CfE Higher Business Management

Management of People & Finance

Notes Booklet

Paisley Grammar School

Business Education Department

Name:

Class:

Teacher:

Management of Marketing and Operations
Outcomes and Assessment Standards

To achieve a pass in this unit, you will have to demonstrate knowledge and understanding of the following outcomes and assessment standards. Please note that the final exam covers more than these standards and exam questions could come from any area of the unit.

Outcome 1

1 Apply knowledge and understanding of how the management of people can meet the objectives of large organisations by:

1.1 Describing approaches that could be used to manage human resources effectively

1.2 Describing approaches that could be used to motivate staff to improve effectiveness

1.3 Explaining how employee relations can impact on the success of a large organisation

1.4 Describing the impact of current employment legislation

Outcome 2

2 Analyse how the management of finance contributes to the effectiveness of large organisations by:

2.1 Describing sources of finance suitable for large organisations and giving reasons for their use.

2.2 Describing the purpose of final accounting statements

2.3 Describing accounting ratios and outlining the use or limitation of ratio analysis.

To pass this assessment you will have to show that you have met these Outcomes and Assessment Standards.

Your assessor will let you know how the assessment will be carried out and any required conditions for doing it.

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Management of People

<u>Why is Human Resource Management (HRM) Important?</u>

It is important because an organisation's workforce is its most important asset. If this key asset is not well managed, for example by not having enough staff, unskilled staff, or unhappy staff, the organisation could fail (because due to inefficient provision of goods there will be inefficient generation of revenue and profit).

Human Resource Management is a relatively new term and has only come into use over the last 30 years or so. Traditionally, the function of dealing with employees was described as Personnel Management and many organisations still use this term.

HRM, however, takes a more strategic view than traditional Personnel Management. It is concerned with making sure that the management of people fits in with the strategic objectives of an organisation and is also involved in deciding what the organisation's strategy should be. In the past, personnel departments often played no part in deciding strategic objectives. HRM is also more integrated than Personnel Management. It is responsible for bringing together all the elements of managing human resources and making sure that they fit together well.

The role of HR can be remembered using the mnemonic **FACES**:

Facilitator	To facilitate means to put into place. They help other managers by putting into place systems and help other managers acquire the skills and training required for dealing with HR in their departments.
Auditor	In this capacity, the HR department monitors the organisation to ensure HR policies and employment legislation is being adhered to.
Consultant	HR provide a consultancy role (advice and guidance) to all other managers in matters to do with HR.
Executive	The HR department are the 'experts' in matters concerning HR and for that reason they should make decisions about what happens in this area. They ensure all policies and procedures are developed in line with legal requirements.
Service	HR are the providers of useful information on HR matters. They provide a specialist service to the organisation.

Workforce Planning

Workforce planning is about deciding how many and what types of workers are required. Workforce planning or Human Resource planning is having a planned approach to each of the following activities:

- Analysing current employment trends within the context of organisational needs
- Forecasting potential future staffing requirements for all departments within the organisation
- Forecasting potential future supply of workers with the appropriate skills
- Forecasting potential labour turnover – i.e. the rate at which staff will leave the organisation
- Planning how best to satisfy and motivate employees
- Planning how to develop a particular organisational culture so that the organisation can utilise its workforce to best effect
- Planning how best to support staff training and development
- Planning processes to release surplus staff as necessary

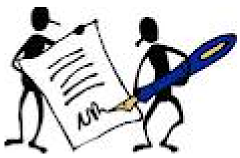
Overall, Workforce planning is concerned with planning all aspects of the organisation's staff requirements. For planning purposes, human resources can be categorised under 4 broad headings:

- Newly appointed staff
- Potential staff for the future
- Existing staff
- Departing staff

Each of these categories requires decisions to be made by the managers involved. Some examples of HRM decisions are given below:

Newly appointed staff may require:

- Induction and/or future training
- A contract setting out terms and conditions



Potential staff recruitment requires:

- Successful recruitment and selection procedures
- Good advertising

Existing staff benefit from:

- Performance appraisal
- Opportunities for promotion/career development

Departing staff expect:

- Appropriate retirement arrangements
- Easily understood grievance procedures

Human Resource planning must be flexible so that it can react to changing organisational objectives as well as external factors such as:

- Changes in the market
- Technological developments
- Levels of competition
- Population trends (demographic trends)
- Trends in trade union membership
- Government legislation

The world of work is changing rapidly:

- Increase in part-time working, teleworking, etc
- Increased number of single-parent families
- More women seeking work
- Ageing population
- Industrial sector changes
- Greater emphasis on flexible working hours
- Technology allows employees to communicate more effectively whilst apart
- People rarely stay in the same job for life

Businesses need to understand and respond to these changes if they are to recruit staff of the right standard – and keep them!

Traditionally people worked full-time in manufacturing jobs, factories, coal mines, etc but there has been a change in industrial sector in addition to advances in technology and changes to socio-demographics. This has led to 7 common working practices:

- Full-time – working approximately 35 hours a week (35-41)
- Part-time – anything less than full-time
- Teleworking – working on the move using ICT
- Hot-desking – book a desk in the workplace
- Job-sharing – 2 people share one full-time job
- Flexi-time – come in late/leave early so long as in during core hours set by the workplace
- Homeworking – working from home

Previously, the majority of work undertaken ***had*** to be carried out in the workplace (you cannot build a ship in your living room). The types of work undertaken now has allowed for homeworking and teleworking.

The Recruitment and Selection Process

Recruitment is the process of identifying staffing needs and attracting suitable applicants for vacancies. **Selection** is the process of making sure the right people are chosen to fill these vacancies. Poor recruitment and selection can be costly:

- ineffective staff can lead to poor output;
- advertising and interviewing a second time is costly;
- unhappy staff reduces morale within the organisation.

Although recruitment and selection are <u>distinct</u> processes, they are usually carried out together.

Recruitment:

- Identify a job vacancy
- Conduct a job analysis
- Prepare a job description
- Prepare a person specification
- Advertise the vacancy (internally or externally)

Selection:

- Review applications to create a shortlist of candidates
- Testing
- Assessment Centres
- Interviews
- Make and communicate the decision

RECRUITMENT STEP 1 – IDENTIFY A JOB VACANCY

Step 1 is to identify a vacancy eg due to a worker leaving or if a business is expanding. Senior managers need to agree a vacancy exists before recruitment and selection can begin. It may be that an organisation takes the opportunity to reduce its staffing costs when a vacancy arises by:

- redeploying existing staff;
- giving more similar tasks to existing staff – job enlargement;
- giving more responsibilities to existing employees – job enrichment;
- offering overtime and/or productivity bonuses to staff.

RECRUITMENT STEP 2 - CONDUCT JOB ANALYSIS

Before beginning recruitment the business needs to know what a job involves so that a job and person specification can then be drawn up. Information can be collected:

- from the existing job holder;
- from the line manager;
- from outside consultants who are experts in the field.

Job analysis involves gathering information on all aspects of the job – it location, duties, requirements of the post holder etc.

RECRUITMENT STEP 3 - PREPARE JOB DESCRIPTION

This document helps potential applicants to decide whether they want to apply and so reduces the costs of dealing with applications that are later withdrawn. It can provide applicants with a clearly defined statement on their tasks and duties which will be reflected in their Contract of Employment. Features may include:

- Job title/status – senior manager, junior manager, supervisor?
- Relationship to other post holders – subordinate, superior?
- Overall purpose of the job – what is to be achieved by the post holder?

- Main duties and responsibilities of the post holder?
- Authority that the post holder will have over others and in decision making?
- Resources available to the post holder eg financial, human, equipment, work area?
- Location of the post holder during the average working day?
- Salary, other benefits and conditions of employment?

Sample Job Description

BBC RESOURCES SCOTLAND - JOB DESCRIPTION

Job Title: Engineering Support Assistant
Department: Operations
Reports to: Engineering Support Manager

Job Purpose: to provide a range of administrative, clerical, and financial support within the Engineering Support section of Resources Scotland.

Principle Accountabilities/Main Duties:

To provide Engineering Support Manager and his supervisory staff with a range of clerical & administrative support. This will include:-

- annual leave records;
- sick absence records and reporting to HR as required;
- arrange meetings and organise facilities required;
- deal tactfully with customers, suppliers and the public;
- ensure maintenance of comprehensive equipment records;
- implement procedures for maintenance and support operation;
- produce reports and management information as required;
- procurement of equipment and spare parts;
- raising of invoices for provision of goods and services;
- to operate wide range of computer software applications

Duties to be carried out in a safe manner taking account of current statutory and BBC, Health and Safety regulations.

Training Requirements:
Health & Safety – Manual Handling, DSE Awareness, Fire Awareness
Other – Customer Service.

RECRUITMENT STEP 4 - PREPARE A PERSON SPECIFICATION

This document describes the ideal person for the post. It lists the essential qualifications and attributes an applicant must have and desirable ones it would be preferable to have. This helps applicants decide whether it is worth their while pursuing the vacancy because if they do not have the essential skills and qualities stated, they are unlikely to succeed in their application. It may include things like:

- Physical make-up - health, strength, personal appearance;
- Attainments - education, training and expertise is required;
- General Intelligence - thinking ability and general mental effort;
- Special Aptitudes - special skills required for this particular job;
- Interests - personal interests that would be relevant;
- Disposition - kind of personality the post holder might have;
- Circumstances - any special circumstances required of candidates.

A person specification can be quite brief or it can be detailed. Here is the person specification for the Engineering Support Assistant with the BBC.

PERSON SPECIFICATION

- A good level of general education is required, preferably to Higher grade.
- Good organisational and administrative skills and a practical approach to problem solving.
- An interest in working in an engineering environment and gaining a degree of understanding of the technology involved in broadcasting.
- Computer keyboard skills, with experience of MS Office suite of applications including Access database.
- An understanding of basic financial procedures. Experience of SAP business software is desirable.
- Good interpersonal skills are required.
- The ability to work effectively and co-operatively within a small team and deal tactfully with staff, customers and external organisations.
- Ability to work independently for periods, making decisions within the job content. An appreciation of the objectives of the Resource business as well as awareness of the needs and aspirations of programme makers.

RECRUITMENT STEP 5 – ADVERTISE THE VACANCY

Advertising the vacancy is the process of making potential candidates aware that the vacancy exists and encouraging them to submit an application. This can be done either internally or externally.

Internal Sources of Recruitment

Applicants may come from within the organisation ie a promotion or redeployment for an existing employee. This may involve a change of role and/or a change in location.

Advantages	Disadvantages
• the applicant and the quality of their work can be more easily verified as they can be observed and internal references may be more reliable; • the organisation may already have invested in training the worker – lower costs for induction and job training; • by offering internal promotion opportunities the organisation is more likely to motivate and retain its best staff; • employees are already aware of the culture and rules of the organisation and so will settle in to their new role more quickly; • overall the cost of filling the vacancy will be less as the time taken should be less and there will be lower advertising costs.	• there may be a limited choice of suitable applicants within the business; • usually creates another vacancy elsewhere in the organisation – recruitment and selection costs are shifted to this; • staff stagnation – not getting the benefit of new ideas from new staff; • can lead to resentment between existing employees who did not get the job.

External Sources of Recruitment

This involves identifying a new member of staff to join the organisation. A job advertisement will be prepared containing some but not all of the details contained in the Job Description or Person Specification. Adverts can be placed as follows:

- **Advertising the vacancy over the Internet** – many organisations post vacancies on their own website. Other vacancies might be posted on specialist job search sites such as www.S1jobs.com. These sites are effectively a database and job seekers can filter vacancies by profession, location etc. This method is cost effective in comparison to other methods, and can reach job seekers in a global market. It is quick to set up and amend. The downside may be that the vacancy may be missed if incorrect search details are entered by job seekers.

- **Advertising in local or national newspapers or specialist publications** - this allows targeting of sections of the population by choice of publication eg the Times Educational Supplement for teachers. Many newspapers have specific recruitment days when they advertise vacancies, or separate recruitment sections. People learn which publications carry which kinds of jobs, and on which days of the week, making targeting even easier. Adverts in these publications can be very expensive however – several thousand pounds – and many job seekers prefer to search on-line these days.

- **Use specialist recruitment agencies** eg Hays Accountancy and Finance. The agency may carry out the entire recruitment and selection process, or they may only advertise and review applications before passing on details of likely candidates for the company to complete the selection process itself. This method capitalises on the specialist skills of the agency, reducing the need for 'in-house' HR specialists. Many agencies will already have suitable candidates on their books, thus speeding up the process and/or reducing advertising costs. There is a fee for services which can be considerable eg 10% of the first year's salary.

- Use government agencies eg use of **Job Centres** where potential employees find out about jobs and can be prepared for and sent out to interview. This is a low cost method of recruitment because it is free to advertise vacancies, however there may be a limited choice of applicants as the vacancy will likely only be seen by someone who is currently out of work. The **Careers Service** (Skills Development Scotland) offers advice to individuals, especially those moving from education to employment, and sometimes carries information about current vacancies within organisations in its geographical area. In the case of a high profile job such as a Company Director, these sources may not reach a wide enough audience.

Advantages/Disadvantage of External Recruitment – reverse on Internal.

THE SELECTION PROCESS

The purpose of recruitment is to find potential applicants and get them interested enough to apply. Once applications have been received, the recruitment process is complete and the selection process begins.

The role of selection is to review applicants and choose the person(s) most suitable for the vacancy. The process works both ways – just as the organisation is making an assessment of the applicant, the candidate is trying to get a picture of the job and organisation to decide whether s/he would want to work in it. Methods include:

- **Review of application forms, CVs, letters of application and telephone applications;**
- **Interviews – first and second stage;**
- **Selection testing – psychological, aptitude, skills etc.**
- **Taking up references from current or previous employers or others.**

SELECTION PROCESS – STEP 1 – REVIEW APPLICATIONS TO CREATE A SHORTLIST OF CANDIDATES

Applications may arrive through the post, on-line, by email or by telephone. They may involve the use of an Application Form template, or a more open letter of application.

Applications help organisations decide which candidates might be worth taking through the selection process. Applications are reviewed against the criteria stated in the Person Specification. Anyone whose application does not at least meet the essential requirements of the person specification will not make it past this stage.

With letters it can be difficult to identify necessary information and make comparisons. A more structured approach is to use an Application Form. The organisation then has the same information, in the same order, for all applicants. This typically includes:

- Personal details - name, age, address;
- Education and training;
- Relevant work experience;
- References;
- Hobbies and interests;

Most Application Forms include space for the candidate to explain why he/she is interested in the job and what special qualities he/she could bring to it (a supporting statement). Other organisations, eg fast food outlets or call centres, may invite telephone applications as this can speed up the process and allows the assessment of verbal communication skills.

Applications received are usually divided into 3 categories:

1. Candidate meets all the essential criteria and some or all of the desirable criteria from the Person Specification and has a strong supporting statement. These candidates will be taken to the next stage of the selection process.
2. Candidate meets some but not all of the criteria and may be worth taking forward if there are not enough applicants in Category 1.
3. Candidate does not meet PS criteria and/or has a poor supporting statement (weak content, poorly presented). Send polite letter of rejection and thank the applicant for their interest.

SELECTION PROCESS – STEP 2 – TESTING

To overcome some of the short falls of the interview as a method of selection, many organisations also include selection testing to gain a more objective view. This can be conducting before, after or even during the interview process.

- <u>Intelligence Tests</u> - these tests are designed to measure cognitive (thinking) ability and therefore give insight into a candidate's potential to learn. Tests might cover verbal reasoning, numeracy and problem solving ability. Information gathered can be measured quantitatively enabling direct comparisons to be made.

- <u>Personality (Psychometric) Tests</u> - aim to identify applicants' personality traits eg extrovert or introvert? The information gathered is qualitative and there may be no 'right' or 'wrong' answers as such. Assessments must be conducted and interpreted by a qualified person to be reliable. Results can be misleading as candidates can be 'coached' in the techniques required. These tests are useful where particular character traits may be important eg sales representatives may require an outgoing personality. These tests may help the business work out how well an applicant will fit in their teams.

- <u>Aptitude Tests</u> – test a candidate's natural ability and their potential to develop the skills for a job eg mechanical ability, manual dexterity, numerical ability. Can be particularly useful to assess candidates with limited work experience to offer.

- <u>Attainment Tests</u> – candidates are tested on their existing knowledge or skills, These can be measured against an agreed standard within the organisation. They may test knowledge specific to the job or practical skill such as keyboarding.

- Fitness/Medical Tests – certain occupations may require a minimum level of fitness eg emergency services. Most organisations will want to know that a prospective employee is in good health and therefore less likely to be off sick.

Larger organisations may use a range of selection methods in an '*assessment centre*'. This may involve candidates attending for several days and undertaking a wide range of group and individual tests.

Selection tests can provide more reliable information on a candidate's capabilities or potential but share some disadvantages of an interview in that they can be quite stressful and so some otherwise strong candidates may underperform. They are also costly and time consuming to administer. They are most effective when used in combination with application forms, interviews and references.

SELECTION PROCESS – STEP 3 – ASSESSMENT CENTRES

Some large organisations have their own assessment centres where candidates are taken for several days. They may take tests including team building and role-play exercises and be interviewed. Candidates will be monitored to assess their social skills, leadership qualities and personality. Smaller organisations can still ask candidates to participate in similar activities either at their offices or at a hired venue.

SELECTION PROCESS – STEP 4 – INTERVIEWS

If there are a large number of suitable applicants or the job is very significant, then applicants may be invited for a 'long leet' interview. Following this, a smaller number of applicants may be invited back for a 'short leet' interview with candidates considered capable of doing the job – the business may then be considering who will be the best fit for their team.

Research has shown that interviews can be neither reliable nor valid. Often the conclusions of the interviewers differ and the interview does not measure the suitability of the candidate for the post, but instead measures the ability of the interviewee to interview well. Poor interviews result from:

- lack of experience amongst interviewers;
- poor preparation in advance of the interview;
- lack of training for interviewers in interviewing technique.

A good interview is a lively exchange of facts and impressions between interviewer and candidate, which enables the interviewer to decide if the candidate is suitable, and the candidate to decide if he/she still wants the job.

Composition of the Interview Panel

- <u>One-to-One</u> – one applicant, one interviewer. Often informal and relaxed and may be used as part of the long-leet stage. Not recommended for the final decision as it may be considered to subjective (more likely to be used in small businesses operating centralised decision making / an entrepreneurial internal structure).

- <u>Panel Interviews</u> – two or more interviewers with one candidate. Interviewers can take on different roles (observer, questioner) and be given different attributes to look out for. Interviews take turns to ask questions and can score candidates individually, and then discuss their opinions with the rest of the panel after the interview has been completed. This method can be stressful for the interviewee, but may be more likely to lead to a balance decision.

- <u>Group Interview</u> – one or more interviewers with a group of candidates. This might be a matter of hours or even a whole day. This is a good way to assess the team-working skills of different candidates, but it may be difficult to evaluate individual strengths. More likely to be used earlier in the selection process, with a subsequent individual interview.

Prior to an interview, applicants should find out about the company so they are better able to answer questions which are relevant to the job. They should prepare questions which they might want to ask at the end of the interview.

Candidates should remember that they are being interviewed not only to see if they have the skills and knowledge required for the job, but also to see if they will fit in with the organisation as a whole – including the corporate image of the organisation. A candidate dressed in jeans and a t-shirt is unlikely to be successful in an interview for a trainee bank clerk. Someone being interview as an outdoor education instructor may be appropriately dressed in tracksuit and trainers, however.

Advantages	Disadvantages
• A chance to gather additional information on a candidate, • Opportunity to clarify or elaborate on contents of an application form. • Can check oral communication skills, body language and personal characteristics. • Allows comparisons to be made between candidates in a pressured situation. • Can collate several peoples' opinions on candidates - interviewers compare notes. • Give candidates the opportunity to ask questions about the job/organisation. • Interview formats can be changed to find out different skills (individual/group).	• Prone to gut reaction decisions rather than observation of fact; • May not reveal anything more than application form content; • Costly to organise – time and money; • Candidate's interview skills may hide real issues of skill and experience; • Interviewers often lack skills and experience to make right appointment.

SELECTION PROCESS STEP 5 - MAKE & COMMUNICATE THE DECISION

The most suitable candidate is selected, offered the position in writing and given a start date. Unsuccessful applicants are informed.

Contract of Employment

Every employee receives a Contract of Employment when starting a new job. Under the Employment Act this must be given to employees within 13 weeks of starting work. A Contract of Employment contains the following details:

- Title of the job
- Holiday entitlement
- Sickness pay and allowances
- Discipline/grievance procedures
- Date employment began
- Hours of work
- The rate and payment timing of wage/salary
- Pension scheme
- Notice required if employee intends to give up the job

These details are the terms and conditions of employment for the person concerned. The Human Resource Department is responsible for issuing contracts of employment and for making sure that terms and conditions of employment are properly applied to all employees – for example, that employees are paid on time and that hours of work, etc., are agreed with employees.

Contracts can be permanent (safe and secure), fixed-term (only for a specified period of time – has an end date) or temporary (it will end but no end date has been set).

There are basically 3 different types of workforce employed in the UK:

- **The Core Workforce** – this is made up of people who are essential to the business. It includes managers, skilled workers and technicians who do the work that gives the organisation its particular expertise. Because they are essential, the organisation gives them good terms and conditions of employment (eg permanent contracts, good pay) to encourage them to stay with the company.

- **The Flexible Labour Force** – these are people who are employed on a part-time or temporary basis to help out the core workforce, for example to cope with peaks in activity. They are cheap because they have lower rates of pay than members of the core workforce. They can also be taken on only when they are needed and not employed at all when there is no demand for their services.

- **Contractors** – these are people/businesses who provide goods and services which the organisation does not wish to provide for itself. These include cleaners, consultants, component suppliers, etc. Because they are not a permanent part of the workforce, they are less expensive – for example, the organisation does not have to pay for pensions, holiday entitlement, etc.

Implications for the Organisation

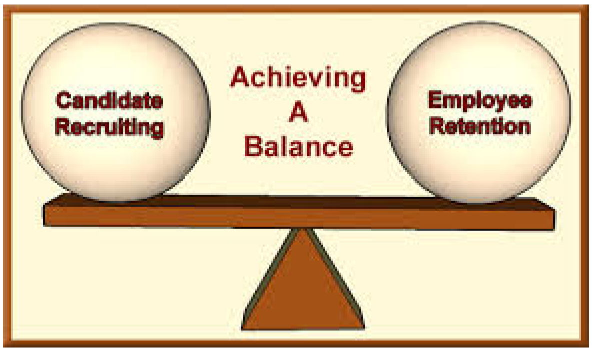
These types of employment have several advantages for the organisation:

- The organisation only employs people who contribute directly to **core** activities – that is, those activities that provide a source of revenue
- It saves on salaries
- It saves on office space

- It reduces or even removes requirements to pay sickness benefit, holiday pay, to make pension contributions, and to make redundancy payments
- It reduces the amount the organisation makes in National Insurance contributions
- It allows the organisation to be flexible and quickly responsive to its market place in terms of staffing numbers

But it also has several disadvantages for the organisation:

- More money has to be spent on recruitment and selection
- There may be staff shortages in certain sectors of the organisation
- Employees are less likely to be wholly committed to the organisation
- There may be an increased need for training (especially induction training) – much of this may bring little or no long-term benefit to the company as the turnover of employees is high
- There is a lack of continuity in personnel. Clients and customers may feel uncomfortable dealing with the organisation if there is constant change



Training and Development

Selecting and recruiting the best people for your business is not enough. It is also important to make sure that they work well after they have joined the business. This can be done by giving employees opportunities for training and development.

Training is the key to ensuring that a business can remain successful in an increasingly competitive environment. It makes sure businesses have a skilled, motivated and effective workforce. Staff training and development involves providing employees with new skills, knowledge and experiences so that they can carry out their jobs efficiently.

Induction Training

On the first day, or very shortly after starting work, staff will be invited to an induction course. The purpose of an induction course is to introduce new employees to the firm, its organisation and its procedures, including those of the department they will work in.

Possible activities for an induction course:

- Welcome and introduction by the Human Resource Manager
- Security procedures within the firm
- Issue of passwords for IT system
- Tour of the firm
- Introducing colleagues in the department the employee will work in

On-the-Job or Off-the-Job Training

Training methods will vary to suit the individual needs of each business. Whatever method is selected, training must:

- Improve the skills of its workers so they can cope with changes in the business world e.g. due to improvements in technology, increased competition, health and safety regulations
- Make sure that workers can achieve the quality of working standards needed to keep the business competitive
- Benefit the employee by developing skills and confidence
- Be available throughout an employee's working life, i.e. lifelong learning
- Help ensure safety in the workplace
- Prepare employees for future promotion.

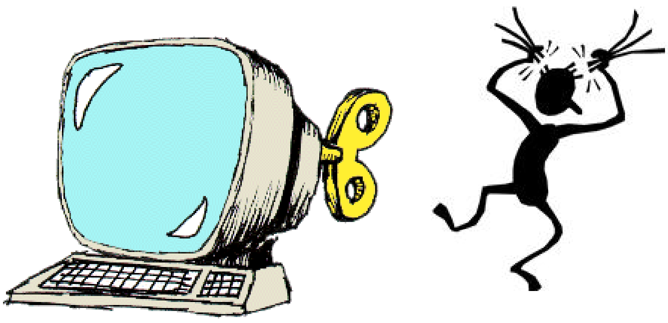
On-the-Job – training arranged within the firm either by the department manager or the Human Resources Department. It is usually done by an experienced worker who is an expert in the field.

Off-the-Job – the employee will go outside the business to do their training e.g. college, training centre, day release.

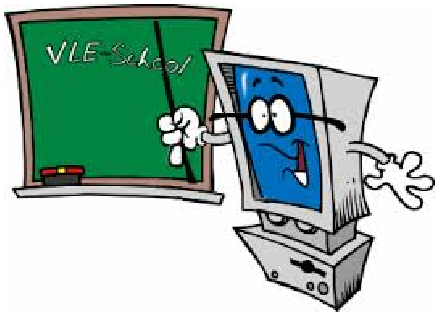
Costs and Benefits of Training

Costs	Benefits
• The financial costs of training can be high eg cost of specialist training staff • Working time and output are lost when staff are taking part in training	• Staff become more efficient at carrying out their work – therefore productivity will increase • Staff become more flexible and can carry out a range of tasks • Staff motivation and morale increases • The image of the organisation will improve

Use of ICT in Training

Benefits of Using ICT to Train Staff	Costs of using ICT to Train Staff
• Visuals from presentation software provide reinforcement to verbal information from trainer/speaker therefore it holds the attention of the trainees longer • Staff in remote locations can be involved in training events using web conferencing, reducing the need to travel • Live-link meetings/online tutorials can be set up between trainer and trainee so support is immediately available • Staff being trained can access centrally-stored shared files from any geographical location	• Can be expensive to buy initial equipment • Technical issues may prevent meetings taking place and may cause frustration and wasted time 

Virtual Learning Environments



A virtual learning environment (VLE) is an e-learning system that simulates a real-life classroom. It is web based and allows staff and learners to communicate without being in the same physical environment. Resources such as notes, homework and assessments can be uploaded to the VLE and learners can access them at a time that is suitable for them. Lectures can be recorded and uploaded as well as other support materials such as PowerPoint and video clips.

VLEs can be used alongside classroom-based courses or distance learning courses where staff and learners never meet in person.

VLEs are increasingly used by employees to further their careers as they allow employees to combine employment with studying for a qualification.

Advantages to employer

- Less time is spent away from the work place by employees which improves productivity and reduces costs
- Travel costs are eliminated as employees can access the VLE anywhere provided they can access the internet
- Development of employees will increase motivation and reduce staff turnover

Advantages to employee

- Increased flexibility as the VLE can be accessed at any time, for example during the commute to work
- Employees learn at their own pace and can refer back to virtual lesson materials as many times as they require
- Social space on the VLE allows employees to interact with staff and other learners through discussion forums or chat
- Homework and assignments are completed and returned online, which is cost and time-effective
- Improve chances of career progression

Disadvantages

- Some employees may be reluctant to learn in a virtual environment, preferring to learn in the traditional way
- If the internet or the network hosting the VLE is down materials cannot be accessed

Professional Development Through Training Schemes

Training schemes provide an opportunity for employees to gain core experience and skills with an employer, starting from the bottom up. At the end of the training period the employee will not have a recognised qualification but they may have the opportunity to secure a job with their employer if they have made a good impression. They will also have a range of experiences to include in their CV as well as a valuable reference.

Training schemes are offered in many industries from manual to white collar, for example car manufacture, retail, management consultancy and the public sector. Training schemes are one of the most favoured career routes of graduates, with huge competition for each position.

Graduate training schemes are offered by many large employers and give employment for a period of 1–2 years during which the graduate will gain a wide range of experiences in the workplace. Employers which offer these schemes visit universities in the autumn to promote the opportunities that are available with them – this is known as the graduate recruitment fair or 'milk round'.

Depending on the employer and the individual scheme the graduate may undertake a specific role or spend time working in different areas of the organisation, for example finance, human resources, sales and operations. If the employer has a large graduate intake, opportunities to network and socialise with peers are readily available.

Opportunities for graduates are available with a wide variety of employers, including those in accountancy, law, engineering and banking as well as public sector organisations such as the National Health Service.

Professional Development Through Work-Based Qualifications

Work-based learning enables employees to study towards a qualification while still earning a salary, which is advantageous to individuals for whom the cost of attending university full time is a barrier. Courses are delivered in conjunction with a university, college or other training provider and extend the workplace knowledge, skills and ability of employees.

While studying for the qualification the employee is also gaining relevant practical experience in real work situations. By achieving a recognised qualification for the skills they have employees can enhance their career prospects and gain promotion and/or a salary increase.

Unlike other methods of training that require employees to be away from their workplace, work-based qualifications have no or limited time away from the workplace. Work-based qualifications are available in many business sectors, including:

- Accountancy
- Business
- Customer service
- Health and social care
- Horticulture
- Information technology
- Management

One method of achieving a work-based qualification is through an apprenticeship.

Apprenticeships are structured training programmes that are traditionally undertaken by employees learning a trade, for example plumbers, electricians and joiners, although they are also available for many other careers, such as business, mechanics and sports coaching.

Apprentices earn a salary while learning the job. Although the salary is relatively low compared to graduate salaries, choosing this method of training will avoid university fees, student loans etc and the government also covers the apprenticeship costs.
Most of the training is carried out on the job, working alongside experienced employees and allowing the apprentice to put the skills learned into practice and to gain confidence in being in the work environment. In addition, apprentices will also attend college, usually one day per week.

Successfully completing an apprenticeship may lead to permanent employment with the employer, although this is never guaranteed.

Why Offer Training?

Offering training to employees, irrespective of the method used, is essential for any business as it will increase their effectiveness and efficiency as well as attract ambitious employees to apply for vacancies in the business.

Training will also contribute towards achieving business objectives such as:

- Competitiveness
- Morale of staff
- Profitability
- Customer satisfaction
- Increase market share
- Good reputation

Advantages to the employer

- Employees are more motivated, leading to higher productivity
- Quality of output will improve and wastage of time and resources will be reduced
- Employees develop skill sets that allow them to undertake a greater variety of work
- Up-skilling of existing workforce avoids high recruitment costs for new employees
- Employees are more versatile and can therefore respond more effectively to change
- Reduction in staff turnover and absenteeism, which will reduce time wasted on recruitment/covering for absent workers
- Ambitious candidates, who want to improve their skills and career, will apply for vacancies, which may improve the quality of employees
- Training can be tailored to the needs of the employer and address skill shortages
- Minimal disruption as most of the training takes places on the job instead of attending off-site training

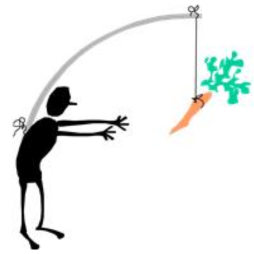
Advantages to the employee

- Develop work-based learning and work-related skills simultaneously
- Existing knowledge is the foundation for new knowledge gained
- The learning can be related directly to the practicalities of the employee's own role within the business
- New knowledge and skills can be implemented immediately in the employee's own workplace, creating a sense of achievement
- Can result in opportunities for secondment and/or promotion
- Increase in salary and career advancement

Motivation and Leadership

Motivational theories are concerned with why people behave in certain ways. Motivation is not the behaviour itself but the driving force behind the behaviour. This can be either INTRINSIC (from inside the person) or EXTRINSIC (an external tangible reward).

- Intrinsic Motivation – Psychological rewards such as your own sense of challenge, achievement, positive recognition, appreciation, etc.
- External Motivation – Salary, fringe benefits, promotion prospects, job security, etc.



There are many competing theories that all try to explain motivation - and all of them have some aspect of truth. However, the search for a generalised theory of motivation at work appears to still be in vain! All of the theories are not conclusive but do provide a useful framework of overall knowledge.
Early theorists, such as Frederick Taylor, believed in "economic needs motivation" and his theory became known as "Scientific Management". He basically believed that money was the motivating factor.

Human Relations theorists, however, then claimed that people go to work to satisfy a wider range of needs and not just money. Elton Mayo was part of the Hawthorne experiments conducted at the Western Electric Company during 1924-32. The Hawthorne experiments were a series of 4 differing experiments and concluded that workers performed better when management took an interest in them and their welfare.

How can people be motivated – financial, non-financial and additional benefits

Different people work for different reasons, so may be motivated by various incentives. The most common methods of motivation are:

- **Financial Reasons**

  Employees are paid in different ways:

  - ***Salary*** – employees are paid the same amount each month for completing certain tasks. Salaried employees often have a set number of hours to work, however they may not be paid overtime if they work additional hours to complete their tasks
  - ***Bonus*** – employees may be set targets, and if they are achieved they receive a bonus payment
  - ***Time Rate*** – employees get paid a certain amount for each hour that they work
  - ***Piece Rate*** – employees are paid for each product they make
  - ***Overtime*** – when employees work additional hours they will get an additional payment. This is usually paid on time rate, and is a higher rate of pay than 'normal' time
  - ***Commission*** – when employees are paid depending on how many of a product they sell. Commission is usually calculated as a percentage of the amount of money the employee generates for the business

- **Non-Financial Reasons**

  - Be part of a team
  - Enjoyment of the work
  - Achieve success
  - Improve themselves
  - To 'make a difference'
  - Job satisfaction -

  Job satisfaction - As people spend a great deal of their lives at work they expect to be rewarded and satisfied with their job. What gives people job satisfaction?

  - Good pay
  - Recognition of job well done
  - Possibility of increase in pay
  - Colleagues you get on with
  - Training opportunities
  - Good working hours
  - Job security
  - Fringe benefits
  - Employer/manager you can get on with
  - Possibility of promotion
  - Pleasant working environment
  - Variety of tasks to do
  - Possibility of differing tasks on same level, perhaps in another department
  - Challenging and interesting work
  - Good holidays

  The Human Resource Department in an organisation is responsible for ensuring that the terms and conditions of work enable employees to gain as much job satisfaction as possible.

- **Additional benefits which could save the employee money**

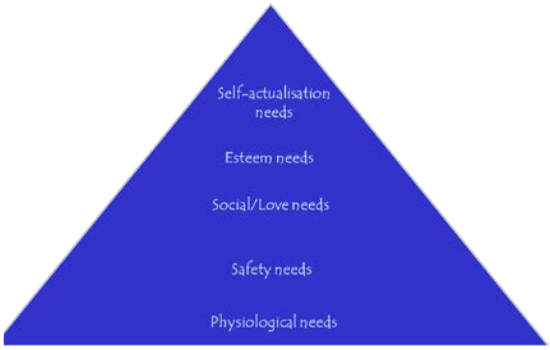
  - Private Health Care
  - Company Car

Each worker has his or her own targets to achieve. Some want to earn money, others also want satisfaction and pleasure from working. Each business must help create an environment which lets its workers achieve their particular goals.

Theories of Motivation

Maslow's Hierarchy of Needs

Maslow believed that all people are motivated by the same things. The three lower needs at the bottom of the pyramid have to be achieved before the two higher needs can be met.



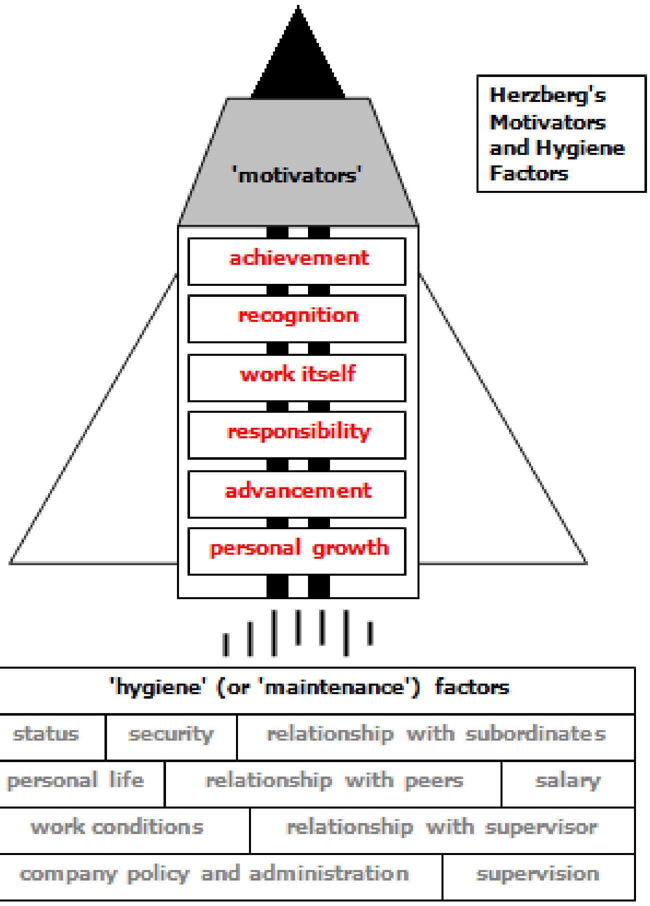
Self Actualisation	People want to feel they are achieving something. Managers should help staff set and reach their own personal targets.
Self-Esteem	People want to feel valued by others. Managers should praise and encourage, and give financial rewards for good performance.
Love	People enjoy the company of others. Managers should encourage team work and social contact.
Safety	People want to feel safe and secure from harm. Managers should give their workers job security.
Physical Survival	People need food, water, shelter, clothing and warmth. These should be met by a basic wage.

Herzberg's Hygiene Factors

Herzberg's ideas are much more straightforward than Maslow's. Herzberg believed all the needs of workers can be put into two groups.

- Hygiene Factors – are the things a business has to provide to keep workers contented. These include clean, quiet and safe working conditions – as well as adequate rest breaks.
- Motivating Factors – are the things that will encourage workers to do their best – like praise from managers, career advancement for good workers and more responsibility

If the hygiene factors are poor then the motivating factors will not work.



Hygiene factors are merely a launch pad - when damaged or undermined we have no platform, but in themselves they do not motivate.

McGregor's Theory X and Theory Y

McGregor believed there are 2 types of manger. They motivate workers in different ways.

Theory X Managers believe:	Theory Y Managers believe:
• Workers are only motivated by money • Workers are lazy, selfish, dislike work and lack ambition • Workers need to be controlled and coerced by managers	• Workers are motivated by many needs • Workers can take pride and responsibility in doing a good job • Management should trust workers and help them do their best

Taylor's Scientific Management

Taylor's ideas were formed at the beginning of the 20th Century (1920-1930).

- He believed workers were lazy and only interested in earning money
- He carried out time and motion studies to find out the most efficient way to perform a task
- Mangers were then appointed to make sure the task was carried out exactly as planned
- He believed this would improve productivity
- In practice it wasn't very successful due to boredom

Mayo's Human Relations School

He thought that workers were motivated when managers took a personal interest in them e.g. by involving them in decision making.

- Firms need to meet the personal satisfactions of their workers
- Make sure employee goals are the same as organisational goals
- Firms should encourage employees to socialise with each other

Adams' Equity Theory

This theory is quite simplistic in that it is simply about balance. If people feel they are putting in more than they are getting out they become de-motivated. When inputs and outputs are matched staff are satisfied. Inputs include time, effort and loyalty. Outputs could be praise, rewards, pay and recognition.

Problems with Motivation Theory

- Some of the theories contradict each other
- Many theories were developed a long time ago when working conditions and relationships between workers and managers were very different to how they are now
- Everyone is different – so no single theory is likely to motivate every single employee

Theories of Leadership

Leadership can be defined as "getting people to follow" or "getting people to do things willingly". It is basically a relationship through which one person influences the behaviour of other people. The "Traits Approach" believes that leaders are born and not made. This approach believes Leadership consists of certain inherited characteristics or personality traits. Trait theory however has been criticised as being too simplistic.

Directors and managers are **leaders** in their companies. They set targets for their workers, organise their work and monitor their progress. The ways in which mangers lead is important for the business, because if the workers do not respond to the leader the business can fail.

There are **three main leadership styles**:

Autocratic Leaders

Make decisions without consulting their team members, even if their input would be useful. This can be appropriate when you need to make decisions quickly, when there's no need for team input, and when team agreement isn't necessary for a successful outcome. However, this style can be demoralizing, and it can lead to high levels of absenteeism and staff turnover.

Democratic Leaders

Make the final decisions, but they include team members in the decision-making process. They encourage creativity, and people are often highly engaged in projects and decisions. As a result, team members tend to have high job satisfaction and high productivity. This is not always an effective style to use, though, when you need to make a quick decision.

Laissez-faire Leaders

Give their team members a lot of freedom in how they do their work, and how they set their deadlines. They provide support with resources and advice if needed, but otherwise they don't get involved. This autonomy can lead to high job satisfaction, but it can be damaging if team members don't manage their time well, or if they don't have the knowledge, skills, or self-motivation to do their work effectively. (Laissez-faire leadership can also occur when managers don't have control over their work and their people.)

Factors that affect the leadership style used

Factor	Description
Nature of the task	In a crisis situation speed and decisiveness from leader may favour an autocratic approach.
Time	If a project has to be finished quickly there may be no time for discussion.
Organisational Culture	Can result in a particular type of style because of a pattern of behaviour that has developed in an organisation.
Size of Group	A large group may make democratic style difficult.
Nature of the group	A high skilled workforce may be more productive when their opinions are sought, whereas others may prefer to be directed because of lack of interest/skills, previous experience or they may believe that the manager is paid to make decisions and take responsibility.
Leader's Personality	Certain styles may suit one personality but not another eg an aggressive competitive personality may be more suited to an autocratic style.

Employee Relations

'Employee relations' is a term that refers to the way that employers deal with their employees. They cover the normal relations between management and employees. The Human Resource Department is responsible for ensuring that a suitable framework is set up to enable employers and employees to discuss matters which affect them.

Employee relations is a relatively new term and it has replaced the old term 'industrial relations' (due to the move from the industrial sectors of work). Traditionally most discussions take place between employers (represented by managers) and employees (represented by trade unions).

Employee relations cover many things such as;

- **Trade union recognition** – whether trade unions should be recognised and, where they are, which should be accorded recognition
- **Collective bargaining** – how discussions with trade unions should take place: should they be centralised (eg covering a whole organisation or a number of organisations) or decentralised (eg take place at each workplace)
- **Employee relations procedures** - such as discipline, grievance and redundancy. Discipline is when an employee is given into trouble for something they have done wrong. Grievance is when an employee wishes to complain about their manager or employer.
- **The employment relationship** – the terms and conditions of employment (which could be agreed in several ways: individually by each employee, collectively for all employees, or for specific groups of employees)
- **Participation and involvement** – the extent to which an organisation is prepared to allow the workforce to participate in decisions that may affect them and how this will be done

The Role of Management

The role of management in employee relations is to inform, consult and negotiate with employees and their representatives. This may mean:

- Meeting with trade union representatives
- Having an employee representative on the Board of Directors
- Having regular meetings to inform employees of decisions Forming a works council
- Holding formal appraisals (yearly progress meetings) -

  Appraisal – this is a report on how well an employee is progressing. It is usually carried out at regular intervals (normally once a year) by the employee's line manager. The process may require the completion of an appraisal form by both parties which is then followed up with a formal interview.

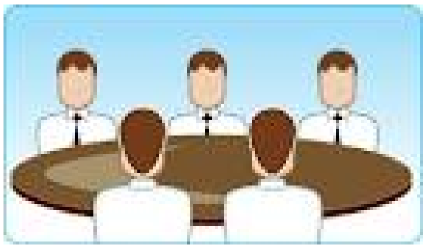
  It is important that the employee does not feel that they are on trial; otherwise an element of distrust/resentment can enter the process. The appraisal may highlight training needs and the potential of an employee for possible promotion. A successful appraisal may determine if an employee will receive a bonus or be moved up the pay scale.

The Human Resources Department sets up these channels of communication. It also checks to make sure that they are working properly.

The Role of the Employee

Employees should comply with relevant legal requirements and use the correct channels of communication within the organisation.

The Role of Trade Unions



Trade unions represent employees when dealing with employers in national and local discussions. This could involve **collective bargaining** for higher wages, better working conditions or better terms and conditions of service within an organisation. Collective bargaining occurs when workers allow the union to negotiate on their behalf (collectively) and any agreement is implemented onto all workers collectively. This is in contrast to **individual bargaining** whereby employees negotiate with employers for their own individual pay deals and conditions.

The union can also assist with grievance procedures by providing legal advice to members. They also give members financial advice. Members pay a subscription to become a member of the union.

The Role of Professional Associations

These represent diverse 'professional' occupations such as doctors (British Medical Association), the police (Police Federation), even footballers (Professional Footballers Association) etc. In some cases they perform a similar function to Trade Unions and represent their members in bargaining for pay and improved terms and conditions of employment. Professional associations may also be involved in setting and maintaining standards and qualifications required to belong to a particular profession eg the British Medical Association insists on certain qualifications before admitting Doctors to its membership.

The Role of Employers' Associations

These are organisations that represent the views and interests of companies within one sector of industry. They are financed by subscriptions from members, and are formed to provide their members with certain services especially related to their business. Some of the better known employers' associations include the Newspaper Society and the Engineering Employers' Association.

Such associations provide a range of services:

- As a pressure group they influence (or try to influence) government in the setting of taxes and the passing of employment, consumer and business laws
- As a collective research organisation they can produce both product and market research for their members. This works out less expensive per member and is often far more comprehensive than if members were to carry out the research independently
- They act as a public relations voice for the industry as a whole (as the Meat Marketing Board has done in recent years to try to counter the effects of the BSE crisis)
- They can provide a negotiating team to meet trade union representatives in negotiating pay, working conditions and other employment related matters

The CBI (Confederation of British Industry) is an employers' association that has members from many different industries. Its counterpart is the TUC (Trades Union Congress), the official body representing British trade unions.

The Role of Works Councils

The idea of a works council came from German HR practices originally and they are made up of an equal number of representatives from employees and management. At meetings of the works council, people can discuss matters affecting the business, especially the impact they have on the workers.

The things that works councils do vary a lot between different organisations. In some cases, they are simply of way of getting employers and employees together to discuss things. In other cases, works councils may agree terms and conditions of employment e.g. where there is no trade union in the organisation.

Industrial Action

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.

When employees are not happy with decisions that are being made within the business they may decide to take industrial action. All forms of industrial action will reduce the productivity of the business.

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.

Types of 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.

Industrial Action that can be undertaken by Employees	Industrial Action that can be undertaken by Employers
Sit in Employees remain at the workplace but do no work **Overtime ban** Employees refuse to work overtime requested by employer **Work to rule** Employees only undertake tasks states in their job descriptions **Go slow** Employees produce work at a slower rate **Strike** Last resort action where workers refuse to enter work. This is often accompanied by demonstrations, marches and a picket line	**Withdrawal of overtime** Employer removes the opportunity for employees to work overtime **Lock out** Employees are locked out of the business premises **Close** Last resort action where a factory or workplace is closed and relocated. This results in redundancy for the existing workforce.

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

The Role of ACAS

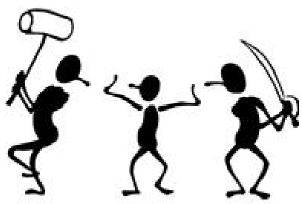
The mission of ACAS (the Advisory, Conciliation and Arbitration Service) is 'to improve the performance and effectiveness of organisations by providing an independent and impartial service to prevent and resolve disputes and to build harmonious relationships at work'.

Conciliation means to act as a mediator between the parties. Arbitration, however, is different. Where a dispute cannot be resolved, both parties agree to accept the decision made by the neutral party (ie ACAS). It is similar to the ruling of a judge.

ACAS operates in a number of ways:

1. **By preventing or resolving employment disputes**

   ACAS believes that the best way of improving employee relations is for employers and employees to work together to solve problems *before* they develop into full-blown disputes and confrontation. Through workshops and joint working parties, ACAS's experienced staff can help organisations avoid industrial relations problems. They will help in matters of discipline and grievance.



   Under employment law, ACAS has a statutory duty to try to obtain an agreed settlement of a complaint that an individual has made or could make through an industrial tribunal. This could come under the heading of unfair dismissal, equal pay for equal work, sex discrimination or racial discrimination.

2. **By conciliating in actual or potential complaints before industrial tribunals**

   Where parties agree to conciliation by ACA S, a conciliation officer is assigned to the case. This officer will explain tribunal procedures, outline the legal aspects of the case and generally help the parties to be aware of the options open to them.

3. **By providing information and advice**

ACAS operates a nationwide network of public enquiry points. These deal with queries on almost all employment matters, including rights and obligations under employment law. The service is available, free of charge, to any individual or organisation.

4. **By promoting good practice**

ACAS organises conferences and seminars on current employment and industrial relations issues. It also runs self-help workshops for small organisations at which employment policies and procedures can be discussed. There is usually a charge for these. ACAS also produces a range of publications offering practical guidance and advice on employment practices and industrial relations.

Employment Legislation

Equality Act 2010	
Description of Act	**Impact on the Business**
Organisations cannot discriminate against employees on any of the protected characteristics such as age, race, gender, sexual orientation, disability, religion, pregnancy and maternity.	• Recruiters must be aware of the legislation when preparing job adverts, job descriptions, and application forms. • Interviewers must be aware of the legislation when asking candidates questions in interviews. • Failure to adhere to the act may result in the business being prosecuted. • The business must act if an applicant/employee feels they have been discriminated against. • Policies may have to be created to ensure that all employees are aware of the legislation and what they need to do to comply with it.

Health and Safety at Work Act 1974	
Description of Act	**Impact on the Business**
This Act defines the general duties on employers and employees in relation to ensuring the health, safety. and welfare of persons at work, and for protecting others against risks to health or safety in connection with the activities of persons at work	• Employers must take reasonable care to ensure the health, safety and welfare of all employees. • If found to not be taking reasonable care, employer could face penalties from the government. • Employees must take reasonable care to ensure both their own safety and the safety of other employees who may be affected by what they do or may face penalties.

Employment Rights Act 1996	
Description of Act	**Impact on the Business**
The Employment Rights Act states the legal rights of employees in the workplace including: • The right to receive a written statement of the terms and conditions of employment; • Protection of wages and the right to an itemised payslip; • Maternity rights; • A right to not be unfairly dismissed; • Statutory minimum notice period for dismissals and reasons for dismissals • Redundancy provisions, including the right to redundancy pay; • Protection from suffering a detriment in employment.	• Employers must develop a system to record pay information in order to produce payslips • Higher costs for the business to provide cover for maternity leave • Higher costs to give minimum notice periods to employees • Employers must develop a policy for dismissals from the workplace • Could face penalties if this legislation is not adhered to

National Minimum Wage Act 1998	
Description of Act	**Impact on the Business**
This Act sets out the lowest amount of pay a person can receive per hour for different age groups.	• Employers must make sure they have funds in place to be able to pay their employees the required minimum wage. • Employers have to carefully budget to ensure they can make required payments on time • Employers can face penalties from the government if found to be not paying the minimum amount

Role of Technology in Managing People

- **Word Processing** is used to prepare documents for recruitment, selection and training. For example, Microsoft Word
- **Email** to communicate to all/selected groups of staff at the same time or to candidates with interview invitations. For example, Microsoft Outlook.
- **Databases** can be used to record employee details and keep a record of staff training. For example, Microsoft Access.
- **Internet Software** is used to advertise job vacancies and process application forms. For example, Internet Explorer, Mozilla Firefox, Google Chrome.
- **Spreadsheets** to produce time sheets. For example, Microsoft Excel.
- **Presentations** can be used during training to provide visuals for trainees . For example, Microsoft PowerPoint or Prezzi.
- **Desktop Publishing** is used to create high quality job advertisements. For example, Microsoft Publisher.
- **Digital Projectors/Smart Boards** – used to deliver training / support staff meetings.
- **Printers/Photocopiers** – could be used to print off job descriptions / person specifications, application forms, letters to applicants, contracts etc.
- **Video Camera**– may record someone doing a presentation as part of selection testing.
- **Digital Storage Devices** such as USB sticks or DVD disks - used to distribute training materials.
- **Web Cams** - Interviews via web cam to reduces travelling for candidates, and encourages candidates from other geographical locations to apply for jobs.
- **Virtual Learning Environments** can be used as part of off-the-job training where online training courses are offered. For example, The Open University.
- Selection may use IT to assess skills and qualities. For example, online questionnaires.
- Employees being able to work flexibly ie from home using ICT, this will increase the number of people able to apply for jobs so should find better employees.
- **Smart phones** allow employees to be contacted at any time. This could be useful when an employee frequently works out of the regular workplace.

Glossary

Some of the terms which are in the notes are explained a little more fully below. There are also some terms which have appeared in other units but which are also relevant to human resources included in the glossary.

Term	**Meaning**
Appraisal	The system of monitoring an employee's performance in order to identify strengths and weaknesses.
Collective bargaining	When one or more unions negotiate with employers on behalf of employees to determine conditions of work and terms of employment.
Delegation	When a superior gives tasks to a subordinate, this will give him or her more experience and free up the leader to complete other tasks.
Dispute	A breakdown in the relationship between employers and employees.
Flexible workforce	A workforce which can respond quickly to changes in the requirements of the organisation.
Go-slow	A reduction of output by workers whilst still carrying on their tasks.
Lock-out	A situation where employees are physically kept out of their place of employment.
Multi-skilled	The ability of employees to switch easily from one operation to another.
Non-financial rewards	Sometimes called fringe benefits (or perks) which are used to motivate employees, e.g. low cost loans, free canteen, company car.
Picketing	An attempt by trade union members to dissuade others from working during industrial action.
Piece rate	Rewarding employees for the number of items they produce.
Quality circle	A discussion group that meets regularly to identify problems.
Redundant	The situation where a job no longer exists.
Single union agreement	An agreement by an employer to recognise and negotiate with one union only.
Unofficial action/strike	Union activity/strike which is spontaneous and does not have the backing of the union head office.
Verbal warning	First stage of a fair dismissal.
Written warning	Final stage prior to being fairly dismissed.

The Importance of Financial Management

The efficient management of finance is vitally important to the success or failure of an organisation. The influence of the financial function is important because it has to:

- Ensure that there are adequate funds available to acquire the resources needed to help the organisation achieve its objectives
- Ensure costs are controlled
- Ensure adequate cash flow
- Establish and control profitability levels

The Finance Department exists to carry out such functions as:

- The maintenance of financial records
- Payment of salaries and wages
- The payment of bills and expenses
- The collection of accounts due
- Monitoring of business funds
- Reporting to management - to make informed judgements and decisions.

Consequently, the care and planning of the financial needs of an organisation are as necessary as the planning for operations, marketing, human resources and administration.

In the following sections a number of key financial concepts that assist management in decision-making will be developed. These are:

- Sources of finance
- Cash flow (cash budgets)
- Break-even
- Financial statements and reporting
- Financial analysis (ie. ratio analysis)

Sources of Finance

Organisations have access to a number of different sources of finance. The source of finance an organisation chooses to use will depend on a number of factors:

- Type of organisation (ownership/sector of economy)
- Size of organisation (value of assets)
- Age of organisation (new or established business)
- What the finance is required for
- How long the finance is required for

Finance may be generated from inside the organisation (internal sources of finance) or from outside the organisation (external sources of finance).

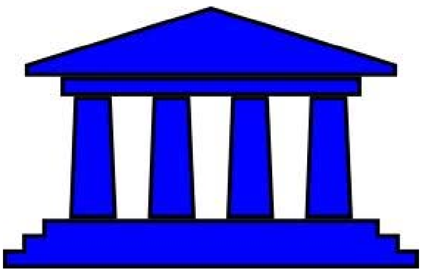
Internal Sources of Finance

SOURCE	DESCRIPTION	ADVANTAGES	DISADVANTAGES
Retained profits	Profits kept back from previous years are used to generate more profit in the future.	No interest to pay back.	Growth may be slow if retained profits are the main source of finance. Shareholders may be unhappy as they may receive a smaller dividend.
Sale of assets	Selling of assets (items it owns) to raise finance.	Quick and easy.	May need to buy or rent that asset again.

External Sources of Finance

Short Term Sources of Finance

SOURCE	DESCRIPTION	ADVANTAGES	DISADVANTAGES
Bank overdraft	Withdrawing more money out of the bank than is available in the account.	Easy and quick to arrange. Good for short periods of time to cover cash flow shortages. Relatively inexpensive in the short term.	Expensive to use over a long period of time. Additional charges may be incurred or the facility withdrawn if overdraft limit is exceeded.
Trade credit	Purchasing items from a supplier where the goods are received immediately and paid for at a later date.	Gives organisation time to sell their product before the invoice is due to be paid. Can help organisation's cash flow.	Prompt payment discount is lost. Failure to pay within the credit period may result in future credit being refused.
Debt factoring	Selling invoices (money due from debtors) to a factoring company.	Organisation is guaranteed to receive a percentage of amount due. Can save time/ money chasing unpaid invoices.	Organisation does not receive full amount of invoice. Factors only want to buy large value invoices/large quantity of invoices.
Grants	Money received from the government/EU/ enterprise agencies for a specific purpose.	Does not need to be paid back.	Usually has conditions attached. Can take time to get as requires many forms to be completed.



Medium Term Sources of Finance

SOURCE	DESCRIPTION	ADVANTAGES	DISADVANTAGES
Loan from family and friends (ST & Ptshp)	Borrowing money from family and friends which is repaid over a period of time.	No interest to pay back. Flexibility in repayment of loan.	Arguments over borrowed money may occur.
Bank loan	Borrowing money from a bank (for a specific purpose) which is repaid over a period of time.	Repaid in fixed instalments. Helps organisation to budget and plan.	Interest is paid back on top of capital borrowed. Interest rate may be high for new/high risk businesses.
Hire Purchase	Deposit paid for item and the rest paid for in instalments.	Can receive item immediately without paying in full. Cost of item is spread which may make it more affordable. Item is owned by organisation after final instalment is paid.	Interest could make the item expensive. Item is not owned until all payments made.
Leasing	Renting vehicles or equipment for a period of time.	Cheaper than purchasing outright in the short term. Equipment is replaced when outdated. May include a service contract where maintenance is included.	Expensive in the long term as organisation is continually paying leasing charge. Organisation will never own the asset.

Long Term Sources of Finance

SOURCE	DESCRIPTION	ADVANTAGES	DISADVANTAGES
Owner(s) savings	Additional funds (capital) invested from the owner(s) personal finances.	Reduces amount to be borrowed from other sources. Control is maintained.	Owner(s) may find it difficult to withdraw investment. Investment is at risk if business fails (unlimited liability).
Mortgage	A special type of loan used to purchase property and land.	Can be taken out over very long periods eg 25 years. Lower rate of interest than other bank loans.	If interest rates change repayments might increase.
Share issue	Selling shares (a small part of the organisation). Owners of shares are known as shareholders.	Very large sums of money can be raised. Money invested through share issue is not repaid. Shareholders have limited liability and receive dividends.	Cost of issuing shares can be expensive. Deciding on share price can be difficult.
Debentures	Loans received from private individuals or other organisations. Interest is paid over the debenture period and original value of loan paid at end of debenture period.	Very large sums of money can be raised. Organisation pays interest on the loan over the debenture period – giving them time to raise the value of the loan before it is due.	Interest will require to be paid even if organisation is making a loss. If organisation is unable to repay interest/loan the debenture-holders can sell assets to recover what is owed.
Venture capital	Venture capitalists provide loans to organisations that are deemed too risky by banks.	Allows finance to be raised for risky ventures. Venture capitalist will often provide advice to ensure their investment is successful.	Venture capitalists are generally only interested in large loans. Fees/interest rates can be very high. Often want share of business in exchange for finance. May want to be involved in decision making process.

Break Even

Break Even Analysis Explained

Break Even Analysis is simply "working out how many items you would have to sell in order to break even, i.e. make neither a loss nor a profit". It is the unique point at which neither is made. If you do not reach the break even point you make a loss and if you go beyond the break even point you are making a profit.

Paul Leslie has decided to sell Disney Merchandise, such as Mickey Mouse and Donald Duck key rings and badges, from a vending machine located in a busy shopping centre. The rental for the vending machine is £30. Paul can purchase items for 15p each but decides to sell them for 40p. How many items would Paul have to sell in order to break even?

There is a simple formula for calculating the break even point:

$$\frac{\text{The Fixed Cost (the rental)}}{\text{Contribution (the profit made from each item)}}$$

The contribution is calculated by deducting the price paid for the item from the selling price of the item, i.e. 40p – 15p = 25p

Therefore, the Break Even Point for Paul would be:

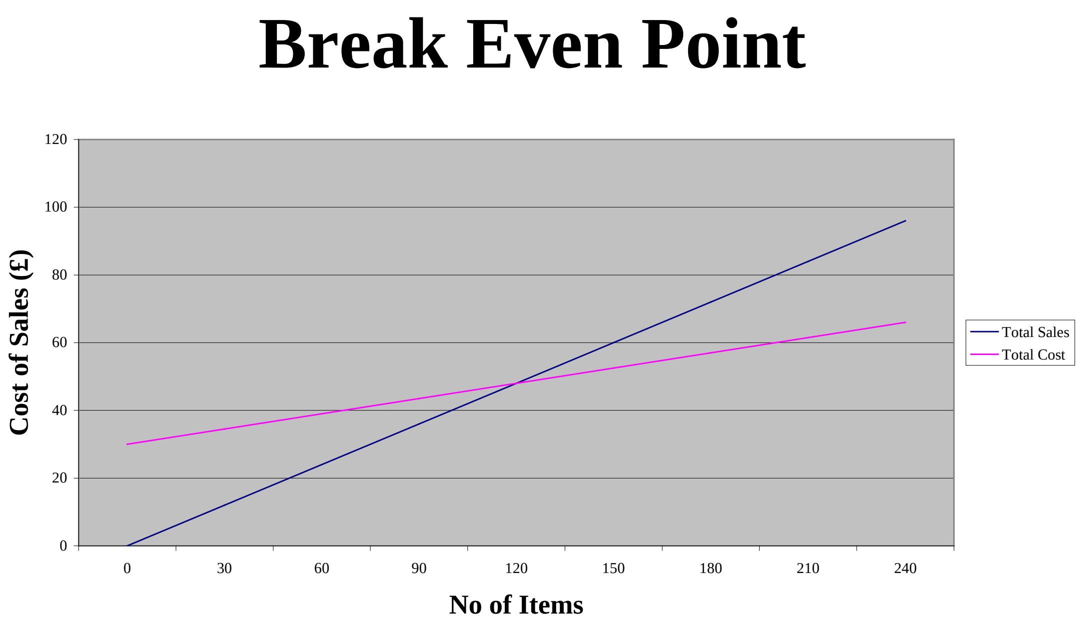
$$\frac{£30}{25p} = \underline{\underline{120 \text{ items}}}$$

The Break Even Point can also be shown in table and graph form as shown overleaf.

No of Items Sold	Fixed Cost	Variable Cost (Price Paid for the Item)	Total Cost	Total Sales	Profit/Loss
0	£30	0	£30.00	0	£30.00 Loss
30	£30	30 x 15p = £4.50	£34.50	30 x 40p = £12	£22.50 Loss
60	£30	60 x 15p =£9.00	£39.00	60 x 40p = £24.00	£15.00 Loss
90	£30	90 x £15p = £13.50	£43.50	90 x 40p = £36.00	£7.50 Loss
120	£30	120 x 15p = £18.00	£48.00	120 x 40p = £48.00	0
150	£30	150 x 15p = £22.50	£52.50	150 x 40p = £60.00	£7.50 Profit
180	£30	180 x 15p = £27.00	£57.00	180 x 40p = £72.00	£15.00 Profit
210	£30	210 x 15p = £31.50	£61.50	210 x 40p = £84.00	£22.50 Profit
240	£30	240 x 15p = £36.00	£66.00	240 x 40p = £96.00	£30.00 Profit

As you can see, 120 items is the break even point. The table also shows the projected losses/profits for other levels of sales.

The Graph below also shows the break even point and is another way of calculating. Plot the 'Total Sales' figures and the 'Total Cost' figures and where they cross over, that is the number of items you must make in order to break even.



Why is Break Even Analysis Useful?

Calculating break-even is important for both new and existing businesses. It can help a business make decisions about:

- how much to produce
- what price to sell their products at

Financial Records

Financial records are produced to provide information on all financial transactions carried out by an organisation.

The most common financial records used by an organisation are:

- Cash Flow Statement
- Income Statement
- Statement of Financial Position

Annual Accounts (Final Accounts)

Cash Flow Management

Cash is the most liquid of all business assets. Cash flow is all about the movement of money (cash) in and out of a business.

Liquidity – the ability to have, or have access to, sufficient cash, or near cash assets to meet the everyday commitments of running an organisation – is vital for the short-term survival of the organisation.

It is important that cash inflows (money coming into the business) are greater than cash outflows (money spent by the business), perhaps as important as the overall profit level of the organisation.

Many businesses go into liquidation and close down because of the lack of sufficient cash to meet commitments, not because of lack of profits.

Cash Flow Forecasts (Cash Budgeting)

A business will use a **Cash Flow Forecast (or Cash Budget)** to make projections into the future. They will use this to 'manage' their cash and as a basis for decision making, e.g. whether or not there will be sufficient cash to purchase fixed assets.

Cash budgets record the estimated movements of cash in and cash out of an organisation. This can be summed up as follows:

INFLOWS *Cash coming into the business*	**OUTFLOWS** *Cash going out of the business*
• sale of stocks • sale of fixed assets • loans received • capital introduced • retained profits • decreases in debtors • increases in creditors	• purchase of stocks • purchase of fixed asset • loans repaid • drawings or dividends paid • losses • increases in debtors • decreases in creditors

Cash budgets are used to monitor, control, and obtain or present information as follows:

- Monitor and control – preparing a cash budget provides the business with a tool for comparison of budgeted with actual results obtained from other financial statements
- Measure performance of the organisation as a whole, or individual departments or sections within the organisation
- Set targets – provides targets (limits) for managers and employees to work towards
- To highlight anticipated periods of poor cash flow (deficit) and provide time for corrective action
- To highlight anticipated periods of surplus to enable organisation to invest for the future
- As part of a Business Plan which would be drawn up by a new business prior to starting up; or by an existing business prior to expansion

Cash Budget for Mrs Sue Preme – 3 Months (April – June)

	April £('000)	May £('000)	June £('000)
Opening Balance (1)			
	100	105	115
Receipts (2)			
Cash Sales			
Receipts for Credit Sales	20	40	30
	35	30	20
Total Receipts (3)			
	155	175	165
Payments (4)			
Purchases			
Payments of Credit Purchases	14	18	20
Petrol	2	3	4
Administration	4	5	8
Wages	5	7	5
Rent	20	22	23
	5	5	5
Total Payments (5)			
	50	60	65
Closing Balance (6)			
	£105	£115	£100
	====	====	====

Notes on the Cash Budget:

1 **Opening Balance** - The money that the organisation has at the start of the time period

2 **Receipts** - Both cash sales and receipts from debtors are recorded as outstanding accounts are paid

3 **Total Receipts** – Opening balance minus receipts

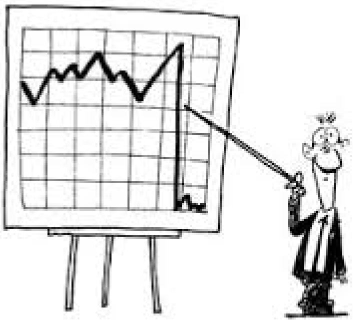
4 **Payments** - All individual expenses involving the movements of cash are identified, including payments made for credit purchases

5 **Total Payments** - The estimated total amount that will be spent during the month

6 **Closing Balance** - total income for the period minus total expenses for the period. The closing balance of one time period becomes the opening balance for the next time period

Causes of Poor Cash Flow

- Spending too much money on stock that has not sold.
- Not receiving enough money from the sale of goods and/or services.
- Owners taking too much money out of the business for personal use (drawings).
- Giving customers too long to pay money that they owe.
- Not having enough time to pay bills from their suppliers.
- Bad management decisions eg high marketing spend that doesn't generate sales.



How to Improve Poor Cash Flow

- Reconsider expenses – can anything be cut back? E.g. are all employees required, find a cheaper supplier/supplier who will give a discount.
- Increase sales revenue by increasing selling price or carrying out additional advertising to increase amount sold.
- Offer discounts to customers who pay on time as this will encourage them to pay more quickly.
- Obtain additional finance eg a loan.
- Reduce level of trade credit given to customers.
- Spread cost of large capital purchases by purchasing through hire purchase or by leasing equipment.
- Inform the bank of any shortage and organise an overdraft in advance.
- Sell equipment or machinery no longer needed as this will bring in cash to be used to fund other areas of the business.
- Obtain trade credit from supplier.
- Raise extra capital by investing retained profits or issuing new shares.

Cash Budgets and Their Importance to the Role of Management

Using the role of the manager, as described by Henri Fayol, we can see just how useful Cash Flow Statements can be as a management tool:

Plans	Looks ahead and sets aims and strategies. By identifying where cash is being spent and where it is being earned, management can plan to borrow, either to finance short-term cash flow problems or to finance long-term expansion.
Organises	Make arrangements for all the resources of the organisation to be in the right place at the right time and in the right quantities. Quite obviously such resources have to be financed, and management must be able to ensure that it can afford the resources it requires and takes full advantage of bulk purchase discounts, trade credit and other financial incentives.
Commands	Tells subordinates what their duties are. It is essential for the efficient running of the organisation that each department is given a budget for expenditure on routine requirements. Each department must also know its limits when making one-off requests for additional finance for specific jobs, projects or capital expenditure.
Co-ordinates	Make 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. Financial reports and summaries from each department will allow management to keep a clear overview of the operation as a whole. It may be that surpluses in one department can be used to offset short-falls in another.
Controls	Measures, evaluates and compares results with plans, and supervises and checks work done. Using Cash Budgets as a measure of performances or progress gives management a tool that records quantifiable data that is the same for each department.
Delegates	Makes subordinates responsible for tasks and gives them the authority to carry them out. This can involve delegating responsibility for holding, recording and spending departmental budgets or project budgets to the departmental manager or project leader. It can even be done simply by giving a cashier full control of, and responsibility for, her /his own cash point or till.
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. This can come from appropriate delegation where the individual(s) feel(s) trusted and empowered because of being responsible for finance within their area of control.

Annual Accounts (Final Accounts)

Financial record provice information on transactions undertaken by an organisation. This information is gathered together and presented in annual (yearly) financial statements, in the standard form of an Income Statement and a Statement of Financial Position. All Public Limited Companies must provide annual accounts by law. Scottish-based private limited companies must provide Companies House in Edinburgh with a copy of their annual accounts.

These statements are:

- Income Statement (formerly The Trading, Profit and Loss Account)
- Statement of Financial Position (formerly The Balance Sheet)

Income Statement (formerly Trading Profit and Loss Account)

This shows the profit or loss over a period of time (normally one year). It identifies how much money has come in to the firm (income) and how much money has been spent and on what (expenditure).

The Income Statement can be split into two sections;

The first part calculates the gross profit or loss (i.e. the difference between the cost to the firm to buy the goods and the sales value of them). Excludes the firm's internal expenses.

The second part calculates the net profit or loss made after all of the firm's expenses have been deducted from the gross profit.

Income Statement of Company X
Year Ending 'date'

	£000	£000
Net Sales		100
Less Cost of Goods Sold		
Opening Stock	20	
Add Purchases	50	
	70	
Less Closing Stock	15	
Cost of Goods Sold		55
GROSS PROFIT		45
Less Expenses		
Rent	3	
Advertising	5	
Electricity	1	
Telephone	10	
Wages	3	22
NET PROFIT		23

Statement of Financial Position (formerly The Balance Sheet)

Shows the value of a business at a particular point in time.

Balance Sheet of Company X as at 'date'

		£000	£000
	FIXED ASSETS		
Items which the business owns and will keep for more than one year.	Equipment		40
	Vehicles		30
	Premises		100
			170
	CURRENT ASSETS		
	Stock at year end	15	
Items which the business owns and will keep for less than one year.	Debtors	30	
	Bank/cash	30	
		75	
	Less Current Liabilities		
Items which the business owes and will pay for in the short term.	Creditors	15	
	Working Capital		60
			230
	Financed by		
	Opening Capital		160
	Add Net Profit		23
Shows how the business has been financed.	Less Drawings		-3
			180
	Bank Loan		50
			230

Debtors	Customers who have received goods from the firm but have not yet paid.
Creditors	Suppliers who sold goods to the firm on credit and to whom the firm owes money.
Working Capital	The difference between current assets and current liabilities. This shows the funds available after short-term debts are met.
Capital	The investment that the owner has put into the firm.
Net Profit	The profit made after all business expenses. Tax to be paid is calculated on this figure.
Drawings	Funds taken out by the owner from the firm for their own personal use.

Interpretation of the Trading, Profit and Loss Account and Statement of Financial Position

All public and private companies are required to provide financial statements (final accounts) at the end of each trading period. These accounts are of interest to the Inland Revenue, which uses the information to determine the tax payable by the organisation.

Sole traders, partnerships and private companies are not legally required to make public their final accounts, although many are forced to provide these when attempting to borrow from banks or other financial institutions. However, Public Limited Companies, which obtain money by issuing shares, are legally obliged to publish their final accounts.

Many people, including rival companies, investors, lenders and trade union representatives, use the information contained in published accounts.

Careful study of final accounts can provide an enormous amount of information about the performance of an organisation. For example, it is possible to examine the Trading Account and discover more than just the Gross Profit figure. By interpreting the data available and making comparisons with figures for previous years, or with similar organisations, or by analysing the relationship between different figures, it is possible to find the real indicators of the future success and financial security of an organisation.

The types of questions that can be answered by interpretation of the final accounts include:

Interpretation of Income Statements

- Was this year's trading result good or bad, compared with last year or with a rival company?
- Are we making efficient use of our stock?
- Has the Gross Profit improved this year, compared with last year?
- Does our Net Profit figure compare favourably with those of other organisations in the same industry?

Interpretation of Statement of Financial Position

- Do we have enough working capital to avoid cash flow problems?
- Are we making enough use of available trade credit?
- Is our level of debtors comparable with that of our industry competitors?

Ratio Analysis

Information obtained from the final accounts of an organisation (Trading, Profit and Loss and Statement of Financial Position) can be analysed through the use of common ratios.

- PROFITABILITY – measure an organisation's ability to control its spending (so it is earning more than it is paying out)
- LIQUIDITY – measure an organisation's ability to pay their short-term debts
- EFFICIENCY – measure an organisation's ability to make good use of their resources

Uses of Ratio Analysis

- To compare the current year's performance with that of previous years.
- To compare our performance with those of similar organisations (same type and size).
- To interpret information in order to identify why differences occur and how best to improve performance in the future.
- To use the information for forecasting/budgeting.
- Comparisons are important in order that a true picture of the business performance can be drawn up. This also means that management can make informed decisions about the future of the business, based on reliable information.

Limitations of Ratio Analysis

- Information contained in final accounts is historical – it happened in the past.
- Like must be compared with like – any comparisons made must be with firms of similar size and in the same type of industry.
- Findings may not take into account external factors, recession or inflation effects.
- Findings do not reflect the implications or effects of new policies.
- Using different methods of stock valuation can result in different VALUE figures from company to company or from time period to time period.
- Only covers financial information. Does not take into account any other factors like the quality of staff or location of the business.

Profitability Ratios

Gross Profit Percentage

Formula	$\frac{\text{Gross Profit}}{\text{Net Sales (Turnover)}} \times 100$
Purpose	• To measure the percentage of gross profit earned on the trading activities of the organisation • To measure how many pence Gross Profit is earned out of every £ of sales.
Used by	• Managers/directors, comparing year on year and other similar companies.
Limitations	• No comment can be made unless trends over different time periods, or comparisons with other similar organisations are made.
Improvements	• Cut the costs of production/manufacture • Purchasing cheaper goods • Increase the selling price to the consumer

Net Profit Percentage

Formula	$\frac{\text{Net Profit}}{\text{Net Sales (Turnover)}} \times 100$
Purpose	• To measure the Net Profit earned as a percentage of the sales, after all expenses have been met. • To measure how many pence net profit is earned out of every £ of sales.
Used by	• Managers/directors/current investors/Inland Revenue, comparing year on year and other similar companies.
Limitations	• No comment can be made unless trends over different time periods/comparisons with other similar organisations are made.
Improvements	• Reduce the proportion of expenses paid out of every £1 of turnover.

Return on Capital Employed

Formula	$\dfrac{\text{Net Profit before interest and tax}}{\text{Capital Employed (at start)}} \times 100$
Purpose	• To measure the percentage return on the capital invested in the business.
Used by	• Managers – how useful is the capital employed in generating profits? • Current investors – what rate of return is being given on capital invested? • Potential investors – is the return from this company better/worse than from other companies? (Comparisons year on year and with other similar companies.) Comparison with current interest rates on Savings Accounts – far safer investment.
Limitations	• This ratio uses *historic* costs of the business's assets. If asset values are inaccurate then the capital employed figure will also be inaccurate.
Improvements	• Improve Net Profit (reduce cost of expenses)

Profit Mark-Up

Formula	$\frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times 100$
Purpose	• To measure the percentage added to the cost of goods sold to calculate their selling price.
Used by	• Managers/directors, comparing year on year and other similar companies.
Limitations	• No comment can be made unless trends over different time periods, or comparisons with other similar organisations are made.
Improvements	• Cut the costs of production/manufacture • Purchasing cheaper goods • Increase the selling price to the consumer

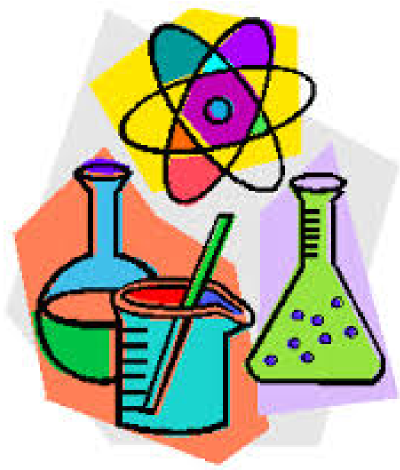
Liquidity Ratios

Current Ratio (also called the Working Capital Ratio)

Formula	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$ shown as something : 1 eg. 2.1 : 1
Purpose	• To measure whether the business has sufficient current assets to cover payment in full of current liabilities. Has the firm enough 'working capital' to meet all short-term debts? • Compares assets that will become liquid in less than twelve months with liabilities that fall due in the same time period.
Used by	• Managers/directors/banks and other lenders, comparisons year on year and between companies.
Limitations	• There is no ideal ratio, through it is commonly accepted that this ratio should be greater than 1:1. (Some businesses prosper with a ratio of less than this.)

Acid Test (Quick) Ratio

Formula	$\frac{\text{Current Assets - Stock}}{\text{Current Liabilities}}$ shown as something : 1 eg. 2.1 : 1
Purpose	• To measure if the company has sufficient liquid assets to cover current liabilities, if required • To assess if the company is suffering from a cash flow problem • This ratio excludes the values of stocks in its calculation as it can be quite difficult to dispose of stocks in the very short term. Even if stocks could be disposed of immediately, the business could no longer continue as it would have no stock left to trade with!
Used by	• Managers/directors/bank and other lenders
Limitations	• If a business has a slow stock turnover, the acid test ratio should, ideally, be greater than 1:1. With a fast stock turnover, the ratio can be less than 1:1 without causing alarm. When making an assessment, the trends over a number of years, and within the industry, should be considered. For example, many supermarkets operate quite successfully with an acid test ratio of less than 1:1.



Efficiency Ratios

Rate of Stock Turnover

Formula	$\frac{\text{Cost of Goods Sold}}{\text{Average Stock*}}$ *(opening stock + closing stock)/2
Purpose	• to measure how often the business buys in a 'bundle' of stock
Used by	• Managers – how much money is tied up in stock which could be used elsewhere.
Limitations	• There is no ideal figure to compare, although a lower figure shows that stock is being purchased infrequently and likely in high quantities
Improvements	• Buy in smaller quantities of stock more frequently

Uses of Financial Information in Business

Financial information is used for a wide variety of purposes by different stakeholders of the business.

Controlling Costs and Expenditure

Managers and owners can use profitability ratios to investigate and decide which costs should be monitored and dealt with. These ratios can also be used to decide whether suitable prices are being charged for the items of stock. If the ratios are too low, the prices can be raised. However, this may lead to customers going elsewhere.

Managers and owners can also use the profitability ratios to decide whether the profits are high enough to reward workers by giving them bonuses at the end of the year.

Forecasting Trends and Planning for the Future

Businesses can use ratios to forecast trends from year to year. They can see which areas of the business are affecting profits, e.g. cost of purchases, administrative costs, wages, or revenue earned for sales.

Managers can use cash flow to forecast trends. This helps them to identify whether:

- Proposed increased wage costs would lead to them having to arrange an overdraft
- The proposed purchase of a computer would mean having to arrange a loan.

Financial information about the business along with information collected on competitors can be used to consider introducing something new. This could be new products or new methods of production or selling, for example, on the internet.

Monitor Performance

Managers can use final accounts and ratios to monitor performance by comparing profits from year to year or with other similar organizations.

They can also ensure that targets and objectives are being met eg sales levels, profitability, and production levels.

Users of Financial Information

Central to the work of an accountant is the provision of information that can be given to interested parties to assist them in making decisions.

Managers/Owners

Firstly, require measures of profit to *evaluate* the effects of past decisions and how well they achieved the organisational goals, and as a *guide* assist in the decision-making process for the next financial period.

Secondly, they need to know the patterns of cash flows, both historical and current and to be able to *predict* and *maintain* liquidity and credit worthiness.

Thirdly, they need to have detailed information about the organisation's assets and liabilities to assist in the *control* of them.

Fourthly, management will use financial information to control the actions of employees. The information required by the management team is more detailed and is required more frequently, than by any other user group.

Shareholders

Shareholders are interested in the profits of the organisation as this may influence dividend payments. They will be interested in its liquidity and continued success.

Employees

Take an increasing interest in the financial affairs of the organisations that employ them. Although the ability to pay has not been *accepted* fully as a criterion for wage settlements, in recent years there has been increasing use of company and industry profit figures in wage negotiations. Many wage settlements are now also linked to productivity (and thereby profit) improvement.

Employees may use information on profit levels to see if bonuses may be paid and to satisfy themselves that there is job security.

Investors and Potential Investors

Will want to use information on past performance and the present financial position of an organisation to attempt to *predict* future returns on capital invested. They will also use accounting information to *assess* the performance of the management team.

Local Community

Success/survival of organisation may bring more jobs to the area and boost the local economy. This in turn may require the local council to look at profit levels of the organisation to estimate growth potential and the need for additional facilities in the area eg housing and schools.

Creditors

Both short-term (suppliers) and long-term (institutional and individual lenders) have an obvious interest in assessing the amount of security for the debt owed to them. They will be interested in the organisation's ability to generate funds to repay capital amounts outstanding *and* to repay, on a regular basis, any interest owing. Creditors will also want to know the extent and priority of any other liabilities.

Trade Unions

Re-presenting groups of employees, trade unions will use financial information to try to negotiate the 'best deal' for their members, in terms of pay and working conditions. Unions are vociferous in condemnation of high salary increase for senior management and low wage settlements for workers. They also have influence in the political sphere, having a close association with the Labour Party, and may use/provide financial information to support their, or the Labour Party's aims.

Government and Government Bodies

These institutions must be provided with certain information *by law* regarding the financial position of an organisation – even a sole trader must provide a record of profit and expenses to the Inland Revenue for taxation purposes. The requirements for companies will normally be laid out in the Companies Act.

The increasing importance of consumer protection has meant that, more and more, financial information is require to highlight 'problem' areas such as unfair pricing. The June 1994 case against the UK music industry over the high prices charged for CDs was not proved as unfair. It is also used to identify restrictive practices, to prevent the operation of cartels and the growth of monopolistic manufacturers and retailers and to identify foreign investment (especially in 'key' industries).

Economists/Analysts

Use accounting data as a basis for their research and to provide information for the planning and prediction of industry, as well as national and international economic performance. Much of their research is used by government (and the opposition parties) to assist in policy-making decisions for the business community as a whole.

Customers & the General Public

The general public have, in recent years, taken an increasing interest in the effects of business activities. Consumers, as shareholders (Margaret Thatcher's 'popular capitalism') and as members of wider society and as environmentalists, more and more want to know about issues such as monopolistic profits, harmful and dangerous products, pollution, unfair/offensive advertising and foreign control. In terms of Public Limited Companies much of this information can be found in the published accounts and reports – which must be made available, on request, to members of the public.

Limitations of Financial Analysis

- Financial statements are *historic*
- Using different methods of stock valuation can result in different *value* figures from company to company or from time period to time period
- Unless looking at percentage figures, the impact of inflation is not reflected in comparative figures
- There can be international variations in accounting standards
- Valuing *intangibles*, such as 'Goodwill' is subjective, not objective

Financial statements only include quantifiable data. Important points not included in financial data are:

- Morale/staff turnover
- Product portfolio
- Abilities/skills/expertise of staff
- Research and development/new product development
- Technological sophistication of product/production process
- Competition/size/share of market
- Marketing techniques used
- Organisation structure
- Social concerns/duties

Role of Technology in Managing Finance

Technology can assist greatly in the preparation and interpretation of financial records, in particular spreadsheets (eg MS Excel) and accounting packages (eg Sage).

- Spreadsheets allow a variety of formulae and functions to prepare financial records – this may reduce errors made during calculations
- If statements can be used to see the outcome of alternatives – can help managers make decisions eg by showing effect of borrowing different levels of finance in a cash budget
- Templates can be created and used throughout the organisation to ensure consistency of financial record keeping – makes internal analysis easier and helps employees understand/use spreadsheets effectively
- Graphs and charts can be created from spreadsheets which are easy to understand – comparison of projected/actual figures, trends over a period of time, comparison with competitors
- Graphs/charts may be inserted into financial reports that can be emailed to appropriate staff or added to presentations (eg MS Powerpoint) to communicate financial information
- Spreadsheets can be stored centrally in the organisation's intranet allowing multi-user access and can be backed-up in case original file is damaged/lost

Glossary

Term	Meaning
Assets	Items owned by a company – for example, equipment, cash, etc.
Creditors	People from whom we buy goods on credit and whom we have not yet paid, or others owed money e.g. bank. Creditors are shown in the Statement of Financial Position as a current liability.
Current assets	Current assets are more liquid – more easily converted into cash – than fixed assets. Current assets consist of stock, debtors and money (in bank or cash).
Current liabilities	Anyone to whom the firm owes money in the short term – e.g. bank overdraft, bills due, other creditors.
Debtors	Customers to whom we have sold goods on credit and who have not yet paid. Shown in the Statement of Financial Position as a current asset.
Equity	The monetary value of the business which belongs to the owner.
Expenses	These have to be paid in the running of the business – e.g. rent, wages, and electricity bills.
Fixed assets	Fixed assets are items owned by the firm, which will last a long period of time – e.g. premises, furniture.
Gross profit (or loss)	Difference between cost of goods sold and sales revenue.
Hire purchase	Spreading the payments of a purchase over a period of time.
Income	Money the business receives in the form of sales revenue.
Liquidity	The ability of a business to pay it debts in the short term.
Mark-up	The difference between the buying and selling price of a firms product.
Net profit (or loss)	If expenses are less than gross profit a net profit will occur. If expenses are greater than the gross profit, then a net loss will occur.
Overheads	Expenses of a business other than materials or labour.
Working capital	Difference between current assets and current liabilities – i.e. cash/near cash (stock and debtors) owned by the business and money owing. It shows the ability of an organisation to pay its debts quickly.