with no support or feedback opportunity?
- Availability of equipment – do all the recipients of the communication have the equipment? For example, when sending out emails or texts do they have work laptops or phones or the right updated software?
- Is a written record required? – for some communications such as employee appraisals it should be appropriate to record this meeting or discussion as it may be needed later to tack performance or confirm the outcomes of the meeting.

Communication and structure

The organisational structure a business uses will have an effect on the methods of communication used. For tall hierarchical structures with many levels, large workforce with many different job roles a business will likely select more formal communication and written communication to make sure the message or information is received by all in good time. Whereas a flatter structure will allow for more informal or simpler methods of communication. Large or multinational businesses with functions or product teams located all over the globe is more likely to make use of technological methods of communication on a regular basis. A matrix structure may encourage more face-to-face communication to encourage discussion and feedback.
It is important that a business uses the correct methods of communication that works for them and there is no one correct approach to communication that will fit all businesses, there are so many factors and variables that will determine the choice of methods and approaches to communication.

Communication security and legislation

Security is a major issue with most businesses and organisations. The problems that arise with the loss of important data could have serious consequences for a business. If a business chooses the correct security then data cannot be destroyed, it cannot be accidently changed and it cannot fall into the hands of unauthorised people. Therefore, organisations will consider how important their information and data is, when deciding on what technology to use.

Computer misuse

New laws have been made to combat new crimes that have emerged since the development of ICT.

It is illegal to:

- Try to hack into a system, even if you fail!
- Gain access to files and use them for criminal activities such as blackmail
- Change or delete files that you are unauthorised to do so
- Planting a virus

Businesses have a duty to protect the information they hold and to make sure it is secure; they have to develop systems that prevent hackers accessing information or planting viruses in their systems. However, information is often hacked and businesses have to deal with the fallout of this, which can have negative impacts on its business activities and give bad publicity.

Businesses must also put in place internal security measures that only allow approved and authorised personnel to access information and the ability to change or process information.

Copyright

Anything that has been produced by someone and is based on their own ideas can be subject to copyright law. If you have the copyright, you are the only one allowed to copy it. This covers, books, music, images, movies, software, games and so on. The ease of access to information and content via the internet has made it easier for unauthorised people to gain access to intellectual property.

Copyright law gives the creators of literary, dramatic, musical and artistic works, sound recordings, broadcasts and films, rights to control the ways in which their material may be used. The law means that it is an offence to do any of the following without the consent of the owner:

- Copy the work; rent, lend or issue copies of the work to the public
- Perform, broadcast or show the work in public
- Adapt the work in any way

Consent can be given, but the owner of the copyright may demand payment.

Many owners of copyright are losing out because of illegal downloading on the Internet and, as a result, the government, owners, authors and publishers of copyrighted material are looking at ways of limiting this illegal activity. Ultimately it would not be worthwhile for film companies to produce films, for authors to write books or for bands to make records if they cannot protect their rights over what they have created.

Intellectual property law covers the legal rights of individual and businesses in regard to designs, inventions and artistic works. If another person or business wants to use or copy intellectual property then they can apply to use it, for a price, however some people may use this without permission and this is illegal and the originator could take legal action against them.

Trademark legislation covers designs and artwork, such a labelling, brand logo design and product design. Trademarks and other aspects of design can be registered and protected from copying. A copy can infringe a trademark without being an exact copy, but instead similar enough to cause confusion in consumers.

Data protection

Data protection is concerned with how personal data gathered by organisations is used and kept secure. In 2018 the Data Protection Act adopted the general Data Protection Regulation (GDPR) rules which all businesses have to follow and make sure that the information they have is:

- used fairly, lawfully and transparently
- used for specified, explicit purposes
- used in a way that is adequate, relevant and limited to only what is necessary
- accurate and, where necessary, kept up to date
- kept for no longer than is necessary
- handled in a way that ensures appropriate security, including protection against unlawful or unauthorised processing, access, loss, destruction or damage

There is stronger legal protection for more sensitive information, such as:

- race
- ethnic background
- political opinions
- religious beliefs
- trade union membership
- genetics
- biometrics (where used for identification)
- health
- sex life or orientation

There are separate safeguards for personal data relating to criminal convictions and offences.

Under the Data Protection Act 2018, individuals have the right to find out what information the government and other organisations store about them. These include the right to:

- be informed about how your data is being used
- access personal data
- have incorrect data updated

- have data erased
- stop or restrict the processing of your data
- data portability (allowing you to get and reuse your data for different services)
- object to how your data is processed in certain circumstances

Businesses who fail to protect data can be subject to large fines. Instances of businesses failing to protect customers' data online are very much on the increase and it is an issue that businesses are urgently attempting to address.

Health and safety issues

Using ICT in the workplace to manage and process data and to communicate has health and safety implications. Businesses have to make sure employees work safely with computers and common hazards that face employees include:

- Poor posture
- Repetitive strain injury (RSI)
- Incorrect equipment like chairs and desks
- Back and neck stain
- Poor lighting and glare
- Eye strain and headaches
- Not taking regular breaks

There are also risks of electrocution, tripping over wires and fire risks.

Employers must by law provide:

- adjustable chairs
- tiltable screens
- anti-glare screen filters
- foot supports

and also:

- make sure workstations are not cramped
- make sure lighting is suitable
- plan work at a computer so that there are frequent breaks
- pay for appropriate eye and eyesight tests by an optician

AC2.5 Evaluate the extent to which ICT provision supports organisational activities

A range of computer packages are available to businesses to allow them to carry out a range of tasks. The introduction of these packages can improve the efficiency of the business, reduce long term costs and improve the quality of the work undertaken.

Generic business tools and software

Word processing – used to create documents that can be stored and edited. A range of documents are needed in a business, for internal and external use, and the use of word processing software has greatly improved the quality of presentation in these documents. Templates can be kept for frequently used documents and old documents can be saved and then edited to create updated versions. Word processing software is continually improving and new features are added that make the production of word documents easier to use, edit and share.

Databases – used to store information. Businesses need to store a vast amount of information and before the introduction of electronic databases, this information was often stored on paper and information could easily be lost or take a long time to find. Databases have search facilities that allow users to find the information they need quickly and accurately. A business may use databases to store information on stock, customers, suppliers, employees, component parts, etc. The use of mail-merge allows databases to be linked with word processed documents to allow standard letters to be sent to hundreds or thousands of customers with a few simple clicks of the mouse. Many databases also link to sales terminals to allow for automatic and real time stock levels and the automatic reorder of stock.

Spreadsheets – used to keep accounting (financial) records and to carry out calculations. The amount of quantitative data used in business activity is vast, this data has to be recorded and used to produce financial and stock records for the business. A spreadsheet presents data in a constructive format that allows easy interpretation of the data. In addition, spreadsheets use of formulas allows for the efficient calculation of data. This data can also be presented in graphs and charts. Spreadsheets are used to produce cash-flow forecasts and income statements and the use of formulas allows for modelling (what happens when a value is changed to predict future events). In addition to standard spreadsheets, there are various accountancy software packages available to businesses to produce the financial records they need.

Video conferencing – used to connect people at different geographical locations. The connection is a live, visual and audio connection to allow for meetings to be held between locations anywhere in the world. Video conferencing can be used to hold meetings for employees located in different areas, or for communicating with customers. It can save time (no need to travel for a face-to-face meeting) and costs (travelling expenses). It is more effective than a telephone call as participants can see each other and group discussion is possible. Video conferencing requires computers, webcam, microphone, speakers, internet and video conferencing software.

Presentational software – used to create presentations. The software allows the user to create professional and multimedia (text, pictures, video and sound) presentations, often through a series of slides. These can be used to present new products to customers or internal presentations between different workers in a business (for example, a marketing manager presenting to the sales staff the details of a new advertising or promotional campaign).

In the age of the internet (presentations are often uploaded to websites), the use of presentational software is limitless and is an effective tool in giving information to potential customers and other stakeholders connected to a business.

Computer graphic packages – used to create graphical documents such as adverts, promotional material, logos and artwork. When marketing the business, or products and services of the business, computer graphic packages allow a business to create its own high quality material used to attract customers to the business. These can range from small businesses creating leaflets or business cards (desktop publishing software), to large businesses creating a suite of material that could include brochures, catalogues and magazines.

Website design – used to create and maintain websites. The importance of the internet in the current business environment is crucial. Whatever their size, most businesses today have some form of platform on the internet, ranging from a simple website for information to a fully interactive website allowing for e-commerce and instant interaction with online support personnel. There are now many software packages available to buy that help build a website, in addition many large businesses will have a whole dedicated website team of employees to build, improve and maintain its website.

Customer relationship systems (CRM) – systems that manage existing and potential customer information involving data analysis. Data is gathered from a number of different places such as the businesses website, emails, chat and social media and allow businesses to build up profiles of customers and communicate with them to increase sales.

Contactless payments – allows for payments to be made quickly by tapping a card, smartphone, smartwatch, or key fobs over a reader. Used for low value payments, though this limit is increasing all the time. The use of contactless payments is growing and can be used in many different places such as shops, restaurants, transport bars and cafes.

Financial software – there are many different software packages available for businesses, small and large to make the accounting and bookkeeping aspect of the business easier and more efficient. Many small-scale businesses can purchase this software which is cheaper than paying accountants and a vast range of different packages are available that can not only record all the financial activity but can analyse, produce reports and suggest improvements.

Statistical forecasting – is the use of historical data to project future information and performance. This is a difficult and complicated thing to do and using statistical analysis or forward planning software can give more accurate results and reduce the burden on the business to do this manually. Many different types of software are available to help small and large business predict future sale patterns, or a likely increase or decrease in demand for products, in order to plan for the future.

Translation software – in a global and digital marketplace translation software is a useful tool. Translation software can translate digital materials into many different languages and continually update and maintain dynamic websites. Some software also offers voice-over translation.

The ever-increasing rate of progress in computer technology will result in even more software becoming available for business use. More advanced stock control software is already in use and new packages to monitor staff performance are being used by some businesses. Computer technology has an important and growing role to play. The areas below have experienced rapid growth in recent years:

- Internet marketing – internet sales are increasing year on year. Many businesses now use the internet to market their products instead of more traditional advertising media.

- Analytical software for a range of business functions and activities – the cost of which is reducing allowing businesses of all sizes to take advantage of what it can offer.

- Web-based customer relationships – some businesses have entirely web-based customer relationships, for instance many people now bank online.

- Social media - now a very important platform for sales and marketing and also gathering information and influencing customer attitudes and behaviour.

- Electronic point of sale systems (EPOS) – this has moved on from just reading bar codes at checkouts. Systems now use EPOS to control its stock, automatic ordering from suppliers, determine promotions, selling space and staff requirements. Manufacturers can use EPOS systems to reduce stockholding to ensure that suppliers only send materials when they are required.

- Sourcing materials for businesses – when a business orders stock or materials from another business. For many businesses this can be done entirely through the internet through the use of business portals resulting in lower costs and good relationships between the businesses.

Benefits and drawbacks of ICT to the organisation

It is universally agreed that the benefits of ICT to businesses are vast and businesses of all sizes who operate in different markets all benefit in some way to the vast applications of ICT to their business.

Most notable benefits include:

- reduced waste
- reduce costs
- space saving
- productivity increase
- improved communication (quality, speed, accessibility) internally and with customers
- support for decisions and better decision-making
- improved customer service
- improved financial performance
- reduction or elimination of paper and paper-based processes

However, there are some drawbacks, such as:

- cost – capital outlay and running costs
- breakdown - can lead to problems when the technology breaks down as the business will not be able to conduct its activities and could lead to loss of sales and dissatisfied customers.
- the need to service to keep in good condition
- obsolescence as technology changes fast
- need for training employees - with technology developing at a rapid pace, there is a growing need for training, which is costly
- health and safety issues

Rapid developments in technology mean that businesses are constantly trying to adopt the latest technology, in order to gain an advantage over their competitors. Introducing new technology is not cheap and small businesses may not be able to afford the purchase of the equipment or services to maintain its operation. This could result in business closure if larger businesses are able to use technology and increase their dominance in the market. However, technology has closed the gap between large and small businesses, with the cost of software coming down and the increased dependence of e-commerce has allowed smaller businesses to compete.

Benefits and drawbacks of ICT to the employee

ICT developments have had a range of effects on employees, both positive and negative. One of the main positive impacts on employees has been better access to information. As files and records are mostly stored digitally, employees can access these at any time and from most locations.

There have been drastic improvements in communication and the ability for employees to both communicate internally with other members of staff, and also externally with customers and suppliers. The quality, speed and accessibility that ICT provides enables more effective and efficient communication within an organisation.

A further benefit to employees of ICT development is the increase in flexible working patterns, such as working from home. Home working is an increasing trend and with an increase in connection speed and more sophisticated software, employees are able to complete the same role from home.

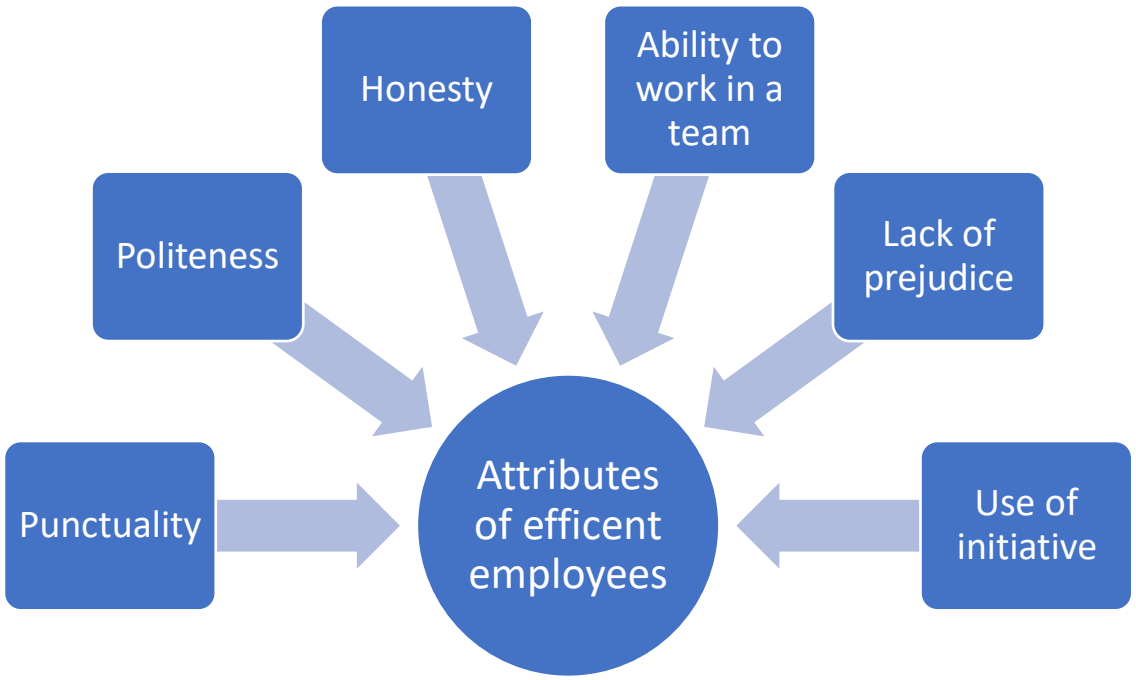
However, there are numerous drawbacks to using ICT. These include:

- a personal dislike or phobia towards new systems and software
- reduced human contact which can cause stress and mental issues
- inability to use ICT or lack of skill, the need to keep improving skills and learning new software and ways to work, the continuous need for training is a barrier for some employees and can lead to a lack of morale and motivation
- health and safety considerations when using ICT equipment

AC3.1 Explain the importance to organisations of employing suitable people

Employing people

Recruiting and retaining the appropriate employees is essential for business success. An effective employee should have a range of attributes and personal qualities that coincide with the ethos of the organisation. Examples of these attributes can be seen below:



Having the right mix of employees is essential for team cohesion and the successful completion of the organisational goals. It is often said that staff are the greatest asset of an organisation, therefore having a workforce that possess these attributes allows an organisation to run effectively and efficiently. In addition to these attributes, employees need the right skills and appropriate experience for the job role they are carrying out.

Recruitment selection procedures used by organisations

Identifying the vacancy.

The recruitment process starts with the identification of job vacancies.

For small businesses the identification of a job vacancy is likely to be a simple process, the owner will clearly know what job needs filling and the type of person they wish to employ. For larger businesses there is often a more formal recruitment process.

Many businesses will carry out workforce planning which involves trying to predict future demand for workers. Workforce planning aims to ensure that there are the right number of workers, with the right skills, doing the right jobs, at the right time and in the right place.

A business will carry out a comparison of the present workforce and the desired future workforce, this may highlight shortages (where more workers are required) surpluses (where less workers are required) and skills gaps (where they have the right number of workers, but not with the correct level of skills needed for future activities).

In terms of recruitment, a workplace plan can identify the need for additional employees. This may be because of retirement, a growth in sales or expansion of the business into new products and markets.

As recruitment can be time consuming and expensive it is essential that the business considers carefully what job vacancies need filling. For example, just because an employee retires from a particular job, the business should not automatically assume that they need a new person to fill the job vacancy. That job may now be completed by a machine, or the job tasks may be divided up and given to other employees.

After the business has identified a job vacancy it should carry out the following steps in the correct order:

1. Job analysis

2. Job description

3. Person specification

4. Job advert

5. Shortlisting

6. References

7. Interview

8. Selection and appointment.

Job analysis

The first stage is the completion of a job analysis. A job analysis is the process which identifies and determines in detail the particular duties and requirements of the job, and also what the position requires in terms of aptitudes, knowledge, and skills. The job analysis allows the completion of a job description.

Job description

The job description explains the duties and tasks for a specific job. Every job should have some form of job description. Job descriptions need to be updated regularly, as jobs often evolve, as those doing the job become more experienced and skilled. It will include the following information:

- Job title
- The duties and responsibilities of the role
- Days and hours worked, whether the job is part or full-time
- Pay which will be based on the hours worked or work completed
- The superiors i.e. who the worker will be responsible to
- The subordinates i.e. the workers the individual will supervise
- Location of the work and/or the address of the business
- Holiday entitlement
- Date to start.

A detailed and accurate job description will help the business recruit the right employee for the job vacancy. Job descriptions are often shown to applicants as it will give them a detailed account of what the job involves.

Person specification

A person specification describes the skills, knowledge and experience needed by an individual to complete the job. A person specification will include information on:

- Academic qualifications – GCSEs, A levels and degrees
- Professional or vocational qualifications
- Experience
- Skills and personal attributes.

The person specification is about the person and not the job but shows the type of skills and experience that are needed in order to carry out the job effectively.

A job advert can be produced when the job description and person specification have been produced. A business needs to consider if the job is to be advertised internally or externally. Internal advertising means that the business will only advertise the job to existing employees. External advertising is used when the business is looking for expansion or if there are no suitable internal applicants. External adverts can be placed in a number of places and this will depend on the job being advertised.

Internal methods of recruitment

This method involves finding someone already employed by an organisation to fill a vacancy. Internal vacancies may simply be placed on a notice board, published on an intranet or advertised in an in-house magazine. Therefore, the cost of recruitment is reduced: there will be no need for external advertisements and all the administrative costs and time involved in dealing with applications. There are several other advantages too. These include the fact that the applicants will already know the business and its methods of working and are therefore likely to settle into the job a great deal easier than external candidates. Another benefit is that internal recruitment may increase motivation of the workforce. There are, however, problems with using internal recruitment. Firstly, there will be a limited range of applicants and the potential of finding new talent will be reduced. There is also less likelihood of an input of new ideas and methods of working into the organisation. As one person is promoted then another vacancy is created, which then has to be filled.

External methods of recruitment

There are a wide variety of methods that businesses can use to find suitable candidates. The actual method or methods used will depend on the type of vacancy and the number of vacancies available. For skilled and professional workers, it may be appropriate to use recruitment agencies that are specialised in finding specific workers for specific tasks. Headhunters can be used when very senior management positions arise. Headhunters will use their knowledge of the employment market to find suitable candidates. For semiskilled workers, advertisements in local and national newspapers may be appropriate. The job centre can be used for administrative and unskilled workers. Where people are needed to enter management training programmes, often the most suitable method for finding a good pool of candidates is to use recruitment programmes at universities. Many of these recruitment methods are expensive but can help ensure that the right candidates are found.

Job advert

The job advert will contain essential information taken from the job description and person specification. The job advert will communicate with potential applicants the details of the job and the type of person the business is looking to recruit. A business does not want to attract unsuitable applicants, who may be underqualified or not have the right type of attributes; therefore it is important that the job advert gives the correct information to the people who would be suitable for the job. The job advert also has to appeal to the applicant and encourage them to want to work for the business.

Job adverts tend to be short and concise and may attach the job description and person specification. The amount of detail in a job advert will depend on the level of job being advertised. Managerial or jobs requiring a high level of qualifications and experience, usually with higher salaries, will have more information than semi-skilled or low skilled jobs with lower wages.

Application form – this is produced by the business and will ask applicants to complete it and return it to the business by a certain date. The application form will be in sections and will ask for personal information such as address and contact details, employment history, qualifications, skills and attributes and will include a section for the applicant to explain why they believe they are suitable for the job. The application form may also include a section for the applicant to give the details of 2 referees who will be asked to complete a reference. Application forms are popular with businesses as all the applicants will fill out the same form, so they are easy to compare and the business is able to dictate what type of information is included.

Letter of application – a business will often ask the applicant to complete a letter of application to accompany an application form (although some forms have a section that will include this information). The letter of application will be a written statement giving the reasons why the applicant believes they are suitable for the job. If the letter of application is the only way of applying then it will need to include all the information that is required in an application form.

Curriculum vitae (CV) – this document is produced by the applicant and will contain the same type of information included in an application form. As the applicant will choose the style and format of the CV (and there are many to choose from) the amount of details and information in a CV will vary between applicants. There is a wealth of guidance and templates available online to help job applicants complete their CV. Typical examples of CVs include the following sections:

- Personal details
- Personal statement
- Skills
- Employment history
- Education
- Qualifications
- Hobbies and interests
- References

Shortlisting

Shortlisting is the process of selecting the most suitable applicants from those who have applied for the job. If many people apply for the job, for example over 100 people, then the business will not interview all of these. Using the job description and the person specification, the business will narrow the applicants to a smaller number. Shortlisting involves matching the requirements of the job to the application of the applicant.

The shortlisting process will depend on how applicants apply for the job, this may involve the completion of an application form or the inclusion of a curriculum vitae (CV). It is important that the applicants take care in completing these forms as any spelling errors or grammatical errors may result in them not being shortlisted even though they have the required qualifications and level of experience. Likewise, a business must make sure that they don't fail to shortlist an applicant based on information that does not directly relate to the job being advertised.

References

A reference is a written statement about the personal attributes, skills and work-related experiences of a job applicant. The reference is written by a referee. The referee is likely to be the current or previous employer of the applicant or someone else in a professional or managerial position that can provide the information. Usually, a business will seek two references for an applicant. On applying for a job the applicant will name the referee(s), with contact details and the business will directly contact the referee(s) either after shortlisting or after the interview. In some cases, verbal references are used. The job applicant is unlikely to see what is written about them in the references. In some instances, a business may have shortlisted or even decided to appoint an applicant, but on receiving the references they may withdraw the offer of interview or the job if they are concerned about the comments made in the references.

Interviews

The shortlisted applicants will then be called for an interview so that the business owner or management can judge who they believe to be the best person for the job. In most cases the interview will be face-to-face and held at the place of work and involve the business asking a number of questions to the applicant. The applicant will also have an opportunity to ask questions about the business. Most interviews will be carried out through the use of an interview panel which can consist of a number of people ranging from 2 to 10 or 12 people. The interview panel will include managerial representatives, human resource representatives and departmental/function representatives of the department where the job being advertised is based. Having a panel of interviewers gives the business an all-round picture of the applicant.

The applicants being interviewed also have the opportunity to meet people in the business and decide whether this is the place they would like to work.

Interviews can be a very stressful experience for applicants. Many people have difficulty in expressing themselves in the best way at interviews due to nerves and the formal arrangement of the interview process. Interviews tend to be formal and carried out in a business like manner, however, some businesses may choose to hold less formal interviews which can allow for the applicant being more relaxed and give a better picture of their true attributes and skills.

Telephone interviews – these are usually carried out as part of the shortlisting procedure to select applicants to be invited to face-to-face interviews. However, in order to save time and reduce costs many businesses carry out telephone interviews instead of face-to-face interviews. Telephone interviews are time and cost effective and can test the applicant's verbal communication skills.

Online interviews – allows employers and applicants to 'meet' and interact using video, instant messaging programs, and webcam and web-conferencing services.

This is becoming a popular form of interview as it is time and cost effective, especially when the shortlisted applicants live long distances away from the business.

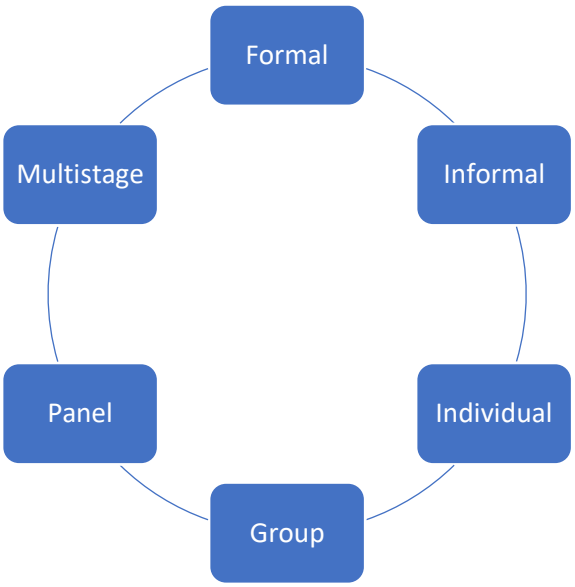
Roleplays – put the applicant, either on their own or as a group, into an imaginary scenario and they have to use their skills and experiences to complete the task or solve a problem. Roleplays are often used in job applications involving a high level of customer service.

Work trials – these can last for a couple of hours to a week or even a month. The applicant will have to complete the job trial before they get offered a job.

Aptitude and ability tests – are designed to test the ability of the applicant in completing core tasks of the job. These tests are in addition to a formal interview and will demonstrate the skills and abilities of applicants. One major disadvantage of just using interviews is that being good at an interview does not necessarily mean the applicant will be good at the job. By using these tests, the business can simulate a core skill needed for the job and judge the applicant's performance.

Personality or psychometric tests – these measure a person's personality in a structured way. They help the employer determine if the applicant has suitable traits for the job and go beyond just looking at qualifications and experiences. These tests are in addition to a formal interview. These tests could also be used with a group of applicants, where the applicants have to work together to solve a problem or complete a task. By using a group scenario, the business can see how the applicants work as a team and how they communicate.

Interviews can be carried out in a range of different ways. Some of which are shown in the below diagram:



Whether an interview is formal or informal depends on the industry, the type of role being filled and personal factors. Formal interviews are more traditional with set questions, procedures and appointments, whereas informal interviews are more relaxed in their nature.

Individual interview is when candidates or potential employees are interviewed individually by either an interviewee or a panel. A group interview on the other hand is when candidates are interviewed as a group by the interviewee or panel. This is sometimes used in order to see the candidate in a team setting and get a better understanding of how they'd work and 'fit in' to the organisation.

Panel interview is when a candidate is interviewed by a panel of people, these would normally consist of members of the HR teams, a senior manager and the direct manager of the candidate. The purpose of a panel interview, which can be considered more formal in its approach, is to get a collective opinion of the panel. By interviewing in this way, it can reduce the chance of personal bias and therefore make the appointment less risky.

A multistage interview is when there are numerous stages to the interview process. This could include a mix of interview techniques and testing and could lead to candidates being eliminated after stages based on performance. These are designed to whittle down the candidates to the most suitable and appropriate for the role being advertised. These are often used for senior positions.

The interview technique chosen will depend on the level of job being advertised and the types of skills required by the employee to complete the job. A business may also use a number of different techniques for a single job. High paid and senior managerial job vacancies often have a number of interviews and tests held over a number of days to make sure the business is confident in selecting the best applicant available. Appointing the wrong applicant can be a very expensive mistake to the business and could affect future performance, therefore the business must make sure it uses the most appropriate and rigorous technique available.

Effective interviewing

Interviews should be planned by the business, usually the human resources team, to be challenging in their nature so that the business can differentiate between the candidates and ultimately make a sound appointment. Questioning should be specific to the role and the organisation but also should be targeted towards getting a better understanding and knowledge of the candidates, such as their experiences, skills and personal qualities.

Effective questioning should be open ended that allow the candidates to give full answers with the use of any relevant examples from their experiences. Questions should be pre-set and the same ones asked to each candidate for fairness and to make a reliable comparison with the view of making the most appropriate appointment.

Non-verbal communication is an essential component of an interview that is often overlooked. Non-verbal communication includes body language, eye contact and facial expressions to name a few. These often give the interviewee an impression of the candidate, even before the candidate has answered any questions.

When deciding on what process and methods to use a business will consider:

- The type and nature of the job
- The level of pay
- Is the job permanent or temporary?
- Is the job full-time or part-time?
- Does the job require high skilled or low skilled employees?
- Does the business want to recruit from a wide pool of applicants?

The recruitment process used will also depend on:

- The size and scale of the business
- The cost of different methods of recruitment
- The suitability and reliability of the different recruitment methods for the particular job vacancy.

AC3.2 Explain the importance of training and developing employees

Training plays an important part in the future success of a business. All businesses will need to have workers with appropriate skills to make sure that the production of products or provision of services is the best quality possible and what the customer expects.

Most employees have some weaknesses or gaps in their workplace skills, so training is organised by the business in order to strengthen skills that each employee needs to improve their performance in the workplace.

Training provides workers with knowledge and skills which enable them to perform their jobs more effectively. Modern theories of motivation argue that training is one of the keys to successful motivation of workers. Without training, workers are unlikely to reach their potential and feel let down by their employers. Most large organisations now have structured training programmes, designed to satisfy both the organisation's needs for skilled workers and employees' needs for advancement and achievement in work.

Types of training

Induction

After a successful job applicant has been appointed, the first training they should receive is induction training. Induction training involves introducing a new employee to the workforce. New employees will need to become familiar with administrative systems, computer systems, be introduced to colleagues, supervisors or managers and be allowed time to get familiar with the way in which the business works. The length and arrangement of the induction training will depend on the nature of the job, some induction training may only be a few hours, however, for most jobs, an effective induction training programme will be spread out over a number of days, weeks or months, that allows the new employee to adjust to the new work environment and perform to the best of their ability.

On-the-job training

The employee will receive training in their normal place of work, usually at their workstation (the usual place where they carry out their job) although it can involve some additional training on computers or in a meeting with other employees. Most UK employees will have received the majority of their training via on-the-job training.

There are a number of different on-the-job training techniques that a business could use:

Demonstration – an experienced employee will show another employee (possibly a new employee) how to do the job. This is very useful when the job is physical or practical, though it can also be used in office environments. This is a very common technique used by businesses. For example, a new factory worker will be shown by an existing employee or supervisor how to use the machine that they will be working on in their job, or when there is a change in health and safety laws, a HR employee may take a group of employees through an online training programme, or employees may simply log on to an online training program at their desk and carry out the training at a time that suits them.

Job shadowing – a new or inexperienced employee works alongside a more experienced employee in order to develop their skills in a particular job. The new or inexperienced employee will observe the experienced employee and be able to ask for guidance and advice in completing the job. Job shadowing helps the employee gain a more in-depth understanding of the specific aspects of a job.

Job shadowing is also used when an employee gains a new job or promotion within the same business, they will shadow the current employee who holds the job for a short while before they take over the role. An employee may also shadow senior employees in managerial positions to help develop their own career and to get a better idea about what it takes to build a career.

Job shadowing is also carried out when an employee from one area of the business has the opportunity to work alongside and gain experience of the role of another employee from another area of the business. This allows the employee to gain a greater understanding of the business as a whole.

Coaching – is a more structured on-the-job technique. An experienced or skilled employee (possibly the line manager) will work closely with another employee (again likely to be new or an inexperienced member of the workforce) and coach them for a period of time on a specific aspect of their job. The experienced employee will spend time with the other employee to build and develop their skills in order to reach the efficiency and productivity expected to complete a specific job. Once the employee has shown they can complete the task at the expected level, the coaching for that task will stop.

The focus is on the task and what has to be done to get the job done. An employee may have a number of different coaches to help them develop the skills to get their job completed.

Mentoring – is similar to coaching but involves a more supportive and advisory relationship between the experienced employee and the less experienced employee. Mentoring is usually a long term technique, for example it could last for 12 months, with regular meetings between the mentor and the employee.

The focus is on developing the skills of the employee and a relationship of trust between the mentor and the employee. The focus for mentoring is the long-term development of the skills needed by the employee and not just the tasks for their current job. It is likely that the mentor will not be the employee's line manager, but another experienced employee. This will help the employee become more confident in confiding with their mentor and building trust between them.

Job rotation – employees move between different jobs at the similar levels within a business. The purpose is to give employees experience of a different range of jobs to develop their skills and knowledge and to give them a better understanding of the business as whole. Job rotation will allow employees to multi-skill as they will need to develop a range of skills in order to complete all the jobs to the expected level. An employee that is involved in job rotation will need to have other forms of training to allow them to develop the skills and knowledge needed in different jobs. Job rotation is often used by manufacturing businesses. In addition to a new set of skills the employee may also be motivated by job rotation as it widens their experience and can improve job satisfaction. Managers and supervisors are sometimes moved in a series of planned job rotations in order to allow employees at this level to become familiar with the different business functions. When a vacant position becomes available the business will then have a greater pool of employees to choose from.

Off-the-job training

The employee will receive training away from their normal place of work, this could be in a meeting room or a conference room on the business site or in an external venue such as a hotel, college or a vocational/business training centre. Off-the-job training can be useful for developing transferable skills in employees that can be used in many different parts of the business.

Off-the-job training is usually carried out by a trainer who does not work with the employees in their normal workplace. The trainer may work for the business or may be external and work for a training company or a local college.

Examples of off-the-job training include:

Off-site training can take place in a number of different venues and this will depend on the type of training that is being undertaken. Employees may attend a training course at a college or university, a training centre or another branch/outlet of the business they work for.

Off-site training can last for a couple of hours, a day, a week, or be a regular occasion where the employee attends a college for a couple of hours per week over a couple of months or a year. There are many different types of off-site training and the actual format of the training will depend on the job and the purpose of the skills that need to be developed.

Off-site training can include classroom training (lectures), simulation training (which is useful when operating machinery – consider airline pilot training), use of role plays and management games.

Computer-based training (CBT) is now a popular and cost-effective way of training employees. CBT includes any form of training delivered through a computer. Although many businesses now use online training programs, CBT also includes the use of packages and software that are not online and can be run on a single computer or on a business's intranet.

CBT can be carried out anywhere where the worker has access to a computer, this can be at work (but away from their usual work station if it is off-the-job training), off-site or even at home. The development of the internet and digital technology has greatly improved the quality and usefulness of CBT and allows the storage, analysis and feedback of the performance of the employee when undertaking the CBT.

Sandwich courses allow an employee to carry out their job but also attend college for part of their working week. There are many different types of sandwich courses, the actual proportion of time in work and time in college will depend on the type of job.

Initially sandwich courses were considered a form of higher education where students carried out a 4 or 5 year degree course and for 1 or 2 years of the course the students undertook a work placement in the middle (hence the term sandwich). However, sandwich courses are also used by businesses when they send their employees to college or university to gain qualifications that they need in their job. Accountancy, law, marketing, ICT and engineering are examples of the types of businesses who may use sandwich courses to improve the skills of their employees. These courses are usually part-time and can run for a number of years, in some cases they can be full-time and last for a shorter period of time. The employer will normally pay the cost of the course, which can be expensive.

Outside trainers are used by businesses that do not have the expertise within their workforce to deliver training. Outside or external trainers will allow specialist trainers to be used to improve the quality of the training given to the employees. Although these trainers can be expensive, they will be experts and can be the best way to train employees and have up-to-date information which is important (for example, in health and safety training). The choice of external trainer will be up to the business and they can make sure that they use a high quality trainer to deliver the training. However, there is a danger that the training is not carried out in the context and philosophy of the business and could be a risk.

When considering what type of training to offer, a business should not just choose on-the-job or off-the-job. A business that wants to make sure that they offer the best training possible is likely to combine these two different types of training. For example, a business may offer an apprenticeship scheme for young people that have elements of on-the-job and off-the job training. Within the business they may assign a mentor to the apprentice, have a series of CBT and allow the apprentice to attend college one day a week for a year to compete a Level 3 qualification.

It is essential that the business selects suitable training for its employees, what is good for one business may be a disaster for another. The business will need to look at:

- What skills and knowledge are needed?
- Do these need to be transferable?
- Is there a skills gap?
- How will the training address these skills?
- How will the employees respond to the training?
- Can we provide the training ourselves?
- How much will the training cost?
- Will the training affect current business performance?
- Are we meeting our legal requirements?

On-the-job training	
Advantages	Disadvantages
• Cost-effective – it can be a relatively cheap form of training. • The training is carried out whilst doing their jobs, therefore the training does not take the trainee and trainer away from their work. • The trainee will get to know their new work colleagues quickly as they are the trainers. • The exact needs of the business are the basis of the training, so all the training is relevant and suitable to the business. • Can be motivating for the trainee as they learn as they work and can clearly see the progress they are making.	• The workstation may not be a suitable training environment, it might be highly pressured or a place where customers are present. • The training can upset/stop the normal business activity, it could reduce efficiency and productivity. • As the trainee is learning they may make mistakes so the quality of work will decline. • The training depends on the quality of the trainer, they may also pass on bad habits.

Off-the-job training	
Advantages	Disadvantages
• Normal business activity, such as production or customer services, is not affected or held up. • Trainees can learn from highly qualified trainers who may bring new ideas to the business. • It can be used to help motivate employees. • Transferable skills are developed which benefit the business and individual employees.	• Can be expensive, can the business afford it? • Trainees are not at their workstation and not contributing to the business in a productive way, overall output could be reduced. • The training may be too generic and not specific to the business. • The employee may use the training to help them gain a job with another business.

Benefits of training to the business and the trainee

Having an effective training programme will have a number of benefits for the employer and the employee:

- **Worker morale** – training can help to motivate workers and make them feel valued in the organisation. Training will improve the skills and knowledge of workers, so as a result of training, employees will feel more confident in their work and may help them achieve promotion. This could also reduce labour turnover and absenteeism.
- **Improved product/service quality** – training should result in workers being better at what they do. If they are employed in manufacturing, then they should become more productive and be able to improve the quality of the products they make. If they are employed in the service industry, as a result of training, workers should have more confidence and a better level of communication and problem-solving skills when dealing with customers. Effective training programs will also create a flexible workforce, where workers are able to adapt to changes more easily and respond to unplanned events.
- **Improved customer satisfaction** – training should improve employee performance which in turn should improve the way in which customers are dealt with. As a result, customers will have a more positive experience when dealing with the business which could result in improved customer loyalty, increased sales and ultimately increased profit.
- **Reduced wastage** – one additional positive effect of improved quality and efficiency, as a consequence of training, is a reduction in faulty products and poor stock management processes. This will reduce the wastage of products or materials that cannot be used in the production process or sold in shops.
- **Reduced costs** – the reduction in wastage, increased productivity, reduced labour turnover, absenteeism and increased efficiency will all help to reduce costs for a business.

- **Being competitive** – all the bullet points explained above will help to make the business more competitive and stay ahead of the competition. Any business that has a motivated and appropriately skilled workforce will be well equipped to satisfy current customers, attract new customers to grow the business, increase market share, sales and profit. A business with a reputation for employing highly motivated and skilled workers, with an effective training program, will also attract the best calibre of job applicants that will help to keep the business competitive and more likely to succeed in a dynamic and competitive marketplace.

Monitoring training and development in the workplace

Many businesses will keep track of the training that employees receive in order to see the effects of the training and was the cost worth it. Many employees will have training records which might form part of their appraisals. Staff appraisals involve regular meetings (once every six months or on an annual basis) in which the staff member's performance is analysed, normally against performance targets. An employee may be judged on a range of tasks completed: for example, number of complaints, performance of subordinates and management of budget. As well as these measures of performance, training needs are discussed and career prospects examined.

The aim of any training is to help the business succeed and achieve its aims and objectives, the training methods used to do this should be monitored to make sure the right type of training was given and actually resulted in improved performance and business outcomes.

AC3.3 Evaluate the effectiveness of the ways in which employees can be motivated

Motivating people

Motivation is the reason why people behave in a certain way. Understanding what motivates employees at work will help a business ensure that employees are giving their best and are committed to doing a good job. A motivated workforce will be productive and work with the business to make sure they perform to the best of their ability. A demotivated workforce will cause problems for the business with likely effects including poor performance, high absenteeism, poor quality and low productivity.

A business that is able to motivate its workers will create a workforce that has desire and energy to complete tasks to the highest possible standard which will improve quality, keep customers happy and make a positive contribution in increasing sales and profit. Motivated employees will also have a greater commitment to the job and the employer.

The benefits of a motivated workforce include:

Lower levels of absenteeism – there is an assumption that motivated employees are more unlikely to take time off work for minor illnesses and other minor reasons. Businesses who have high levels of employee absenteeism will often also suffer from a demotivated workforce. If employees are uncommitted and unhappy in the job they do then they will often find a reason to stay at home and not go into work. Higher levels of absenteeism will have a negative effect on the business, often resulting in lower levels of productivity, deadlines being missed, an increase in costs as replacements have to be employed and unhappy customers who may take their business elsewhere.

Retention of workers (low levels of labour turnover) – employees who are motivated are unlikely to look for another job with a different business. They will be happy in their work and likely to be loyal to their present employer. A business with a high retention rate is more likely to have an experienced and efficient workforce that is committed to the business and what the business is trying to achieve. High retention rates will also help the business to avoid the costs of recruitment and training of new employees.

Improved worker performance – a motivated workforce is likely to work harder and make the effort needed to achieve the aims of the business. Motivated employees will take pride in their performance and will want to make a positive contribution towards the business. It is generally agreed by business experts that a motivated workforce is a productive workforce, therefore labour productivity will be high.

Improved quality and customer service – the outcomes of a motivated workforce will be higher than a demotivated workforce. The quality of the products produced is likely to be higher, with less mistakes and faulty products resulting in increased customer satisfaction and customer loyalty. Motivated employees will carry out customer service activities to a higher standard, generally being more helpful and attentive towards the customer.

Improved relations between management and workers – a motivated workforce is more likely to understand the aims of the business and they will be keen to help the management achieve these aims. It is important that a business has good relations between management and workers as this will result in cooperation and a positive and happy working environment. A good level of trust will exist between the two, allowing the management to give responsibility to the workers to get their job done to the best of their ability, which in turn will help to motivate the workers to work efficiently. A break-down in relations between management and the workforce can have very negative impacts on the business; workers will not work to the best of their ability, and may carry out industrial action, such as strikes, which will affect production and the reputation of the business.

Employees are not all motivated in the same way, some employees might work hard if they receive a good wage, and others want to have responsibility and opportunities to show their knowledge and skills. A business will use a number of different motivation methods to motivate its workforce.

There are two main methods that a business can use to motivate its workforce:

- **Financial methods** – involve monetary rewards for employees.
- **Non-financial methods** – involve incentives that have nothing to do with money.

Financial methods

Wages – are usually paid each week and usually paid to manual and low-skilled jobs. The wage is usually based on an hourly pay rate (this is known as time rate) and the employer will work an agreed number of hours per week. For example, a worker gets paid £8.00 per hour and works 36 hours per week. The worker's wage will be 8 x 36 which gives a wage of £288 per week. This is the gross wage (income tax, national insurance will be deducted from this wage plus any additional deductions such as pension contributions and trade union membership fee).

Wages can also be based on **piece rate**, employees are paid according to the amount they produce. Piece rate is also known as payment by results. For example, in a factory an employee gets paid 10p for every component they make. If they make 2 000 components in a week then they will receive a weekly wage of £200. However, a business must pay the minimum wage in the UK, therefore piece rate is often used alongside a basic wage which is based on time rate. For example, the employee who earns £200 for producing 2 000 components in the factory will also receive a basic bay of £150 per week. Their total weekly wage will be the £150 (basic) plus the £200 (piece rate) giving a total of £350 per week. The majority of their wage is determined by piece rate and this will motivate the employee to be as productive as they can, the more they produce the more they will get paid. However, it can be argued that as the focus is on quantity, many workers will try to make as many as possible and will not focus on the quality of their work.

Overtime pay is another financial incentive. This is based on time rate. Workers are paid a higher hourly rate for any hours they work beyond their agreed weekly hours. For example, a worker has a contract with a business to work 37 hours per week at £9.00 per hour. For any additional hours they work they will receive an hourly rate of £13.50 (this is an example of time and a half). In one week they work 45 hours, therefore their wage for that week will be 37 (contractual hours) x £9 + 8 (additional hours) x £13.50 = £441.

Salaries – are a financial amount received by an employee based on an annual figure. For example, an officer worker may receive a salary of £20 000 per year (or per annum). Salaries are not based on a fixed time an employee has to work per week. Employees who earn salaries are expected to work the hours needed to get the job done and do not receive any overtime payments. Salaries are paid once a month, usually at the end of the month. For example, an employee who has a salary of £30 000 will have a monthly gross pay (pay before any deductions, such as income tax, are subtracted) of £2 500 (£30 000/12 months).

It is important to understand the main difference between wages and salaries:

- Wages are usually paid weekly and salaries are usually paid monthly.

- Wages can vary; salaries are a fixed amount per year.
- Workers can work extra hours and get paid overtime with wages. There is usually no overtime paid on a salary.
- Wages are usually paid to manual workers and salaries to office staff.

Performance related pay includes bonuses, profit sharing and commission.

Bonuses are additional financial payments above the normal wage or salary. The bonus may be paid to a worker who has met their work targets or who has performed well in their job. They are paid as a reward for good performance.

Bonuses can be paid monthly or annually. Many businesses operate a bonus scheme in order to motivate workers to reward good performance and commitment to the business. Although bonuses can be paid to any employee, they are often paid to managerial and executive positions.

Bonus schemes can be:

- Sales bonus – paid if sales targets are reached
- Performance bonus – paid for reaching targets on productivity or quality
- Christmas bonus – paid for loyalty to the business.

They can also be paid to all employees if the business has performed well and has achieved high sales and profits for the year. This type of bonus is called profit sharing or profit related pay. These schemes link the wage or salary to the profits made by the business. Although all employees can receive these, in reality they often only apply to senior management, which has been criticised by many trade unions and government officials. For some businesses, such as large multinationals and banks the payment of bonuses to senior management can result in them earning very high amounts in bonuses, often totalling millions of pounds, even when the business has made losses.

However, some businesses such as Asda and John Lewis use bonus schemes that allow all employees to share in company profits.

Commission is used mainly in jobs involved in selling products and services. The employee will receive payment based on the amount of sales they make. The more they sell the more they will earn. Many commission based wages or salaries will include a basic wage or salary, which tend to be low. The amount paid in commission is usually calculated as a percentage of the profit made from the sales.

Share Option – Many organisations provide share options to their employees, often to reward loyalty. This means that employees can earn shares in the organisation, which is a financial incentive.

Fringe benefits are additional financial benefits given to an employee on top of their wage or salary. There are many different examples of fringe benefits and the type of fringe benefit received will depend on the type of job and the position within the business. Typical examples include:

- Company car
- Health insurance
- Discounts when buying from the business
- Pension schemes
- Paid holidays
- Sick pay

Fringe benefits can be used by businesses to hire the best people and to motivate them whilst they work for the business. However, fringe benefits will add to the costs of the business so the business has to consider whether the benefits will outweigh the cost of implementing them.

Non-financial methods

Many business and human behaviour experts believe that money is not the only motivator in the workplace. People are also motivated by the work environment; the way they are treated in work and the opportunities they are given to show their knowledge and skills. As a result, many businesses will use a range of non-financial methods in order to motivate their workforce. These include:

Job enlargement increases the number of tasks at a similar level of difficulty completed by a worker. This can reduce boredom and make the job more interesting and involve the employee in a more complete role within the business.

Job enrichment is different to enlargement and rotation in that it involves giving employers greater control over their work and will involve making their job more interesting and challenging. If an employee finds their work too easy and repetitive then it is likely to result in them becoming bored and demotivated. They may also feel undervalued and not trusted to make decisions. Job enrichment will result in an employee's job being redesigned and involving less repetitive tasks with more responsibility to complete the tasks in a more independent way. This will motivate workers as they will feel that the owners/managers have trust in them and given an opportunity to use their abilities to make a positive contribution to the business. Training is essential when using job enrichment to motivate workers.

Empowerment is giving workers greater control and responsibility in carrying out their jobs. Workers are able to organise their work, make decisions, solve problems and decide how to 'micro-manage' their daily work. Workers who are empowered are often motivated as they feel more valued and trusted by the business and enjoy the freedom to develop new ideas that will improve efficiency and productivity. In order to develop the skills needed for empowerment, a business must make sure suitable training is available.

Training is essential if workers are to be able to reach their potential. Training will motivate workers as they feel that the business is investing in them and allowing them to develop the skills needed for empowerment, job enrichment and enlargement. Improved skills will also improve the self-esteem of workers and give them the opportunity to seek promotion. Training will also help the business in improving productivity.

It is important to note that both financial and non-financial methods have costs to the employer, either through direct costs such as extra pay or indirect costs through training provision or management time.

Performance appraisals

Built into the principle of effective Human Resource Management is the idea that staff should be regularly appraised by their direct line manager. This means there will be regular meetings in which the staff member's performance is analysed, normally against performance targets. An employee may be judged on a range of tasks completed: for example, number of complaints, performance of subordinates and management of budget.

As well as these measures of performance, training needs are discussed and career prospects examined. Within the staff appraisal interview, bonus earnings may also be set. Staff appraisal is sometimes referred to as performance appraisal or performance management. Staff appraisal can:

- motivate
- improve performance
- allow the setting of achievable targets
- identify training needs
- identify potential
- allow those who understand the job (i.e. the line managers) to give a value to the work done
- enable achievable bonuses to be earned

However, staff appraisal can also:

- cause tension in the workplace (especially in relation to the allocation of bonuses)
- put workers under tremendous pressure to keep improving performance;
- place too much power in the hands of line managers who may be ill-equipped to use the system effectively or, alternatively, abuse the power the system gives them.

Also, managers can have conflicting roles. At one time a supporter and developer of staff, at other times responsible for reprimanding and disciplining staff.

The success of staff appraisal in the workplace also depends on acting upon staff problems which are highlighted – if problems are not followed up, and feedback provided, demotivation can quickly occur. To be successful, appraisal systems must be based on clear criteria for appraisal (set, agreed and understood targets) and managers must be trained to solve problems that can arise as a result of any poor performance indicated in appraisals.

Employees must be encouraged to fully participate in the system by talking about their problems, their own failings and adopting methods of resolving problems and improving performance.

Key motivational theory's

Motivation theory examines the different ideas that have evolved or been proposed over the last century, each of which propose different methods and techniques of getting the best performance from the workforce. Effective motivation creates the desire and energy to complete tasks involved in a job to the highest possible standard. Motivation creates commitment to the job and the employer. The following ideas and theories of motivation offer differing (but sometimes overlapping) philosophies for creating a motivated workforce:

Mayo and the Hawthorne experiments

Elton Mayo and his team worked in the late 1920s and early 1930s at General Electric Company's Hawthorne works. In a workplace investigative study, they were trying to develop an earlier theory by Frederick Winslow Taylor.

Taylor's theory of scientific management proposed that workers can produce more output if responsibility for decision-making and planning are removed. Workers should not have to think, they should just do. His observations also indicated that a consistent approach by workers was the best way of achieving this. He argued that in each workplace the methods used by the most efficient workers should be utilised by all workers. Therefore, workers should be trained to work to the model used by those who produce most output. This idea of scientific management takes what is called a 'task-orientated' approach to managing workers.

This means that the workers are just thought of as 'machines' for completing tasks.

However, Mayo discovered that group dynamics could be more important than any form of financial motivation in determining the pattern of work and working practices. This research also showed that the way groups of people are treated, and the way that they expect to be treated, affected the way that they worked.

The aim of the study was to establish the impact of different conditions of work on employee productivity. Initially, Mayo examined the effect of changes in the factory environment such as lighting and humidity. He then went on to study the effect of changes in employment arrangements such as breaks, hours and managerial leadership. His main conclusion was that the prevailing view of the time, that people went to work purely for money, was flawed. Work meant much more to people than simply earning money. It was first and foremost a group activity in which other people and their behaviour affected how well people worked. Morale and productivity were affected not so much by the conditions in which people worked but by the recognition they received. The rises in productivity were achieved under the interested eye of the observers; not because the conditions made the workers feel good but because the workers felt valued.

As a result of the experiments Mayo suggested that motivation at work was promoted by such factors as:

- greater communication
- better teamwork
- showing an interest in others
- involving others in decision-making
- ensuring the wellbeing of others
- making work interesting and non-repetitive

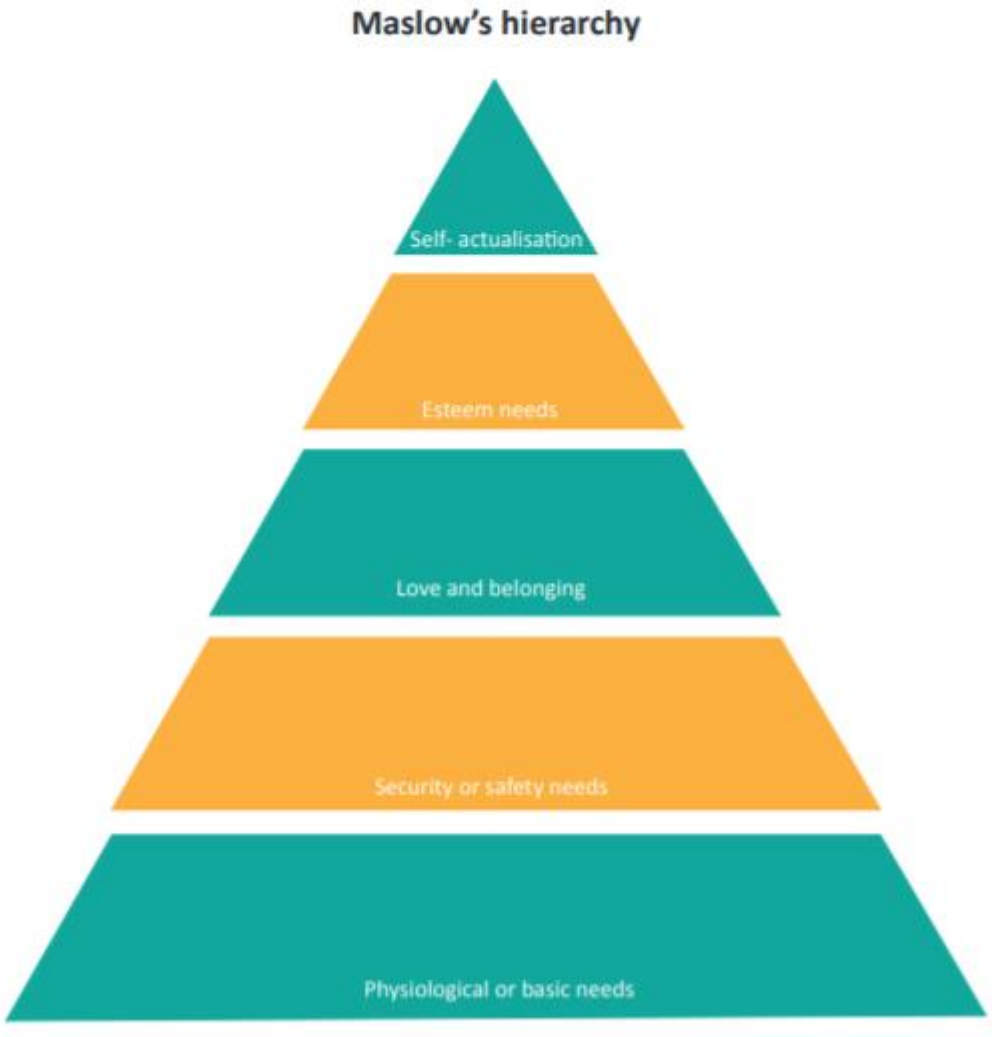
From Mayo's work the Human Relations School of motivation and management developed. The followers of this school of management regard workers and managers as interacting groups. As long as the form of interaction is tailored to the dynamics of each group, then this interactive relationship can only be of benefit to the business. Communication is now seen as important – explaining the importance of workers' roles and listening to their views.

The Human Relations School today

Group dynamics today have a very important part to play in the workplace. Managers have discovered that small groups with effective leaders are a way of transforming working practices within organisations. Working as a team allows the breaking down of traditional hierarchies and allows each worker to feel part of a small work group, motivated to achieve within their own section of the business. Managers who wish to fully gain from the benefits promised by the Human Relations School must develop an adaptive approach. This means that they must learn to treat different groups of workers in different ways. They must apply approaches, motivational methods and communication systems suited to the needs of each group within their organisation.

Maslow

All humans have needs. The basic needs are regarded as warmth, food, clothing and shelter. These basic needs used to be what we needed to survive and for many thousands of years it was all that most humans could hope to obtain. The modern working man and woman are very different. Abraham Maslow, an American psychologist who worked in the middle part of the twentieth century, argued that we all have a hierarchy of needs. He proposed that we all wish to attain the highest level of this hierarchy. However, before we can reach this highest level the lower levels of needs must be securely in place.





When this hierarchy is applied to the workplace managers must examine how they can satisfy the needs of employees.

To satisfy the basic needs of food, warmth, clothing and shelter, workers must have an income; so, a reasonable level of pay is a requirement to satisfy these needs.

The next level, security, means that workers must be able to predict their future with some degree of certainty. To allow employees to do this, managers should offer contracts of work, some form of sickness benefits and pension schemes.

The next level, love and belonging, can be satisfied by designing jobs so that they involve interactive work – this is group working again. There should be an opportunity for social interaction in the workplace, such as meeting places or provision of a social facility such as a club. Workers also need to be able to spend time with their families, so social working hours and a decent holiday entitlement are a must.

The fourth level, esteem needs, can to an extent be satisfied by communication from managers assuring the workers that they are doing good jobs. There should be the opportunity for workers to be able to train, to improve their prospects and improve the quality of their work. They must be able to give some input into the decision-making process. One way of achieving this is through participation in quality circles. Also, job enrichment is an important part of satisfying this need.

At the highest level, self-actualisation, workers achieve what they are capable of doing. The key to this is promotion. Workers should be able to climb to a level within the organisation that enables them to demonstrate their talents in a job they are most suited to. They should be given as much freedom over their tasks as possible; they should be allowed to do the job in the way that they know best. The ideas of empowerment in the workplace relate to this.

Managers must consider whether all workers need to have all levels satisfied. It would be an expensive business to satisfy all the needs of all employees, up to and including self-actualisation. What managers must be aware of is the trade-off between extra quality and output that comes with satisfaction of each level of needs, and the cost of satisfying these needs. For example, it may be realistic to satisfy only basic and security needs for the mass of a business's workers, and concentrate on satisfying the higher needs of those workers who are core to the future success of the business.

Herzberg

Frederick Herzberg carried out investigations into what caused satisfaction and dissatisfaction at work. Herzberg wanted to focus on the growing pool of white-collar workers and therefore used groups of accountants and engineers for his research. The method of investigation was by interview. The work was carried out in the late 1960s and he was interested in applying his findings so that improvements in job design could occur. If implemented, these improvements would lead to increased quality and levels of output.

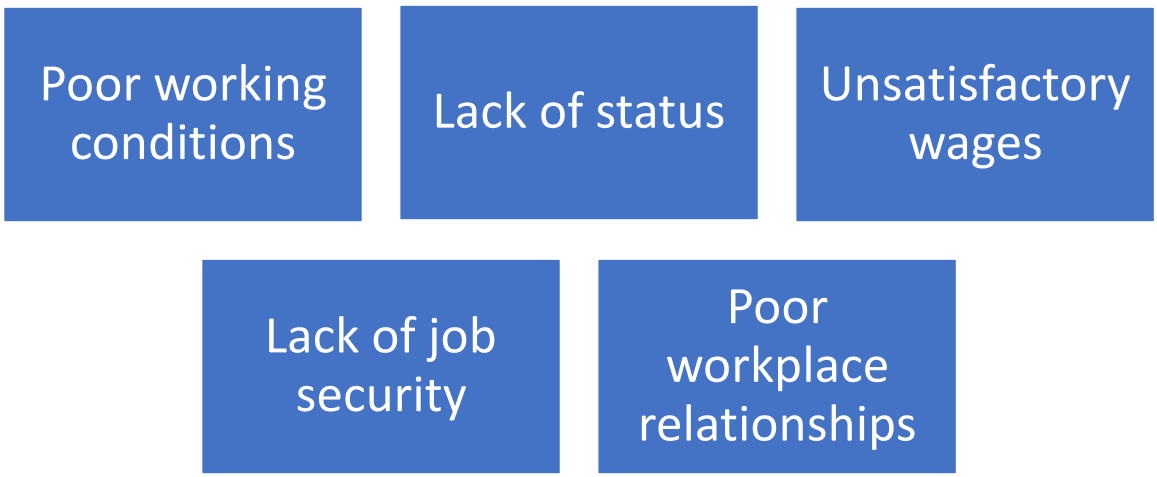
The two factors Analysis of Herzberg's research shows that satisfaction in work can be caused by a number of motivating factors, or 'motivators'

Herzberg's motivators



Also, the research demonstrated that there were a number of factors that caused dissatisfaction. This was caused by a number of 'hygiene factors'.

Herzberg's hygiene factors



Application of the two factors

Herzberg said that managers must firstly provide the type of workplace and conditions of work that prevented dissatisfaction, i.e. make sure that hygiene factors are satisfied. Only when these are provided can motivation of workers happen. The basic tools to provide motivation are effective communication and training. If we look at the factors that cause motivation, we see that many of these are directly related to communication and training.

Managers should employ workers with the view that they should be trained to perform tasks they were not capable of doing at the time of employment. Jobs should be enriched progressively to allow factors that motivate to be achieved. This idea of job design is crucial to the successful use of Herzberg's ideas. Effective, flexible and challenging job design will allow workers to achieve goals in the workplace. Managers should respond to the achievement of these goals by recognising what has been achieved and communicating this recognition to the workers. Effective job design means allowing job enrichment and the opportunity for achievement in tasks. The job must allow decision-making to take place and there must be a structure in place that allows advancement/promotion.

There are two major criticisms of this theory. Firstly, the sample was taken among professional workers and skilled engineers and therefore, the question must arise whether it will apply to semi-skilled or unskilled workers. Secondly, Herzberg ignored the effects of teamwork and the impact that it may have on motivation.

It is worth noting that there is an obvious relationship between the lower levels of Maslow's hierarchy and Herzberg's hygiene factors and between the higher levels of Maslow's hierarchy and Herzberg's motivators.

McClelland

David McClelland was an American psychologist and his motivational theory is sometimes considered an extension of the work of Abraham Maslow and his hierarchy of needs. McClelland theory is known as the human motivation theory. According to the theory there are three motivators that people have, these are:

- Need for achievement
- Need for affiliation
- Need for power

McClelland believed that all humans have the three motivating factors but that one was more dominant in each person. He suggested by knowing employees and tailoring your approach to each will get the best results and performance from each employee.

Need for achievement

An employee who is motivated by the need for achievement is one who likes to both set and accomplish targets. They are motivated by the completion of the task to a good standard. This employee usually works best alone, and both wants and welcomes feedback and praise that comes with the successful completion of targets. This type of person will usually take pride in their work and is internally driven without the need of great external motivational input apart from the feedback and praise.

Need for affiliation

A person or employee that is motivated by the need for affiliation is one who likes to be a part of a team and the sense of belonging that comes with working as part of a team. These employees will often favour collaboration over competition. Rather than being motivated by praise and feedback such as the need for achievement, these employees are primarily motivated by being a part of a group and the cohesion that comes from effective teamwork. From a business standpoint, these types of employees are essential where there is a need for considerable teamwork as they place the collective of the team above individual performance.

Need for power

The type of employee motivated by the need for power is one who likes to lead and take control of a team and the situation. They are driven by status and thrive on competition. These types of employees want to control others and gain influence over them. From a business standpoint, doing things such as job titles and responsibilities helps create the status that this type of employee seeks.

McGregor

Douglas McGregor put forward the idea that there are two broad types of managers – Theory X managers and Theory Y managers.

Theory X managers

The first of these management styles, is founded upon the ‘assumption of the mediocrity of the masses’. The Theory X type of manager makes several assumptions about employees:

- workers must be supervised or quality and quantity of output will fall
- workers only respect the type of manager that tells them what to do and does so with complete authority
- money is the only motivator

- workers do not want to be involved in the decision-making process
- workers wish to remain faceless and unknown to management
- workers have little ambition

Consequences of Theory X management

If managers are employed who believe that workers have little or no ambition, wish to be left alone, must not be involved in the wider business environment and must be supervised if they are to maintain quality and quantity of work, then this has major impacts on job design and control. In the case of Theory X managers, the consequences for the business will be:

- strict control of formal methods of communication
- tasks must be designed so they are broken down into their simplest units
- responsibilities must be clear and unambiguous
- supervisors must maintain quality
- high level of dependence on the decision-making of senior management

Theory Y managers

Theory Y managers believe that the reverse is true. They start with several positive assumptions about employees:

- workers cannot be motivated by money alone – they seek more than financial satisfaction from their jobs
- workers are ambitious, willing to train and contribute to improve their chances of promotion
- workers will be more efficient if they are left to their own devices – trust breeds responsibility
- workers want to contribute to improving efficiency – they want to be seen, be noticed, rewarded and appreciated when they work well

Consequences of Theory Y management

Theory Y managers are likely to create an open structure, with both formal and informal paths of communication and delegated powers. Workers will be given responsibilities and a wider range of tasks. Theory Y managers are facilitators. It is likely that managers will adopt a democratic style – this is based on encouraging participation in decision-making. In the case of Theory Y managers, the consequences for the business will be:

- requirement for training
- use of job enrichment and cell working (form of team working in self-contained teams)
- setting up of formal communication channels, with both vertical and lateral communication
- promotion structures
- flexible working practices

An important part of this theory is that the managers will, over a period of time, influence how workers behave. So, if we have a Theory Y manager placed in a business where workers have previously behaved within the Theory X pattern, it is quite possible for change to take place. The existing workers may be transformed from being uncooperative, demotivated and unconcerned with the success of the business into contributors who are motivated to improve quality and ambitious for personal and company success. It also follows from this that lack of motivation amongst workers and poor quality of output is a management-created problem. It is the role of management to create methods of production and management of human resources that will allow these resources to realise their full potential.