Higher Business Management
Unit 1
Understanding Business

Role of business in society	*Sectors of industry; sectors of the economy*
Types of organisations	*Public sector organisations and agencies; private limited companies; public limited companies; franchising; multinationals; third sector organisations*
Objectives	*Corporate social responsibility; methods of growth; satisficing; managerial objectives*
External factors	*Impact of external factors; economic policy; competition policy*
Internal factors	*Corporate culture; availability of finance; staffing; technology*
Stakeholders	*Conflict of interest and interdependence*
Structures	*Features, characteristics, benefits and drawbacks of different organisational structures*
Decision Making	*Types of decisions; quality decisions; SWOT analysis; Role of a Manager*

1 The role of business in society

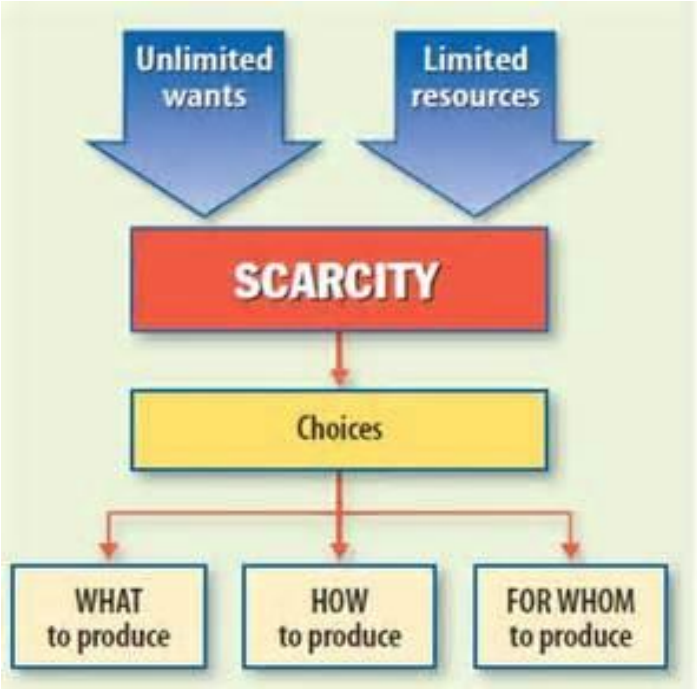
Everyone in our society has ‘wants’ and ‘needs’.

Examples of needs are (basic) food, clothing and shelter. We need these items to survive

Examples of wants are entertainment, leisure, travel, mobile phones. Wants are unlimited but the resources that we have to produce goods and services are limited eg labour, raw materials, money.

To satisfy these wants we consume goods and services. If suitable goods and services were not available, we would not be able to satisfy our wants. We choose the products that gives us the most satisfaction as we cannot buy everything. This leads to choice.

A definition of business activity is any kind of activity that results in the provision of goods and services which satisfy human wants.



Business Organisations compete for sales. They have to choose what they will produce, who it is aimed at and how it is to be made. If the consumer is not satisfied with the product they have bought, they will go to a different business and a different product next time. Businesses must compete with each other to sell goods.

Goods are tangible while services are intangible. Goods sold to the general public are often referred to as consumer goods.

Consumer goods may be classified as **durable goods** eg:

- cars,
- washing machines,
- personal computers;

or **non-durable goods** eg,

- sweets,
- drinks,
- newspapers.

Durable goods can be used regularly over a long period of time while non-durable goods are consumed over a short period, usually soon after they are bought.

Examples of **services** are:

- going to the hairdresser,
- being served in a restaurant, or
- visiting a doctor.

Goods and services can be described as the **outputs** of business activity. In order to produce these outputs, business makes use of **resources**, also called ***factors of production***.

Factors of production are classified into four categories:

1 – Land

All natural resources, from mineral deposits to the site of a factory. It refers to everything that can be:

- extracted from the land and sea
- grown on the land
- produced in the atmosphere
- sunshine can also be included as it is used to with solar panels to create energy

Examples of **Land**:

Oil

Minerals

Water

Land

2 – Labour

Organisation cannot function if they do not have people to work for them. Some organisations eg a small local shop only need a few workers whereas Scottish Borders Council will need a lot of workers working for them.

Labour is the number of people the organisation needs to operate.

Examples of **Labour**

3 – Capital

These are the man-made resources. Many organisations refer to money when they are discussing capital. Here we use the term capital to describe eg, factories, machines and tools.

Examples of **Capital**




4 – Enterprise

Can be describes as the most important factor of production, because without it production would not tack place.

Enterprise is the human effort and will to provide goods and services. The entrepreneur is the person who brings together all of the other resources and takes the risks to product the goods or services.

The role of enterprise and the entrepreneur

The role of the entrepreneur is to combine human, natural and man-made resources in order to produce goods or services. Without enterprise the provision of goods and services will not happen.

The entrepreneur sets things in motion by:

- having and then developing a business idea
- ensuring that all the resources necessary are available to put the idea into practice
- using his/her own, or borrowed money to finance the cost of acquiring the resources.
- being willing to take the risk of losing what has been invested.

Starting a new business involves a high level of risk. In order to minimise the chances of failure, many budding entrepreneurs use franchising as a means of starting up their own business. There is a greater chance of success as support and guidance is provided to the franchisee by the franchiser.

What is Wealth?

The wealth of countries is measured by **how many goods and services the country can produce**. The more business activity there is, the more goods and services that are produced, the wealthier a country is. So the more we produce the wealthier we become.

Business activity can be described as '**wealth-creating**'.

Finally, goods and services are sold in **markets**. These exist where goods and services are exchanged between consumers and producers. Examples of markets are the housing market, the market for snack foods, and the financial services market.

Cycle of business

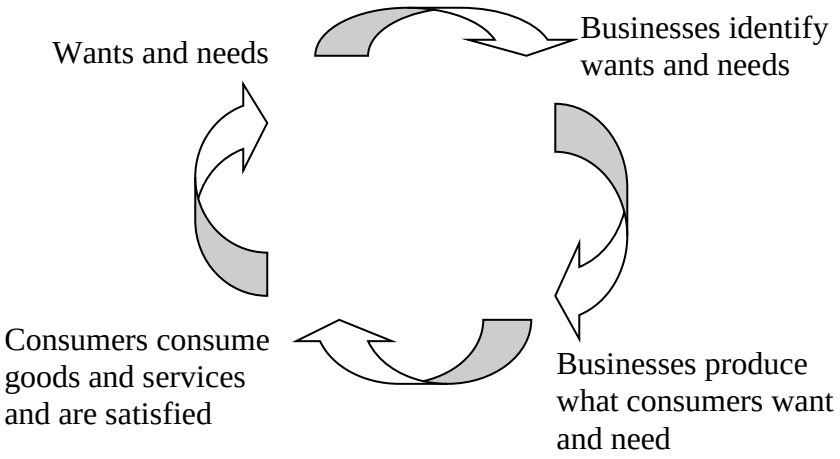
The cycle of business can be described as the constant production of goods and services to satisfy the wants of consumers.

This can be seen more clearly in the diagram on the following page.

Cycle of Business

Described as:

The constant production of goods and services to satisfy the wants and needs of consumers



or

Wants	People in society have wants which they wish to satisfy.
↓	
Identification of wants	Businesses recognise that there are wants which can be satisfied by the production of goods or services.
↓	
Production	Businesses combine inputs to produce an output of the required goods or services.
↓	
Consumption and satisfaction of wants	Goods and services are made available to consumers who consume them and thus satisfy their wants. Wealth is created for companies and for their employees and shareholders.
↓	
Wants	The cycle begins again.

Sectors of Industrial Activity

All goods **are produced in 4 stages**. Each stage **adds value** to the item until it passes into the **hands of the consumers**. In this way Wealth is Created from Raw Materials.

Primary Sector

The ***primary*** comprises businesses involved in taking natural resources from the land, that is, agriculture and extractive industries such as coal mining.

Secondary Sector

The ***secondary*** sector consists of those businesses which use resources to make or build their products, that is, manufacturing and construction firms.

Tertiary Sector

The **tertiary sector** is made up of all the firms **which provide services rather than goods**. This sector includes activities such as **banking and hairdressing**, where a service is performed for a customer but no goods change hands.

Also services to **move finished goods from producers to consumers** eg transporting goods, insurance, advertising and acting as an intermediary between manufacturer and customer eg retailers, wholesalers.

RBS
The Royal Bank of Scotland

<u>Quaternary (information) sector</u>:

This is a relatively new sector of industry and includes businesses which provide information services. Examples include information and communication technology (ICT), research and development (R&D) and consultancy.

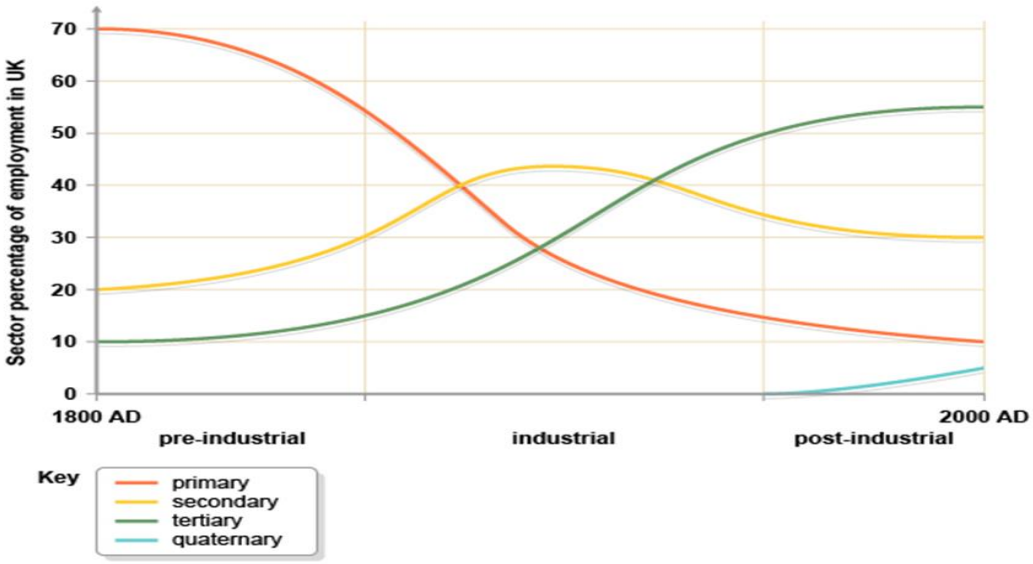
Changing employment patterns

Britain was **originally** an economy **that relied on the primary sector**, with the majority of people earning a living from working the land.

However, during the **Industrial Revolution** the **secondary sector grew** as a result of industries such as ship building. By 1900 over 50% of workers were employed in the secondary sector.

A **century later** employment patterns changed again and **the tertiary sector** became the dominant sector in the UK, employing over 50% of the workforce.

The **trend is changing again** with the introduction of the quaternary sector. **Together the tertiary and quaternary sectors employ 76%** of the workforce in the UK.



Line graph showing UK employment structure from 1800 to 2000.

Types of Business Organisations

Business Organisations are **groups of people** who **combine their efforts** and use their resources to achieve a particular purpose.

Business organisations are organisations whose purpose is to **satisfy consumers' wants by producing goods and/or services.**

Organisations fall into one the following categories:

- **Private-sector** organisations are **owned by private individuals** and investors. **Run by a Board of Directors** and **financed through the selling of goods and services**
- **Public-sector** organisations are **owned and controlled by the government** on behalf of citizens. These are **financed by taxation.**
- **Voluntary-sector (third sector)** organisations are set up to **raise money for good causes** or to **provide facilities for their members eg Comic Relief, Golf Club**.

  These are Run by **Boards of Trustees or Committees**, **owned by their members** and **finance through fundraising and membership fees**.

ARMY

GALA RED TRIANGLE R.F.C

Private-sector organisations

The most common types of business organisation in the private sector are:

- sole trader
- partnership
- **limited company**
- **public limited company**
- **franchise**

Sole Trader

Definition: an **organisation which is owned and run by a single individual**. The owner provides the capital (the money required to start up the business).

There are no legal formalities to go through to set up in business as a sole trader – you can simply start trading. As the person in charge of the business and the only owner, you have the power to make all the decisions and can run it in the any way you like. You also get to keep all the profits. You have, however, unlimited liability.

What is unlimited liability?

If the should the business should fail, the owner can be held personally responsible for its debts, even to the extent of having to sell everything they own. This might mean s/he could face bankruptcy if the business fails.

Advantages

- It is easy and cheap to set up as there are no legal formalities.
- The owner has complete control and takes all decisions.
- There is no division of profits.
- Profits are kept by the owner.

Disadvantages

- It can be difficult to raise finance – the sole trader may have to rely on savings or finance from relatives to get started. Banks may provide finance but may charge higher rates of interest if they are willing to lend at all.
- The proprietor is solely responsible for all the financial commitments. A sole trader has 'unlimited liability'.
- There is no one with whom to share the responsibilities of running the business – many sole traders work long hours with few holidays.

Examples of sole traders:

- small newsagents
- hairdressers
- plumbers

Partnership

Definition: a business which is formed by two or more people on the basis of a *partnership agreement.* The partners provide the capital to start the business.

The maximum number of partners allowed by law is 20, although an exception is made for some professions such as solicitors and accountants.

Partnerships in general have unlimited liability, although the Limited Partnership Act allows *sleeping partners* – those who merely contribute finance but do not take an active part in running the business – to enjoy limited liability.

Advantages

- The responsibilities of ownership can be shared.
- Partners can specialise in their areas of expertise.
- A larger amount of capital is available.

Disadvantages

- All partners except 'sleeping partners' have unlimited liability for the debts of the business. Thus some partners may end up paying for mistakes made by other partners.
- There may be conflict between partners over matters such as whom to employ, what decisions to make or whether to borrow money.
- There may be a lack of continuity as partners change.
- Profits have to be shared.

The term *'self employment'* is sometimes used in respect of sole traders and partners because they own the organisations for which they work.

Examples:

Doctors

Dentists

Solicitors

Limited Company

Most new businesses now prefer to set up as a limited company rather than a sole trader or a partnership. The costs involved have decreased and it is becoming much simpler, eg, you can now set up a limited company over the Internet.

One major reason why companies prefer set up as a limited company is that they have limited liability.

What is limited liability?

The shareholders of a limited company only lose the money or capital they have invested in the business, not any on their personal possessions.

The capital of a company is divided into shares – each person who owns shares in the organisation is called a shareholder. The company must have a minimum of 2 shareholders. Limited companies are run by a Board of Directors who are appointed by the shareholders.

There are two types of limited company:

1 Public Limited Company (plc)
2 Private Limited Company (Ltd)

Limited Companies must **complete 2 documents:**

- Memorandum of Association and
- Articles of Association

The Memorandum of Association and *Articles of Association* set out the aims of the business and how it will be run and financed.

The **company must register with the Registrar of Companies**.

Limited liability means investors (shareholders) **do not risk personal bankruptcy**. A **company is treated as a separate legal entity from its owners**. Thus a company can own assets, employ people and be sued. Just as one person cannot be held responsible for the debts of another, so owners of a company cannot be forced to pay the company's debts.

Private Limited Company

A private limited company (Ltd) is **not allowed to offer shares to the public** through the stock exchange. The shares **can only be sold to people who have been invited** to buy shares in the organisation.

Private limited companies are often **family businesses.**

A Ltd is **run by a Managing Director** supported by a **Board of Directors**. It is **owned by its shareholders** who can vote on major issues.

Advantages

- The owners/families keep control of the organisation.
- A private limited company can raise more money than a sole trader.
- Shareholders have limited liability ie, they only lose the money they have invested.
- Private limited companies do not have to disclose most of the information that public limited companies have to provide to the public such as annual reports.

Disadvantages

- All companies must be registered with the Registrar of Companies. This means they have to disclose some financial information, which the public and their competitors can see.
- Large organisations can be very difficult to manage effectively although a private limited company is usually easier to manage effectively than a public limited company as it does not usually grow to be as large as a public limited company.

Examples of private limited companies include:

Public Limited Company (PLC)

A PLC is generally a large company – **it must have a minimum of £50,000 share capital.**

The shares of **PLCs can be bought and sold** by anyone on the **stock exchange** – large amounts of capital can be raised by selling shares to investors.

Investors are **entitled to a share of the profits called a Dividend**. They can also make money by **selling the shares if they go to a price higher** than the price they bought them for.

A PLC is **run by a Managing Director** supported by a **board of Directors**. It is **owned by its shareholders** who can vote on major issues at the **Annual General Meeting.**

Advantages

- Knowledge that shares in public limited companies can be resold on the Stock Exchange if required encourages people to invest.
- Shareholders have limited liability ie, they only lose the money they have invested.
- Huge sums of capital can be raised from individuals and institutional investors such as Pension Funds and Insurance Companies.
- The above usually means that the organisation has financial stability which may enable it to develop and expand.

Disadvantages

- The organisation must be registered with the Registrar of Companies. This means it has to disclose some financial information, which the public and their competitors can see.
- Large organisations can be very difficult to manage effectively although a private limited company is usually easier to manage effectively than a public limited company as it does not usually grow to be as large as a public limited company.
- Members of the public can examine financial information about companies which is lodged with the Registrar of Companies. PLCs have to make more information available to the public than private limited companies – for example, they must publish Annual Reports.
- PLCs may grow so large that they become inflexible and difficult to manage effectively.
- In very large companies employees may feel out of touch ('alienated') from those at the top and it may be difficult to take a personal approach to customer service.
- The legal procedures necessary to set up companies, especially PLCs, can be very costly.

Examples of public limited companies include:

Multi-national Corporations (MNCs)

Many **large PLCs** operate as **multi-national corporations**. Multi-national corporations have **branches (called *subsidiaries*) in more than one country**.

Many companies **establish sales outlets** for their products in various countries.

However, the distinguishing feature of an MNC is that it sets up **production facilities** in more than one country. MNCs are **major employers in many countries**.

Advantages of MNCs

- to increase market share
- to secure cheaper premises and labour
- to avoid or minimise the amount of tax which has to be paid
- to take advantage of government grants available
- to save on costs of transporting goods to the market place
- to avoid trade barriers like the EU Common External Tariff
- to enable their products to be sold globally without having to rely on other companies to sell them in some areas, under licence.

Disadvantages of MNCs for the host country:

- They can be very powerful – some of them earn more than some small countries in the course of a year – and can therefore exert quite a strong influence on the governments of host countries – for example, by threatening to close down their operations there.
- They can be accused of exploiting labour in low wage countries.
- They may use up non-renewable resources in the host country.
- Because they are so powerful and able to take advantage of economies of scale, they may force local firms out of business.
- Profits go back to the parent company – in which ever country it has its headquarters.
- All the major functions tend to remain at headquarters so that, in times of difficulty, it is relatively easy for the MNC to close down a subsidiary causing many job losses.

Examples of Multi-national Corporations include:

Franchises

Definition: **a business run by one firm under the name of another**.

The **franchiser** gives the **franchisee** a licence permitting them to sell goods or services under the franchiser's brand name, usually in return for a share of the franchisee's profits.

The franchisee's licence permits him/her to **use the franchiser's name**, publicity materials, decor, uniforms, etc.

Many individuals use **franchising as a means of starting up their own business**. There is less **likelihood of failure** as support and guidance is provided by the franchiser to the franchisee.

Businesses such as **McDonald's** operate **some branches directly** and **others as franchises**.

Franchiser

Advantages for the Franchiser

- It is a quick way to enter new geographical markets and the franchiser's name becomes more well known as the business expands without investing heavily.
- Provides a reliable revenue (the franchiser will receive a % age of the profits or a set royalty payment each year).
- Risk and uncertainty are shared between the franchiser and the franchisee.

Disadvantages for the Franchiser

- Franchisers are reliant on franchisees to maintain the image and 'good name' of the business.

Franchisee

Advantages for the Franchisee

- Franchiser may advertise nationally therefore little advertising needs to be done by the franchisee.
- The risk of business failure is reduced as the business already has a good trading record and is often already established in its market.
- The franchiser may carry out training and administration.
- All franchisees can benefit from ideas generated by each of them. For example, when a McDonald's franchisee thought up the 'Egg McMuffin', the recipe was circulated to all the other franchisees and the product became very successful.

Disadvantages for the Franchisee

- Products, selling prices and store layout may be dictated, stifling franchisee initiative.
- A royalty payment or % age of the profits has to paid back to the franchiser.
- The franchiser might not renew the franchise after a certain time.
- The franchisee's reputation and profitability depend in part on that of the franchiser and the performance of the other franchisees.

Examples of Franchises:

Public sector organisations

These are set up to **provide goods and services** paid for **by taxation** that the **government** think are **essential** to the country but that may not be provided by the **Private Sector eg street lighting, policing.**

Public sector organisations are **set up and owned by the government/taxpayers** and **controlled by local or central government through civil servants and elected officials**, for example MPs.

Money is allocated to public sector organisations from the government (budget) and their **primary objective is to provide good quality services** while **staying within the budget allocation.**

Finance is raised via **taxation.**

Local government/local council

These are set up by **central government** and run by **locally elected councillors**. Managers and **employees of the council** are responsible for the **day-to-day running of the services**, which include:

- **education**
- **housing**
- **environmental services**
- **leisure facilities.**

Finance comes from central **government grants**, **council tax** and **charges for local services such as swimming pools**.

Many local authorities now contract out some services to private businesses, for example cleaning and school meals. Private businesses submit a tender (bid) for the right to run a particular service to the local authority in a process called competitive tendering. The business which offers the best value for money will be awarded the contract. It is argued that this will result in a more cost-effective service for the community because, unlike government-run enterprises, private firms have an incentive to keep costs low and efficiency high in order to survive and to maximise profits.

Central government

Westminster and the Scottish parliament provide us with important services such as the **National Health Service (NHS),** treasury and defence. Each service is overseen by a government minister and **run on a day-to-day basis by civil servants.**

The government will have **specific policies and objectives** for each of these areas and a **budget is allocated annually to meet these objectives**. Finance is raised from various **forms of taxation.**

Public corporations

These are business organisations which are owned by the government on behalf of the public. The government chooses a chairperson and board of directors to run the company.

There used to be numerous public corporations but many have now been privatised, for example Royal Mail. The BBC is a public corporation.

Third (voluntary) sector organisations

These organisations **exist to raise money and support charitable causes** in some way and are often referred to as **'not-for-profit' organisations**. To be officially recognised as a charity an organisation must **have one or more of four main objectives**:

- **to relieve poverty**
- **to advance education**
- **to advance religion**
- **to carry out activities beneficial to the community.**

Charity commissioners are **appointed by the government** to regulate the activities of charities. They keep a register of charities and recognised charities are given charitable status, which means that they are exempt from paying certain taxes, such as value added tax (VAT).

Charities are **controlled and managed by a board of trustees** and **are usually run on a day-to-day basis by volunteers** although there will be some **full time employees**.

Finance is raised from public donations, government grants, lottery grants, charity shops and fundraising events such as raffles.

Many clubs also operate in the third sector, for example **Scouts, bowling clubs and youth clubs**. These organisations bring together people **with similar interests** and are **run by a committee of elected volunteers**. These organisations **raise finance from the lottery, local authority grants and fees charged to members.**

2 Business Objectives

Business objectives

Objectives are the reasons a business exists and the **goals it is aiming to achieve**. The objectives will **influence how the business operates** and the decisions made.

The **performance** of the business is **measured against its objectives.**

The specific objectives of a business will depend on its **size, external factors** i.e. political, economical, social, technological, environmental and competitive (PESTEC) and the **sector of the economy it operates in.**

Private sector:	**To maximise profits**
Public Sector:	**To provide the community with good quality services.**
Voluntary Sector:	**To give help to groups of people in need** **To provide services for members. (eg rugby club Golf Club)**

How these are to be achieved will be set out in the Mission Statement of the Organisation to ensure that all employees and customers know what the **business is aiming for**.

Aims will **show how** this is to be **achieved.**

Examples of Objectives

Survival: To Break Even

This is **important for all businesses** but particularly a **new business or a small business**. They want to **protect themselves** from recession, increased competition or the threat of takeover from a larger, more successful business. Their revenues must match their costs or they will lose money and be threatened with bankruptcy.

Profit maximisation

The main objective of a business is to make **as much profit as possible**, to ensure its viability. This is one of the **primary objectives of a business which operates in the private sector**.

However, a business **should not strive solely for profit maximisation** as the **growth and development** of the business as a whole are also important.

Growth

Becoming larger may enable a **business to take advantage of economies of scale** and **improve its efficiency**. Growth can result in a **business gaining more control in its market place**, giving it **more control over prices** and **dominance over competitors**. Importantly, growth can also **reduce the risk of failure**.

Sales maximisation

In many large companies, where **ownership and control are separated** so that the **managers are not necessarily shareholders**, the size of a manager's salary is linked to the annual turnover of the business, therefore a **major aim of the management team in such businesses may be to generate as much sales revenue as possible**. Sales maximisation also contributes towards achieving the objective of profit maximisation.

Increase market share

This is the part of one market that one business has eg Tesco in the market for groceries

A business will seek to **increase its market share** as this will **reduce competition** and make its position in the **market more secure**. This can also **reduce the risk of a takeover** from a larger, more powerful competitor.

Satisficing

Instead of having an objective to make the maximum level of profits, a business may aim only to **make a level of profit which is sufficient to keep all its stakeholders satisfied**, eg, enough to **pay acceptable dividends to shareholders**, or enough to provide funds for future investments. Some profits may even be gifted to charities. Eg Innocent

Another way to describe this to say that a business has the objective of making a **satisfactory level of profit**. This has been described as **'satisficing'**. (This is particularly relevant to public sector organisations which have to operate within specific budget guidelines.)

Creating a good reputation (corporate or social responsibility)

A firm may wish to improve its **public image** and hence its chances of survival and market growth by demonstrating **corporate responsibility** through measures such as **sponsorship of worthy causes or a commitment to ecologically sound practices** eg recycling. Spending money on such public relations initiatives will diminish short-term profitability, but can help to boost the chances of survival in the long term.

Activities by pressure groups such as Greenpeace (which, for example, generated some adverse publicity for Shell UK by protesting against their dumping of obsolete oil rigs) have increased the emphasis on *social responsibility* in businesses in recent years.

Provision of a service

Business organisations, especially in the public sector, may have the provision of a service as their main objective. This means that they aim to provide the service in the best way possible to meet the needs of their customers or users. A hospital or a school, for example, may have this as their main objective.

Mission Statement

A written declaration of an organization's **core purpose and focus** that normally remains unchanged over time.

Properly crafted mission statements serve as filters to **separate what is important from what is no**t, clearly state which markets will be served and how, and communicate a sense of intended direction to the entire organization.

The mission statement ensures **some transparency for investors and employees** alike so they can have some confidence as to any potential use of their resources be they capital investment or labour. A mission statement is also designed to ensure **that all stakeholders are clear on the overarching purpose of the company** so everyone can be **focused on the same goals** and objectives. When someone reads a mission statement in a business plan they are looking to get a **feel for the range of activities** that the company will focus on, in other words its **core purpose** and **what it stands for**.

To bring inspiration and innovation to every athlete in the world.

TYPE OF BUSINESS	AIMS/OBJECTIVES
Private Sector	☑ To survive – break even ☑ To maximize profits ☑ To increase return to shareholders ☑ To expand the business ☑ To be environmentally friendly ☑ To be number one in the market
Public Sector	☑ To improve the quality of service given ☑ To cut costs ☑ To provide goods and services not provided by the private sector ☑ To raise revenue ☑ To be more efficient
Third Sector	☑ To provide help to targeted groups of people ☑ To improve the quality of service provided ☑ To raise awareness of people in need ☑ To maximize cash collected ☑ To increase the number of charity shops ☑ To provide quality services and facilities for their members

Success is judged on the organisations ability to meet its Objectives.

Many of a businesses aims can be achieved through growth.

- To increase sales and profits
- To increase the number of customers
- To take advantages of economies of scale
- To reduce risk of a takeover
- To become Market Leader.

Methods of Growth

If a business is successful it will tend to become bigger each year. It can use the profits to grow each year. The **bigger** the business the **more able it is to survive**. However, for many firms this process of organic growth, **Internal Growth,** is not fast enough eg more marketing, more retail outlets, more employees.

Therefore they may consider joining forces with another firm in order achieve a more rapid rate of growth, **External Growth**.

Integration* refers to firms combining in order to become larger and more powerful.** If the integration is on equal terms it is **described as a *merger, whereas if it results from one firm taking control of another so that the latter loses its identity completely it is called a ***take-over***. Such take-overs may be **friendl**y, where both firms realise that this is the best way to survive, or **hostile** when a predatory firm swallows up another one in order to gain market share by destroying the opposition and/or swelling its own profits by *asset stripping* (selling off at a profit the assets of the firm which has been taken over).

Types of External Growth

Horizontal integration
This is the combining of two firms operating at the same stage of production, for example, two supermarkets.

One firm might merge with another in this way in order to:

- eliminate competition and increase market share
- achieve greater economies of scale, such as greater discounts as a result of now being able to buy inputs in larger quantities
- acquire the assets of other firms
- become stronger and therefore more secure from hostile take-over bids.

Vertical integration

This is the joining together of firms operating at different stages of production.

Backward vertical integration is when a firm takes over another at an earlier stage of production – for example,

a jam manufacturer 

takes over a fruit farm 

This enables the take-over firm to be sure of the availability and quality of its input.

Forward vertical integration is when a firm takes over another at a later stage – for example,

a fruit farm 
takes over a jam manufacturer 

The main reason for this is to control the distribution outlets for the product.

Advantages are that this:

- eliminates the middleman and his profit
- gives the firm greater economies of scale
- allows the firm to link processes more easily.

Conglomerate integration (diversification)

This refers to the combining of firms which operate in completely different markets – for example, an airline company taking over a chain of record shops.

Reasons for diversification:

- It allows the firm to spread risk – failure in one area can be compensated for by success in another.
- It enables a firm to overcome seasonal fluctuations in its markets.
- It makes the firm larger and more financially secure.
- The firm acquires the assets of other companies.

Other Methods of Changing the Size of the Business To meet Objectives

De-merger

This involves **splitting up the conglomerate** so that its subsidiaries become **new companies** in their own right. Shareholders are given shares in the new company according to how many they have in the original one.

Divestment

This involves **the selling off of one or more subsidiary companies** – for example, when British Aerospace owned Rover cars they sold it to BMW.

Contracting out/outsourcing

This is when, instead of the firm undertaking certain activities itself, it **pays other firms to do them**. Many businesses nowadays contract out services like transport and catering.

Management buy-out/management buy-in

This involves a **team of managers** getting together **and buying an existing company** from its owners. The management team have to raise the necessary finance to buy and run the organisation – this may involve large bank loans. A *buy-out* is when the team of managers come from within the firm, whereas a *buy-in* is when the team comes from outside.

3 Business Structures

Business structures

The structure of a business is very important **as it defines how it operates**. It clearly defines the role and responsibility of employees, and outlines the relationships between individuals and groups of staff. Small businesses may have an informal structure, but large businesses **need a formal structure to ensure the best use of the resources available.**

When deciding on the most appropriate structure the following factors should be considered:

- **the size of the business:** in a small business one or two managers can be responsible for decision-making and control, but larger businesses will have a more formal structure as there is a greater need of structure and control
- **the market place:** a small business is more likely to operate in a local market and need fewer formal structures. However, a business that operates nationally or internationally will need a formal structure to ensure efficient and effective use of resources.
- **the technology used:** introducing e-commerce will result in the business altering its structure to create a new department for this activity, and if new technology is introduced this may result in redundancies or de-skilling of jobs
- **the products or services made or supplied:** if a business is diverse and produces many products or services there may be a higher number of departments, resulting in a larger, more formal business structure
- **the skills of staff:** highly-skilled staff may be given more independence, resulting in a flat, decentralised structure.

Hierarchical (tall) structure

This is the **traditional structure** for many medium-sized and large businesses. Decisions and instructions are **passed down from senior staff to the workforce** and information passes back **up through the levels of management**. An employee's position in the structure indicates their **level of responsibility** – the higher up the structure the **greater the responsibility**.

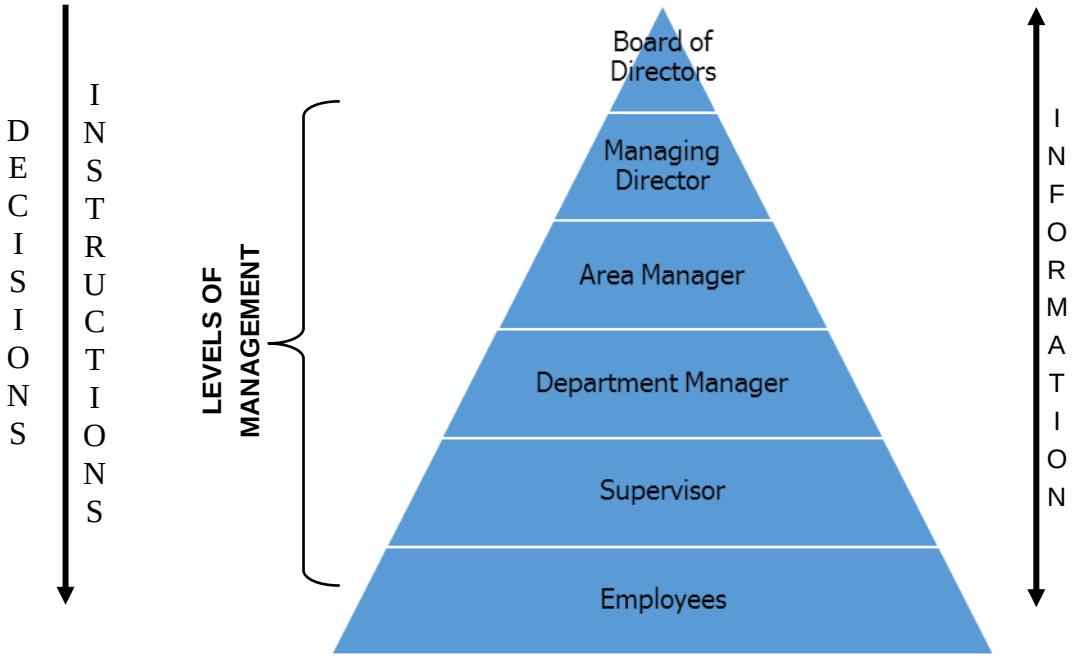
The **advantages of a hierarchical structure** are the following:

- ✓ There is a high level of control as important decisions are made by senior staff and are then passed down through the various levels of management.
- ✓ The role and responsibility of each employee is clearly defined, along with the procedures to be followed.
- ✓ Staff become specialist in their role (often linked to grouping in functional departments).
- ✓ Supervisors/managers have a narrow span of control, making it easier to oversee the work of their staff.
- ✓ There are clear promotion and career development opportunities.

However, **hierarchical structures are often criticised** for the following reasons:

× Slow response to market and consumer demands because of the length of the chain of command.
× Decision-making is slow as many individuals in the various levels of management must be consulted.
× The system is rigid and inflexible as roles and responsibilities are clearly defined.
× The level of responsibility and authority in the structure can be seen as a status symbol, causing divisions between managers and staff.

Many businesses in the **private sector have moved away from this traditional structure as it is viewed as inappropriate in the modern market place**. However, government-run and government-funded organisations, such as the **armed forces, the police and the NHS, have retained this structure.**



Flat structure

A **flat structure has very few levels of management**. Increasingly, **large businesses are moving towards a flatter structure** to overcome the problems of a hierarchical structure. Moving to a flat structure will involve reducing the number of levels of management through a process called delayering.

The **benefits of becoming a flatter** structure are:

- ✓ faster communication as there are fewer levels of management to be consulted
- ✓ faster response to changes in the market place
- ✓ employees have more responsibility and a wider variety of tasks to complete, which can be motivating.

The **costs of becoming a flatter** structure are:

- × supervision of employees becomes more difficult as span of control is wide
- × the level of support received by staff is reduced as managers are now responsible for more staff
- × there is an increased workload for the staff in the levels of management above and below the level that is removed
- × fewer promotion opportunities available.

Many small organisations, such as professional partnerships of doctors, dentists or lawyers, use this type of structure.

Centralised structures

Here all of the **control and decision-making lies with a few key individuals in the business**, such as senior directors or managers. Subordinates have little or no authority at all. This type of structure is often associated with a hierarchical structure and has **several key advantages**:

- ✓ business may benefit from strong leadership from the top
- ✓ senior management have control of all aspects of finance and budgeting
- ✓ procedures, such as ordering, purchasing and storage, can be standardised, which can lead to the organisation benefiting from economies of scale
- ✓ decisions are made from the point of view of the business as a whole, not for the particular benefit of one department or another
- ✓ managers are likely to be more experienced and skilled in the role of management and the decisions they make will be of better quality
- ✓ it is easier to promote a corporate image if the organisation adopts a centralised approach, as all external communications can be done in a standardised format.

Decentralised structures

In these organisations **decision-making and control are delegated** to and carried out by subordinates. This relieves senior management of having to make many of the routine operational decisions required by the organisation. This structure is **often associated with a flat structure** and also has several **key advantages**:

- ✓ The delegation of authority is felt by many to be a key motivator for subordinates and allows them to be groomed for senior positions when they become available.
- ✓ Subordinates often have better first-hand knowledge of the requirements of their departments or customers, and can therefore make better quality decisions based on this knowledge.
- ✓ Delegation allows a more proactive approach and much greater flexibility of roles.
- ✓ Decision-making is quicker and more responsive to external changes.

There is **no 'right' form of organisational structure**. For each organisation the structure it adopts must **reflect its aims and objectives** and be the best – at that moment in time – to fulfil these. It may well be the case that an organisation **will change its structure** as it **grows and responds to changes in its external environment.**

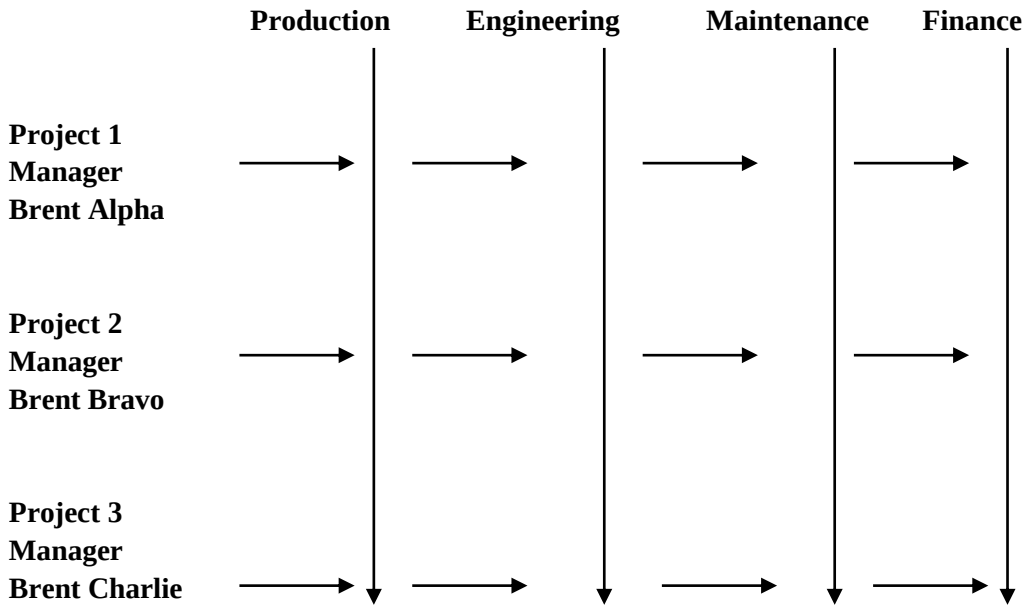
Matrix structure

This structure emphasises **getting people together who have particular specialist skills** and placing them in **project teams** to complete specific tasks. Individuals have their **own areas of functional responsibility** within the overall remit of the project. Many people argue that this is the best way to organise individuals, as it is based on the expertise and skills of the people involved.

In its favour, the **matrix structure gives scope for all individuals to use their talents effectively**. There is **no hierarchy** – everyone in the project team has the same level of responsibility and authority. It is also likely that all individuals will get the **opportunity to work in a variety of project teams over a period of time**. This variety of work **promotes personal staff development**, and **increases job satisfaction and motivation**.

Against its use lie the arguments that it is **costly in terms of support staff** (for example secretaries and administration staff) as each project team may need its own dedicated back-up. There are also **problems with coordinating** a team made up of individuals from different functional departments. Loyalty of staff may also lie with the project instead of the business as a whole.

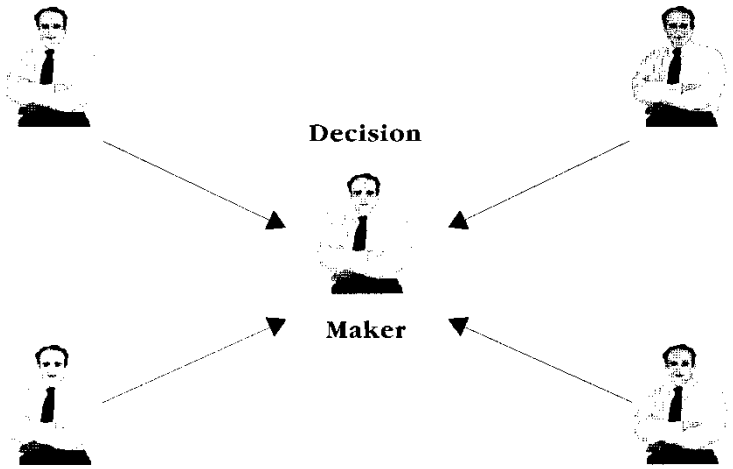
Example: Shell UK exploration and construction



Entrepreneurial structure

This is a **common structure in many small businesses** and in those organisations where decisions have to be made quickly, such as in the production of daily newspapers. Decisions are made **centrally with very little input from staff**, and are based on the expertise of only one or two individuals. There is a great reliance on a few key workers.

There can be problems with this structure as the organisation grows. Too heavy a workload is placed on too few individuals who have responsibility for decision-making. This can lead to **inefficiency.**



Formal and informal structures

The formal structures within an organisation have been described over the last few pages and consist of the relationships between individuals within an organisation in terms of the superior, the subordinate, the level of authority and the degree of responsibility. However, other very important informal relationships may also exist – an internal network or grapevine – that consists of communication passed between individuals in ways that are not set down in the formal structures.

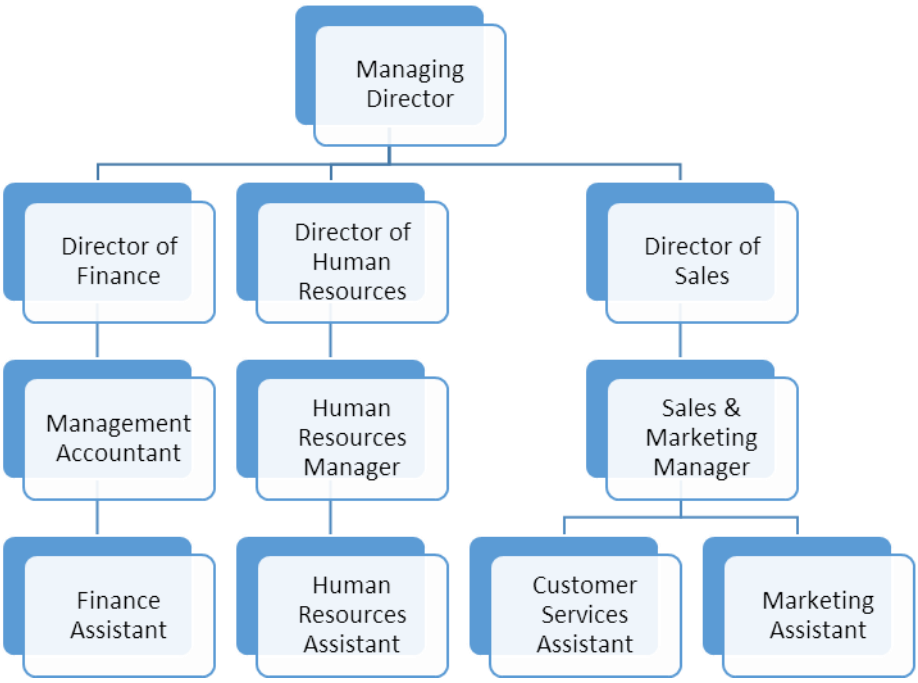
Many people obtain a sense of security and belonging, as well as achieving social status, by contributing to the grapevine. Information passed on in this way is often of a confidential nature and is not usually available to members of the group unless they hear it ‘on the grapevine’.

The need for such structures may arise because the organisation’s formal communication processes are inefficient, or at least are felt to be inefficient by some of the staff. Whilst information passed along the grapevine is likely to be news to members of the informal group, it is not necessarily always accurate. Because of this, managers must be aware of the informal structures within their organisation and may even purposely feed the grapevine with information they do want communicated quickly to the staff.

Informal structures can be destructive to the smooth running of the organisation. Information that is passed on incorrectly can, in some instances, result in bad feeling, resentment or even hostility among the staff. Members of staff may be excluded from the grapevine and may feel isolated, or confused and unsure of their position. In extreme cases, the informal structure may be opposed to the decisions taken by the formal structure (the management team) and can sabotage management aims and objectives.

Organisation charts

These **show the structure of the organisation** in diagrammatic form. Individuals are identified in **specific positions** within the organisation, clearly showing their links to others along lines of **authority and responsibility**.



The **advantages of organisational charts** are:

- ✓ new members of staff can see who they are responsible to/for and identify other members of their department
- ✓ each member of staff is named alongside their department, job title and contact details
- ✓ senior managers have a clear overview of the business, including the span of control of each manager
- ✓ lines of communication and potential bottlenecks are identified.

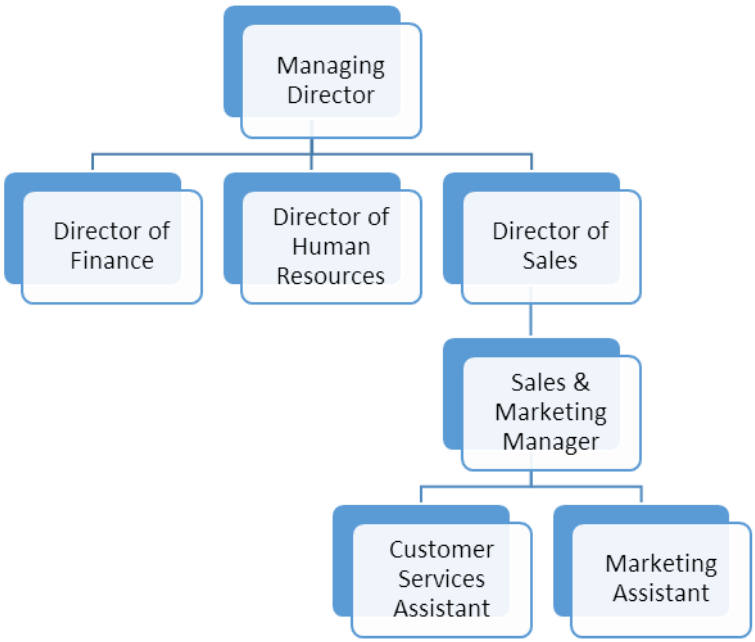
The disadvantage of organisational charts are:

× informal relationships are not shown.

Span of control

This refers to the **number of subordinates which a supervisor or manager has direct control over**. Henri Fayol, a writer on management, suggested that the optimum number of subordinates should be **between three and six** as this gives the manager a lot of control. He also argued that three to six subordinates were all that a **manager could cope with**. Any more will lead **to stress for the manager** and a **lack of supervision for the staff**.

In the diagram below the managing director has a span of control of three (directors of finance, human resources and sales). The sales and marketing manager has a span of control of two (customer services and marketing assistants).



There are **four important factors** that should be considered when deciding on the span of control of any manager or supervisor:

- The calibre and ability of the manager or supervisor must be considered. Some people are better at managing and leading than others and can therefore cope with a larger number of subordinates.
- The calibre and ability of the subordinates must be considered. Intelligent, motivated and able subordinates will need little in the way of control, and therefore a superior can manage a relatively large number of people. The same will not be true if subordinates are lazy, demotivated or less able.
- The complexity of the tasks being performed. A task of great importance to the organisation, or of a difficult nature, will be more likely to be closely controlled by the manager, and therefore a small number of subordinates would be more appropriate.
- The practices and customs of the organisation must be taken into account. In some organisations there may be clear indicators and guidelines as to the number of subordinates in each span of control. If this is stuck to rigidly, some managers may struggle to cope with the number of subordinates they have, whilst others may find that they are not given enough to do.

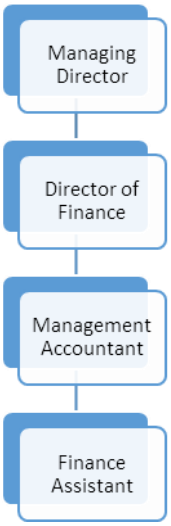
Chain of command

This shows the way decisions and instructions are passed down through the levels of management and information is communicated up and down the levels of management. If the chain of command is long, eg in a hierarchical structure, decision-making and communication is slow.

Line relationships

This describes the relationship between superior and subordinate and can be clearly identified on an organisation chart as a **vertical line** between individuals.

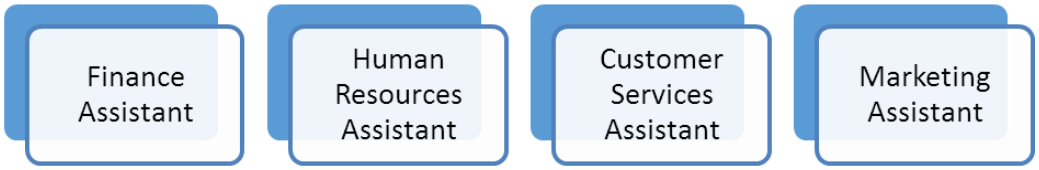
In the diagram opposite the **line relationship** is between the managing director and the director of finance, director of finance and management accountant, and management accountant and finance assistant.



Functional (lateral) relationships

These exist between individuals at the same level in the hierarchy. These individuals have the same level of authority and responsibility, although they may be in different departments or even in different locations. This relationship can be clearly identified on an organisation chart as a **horizontal line** between individuals.

In the diagram below each person on this level of the organisational chart has a **functional relationship** with everyone else at this level.



Changes in structure

Reference has already been made to the fact that organisations can change their structure. Ideally, the structure should reflect the purpose of the organisation to ensure that it can cope with changing circumstances. These changes have affected all types of businesses but have had a particular influence in the manufacturing sector of industry.

The traditional hierarchical structure involves:

- direct lines of responsibility
- employees doing what they are told
- paying people for the position they hold
- management alone making decisions
- management having the *right* to manage
- different levels of management having different levels of decision-making power.

Delayering

One strategy used by businesses to overcome the effects of aggressive competition in the market place is delayering. This **involves removing levels of management** within the organisation in order to flatten the structure. By delayering a business can **save the cost of employing a whole level of management,** which will make it more competitive and increase its chance of survival.

Businesses also realised that having **many levels of management hampered the lines of communication,** delayed the process of change, created unnecessary work and slowed down the decision-making process.

It became obvious that the **best people to inform the decision-making process were the employees** who have the best knowledge and understanding of day-to-day issues. Employees were empowered to make their own decisions by the removal of layers of middle management.

Delayering has resulted in businesses becoming more responsive to change and improved their ability to adapt more quickly. However, some businesses **misjudged the impact** that the removal of too many layers would have on the remaining staff and have been forced to reverse their decisions by reinstated level(s) of management as the **Span of Control has increased to an inefficient level**.

Downsizing

This involves the **removal of certain areas of the business' activities** that are not directly linked to core activities, thereby reducing the scale of production to meet the actual demand for their products.

The term is used by organisations when they **attempt to reduce costs by:**

- reducing the scale of their operations to meet actual market demand
- stripping out excess capacity within the business (at all levels and within all functions)
- consolidating complementary operations under one function
- reducing the resources of the business following increases in productivity.

Recession has forced businesses to **identify ways of reducing costs in order to survive**. Many find that their **productive capacity exceeds the actual or predicted demand** for their product, resulting in unnecessary costs being incurred.

Downsizing can mean the **closure of a factory or production units**, merging two or more separate operations under one management function or **scaling down of production capacity.**

Outsourcing

While the business **concentrates on its core activities** the **support services** can be given to separate companies which can be cheaper eg cleaning, catering, IT. This has the disadvantage that the business is **no longer in control of these essential services**.

Grouping of activities

Businesses will **organise their resources based on their objectives** as well as the **relationship between the people in the business**. This forms the business' structure.

There are a **number of ways a business can be structured**:

- functional
- product/service
- customer
- place/territory
- technology.

The role and responsibilities of management

Overall, the role of management is to **ensure that they choose a structure for the organisation which enables it to meet its purposes in the most effective and efficient way**. They have the responsibility to ensure that all members of the organisation are aware of the structure and how it should operate. In choosing a structure and making it work, **management need to recognise the existence of an informal structure and of organisational culture.** If at all possible, they should try to ensure that the formal structure is consistent with these.

Management also need to be **prepared to change a structure** where it has ceased to be effective. However, this may not be easy to do, especially if the structure has been in existence for some time as some staff may be reluctant to move to a new and unfamiliar system. Also, constant tinkering with the structure of an organisation may lead to confusion and resentment among the workforce and may be counter-productive.

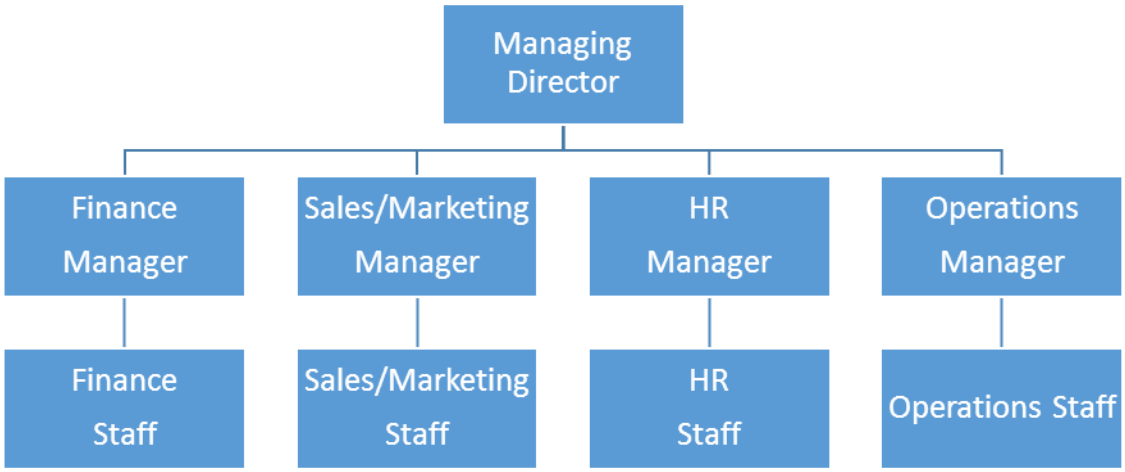
Functional grouping

This was **a very common organisational structure, widely used by British companies up to the 1960s**. In recent years it has largely been replaced by divisional grouping based on product or service (as described below). This is where the activities in an organisation are grouped into **departments based on similar skills, expertise and resource used**. The functional departments most commonly found in modern organisations include:

- **marketing**
- **finance**
- administration
- **operations**
- **human resources**
- research and development.

Such organisations usually have a **centralised decision-making structure** that provides **a unified direction for the organisation originating from the top**. Each functional department may be large, with a sizeable number of employees.

A functional grouping looks like this:

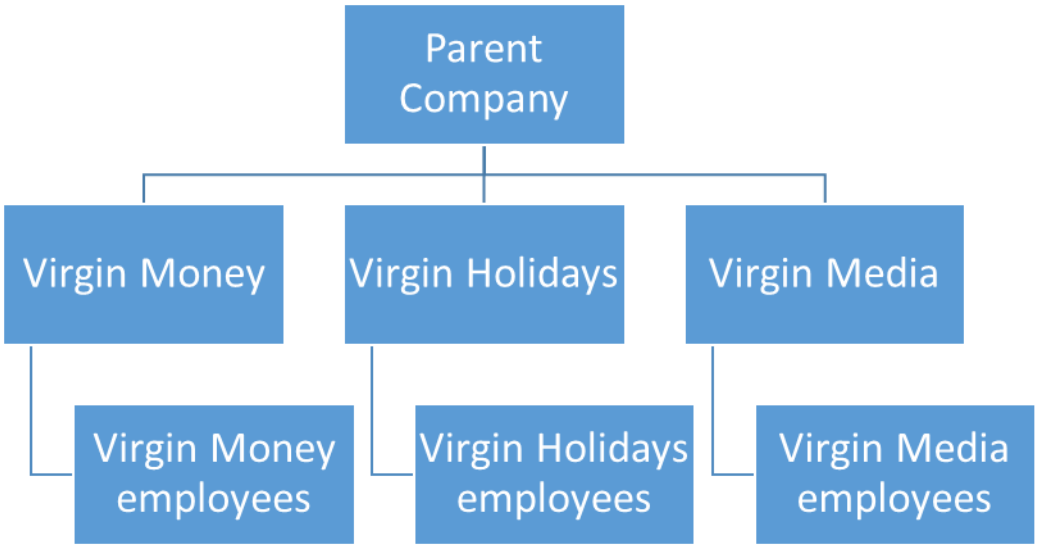


Advantages	Disadvantages
✓ Business has a clear structure	× Can be slow at responding to change
✓ Staff expertise is contained in one department, which encourages specialisation	× Functional groupings focus on their objectives at the expense of organisational objectives
✓ Support available from colleagues in functional grouping	× Communication between functional groupings can be poor
✓ Easy to identify what each functional grouping deals with	× Can be difficult to manage as the business expands
	× Rivalry between functional groupings

Product/service grouping

Here the **grouping of activities is based around a particular product or service** and is usually described as a division. Each **division is a self-contained unit** and employees from the functional activities – marketing, finance, operations, administration, research and development, and human resources – will be grouped together and assigned to one product/service.
In most cases, organisations using this type of structure are very large, **producing a variety of products for different markets**, for example the Virgin group.

A product/service grouping looks like this;

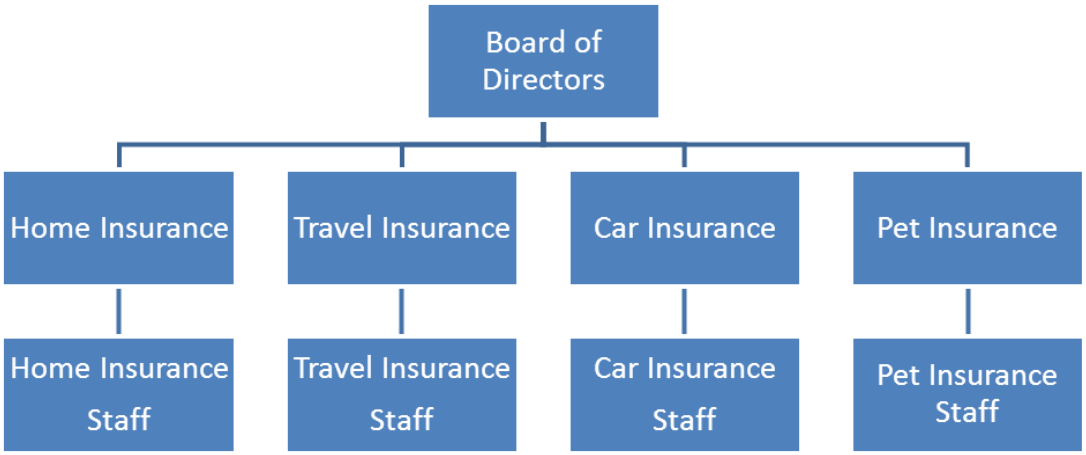


Advantages	Disadvantages
✓ Improved responsiveness to change	× Rivalry between divisions
✓ Staff become experts for their product/service	× Duplication of equipment, administration and staffing
✓ Allows management to identify poorly performing product/service divisions	× Communication between divisions can be poor
✓ Allows a differentiated approach to be adopted to suit each product/service	

Customer grouping

Businesses can be structured **around groups of customers** who have similar needs, for example a medical practice could have two groupings: one for NHS patients and one for private patients. Insurance companies are also structured in this way, with staff grouped around the types of insurance offered, for example home, travel, car and pet.

A customer grouping looks like this:

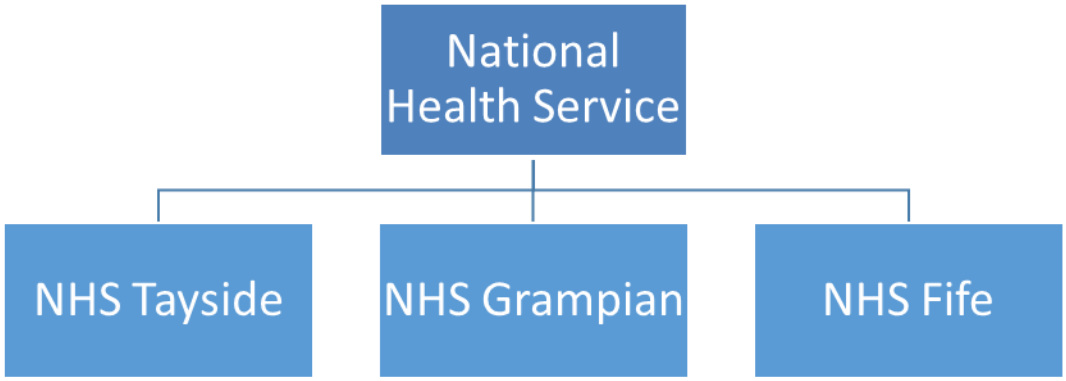


Advantages	Disadvantages
✓ Service, price and promotion are tailored to meet the needs of customers	× If a new group of customers is created a whole new group of staff needs to be employed and trained
✓ Improved customer loyalty due to the specialised service received	× Duplication of equipment, administration and staffing
✓ Allows management to identify poorly performing groupings	× Very expensive to staff
✓ Improved responsiveness to the changing needs of the customer	
✓ Easier to anticipate future customer needs	

Place/territory grouping

A business may **design their structure around a geographical or territorial base**. The grouping of activities is organised by geographical region, for example the NHS is organised in regions, such as NHS Tayside, NHS Grampian and NHS Fife. Shell exploration and production have territorial bases to represent the spread of customers over a large area.

A place/territory grouping looks like this:



Advantages	Disadvantages
✓ The needs of specific customers can be met, for example language and cultural differences	× Expensive to produce products in different geographical locations because of different languages
✓ Improved customer service, as staff are familiar with local customs and cultures	× Communication can be difficult between branches due to time and language differences
✓ More cost-effective to employ a local workforce, especially unskilled and semi-skilled workers	× Duplication of equipment, administration and staffing

Technology grouping

This is a grouping used by **large manufacturing businesses which produce diverse products that require different technological processes**. It is only appropriate when there are **obvious stages of production** and where these **stages flow naturally on from one to the next**.eg Heinz, Mars

Advantages	Disadvantages
✓ Suitable for large manufacturing businesses with different production processes	× Duplication of equipment, administration and staffing
✓ Increased specialisation of employees as training concentrated on one technological system	× Technology groupings focus on their objectives at the expense of organisational objectives
✓ Easier for management to identify problems in the production processes	

Summary

Whilst it may seem easy to structure organisations by grouping their activities into one or other of the examples given above, a great many organisations have their activities arranged in a combination of ways. For example, a manufacturing organisation may be very largely structured along a product basis, but may have a functional arrangement for its financial activities.

4 Businesses as a Dynamic Activity

What determines whether or not a business will achieve its objectives? **Business is always changing**, it is **Dynamic** and to be successful it must adapt.

There are 2 main groups of factors that influence the success of a business.

1 External factors (PESTEC)

External factors are **outwith the control of a business**. However, by **identifying and anticipating** them, a business can **take action to avoid or minimise threats** and **capitalise on opportunities.**

P	**Political**
E	**Economic**
S	**Social**
T	**Technological**
E	**Environmental**
C	**Competitive**

Political/legal pressures

Changes in **local and national government and in the EU affect organisations**. The government is directly **responsible for running the public sector**, which not only supplies services such as health and education, but is also a **major buyer of goods and services produced by private sector businesses, such as medicines and textbooks**. Businesses will also be affected by changes in **levels of taxation and public-sector spending**, as well as by other government policies, e.g. the environment.

Other examples are **laws that are passed that directly affect** the running of Business eg Minimum Wage Act, Equality Act.

Local government can also bring pressure on businesses to change. Recent **concerns about the environment** and about the **decline of city centres** in favour of out-of-town sites have led local authorities to change the way in which they grant planning permission. Planning permission for out-of-town shopping malls is often refused. Businesses are also required to ensure that their activities do not damage the environment.

Economic pressures

Changes in the economy, e.g. **changes in interest and exchange rates**, also affect a business' activities. A **rise in interest rates** will mean that **consumers have less money** to spend as their **mortgages will increase** and it will be **more expensive to borrow money for Business**.

In a **recession,** when consumer incomes fall, there may be a **fall in demand** for the goods and services produced by a business. **Rising unemployment** also means **fewer potential customers for businesses.**

Changes in the EU such as the **introduction of the single European currency**, the euro (€), can also affect businesses, especially those which trade with European businesses. If the business has to trade using the euro their profitability will be affected by changes to the £/€ relationship.

Social pressures

Demographic changes: **The UK's population is slow-growing and ageing**. The **average family size has fallen to below two children**, and the **average age of a first-time mother is now 30** compared with 24 a decade ago. Just under half of babies born in 2012 were born to mothers over 30. Businesses have sought to respond to such changes in their environment in a variety of ways:

- by being more willing to accept older workers
- by investing more in training and retaining younger workers
- by producing goods/services for older people, e.g. saga holidays
- by producing goods/services to appeal to affluent career couples with or without children, e.g. plasma televisions and organic baby food.

Socio-cultural changes: These are **changes in lifestyle and attitudes in society**. Some changes which have occurred in the UK in recent years include:

- the changing role of women: most women are now in work; more than 50% of university students are female
- greater life expectancy
- growth of home and share ownership
- smaller families
- revolution in social attitudes towards matters such as homosexuality, divorce and babies born out of wedlock, leading to more single-parent and childless families
- concern about animal and environmental welfare
- more time available generally for leisure
- increased car ownership.

Structure of the labour market: This has also changed, for example:

- a significant increase in the number of women in the labour force
- a decline in manual labour jobs, which were traditionally filled by men
- an increase in the number of jobs in the tertiary (service) and quaternary (information) sectors
- an increase in the number of part-time or temporary jobs.

Technological pressures

Changes in technology can also **bring pressure for change to businesses**. In recent years most of these have been linked to **developments in ICT**, including:

- email, which enables businesses to communicate more effectively and efficiently the internet, which has opened up new **markets through e-commerce**, and the use of websites, which are a way of improving communication with consumers
- software development, which enables businesses to record and analyse information more effectively and efficiently than before.

These developments can be viewed as a threat: if a **business does not keep up-to-date** with changes they will be unable to compete or survive. However, technology also offers many opportunities, particularly access to worldwide market places via e-commerce.

The **online retailer Amazon**, which sells a large range of products through its internet site, is able to carry a much larger stock in warehouses than even the largest stores. Customers use e-commerce to shop and pay for products without leaving the comfort of their own home. Products are then delivered using Royal Mail or courier services, usually within 2–3 days. However, in an attempt to cope with ever-increasing demand, pressure to improve efficiency and ever-changing customer needs, Amazon is aiming to introduce a new delivery method where packages will be delivered by drones within hours of an order being placed.

Other changes in technology which may also affect businesses include:

- **transportation of goods** is now much faster and cost effective, even between countries, resulting in many UK clothing businesses closing their UK operations and transferring them overseas where labour, transport and other running costs are cheaper
- **computer-aided design (CAD)** and **computer-aided manufacture (CAM**) means that products can be **designed and produced by computer-controlled machines**, so businesses have become **less labour intensive and more capital intensive**.

Environmental pressures

These have become **much more significant in recent years**. **Pressure groups** which promote environmental awareness such as Greenpeace and Friends of the Earth have become much more high profile and have been able to force a business to change its practices. Governments around the world have **introduced legislation to protect the environment**, to which businesses must adhere.

The effects of these changes can be far-reaching. For example, the growth of out-of-town hypermarkets and one-stop shopping was made possible by the spread of car ownership and would be threatened if the use of cars was to be limited because of the pollution they cause and the price of petrol/diesel. Consequently, **oil firms are under pressure to find an environmentally friendly fuel,** whilst governments are forced to finance and promote alternative methods of transport to preserve the environment.

Changing weather patterns can also affect a business. Flooding and storms can lead to delays in the delivery of stock and goods, which affects production as well as delivery of orders to customers. Business premises can also be badly damaged, resulting in temporary or permanent closure.

Competitive pressures

The **existence and/or actions of competitors will influence** the operation of a business as **action will have to be taken to protect sales**, market share, profits, etc.

Businesses come under pressure from competitors who may develop new products or services or discover new ways of making products or providing services. The long-established banks such as Bank of Scotland and the Royal Bank of Scotland have faced competition from newer banks and also high street names that have diversified into the banking industry, such as Tesco and Sainsbury's.

Internal factors

The internal factors of a business consist of the resources available within the business to achieve its goals, including:

- **employees**
- **managers**
- **finance.**

The task of management is to **obtain the resources** and use them in the **most efficient and effective way in the business.**

Internal factors are within the control of the business and can significantly impact on their ability to meet its objectives. The factors will be viewed as strengths if they have a favourable impact on the business and weaknesses if they have a negative impact.

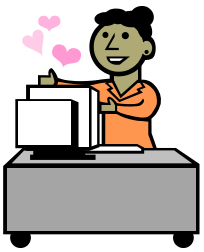
Impact of employees

Employees are a business's most important (and usually most expensive) resource and their calibre, attitude and work ethic affects the creativity, productivity and efficiency of a business as well as the level of customer satisfaction. Consequently, considerable resources are invested by businesses in recruiting, training and retaining staff.

High-calibre employees with the necessary qualifications and/or training to perform their jobs to a high standard are invaluable to a business as they will make good-quality decisions and carry out their work efficiently. Motivated employees are likely to have higher output/productivity, resulting in improved reputation and financial performance for the business. However, employees can have a negative impact if they carry out their work to a poor standard or without appropriate effort.

The impact of **poorly qualified and/or untrained employees can be:**

- mistakes/breakages in production
- low output/productivity
- increased costs of production.



Shell

An important stakeholder group for Shell is its employees. Shell employs over 100,000 people worldwide. This includes senior international managers specialising in finance, marketing, sales, oil and gas exploration and other aspects of the business. Other employees include geologists, market researchers, site engineers, oil platform workers, office administrators, business analysts and many more.

As stakeholders, employees are influenced by Shell but also affect how Shell operates. The employees' standard of work and commitment to health and safety and excellence is vital in order to keep Shell as a leader in the energy field. Mistakes can be costly in terms of reputation and the livelihood of other employees.

A priority at Shell is to respect people. It seeks to provide its staff with good and safe working conditions and competitive terms of employment. This has a positive influence on employees as it keeps them safe and motivated.

Advantages of having motivated employees

- Increased productivity and quality, leading to lower costs per item produced and a reduction in wastage.
- Reduced absenteeism as employees are satisfied at work, which means fewer delays or less overtime to make up for lack of workers.
- Low staff turnover, which will reduce training costs.
- Employer's reputation increases, which will attract the best employees.
- Improved customer service, leading to increased sales.

Staff can find motivation in many different aspects of their job. Some will be motivated by targets and the prospect of an increase in salary or a promotion, others will feel motivated by completing a difficult project or problem solving, others are motivated by team work and having a sense of identity within the business.

The following factors will contribute to achieving a motivated workforce.

Communication: Staff should be kept informed of decisions and information that affect them. Equally, staff should be given opportunities to communicate any concerns with their superiors as this shows that their opinions are valued.

Communication can be formal, such as department meetings or appraisals, or informal, for example managers having an open-door policy, where the manager is always available to employees.

Training/development: Employees are the most valuable resource in a business and effective, regular training will lead to a higher standard of work and productivity, which benefits both the employee and the employer. Employees will have higher self-confidence because they will be trained to do their job well and will feel valued as the business has invested time and money in their development.

Support systems: To ensure a happy and motivated workforce, a business must look after the welfare of its employees. They can do this in a number of ways.

- *Counselling*: Employees are given the opportunity to discuss issues that are contributing to their working day becoming unmanageable. The aim is to address these issues and prevent them escalating, which could result in staff absence. Many businesses use external agencies for this role as employees tend to feel more comfortable talking to someone out with the business. Details of the conversation are kept confidential, but the employer can be given advice on how to address issues.

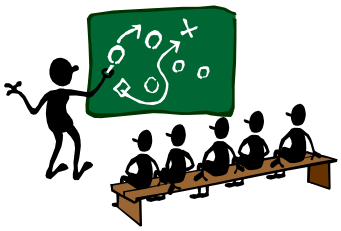
- *Grievance procedures*: Positive relationships between employees and managers are very important, but sometimes these break down, leading to accusations of unfair treatment or harassment. Grievance procedures give both parties an opportunity to communicate their account of what has happened and aim to provide a positive resolution.

- *Return-to-work interviews*: These take place when an employee returns from a period of absence. They are useful as they can help to identify trends and causes of absences. For example, an employee may be unable to cope with regular deadlines, become stressed and take time off work. If the business is aware of the problem they can support the employee to deal with them and prevent future absence.

- *Family-friendly policies*: These offer employees a range of options to help balance work and home life, for example flexi time or working from home. Employees who have these options tend to be more motivated and will remain loyal to the business, reducing staff turnover.

Teamwork: Teams will complete tasks faster and more efficiently than a group of individuals working independently. Teams will take more risks as they share the responsibility of completing tasks and this reduces the pressure on individual team members. Sharing ideas will result in more options being considered before the best one is chosen.

Teamwork gives employees the opportunity to form relationships with each other and build trust and respect. Team members rely on each other to successfully complete a task and do not want to let each other down, which increases the accountability of each employee. There is also the opportunity for employees to learn new skills and knowledge from more experienced colleagues.



Work environment: Many businesses organise fun days or charity days to increase morale in the workforce. For example, supporting Macmillan Cancer Support through their World's Biggest Coffee Morning events not only raises funds for Macmillan but creates a sense of community and common purpose within the workplace.

Employee relations

Employee relations cover both **how employees get on with each other** and how **employees feel they are dealt with by managers.**

Good employee relations will **help ensure the business meets its objectives**, as employees will be more **motivated and committed to the goals of the business**. They will be **more receptive to change**, **more flexible** in their working practices and will recognise the need for the business to **achieve its objectives**.

However, when employee relations are poor staff will be less co-operative, threaten or take **industrial action**, and the business will gain a negative image and lose productivity.

Industrial action

Industrial action may occur when the employers and employees (represented by a trade union) fail to agree over pay or the terms and conditions of employment. There are different types of action that can be taken.

- **Work to rule:** Employees only carry out the work that is stated in their contract of employment.
- **Overtime ban:** Employees only work the hours required by their contracts.
- **Sit-in:** Occupying the business premises but not undertaking any duties.
- **Strike action:** Labour is withdrawn and the business will be unable to continue with production or meet customer needs.
- **Go slow:** Reducing the normal speed of work.

Impact of industrial action

- Production will stop so there will be fewer products to sell.
- Sales are lost, resulting in a loss of revenue.
- The reputation of the business is damaged, which means that customers are less likely to buy from it.
- The relationship between employers and employees becomes strained, which could increase absenteeism, punctuality and staff turnover.

Impact of managers

When **employees are motivated and perform well**, a great deal of this can be attributed to positive relationships with managers/supervisors.

Successful managers:

- communicate effectively with staff
- give appropriate guidance and encouragement
- arrange necessary training and development
- encourage employee participation in decision making.

Manager's role in decision making

> *'Whatever a manager does, **he does through making decisions**. These decisions may be a matter of routine. Indeed he may not even realise he is making them. Or they may affect the future existence of the enterprise and require years of systematic analysis. But management is always a decision-making process.'*
>
> **Peter F Drucker,** *The Practice of Management*

Decisions made by managers are **categorised** as follows.

Strategic
- Long-term decisions (5–10 years) that a business makes about its general aims and targets.
- Take a long time to implement fully and do not consider in detail how they will be achieved.
- Very difficult and expensive to reverse.
- Carry the most risk and are made by senior managers.

Tactical
- Medium-term decisions (6 months to 5 years) that are based on strategic decisions.
- Contain the details of how a strategic decision will be achieved.
- Can be reversed but this is time-consuming and expensive.
- Carry less risk than strategic decisions and are made by middle managers.

Operational
- Short-term, day-to-day decisions.
- Deal with practical problems.Can be reversed easily and with little or no cost.
- Carry the least risk and are made by lower-level managers or supervisors.

Management styles

Management style **also has a major impact on the success of a business** and the motivation of its employees.

	Definition	Advantages	Disadvantages
Authoritarian/autocratic	Manager controls all of the decisions based on his/her own ideas and judgments with no or little input from others The manager closely controls the employees. This style of management is suited to the military services.	Decisions can be made quickly, eg in a crisis Manager maintains overall control Change is implemented quickly	Lack of two-way communication is demotivating Employees cannot use their initiative Increase in staff turnover and absenteeism Creates a 'them and us' culture
Democratic	Manager will consult with lower-level managers and/or employees when making decisions or will delegate the authority to make decisions	Employees feel empowered, which is motivating Better quality decisions are made as there is input from more than one person Increase in creativity Lower staff turnover and absenteeism Increased productivity as employees have ownership	Can take longer to reach a decision Management control is reduced Risk that employees will not have adequate knowledge or expertise to made effective decisions Time taken for consultation could result in deadlines not being met

Laissez-faire	Managers have a 'hands-off' approach and allow employees to make decisions, although the manager will provide the resources needed to make decisions This style of management leads to the lowest productivity and would not be suitable to most workplaces, except those where creativity is important, for example designers	If employees are highly skilled and capable of working on their own this style of leadership can be motivational Employees will feel empowered knowing that they can still consult with managers for advice when making decisions	Employees may lack the knowledge and experience to make good-quality decisions Employees may be unable to meet deadlines and solve problems without guidance and direction from their manager Risk that deadlines will be missed as staff have more freedom

The style of management will also contribute towards the **corporate culture (Informal Structure)**.

Corporate culture is the **beliefs and behaviours** which managers and employees adopt to enable the business to achieve its aims. Usually it is not specifically defined but develops organically over time and become the unwritten rules and values of the business.

The culture will be reflected in every aspect of the business, for example **dress codes**, **layout and décor of premises, symbols/logos, terms and conditions of employment, employee incentives, eg employee of the month, and customer service.**

The **advantages of a strong corporate culture** are:

- employees feel part of the business
- increased staff motivation
- improved employee loyalty
- increased productivity
- improved employee relationships.

These advantages can reduce absenteeism and staff turnover, and will help the company in terms of customer loyalty and recruitment.

Impact of finance

Finance is one of the most important areas of any business as the management of a business's money will impact on all other aspects of the business**. If there is a lack of finance or it is not managed appropriately a business may have to make staff redundant or close areas of the business.**

Cash flow

Cash flow is the money that is moving (flowing) in and out of a business. Cash will be received into the business from customers paying for products and services, while cash will go out of the business to pay for expenses such as rent, stock and wages.

- If more cash is coming in than going out the business has a **positive cash flow**, meaning it can pay any expenses which are due and plan for future purchases/expansion.
- If more cash is leaving the business than is coming in this results in **negative cash flow** and the business will have to source additional short-term finance such as a bank overdraft.

Lack of effective cash flow management is one of the primary reasons for business failure, proving that the saying 'cash is king' is correct.

Ability to raise finance

A business will have to raise finance for a variety of reasons, from managing a short-term negative cash flow to securing investment to fund growth.

Finance can be raised from many sources and you will learn more about these in the Management of People and Finance unit. However, what is important to note is that a business will find it easier to raise finance if managers have a reputation as being dependable and have a proven record of dealing with previous debt appropriately, ie, being credit worthy.

Monitoring and control of finance

A business will prepare a budget and set targets, and it is essential that these are monitored regularly to ensure that the business is on track to achieve them. If a business becomes aware that expenditure is higher than anticipated at a specified point in the financial year it must take measures to control this. A possible course of action would be to limit expenditure in the remaining months, for example introduce a ban on overtime or attempt to increase revenue by increasing sales.

Regular monitoring and control of finances reduces the risk of business failure.

5 Stakeholders

Stakeholders are individuals, groups or organisations who are affected by the success or failure of a business.

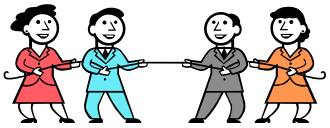
Internal stakeholders: groups **within** a business.

Stakeholder	Interest	Influence
Owner (sole trader/ partnerships)	• Good return on the money they have invested in the business • Increase in value of the business • Stability to ensure future returns	• Make decisions that will affect the business • Invest more capital in the business • Sell their investment in the business
Shareholders (limited companies and Plcs)	• Good return on the money they have invested in the business (dividend) • Increase in value of their shares • Stability to ensure future returns	• Invest more capital in the business • Sell their investment in the business • Contribute to decision making by voting at the Annual General Meeting
Managers	• Fair salary and bonuses • Opportunities for promotion • Status and responsibility • Job satisfaction and security	• Poor decisions which can affect the success of the business, eg employing unreliable staff
Employees	• Good rate of pay • Job satisfaction and security • Good working conditions	• Standard of work/customer service • Lack of motivation • Industrial action

External stakeholders: groups **outside** a business.

Stakeholder	Interest	Influence
Customers	• Value for money on product or service • Good-quality product or service • Good customer service	• Choose to shop elsewhere • Complain about product or customer service • Damage reputation of business
Banks	• Business to open an account with them • Business to repay on time and in full	• Refuse to provide overdraft or loan • Charge higher interest rates
Suppliers	• Business to place repeat orders • To be paid for goods or services supplied on time and in full	• Increase/decrease their prices • Withdraw offers of discount • Refuse trade credit • Deliver late • Deliver goods that are not fit for purpose
Government	• Correct amount of tax is paid • Legislation is adhered to • Provision of employment	• Change the rate of tax • Change the rate of minimum pay • Change legislation
Local community	• Social responsibility in local area • Provision of employment	• Protest against the business through MPs and local press

A business cannot satisfy the interests of all stakeholders all of the time: this is known as a conflict of interest. Some examples of conflicts of interest follow.



Owners vs employees

- Employees are likely to want higher wages than the owner is willing to pay.
- Disagreement can occur about the working environment, for example temperature.
- Reorganisation of the business to become more efficient will benefit the owner, but employees may feel they are being given extra responsibility without training or financial reward.

Owners vs managers

- Owners want to maintain control of the business but managers can become too powerful and influential.
- Managers will focus on their personal objectives, eg high salary and bonuses. which will conflict with the owner's objective of maximising profit.

Customers vs owners

- The owner's interest is to maximise profits and charge the highest price possible while customers want value for money and want prices to be low.
- Customers expect a satisfactory quality of goods for the price they paid. The business may try to reduce costs by using poorer quality materials, resulting in customers wanting a refund and the business losing sales revenue.
- Customers want delivery of the goods as soon as possible, but the cost of this can make it difficult for a business to achieve the customers' expectations.
- Customers expect excellent customer service before, during and after buying a product. However, it is expensive for a business to train staff and provide this level of service.

Suppliers vs managers

- To improve cash flow managers want to keep cash within the business for as long as possible and may delay paying suppliers for goods/services provided. However, if suppliers are not paid within a reasonable time (usually 28 days) this can cause them financial hardship and cash flow problems of their own.

Interdependence of stakeholders

Despite possible conflicts of interest **stakeholders also rely on each other** to achieve their own objectives.

- Owners rely on the skills and ability of the management team to achieve their objective, and the managers rely on the owners for job security, salary and support in their management role.

- Employees rely on managers to provide leadership and direction to successfully do their jobs, while managers rely on employees to achieve their targets and meet deadlines. Managers are accountable if their employees work inefficiently.

- Business owners are reliant on customers to buy their goods/services to generate sales revenue, while customers are employees of businesses and rely on them to earn their salary to generate enough income to buy goods/services to satisfy their needs and wants.

6 Decision Making in Business

Decision making

> Whatever a manager does, he does through making decisions. These decisions may be a matter of routine. Indeed he may not even realise that he is making them. Or they may affect the future existence of the enterprise and require years of systematic analysis. But management is always a decision-making process.
>
> Peter F. Drucker, *The Practice of Management*

The nature of decisions

A decision is the choice between alternatives that individuals must make to get from where they are at present to where they want to be in the future.

On a personal level, some decisions we make may be of great importance and may have long-term effects on our lives, for example which career to choose or where to live. However, many decisions are relatively small and unimportant, such as whether to have chips or a baked potato with our burger or which TV programme to watch.

Similarly, in the world of business, managers are faced with having to make many different decisions, some of which will be of vital importance. Decisions such as whether to develop a new product range or to take over a competitor are examples of important decisions – ones which might even affect the survival of the company. Other decisions will be of a far more routine nature, for example when to let staff have a coffee break or whether to order more stationery today or next week.

In order to achieve the organisation's aims and objectives managers must make decisions about issues such as:

- what to produce
- where to locate premises
- what method of production to use
- how many people to employ
- what price to charge for the product.

Types of decision

There are three main types of business decision: strategic, tactical and operational.

Strategic decisions

Strategic decisions are made to **set out the aims of an organisation**. These decisions affect the **long-term position of the organisation** and what it hopes to achieve at some future point.

Strategic decisions are high-risk decisions. They are difficult and costly to reverse if something goes wrong.

> Alfred D. Chandler (1962) defined a strategy as follows:
> . . . [strategy is] the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of actions and the allocation of resources necessary for carrying out these goals.

The planning of the long-term strategy of the organisation must ask questions:

1. ‘What, if anything, do we have to change?’ Review the present position of the organisation and assess how well the position continues to fulfil its goals.

2. ‘Where do we want to be in 5, 10, 15 or 20 years’ time?’ Setting targets to improve/alter the present position of the organisation to meet the revised/new goals of the owners.

3. ‘What resources are we likely to require?’ Identifying whether or not there will be a change in the quantities/sources of resources used over the next time period.

4. ‘What changes are likely to take place in our operating environment?’ Questions must be asked to identify any external factors that might affect the organisation, such as changes in government policy or consumer trends. Do these factors pose a threat, do they offer an opportunity or are they unlikely to be of any consequence?

5. ‘How can we gain/maintain a competitive edge over others?’ Companies operating in local, national or international markets must take account of, and be competitive with, others.

Example: Tesco's decision to become the number one supermarket in the UK
They were number two to Sainsbury's. They decided to increase the quality of their products to match Sainsbury's and to introduce new services (such as their financial services) that would make Tesco more attractive than Sainsbury's to the consumer.

Tactical decisions

Tactical decisions are **made to set out the objectives of an organisation**. These decisions affect the **short- to medium-term position** of the organisation and set out how the strategic decisions are going to be achieved. They describe, in detail, how resources are going to be brought together and used.

Tactical decisions are likely to specify departmental targets or responsibilities and are generally measurable. For example, the strategic aim may be to increase market share by 12% over the next five years. The tactical decision might be to give the sales department a target of an increase in new orders to the value of £100,000 during the next 12 months. However, tactical decisions are likely to be constantly under review and objectives may be changed as a result of changes that may influence the effectiveness, or otherwise, of the decisions made.

Tactical decisions are medium-risk. If a wrong decision is identified it will take some time and cost to put right.

Example
Tesco opened more stores, recruited more staff to operate tills and help with bag packing. They sought new suppliers who could provide better quality at a price that would compete with Sainsbury's. They opened 24 hours.

Operational decisions

These are the day-to-day decisions made within various departments of the organisation as they work to achieve the objectives of the organisation. Operational decisions will affect the immediate to short-term position of the organisation. They are often made in response to changes in circumstances, for example if a secretary has telephoned to say she is ill and cannot come in to work. If the task that she was currently doing is of great importance, the operational decision might be to transfer another member of the administrative staff to cover her duties until her return.

These decisions usually carry low-levels of risk. If it is recognised, a wrong decision can usually be rectified quickly and at little cost to the organisation.

Example
In Tesco stores, staff switch from shelf packing to bag packing when the shop is busy. Additional staff are brought in to cover for staff who are off ill.

Who makes the decisions in an organisation?

The more important a decision, in terms of its effect on the organisation, the more senior will be the person responsible for making the decision.

Strategic decisions

The **most senior people in any organisation make these decisions**. They are the decisions that are made to achieve the goals of the owners, and are most likely to be made by the owners of the organisation or their representatives. In other words:

- the sole trader will make these decisions
- the partners in a firm will make these decisions
- the directors of a private limited or public limited company will make these decisions, although shareholders may vote on proposals at the annual general meeting
- the government ministers responsible will make these decisions
- the office bearers of the charity or club will make these decisions.

Tactical decisions

The **most senior people in the organisation may also make these decisions**. However, with very large organisations, such as multinational companies or government bodies, there may be **divisional directors or senior managers in charge of sections/geographical areas** who would be likely to be involved in the tactical decision making for their specific area of responsibility.

Operational decisions

These decisions are most likely to **be made by the manager, section head, team leader** or even the **individual worker** responsible for the completion of the task on a day-to-day basis.

In conclusion, **managers play an important role** in the decision-making process. The degree of involvement that they have depends on the type of decisions, their position in the organisation, the type of organisation and the way in which the organisation operates, eg some organisations have a participatory style of decision making.

The role of managers

There are many definitions of ‘manager’ or ‘management’, all of which have roughly the same meaning and all of which are probably equally correct.

We could say that a manager:

- gets things done through other people
- gets things done by using an organisation's resources
- controls and supervises activities in an organisation
- makes decisions about the running of an organisation
- is in charge of a number of subordinates
- is in charge of a department
- is accountable to, and carries out the wishes of, the owner(s) of the organisation.

With all of these statements about a manager we are, in a way, identifying his/her role within an organisation.

Henri Fayol, writing in 1916, specified ***five functions of management***.

Plans looks ahead and sets aims and strategies;

Organises makes arrangements for all the resources of the organisation to be in the right place at the right time and in the right quantities;

Commands tells subordinates what their duties are;

Co-ordinates makes sure everyone is working towards the same aims and that the activities of individual workers fit in with the work of other parts of the organisation;

Controls measures, evaluates and compares results against plans, and supervises and checks work done.

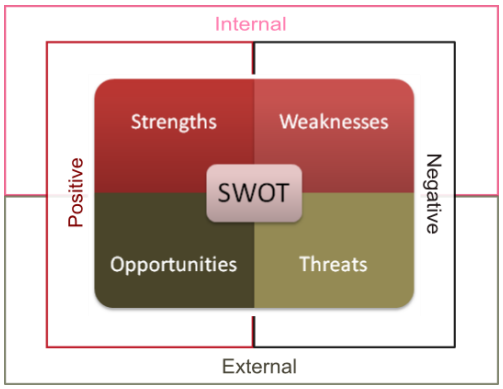
More recently these functions have been added to and could now be said also to include:

Delegates makes subordinates responsible for tasks and gives them the authority to carry them out;

Motivates encourages others to carry out their tasks effectively often by introducing team-work, empowerment, worker participation in decision-making and other non-financial methods.

SWOT analysis

Strengths
Weaknesses
Opportunities
Threats



This is a process where an organisation will gather together all the information it can about its internal factors and its external influences. This technique of analysis is very often used in strategic planning and in marketing.

It can be used to look at the business as a whole, at a department within the business, at a single product or at a product range. The methods used will be the same, regardless of the area the SWOT is being carried out on. However the questions asked and information gathered will differ, depending on the desired end result.

SWOT analysis helps the business to do the following:

identify the problem – weaknesses and threats

identify the objectives – strengths and opportunities

gather information – strengths, weaknesses, opportunities and threats

analyse information – gathered from the SWOT

SWOT analysis takes into consideration internal and external factors.

Internal factors
These can be listed under two headings:

- strengths
- weaknesses.

They reflect the current position of the organisation. Because of the internal nature of these factors the organisation will have control over them. It is possible for the organisation to capitalise on and develop its strengths and to minimise or remove its weaknesses – turning them into strengths.

Such factors would include entrepreneurial skills, quality of management team, numbers and skill of personnel market share, product range, financial performance, level of assets, effectiveness of marketing mix, effectiveness of distribution network, effectiveness of production processes, etc.

Strengths will be used to gain a competitive edge for the organisation.

External influences (PESTEC)
These can be listed under two headings: opportunities and threats. They reflect the potential future position of the organisation.

Because of the external nature of these factors, they are things over which the organisation has no direct control. However, it may be possible to grasp opportunities to secure new markets for the organisation and avoid, or take steps to overcome, threats which may arise.

Such influences would include competitors (local, national and international), government policies, economic climate (bank interest rates, strength of the £), European Union policies and legislation, consumer trends, etc.

The benefits of using a structured process of decision-making

1. **No hasty decisions will be made**

There will have been time taken both to collect information and to assess and analyse it. No snap judgements will be made, and everyone will have time to assess what needs to be done and how best to do it.

2. **The quality/quantity of the information you have**

Decision-makers will be confident that their decisions are based on a full knowledge of all relevant facts and information.

3. **The availability of alternative solutions**

There will be time and an opportunity to propose and assess alternative solutions and their viability, and the consequences of their implementation.

4. **Enhances innovation and responsiveness**

By following a logical process of decision-making, innovation will be enhanced, as all of the alternatives will have been considered. Responding to a situation by making quick decisions is not helpful to the organisation if the quality and long-term effectiveness of the decision made is less than it could have been if time had been taken to follow a structured process.

The problems of using structured models

1. **The time-scale required**

Using a structured process looks as though it will take time to complete, and this is possibly true. The more important or complicated the decision the longer it will take to make.

2. **The ability to collect all information**

Before making any decision it is important to have all the information you require. Gathering information can, in itself, be time consuming, but there is also the problem of the accuracy, relevance and amount of information you collect.

There is also an increasing problem in the quantity of information facing decision-makers today. Vast amounts of data are available, from a huge variety of sources. How **do** you find exactly what you are looking for when there is **so much** information accessible?

3. **The problems of generating alternative solutions**

It is always better to consider **all** of the possible alternative solutions that might achieve the aims and objectives we hope to fulfil. However, the actual **thinking** of alternative solutions can, in itself, be a problem. Many people find it difficult or are uncomfortable with having to make

choices from many different, perhaps complex, alternatives – they prefer to be given a very limited choice between straightforward alternatives.

In reality there may also be a number of constraints, both internal and external, which will affect the ability to construct a number of viable alternatives from which we will then have to choose.

Internal constraints

(a) The availability of finance
(b) Existing company policy
(c) People's behaviour – both in their ability and in their attitude.

External constraints

(a) Government and EU legislation
(b) Competitors' behaviour
(c) Lack of technology
(d) The economic environment.

When looking at alternative solutions there is also the risk that the consequences of the implementation of various alternatives are not fully considered. What appears to be the best solution may, in the long term, have far-reaching effects on the organisation.

4. **Lack of creativity**

By having to follow a structured process for making decisions it may be that the individual is less inclined to follow that 'gut feeling', the instinctive response that can lead to the best decision in a given situation. Structured processes that involve the collection and analysis of information may mean that the decision-maker is less inclined to take risky decisions – because of the cost, time and effort put into the process. It may also be that the length of time taken to make structured decisions following a detailed process means that the organisation is not very responsive to changes in the market, and therefore loses actual or potential sales to rival organisations.

The quality of decisions

The quality of the decisions made in an organisation will depend on several factors.

1. **The quality and quantity of the information used**

Inadequate or inaccurate information can lead to the wrong decisions being made. The use of information technology in business has gone a long way to assist the process of information storage, retrieval and analysis.

2. **Training**

If people are trained in their work, and more particularly trained in decision-making, then they are more likely to make the correct decisions. There are special management courses available to train individuals in the application and use of a variety of decision-making tools they can use.

3. **Risk taking**

There has to be a balance between the level of risk taken and the level of profits available as a result of the decision being made. It has often been argued that there are too many managers in Britain who look for the safe option – and perhaps miss the opportunity of higher profits for their organisations.

4. **The human element**

- Different people have different experiences and these will influence the decisions they make
- Attitudes are different – is the individual cautious or a risk-taker?
- Individuals have different capabilities and skills
- Self-interest may affect and influence the decision-maker
- People's perceptions differ and this can lead to two decision-makers making quite different decisions even in the same circumstances.

Review/evaluation/alteration

How can we tell if it was the quality of the decision was?

As well as the actual process of making decisions, managers have to **look at the outcomes of these decisions.**

- What actually was achieved?
- Was this what we expected?
- If not, do we have to make any alterations to the work we are doing?

These should be **evaluated against:**

- Results after the decision was made
- Comparison of performance before decision was made
- Opinion of Staff
- Feedback from Customers
- Levels of Staff Turnover and Absenteeism
- Comparison with similar organisations
- Comparison with targets/ objectives met.

Management undertake a **continuous process of review, evaluation and alteration of their decisions** – strategic, tactical and operational.

Information technology and decision-making

In recent years **information technology** has come to play an ever increasing part as a tool in the decision-making process of many organisations.

Not only do modern systems **give managers the ability to store, retrieve, process** and print internal historical information that is pertinent to the decisions they have to make using **databases**, but they also allow **retrieval of vast sources of external information** held on electronic databases accessed through **the Internet**.

The ability to use **spreadsheet software to calculate sophisticated 'What if' scenarios** has meant that results and expected outcomes of a variety of decisions can be analysed to determine the most efficient.

The added **ability of professional reporting and presentation packages** that can be used to **outline possible or final decisions to other members of the organisation** is also a great benefit to the modern manager eg **E-mail, Video-conferencing, Presentation Software, Intranet**.

Information technology **has improved the speed, efficiency and cost effectiveness of decision-making in a modern business environment.**

The only **problem –** if it *is* a problem – is that there is too much information available; has the process of sorting the wheat from the chaff – **what is important from what is irrelevant** – now become a major task for management?