Understanding Business

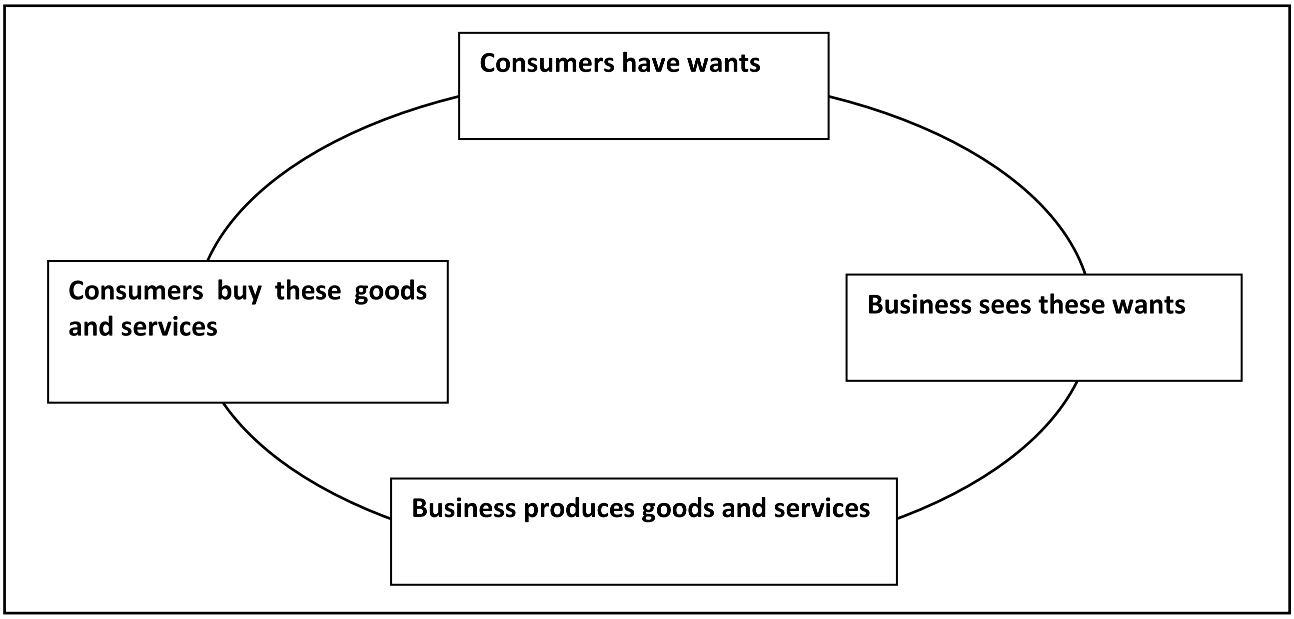
CfE Higher Business Management

Class Notes

Contents

The role of business in society

Everyone in our society has 'wants'. Some wants are for things like food, clothing and shelter while others are for entertainment, leisure, travel and so on. Taking everybody in society together, there are millions of wants. To satisfy these wants we make use of (or consume) goods and services. If suitable goods and services were not available, we would not be able to satisfy our wants. This is why business activity is important: because it is through business activity that goods and services are provided. A definition of business activity is any kind of activity that results in the provision of goods and services which satisfy human wants.



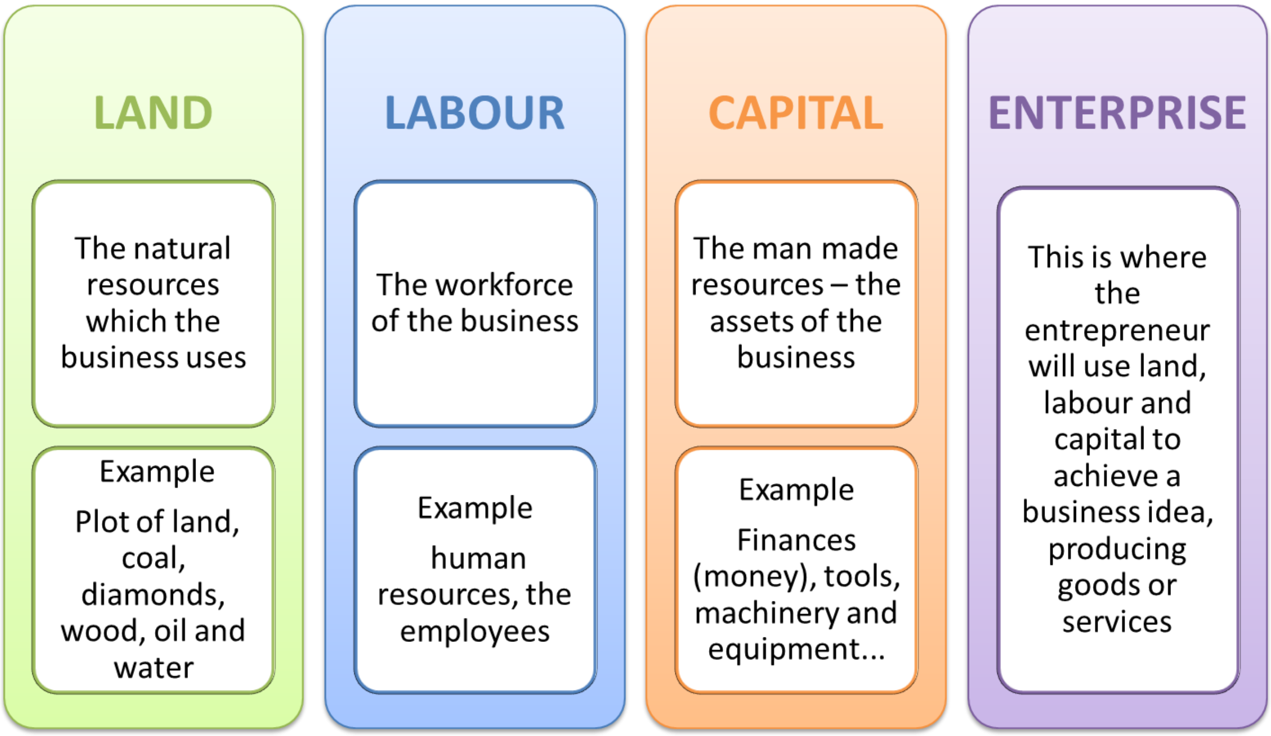
Business activity can be described as 'wealth-creating'. This is because the term 'wealth' is used to refer to the amount of goods and services, or output available – the more goods and services that exist the greater the amount of wealth. In this sense, then, wealth is not money as such but the total of goods and services, which can be given a monetary value.

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

Goods are tangible while services are intangible. Goods sold to the general public are often referred to as consumer goods. Consumer goods may be classified as **durable goods** like cars, washing machines, or personal computers; or **non-durable goods** like sweets, drinks, newspapers. Durable goods can be used regularly over a long period of time while non-durable goods are consumed over a short period, usually soon after they are bought. Examples of services are going to the hairdresser, being served in a restaurant, or visiting a doctor.

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

Factors of production are classified into four categories:



Business activity involves using resources to produce goods and services which people require in order to satisfy their wants.

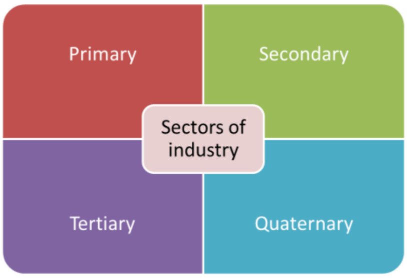
The entrepreneur is the person who brings together the factors of production (workers, the natural and the man-made resources) to produce goods and services. Without the entrepreneur nothing would be produced. He or she will identify an opportunity to provide new goods or services, or to provide existing goods or services cheaper or in a better way.

Entrepreneurs use their own money or borrow money to put all the necessary resources together. They often have to give up other work and their regular income. They invest the time, money and effort on a business idea that might or might not work.

Entrepreneurs are 'risk takers' – they can stand to lose everything if the idea doesn't work. Many entrepreneurs use franchising as a means of starting up their own business – this reduces the risk of failure as support and guidance is provided by the franchiser.

Most well known entrepreneurs are people who started their own businesses from scratch, like Richard Branson and Virgin, Sir Tom Farmer and Kwik-Fit, Bill Gates and Microsoft.

Sectors of industry

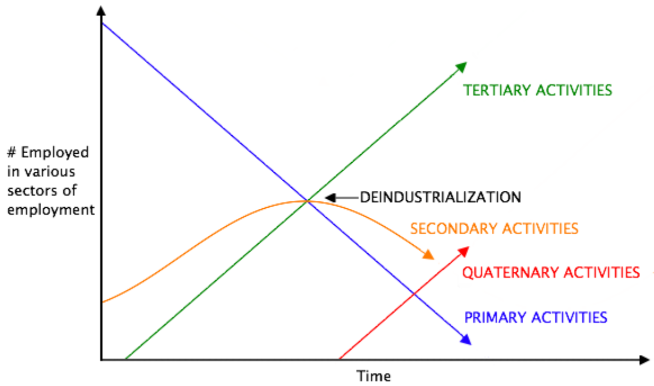


The **primary sector** comprises businesses involved in taking natural resources from the land, that is, agriculture and extractive industries such as coal mining.

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

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

The **Quaternary Sector** can also be described as the support sector, and activity here is based around organisations which provide information, especially to businesses. IT consultancy, research and development, and consultancy services (for example management consultants such as Accenture) operate in this sector of activity.

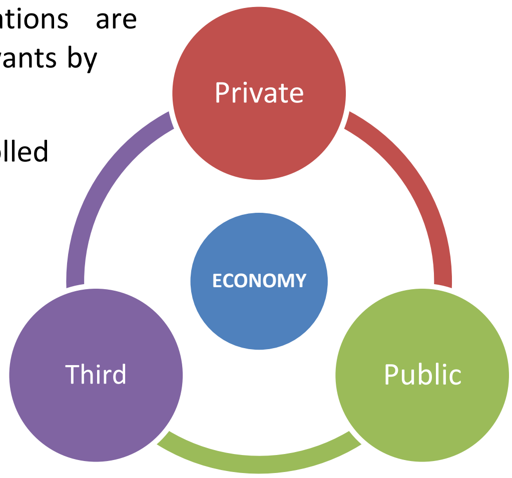


(Colin Clark Sector Model)

Countries tend to go through three stages of development. In the first they are dominated by the primary sector, as is the case in less developed countries (and was true of the UK up until the Industrial Revolution 200 years ago). In the second stage, experienced by the UK from around 1800 until the middle of the 20th century, secondary sector industries such as steel, car manufacturing and shipbuilding are the most important. During the last 40 years the process of de-industrialisation (or decline in the importance of manufacturing) has gathered pace. Today in the UK, as in most industrialised nations, the tertiary and quaternary sectors are by far the largest and fastest growing ones, both in terms of output and employment.

Sectors of the economy

Organisations are groups of people who combine their efforts and use their resources to achieve a particular purpose. Business organisations are organisations whose purpose is to satisfy consumers' wants by producing goods and/or services.



- **Private-sector** organisations are owned and controlled by private individuals and investors.
- **Public-sector** organisations are owned and controlled by the government.
- **Third-sector** organisations are set up to raise money for good causes or to provide facilities for their members.

Types of organisations

Private-sector organisations

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

- sole proprietor (sole trader)
- partnership
- limited company
- public limited company
- franchise

National 5 topics

Sole proprietor (sole trader)

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

<u>Advantages</u>

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

<u>Disadvantages</u>

- It can be difficult to raise finance – the sole trader may have to rely on savings or finance from relatives to get started. Banks may provide finance but may charge higher rates of interest if they are willing to lend at all.
- The proprietor is solely responsible for all the financial commitments. A sole trader has 'unlimited liability', which means that, should the business fail, the owner can be held personally responsible for its debts, even to the extent of having to sell everything they own. This might mean s/he could face bankruptcy if the business fails.
- There is no one with whom to share the responsibilities of running the business – many sole traders work long hours with few holidays.

Examples: small newsagents, hairdressers, plumbers.

Partnership

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

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

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

Advantages

- The responsibilities of ownership can be shared.
- Partners can specialise in their areas of expertise.
- A larger amount of capital is available.
- Introducing a new partner can bring an influx of ideas as well as more capital.

Disadvantages

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

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

Limited Company (Ltd)

The capital of a company is divided into shares – each member or shareholder owns a number of these shares. The company must have a minimum of 2 shareholders. Limited companies are run by a Board of Directors who are appointed by the shareholders. Limited Companies must complete 2 documents – the *Memorandum of Association* and *Articles of Association* – these set out the aims of the business and how it will be run and financed. The company must register with the Registrar of Companies.

- A private limited company (Ltd) is not allowed to offer shares to the public through the stock exchange.
- Limited liability means investors (shareholders) do not risk personal bankruptcy. A company is treated as a separate legal entity from its owners. Thus a company can own assets, employ people and be sued. Just as one person cannot be held responsible for the debts of another, so owners of a company cannot be forced to pay the company's debts.
- A measure of privacy can still be retained – private companies are not obliged to publish their annual reports or issue a prospectus to members of the public if requested.

Public Limited Company (PLC)

A PLC is generally a large company – it must have a minimum of £50,000 share capital. The shares of PLCs can be bought and sold on the stock exchange – large amounts of capital can be raised by selling shares to investors. PLCs must also complete a *Memorandum of Association* and *Articles of Association.* PLCs must also be registered with the Registrar of Companies.

Advantages

- Shareholders are entitled to limited liability (only lose the money which they have invested in shares – they are not liable for any other debts of the company).
- Knowledge that shares in public limited companies can be resold on the Stock Exchange if required encourages people to invest.
- Huge sums of capital can be raised from individuals and institutional investors such as Pension Funds and Insurance Companies.
- All the above mean financial stability for the company which enable it to develop and expand.

Disadvantages

Members of the public can examine financial information about companies which is lodged with the Registrar of Companies. PLCs have to make more information available to the public than private limited companies – for example, they must publish Annual Reports.

- PLCs may grow so large that they become inflexible and difficult to manage effectively.
- In very large companies employees may feel out of touch ('alienated') from those at the top and it may be difficult to take a personal approach to customer service.
- The legal procedures necessary to set up companies, especially PLCs, can be very costly.

Examples of public limited companies include Legal & General plc, Marks and Spencer plc, Manchester United plc and the Boots Company plc.

Multinationals

Many large PLCs operate as **multi-national corporations**. Multi-national corporations have branches (called *subsidiaries*) in more than one country. Many companies establish sales outlets for their products in various countries. However, the distinguishing feature of an MNC is that it sets up **production facilities** in more than one country. British multi-nationals include BP and ICI. MNCs are major employers in many countries.

Reasons for establishing MNCs:

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

Disadvantages of MNCs for the host country:

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

Franchise

Definition: a business run by one organisation under the name of another. The franchiser gives the franchisee a licence permitting them to sell goods or services under the franchiser's brand name, usually in return for a share of the franchisee's profits. The franchisee's licence permits him/her to use the franchiser's name, publicity materials, decor, uniforms, etc.

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

Businesses such as McDonald's operate some branches directly and others as franchises. Other examples of franchises: Kentucky Fried Chicken, the Body Shop and the British School of Motoring (BSM).

<u>Advantages</u> for the Franchiser:

- It is a quick way to enter new geographical markets and the franchiser's name becomes more well known as the business expands

<u>Disadvantages for the Franchiser:</u>

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

<u>Advantages for the Franchisee:</u>

- The new business can begin trading on the established reputation of the franchiser immediately;
- The franchisee has the advantage of a well known brand name and back up service;
- All franchisees can benefit from ideas generated by each of them. For example, when a McDonald's franchisee thought up the 'Egg McMuffin', the recipe was circulated to all the other franchisees and the product became very successful.

<u>Disadvantages for the Franchiser</u>

- A percentage of the profits has to be paid to the franchiser;
- The franchiser may impose strict rules on the franchisees and restrict their ability to operate on their own initiative;
- The franchisee's reputation and profitability depend in part on that of the franchiser and the performance of the other franchisees.

Public-sector organisations

The overriding aim of public-sector activity is to provide services thought necessary for the general public. It is often the case that public-sector organisations have to operate within an allocated budget.

There are business organisations, called *public corporations*, which are owned and run by the state on behalf of the people. Their chairman and board of directors are chosen by the government and are accountable to a government minister who in turn is responsible to Parliament.

Funding is provided through central and local Government – this finance comes from taxpayers through PAYE, TV Licence, Road Tax and other taxes.

The British Broadcasting Corporation is an example of a public sector organisation. Many public sector organisations were privatised by the Government in the 1980s. Former public sector organisations include BP, British Gas and British Steel. More recently, the Government privatised Royal Mail.

Find out more at http://www.bbc.co.uk/news/business-23253370.

Local authorities

These provide services such as housing, street lighting, refuse collection, education, leisure and recreation, and environmental health. Most of these activities are financed from receipts from council tax and grants from central government. Some local authority facilities such as local swimming pools are financed by charging users a fee.

In recent times there has been a trend to 'contract out' some local authority services, such as refuse collection and school meals. This means that private organisations are invited to submit bids to the local authority for the right to run a particular service (called *competitive tendering*). It is argued that this will result in a more cost-effective service for the community because, unlike government-run enterprises, private organisations have an incentive to keep costs low and efficiency high in order to survive and to maximise profits.

Third Sector

These organisations have **different aims** from those of other private sector enterprises. There are 2 types of organisation in this sector.

Charities - they are 'not for profit' organisations and very often their reason for existing is to help a charitable cause in some way. Any proceeds they do make – is simply ploughed back into the charity. Thus profitability is not their main aim, but raising funds is a way of achieving their objective of helping certain causes or groups of people.

To be recognised officially as a charity, the organisation must have one or more of four main objectives:

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

The Charity Commissioners are appointed by the government to regulate the activities of charities. They keep a Register of Charities. Recognised charities are given 'charitable status' which means that they are exempt from paying certain taxes, such as VAT.

Examples: Help the Aged, Save the Children, Barnardos, Oxfam.

The other type of organisation is a Social Enterprise. They have the objective of trading for a social and/or environmental purpose. They aim to make a difference by helping a particular group of people. They have a clear focus which means it will know what difference it is trying to make, who it aims to help, and how it plans to do it.

These organisations are funded through selling goods or services unlike charities which rely on donations and most of the profits are reinvested into the social mission. They appear to be private sector organisations because they try to make a profit **BUT** they do not distribute profits back to the owners - the profits are put back into the organisation to achieve the social aims.

Some examples are The Big Issue, Jamie Oliver's Fifteen, Divine Chocolate

Social enterprises are legally set up but there are different structures of social enterprises.

Objectives

Businesses may have a range of objectives that they wish to achieve. An organisation's objectives depend on a number of different things including:

- the type of organisation
- the size of the organisation
- the type of goods or services which the organisation produces
- the history of the organisation
- PESTEC (Political, Economic, Social, Technological, Environmental, Competitive) factors
- is it in the public, private or third sector – private sector organisations aim to make a profit as do social enterprises, but public sector organisations and charities aim to provide a service

Maximising profit

To the economist, the main aim of a business is to make as big a profit as possible. Certainly, in the long run, a business has to make some kind of profit in order to remain viable. However, this does not necessarily mean that all businesses strive solely for profit maximisation in the short run or even in the long run.

Survival

For some organisations this is the over-riding goal. Small family organisations may be more concerned about keeping the business safe from take-over by large enterprises than making enormous profits.

Managerial objectives

Where ownership and control are separate (e.g. in a PLC), managers within a business may choose to pursue their own individual aims. These will vary depending on what individual managers wish to achieve. Among the aims which have been suggested are that managers will aim to have a lot of staff reporting to them; they will aim to have money to spend on perks (e.g. expense accounts, company cars); they will aim to get budgets to spend on projects which they believe will bring them prestige and status, e.g. expansion to new markets, or developing new technology.

Satisficing

Instead of having an objective to make the maximum level of profits, a business may aim only to make a level of profit which is sufficient to keep all its stakeholders satisfied, e.g. enough to pay acceptable dividends to shareholders, or enough to provide funds for future investments. Another way to describe this to say that a business has the objective of making a satisfactory level of profit. This has been described as 'satisficing'. (This is particularly relevant to public sector organisations which have to operate within specific budget guidelines.)

Corporate Social Responsibility

A organisation may wish to improve its public image and hence its chances of survival and market growth by demonstrating *corporate responsibility* through measures such as sponsorship of worthy causes or a commitment to ecologically sound practices. Spending money on such public relations initiatives will diminish short-term profitability, but can help to boost the chances of survival in the long term. Activities by pressure groups such as Greenpeace (which, for example, generated some adverse publicity for Shell UK by protesting against their dumping of obsolete oil rigs) have increased the emphasis on *social responsibility* in businesses in recent years.

Provision of a service

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

Maximising sales

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

Growth

A business may have the objective of growth. Becoming larger may enable a business to take advantage of economies of scale and become more efficient through having lower costs. A organisation which grows may also get some degree of monopoly (controlling) power and be able to charge higher prices.

If a business is successful it will tend to become bigger each year. The bigger the business the more able it is to survive. However, for many organisations this process of organic growth is not fast enough and they may consider joining forces with another organisation in order achieve a more rapid rate of growth.

Mission Statements

A mission statement sets out the purpose of an organisation. It answers the question 'What are we here for?' Creating such a statement helps the organisation develop a common understanding of its main task. It allows everybody in the organisation to identify with the objectives of the organisation and establishes a sense of purpose. A mission statement is normally written in language that everyone can understand. From the general targets established in the mission statement, specific policies such as the customer-service policy can be developed.

"Apple is committed to bringing the best personal computing experience to students, educators, creative professionals and consumers around the world through its innovative hardware, software and Internet offerings."

"Our mission is to be the consumer's first choice for food, delivering products of outstanding quality and great service at a competitive cost through working faster, simpler, and together." Sainsburys

Growth

Horizontal integration

This is the combining of two organisations operating at the same stage of production, for example, two supermarkets. One organisation might merge with another in this way in order to:

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

Vertical integration

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

Backward vertical integration is when a organisation takes over another at an earlier stage of production – for example, a jam manufacturer taking over a fruit farm. This enables the take-over organisation to be sure of the availability and quality of its input.

Forward vertical integration is when a organisation takes over another at a later stage – for example, a pie manufacturer taking over a chain of delicatessens. The main reason for this is to control the distribution outlets for the product.

Advantages are that this:

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

Conglomerate integration (diversification)

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

Reasons for diversification:

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

De-merger /De-integration

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

Divestment

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

Contracting out/outsourcing

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

This occurs when a larger company is divided into smaller companies, or an industry changes so that it contains moresmall companies and fewer large one

Management buy-out/Management buy-in

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

Asset stripping

This is when a company or an individual, known as a corporate raider, takes control of anothher company, and then auctions off the acquired company's assets. The monies gained are then used to repay the debt of the corporate raider.

A **merger** is where to separate business becomes one entity on equal terms.

A **take-over** is where a business takes control of another business and it loses it’s identify. This can result through friendly or hostile means.

External Factors (PESTEC)

- Political/legal
- Economic
- Social
- Technological
- Environmental
- Competitive

Political/legal pressures

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

A major influence on the private sector in the past 20 years has been the trend towards privatisation, which has provided many business opportunities and led to increasing competition in areas such as the supply of utilities like gas and electricity.

The government can also affect the private sector by the laws it enacts and the policies it adopts. For example, in 1997 a law was passed banning the testing of cosmetics on animals, which means increased costs and new methods of research for organisations who now have to find alternative methods of ensuring the safety of their products.

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

Economic pressures

Economic factors affecting the operation of businesses may take several forms. One economic factor, which is completely outside the control of any organisation, is the state of the economy. The Bank of England sets the interest rates for the UK. An increase in interest rate will directly affect any business with loans to repay, as the amount borrowed will increase. Large businesses who trade internationally have to deal with the fluctuating exchange rates between countries. This will affect the price of raw materials or the profit margin on goods sold.

Social pressures

Demographic changes

The UK has a slow-growing population and an ageing one. The average family size has fallen to below two children, and the average age of a first-time mother is now 29 compared with 24 a decade ago. Organisations have sought to respond to such changes in their environment in a variety of ways:

- by being more willing to accept older workers;
- by investing more in training and retaining younger workers ;
- by producing goods/services for older people (for example, SAGA Holidays);
- by producing goods/services to appeal to affluent career couples with or without children (for example, 3D televisions and gourmet baby food).

Socio-cultural changes

By 'socio-cultural' we mean changes in lifestyle and attitudes in society. Some changes which have occurred in the UK in recent years include:

- the changing role of women: most women are now in work; more than 50% of university students are female;
- greater life expectancy;
- growth of home and share ownership;
- smaller families;
- concern about animal and environmental welfare;
- more time available generally for leisure;
- more car ownership.

The changing pattern of employment affects business. For example, the increase in the number of households where both adults work has driven the increase in online supermarket shopping, as families choose to spend more time together and less time buying weekly shopping. The supermarket chain Sainsbury's was one of the last to make the move to online sales, and blamed its poor financial performance on the late decision to do so.

Structure of the labour market

These demographic and socio-cultural changes have also had an impact on the structure of the labour market. This has also been affected by other factors such as de-industrialisation and the growth of the service sector. Changes in the labour market include:

- a great increase in the number of women in the labour force;
- a decline in manual labour jobs which were traditionally filled by men;
- an increase in the number of jobs in the service sector;
- an increase in the number of people in part-time or temporary employment.

Technological pressures

Change in technology can also bring pressure for change to businesses – in recent years most of these have been linked to developments in information and communication technology (ICT). They include:

- e-mail which enables businesses to communicate with their branches, customers, etc. much more rapidly;
- the growth of the Internet which opens up new markets, and enables customers to find out information easily;
- software improvements, e.g. in databases which enable businesses to analyse details about their customers.

Developments such as these mean that businesses which do not keep up to date may well be unable to compete and therefore unable to continue in business. They also mean that business has become much more international. The term 'globalisation' is now being used to describe this phenomena of communication networks which span the world.

The American bookseller, Amazon, which sells books through its Internet site, has become the largest book retailer in the world. It is able to carry a much larger stock than even the largest of bookshops, and customers can shop and pay for books without leaving the comfort of their own home.

Other changes in technology which may also affect businesses include:

- transportation of goods is now much quicker and larger quantities can be easily moved from one place to another. Many UK clothing organisations, for example, have been forced to close because production has been transferred to places elsewhere in the world where labour costs are cheaper;
- new production techniques mean that products can be made by computer-controlled machines and so businesses need to employ fewer people.

Environmental pressures

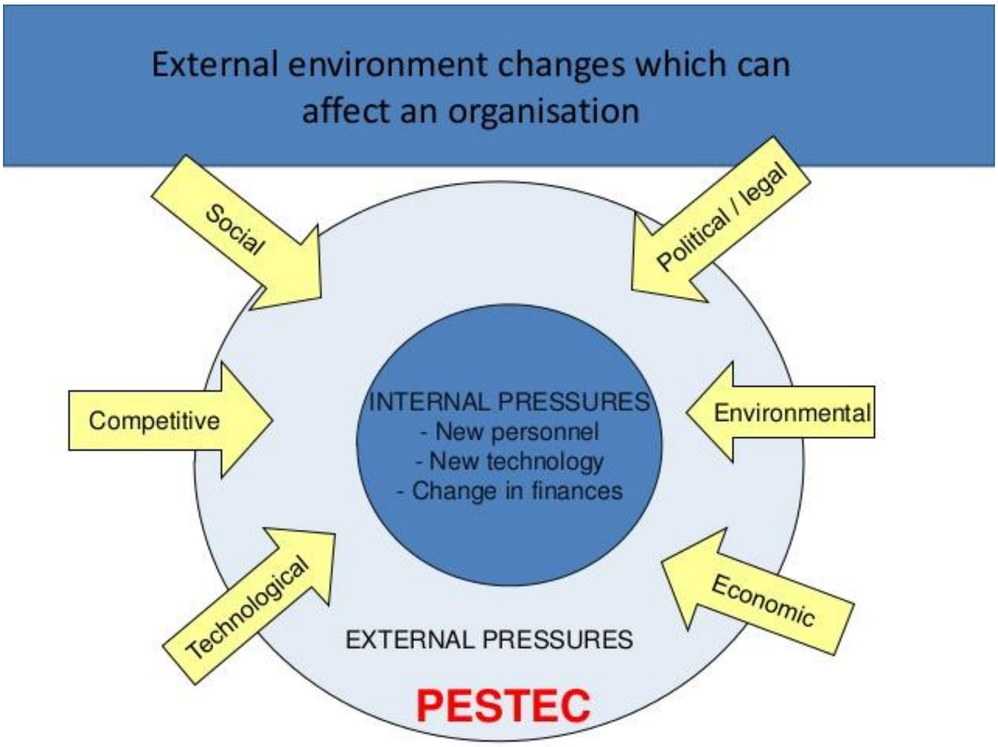
These have become much more significant in recent years. Pressure groups which promote environmental awareness such as Greenpeace and Friends of the Earth have become much more high profile. As a result they are able to affect the behaviour of businesses. In 1995, for example, Shell Oil wished to dispose of the disused oil platform, Brent Spar, by dumping it at sea. Action by Greenpeace in many countries, including encouraging customers not to buy Shell petrol, forced Shell to abandon their plans and consider other ways of disposing of the platform. Shell and many other businesses now stress that they have an aim of corporate or social responsibility.

Environmental concerns have also led to changes in legislation, e.g. in Germany businesses must recycle packaging material, while in Holland every government department must set an environmental quality target.

It is important to realise that changes such as those detailed above will have many far-reaching effects on business activity – for example, the existence of out-of-town hypermarkets and one-stop shopping was made possible by the spread of car ownership and would be threatened if the use of cars was to be limited because of the pollution they cause. This gives an impetus to oil organisations to try to find an environmentally friendly fuel, and to governments to finance alternative methods of transportation rather than build more motorways which destroy the environment.

Competitive pressures

The existence and/or actions of competitors will influence the operation of a business – action will have to be taken to protect sales, market share, profits. Apple and Samsung have been embroiled in a number of lawsuits over the design of their smartphones and computers, with both sides citing the other as copying their intellectual property. Disagreements such as this are very costly and time consuming.



Internal Factors

An open system is affected by changes in the world around it (its environment), as well as within it. Thus, all businesses constantly have to face the need for change. Pressures to change may come from within or outwith the organisation.

Internal pressures to change:

- new personnel in the organisation, especially in management positions
- new technology being used in the organisation
- a change in the organisation's financial position.

Staffing

All businesses need stability. A high turnover of managers does not provide this stability as every new manager, or management team, joining the business will come with their own ideas and initiatives. There may be a more serious underlying problem if a business loses managers in quick succession. The business may be offering a level of pay lower than that of their competitors, or may be controlled by a board who are unwilling to give a manager the autonomy required to complete their role.

A businesses greatest asset is its employees, who must be nurtured and motivated. A successful business will invest in its workforce to ensure that it gets the best out of them. They realise that employees are the first contact for customers and the efficiency and effectiveness of employees will determine the profitability of the business.

Availability of finance

The ability to invest new sources of capital into a business will also impact on that businesses success. A business may wish to expand into new countries, bring a new product to market or run a new advertising campaign. All of these things cost money. The management of an organisation has to decide where that money is going to come from. It may look to increase the number of shareholders, for example. Before doing so, the business must be comfortable with the knowledge that an increase in shareholders reduces the ownership and control of the current owners.

Technology

We live in a world driven by technology and the desire for the next thing. A businesses response to technology will determine how well it can compete in the future. Technology offers many benefits, but it is costly to implement and requires a long term commitment from the Management of a business to ensure appropriate upkeep and continuous development.

Corporate culture

Corporate Culture is normally defined as "The way things are done around here".

The ability of a business to function lies with the managers and employees who make decisions. The ability for employees to function successfully is often determined by the culture of the business. Corporate culture is the shared values and beliefs of those working within the business. This means the way in which the attitudes, beliefs, values and norms of the firm are visible and evident and shared by all employees in the organisation. This can be through the uniform that staff wear, the colours and logo, mission statement, rewards for staff amongst other things.

Benefits of a strong culture are:

- employees feel valued and are empowered to always give their best
- increase in workers being given the opportunity to work more flexibly
- freedom often encourages loyalty and can mean that staff work rates can increase.
- staff will feel as if they belong to the firm, and this will increase their loyalty and fewer staff will leave
- staff who feel valued and want to work for a firm that perhaps promotes excellence or quality in their culture, will boost staff motivation as they will want to be seen as part of a successful or innovative company
- customers may become aware of the standards and culture the company stands for, which may increase profits.

A businesses corporate culture can be determined by a number of factors:

- historic decision making processes;
- the size and nature of the business;
- the number of employees involved in the decision making process;
- the management structure;
- the flexible working practices employed by the business.

Stakeholders

Stakeholders are individuals or groups of people who have an interest in, and stand to be affected by, the success or failure of an organisation.

Internal stakeholders include:

- Shareholders/owners;
- Managers;
- Employees.

External stakeholders include:

- Suppliers;
- Customers;
- Banks;
- The government;
- Local community;
- Taxpayers;
- Donors (for charities);
- Local government.

The interests of stakeholders and their influence can come into **conflict** at times as different stakeholders have different objectives. But stakeholders are also **interdependent** – they need each other.

<u>Examples of conflict</u>

- Owners generally seek high profits and so may be reluctant to see the business pay high wages to staff whereas staff are interested in receiving as high a wage as possible.
- A business decision to move production overseas may reduce staff costs. It will therefore benefit owners but work against the interests of existing staff who will lose their jobs.
- Customers want to receive the best quality good for the lowest price but owners are interested in achieving as high a price as possible whilst producing goods as cheaply as possible.

<u>Examples of interdepence</u>

- Mangers rely on employees to provide a good service
- Government relies on organisation to pay taxes on time

Interests (want to achieve)	Influence (how do they get what they want)
▪ Shareholders will be interested in healthy profits which will ensure them a high level of dividend, growth and stability leading to an increase in the value of their shares. ▪ Managers will want chances of promotion and growth to ensure their own job security. ▪ Employees are concerned about pay levels, working conditions, etc. ▪ Suppliers will want to get regular orders with prompt payment after a reasonably brief period of credit. ▪ Customers want low prices, high quality, and good after-sales service. ▪ Banks want to know the business meet repayments on time. ▪ The government will want to ensure the organisation complies with the law, pays the correct amount of Corporation Tax and Value Added Tax, and provides employment for the working population. ▪ The community as a whole (that is, society) will want organisations to demonstrate corporate responsibility, not harm the environment, treat employees fairly, and not exploit consumers. ▪ Taxpayers have a stake in businesses because some of the taxes that they pay may be used to help businesses, e.g. in the form of government grants or other assistance. Taxpayers wish that payments are used for their benefit, e.g. to increase employment opportunities. ▪ Donors are important stakeholders in charities. They will wish to see the money that they have donated used for the purpose of the charity ▪ The local community has a stake in businesses which are situated in their area. Businesses provide employment and may sponsor local events. May influence services like schools, as well as the environment.	▪ Ordinary shareholders have voting rights at the Annual General Meeting ▪ Managers have day-to-day decision-making powers. ▪ Employees may take industrial action, such as strikes or working to rule, to persuade the organisation to do what they want. ▪ Suppliers can vary the period of credit and/or the level of discount offered to firms. ▪ Customers influence firms by buying, or refusing to buy, their output. ▪ Banks have the power to grant or withhold loans to firms and to set the rate of interest charged. ▪ The government can introduce laws to make firms carry out its wishes – for example, the Equality Act has made it illegal for firms to refuse to employ a man or a woman simply because of their gender. ▪ The community as a whole can persuade firms to do as it wants through pressure groups such as Greenpeace, etc. ▪ Donors can influence what charities do by altering the amount of money that they donate. If a charity does something with which many donors do not agree, it may receive less money from them. ▪ The local community can influence how businesses in their area behave through the local newspapers or through protesting against a business's decisions such as the closure of a factory. ▪ Local government can influence business organisations through planning and other legislation for which local government are responsible. They can also provide help through the creation of suitable sites for businesses such as business parks.

Structures

'An organisation is the rational co-ordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through the division of labour and a hierarchy of authority.'

Edgar Schein

Whilst Schein gives us a general definition of an organisation, he does not tell us how that organisation is structured – what activities are grouped together and why. In fact there are many different types of business organisation and many different ways that organisations can be structured.

The structuring of an organisation shows the formal channels of communication and management roles and the grouping of activities is the way the organisation carries out its product/service production.

All types of businesses have to be organised in some way so that they work properly.

People working for a business have to know:

- who and what they are responsible for;
- who they are responsible to;
- what decisions they can make;
- where they should go for information, advice, or instructions.

This will be decided by the way the business is organised. Different businesses will be organised in different ways. For example, a small shop owned by one person with 2 assistants will not be highly organised. The owner will make all the decisions. However, if the owner is out the assistants will have to know if they can make decisions or wait until he/she comes back. They will have to know if one can tell the other what to do.

It is unlikely that a small business like this would need a great deal of organisation; however if the owner does not tell the staff about their responsibilities then there will be problems.

In large businesses the problems would be even greater if it was not organised properly. A small business may start off with a less organised structure but this will have to change as it develops over time!

Factors affecting the internal structure of an organisation

Size	▪ The bigger the organisation, the more organised it will have to be so large businesses will tend to have tall organisational structures ▪ Small businesses will need less organisation and so will tend to have flat structures ▪ As a business grows it becomes harder to control all the staff within the organisation therefore in order to keep control and supervise, managers will be appointed to look after groups of workers ▪ Departments will be formed and the number of levels will increase
Technology	▪ The introduction of new technology can change the structure of a business ▪ For example a new information technology system could reduce the need for a large administration department ▪ Greater use of the internet may change how the sales department is organised
Product	▪ Having a small number of large customers for your product means that a flat structure using teams may be more appropriate ▪ For example, a building firm will have only a few large jobs on at any one time, so the staff will be split between each of these jobs
Market	▪ If the market is small and local then the organisation will be small, for example, a hairdressing business market will normally be the local community, so a flat structure with few employees will be all that is needed ▪ If the market is big and widespread then the organisation may well be large and organised around the geographical areas it covers, for example, a national double glazing company will have a head office, and a number of regional sales teams for different parts of the country

Formal Structures

Hierarchical structure

This is the traditional structure for many medium and large organisations. It is also sometimes called a ***pyramid structure*** because of its shape – like a pyramid. Decisions and instructions are passed down from the senior staff of the organisation to the workforce, and information passes back up the pyramid. Position in the pyramid indicates the level of responsibility the individual has – the higher up the pyramid the greater the responsibility. Members of the organisation have clearly defined roles and procedures – often laid down to define their behaviour at work. Specialisation of tasks is very common, and this is often combined with a breaking up of the organisation into functional departments. This specialisation allows the organisation to benefit from economies of scale in its operations.

In recent years this type of organisation has been criticised for its inability to respond quickly to changes in market and consumer demands. It is also often felt that such structures suffer from time delays, both in communications passing up and down the structure and in the decision-making process, when many individuals on different levels are required to provide input. Some large organisations – the Civil Service, the Armed Services, the Police, and the National Health Service – may have a very large number of layers in the pyramid – 20 to 30 layers is not uncommon.

It is important to remember that many individual schools belong to a much larger organisation. They are part of a local authority and the local authority itself is part of a larger organisation. All local authorities in Scotland come under the control of the Scottish Parliament.

Communications and ***operational*** decisions within the school are made relatively quickly. These might include telephoning a teacher on the supply list to come in and provide cover for an absent colleague, closing the school because of bad weather, or deciding the date for Sports Day. The individual school would make these decisions itself. ***Tactical*** decisions, including the setting of local holidays, or the start date of the new academic year, or the total number of teachers each school is entitled to, will be made by the local authority. The Scottish Parliament will make ***strategic*** decisions, such as the content of the curriculum and the form examinations will take. There are some problems with a hierarchical structure:

- Change

This type of organisation cannot change very quickly. In the modern world the external pressures for change (Political, Economic, Socio-cultural, Technological and Competitive) are very strong. If the organisation cannot change quickly it will fail to survive.

- Communication

Another problem with this type of structure is the speed of communication. Communications have to pass through each layer of the structure. At each layer it stops until passed on to the next. This causes unnecessary delay.

There is also a problem with each manager at each stage treating the communication differently, which means that the communication may not be exactly the same information when it arrives at the bottom of the structure.

- Decision making

Each department may have to be consulted, and each level within the department. This means that gathering all the information needed to make good decisions takes much longer then is desirable.

- Inflexibility

Workers may have difficulty working outside their department. They find it difficult to do other tasks from those they are used to.

Flat structure

The flat structure is just what it says – flat. There are very few levels in the hierarchy. This has a number of significant benefits for the organisation. The main one is that communications are passed quickly from one level to another. This speeds up the processing of information and any decision-making. Many small organisations, such as professional partnerships of doctors, dentists or lawyers, use this type of structure.

Increasingly, large organisations are moving towards a flater structure, largely in an attempt to overcome the problems of a hierarchical structure. This often involves cutting out some of the layers of the hierarchy (see later notes on 'delayering').

- The owner has overall control of the business, but will know all the people that work for him/her. The owner will see and speak to all the staff on a daily basis, so communication between the top and the bottom of the organisation is very quick
- Consultation will also be quick and efficient as the owner and manager can easily meet all the staff face-to-face to discuss any problems that may arise
- This sort of structure helps make the whole business an effective team. There is unlikely to be any rivalry between the office staff and the production staff or sales and distribution
- This teamwork will allow the business to respond to changes in the market very quickly, and so the business will have a much better chance of surviving and being profitable

Matrix structure

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

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

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

Advantages of matrix structure

- Individuals can be chosen according to the needs of the project
- The use of a project team which is dynamic and able to view problems in a different way as specialists have been brought together in a new environment
- Project managers are directly responsible for completing the project within a specific deadline and budget

Disadvantages of matrix structure

- A conflict of loyalty between line managers and project managers over the allocation of resources
- If teams have a lot of independence can be difficult to monitor
- Costs can be increased if more managers (ie project managers) are created through the use of project teams
- It is costly in terms of support staff (for example, secretaries and administration staff) as each project team may need its own dedicated back-up

Entrepreneurial structure

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

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

Centralised structures

Here all of the control and decision-making lies with the most senior directors or managers or the owners of the organisation. Subordinates have little or no authority at all. This type of structure is often associated with a hierarchical structure and has several key advantages:

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

Decentralised structures

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

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

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

Grouping of activities

Functional grouping

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

- Marketing
- Human Resource Management
- Finance
- Operations
- Research and Development
- Administration.

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

<u>Advantages of functional departments</u>

- The resources of the organisation of the business will be better used. For example if all administrative work is carried out in one department it will mean that all the filing will take place in one area; there is less chance of files going missing and filing cabinets and storage will not have to be kept all over the building
- Staff will become experts in their own field eg staff working in Administration will become expert in maintaining filing systems
- Career paths are created within the departments. Once you have developed expertise in one of the departments it is easier to obtain promotion in that area
- Communication and co-operation within the department can be very good. All the people within the department work together and know each other well
- Teamwork improves - the idea of working as a member of a team often motivates individuals to work harder
- Decision making is better - each department has a manager who makes the decisions for the department, and is the expert that senior managers can ask for advice in that area.
- This structure provides a way of centralising decision-making because there are only a few managers who between them may be responsible for a large number of employees

<u>Disadvantages of functional departments</u>

- Staff can feel they work for the department rather than the organisation. This can lead to staff seeing other departments as rivals and competitors rather than fellow workers. This can lead to in-fighting which causes time wasting and inefficiency.

- Communication barriers between departments. Although there is excellent communication within the department, it is often only the managers of the department who have formal contact with each other.
- This means that communication between departments can be slow, which means decision making for the whole organisation is less effective and more time-consuming than it should be. This can also lead to a slow response time to external factors, such as changes in customer demand
- Some problems cannot be solved by one department
- Many day-to-day problems will need the attention of more than one department. It may be difficult to identify who has overall responsibility.
- Change may be more difficult
- Barriers between departments can make it difficult to make changes which effect the business as a whole. They mean that change can be slow or even not happen at all. As a result, opportunities to do something new can be missed.
- Work in individual departments can be so specialised that it becomes routine and meaningless. Being such a small part of the whole operation, employees may only see departmental goals and lose sight of the organisation's goals

Product/service grouping

Here the grouping of activities is based around a particular product or s ervice and is usually described as a ***division***. Each division is a self-contained unit. The functional activities – marketing, finance, operations, administration, research and development, and human resources – needed to produce the single product or service will be grouped together and assigned to that product. They are likely to be smaller in size than in a functionally based structure.

In most cases, organisations using this type of structure are very large, producing a variety of products for different markets. They are also often highly decentralised. Time Warner Inc. has divisions that include *Time* magazine, Warner Brothers record company, HBO (Home Box Office, a leading pay cable television channel), and a book publisher called Little, Brown.

- Self contained unit therefore easier to see which divisions are doing well
- Specialised knowledge
- Quicker response to external change
- Duplication
- Difficult to share R & D or equipment

Customer grouping

Organisations structured around customers or groups of clients are more likely to be found in the service sector. They may exist in a private medical practice for example, but may also be used as the structural basis for sales teams where each representative has his/her own customer group. Organisations like this offer a high degree of personalised service to their customers. They are highly responsive to immediate customer needs and to the anticipation and provision of future customer wants due to the close links they have with their customers.

- Customer needs are identified as a priority – loyalty build up
- Personal service
- Respond much quicker to individual needs
- Time consuming
- Staff changes – feeling of personal service can be lost
- Duplication of resources

Place/territory grouping

An alternative structure can be designed around a geographical or territorial base. The grouping of activities is organised by geographical region. For example, an organisation might have both a North-East Scotland group and a Midlands group. Many organisations selling to a broad customer base spread over a large area are structured in this way. Multinational organisations, such as Shell Exploration and Production, have a geographical base.

Organisations structured along these lines can meet the needs of customer groups in different countries who may have language and cultural differences. This allows specialist knowledge and specific marketing techniques to be applied. In Britain we had the 'Marathon' bar, whilst everywhere else had the 'Snickers' bar. This was because the bar was launched in the UK around the time that running became the nation's favourite sport. Everyone wanted to complete a marathon, and the bar was named to associate an image of fitness and fun with a type of chocolate bar.

There may be significant cost advantages in hiring a local workforce, especially for unskilled and semi-skilled work. This can be seen in the oil industry, for example, where Shell recruit large numbers of local workers in Nigeria and the Middle East.

- Local offices with local knowledge can cater for local clients' needs
- Overcome problems caused by language and cultural differences
- Loyalty through personal service
- More responsive to local needs
- Administration can be time consuming
- Staff changes – feeling of personal service can be lost
- Duplication of resources

Technology grouping

Organisations may group their activities along technological lines. This is often because they produce diverse products that require different technological processes. It is really only appropriate when there are obvious stages of production, and where these stages flow naturally on from one to the next. There are many manufacturing organisations set up along these lines, but, although it is possible, such a structure is seldom seen in the service industries.

Organisations can achieve many benefits from grouping activities in this way. There is scope for increased specialisation within the workforce because training is simplified and concentrated on only one technological system. When problems in the production process occur it is easy to pinpoint where they have arisen.

- Increase degree of specialisation
- Problems with technology can be identified
- Specialised training is required
- Capital intensive

Line/staff grouping

Line departments perform tasks that reflect the organisation's goals or objectives. They undertake the core operations (those that directly return revenue to the organisation). ***Line authority*** describes the relationship between superior and subordinate in the organisation. At the top of the line in the typical large organisation there will be the Board of Directors. Below them will come the management team in charge of the day-to-day running of the organisation. Below them there will be various functional departments, such as marketing, finance, production and human resources. There is also likely to be a line structure within each of these departments. Starting with the department manager the line will progress down to the most junior worker.

Staff departments are seen as having the role of providing specialised skills to support line departments. Staff departments do not return revenue direct to the organisation, and will include activities such as strategic planning, human resources, finance, and research and development.

Staff authority is largely advisory, and is often very specialised. The staff department works for the whole organisation, not just for one department or division within it.

In recent years some organisations have out-sourced their staff activities to allow a more concentrated approach to their own core activities. For example, BP have out-sourced their accounting activities, and these are now carried out for BP by Andersen Accounting.

- Can be slow and cumbersome to communicate to all levels
- Manager has direct responsibility
- Slow to respond to change
- Functional relationships exist between staff on the same level
- Staff Relationships – do not fit neatly into line structure eg admin support, technicians

Functional Departments

Functional relationships within organisations exist when people, who perform similar tasks, and use similar skills or resources, are grouped into sections or departments. These functional activities are all essential to the organisation, each section or department contributing to the overall performance of the organisation. Each may have its own manager or section head. Departments can be large or small, with few or many employees. For example, in a retail organisation such as Tesco there will be far more sales staff than administration staff in each store, yet both are essential to the efficient running of the store.

Grouping employees together in departments based on skills or use of similar resources, or similarity of work has a number of advantages for the organisation.

- There is efficient use of resources;
- Individuals develop in-depth skills in one area of work;
- Individuals have specific expertise or training in one area of work;
- Career progress is often based on functional expertise – therefore employees are motivated to develop their skills in one particular field (think of teachers who most often get promotion firstly to assistant principal teacher then to head of department in their own subject);
- This structure provides a way of centralising decision-making because there are only a few managers who between them may be responsible for a large number of employees;
- Communication and co-ordination between members of a department are excellent;
- The idea of working as a member of a team often motivates individuals to work harder;
- Individuals will be working with others who are also ‘experts’ in one particular area of work – problem sharing and problem solving is greatly improved.

However, having a number of functional departments within an organisation can also lead to problems.

- There are often barriers and rivalries between departments;
- Communication between departments can be slow, resulting in poor coordination of the organisation’s activities;
- This can also lead to a slow response time to external factors, such as changes in customer demand;
- Decision-making can be a long and slow process as each department is consulted and responds with information or suggestions which then have to be passed onto other departments for consideration;
- Work in individual departments can be so specialised that it becomes routine and meaningless. Being such a small part of the whole operation, employees may only see departmental goals and lose sight of the organisation’s goals;
- It may be difficult to pinpoint responsibility for problems within departments.

In modern organisations it is likely that some or all of the following functional departments will be found:

- Marketing
- Human Resource Management
- Finance
- Operations
- Research and Development.

Marketing

The Institute of Marketing defines 'Marketing' in the following way:

'Marketing is the management process responsible for identifying, anticipating and satisfying customer requirements profitably.'

This means that the Marketing department will put the customer first.

- It will find out what the customer wants by conducting market research.
- It will develop and design a ***product*** that will satisfy the needs it has identified in its customers.
- It will make sure that the product is produced in the right quantities and at the right quality.
- It will provide advice about the best ***price*** for the product so that it is affordable to the target customers, but also at a level that will return satisfactory profits to the organisation.
- It will make sure that all customers, existing or potential, know about the product through ***promotion*** and advertising.
- It will make sure that the product is available to buy in a ***place*** that is convenient for the customer, whether this is a shop, a discount warehouse or by mail order.
- It will ensure that the customer continues to be satisfied with the product after it has been purchased.

Human Resource Management

People are the most important resource in any organisation. They are the only unique resource, and therefore the only one that can give an organisation a truly competitive edge in the long term. Because of this, the Human Resource function of an organisation is a very important one.

The Institute of Personnel Management defines HRM in the following way:

> 'HRM is that part of management which is concerned with people at work and with their relationships within an enterprise. It applies not only to industry and commerce but to all fields of employment.'

Its main responsibilities include:

- Manpower planning and control,
- Recruitment,
- Selection,

- Training and development,
- Appraisal,
- Pay administration,
- Job and organisation design,
- Collective bargaining,
- Grievance and disputes procedures,
- Employment legislation,
- Employee communications and counselling,
- Personnel information and records.

Finance

Accountants form the largest professional group in Britain. Their number is far higher in the UK than in any of our leading competitor countries. Many of those who qualify in accountancy work in business organisations, either as financial specialists or as general managers. Professional accountancy is often viewed as the best training ground for senior management.

The financial function of an organisation is concerned with the management of the financial activities of the organisation.

It covers three main areas:

- Financial accounting
- Management accounting
- Financial reporting.

Financial accounting is concerned with the management of an organisation's capital or funds. It will source and raise funds to finance operations. It is responsible for ensuring that the organisation can generate enough money to cover the cost of these funds – whether this is in the form of loan and interest repayments payable to lenders, or in the form of dividends payable to shareholders.

Management accounting is concerned with applying accounting techniques that will provide the organisation's management with sufficient financial information to assist them in the process of decision-making. It is concerned both with the actual use of funds within the operations of the organisation and with predictions about their use. This part of the finance department's activities will be responsible for providing budgets, both as a control tool and as a means of selecting the best alternative from various predicted outcomes.

Financial reporting is concerned with the collection and presentation of data for use in both financial accounting and management accounting. The main statements it produces are the Trading Profit and Loss Account and the Balance Sheet. This information is of great value to the management of the organisation. Public limited companies are legally bound to provide these statements, along with accompanying notes and a Directors' Report, to Companies House each year.

Operations

This is the function within the organisation that transforms inputs through a process into outputs.

INPUTS	PROCESS	OUTPUTS
Raw Materials	Using different amounts	The actual goods
+	of different resources	or services for
Labour	in order to produce a	sale
	Different end product	

In some instances Operations describes a production process that takes some combination of raw materials, labour and capital equipment and processes them into goods for sale to customers. Levi Strauss, Peugeot and Heinz are examples of organisations that use this type of process.

In other cases the term describes the provision of an obvious service, such as hairdressing, or a less obvious one such as the administration of local government. In fact, the service sector has grown three times as fast as the manufacturing sector in the North American economy, and the UK economy is similar. Today, more than half of all organisations are service providers. Examples include British Airways, McDonald's and Vidal Sassoon.

Research and Development

Not all organisations have a Research and Development function. It involves technical research, for example into a new medicine, a new car or a new variety of breakfast cereal. In some industries, such as computers, pharmaceuticals and motor manufacturing, Research and Development is a vital part of any successful organisation. Modern success stories involving Research and Development include Hewlett Packard, where innovation is part of the culture of the organisation. Glaxo owes its current success and growth to the commitment it has made to R & D. The Microsoft Corporation was born from the research, development and vision of its founder, Bill Gates, who initially developed the software for IBM. In 1994 the organisation spending the largest amount on research and development in Britain was ICI – but they only ranked 35th in the world.

Such work can be very expensive, and therefore many organisations will adapt products originally developed by other organisations, rather than undertake new work themselves.

Aspects of Formal structures

What we have described so far are called formal structures. In each we can see who is in charge of who, or the chain of command from the top of the organisation to the bottom.

Functional relationships

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

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

Staff relationships

This is a relationship between the organisation and someone in it who acts in an advisory capacity ***for the benefit of the organisation as a whole***, not just for one department. People who might be in a staff relationship include company lawyers, taxation specialists, company secretary or company receptionist.

Span of control

We can also see how many people each manger is in charge of, this is called the span of control. These are the formal relationships between workers in the organisation. There are four important factors that should be considered when deciding on the span of control of any manager or supervisor:

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

Organisational charts

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

Advantages of organisational charts:

- Each individual can be named in the position he or she holds, providing clear identification
- They identify appropriate lines of communication or where bottlenecks occur
- They identify the span of control or number of subordinates each individual has (see below)
- New members of staff can learn who they are responsible to and for
- They may identify areas where it would be appropriate to call in a specialist staff member, for example a design engineer in the production department
- The links between individual departments can be identified
- Functional levels in the organisation can be easily identified

Disadvantages of organisational charts:

- They do not show how much authority each position in the chart carries
- They do not identify any informal relationships that occur

Line relationships

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

Functional relationships

These exist between individuals at the same level in the hierarchy. These individuals have the same level of authority and responsibility, although they may be in different departments, or even in different locations. This relationship can be clearly identified on an organisation chart as a *horizontal line* between individuals. In the diagram below, each person on this level of the organisational chart has a *functional relationship* with everyone else at this level.

Staff relationships

This is a relationship between the organisation and someone in it who acts in an advisory capacity *for the benefit of the organisation as a whole*, not just for one department. People who might be in a staff relationship include company lawyers, taxation specialists, company secretary or company receptionist.

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

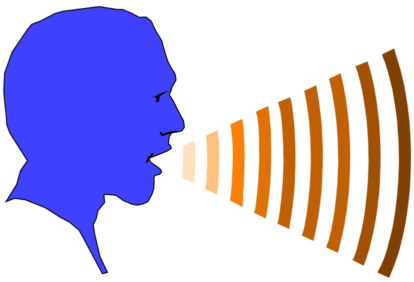
Informal structures

Some small organisations do not have a formal structure. The staff 'all muck in' to help the organisation achieve its goals.

- No one has authority over anyone else, apart from the owner
- Staff will carry out a range of tasks as things need to be done
- They will have no formal job title
- There will be no established communications channels within the organisation

This can create problems for the organisation. If information does not flow through the organisation then bad decisions can be made. If no one is given responsibility to make decisions or take actions then the owner may become overloaded with work.

The grapevine



Even in hierarchical organisations informal structures can be created by the informal relationships between staff. For example, staff from different departments who play golf together, or members of the same social club will exchange information outwith the normal channels,

Communication channels, often called 'the grapevine', can appear. Staff communicate between themselves without using the formal structure. The information passed through the grapevine may be accurate on inaccurate. If it is inaccurate then management must correct the information in case it leads to bad feeling or resentment.

The grapevine can also be useful to management. As information can be passed more quickly through the grapevine, management can feed it with information that they want to be passed on quickly.

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

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

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

Changes in structure

Reference has already been made to the fact that organisations can change their structure. Ideally, the structure should reflect the purpose of the organisation. Over the last decade or so, many UK-based organisations have undergone structural change in an attempt to ensure that they can cope with changing circumstances. These changes have affected all types of organisations in all industries but have had a particular influence in manufacturing organisations. For more than twenty years the UK's manufacturing industries have been in decline. Much of this has been seen as a natural development for a mature economy as it goes through the process of de-industrialisation. UK industries have been subjected to fierce competition from emerging economies such as China. This has led to many of our products being too costly and of inferior quality, to compete in international markets.

The accepted explanation has been that the cost of labour in developing countries has been much lower than in the UK, and if we are to compete then our wage rates need to be forced down. To an extent this has happened. In May 1996 a CBI report stated that the average manufacturing wage in the UK was lower than that of an equivalent worker in Korea. Yet the trend of decline in our manufacturing industries has continued. Large, successful multinational companies who are based in these developing economies have now opened manufacturing facilities, leaving our home-grown organisations even further behind. In addition, we have been through a recession which has forced many changes on almost every organisation in the UK.

Recognising the problems, particularly within the traditional approaches to management in the UK, was perhaps the hardest task facing our industries.

The traditional approach involved:

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

This approach is not necessarily wrong in itself. However, the development of the economies of the East is a genuine threat to the structure and methods of management and production processes in most Western economies.

The challenge that faces modern management is that they must change in order to survive and compete in the 21st century. Our production needs to be revolutionised; just becoming more efficient will not be enough. To gain a truly competitive advantage we must be innovative and imaginative in our approach to management.

Decision Making

Both managers and employees make decisions. The impact of these decisions will directly affect the success of the organisation.

In order to make good decisions there are processes that managers should go through to make sure that they are making the best decision to achieve the organisational goals. Organisational goals are the targets that have been set by the senior management for the organisation to achieve.

Some decisions are very easy to make and may have little or no impact on anything else. For example, every day you have to make a decision about what to eat or what music to listen to. These are routine decisions that we normally don't have to spend a long time thinking about; they are sometimes second nature.

Some decisions take a little longer to make. For example, if one of your long term aims was to buy a new car next year, you then have to decide how you are going to pay for it. This will involve some budgeting decisions in order that you can save money. Many decisions will now be influenced by your aim to purchase a new car.

Other decisions may be about what we want to do in the future e.g. the career path that we wish to pursue. These decisions may take some time to make, and we don't make them very often.

It is the same in business. Managers are paid to make decisions which influence the running of the business. Some of these decisions, just like those in our daily lives, are easy and routine but others are more challenging.

Here are some examples of business decisions that managers may have to make:

- Whether or not to recruit more staff. More staff will cost the business money, but a lack of staff could affect customer supplies, and so lose business.
- New product development. Managers have to decide whether the cost of development will be too high, or should the company risk losing customers in the long run by not developing a new product.

These decisions can be categorised as strategic, tactical or operational:

Strategic decisions

- These are the 'long-term' decisions about where the organisation wants to be in the future.
- They concern the overall purpose and direction of the organisation.
- They are often (but not always) made by the most senior managers and the owners of the organisation.
- They don't go into great detail about how these decisions will be achieved.
- Major policy statements represent strategic decisions.

- There are many variables to consider about the future of the organisation and, as such, are non-routine decisions.

Examples:

- What products the organisation will produce in the next 5 years
- To increase market share by 20% within 10 years
- To maximise sales in the next financial year
- To have 100% customer satisfaction

Strategic decisions define the aims or objectives of the organisation. All businesses have objectives. The managers of the organisation will be judged on their effectiveness by how they set and how well they achieve these objectives.

Tactical decisions

- These are the medium term decisions about how the strategic decisions are going to be achieved, but are likely to have long term consequences for the organisation;
- They are often made by middle managers within the organisation
- They are based on achieving the goals or the aims of the organisation;
- They go into detail about what resources will be needed and how they will be used to achieve the aims;
- They will be subject to change as Political, Economic, Socio-cultural, Competitive and Technological factors change.

Examples:

- To increase the number of staff employed;
- To issue more shares on the stock market to fund a new factory;
- To merge with a competitor;
- To increase selling price;
- To reduce costs.

Operational decisions

- These are the 'day-to-day' routine decisions;
- They can be made by all levels of management, but mostly by lower level managers and supervisors;
- They are made in response to relatively minor but sometimes important problems that arise each day or week, so they are routine and repetitive.

Examples:

- Arranging work rotas;
- Dealing with customer complaints;
- Ordering materials from suppliers;
- Dealing with daily enquiries.

Costs and benefits of different sources of information

Source of information	Disadvantages (costs)	Advantages (benefits)
Primary	Collection costs can be high. May be time consuming and difficult to collect.	Information gained is first hand and specific to the purpose for which it was gathered.
Secondary	May not all be relevant as it has been gathered for another purpose – the relevant information may have to be filtered out. May contain bias. May be out of date.	Readily available. Relatively inexpensive to gather. A wide variety of sources may be available.
Internal	A system needs to be set up to ensure accurate records are kept.	Easy to access.
External	May contain bias. Cannot guarantee integrity of information – no control over how the information was gathered or processed. Available to competitors.	A wide range of sources is available – giving a broad picture. May be useful in strategic decision making when used in conjunction with PESTEC factors.

It is an essential feature of effective decision-making that primary and secondary, internal and external information is collected and analysed by the organisation. By using internal information the organisation can see if it is meeting its own targets or identify areas in which targets are being exceeded. Problems and possible solutions to them can also be identified. By using external information it can also assess how it is operating in the wider market place, how it is responding to customer demands, and how it is competing with other organisations in the same line of business.

Types of information

There are two broad types of information that an organisation will use to assist it in the decision-making process.

Quantitative: information that is definable, can be measured, and is normally expressed in figures. This type of information is particularly valuable if a manager wants to make comparisons between targets and results, between specifications of resources, or finished products.

Qualitative: information that is descriptive and may involve value judgements or opinions. This type of information is more useful when analysing people's views on products or services as each individual is likely to have different opinions as to what is 'good' or 'bad' and what could be done to improve a product, service or situation.

Both quantitative and qualitative information can be presented in a number of formats:

- Written – any form of text or written information
- Oral – the spoken word is often an effective way of transferring information
- Pictorial – they say that a picture is worth a thousand words
- Graphical – any chart or graph that depicts numerical information showing the relation of one variable to another in a diagrammatic form

Despite the apparent differences between the types of information that can be produced and the manner in which that information is presented, the means of processing information is, in essence, the same and is achieved by the use of microchips.

The value of information

Effective control and decision-making depend on the QUALITY of the information available. In order to be of value to the organisation, information has the following characteristics:

- Accuracy

If information is not accurate any decisions made based on that information would be unlikely to achieve the results the individual/manager wanted.

- Timelines

Information must be available when it is needed and must be as up-to-date as possible. Information that is late in being received will result in delays in decision-making, and information that is out-of-date may well be inaccurate.

- Completeness

Information must be complete and nothing must be left out. Incomplete information will result in delays while the missing sections/data are retrieved. Incomplete information may also be inaccurate and opinions reached or decisions made will be flawed.

- Appropriateness

The information collected must be relevant to the issue under investigation, or about which a decision is to be made. Irrelevant information may mislead the individual and may result in delays in processing and analysing what actually is required.

- Availability

Information must be easy to get a hold of. In some instances it may be necessary to use information that is deficient in some way if better information is too difficult to access, or does not exist.

- Cost effectiveness

The collection, storage, retrieval and communication of information must be cost effective for the organisation.

- Objectivity

The information collected should be free from bias or prejudice or should acknowledge that this exists – if that is the case.

- Conciseness

Information should be brief and to the point. Facts may get lost in flowery, flowing, descriptive text.

If information has all, or most of, the above characteristics then it will be of high quality. It will be of more value to the organisation than information that is of low quality. If an organisation wants to make the right decisions in order to achieve its aims and objectives it MUST use quality information.

Types of Software

There are different types of software which can be used throughout the organisation in various departments but some functions require specialist software such as CAD in the Operations department.

The main software programmes are:

Spreadsheets	Used for numbers and figures. A spreadsheet is made up of a number of cells and can be used along with in-built formulae to calculate figures automatically. The main advantage is that you can change one figure and the others will automatically be updated. A spreadsheet is mainly used for financial control e.g. cash flow, budgeting, simple accounting.
Databases	Allow large amounts of data to be stored electronically in a way, which allows for easy access and an ability to edit, add to and print as appropriate. It is similar to a filing system except that all the information is stored electronically. Databases are often used to store customer records, employee records, stock control and other types of info.
Video Conferencing/ Web-Cam	Allows meetings to take place between people who are not able to be in the same location. The use of cameras and personal computers allows discussion to take place across different countries
E-mail	This is a computer to computer messaging system with built-in ability to receive and send electronic messages and files. Can be used for internal and external communications.
Word Processing	Is used for producing letters, reports, notices and any other written pieces of work. Text can be inserted, deleted, paragraphs copied and moved, errors corrected easily. Attractively presented documents can be produced using different fonts and type styles.
Desktop Publishing	Is used to produce leaflets, newsletters, magazines, newspapers, etc. It allows a computer user to have access to some of the more advanced features that a publishing firm might use. The documents are usually printed on high quality laser printers and often in colour.

The role of managers

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

We could say that a manager:

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

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

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

Plans	looks ahead and sets aims and strategies;
Organises	makes arrangements for all the resources of the organisation to be in the right place at the right time and in the right quantities;
Commands	tells subordinates what their duties are;
Co-ordinates	makes sure everyone is working towards the same aims and that the activities of individual workers fit in with the work of other parts of the organisation;
Controls	measures, evaluates and compares results against plans, and supervises and checks work done;
Delegates	makes subordinates responsible for tasks and gives them the authority to carry them out;

Why do managers make decisions?

Management decisions are made in order to achieve the long-term aims of the owners of the organisation. If an organisation does not have a set of clearly defined aims, it will be at a considerable disadvantage when compared with its competitors, as it will have no focus for its operations.

Managers must make decisions in order to carry out their roles and functions within the organisation. There will always be a need to make decisions about different combinations of resources, methods of production, markets to target and products to develop, as well as decisions about which staff to employ and what their duties should be.

If the organisation does not have a framework of long-term aims, short-term objectives and targets to be achieved to fulfil these, managers will be unable to give clear instructions to the people employed within the organisation. The employees will then have little or no direction or purpose for their work. This will reduce employee motivation and productivity and, as a result, the profits of the organisation.

Managers also make comparisons between the actual performance over a period of time and the aims and objectives the organisation has set. This provides them with a method of judging the success or failure of the decisions they have previously made. It also guides them in making decisions for the next time period, or in making modifications to existing decisions to take account of changes which have occurred.

Aids to decision-making

This section looks at two aids or tools that might be used by managers in decision-making. It also takes a brief look at factors that affect the quality of decisions that managers make.

It is important to remember that the basic decision-making model still holds true for all decisions, however simple or complicated.

SWOT Analysis

This is a process where an organisation will gather together all the information it can about its **internal factors** and its **external influences**. This technique of analysis is very often used in **strategic planning** and in **marketing**. It can be used to look at the organisation as a whole, at a department within the organisation, at a single product, or at a product range. The methods used will be the same, regardless of the area the SWOT is being carried out on. However the questions asked and information gathered will differ, depending on the desired end result.

Internal factors

These can be listed under two headings: **Strengths** and **Weaknesses**. They reflect the current position of the organisation. Because of the internal nature of these factors the organisation will have control over them. It is possible for the organisation to capitalise on and develop its strengths and to minimise or remove its weaknesses – turning them into strengths.

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

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

External influences

These can be listed under two headings: **Opportunities** and **Threats**. They reflect the potential future position of the organisation. Because of the external nature of these factors they are things over which the organisation has no direct control. However, it may be possible to grasp opportunities to secure new markets for the organisation and avoid, or take steps to overcome, threats which may arise.

Internal	STRENGTHS	WEAKNESSES	Present Position
External	OPPORTUNITIES	THREATS	Future Possibilities

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

Opportunities will be seized and exploited to give the organisation a competitive edge.

As with any information gathering process, analysis of the information and the ability to draw conclusions from what has been found is essential. In fact, there would be no point in conducting such an exercise if this were not the case. However, it is very important, especially for decision-makers, that the conclusions they draw can be **backed up and justified**, usually with available information, both current and historical. It may be possible, for example, to predict changes in fashion styles by looking back over a number of years as well as by looking at what is currently in vogue.

Sometimes in business decision-makers do take risks and follow their instincts, rather than what the current or foreseeable position is. This is particularly true when different decision-makers **assess the same external factors** – the opportunities available and the threats that might affect the organisation. Such assessments are often made in a very subjective manner. Each manager may give a different emphasis to the relative importance of any single external factor. Therefore, when they make an assessment on the combination of a number of such factors, they can come to very different conclusions.

Bill Gates is a very good example of a decision-maker who did just this. He was a software program writer for IBM. He had written a new software program that he felt was an exceptionally good product. When he put this to the senior management team in IBM they disagreed, feeling that there was not a sufficiently large potential market to merit the development and launch of this new software program. Gates remained convinced. He analysed the market and felt that there was a very strong possibility that his new software would be a great success. He left the security of employment with IBM to take the risk of setting up his own company, Microsoft, to sell his software. The rest, as they say, is history.

The ability – or self-confidence – to follow a business instinct like this is often thought to be an indicator of **real** entrepreneurial skills.

Brainstorming

When looking at problems that might arise from using a decision-making model, we noted that one was actually thinking about and suggesting a variety of different alternative solutions. Brainstorming is one way of reducing this problem.

Brainstorming is when a group of people get together to try to solve a problem. They are all encouraged to say the first answer that comes to them about how to solve this problem – no matter how far-fetched it might be. Ideas are written down as they are suggested, until no one can think of anything else. Then each idea in turn is looked at and considered in more detail.

This process has been found to be very effective in producing creative solutions. Sometimes these can be far more successful than the 'safety-first' ideas that many managers put forward. One product that was the result of a brainstorming session is the jet engine.

PESTEC analysis

A PESTEC analysis looks at six ***external*** factors that might influence the organisation and tries to assess the impact that each might have. These factors are:

Political

Government and EU legislation and policy decisions may have a tremendous impact on UK organisations and place – or remove – constraints on decision-making. Political decisions, such as the introduction of Equal Opportunities legislation, a common European Currency or the raising of the weight limit on lorries in the UK to fall in line with European legislation, have influenced many UK business decisions.

Economic

Inflation, exchange rates and interest rates all affect how businesses operate. The strength of the £ or $ has significant effects on UK business performance, particularly that of our manufacturing industries and on their ability to trade worldwide.

Social

Demographic changes and changes in society will impact on the operation of a business. An increase in the number of women in work, more part-time work, etc. has resulted in far fewer employment opportunities for unskilled male workers. Many UK employers are criticised for being 'ageist' at the moment, favouring those employees or prospective employees below the age of 40. However, demographic changes resulting in an ageing population will provide more opportunities for the over-40s in the workplace in the next 10 years.

Technological

There is an increasing dependence on computer control systems in production, partly through automation and partly through the need to provide and maintain high standards of production quality. There is also an increased dependence on information technology to collect, process, analyse and present information, both internal to an organisation and external to it.

Environmental

In recent years there has been great pressure placed on businesses to ensure they operate in an environmentally responsible manner. Governments pass legislation to protect the environment and pressure groups such as Greenpeace and Friends of the Earth are also actively involved in environmental protection.

Competitive

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

A stage further than SWOT analysis

PESTEC analysis is often carried out in conjunction with a SWOT analysis – PESTEC provides a structured way of identifying Opportunities and Threats in a more detailed manner.

Course Assignment

The Higher Business Management assignment requires you to research an organisation and a business issue. The organisation chosen can operate in the private, public or third sector of the economy. The issue should be directly related to a topic and/or concept studied as part of the mandatory Course coverage of Higher Business Management. You will gather, select and analyse information relating to the issue chosen, from primary and/or secondary sources, in order to produce the report.

You should make use of a business analytical technique relating to the issue. This could be PEST analysis, SWOT analysis, ratio analysis, analysis of production processes, product life cycle extension strategies, product portfolio analysis or any other appropriate business analytical techniques. Some of these analytical techniques are outlined in these notes. For others, please see your Management of People and Finance and Management of Marketing and Operations notes.

You also have to provide conclusions and recommendations relating to the business issue in terms of how this might meet the purpose of the report and/or the future needs of the organisation's internal and/or external stakeholders.