Business Management

Business Enterprise

Revised Student Notes and Activities

[HIGHER]

Learning
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Scotland

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Contents

* Note that Section 4 is no longer included in Unit assessment. However, it still forms part of the overall course assessment.

Section 1: Business in Contemporary Society

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.

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:

- **land** (i.e. all natural resources, from mineral deposits to the site of a factory)
- **labour** (i.e. all human resources)
- **capital** (i.e. all resources which have been made by labour, such as machinery and other equipment)
- **enterprise** (i.e. organising the other factors of production and taking the risk of producing goods or services in advance of them being sold).
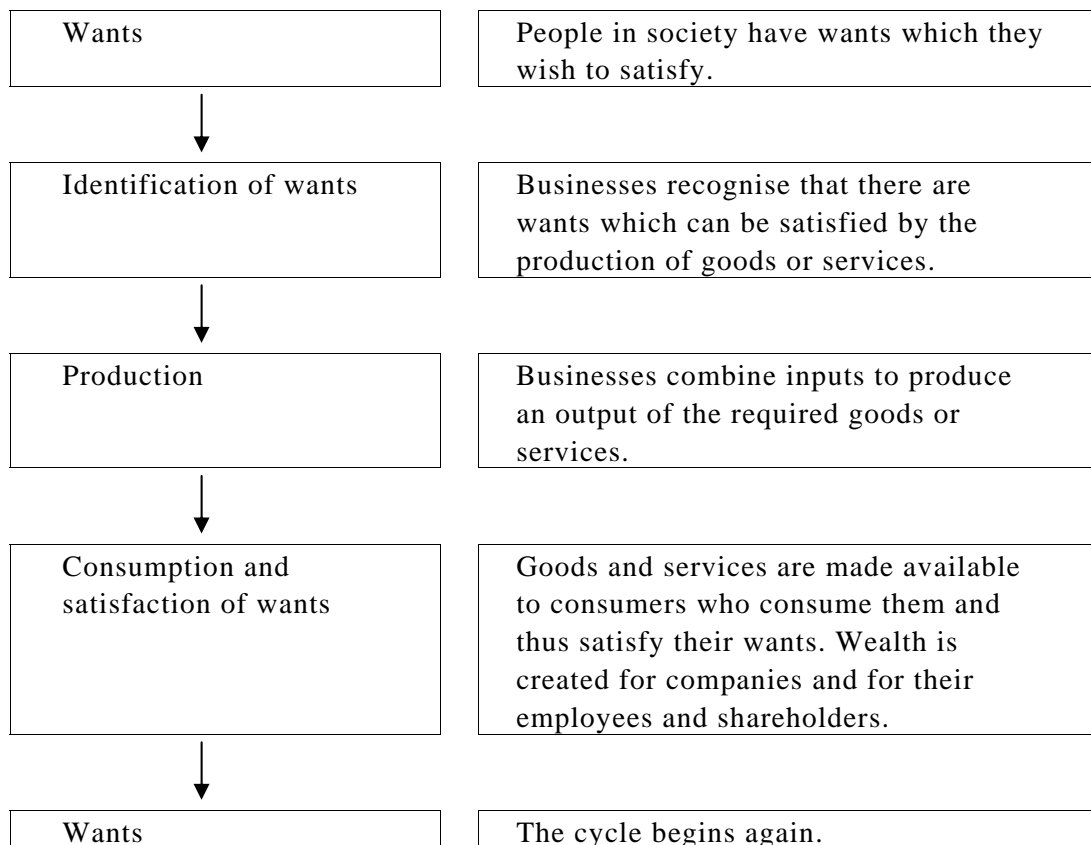
In summary, then, business activity involves using resources to produce goods and services which people require in order to satisfy their wants.

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.

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

Cycle of business

This phrase is sometimes used to describe the various stages of business activity. These stages can be shown as follows:

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

Sectors of industrial activity

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 firms.

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

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 30 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 sector is by far the largest and fastest growing one, both in terms of output and employment.

Types of business organisations

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.
- **Voluntary-sector** organisations are set up to raise money for good causes or to provide facilities for their members.

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**

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).

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

Disadvantages
- It can be difficult to raise finance – the sole trader may have to rely on savings or finance from relatives to get started. Banks may provide finance but may charge higher rates of interest if they are willing to lend at all.

- The proprietor is solely responsible for all the financial commitments. A sole trader has 'unlimited liability', 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.

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 Co)

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.

- Shareholders are entitled to limited liability.
- 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.

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 firms out of business.
- Profits go back to the parent company – in which ever country it has its headquarters.
- All the major functions tend to remain at headquarters so that, in times of difficulty, it is relatively easy for the MNC to close down a subsidiary causing many job losses.

Franchise

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

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

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

Franchiser	
Advantages	*Disadvantages*
It is a quick way to enter new geographical markets and the franchiser's name becomes more well known as the business expands.	Franchisers are reliant on franchisees to maintain the image and 'good name' of the business.

Franchisee	
Advantages	*Disadvantages*
The new business can begin trading on the established reputation of the franchiser immediately.	A percentage of the profits has to be paid to the franchiser.
The franchisee has the advantage of a well known brand name and back up service.	The franchiser may impose strict rules on the franchisees and restrict their ability to operate on their own initiative.
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.	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.

Nationalised industries and corporations

These 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.

Examples are the British Broadcasting Corporation and the Post Office.

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

firms 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 firms have an incentive to keep costs low and efficiency high in order to survive and to maximise profits.

Voluntary organisations

These organisations have **different aims** from those of other private sector enterprises. 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.

Business objectives

Businesses may have a range of objectives that they wish to achieve. Objectives depend on the size of the organisation, PESTEC (Political, Economical, Social, Technological, Environmental, Competitive) factors and whether the business is in the public or private sector.

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

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 firm which grows may also get some degree of monopoly (controlling) power and be able to charge higher prices.

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.

Managerial objectives
Where ownership and control are separated (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.)

Creating a good reputation (corporate or social responsibility)
A firm may wish to improve its public image and hence its chances of survival and market growth by demonstrating *corporate responsibility* through measures such as sponsorship of worthy causes or a commitment to ecologically sound practices. 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.

The role of enterprise and the entrepreneur

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

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

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

A good example of an entrepreneur is Richard Branson, who, despite amassing great wealth through successful business ventures over recent decades, was eager to obtain a franchise to run Virgin Trains on the former British Rail network. This, despite the fact that it entails the risk of losing £millions should Virgin fail to meet the targets agreed when they took on the franchise.

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 community as a whole (society).

Different groups of stakeholders will have different aims regarding an organisation.

* 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. As long as it does not compromise the stability of the company, managers may put their desire for 'perks', or fringe benefits such as expensive company cars, ahead of the aim of profit maximisation.
- Employees will be concerned about pay levels, working conditions and job security.
- Suppliers will want to get regular orders with prompt payment after a reasonably brief period of credit.
- Customers will want low prices, high quality, and good after-sales service.
- Banks will want the firm to be able to meet its loan and interest 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 will wish to ensure that these 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, e.g. to help refugees, to prevent cruelty to animals, etc.
- The local community has a stake in businesses which are situated in their area. Businesses provide employment and may also sponsor local events. Their existence may influence the provision of services like schools and hospitals. They may also affect the local environment (e.g. if new roads are built).
- Local government may have a stake in businesses in their local area because they are responsible for providing services for businesses like refuse collection and road building and maintenance.

Stakeholders can exert influence on organisations in a variety of ways:

- Ordinary shareholders have voting rights at the Annual General Meeting of limited companies.
- 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. For example in the 1980s some customers stopped buying Nestlé products in an attempt to deter the firm from supplying powdered baby milk to third world countries.
- 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 Sex Discrimination 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 (e.g. by writing letters for or against things the business has done); 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.

Sources of finance and assistance

The most important source of finance for firms is **internal** in the form of retained profits – that is, profits which, rather than being distributed to shareholders or taken as drawings by the owner/s, are ploughed back into the business to generate more profits in future.

External sources of finance may be short-, medium- or long-term.

Short-term sources of finance

- **Bank overdraft** – for short-term borrowing, that is to enable a firm to continue trading over a brief period when its needs for cash will exceed the money it has available, banks provide overdrafts. An overdraft is an agreement by the bank that the firm may draw from its current account up to a certain amount more than it has in the account – the 'overdraft limit'. Interest is charged only on the amount overdrawn and any cash paid in to the account reduces the amount of the overdraft. Many firms have a permanent overdraft facility to tide them over difficult times such as the end of the month when staff must be paid before income from sales has been received.

- **Debt factoring** – this involves the firm selling its debts to a 'factor' for less than their face value. The factor collects the full amount from the debtor and his profit is the difference between the two. This can enable small firms to avoid cash flow problems.

- **Trade credit** – negotiating a longer period between receiving goods from suppliers and having to pay for them (or a shorter period between sending goods to customers and receiving payment from them) can provide a firm with more cash to use in the short term.

NB All the above are only temporary methods which may enable a firm to keep trading for a while – if the firm is not profitable extensive use of short-term solutions will ultimately lead to greater losses.

Medium-term sources of finance

- **Bank loans** are the most common way in which businesses can get funds for the medium term, which usually means about 2–4 years. Medium-term sources of finance are normally required to acquire machinery or other equipment which will need to be replaced at the end of the period. Banks normally charge a higher rate of interest on loans than they do on overdrafts because they see them as more risky. Businesses pay back the loan in agreed instalments, e.g. every month during the period of the loan.

- **Hire purchase** is often used to obtain equipment or vehicles. The cost plus interest is paid in equal instalments over a set period of time. The items are owned by the hire purchase company until the last instalment is paid.

Long-term sources of finance

- **Mortgages** are a long-term method of borrowing – for example, in order to buy premises. Interest is added to the loan at the beginning and the whole amount is usually repaid in equal monthly instalments over a period of years. The rate of interest charged will depend on the length of the mortgage and the collateral (security) offered. The longer the loan and the higher the collateral, the lower the interest rate. Mortgages are often used by businesses which cannot issues shares or debentures, e.g. sole traders.

- **Debentures** – limited companies can borrow money by selling debentures, which are long-term 'IOUs'. Debenture holders receive interest annually and the firm must repay the loan at the end of the specified period of time.

- '**Sale and leaseback**' agreements – these involve the firm selling assets such as machinery to a finance company and then leasing (that is, renting) them back from the company. Alternatively firms may lease rather than buy technology from the start, thus freeing the funds, which would have been tied up in its purchase, for other uses.

- **Capital** – for example, by the sole trader or partners adding more of their own money to the business, or by a company issuing more shares – as long as its *issued* capital (the value of shares actually sold to shareholders) is less than its *authorised* capital (the maximum value of shares the firm could issue according to its Memorandum of Association).

- **Venture capital** – this finance is available to firms whose projects may be too risky to secure a bank loan, but are judged viable by the specialist organisations offering this help, such as 3i (Investors in Industry).

Help from the government

- Local Enterprise Companies (LECs) – for example, Scottish Enterprise and its subsidiaries – funded by the government, have been set up in Scotland to support regional economic growth by offering advice, training and grants to businesses seeking to establish themselves or to expand in their area.

- In England and Wales, the government set up Training and Enterprise Councils (TECs) in 1989 to foster economic growth by promoting more effective methods of youth and adult training, offering information and advice to new and established businesses, and encouraging initiatives such as the Education and Business Partnership (EBP) in the areas in which they operate.

- The government's Loan Guarantee Scheme enables small and medium-sized firms to get loans which the banks would otherwise consider too risky. The government agrees to repay **70%** of the loan should the borrower default. In return the borrowing firm has to pay a higher rate of interest than the market rate, and an insurance premium.

- The government also offers help to exporting firms through measures such as:

  – zero rating of exports for VAT purposes;
  – Department of Trade and Industry (DTI) gives advice and support and organises trade fairs to promote British goods;
  – Export Credit Guarantee Department insures firms against the risks of trading overseas.

- European Union – financial help may be available from bodies such as the European Regional Development Fund (help for regional initiatives such as building new road links) and the European Social Fund (help for training and retraining of workers).

Other organisations which offer help and advice to businesses include:

- The Prince's Scottish Youth Business Trust offers of support for young people aged between 18 and 25 who would like to start a business but can't secure funding. Help and advice offered includes business planning, loans and discretionary grants.

- Local authorities often have 'Small Business Advisers' who can give help in matters such as planning permission or the availability of grants.

- Trade Associations are set up for specific industries and can offer specialised help and advice. Examples include the Association of British Travel Agents (ABTA).

- Chambers of Commerce are local organisations that aim to promote the interests of business people in general.

Many banks have small business units and offer useful information to businesses in their locality, as do solicitors, management consultants, and accountants. Larger firms may have their own legal and financial departments.

Methods of growth

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 firms this process of organic growth is not fast enough and they may consider joining forces with another firm in order achieve a more rapid rate of growth.

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

Horizontal integration

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

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

Vertical integration

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

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

Forward vertical integration is when a firm takes over another at a later stage – for example, a 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 firm greater economies of scale
- allows the firm to link processes more easily.

Conglomerate integration (diversification)

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

Reasons for diversification:

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

De-merger

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

Divestment

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

Contracting out/outsourcing

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

Management buy-out/management buy-in

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

Business as a dynamic activity

A systems view of business

Any system is made up of four major parts. Each affects the others and is in turn affected by them. They are:

- inputs
- processes (or throughputs)
- outputs
- feedback.

Businesses receive **inputs** in the form of raw materials and other resources, **process** them by transforming them into goods or services, and then sell the resulting **output** to the market. **Feedback** comes from the reaction of the market to their product, a favourable response being indicated by a high level of demand. Whether positive or negative, this feedback will in turn affect the other parts of the system – for example, if demand is high, the firm may

increase its inputs, whereas low demand may cause it to adjust them in some way to find a better way to satisfy the consumer.

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 firm
- a change in the firm's financial position.

External pressures to change:
- 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 firms, such as bandages and textbooks. Firms 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 firms 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

Changes in the economy, such as in interest and exchange rates, also affect a firm's activities. If consumer incomes increase then demand for goods and services is likely to increase too, whereas falling incomes lead to a fall in demand for the output of firms. Rising unemployment also means fewer potential customers for businesses.

Changes in the EU such as the introduction of the single European currency, the Euro, can also affect businesses, especially those which trade with Europe. They may, for example, face pressure to conform with other countries and use the Euro for buying and selling goods among members of the EU.

Businesses may also come under pressure to change from competitors who may develop new products or services or discover new ways of making products or providing services. The long-established banks such as the Bank of Scotland and the Royal Bank of Scotland have had to face competition from building societies such as Abbey and Halifax which have converted into banks. In addition, there has been competition from telephone banks such as Standard Life Bank and Internet banks like Egg, both of which are owned by businesses which traditionally have been providers of pensions and life assurance. As a result, the traditional banks have moved to become providers of a wider range of financial services and no longer concentrate solely on banking.

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. Firms 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, plasma 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 (both partly the result of Conservative government policy in the 1980s)
- smaller families
- revolution in social attitudes towards matters such as homosexuality, divorce and babies born out of wedlock – leading to more single-parent and childless families
- concern about animal and environmental welfare
- more time available generally for leisure
- more car ownership
- the observation by some commentators that public reaction to events such as the death of Princess Diana suggest that Britons are developing a new soft-hearted attitude instead of the traditional 'stiff upper lip'.

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, etc.
- 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 firms, 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 firms 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, etc.

Student Activities

Activity 1

What are the three sectors of industry? Describe each, giving an example of a local firm from each sector, and suggest three objectives for each firm.

How has the importance of each sector of industry changed over the past twenty years?

Activity 2

Your friend tells you she wishes to become a self-employed hairdresser. Describe two types of business organisation she might establish to achieve this aim, pointing out at least two advantages and two possible disadvantages of each.

Activity 3

Suggest at least three reasons why a local authority might find it cheaper to contract out the provision of school meals to a profit-making organisation rather than provide them itself.

Activity 4

How might the objectives of an NHS hospital differ from those of a private hospital?

Activity 5

Give at least three examples of stakeholders in two different types of organisation and suggest three reasons why their aims might conflict.

Activity 6

Read the case study below and then answer the questions which follow.

Ellygance

The little town of Dollar nestling in the Ochil Hills was an ideal location for Elly Parks. Over the years she had built up a steady flow of income from going round people's houses giving them facials, pedicures and manicures. When a small decorator's shop on the main street became available for rental, Ellen jumped at the chance to establish her presence right in the town centre. Dollar's population of 4,000 was quite affluent and there was no other beauty salon in the area. Glasgow and Edinburgh, important centres for picking up new products and ideas, were within an hour's drive, and Stirling and Dunfermline could be reached within twenty minutes. Elly's customers all encouraged her and promised to support her in her new premises. Dave, her husband, was a signwriter and enthusiastically embarked on creating a colourful design, displaying the name 'Ellygance' surrounded by daisies for the shop front. Meanwhile Elly's mum and dad painted all the walls and put up a curtain dividing the front of the shop from the 'treatment room' at the back. Her bank manager agreed to lend her £1,000 and she borrowed a further £5,000 from her parents. Elly was pleased about this as she did not want to share the ownership of the firm. Three days after opening with a glass of sparkling wine for anyone who came into the shop for a look, Elly was visited by the Environmental Health Officer. He explained that special regulations regarding hygiene applied to premises where treatments such as electrolysis were offered. This would involve Elly spending a further £5,000 to upgrade the premises which were only rented anyway. Reluctantly Elly decided to abandon her plans for more sophisticated services and to revert to offering the basic treatments she had formerly done in people's homes. Naturally she had to increase her prices quite a bit to cover the extra costs of rent, rates and insurance on the premises.

Six months after the grand opening Elly and Dave drank the final glass of 'bubbly' as they closed the door on the salon for the last time and put the key through the letterbox. 'I can't understand what went wrong,' Elly said sadly. 'Where did all the customers go?'

1.   Suggest at least **three** objectives which Elly is likely to have had in setting up her business.

2.   What type of business did Elly set up? Suggest **three** reasons for her choosing this form of business organisation.

3.   In which sector of industry was Elly operating? How has that sector of industry changed in terms of importance in the past decade?

4.   Describe **three** people, or groups of people who might be considered to be stakeholders in Elly's business.

5.   Describe **three** internal and **three** external constraints facing Elly's business.

6.   Suggest **three** reasons for the failure of Elly's business.

7.   Outline **two** alternatives strategies which might enable Elly to start up her business again and run it more successfully.

Activity 7

Employees in employment (000s)

	1971	1992	1994
Agriculture, forestry, fishing	450	283	267
Energy and water supply	798	403	299
Other minerals and ore extraction	1282	635	562
Metal goods, engineering and vehicles	3709	2030	1836
Other manufacturing industry	3074	1924	1864
Construction	1198	839	768
Distribution, catering and repairs	3686	4605	4603
Transport and communication	1556	1324	1208
Banking, finance and insurance	1336	2639	2726
Other services	5049	7076	6865

Source: *Employment Gazette* (as shown in *Intermediate Business* by Barr et al)

1.   Identify which of the above categories of employment could be classed as primary, which secondary and which tertiary industries.

2.   What changes have occurred in the numbers employed in each sector? Suggest possible reasons for the changes you have identified.

Activity 8

Read the case study below and answer the questions which follow.

McDonald's has had great success with franchises in Scotland, Wales and Northern Ireland, but until 1994 most of their branches in England were company-owned. In that year they embarked on a plan to double the number of franchises within ten years, and by 1997 almost half of McDonald's outlets were operating as franchises. McDonald's takes great care in selecting its franchisees. Each year it receives thousands of enquiries about franchises. Before even being considered as a franchisee candidates have to work in a McDonald's for several days. Training for franchisees takes nine months and includes a stint at Hamburger University in London where, at their own expense, franchisees learn how to motivate their staff and satisfy customers in the McDonald's way. Franchisees use McDonald's materials and equipment so that the meals offered are of a standard quality in all outlets. In return franchisees have to finance 40% of the cost of setting up their branch, and pay McDonald's an annual royalty.

Source: *The Times* September 1994

1. What are the advantages of becoming a McDonald's franchisee?

2. List at least three advantages to McDonald's of franchising some of its outlets.

3. In which sector of industry is franchising most common? Give examples of actual businesses and explain why this sector is particularly suited to being organised via franchises.

Activity 9

Working in groups of three or four, collect information about at least twelve businesses in your local area. Include at least one from the public sector, one charity, and one each from the categories of sole trader, partnership and limited company. Create a table for your findings with the headings: Name of business, Type of firm, Number of employees, Sector of activity, Location, Goods or services, Aim of organisation.

On your own, create at least two different kinds of graph to display the information found by your group and write a report on your findings.

Activity 10

Read this newspaper clipping, 'Sea-ing is Believing', then answer the questions below.

Visitors might be able to plunge to the depths of the ocean at Deep Sea World but, when it comes to business, the centre's a sky-high success.

The marine environmental tourist attraction has gone from strength to strength since it opened five years ago.

Philip Crane, the man behind the vision that created Deep Sea World, first spotted the walk-through aquarium idea while on holiday.

He was in New Zealand, taking a break from running his video rental business.

He then set about looking for a suitable site to house his dream venture and came across a disused quarry at North Queensferry, Fife, which had provided much of the rock to build the Forth Road Bridge.

It took a massive £5.5 million to turn the environmental eyesore into a marine life centre which is dedicated to the British marine environment.

In the process, the biggest single marine tank in the world was built to hold a million gallons of sea water to host species native to British waters.

But before the building work could begin, there was a lot of hard work by Philip Crane to raise £1 million to part-finance the project.

He said 'when I first saw the aquarium in New Zealand I thought it was a great opportunity.

'There really is a dearth of good Scottish visitor attractions and I believed this could be a winner. And it had the added bonus of letting me work and make money out of something I enjoy doing ... an ideal situation to be in.'

But it wasn't all plain sailing and Crane admitted there were some teething problems in the early days, although these were soon dealt with.

A major feature of the success of Deep Sea World is the number of repeat visitors.

People return again and again to wonder at the mysterious underwater world which is opened up to them.

And the centre also provides a comprehensive educational programme.

Thousands of school children experience 'a living classroom' every year to back up the theory taught in school.

The thousands of fish in the main aquarium are all native to the seas which surround Britain.

It really is an eerie experience to watch a shark swim from the depths and glide past your face.

Now Philip Crane's belief in his dream has made him into a millionaire - with his company floated on the Alternative Investment Market.

The cash injection has been used to build a £12 million aquarium in Wales and plans are afoot to open others abroad.

Daily Record, 18 February 1998

1. Name the factors of production which Crane has used in his business venture. Explain the importance of each of these to the organisation.

2. Analyse the role of the entrepreneur in this business. You should refer to the starting up of the organisation and the influence of the entrepreneur as the organisation has progressed.

3. Do you think this organisation is a successful one? Explain your answer.

4. Using examples from the case study explain the external factors which influenced Crane to set up the business.

5. What external factors might affect the success or failure of the organisation in the future? Explain clearly how they might affect the organisation and make suggestions as to how the organisation might tackle these problems.

Activity 11

Types of organisation

1. Choose one organisation which belongs to the private sector. Try to choose a local example. Explain in your own words why this organisation belongs to the private sector. Outline who the owners are, and discuss some ways in which this organisation may have obtained its finance.

2. Repeat this exercise for an organisation of your choice from the public sector, and again for an organisation from the voluntary sector.

3. Look again at the three organisations of your choice and compare them making reference to the differences in their activities, ownership and ways of obtaining finance.

Activity 12

Organisational objectives

Read the case study entitled 'Family build up their hopes', and answer the questions below.

Family build up their hopes

HOPE Homes are a thriving, family-run business intent on building a reputation for quality.

Anne Hope is responsible for marketing the company, husband Ian plans the building programme and his brother Scott has responsibility for day-to-day operations on site.

The three all decided to give up jobs working for other people in 1990 and the big gamble really is paying off for the family firm, based in Drongan, Ayrshire.

Anne said: 'We work in the local community and also stay there.

'So, we make sure that all our houses are built to a high standard as it isn't the first time we've had someone at our door on a Saturday night to say a tap's dripping.

'But the plus side is that our reputation has spread by word of mouth over a wide area of Ayrshire and we are steadily building more and more houses each year.

'I can't stress enough how highly we value our good name and our reputation as a house builder who can deliver new homes on time, with a high standard of specification and finish, and at a more competitive price than other builders.

'We are currently building around 50 homes in Ayrshire every year and we hope to eventually double that figure.

'I don't think we would want to go much beyond that as we really do want to maintain a tight grasp on what we are doing and making sure people are satisfied with what we build them.

'Buying a house is a really big investment for most people and we really want to try to make sure they'll be happy in one of our homes.'

Hope Homes are currently working on a 45-home develop-ment in Ladies Walk, Drongan. Sales have gone well on the site, with 35 houses being sold within six weeks of the sales complex opening in May 1997.

Thirty are now occupied, the remainder will be completed by this June and only two are still for sale.

Anne said, 'We have plans for another 68 homes in Drongan and already the word-of-mouth jungle drums have been at work and people are interested in the new development.

'But as well as building estates, we also build individually designed houses for people who have their own plot of land.

'But there's no way we could have been as successful as we have been without the help we've had from Kenny Muir, our local Royal Bank business manager, who really understands the financing needs of a house builder.'

Daily Record, 18 February 1998

1.   Write a short paragraph giving background information about the organisation Hope Homes. You should include information about the sector (private, public or voluntary) which the business belongs to, the ways it has obtained or could obtain finance, and why you think this organisation was set up in the first instance.

2.   Outline at least four objectives that Hope Homes might have and explain why these are the objectives of an organisation such as this one.

3.   Compare Hope Homes with another organisation of your choice taken from a different sector. Discuss the differences there will be in the objectives of the two organisations, comparing at least three objectives.

Activity 13

The Happy Meal Man

Read the case study, 'The Happy Meal Man', and answer the questions below.

The happy meal man

By COLIN BELL

MAKING a fast burger doesn't always mean making a fast buck. Even the most popular sellers have to fight to stay on top.

To many McDonald's is a family name, the sort of restaurant that we take our children to at least once a week.

And it doesn't cost a fortune for a meal.

And cutting the costs is the real name of the game.

A typical franchise will cost around £30,000, but with a lot of hard work and time, money should be coming your way within a minimum of three years.

"It's not easy work and is pretty tough toil," says Steve Tomlin, who three years ago took on the McDonald's outlet at Dumbarton's Retail Park.

He now employs a staff in excess of 60 and finds his administrative skills as a chief petty officer in the Royal Navy a real bonus.

"The discipline that was instilled in all of us at that time has stood us in good stead ever since," he said.

"The Navy always believed in running a tight ship and so do McDonald's.

"You have to accept that there are certain procedures to which you have to adhere but that is a fact of business life.

"We provide a good product at a good price and we are very proud of that. It is a long, hard day but it is worth it.

"To see the smile on a birthday boy's face when he is sung to by the staff is just something else.

"It brings a whole new concept to what running a business should be all about.

"I do have to work long hours," says 43-year-old Steve, "and so does my wife. But neither of us regrets taking on the business for a second.

"Statistics show that around about 80 per cent of franchisees are successful and we are certainly not able to argue with that.

"If you start up on your own your chances of failure are a lot higher. We are more than delighted that we got into bed with a food chain like McDonald's.

"And the better they make their products, the better we can prepare them.

"In the long run, that's better for everyone visiting the restaurant.

"There is no doubt that, for thousands throughout the country, we are their first choice for a fast meal.

"And right they are, too."

Daily Record, 4 March 1998

Task 1

Describe the type of organisation this is and name which sector it belongs to. Outline the advantages of this type of organisation. What objectives do you think Steve Tomlin had when he started out on this venture? Give examples of external factors which might affect Steve's business listing possible consequences for the business.

Task 2

Compare Steve's business to two different types of local businesses. Explain what you understand by each of these types of businesses, discussing who might own the organisations and where the finance to run them might have come from.

Task 3

Give four possible objectives for each of the three organisations you have chosen, Steve's and the two others'.

Task 4

Compare the organisations you have chosen and accurately explain why their objectives can differ.

Solutions to Activities

Activity 1

The three sectors are primary, secondary and tertiary.

Examples will depend on local firms chosen but suggested examples are:

- Primary: e.g. farmer, oil extractor, open cast coal mine
- Secondary: any manufacturing firm, e.g. IBM, Marconi
- Tertiary: any service organisation, e.g. school, hairdresser, computer service provider.

Objectives will also depend on firms chosen. Suggestions could be:

- Farmer: satisficing, survival, being environmentally friendly
- Manufacturing firm: growth, sales maximisation, meeting personal aims of managers
- School: providing a service, social responsibility to society as a whole and to community (which could count as two objectives).

Generally, the tertiary sector has become more important over the last twenty years in terms of share of output and employment. The manufacturing sector has declined in terms of output and employment (de-industrialisation). The primary sector in the UK has changed (e.g. importance of oil) but other areas (e.g. agriculture, coal mining) have declined.

Activity 2

Possibilities	Advantages	Disadvantages
Sole trader	Easy to set up; cheap to establish; owner has complete control; owner takes all profits	Difficult to raise finance; proprietor has sole responsibility for all financial commitments
Private limited company	Limited liability; separate entity from owner; can keep some parts of accounts private	Takes time and money to set up; must file accounts with Registrar of Companies

Activity 3

Three reasons for contracting out may be:

- contractor may be large and be able to buy ingredients in bulk
- contractor may be able to produce food in bulk and thus more cheaply.
- contractor may have specialist expertise which allows meals to be provided more cheaply

Activity 4

An NHS hospital will be non-profit making and thus its objectives will centre on provision of service, excellence in any area of medical speciality, serving the interests of the community, ensuring it keeps within budget. A private hospital will be expected to have a profit objective (e.g. maximising profits, satisficing) but may also have social responsibility-type objectives.

Activity 5

Students could pick any two organisations such as:

Organisation	Stakeholders
West Lothian Council	Council taxpayers; residents of the area; government (who also provide funds)
Scottish & Newcastle Brewers	Shareholders, managers, customers

Aims might conflict because:

- Stakeholders are involved with the organisation in different ways, e.g. residents of West Lothian may wish services which the council taxpayers do not wish to pay for
- They may have different objectives, e.g. shareholders may want profit whereas managers may wish higher salaries
- They may have a different level of commitment, e.g. customers can go elsewhere whereas residents of West Lothian cannot change the existence of the council, although they can influence its composition.

Activity 6

1. Growth, make a profit, provide a service, run her own business, etc.
2. Sole trader – easy to set up; Elly has complete control; she takes all the profits.
3. Tertiary – it has grown in terms of share of output and employment in the UK.
4. Her husband, herself, her parents, her customers, etc.
5. Internal constraints – availability of finance from her family, etc.; size of the premises; facilities on the premises; she doesn't own the premises, etc. External constraints – Environmental Health; number of potential customers; requirements for insurance; other premises in the High Street may affect Elly's business, etc.
6. Lack of market research, lack of marketing, absence of a business plan, people not willing to come to the High Street, inability to provide more sophisticated services, increase in prices, etc.
7. Market research linked into a business plan; marketing her services; additional finance to provide all relevant equipment, etc.

Activity 7

1. Primary: Agriculture, etc., Energy and water supply, Other minerals, etc.
   Secondary: Metal goods, etc., Other manufacturing industry, Construction
   Tertiary: all remaining categories.

2. Primary and secondary – decline
   Tertiary – increase

Reasons

- Technological advances make industries in the primary and secondary sectors much more capital intensive.
- Increasing standard of living in the UK means people spend a larger proportion of their income on services such as leisure and entertainment.
- Rising incomes and a decline in state provision for retirement mean a boom in the financial services sector.
- Demographic – reduction in family size coupled with an increase in the number of women working has increased the average family's disposable income and led to an increase in demand for services in general and services such as child care in particular.
- Increase in foreign competition, with the result that we import a lot of food and manufactures, and also sell fewer of our manufactured goods abroad.

Activity 8

1. A well-known name and established reputation; national advertising, logos, etc.; customer familiarity with the products; well-established system of operation; back-up service from franchisor; availability of new products, etc.

2. Finance provided by others; enthusiasm and commitment of franchisees who will see it as their own business; cheap and straightforward method of expansion; franchisee takes much of the risk, etc.

3. Most common in service industries where there are usually retail outlets, such as fast food (e.g. McDonalds, Kentucky Fried Chicken); clothing (e.g. Benetton); cosmetics (Body Shop); car hire (Budget Rent a Car). This is because actual outlets are usually small and require few staff – hence they can be run by an individual or a small firm. Also local knowledge, for example of good sites etc. may be of help and owner can provide this. In these areas also training of franchisees is straightforward as few technical skills are required.

Activity 9

Students will have their own solution.

Activity 10

Sea-ing is Believing

1. • Land: quarry, water, fish – suitable location for tank, etc., easy for visitors to travel to, etc.
    • Labour: construction workers, clerical workers, guides, etc. – different expertise, etc. needed at different stages in the process
    • Capital: marine tank, centre, investments – money needed to invest in suitable materials, etc. to build e.g. the tank.

2. • Understanding of the need for enterprise to bring the other factors together. Reference to Philip Crane as the man behind 'the vision'. Initially finding the funding and then building up the centre to make it a success. Mention of expansion. Idea of belief in a project, wanting to make money and working at something he enjoyed.

3. • Success in terms of number of people visiting/returning – a good visitor attraction
    • Comprehensive education programme

- Floating on the Alternative Investment Market
- Expansion to Wales

Depth of answers would differentiate Higher/Int 2.

4. - Potential – a living experience
    - Lack of visitor attractions in Scotland.

5. - Change in demand
    - Loss of confidence by investors
    - Recession
    - Boom
    - Slump.

Explanation of each and how the organisation might tackle it suitable for Higher/Int 2 – development of answers by individual students.

Activity 11

Types of organisation

1. An example of one (local) organisation from the private sector:

    - Sole proprietorships
    - Partnerships
    - Companies
    - Franchises
    - Co-operatives

    With
    - Understanding shown of an organisation owned and run by private individuals with basic aim of making a 'profit'. Information on owner of organisation chosen along with examples of where finance could come from (core notes).

2. Public sector:
    - Nationalised industries
    - Local authorities.

    Local example with understanding shown of providing a service. Understanding shown of move from public to private – privatisation in recent years.

    Voluntary sector:
    - Suitable example showing idea of 'charitable cause'.

3. • Comparison of activities, ownership, finance bringing out difference in the three (core notes).

While all questions are suitable for Higher/Int 2, question 3 is strictly speaking Higher – comparison.

Activity 12

Organisational objectives

Family build up their hopes

1. • Private sector and explanation
    • Investment – personal/family, bank, financial institutions
    • Set up – family wanting to 'work for themselves and not other people'.

2. • Making profit
    • Satisficing
    • Growth
    • Survival
    • Reputation
    • Maximising sales.

    Any four of above with explanation and linked to article.

3. • Choice of any three objectives and comparing them, e.g. Hope Homes – making a profit, Oxfam using 'profits' for main aim of helping others.

All questions suitable for Higher/Int 2, but question 3 is Higher – comparison of two organisations.

Activity 13

The Happy Meal Man

Task 1
- Franchise
- Private sector
- Objectives: profit, survival, satisfying customers, reputation, etc.
- External factors: change in demand, move to 'healthy eating', recession, boom, etc. with suitable explanations.

Task 2
- Steve is a 'franchisee'
- Choice of any other two, e.g. sole proprietor, partnership, company, voluntary sector organisation, public sector organisation. Explanation of each with owners and finance discussed.

Task 3
A list of four objectives for each of the three organisations from:

- Profit maximisation
- Satisficing
- Growth
- Survival
- Reputation
- Sales maximisation.

Task 4
Clear comparisons and understanding shown of differences. Good examples chosen will allow better comparison to be made.

Tasks 1 and 3 are Int 2
Tasks 2 and 4 are Higher

Section 2: Business Information and ICT

What is information?

Information is simply facts or data which are processed into a form that will improve knowledge and assist in decision-making and planning.

What is the difference between **data** and **information**?

Data: are collections of facts or quantities, which have been assembled in some formal manner.

Information: is data that has been **processed** into a form that will assist in decision-making and planning;

Since the invention of the silicon chip in the early 1960s, society has moved, ever more rapidly, into the 'Information Age'. Electronic technology has enabled us all to produce, process, store and retrieve vast quantities of information and has, in many cases, revolutionised the life and work of human beings. All organisations depend for their survival upon the gathering, storage, processing, retrieval and communication of data and information.

Information from different sources

Primary: is first-hand data gathered and processed for a particular purpose, and is mainly collected by observation, interview, questionnaire, etc.

Secondary: is second-hand information gathered for one purpose but re-used for another, and is mainly collected from reference books, business and government statistics, market research companies, competitors, etc.

Internal: data and information which come from the organisation's own records and which only people within the organisation use. This type of information is very important in the control, operation and evaluation of any business operation, whether a one-man organisation or a multinational corporation.

External: data and information from sources outside the organisation that is then used by members of the organisation to assist them in decision-making and planning. This is used by the organisation to analyse factors over which it has no direct control, but which nevertheless may influence decisions made about its activities.

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 firms 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:

1.   Written – any form of text or written information

2.   Oral – the spoken word is often an effective way of transferring information

3.   Pictorial – they say that a picture is worth a thousand words

4.   Graphical – any chart or graph that depicts numerical information showing the relation of one variable to another in a diagrammatic form

5.   Numerical – information given in a number value format, e.g.

Quantity demanded	20	30	40	50	60
Quantity supplied	60	50	40	30	20
Price £	2.00	1.80	1.60	1.40	1.20

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:

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

2. *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.

3. *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.

4. *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.

5. *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.

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

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

8. *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.

ICT in business

In order to facilitate data collection, storage, retrieval, processing and output, with the speed and accuracy required for today's business community, computers are being used more and more in the workplace.

Hardware

Mainframe computers

These are large computers which deal with all the processing requirements of an organisation, e.g. payroll, customer databases, etc. These machines are both very expensive and very powerful and require on-site technicians to provide support. Due to the costs involved mainframes are only used by very large organisations, e.g. the Ministry of Defence, Shell Oil, Clydesdale Bank, etc.

Singapore Island has two mainframe super-computers that provide all of the information handling, storage processing and retrieval for the Island's systems – education, law, traffic control, all government services, control and operations at the harbour (one of the world's busiest ports), museums and public database services.

Mini-computers

These are much smaller than the mainframe computers described above. In businesses, this means that information processing can be decentralised to departmental level.

Personal computers (PCs)

These are the machines you will find in homes and offices. They range in price and in capacity, but many are now powerful enough to run a large number of software applications and store vast amounts of information. In many cases PCs are sufficient for the needs of small businesses. Each PC has its own operating system and memory, and each is independent of any

other PC unless they are linked up on a Local Area Network (LAN) or Wide Area Network (WAN).

Computer networks

Computers are linked by using specialised hardware and software to enable users to have access to information, applications and computer resources at any location on the network.

A file server is a powerful computer which holds the software to run the network. It also holds the shared resources of the network, the users' files, the software packages and printer queues. Printers, programs, data and files can be shared via the network. It is necessary to 'log on' using a user name and password.

Local Area Networks

Key characteristics:
• computers within an organisation, or within a local area, are linked
• owned by one organisation only
• data transfer is the main use of this system.

Many schools use LAN networks throughout the school. LANs provide a way for internal communications to be made electronically, rather than verbally or on paper.

Wide Area Networks

Key characteristics:
• computers in remote locations are linked by telephone lines or satellite links
• there can be many owners/organisations linked to the system
• communication is the main use, rather than data transfer.

It is quite possible for three design engineers for Ford – one in Detroit, one in London and one in Barcelona – all to be working **simultaneously** on the same project (each adding to, updating or modifying the others' work). Organisations such as Apple Macintosh use a WAN to link each and every one of their centres. All production, storage and retail outlets are linked so that it is possible to locate any Apple Macintosh machine or part, or get any information about any section of the organisation at the touch of a button.

The Internet, often called simply 'the Net', is a worldwide system of computer networks. The Internet is now a public and self-sustaining facility accessible to tens of millions of people worldwide.

For many Internet users, electronic mail (e-mail) has practically replaced the postal service for short written transactions. Electronic mail is a very commonly used application on the Net. You can also carry on live 'conversations' with other computer users, using IRC (Internet Relay Chat). More recently, Internet telephony hardware and software allows real-time voice conversations on the Internet.

Another widely used part of the Internet is the World Wide Web (often abbreviated to WWW or called 'the Web'). Its outstanding feature is hypertext, a method of instant cross-referencing. In most Web sites, certain words or phrases appear in text of a different colour to the rest; often this text is also underlined. When you select one of these words or phrases, you will be transferred to a site relevant to the word or phrase. Sometimes there are buttons, images, or portions of images that are 'clickable'. If you move the pointer over a spot on a Web site and the pointer changes into a hand, this indicates that you can click and be transferred to another site.

Using the Web, you have access to millions of pages of information. Web 'surfing' is done with a Web browser, the most popular of which are **Netscape** and **Microsoft Internet Explorer**. The appearance of a particular Web site may vary slightly depending on the browser you use. Also, later versions of a particular browser are able to render more 'bells and whistles', such as animation, virtual reality, sound, and music files, than earlier versions.

Electronic mail

This is an extremely fast and efficient way of transmitting information. A page of A4 text can be relayed throughout the world in a matter of milliseconds – and can be sent to one person or to many receivers at the same time. Using attachments any amount of information, of any type (text, charts, graphs data, etc.) can be sent. Messages can be prepared in advance, or keyed in on-line, stored both at the sending and receiving terminals, printed, answered, passed on again or simply filed as required.

Each user on the networked system is allocated a 'mailbox' and can receive information in his/her mailbox, or transmit information to any other mailbox for which the address is known. Confidentiality can be maintained by using passwords.

Advantages of e-mail:
- speed of transmission
- multiple transmission at only one charge (for on-line time)
- attachments can be sent with e-mails.

Disadvantages of e-mail:
- a general increase in the quantity of unnecessary communication (junk mail and spam) may mean that important messages get lost
- it may reduce interpersonal communication – a common complaint from home-working staff
- it is only of use if everyone is trained in using it and does use it.

Multi-media systems

Using a variety of ways of processing, storing, transferring and retrieving information, multi-media systems are more and more being used for presentation as well as for information processing. Typically this has meant one of the following:

- text and sound
- text, sound and still or animated graphic images
- text, sound and video images
- video and sound
- in live situations, the use of a speaker or actors and 'props', together with sound, images and motion video
- interactive elements can include voice command, mouse manipulation, text entry, touch screen, video capture of the user, or live participation in presentations.

Teletext provides a useful source of business information, but is a 'read only' service picked up on television sets with special adapters. CEEFAX (BBC) is the system in the UK.

Interactive video is used for training purposes. Here the trainees work through exercises that are seen on a television screen (often simulations of workplace situations) and, by making responses via their computer terminal, can view the consequences of the choices they have made. A frequently used example of this is flight simulation training for airline pilots.

Video conferencing is yet another multi-media facility. Here video and audio links can be established to allow a 'virtual' meeting to take place. Until relatively recently this has required the type of equipment used by an outside broadcasting unit from a television company. However, new generation computers have both cameras and speakers incorporated in them, and with the correct software these machines have removed the need for TV cameras and equipment, making the whole process simpler and cheaper.

Other examples of information technology systems

Facsimile transmission (Fax)
Linked to the telephone network, fax is a means of sending an identical copy of any document to a recipient machine. The transmission time is very fast and the charges are the same as for use of the telephone for the same length of time. Machines are becoming relatively inexpensive, and are now seen in most businesses and in a growing number of homes.

EPOS
Electronic-point-of-sale systems provide a valuable source of information, particularly for the stores and purchasing departments of an organisation. As they record all purchases made from the organisation they can be used to predict demand and assist in forward planning of orders and distribution scheduling. Linked with store cards they can also provide a detailed customer profile, invaluable information for the marketing department who will use it to alter the marketing mix of price, product, place and promotion, to suit individual geographical requirements.

Software

Word processing applications

All routine clerical tasks involving the production of written text – such as preparing documents, standard letters, memos, etc. can be done using word processing software, e.g. Microsoft Word, Apple Works. Further, the facilities to change text size, highlight text, change alignments (left, centre or right), change margins within documents, etc. have allowed word processors to be used to create high quality documents.

With word processing, drafting, editing, storage and recall of documents are extremely simple, and the use of the thesaurus and style checking enhances the individual's ability to display work and communicate effectively.

Databases

A database is a store of information organised into records – for example, a filing system. The Yellow Pages phone book is a paper database. A computerised database is, similarly, a means of storing information on a special computer software package. Databases are useful for clerical, administrative and managerial information storage and retrieval. They can also provide facilities for producing standardised letters to clients (combining the 'mail merge' facility of a word processing package and a 'mailing list' from the database).

From the point of view of management, the process of decision-making is dependent on the quality and quantity of information available. Databases therefore represent an important tool for information management. Standard packages such as Microsoft Access or Apple Works are likely to incorporate the following features:

- *Searching*: computerised databases will allow searches to be made for the location of individual records within the 'filing system' and it is possible to 'search' on a variety of 'fields' within the individual file.
- *Sorting*: the information on a computerised database will allow all the individual records or files to be sorted into any order the user wants.
- *Reporting*: many databases allow the user to produce reports which summarise the information they hold.

Spreadsheets

This is a software package which allows the computer to perform calculations. Like databases, they are frequently used as a management tool to aid decision-making and investigate the possible effects of alternative courses of action. A standard packages such as Microsoft Excel and Claris Works are likely to incorporate the following features:

- *Calculating*: when numerical data is entered into cells, formulae can be made to perform additions, subtractions, etc.
- *What if?*: by altering previously inserted data the spreadsheet will immediately update/recalculate the sheet. This allows a rapid evaluation of alternative courses of action that could be made.
- *Displays*: many spreadsheet packages have the facility to display information in the form of graphs and charts, as well as in 'sheet' form.

Desktop publishing (DTP)

These packages enable the user to produce materials with a professional appearance, once only associated with printing companies using typesetting facilities. Such a package commonly includes the ability to:

- import text, graphics, spreadsheets and materials produced on other packages
- display text and graphs in a style which resembles a professional
- publication – for example, columnar text blocks, text flowing around pictures and charts, etc.
- produce a wide range of different styles and sizes of type (fonts), together with the capacity for text enhancement (emboldening, underlining, etc.)
- create drawings and charts from a menu of line and shade options.

Personal productivity software

The computerised equivalent of the accessories to be found on top of a manager's desk:

- a diary
- a calendar
- a calculator
- a notepad
- an address book

Such 'accessory' software is designed so that it can be accessed at any time, even if other packages are being used simultaneously. A manager's administrative assistant can access and update the diary as required, or check the appointments calendar before making arrangements for the manager.

Presentation software

Advanced packages such as Microsoft's **PowerPoint** can provide a means of making slideshow presentations with colourful text, graphics and displays. These can be used for training purposes or as a selling and marketing tool.

The uses of ICT

The development of information technology systems, and their rapid expansion, particularly in the last fifteen years, has given businesses of all sizes the ability to handle and process vast quantities of information in order to keep up with the demands of their customers and the progress of their competitors.

ICT and decision making

Information technology is a frequently used tool in the **process of decision-making** in the modern business environment. It has most certainly increased the ability of managers to gather information from a wide variety of sources, both internal and external. It has allowed for a far greater sophistication in the processing of data into useable information and also assisted in the processing and presentation of data gathered into a wide variety of media. Businesses need to be proactive and highly responsive in order to keep up with their ever-changing markets. By using information technology, access to information and the speed of that access has greatly assisted business decision-makers. This has meant that information technology has brought great benefits to organisations – speeding up the decision-making process.

Information technology allows for communication on a worldwide basis with no time restrictions.

ICT and production

In terms of **production** benefits, information technology has led to a far greater sophistication in product research, design and testing. Within production processes themselves there have been enormous reductions in error and in wastage of raw materials. Systems to ensure Total Quality Management and Just-In-Time production or Kaizen continuous improvement systems are enhanced by the aid of information technology.

Production computer systems include computer-aided manufacturing (CAM), computer-controlled robots, computer-numerical control lathes, routers, spinning, cutting, printing, sewing and milling machines, and automatically guided vehicles controlled by microprocessors to carry component parts around the factory. Within stores, area scanners and sophisticated stock control systems log stock in and out and automatically re-order the correct amount at the correct time. Factories are run by computer integrated manufacturing – where a computer or computer network is used to control the entire production process. Information technology can assist at each and every stage in the production process.

Costs and benefits of ICT

Costs
* the price of the hardware and software
* the cost of installation – electricians, technicians, conduits to carry new cables, structural changes
* the cost of staff training – loss of working time and cost of specialist training staff
* loss of efficiency until familiar with the system
* errors/glitches in the system causing loss of working time
* the possibility of data loss or corruption
* the possibility of commercial espionage and information theft through computer hacking
* health and safety implications and possible costs of equipment to prevent eye-strain, backache, etc.

Benefits
* the increased speed of information handling and decision making
* flexibility of integrated systems – combined fax, photocopier, e-mail and scanner all in one machine attached to a personal computer
* increases in production and administrative efficiency
* enhanced reputation with investors, customers and competitors

- may give a competitive edge – but only in the short term until newer technology is adopted by rivals
- reduction in staffing costs – capital intensive not labour intensive
- ability to relocate administration centres in more cost efficient locations
- facilitates home working
- facilitates tele-sales call centres.

Data-protection legislation

The growth of computerised records can provide great benefits to an organisation, for example consumer databases can give accurate profiles of actual or potential target markets. However, there is the possibility that individuals in society can be disadvantaged if information about them is inaccurate, out of date, entered incorrectly or is mixed up with someone else's – hence the Data Protection Act. The Act stipulates that organisations must abide by eight Data Protection Principles.

They must:

- obtain and process information fairly and lawfully
- register the purposes for which they hold it
- not disclose the information in any way that is different from those purposes
- only hold information that is adequate, relevant and not excessive for the purposes they require
- only hold accurate information and keep it up-to-date where necessary
- not hold the information any longer than necessary
- give individuals copies of the information held about themselves if they request it and, where appropriate, correct or erase the information
- take appropriate steps to keep the information safe.

The Act also created the appointment of an official Data Protection Registrar. He/she is independent of any political or business interests and has the power, under the Act, to have inaccurate computer records about an individual corrected or even erased. Individuals can complain to the Registrar if they feel that information held about them is incorrect, inaccurate or in any other way misleading, or if an organisation refuses to let information they hold be seen, or in any other way breaches one of the eight principles. Claims for compensation can be made against an organisation if an individual suffers damage because of the loss, destruction, unauthorised disclosure or inaccuracy of personal data held by the organisation.

There are some instances of exemptions to an individual's right to see information that an organisation holds about him/her. These include information held for the purpose of:

- preventing or detecting a crime
- catching or prosecuting offenders
- assessing or collecting tax or duty.

In some cases your right to see health and social work details may also be restricted.

Student Activities

Activity 1

Read the following article and then answer the questions below.

During her research, Janis collected data from a variety of sources. Firstly she interviewed her store manager, Mr Johnstone. He gave her a copy of the organisation's customer care policy to read. This was taken from the *Store Manager's Guide* issued by the Head Office in Dalkeith. The policy stated that the aim of the organisation was to achieve a position where at least 95% of all customers were fully satisfied with the level and quality of customer care offered by 'Scots Wha Hae'. It also said that research the previous year found that 96% of customers were fully satisfied with the service provided.

After this, Janis constructed a questionnaire and gave it to every customer who came into the shop on the previous Thursday, Friday and Saturday asking what they felt about the customer care provided by 'Scots Wha Hae'. From 127 completed questionnaires she was delighted to find that only 3% said that they were not satisfied with all aspects of customer care in the shop. In all cases this was because the customers felt that the staff were too quick to approach them. In the 'comments' box one woman had written, 'I just like to browse. If I want help I'll ask for it. I don't like this pressure selling that goes on today.'

Janis also contacted Scottish Enterprise, Tayside, to find out how many Scottish craft shops, like the one she worked in, had opened in Dundee and the surrounding area over the previous two years. She was given a copy of a graph of new retail business start-ups for 1997, 1998 and the first six months of 1999 that identified various different retail sectors – clothing, gifts, food, furniture, etc. They also gave her a list of all Scottish craft shops trading in Dundee and the surrounding area at 1 October 1999. Out of the seventy-eight shops operating only seven had opened in the previous two years.

When she asked if there were any incentives to new businesses she was told, 'Grants for new businesses were cut by 35% in 1997. Although I've done no research into the consequences of these cuts I'm sure that the lack of financial help has prevented some people from starting up new businesses.'

Finally Janis contacted all of the shops whose names she had been given to see if they had written customer care policies. In all, 79% of them had done so and she was very pleased when most of the shops said that they would provide her with a copy of their policy so that she could compare it with the 'Scots Wha Hae' one. When the document from Wallace Wares arrived she was impressed by the inclusion of glossy photographs of products being looked at by happy, smiling customers assisted by smiling staff in a very smart uniform.

Once all of this information had been gathered together, Janis felt sure that she had all the data she needed to prepare the report she had been asked for.

1.   We all talk about **information** and **data**. What do you understand by these terms?

2.   From the text sort out the various **sources of information** Janis used, and list these in the table below under the following headings.

Primary	
Secondary	
Internal	
External	

3.   From the text identify an example of each of the following types of information:

   (a)   Qualitative

   (b)   Quantitative

   (c)   Written

   (d)   Oral

   (e)   Pictorial

   (f)   Graphical

   (g)   Numerical

Activity 2

There are eight main characteristics that can be used to help us judge the quality and value of information that is available to us. If the information that we are using meets MOST of these characteristics then we can say that it is likely to be both of high quality and of value to us.

These characteristics are:

Accuracy	**Timeliness**	**Completeness**	**Appropriateness**
Availability	**Cost effectiveness**	**Objectivity**	**Conciseness**

Read the newspaper articles on the next page taken from the *Littlekirk News* on 20 June 1999.

At the moment several people need to make decisions about what they are going to do in the near future. They are:

(a)   The Primary Headmistress who is trying to make up class lists for next session.

(b)   The council planning department deciding on whether or not to grant planning permission for the new supermarket.

(c)   The Smithson family who are thinking of moving to Littlekirk. They stay in the nearby town of Upperville, where Mr Smithson works. Mrs Smithson used to be the manageress of a clothes shop. They feel that Upperville is crowded and noisy and not a good place to bring up their two sons, Patrick (aged 6) and Mark (aged 11).

    1.   Which, if any, of the articles would be of use to each of the three decision-makers?

    2.   Using the eight characteristics listed above to identify information of quality and value, state why the articles you have chosen would be of help to the decision-makers.

Local conservationist up in arms

According to the 1991 census there were 2,000 residents in the village of Littlekirk. All this new growth is frightening. Can the village survive into the next millennium with all of these developments going ahead? They will change the village beyond all recognition. Do we really want things to happen this quickly?

'I'm facing ruin,' claims local grocer

Mr Watson, the local grocer, said that the new supermarket would be the ruin of all of the other village shops. 'No-one wants it,' he claimed.

New jobs promise from top supermarket chain boss

If permission is granted for the building of a new supermarket Tesco said that they will create around 60 jobs, both full-time and part-time, in the village.

School news

At the staff meeting, Mrs Smythe, the Primary Headmistress, said that several of her classes were already full. 'We may have to consider composite classes in P3/P4 and P6/P7 if the roll rises any further.' She said she was also pleased to announce that the new school would open on schedule at the start of next term.

Building warrants granted

Planning permission has been granted for 80 new family houses to be built in the area behind the existing properties on Johnston Street.

Friendliest village – and that's official

Littlekirk has just been awarded the Scottish Enterprise certificate for 'Friendliest Village in Scotland'.

Rise in benefit figures

The number of people claiming Unemployment Benefit in Littlekirk last week was 89. This is 10 more than the same week last year, a DSS spokesperson admitted.

Local school team 'does us proud' says coach

Littlekirk High 2   Upperville Academy 0

Coach Bert Mair said that the skills learnt in the Primary teams had given his boys a first-class start to senior boys' football. 'They are just a great bunch of boys. I'm proud of the effort they put into training and games.'

Activity 3

Using the eight characteristics that indicate the quality and value of information, grade the following sources of information as either High Value or Low Value for the purpose required and give a reason for your decision.

Source	Purpose required	High/Low value	Reason for grade
Class registers	Identifying absent pupils		
The 6.30 pm weather forecast	To decide if Sports Day is to be cancelled		
The Sun newspaper	To assess if the Government is keeping election promises		
'Watchdog'	To decide what vacuum cleaner to buy		
Conversation between two men on a bus	Critical analysis of Paul Gascoigne's football skills		
A TV advert for a new car	To decide which car to buy		
Your Business Studies teacher	To learn about information technology		
The Internet	To find out the price of a holiday in Majorca		
The *Financial Times*	To decide whether or not to sell your BT shares		
A history textbook from the library	To find out about the causes of the First World War		

Activity 4

This exercise would be appropriate for individual, paired or group work. It would also be possible to send individuals, pairs or groups to different departments and have them report back and produce a whole-class IT plan.

The class teacher should approach other members of staff, who may have to assist by providing information, in order to obtain permission to send students to them.

It is important that the students read through all of the tasks and that it is made clear to them that the collecting of information for all of these tasks could be done in ONE interview. They must therefore plan what it is that they need to find out, and perhaps even draw up a list of questions they might ask.

Task 1
Using the table in **Worksheet 1** go round the school and make a complete inventory for each department of all of the information technology they have. (You may have to photocopy this worksheet.) Don't forget to include in your records the school administration department and the library as well as the teaching departments.

Task 2
Using the table on **Worksheet 2** identify and record any special features of the information technology in each department in the school. You may need to photocopy this worksheet.

Task 3
Interview the Head of Department and identify the key factors that influenced the decision to make the specific equipment purchases which were made. Headings you should use include:

Cost of hardware	Cost of software
Cost of installation	Usage
Availability	Compatibility with other systems
Staff training requirements	Other reason

Task 4
Read the notes you have on the Data Protection Act. Using the eight Principles of the Act as a basis from which to start, set out a list of rules that the school should apply with regard to the collecting, storage and use of information it holds on both staff and pupils.

Task 1 – Worksheet 1

Identify and record all of the information technology hardware and software used in the school.

Department	Make and number of mini-computers	Software package used	Make and number of printers	Make and number of scanners	Television Video Radio	FAX

Task 2 – Worksheet 2

Identify and record any special information technology features available in any of the departments.

Interactive	Computer conferencing	Internet access	E-mail facilities	Multi-media facilities	Networked System-linked To whom	Department

Activity 5

Note
Students should have access to magazines or catalogues detailing information on software and hardware prices for this activity. These may be available in the school library or they may be held by the purchasing officer for IT in the school.

Students should also collect information from any other source they can find – including the Internet if they have access to it.

1.   *Hardware*
For **one** of the following pieces of hardware identify and list at least three of the different systems available and their prices.

Mini-computers
Scanners
Printers
Network servers
Monitors

2.   *Software*
For **one** of the following software suppliers identify and list at least three of the different software packages they offer, the key features of each, and the current price of each.

Microsoft (Business Software)
Microsoft (Home Software)
PlanIT
Complete
Lotus
Adobe

3.   *Identify*
A software package that would allow you to:

(a)   Prepare accounts
(b)   Illustrate documents
(c)   Create business diagrams
(d)   Plan a route from your home to London
(e)   Protect your computer from viruses
(f)   Create a business plan
(g)   Make a business presentation using Infotech
(h)   Create documents by speech, rather than by keyboard
(i)   Draw engineering designs

Activity 6

Read the following case study and then answer the questions that follow.

'Oh no,' cried Susie in despair, as all of her client files blew onto the floor. 'This is the end,' she thought. 'I must get a better system for storing and up-dating these files as I do more work for each client. I never know what stage each job is at, or when I should be sending out an invoice – or a receipt for that matter. It always takes me hours to sort things through – I dread doing the books for the accountant each year.'

Susie runs a small interior design business, called 'Sue's Inside'. Her clients include both businesses and private home-owners. Once a design is agreed and the drawings completed she has to purchase the materials, paints, wallpaper and furniture required. She also has to book and schedule tradesmen such as electricians, plumbers, joiners and plasterers.

During the lifetime of each job there are likely to be several bills allocated to each client. As a rule, clients only receive one invoice on the final completion of the job. However, in special circumstances, when for example a specific piece of furniture is required, an individual invoice will then be sent out for that one item.

Susie can have a number of jobs on the go at one time as they are often at different stages in the design process.

(a) Suggest why Susie might find an integrated software package, such as Microsoft Office, useful.

(b) Identify three things, other than preparing letters for clients, that Susie could use the word processing package for.

(c) Susie has decided to approach her bank manager to request a loan to buy a van for use in the business. She can estimate what her income is likely to be, going on the information from the last three years' final accounts. She is also convinced that the van will increase the number of jobs that she can take on – and therefore increase her profits, but is unsure by how much. She is also not sure if she should ask for the loan over a three-year or five-year period.

   (1) What software package could she use to help her to set out her financial situation for the bank manager to see?
   (2) What feature of this software is particularly useful to Susie at the moment?
   (3) Why should she keep individual client accounts on a package like this?

(d)   In a client database, Susie would use the fields 'Name', 'Address' and 'Telephone Number'. Give three other fields that she might wish to use, saying, in each case, why she would use it.

(e)   Susie has decided to use a Network Service provider and link her computer to the Internet.

   (1)   Why might she find this very useful for purchasing materials and furniture for the jobs she is working on?
   (2)   How might she use the Internet to market her business?

(f)   Why might a personal organiser improve Susie's personal effectiveness?

(g)   Identify one other communications tool that Susie might find useful and say why.

Activity 7

Using the information already gathered in Activity 4 extend the activity by completing the following tasks.

Task 1
Prepare a report in word-processed format, identifying the key factors influencing information technology purchasing decisions within your school. You may have found that different departments gave priority to different factors – identify where this is the case.

Task 2
Construct a database for the school identifying each department and recording the information technology they have. Print out a copy of this database.

NB *It would be possible for different groups to construct a database for different departments, and then to combine the individual databases onto one file. This has the benefit of allowing the teacher to limit (or increase) the workload for individual students/groups as time allows.*

In terms of software use this could be developed to:

- *demonstrate the flexibility and sophistication of the software by combining files*
- *show the benefit of a standardised system throughout an organisation*
- *highlight the opportunities for team work on specific projects.*

Task 3
Draw up a plan of the school and record what you have found on this diagram. Show any internal links between departments and any external links, for example to the BT telephone system.

NB *It may be possible to get a copy of the floor plan of the school from the Head Janitor.*

Activity 8

For each of the following businesses state which software package you think they are most likely to use and what they would use it for.

Business	Type of software	Use of software
British Airways		
A dentist		
Faulds Advertising Agency		
Thompson Publications		

Activity 9

Read the article 'Sandwich or sand wedge, sir?' and then answer the questions.

Sandwich or sand wedge, sir?

A DUNDEE hotel has become the first in the country to offer its guests golf – on a course that never sees rain.

Thanks to virtual reality technology at the sixteenth century Mains Castle, they can play a round on one of the world's leading golf layouts between their soup and sorbet.

A golf simulator brought in from the US allows even hackers to play courses like The Belfry, Oakland Hills or Pinehurst, transporting diners to a selection of the world's most challenging courses.

Players swing a half-length club and the machine plots the path of the ball on a computer screen, having monitored the golfer's swing, clubhead speed and angle with a laser beam.

Mr Mark Bulle, who has run Mains Castle for three years, believes golf clubhouses across the country will want to grab a slice of the computer action.

He said: 'It never rains on the simulator. If a foursome play a few holes and the heavens open they can come into the bar and finish their round on the computer. I'm quite sure this will take off.'

Carnoustie member Larry Ross, 75, said: 'I can see a lot of people getting into this, especially if the weather remains the way it has.'

The Herald, Tuesday, 29 September 1998

(a)   What is Mains Castle Hotel using virtual reality technology to do?

(b)   Why does Mr Bulle think that this facility will be popular with his customers?

(c)   What are the benefits of such a simulator to the hotel's customers?

Activity 10

Read the article 'Buying to the Beat' and then answer the questions.

Forfar and Kirriemuir are only a few miles apart. Both are in the Strathmore valley, both surrounded by farmlands, both gateways to the picturesque Angus glens and the Grampian mountains beyond. But there the similarities end. If you happened to shop in Kirrie's Tesco you are liable to pay much more for some basics items than at the Tesco supermarket in Forfar.

A 1kg bag of Silver Spoon granulated sugar in Kirrie's Tesco, for instance, will cost you 65p. Cost in Forfar: 55p. So why the huge price cut?

Following successful trials recently, Tesco's 'local pricing' policy has just been rolled out across the country with strategic price cutting in some stores and not in others.

Using data gathered from its Clubcard users, Tesco has been able to establish an overall profile of its shoppers and the patterns of their buying in every store.

It has identified those price-sensitive branches, which is where they have cut the cost. They argue that this will be good news for the less well-off, and that instead of a price cut, affluent shoppers will get a greater range of items on the shelves and perhaps even 24-hour opening. But where does this leave the less well-off in Kirrie?

My shopping companion is a Kirrie resident and a pensioner who does not have a high disposable income. So we asked the management in Kirrie: why the difference between the two towns?

'The Forfar Tesco has a discount store down the road,' the spokesperson explained, 'so there's much more competition and that's why the prices are cheaper there.'

My companion's outrage at this price hike in Kirrie was noted in their complaints book, while I suggested that the giant signs plastered all over the store, cut in two with a pair of scissors, saying *We've cut our prices* was less than honest.

Deirdre Hutton, chairman of the Scottish Consumer Council, believes there is a real danger in what Tesco is doing. She has also noticed the same thing happening in the small Borders town where she lives and where the supermarket also has a monopoly and no discount store down the road.

'The less well-off,' she says, 'are not only in towns. People in rural populations also have to watch their spending.

'According to surveys we've done, they come off badly anyway since they already have transport costs added to their bill.

'If supermarkets are justifying this kind of two-tier pricing strategy as some kind of social engineering then I think they've got it wrong. Cross-subsidy of this kind is a blunt instrument.'

Recently Tesco became Europe's No 1 food and drink retailer operating under a single fascia. Its success was said to be partly the result of the strength of the British economy, increased sales per store and recent acquisitions in Ireland and central Europe. Its new pricing tactics were not mentioned.

As planning restrictions tighten their grip on retail development the big four multiples – Tesco, Sainsbury, Safeway and Asda – battle for a bigger slice of the market.

Twenty years ago they had very little competition. But now there are convenience stores, discounters and warehouse clubs, not to mention specialist food shops and other independents who are claiming a share of our food shopping.

The big four, recognising the growth limit in food of three meals a day per person, have moved into petrol stations, banks, post offices, chemists, clothes shops, etc. Some have gone smaller, such as Sainsbury's 'Locals'.

The supermarket scene in the UK will change radically over the next 10 years, says Jeffrey Robinson in his revealing book *The Manipulators: A Conspiracy to Make Us Buy**. Warehouse clubs, like the US Costco, have created problems for UK multiples. Then there are the most recent innovations of home delivery and computerised supermarkets. But those supermarkets which have dabbled in computer shopping have found that it's tougher to create impulse shopping on a computer. According to research, around 60% of what we buy in a supermarket is unplanned.

While it's not clear yet how these innovations will affect future food shopping, there is no doubt, says Robinson, that the real battleground is price and how price weapons are manipulated to make us buy.

The 'loss-leader', like Tesco's 55p bag of sugar in Forfar, works on the basis that no matter how much lost profit there is on the sugar, you have been lured into the store and will certainly buy more than a bag of sugar.

Then there are coupons, offering a cut price, while another ploy is a 'price promise': find the same thing at a lower price anywhere within a x-mile radius and the difference will be refunded. 'Bundling' is the lure of buying several and getting one 'free'.

Buy a bag of five large oranges for £1.49, the Tesco label says, and you will get one free. A bargain. How can you resist? Only if you work out that a single orange in this bag, without the offer, would have cost 37p. Meanwhile there are large oranges at 25p each elsewhere in the store.

* The Manipulators: A Conspiracy to Make Us Buy by Jeffrey Robinson. (Simon and Schuster)

(a) Why are some prices higher in the Tesco store in Kirriemuir than in the Tesco store in Forfar, only ten miles away?

(b) How does Tesco gather information about its customers?

(c) How would you define the market research information Tesco is gathering?

(d)   Other than the information they get from their customers, how might Tesco have gathered the information that led them to the conclusion that they need to keep prices low in Forfar?

(e)   In your opinion what does the phrase 'cross-subsidy' (last sentence in column 1) mean in the context of this passage?

(f)   Why have the big four supermarket multiples found that offering a service such as computer shopping is not as profitable to them as personal shopping?

Activity 11

Read the article 'Army hit by £240m computer problem' and then answer the questions.

Army hit by £240m computer problem

Over-budget system 'obsolete'

EXCLUSIVE IAN BRUCE *Geopolitics Editor*

THE Ministry of Defence has spent £249m of taxpayers' money on an Army computer system which disgruntled officers say is obsolete and needs a major overhaul by a team of civilian experts.

Army sources claim the cost of rewriting the computer software could wipe out any savings clawed back from proposals to slash Territorial Army manpower from 59,000 to 40,000 next year.

Officers fear the system, Unicom, is so outdated it might not even be able to order boots for soldiers if they transfer.

It was installed in 430 regular and TA regimental headquarters in the UK and overseas within the last four years, and was supposed to streamline administration of everything from pay to packets of breakfast cereal.

First conceived in Whitehall a decade ago, the project was already £32m over budget and electronically obsolete by the time it began entering service in 1994.

A terminal was installed at each HQ and landlines laid to sub-units to allow them to relay requests for stores and equipment. The master computer was located at Worthy Down, near Winchester.

But each regiment had different requirements. Armoured troops need spares for tanks. Infantry need bullets and boots. So each had its own specific software programme written for it, incorporating its unique requirements.

Despite the huge cost of the programme, the terminals are operated by keyboard strokes, rather than mice, and lack most of the even basic advances in civilian technology over the last 10 years. Many commanding officers bring their own personal computers from home to gain access to modern systems.

One regular Army insider said he had not used Unicom for anything vital since it was installed. 'It is ponderously slow, steam-driven technology and, by and large, a waste of space. If my unit needs something, we use the telephone. It is hardly secure, but at least it works.'

Another officer, serving with the TA, added: 'The system was designed for the regular Army

in a peace-time environment. It functions only if there is no operational pressure and the unit concerned is concentrated in a single barracks or geographical location.

'But if you're dealing with a TA unit which might, for the sake of argument, have a company in Aberdeen, another in Inverness, and a headquarters in Edinburgh, Unicom is a nightmare. Things become really complicated when parts of the units are transferred to another headquarters.

'The software is tailored to individual units. That means the terminal for a reconnaissance unit might decide not to talk to the terminal for an infantry unit. We might as well go back to having company runners although they might have to run from Ayr to Newcastle, or Glasgow to Liverpool.

'A man with a message in a cleft stick would be more efficient and probably faster.'

He warned of problems with the proposed re-roling of TA soldiers, individuals being transferred then 'computers refusing to recognise new arrivals. That means no food, no equipment, and potentially no pay. In a war situation, it might mean no ammunition.

'No one at command level in the Army can understand why the MoD can't buy a civilian system off the shelf. It would be cheaper, and could no doubt be adapted for service use at minimal cost.'

According to officers who have fallen foul of the system's inflexibility, the made-to-measure programmes for individual units can mean a computer faced with a request for size 10D high-leg boots might check its records, decide it is not responsible for soldiers with size 10 feet, and refuse to order the boots.

A spokesman for the MoD's procurement executive said last night: 'The Unicom system is already being updated. The project team assigned is working on improvements at Tidworth and Bulford, both major military establishments in the UK. Improvements will then be implemented on a rolling programme throughout the network.'

He refused to say how much the updates would cost or to identify the contractor responsible.

The Herald, Saturday, 10 October 1998

(a)   From the article give three advantages the Army hoped to gain from the introduction of the new computer system.

(b)   Why did each regiment have software written specifically for it?

(c)   What were the main complaints about Unicom that meant that a regular Army insider preferred to use the telephone?

(d)   What were the main problems that arose when units were in different locations, or when different units wanted to communicate on the system?

(e)   According to some of the officers what problems might arise because of the failings of Unicom?

(f)   What did they suggest might be a good information technology solution to the problems they face?

(g)   From what you have read in the article and from the knowledge you have gained working through this unit, draft a short list of guidelines outlining the main features that an organisation should consider when looking to install, replace or up-date an information technology system.

Solutions to Activities

Activity 1

1. *Definitions:*

Information: is data that has been processed into a form that will assist in decision-making and planning.

Data: are collections of facts or quantities, which have been assembled in some formal manner.

2. *Sources:*

Primary
- interview
- questionnaires
- asking officials at Scottish Enterprise, Tayside

Secondary
- the organisation's customer-care policy document
- graph of new business start-ups for 1997, 1998 and first half of 1999
- list of all Scottish craft shops trading in Dundee area
- copies of other organisations' customer care policies

Internal
- customer questionnaires
- the company policy statement
- the *Store Manager's Guide*
- last year's figures of 96% customer satisfaction with the service provided

External
- figures from Scottish Enterprise, Tayside on new business start-ups
- list of all craft shops in the Dundee area
- information on grants for new businesses
- information from other organisations and copies of their customer care policies

3.   *Types of information*

(a)   Qualitative   • 'I don't like' (paragraph 2)
                      • 'I'm sure' (paragraph 4)

(b)   Quantitative   • a target figure of 95% of all customers
                      • last year's results showed that of 96% of all customers from 127 questionnaires only 3% were not satisfied
                      • out of seventy-eight shops operating only seven had opened in last two years
                      • 79% of them did have written customer care policies

(c)   Written   • customer care policy document
                      • the *Store Manager's Guide*
                      • responses given on the questionnaires
                      • list of craft businesses in Dundee area
                      • written customer care policies from other organisations

(d)   Oral   • 'Grants for new businesses were cut by 35% in 1997. Although I've done no research into the consequences of these cuts I'm sure that the lack of financial help has prevented some people from starting up new businesses.'

(e)   Pictorial   • glossy photographs in the Wallace Wares document

(f)   Graphical   • copy of the graph of new retail business start-ups

(g)   Numerical   • a target figure of 95% of all customers
                      • last year's results showed that out of 96% of all customers from 127 questionnaires only 3% were not satisfied
                      • out of seventy-eight shops operating only seven had opened in last two years
                      • 79% of them did have written customer care policies

Activity 2

For the Primary Headmistress:

School news	timely, appropriate, objective, concise
Local school team 'does us proud' says coach	accurate, timely, complete, appropriate, available, cost effective, concise

For the council planning department:

Building warrants granted	accurate, timely, complete, appropriate, available, cost effective, objective, concise
'I'm facing ruin,' claims local grocer	timely, appropriate, available
New jobs promise from top supermarket chain boss	timely, appropriate, available, cost effective, concise
Friendliest village – and that's official	accurate, timely, complete, available, cost effective, concise

For the Smithson family:

School news	timely, appropriate, objective, concise
Local school team 'does us proud' says coach	accurate, timely, appropriate, available, cost effective, concise
Friendliest village – and that's official	accurate, timely, available, cost effective, concise
New jobs promise from top supermarket chain boss	timely, appropriate, available, cost effective, concise
Local conservationist up in arms	timely, available, cost effective

Activity 3

Source	Purpose required	High/Low value	Reason for grade
Class registers	Identifying absent pupils	High	Accurate, timely, complete, appropriate, available, cost effective, objective, concise
The 6.30 pm weather forecast	To decide if Sports Day is to be cancelled	Low	**Is** appropriate, available, cost effective, objective, concise **Is NOT** accurate, timely, complete
The Sun newspaper	To assess if the Government is keeping election promises	Low	**Is** timely, appropriate, available, cost effective, concise **Is NOT** accurate, complete, objective
'Watchdog'	To decide what vacuum cleaner to buy	High/Low	**Is** timely, appropriate, available, cost effective, concise, accurate **May not be** objective, complete
Conversation between two men on a bus	Critical analysis of Paul Gascoigne's football skills	Low	**Is** timely, available, cost effective **May not be** objective, complete, concise, accurate, appropriate
A TV advert for a new car	To decide which car to buy	High/Low	**Is** timely, available, cost effective, accurate **May not be** objective, complete, concise, appropriate
Your Business Studies teacher	To learn about information technology	High	**Is** timely, available, cost effective, accurate, objective, complete, concise, appropriate
The Internet	To find out the price of a holiday in Majorca	High	**Is** timely, available, cost effective, accurate, concise, appropriate **May not be** objective, complete
The *Financial Times*	To decide whether or not to sell your BT shares	High	**Is** timely, available, cost effective, accurate, concise, appropriate **May not be** objective, complete
A history textbook from the library	To find out about the causes of the First World War	High	**Is** timely, available, cost effective, accurate, concise, appropriate **May not be** objective, complete

Activity 4

The solutions to this activity will depend upon each individual school.

Activity 5

The solutions for this activity will vary from student to student depending on the source of information that they use. These solutions come from the Software Warehouse catalogue – 22 September to 2 October 1998. Only one example of each has been given.

1.   Hardware

For **one** of the following pieces of hardware identify and list all of the different systems available and their prices.

Mini-computers:	HP Vectra VE D/Top W95	£665.00 inc VAT
Scanners:	HP Scanjet 4100C	£136.30 inc VAT
Printers:	HP Deskjet 420C	£77.55 inc VAT
Network servers:	HP Netserve E50	£1207.90 inc VAT
Monitors:	Samsung 20"	£433.58 inc VAT

2.   Software

For **one** of the following software suppliers identify and list all of the different software packages they offer, the key features (if listed) of each, and the current price of each.

Microsoft (Business Software)	**Microsoft Plus 98**	
	McAfee Virus Scan	
	File Cleaners	
	Start Menu Cleaner	
	Compression Folders	
	Themes	
	Deluxe CD Player	
	Picture It! Express	
	Lose Your Marbles	
	Spider Solitaire	£35.19 inc VAT
Microsoft (Home Software)	**Microsoft Encyclopedia Deluxe 99**	
	British Edition	
	New Encarta Resources Centre	
	More Articles	
	More Multimedia	
	More Virtual Tours and Inter Activities	
	Free Monthly Updates and Web Links	
	More links to Resources	
	Closed Captions (cc)	£44.95 inc VAT
		£20 cash back

PlanIT:	**Contracts and Agreements**	
	Business Agreements	
	Employment Documents	
	Litigation	
	Company Administration	
	Property	
	Miscellaneous	£116.33 inc VAT
Complete:	**Company Handbook**	£128.08 inc VAT
	Health and Safety Advisor	
		£175.08 inc VAT
	Legal Advisor	£128.08 inc VAT
	Contracts and Agreements	
		£175.08 inc VAT
	Business Letters	£29.99 inc VAT
Lotus:	**Smart Suite**	£146.88 inc VAT
Adobe:	**Photoshop V5**	£469.94 inc VAT
	PhotoDeluxe V3	£41.07 inc VAT
	Illustrator V8	£272.54 inc VAT
	PageMaker V6.5	£432.34 inc VAT
	PageMill	£79.84 inc VAT
	Acrobat V3	£152.69 inc VAT

3.   Identify

A software package that would allow you to:

(a)	Prepare accounts	**Instant Accounting '98**
(b)	Illustrate documents	**Serif PagePlus 5**
(c)	Create business diagrams	**Visio Standard 5.0**
(d)	Plan a route from your home to London	**Microsoft AutoRoute Express '98**
(e)	Protect your computer from viruses	**VirusScan Security Suite**
(f)	Create a business plan	**PlanIt Business Plan 3.0**
(g)	Make a business presentation using Infotech	**Astound 5.0**
(h)	Create documents by speech	**IBM ViaVoice '98 Home Edition**
(i)	Draw engineering designs	**Visio Technical 5.0**

Activity 6

(a)   It would allow her to use word processing, database, spreadsheet and communications packages all from the same software.

(b)   1.   Word processing work schedules

            2.   Word processing contracts for tradesmen

            3.   Word processing advertising leaflets

(c)   1.   A spreadsheet package

            2.   Its ability to do 'what if?' calculations

            3.   It is easy to enter data as required and for each customer's account to be automatically up-dated when this is done. This will prevent Susie from losing track of what is outstanding on each account and will help her to note when payments are made.

(d)   1.   **Date contract agreed** – to let her see how quickly work was progressing on each job from the contract date.

            2.   **Date tradesmen started and finished work** – would allow her to keep a check on the efficiency and reliability of the tradesmen she uses in terms of the time they take to complete each job.

            3.   **Special purchases** – would allow her to identify easily any customers who had bought specialist or rare items of furniture.

(e)   1.   She can find out about furniture by visiting various Websites on-line. She can also make purchases on-line.

            2.   She could establish her own Website and give an e-mail number where people can contact her.

(f)   It would allow her to plan out what she had to do each day/week and record all appointments she makes – date, time, place and person involved.

(g)   Fax machine – it can transmit exact copies of drawings or sketches to clients for their approval.
or
CAD software to help her with design and drawing of plans.

Activity 7

This activity follows on from Activity 4 and, as such, is dependent on information gathered by individual students in their individual schools.

Activity 8

Business	Type of software	Use of software
British Airways	Database	To list flights, seats, destinations.
	Communications	To communicate with all of their worldwide locations. To allow their customers to communicate with them.
	Accounts	To record payments made by customers.
A dentist	Database	To record patients' names, ages,addresses, date of last visit, reatment given.
	Accounts	To record payments for patients from the Health Board.
Faulds Advertising Agency	Computer aided design and desk top publishing	To design advertising campaigns.
	Presentation packages	To demonstrate proposed advertising campaigns to clients.
Thompson Publications	Desk top publishing specialist drawing packages	To prepare typesetting, drawings and pictures for the various magazines, books and periodicals they publish.

Activity 9

(a)   To offer a new product/service to its customers

   To offer a unique product/service to its customers

   To gain a competitive edge over its rivals

   To attract more customers – larger share of the market – greater profits.

(b)   It is unique

It will never rain on this golf course

They can finish off their rounds in the bar if it starts raining when they are playing outside.

(c)   It allows them to 'play' golf in the pleasant surroundings of the hotel

It allows them to combine golf with an excellent restaurant

They can 'play' on some of the finest courses in the world

It will never rain on this course

The whole family can go out – no need to leave the girlfriend, boyfriend, golf widow (widower) and children behind.

Activity 10

(a)   The Tesco store in Forfar has another discount store nearby and customers are price conscious.

(b)   From its Club Card which customers hand over when they pay for goods at the till.

(c)   Primary/Quantitative.

(d)   By checking prices in other stores in Forfar and other shops in Kirriemuir.

(e)   It means that the high prices charged in one shop are being used to subsidise or make up for the low prices charged in other shops.

(f)   Around 60% of what consumers buy in supermarkets is unplanned, but it is very hard to create impulse shopping on a computer.

Activity 11

(a)   Stores and equipment could be ordered on the system

Soldier's clothing could be ordered on the system

It would streamline administration.

(b)   Because each has different requirements for personnel and equipment.

(c)   'It is ponderously slow, steam-driven technology, and, by and large, a waste of space.'

(d)   Terminals might not talk to each other.

(e)   'computers refusing to recognise new arrivals. That means no food, no equipment, and potentially no pay. In a war situation, it might mean no ammunition.'

(f)   Buying a civilian system 'off the shelf'.

(g)   Points that should be covered in the draft guidelines include:

  • Is it suitable for the job it has to do?

  • Is it cost effective?

  • Is it easy to up-date?

  • Is it easy to use?

  • Does it require specific software?

  • Does it require specific programmes written for it?

  • Is it flexible enough to meet the needs of an organisation in a changing environment?

Section 3: Decision Making in Business

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

The nature of decisions

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

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

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

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

- what to produce
- where to locate premises

- what method of production to use
- how many people to employ
- what price to charge for the product

and many others.

Types of decision

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

Strategic decisions

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

These decisions are made by the Chief Executive and the Board of Directors – the Senior Management Team – and reflect the overall view of the organisation's owners. Of course, in the case of a Sole Trader this is the owner him/herself. In a government organisation these strategies would be part of government policy.

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

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

1. 'What, if anything, do we have to change?' This requires a review of the present position of the organisation and an assessment of how well that position continues to fulfil the goals of its owners.

2. 'Where do we want to be in five, ten, fifteen or twenty years' time?' This involves setting targets to improve/alter the present position of the organisation to meet the revised or new goals of the owners.

3. 'What resources are we likely to require?' In general terms the organisation looks at whether or not there will be a change in the quantities or sources of resources used over the next time period.

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

5. 'How can we gain/maintain a competitive edge over others?' Operating in even a small local market there is likely to be competition. Companies operating in national or international markets must take account of, and be competitive with, others.

Tactical decisions

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

Tactical decisions are likely to specify departmental targets or responsibilities and are generally measurable. For example, the strategic aim may be to increase market share by 12% over the next five years. The **tactical decision** might be to give the sales department a target of an increase in new orders to the value of £100,000 during the next twelve months.

However, tactical decisions are likely to be constantly under review and objectives may be changed as a result of changes that may influence the effectiveness, or otherwise, of the decisions made. Sainsbury and Tesco are the two largest supermarket chains in Britain. When Tesco opened several of its stores on a 24-hour basis, Sainsbury were quick to react to their competitor's decision and made the tactical decision to follow suit in a number of their stores.

Operational decisions

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

Review/evaluation/alteration

As well as the actual process of making decisions, managers have to look at the outcomes of these decisions. What actually was achieved? Was this what we expected? If not, do we have to make any alterations to the work we are doing?

Management undertake a continuous process of review, evaluation and alteration of their decisions – strategic, tactical and operational. No decisions, however large or small, can stand in isolation and fail to affect something else in the organisation. The more flexible the organisation is, the more easily it can respond and adapt to change as circumstances require, and the more successful it will be.

Short-term objectives have to be reviewed in order to assess their performance in meeting the long-term targets set by management. Long-term aims also have to be re-assessed, and perhaps altered, in view of the achievements made in the short-term.

Who makes the decisions in an organisation?

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

Strategic decisions

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

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

Tactical decisions

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

Operational decisions

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

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

Who needs to know about the decisions an organisation makes?

It is not just the management team who needs to know what the aims and objectives of the organisation are, and how these are to be achieved. A work force that sees little relevance in what it is doing, or which sees that it is never able to meet set targets, will be far less productive, and may in fact become demotivated and even disruptive.

A **mission statement** is a written summary of the strategic aims of the company. It is usually well publicised and made available to all employees to encourage them to understand what it is that the company is working towards. It is also often used to assist in marketing the company's products.

The Body Shop mission statement

Our reason for being:

To dedicate our business to the pursuit of social and environmental change

To creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders.

To courageously ensure that our business is ecologically sustainable, meeting the needs of the present without compromising the future.

To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct that ensures care, honesty, fairness and respect.

To passionately campaign for the protection of the environment and human civil rights, and against animal testing within the cosmetics and toiletries industry.

To tirelessly work to narrow the gap between principle and practice, while making fun, passion and care part of our daily lives.

The role of managers

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

We could say that a manager:

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

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

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

Plans   looks ahead and sets aims and strategies;

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

Commands   tells subordinates what their duties are;

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

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

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

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

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

Derek Torrington and others, in their book *Effective Management* (Prentice Hall, 1989) put forward a mnemonic (**GROUP**) to describe the art of management. This stands for:

- management have conflicting **G**oals
- managers are held responsible for **R**esults
- managers work in **O**rganisations
- managers must cope with **U**ncertainty
- managers work with and through **P**eople

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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.

A structured decision-making model

This simple nine-step process can be applied to any decision that has to be made. It doesn't matter what that decision is, or who is making it.

1.	**IDENTIFY THE PROBLEM**	Consider the issues that must be tackled by the organisation in the future, about which it must make decisions now – looking to set the future aims of the organisation.
2.	**IDENTIFY THE OBJECTIVES**	Consider the objectives that must be implemented in order to meet the aims identified above.
3.	**GATHER** INFORMATION	Gather all relevant information, internal and external.
4.	**ANALYSE** INFORMATION	Analyse all information. What are the physical, financial and human constraints?
5.	**DEVISE** ALTERNATIVE SOLUTIONS	Devise a number of possible alternative solutions to the problem all of which might succeed in fulfilling the objectives.
6.	**SELECT** FROM ALTERNATIVE SOLUTIONS	Select the solution most likely to achieve the objectives successfully.
7.	**COMMUNICATE** THE DECISION	Communicate the decision to those involved in implementing it.
8.	**IMPLEMENT** THE DECISION	Put the solution into effect, consulting everyone involved at all levels.
9.	**EVALUATE**	Appraise the effectiveness of the solution and undertake remedial action if required

MNEMONIC – **POGADSCIE**

This sentence might help you to remember the decision-making process:

People **O**ften **G**o **A**lone to **D**ance at the **S**ingle's **C**lub **I**n **E**dinburgh

Making a decision using the structured process

1. *Identify the problem*

   Falling market share in a computer games machine

2. *Identify the objectives*

   (a)   To regain former position in the market place
   (b)   To become the number one computer game worldwide

3. *Gather information*

   Internal: Production figures – present and future production
               capability
               Sales figures – current, previous
               New hardware development – upgrade of games machine
               New games in development
               New games ideas
               Available resources – finance, staff, premises, equipment,
               etc.

   External: Competitors   Hardware specifications
                             Games available
                             Prices
                             Retail outlets used

               Consumers   Market research into consumer wants

4. *Analyse information*

5. *Devise alternative solutions*

   Do nothing
   Develop new improved games machine
   Develop new games
   Change marketing mix on existing product –
        Change the product
        Change the price
        Change the promotion
        Change the place (distribution and outlets)
   Launch a completely new product and withdraw the original
   Decide when to make the changes

6. *Select from alternative solutions*

   Change one or more factors of the marketing mix (the price, place, promotion or product) to match that of closest competitor
   To be implemented before the Christmas sales period – starting November 2005
   New advertising campaign to be launched at the same time

7. *Communicate the decision*

   Advise all staff of changes – especially sales team
   Advise all retail outlets of changes
   Make sure that advertising campaign is ready to start to inform the consumer

8. *Implement the decision*

   As from 1 November 2005 the retail selling price of the games machine is to be reduced to £150.00 (subject to individual retail outlet discounts, special offers, packages, etc.)

9. *Evaluate*

   Analyse Christmas 2005 sales figures compared to Christmas 2004 sales figures
   Analyse orders placed by retail outlets since price cut – compare with same time period last year
   Conduct market research to assess and analyse consumer satisfaction with changes made

   If analysis suggests action taken was NOT sufficient to regain market share, and ultimately to increase it, go back to stage 3.

Information technology and decision-making

In recent years **information technology** has come to play an ever increasing part as a tool in the decision-making process of many organisations. Not only do modern systems give managers the ability to store, retrieve, process and print internal historical information that is pertinent to the decisions they have to make, but they also allow retrieval of vast sources of external information held on electronic databases accessed through the Internet. The ability to use spreadsheet software to calculate sophisticated 'What if' scenarios has meant that results and expected outcomes of a variety of decisions can be analysed to determine the most efficient. The added ability of professional reporting and presentation packages that can be used to outline possible or final decisions to other members of the organisation is also a great benefit to the modern manager.

Information technology has improved the speed, efficiency and cost effectiveness of decision-making in a modern business environment. The only **problem** – if it *is* a problem – is that there is too much information available; has the process of sorting the wheat from the chaff – what is important from what is irrelevant – now become a major task for management?

SWOT (Strengths – Weaknesses – Opportunities – Threats) 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.

In a **structured decision-making process** managers will use a SWOT analysis in the first four stages of the process in order to identify the problem, set the objectives, and gather and analyse the information about the particular issue they are looking at.

1. Identify the problem – weaknesses and threats
2. Identify the objectives – strengths and opportunities
3. Gather information – strengths, weaknesses, opportunities and threats
4. Analyse information – gathered from the SWOT

It is also possible to see how relevant a comprehensive SWOT analysis can be in assisting with the development of the process into the making of a decision and in its subsequent implementation.

5. Devise alternative solutions – strengths and opportunities
6. Select from alternative solutions – strengths and opportunities
7. Communicate the decision – demonstrates a strength in management skills; may prove to be a weakness if this is not done
8. Implement the decision – capitalise on strengths and opportunities, minimise weaknesses and threats
9. Evaluate – another SWOT analysis can be used to assess the effect of decisions made.

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.

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.

It is most common to set out a SWOT in the form of a grid, as below.

Internal	STRENGTHS	WEAKNESSES	Present Position
External	OPPORTUNITIES	THREATS	Future Possibilities

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.

The problems of using structured models

1.   The time-scale required

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

2.   The ability to collect all information

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

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

3.   The problems of generating alternative solutions

It is always better to consider **all** of the possible alternative solutions that might achieve the aims and objectives we hope to fulfil. However, the actual **thinking** of alternative solutions can, in itself, be a problem. Many people find it difficult or are uncomfortable with having to make choices from many different, perhaps complex, alternatives – they prefer to be given a very limited choice between straightforward alternatives.

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

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

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

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

4. Lack of creativity

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

The benefits of using a structured process of decision-making

1. No hasty decisions will be made

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

2. The quality/quantity of the information you have

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

3. The availability of alternative solutions

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

4. Enhances innovation and responsiveness

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

Summing up decision-making in business

Throughout this unit we have looked at decision-making in business. Firstly, we identified the **nature of decisions** and **types of decisions** that might be made. We saw how important it is for an organisation to set out long-term **strategic** aims that will fulfil the wishes of its owners. The organisation then decides on the **tactical** and **operational** objectives for the shorter term to allow the long-term aims to be fulfilled. The importance of evaluation and review of decisions made, and the need for responsiveness to change, both in the long and the short term were discussed. We looked at the **role of managers** in decision-making, and at how different types of decisions might be made by different individuals within the organisation, depending on the importance of the decision and the seniority of the individual.
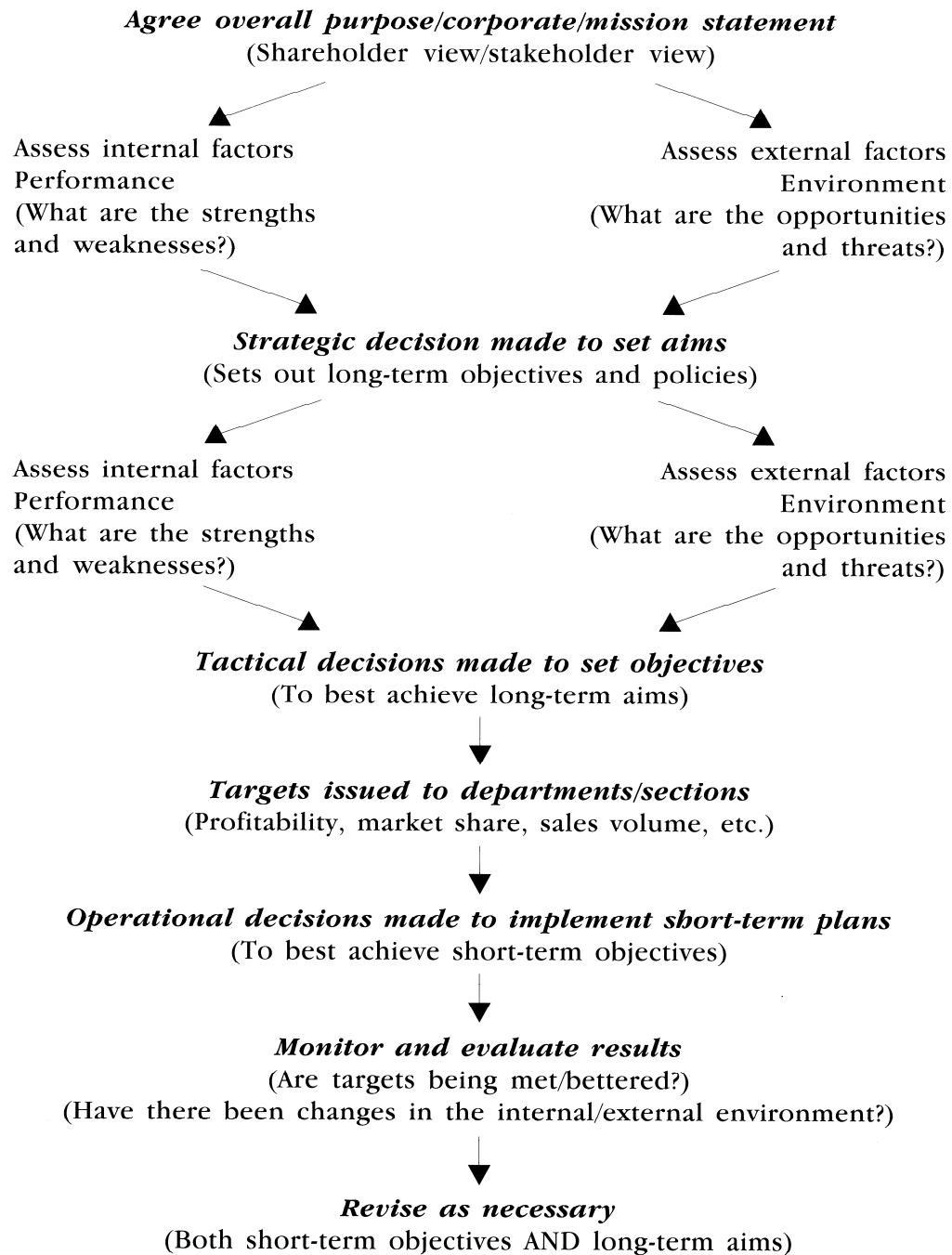
Secondly, we looked at a **structured decision-making process** – a tool for decision-making that can be used by managers to help them make the best decisions for their company. We saw an example of how this might work in a real-life situation.

We then looked at how **information technology** can assist in decision-making, in collecting, analysing and presenting information. Another decision-making tool commonly used by managers is **SWOT analysis**. We showed how a tool such as SWOT, by presenting information in a structured manner under the headings Strengths, Weaknesses, Opportunities and Threats, can help managers gather and analyse information required for making a decision.

Finally we looked at the **problems that can occur** and the benefits that can arise if managers use a structured process of decision-making.

On the following page there is a diagram that sums up the unit you have been studying. Taking the process of decision-making from the initial agreement of the overall purpose of the organisation, it follows through the making of strategic decisions, the gathering and analysis of information, the setting of tactical and operational objectives and the monitoring, and evaluating of results, and finally the possible revision of either long-term aims or short-term objectives.

A diagrammatic revision of the decision-making process

Agree overall purpose/corporate/mission statement
(Shareholder view/stakeholder view)

Assess internal factors
Performance
(What are the strengths
and weaknesses?)

Assess external factors
Environment
(What are the opportunities
and threats?)

Strategic decision made to set aims
(Sets out long-term objectives and policies)

Assess internal factors
Performance
(What are the strengths
and weaknesses?)

Assess external factors
Environment
(What are the opportunities
and threats?)

Tactical decisions made to set objectives
(To best achieve long-term aims)

Targets issued to departments/sections
(Profitability, market share, sales volume, etc.)

Operational decisions made to implement short-term plans
(To best achieve short-term objectives)

Monitor and evaluate results
(Are targets being met/bettered?)
(Have there been changes in the internal/external environment?)

Revise as necessary
(Both short-term objectives AND long-term aims)

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.

1.   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.

2.   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 firms 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.

The quality of decisions

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

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

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

2.   **Training**

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

3.   **Risk taking**

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

4.   **The human element**

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

There are many other decision-making tools and techniques that can be used by managers, such as decision trees, linear programming and critical path analysis. Each method assists management in making an informed choice from possible alternative courses of action. Whilst each may analyse and present information in a different manner the *simple decision-making model* (POGADSCIE) is used in every decision management make.

Student Activities

Activity 1

Read the article 'Waves of hopefuls jam the queue for radio ownership' and then answer the questions that follow.

Waves of hopefuls jam the queue for radio ownership

BLAME Chris Evans. The DJ's high-profile take-over of Virgin FM has bestowed lucrative "cool" status on radio station ownership throughout the land – a spin-off which may have had more than a passing influence on the unprecedented scramble for Scotland's newest licence, writes Ron MacKenna.

Yesterday, it was the turn of two hopefuls, complete with ubiquitous personality backers, to throw their hats into a bewilderingly overcrowded ring.

In Glasgow, EGFM announced its bid for the Central Scotland licence is being strengthened on its board of directors by the inclusion of Kirsty Wark – a name more commonly linked with heavyweight political broadcasting than the mix of dance and indie music EGFM is promising.

Almost simultaneously, across the city, former Radio Clyde stalwart Richard Park was announcing Capital Radio's licence application would be for a children's station to be named Fun FM.

The remit of the Radio Authority, which grants commercial licences, is to broaden ownership and to broaden listener choice. When the deadline for bids is reached in just over two weeks, it will be faced with more than a dozen separate packages offering everything from the children's station to one for the unashamedly middle-aged.

Almost every bidder has signed up a Scots personality to help the campaign. So far, Ally McCoist, Carol Smillie, Dougie Donnelly, Tom Farmer, Elaine C Smith, and Billy Connolly have been linked with various applications.

By far the hottest competition is for the hearts, minds, and spending money of the young. EGFM is targeting 15 to 24-year-olds with a mix of music it calls the "purest tunes" including Ash, The Chemical Brothers, and Garbage.

Start-up costs will be more than £2m. Fun FM, which aims for 4 to 14-year-olds, puts its set-up figure at more than £3m, with the added promise of creating 225 jobs in city-centre premises.

Both bidders were anxious to point out they were not in it for that other attractive feature of radio licences – the possibility of making a quick buck.

Scot FM was sold in 1996, three years after launch, for more than £5m. Ms Wark, saying her own company would be putting money into the EGFM bid, said the team would all be there for the duration.

© *The Herald*, 10 July 1998

1. According to the article the aim of the Radio Authority is 'to broaden ownership and to broaden listener choice' in commercial radio. What *strategic* decisions taken by the groups EGFM and Fun FM would result in the broadening of listener choice?

2. What *tactical* decision have almost all of the prospective bidders used to persuade the Radio Authority to grant them an operator's licence?

3. Suggest an *operational* decision that EGFM could make to support their bid further.

Activity 2

1. Identify the *strategic, tactical* and *operational* decisions that might be made by any rugby, hockey, football or other sports club.

2. Why is there often a conflict of interests between the *national* team coach and the *individual club* coaches in sports such as hockey, rugby and football?

3. What do you think could be done to resolve such conflict?

Activity 3

1. Explain what you understand by the term 'mission statement'.

2. Why is it important to both the decision-makers *and* the rest of the staff *and* other stakeholders that an organisation should clearly define its aims and objectives?

3. Why is it essential to review continuously the results of decisions made?

Activity 4

Read the article below, entitled 'Scots win a record medal haul at finals'.

Scots win a record medal haul at finals
ROWING: MIKE HAGGERTY

THROUGH the steady down-pour that persisted throughout finals day yesterday at the National Rowing Championships of Great Britain, held over the weekend at Strathclyde Park, there was excellent news for Scottish rowing.

A final tally of 11 golds, 10 silvers and five bronzes – 26 medals in all – was easily a record for the highest total ever amassed by Scottish crews at these championships. While this record haul was obviously pleasing, Scottish association president Iain Somerside was even more pleased that as many senior medals were won as those from the junior categories – evidence that, across the board, Scottish rowing is in competitive good health.

In some of the top events, Scottish crews not only won with style, they completely dominated their finals.

For example, Katherine Grainger, of St Andrew (Edinburgh), took the women's single sculls title by 19 seconds. As well as giving her a national gold medal to go with the world bronze and world under-23 gold that she won last year, this was the best possible evidence for Grainger to send to the selectors of the British international team and she is more intent than ever on fulfiling her self-appointed target in the sport – to be on the medal podium at the Sydney Olympics as British representative in women's single sculls.

This is Grainger's first year of competitive sculling and, after a protracted period, last month she finally lost the selection in singles sculls for this year's world championships to Olympic finalist Guin Batten. Now, rather than scramble for a place in one of this year's other world championship crews, she has said 'thanks but no thanks' to the selectors – and incidentally the probability of a sizeable grant – to concentrate on the future of her own career. Yesterday, she demonstrated that she is on the right track, while the background to her isolation showed the Scottish rowing community that it has a responsibility to support her.

In men's double sculls, another Scottish crew that could well put forward a case for consideration in British plans cruised to victory. Martin Holmes, from Lochwinnoch club Castle Semple, and his Commonwealth bronze medal partner, Glasgow's Alistair Warnock, were untroubled from the halfway mark in their final as they took gold. If anything, Warnock and Holmes are faster now than when they won their Commonwealth medal, but because the British squad system remains closed, they have not – and will not have – the chance to go up against the doubles combination that has been selected for Britain this year. They simply have the frustration of knowing that, on paper, they could give them a run for their money.

By contrast, former three-times world champion Peter Haining is one Scot who has managed to gain the British selectors' approval this year and so will be racing in the world championships. However, despite being at Strathclyde Park for the whole weekend, he was instructed to withdraw from his lightweight single event by the British team management, thereby denying defending champion Kevin Plant, from Stirling, the chance to have a go at him.

Eventually, Plank had to settle for silver anyway, when Ned Kettoe, of Leander Club, beat him in the lightweight sculls final.

Although he did manage a worthy silver medal, Plank found himself in the strange position of being the comparative failure among the Stirling scullers racing over the weekend. Earlier, Kevin Watson – yet another Scot dismissed by the British selectors this year – took a well-deserved gold in junior sculls, to be followed shortly afterwards by his Stirling club-mate, Mark Dodds, who cruised to victory in under-23 single sculls.

Eventually, in a typically cavalier move, the 36-year-old Haining did race anyway – as a last minute substitute in a Leander lightweight quadruple scull crew that was hit by injury. The crew took gold.

'I got bored,' Haining admitted afterwards, 'and anyway, if I hadn't done it, three guys would have been left on the bank.'

Another well-deserved senior Scottish victory came in lightweight fours, when Clyde – steering a straight line for once – came home ahead of the field.

In the junior categories, there were several events where more than one Scottish crew finished among the medals. In the women's junior coxed fours, George Heriot's School held off Aberdeen Schools for the third time in major events this year to win gold, while, in the women's junior double sculls, George Watson's College and Dumfries club Nithsdale provided one of the closest finishes of the whole regatta – the Dumfries duo just coming through on the line by less than one foot.

© *The Herald*, 20 July 1998

The article mentions a number of decisions made about rowing in Britain, rowing in Scotland, and rowing at the National Rowing Championships featured there.

Copy the table and then complete it by sorting these decisions into the following three categories.

Strategic	Tactical	Operational

Activity 5

For each of the following organisations give examples of:

(a)   *Strategic* decisions
(b)   *Tactical* decisions
(c)   *Operational* decisions.

1.   An international commercial transport group – for example, Stagecoach
2.   An international not-for-profit organisation – for example, Oxfam
3.   A political party – for example, the Labour, Conservative or Scottish National Party.
4.   A fast food chain – for example, McDonald's.

Activity 6

Read the article entitled 'Asda threatens to defy designer goods ruling'.

Asda threatens to defy designer goods ruling

By Jamie Doward

Asda is considering ignoring a European Court of Justice ruling which prevents UK stores from selling designer goods imported into Europe without the permission of the brands' owners.

The ruling, handed down last week, means that UK supermarkets, which had been buying up designer products – including trainers, perfume and sunglasses – at discount prices from countries such as the US can no longer do so without the authority of the manufacturers, which include Adidas, Levi Strauss and Nike.

Supermarkets which want to sell designer brands will now be forced to purchase products made and sold within the European Economic Area (EEA) – unless they have a manufacturer's authority to buy elsewhere.

The ruling has prompted other supermarket chains to pledge to develop closer links with wholesalers within the EEA (the EU's 15 member states, plus Iceland, Lichtenstein and Norway). The stores are confident that they can still exploit price differentials on the Continent and bring cheaper goods into the UK. But Asda is considering sourcing from outside the EEA, where prices can be even cheaper. Asda campaigns manager Mark Williamson said: 'We have not discounted sourcing products from America and challenging this ruling. The manufacturers can't force the market in Europe. Their prices are way higher than in America.'

Last Thursday's ruling by the European Court of Justice came after designer spectacles firm Silhouette complained about the Hartlauer retail chain in Austria. The chain bought more than 21,000 pairs of Silhouette spectacles from a Bulgarian wholesaler to sell at a discount. Silhouette claimed this would harm its brand designer image.

Other supermarket chains are also considering their options. A spokesman for Tesco said the company had a stock-pile of products from outside the EEA. 'We're pausing on it at the moment while we decide what to do,' he said.

Lesley Hart, director of customer care at Safeway, predicted a snowball reaction if one chain decided to defy the ruling. 'We will probably all end up doing it [selling goods imported from outside the EEA] if one chain starts doing it,' she said.

Sainsbury's SavaCentres said they would 'sell through' their current range of stock, which includes designer products imported from outside the EEA.

Asda currently sells a range of designer sunglasses at discount prices, all bought from within the EEA. Yesterday Tesco rushed £8 million worth of Nike trainers and Levi's jeans into selected superstores, all of which comply with the EU ruling. One third of the designer clothes its stores sold until last April came from within the EEA.

© The Guardian Media Group, Article by Jamie Dorward, *The Observer*, 19 July 1998

1. What *strategic* decision has been made by Asda and the other supermarket companies in defying the EU ruling on the sale of designer products at discount prices?

2. Split into three groups to represent

    • Asda, Tesco, Sainsbury
    • Levi's, Nike and Calvin Klein
    • Consumers.

Discuss how the decision to sell designer label products in supermarkets is likely to affect *your* group. Give *reasoned* arguments stating why you are for – or against – the decision.

Students could contact the relevant companies and obtain copies of their mission statements. The groups could then base the arguments supporting their position around these statements and how the decisions made by both the producers and retailers help them to fulfil their long-term aims.

This information may be available on the Internet.

Activity 7

The following activity could be set as individual work, pair work, or group work.

Sources of information for students:

• It is appreciated that it may not be possible for students to interview managers. It may, however be possible for them to get sufficient information from business profiles such as *The Times 100 Case Studies*.

• It may be possible for students to interview Young Enterprise Business Advisors to gain this information.

• Students who have the opportunity to do work experience may be able to interview a supervisor or manager in their sponsor company.

For your chosen organisation

Identify:
1. who makes the *strategic* decisions
2. who makes the *tactical* decisions
3. who makes the *operational* decisions.

Then identify:
4.   the main *internal* influences on each decision
5.   the main *external* influences on each decision.

It might be helpful to consider the following aspects when identifying internal and external factors.

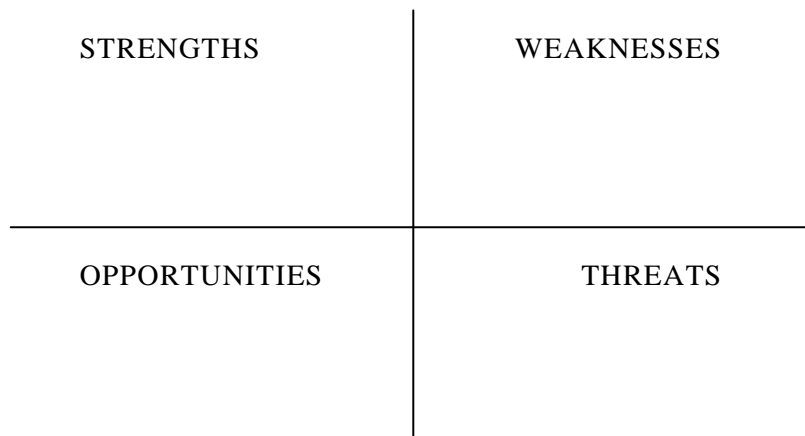| *Internal*	*External*
(a) efficiency	(f) Europe and the single market
(b) market share	(g) a single European currency
(c) profit margins	(h) client satisfaction
(d) staff training and appraisal	(i) government Policy/legislation
(e) employee loyalty	(j) any other significant influence.

Prepare a written report identifying the aims and objectives of the organisation chosen and summarising the specific influences that affected the setting of each of these aims and objectives.

Teacher notes
*   If set as individual work it might be helpful for each report to be presented in a tabular format so that it can be copied to the whole class.

*   It would be very beneficial if several different types of organisations could be targeted, including, for example, not-for-profit as well as profit making, and public as well as private sector organisations.

*   As an extension to this exercise the organisation could be asked about the input employees have in the decision-making process and their ability to influence decisions made.

Activity 8

Copy the grid below and carry out an *individual* SWOT analysis on yourself.

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

Strengths and weaknesses are *internal* and should reflect likes, dislikes, best and worst subjects, sports, personal attributes and attitudes.

Opportunities and threats are *external* and should reflect availability and permanency of and competition for jobs, training or further and higher education places, travel and future life style.

Teacher notes

- It might be particularly helpful for the student to carry out this activity with a specific post-education opportunity in mind, such as a job, further education, training placement, apprenticeship.
- Very helpful web site – http://ceg.org.uk/

Activity 9

1. From the case study below – 'The Story of the Plastic Pig' – carry out a SWOT analysis on the 'Reliant Robin' car as a product.
2. From your SWOT what conclusions would you draw about the future of the Reliant Robin?

The story of the 'Plastic Pig'

The 'Plastic Pig' is what the Police called it. Mr Bean drove one out of the multi-storey car park – in his mini. Del Boy Trotter thought that it suited his image. Children peer underneath it looking for the missing wheel. Road Tax rates are the same as those for motor bikes of the equivalent engine size. And yet a great number of people are devoted to the 'Pig' – having bought one they would only ever buy a Reliant Robin again. A 13-year-old has written its history. There is an active and growing supporters' club, which holds regular rallies. But what IS the real story behind this unique and possibly quaint – but very British – car?

T. L. Williams formed the Reliant Motor Company over fifty years ago. He was an engineer who had worked for Raleigh Cycles. From humble beginnings in a workshop in his garden, he produced his first three-wheeled van, which was licensed on 1 January 1935. By the outbreak of World War II the company were manufacturing their own 747cc engine in a factory in Tamworth.

After the war, production resumed and in 1953 Reliant launched its first three-wheeled passenger car, the Regal. In 1956 the Mark II version of this car was introduced with a fibre-glass body.

The company's growing expertise in glass-reinforced plastics led to export markets, the most notable of these being the Anadol model sold in Turkey. Over the next few years more models of the Regal were introduced with a variety of engine sizes from 600cc to 850cc. The engine itself was progressively developed and is still widely used as a prime mover for compressors, generating equipment and fire pumps.

In 1972 the Robin was born. A plastic car with a top speed of ninety – yes ninety – miles per hour, it was taxed and insured as a motor bike because of its 850cc engine. It proved to be very popular and was advertised as a fashionable small car – useful in every situation from town runabout to natural country tourer. The Scimitar, Reliant's sports car, also proved popular and, as both it and the Robin received royal patronage (Princess Anne owned a number of both cars during the 1980s), the company seemed on a sound footing. New models were added to the range throughout the 1980s and cars were coming out of the moulding presses and being assembled at an impressive rate. During the 1980s, the introduction of the Nissan 1800cc engine meant that they could offer a high performance model of the Scimitar. In 1994 the Sabre, a new model for the firm, was well received at the Motor Show. All this time the Robin continued in production.

Reliant's know-how in glass-reinforced technology had been exploited by a wholly owned subsidiary firm, Reliant Industrial Mouldings. This firm serviced the automotive and other industries with handlay, pressed and pressure injected mouldings. In 1986-87 it completed the body manufacture and assembly of 200 Ford RS200 rally cars. It also produced panel mouldings, plastic floor gridding for oil platforms, roof and door extensions for the Ford Transit Van, and complete body shells for the Metro Cammell London Taxi.

But then things began to go wrong. In 1988 the Power Unit side of the business was sold to Beans Industries Limited, one of Britain's oldest motor companies, who already manufactured the gear boxes, suspension and engines under sub-contract to Reliant. The firm was then involved in a reverse takeover of a property company. The losses suffered in this investment led to the firm going into

receivership. Reliant were then acquired by Beans Industries Limited, but they themselves went into receivership on 17 November 1994 – and took Reliant down with them – even though Reliant itself had a turnover of £5 million.

On 16 June 1995 the Avonex Group took over Reliant, but they were poorly funded and the business structure proved to be unsound – they went into receivership in December 1995. In 1996 a consortium of businessmen purchased the company. In August 1996 production of the Robin – the core business – had resumed and the Reliant renaissance began.

In the first full year 720 cars were produced and the range had already expanded to include a 3-cylinder, diesel, lightweight commercial vehicle. The 1999 Motor Show included the new Sand Streak sports coupé retailing at under £8,000.

The company – and the Plastic Pig – go on.

Notes

Additional information may be available from business articles in the general press, motoring papers (car and motorcycle), advertisements, programmes like 'Top Gear' (BBC2), and from the company themselves.

Web site address: http://www.reliant-motors.co.uk/

Activity 10

Using as an example a decision that you have made recently, outline the steps in a *structured decision-making process*. You should clearly identify what happens at each stage of the process.

Activity 11

This activity would be most suitable for group work.

Using a *structured decision-making process* plan a holiday for the members of the group.

The group should visit a travel agent to obtain the necessary information in brochures. Additional information on holidays can be found in travel and specialist sports activity magazines. Sources such as Ceefax or the Internet will provide additional information regarding flights, prices, currency exchange rates, etc.

Record what took place at each step in the process.

You should make note of *all* the factors influencing the final decision. Using everything you have learned about decision-making in this unit, identify factors such as the different objectives of members of the group, constraints such as the availability of the exact holiday wanted, conflict between long-term aims such as saving for a car and short-term objectives such as having a fun-filled holiday.

Activity 12

Read the article below, entitled '£100m from air traffic sale to fund rail freight'.

£100m from air traffic sale to fund rail freight

by Joanna Walters
Transport Business Editor

AT LEAST £100 million from the controversial sell-off of air traffic control is to be used by the Government to create a huge rail freight expressway aimed at taking more than half a million lorries off the road.

The cash will fund half the cost of enlarging the rail corridor linking Scotland with the Channel Tunnel. It will carry huge international cargo containers, plus lorries on 'piggyback' wagon trains.

Railtrack, the privatised track, signals and station company, is likely to invest a similar amount; a top-up of around £25m will come from Brussels.

The 'rail freight freeway' has the potential to revolutionise heavy goods transport in Britain and on thousand mile-plus journeys to continental Europe.

The surprise handout will delight the rail freight lobby and environmental campaigners – but the source of the cash will dismay many who bitterly oppose Labour's U-turn on privatising the air traffic control system.

John Prescott, Deputy Prime Minister, plans to champion the switch from road to rail freight personally, and the issue will feature strongly in the Transport White Paper, to be published tomorrow.

Funding for the 'piggyback' system will not be announced tomorrow, but it is understood that the Government has committed the funds and is waiting for Railtrack to submit detailed plans.

A source close to the Government said: 'There is money earmarked from the planned sale of 51 per cent of National Air Traffic Services. Prescott wants to use it for improvements to the public transport infrastructure.'

Late last year, as revealed in *The Observer*, Railtrack broke an 18-month deadlock with the rail freight lobby over the design and cost of the new system, which should by 2006 create a new freight spine linking Glasgow to the Tunnel, with branches to Liverpool and

Manchester.

The opening of the Channel Tunnel, increasing road congestion and the sale of most of the British Rail freight business to the entrepreneurial, US-owned EWS Railway have reversed the decline of rail freight, which had shrunk to 6 per cent of all freight carried.

EWS predicts that it will treble its business in the next 10 years, and increase rail's share of freight to 20 per cent.

The piggyback project involves raising hundreds of bridges and tunnels to accommodate the larger freight loads. The total cost for the 500-mile freeway is likely to be around £235m – the same as the cost of adding one extra lane to 30 miles of the M6 motorway.

• The Transport White Paper is likely to offer passenger train operators the opportunity to negotiate extensions to their seven-year franchise contracts and other benefits in return for pledges to improve performance and invest in new trains.
© The Guardian Media Group, Article by Joanna Walters, *The Observer*, 19 July 1998

The article mentions a number of decisions made about the transport industry in Britain.

(a)   Identify:
- what the decision is
- who made it
- who it is most likely to affect
- who it is most likely to benefit
- whether the decision is a *strategic, tactical* or *operational* one
- what *constraints* there might be which would affect the success of the decision in the *long term*.

(b)   From the information you have gathered, write a short report outlining whether or not you agree with *one* of the decisions made by the government, giving clear reasons for your position.

Activity 13

Read the two articles 'Away the lads and back to the dole queue' and 'Is the economy really grinding to a halt? And if so is Labour to blame?'

'There's nothing for them.' SARAH RYLE on how the North East is again bearing the brunt of impending recession

Away the lads and back to the dole queue

ON THE day the London *Evening Standard* was revelling in the capital's economic bliss, the Prime Minister's local paper, the *Northern Echo* was begging Tony Blair to save the North East from another crushing recession.

A *Standard* leader crowed: 'London has become a power-base of services to Britain and, financially, to the rest of the world.'

The *Northern Echo* said: 'Dear Mr Blair, By the time you come back from your summer holiday, thousands of people in the North East will have lost their jobs or will face the real threat of unemployment.'

This is a story of people who suspect that they are about to be abandoned to their fate. Again. They have only to turn on the national television news to see which way the wind is blowing.

Gavyn Davies, friend of the North East's more prominent MPs, Tony Blair and Peter Mandelson, says job losses – up to 500,000 of them – are a fact of life in the battle to keep the lid on inflation.

Davies' fame as the man set to pick up £50 million from the Goldman Sachs flotation has spread north of Watford. Imagine for yourself the reaction to his pragmatism.

Surely, though, the North East might expect something better from a Labour Government? Especially one so firmly in the grip of the Geordie mafia. Blair, Mandelson, Mo Mowlam, Nick Brown, Stephen Byers are all in the Cabinet – and with rising star Alan Milburn, all represent north-eastern constituencies.

Durham councillor Tony Moore's constituents in Newton Aycliffe, an industrial town 10 miles from Darlington, are also Tony Blair's.

Moore was kicked out of the Labour Party in 1973 for being what would now be called 'off-message'. He is 'bitterly disappointed' by the performance of local MPs.

'These people were given hope,' he says of the regeneration programmes. 'Now we are going back to square one.'

The latest blow is at Japanese-owned Fujitsu, which employs 600 people, mostly from Newton Aycliffe. Workers at the microchip plant have told Moore that they are on enforced leave while the plant is 're-equipped'.

The town is surrounded by pit villages without pits. Of 120 mines listed in stained glass at Durham County Hall, not one is still working. 'There is nothing for them. Absolutely nothing,' he says.

So the workers at Fujitsu are the lucky ones.

Twelve miles along the River Wear at Sunderland, the regional secretary of the GMB Union, Ron Bales, looks careworn. He and his officials are involved in a forlorn salvage operation after a shock announcement by American-owned Grove Europe. Nearly 700 workers, many men in their fifties who have worked there all their lives, will be on the scrapheap unless a buyer is found for the plant.

Peter Davison, 58, joined Grove Europe, then Coles Cranes, in 1956. He says: 'We were told the market isn't big enough for the American, German and Sunderland plants to survive. The market has dried up in Asia which the American factory supplies, so they're pulling our contracts with Europe and Africa back to America. English workers are easier to pay off then those on the Continent.'

Bales adds: 'Most companies here are satellites, whatever the industry. If it has to be their own country or England, it's England that goes. If it's a national company and it has to be the North East or London, it's the North East.'

Davison says: 'I don't expect to work again.' And he knows whole families who will be out of work now.

Grove mopped up former miners and shipyard workers in the mid-Eighties after it was bought, recession-cheap, by a US offshoot of Hanson.

Billy, 47, was an electrician at one of British Shipbuilders' Sunderland yards. He lost his job in 1989 when the yards all closed, putting 2,500 workers on the dole. He says: 'Grove was doing well, and I was lucky to get a job. I'm not very hopeful this time.'

Fourteen miles to the north, Tyneside is still in shock after Siemens announced it was abandoning its state-of-the-art microchip factory, with the loss of 1,100 jobs. Siemens was the jewel in the North East's inward investment crown. Like Nissan and Fujitsu, it was offered sizeable government grants to encourage it to go there rather than, say, South Wales.

Tommy Brennan, GMB industrial officer in Newcastle, says the news 'was a bolt from the blue' to the workers. Not that they were permitted the luxury of union recognition – unlike staff at Siemens plants in Germany.

Brennan is a former shipyard worker who lives in Jarrow. 'I have seen heartache and despair,' he says without any dramatic gestures. 'I've seen men who worked all their lives for one company lose their jobs. They are desperate for work. It's a myth that the men laid off by the shipyards and the pits have found jobs in new industries. Most of the older ones are on disability benefits.'

Just as the North thought it was safe to go back to work, just as it had sent public relations teams to London to trumpet its regenerative achievements, it seems people on the banks of the Wear, the Tees and the Tyne will be clobbered. Their big-name saviours from abroad, the legacy of the Tories' drive to replace lost shipyards and pits with foreign investment, are deserting.

So would it have been better never to have attracted the foreign investment in the first place?

John Bridge, chief executive of the Northern Development Company, insisted that the NDC has never tried to win only foreign money; it spends two-thirds of its budget on encouraging national and local investment.

Bridge says that in the past four months, 4,000 new jobs have been announced in his area – twice the number lost. So far. The deputy leader of Newcastle City Council, Keith Taylor, says: 'I don't think we can afford to turn away any opportunities, whether they are inward investment or our own manufacturing business.'

Many are bracing themselves for worse to come regardless of the increased investment by service providers such as Barclays Bank, BT and Orange – mostly in the form of call centres.

The day after the Grove announcement, Claremont Garments, which supplies Marks & Spencer, emerged as the next likely victim of the uncertain economic climate: it employs 2,500 people. A further 91 jobs were axed just up the A1 at Birtley's Royal Ordnance factory. The 'little' closures fail to get much publicity but add up quickly. Rolls-Royce will shed 80 at Hebburn, South Tyneside. Nearby, waxed-jacket maker Barbour is to axe 83 jobs.

And the Northern Offshore Federation, whose members work in the remnants of the traditional shipbuilding industry, has warned that 25,000 jobs are at risk.

Manufacturing still represents half the workforce in parts of this region and never less than 30 per cent in the North East generally. The service economy that is supposed to be the cushion that will soften the UK's hard landing is somewhat misshapen. It is much plumper in the South East than it is in the North.

©The Guardian Media Group,
The Observer, 16 August, 1998

Is the economy really grinding to a halt?
And if so is Labour to blame?

Is Britain about to enter recession?
EVERYONE, including the Chancellor, agrees that economic growth will slow over the coming year. What no one can agree on is how sharply.
The Treasury claims that growth will simply moderate to a more sustainable level. But many economists are far more pessimistic, predicting that the UK will be on the edge of recession by the beginning of next year. Even the Bank of England admitted last week that the chances are higher than one in eight.

Is this by accident or design?
The slowdown has been deliberately engineered by the Government. The Treasury has put up taxes, and the Bank has raised rates, to try to cool an overheating economy and keep inflation under control.
But the result has been a very unbalanced economy: manufacturing is already in serious recession as redundancies show, while services are still growing strongly. Many fear that the brakes have been slammed on too hard, and the economy will shudder to a halt.

Is unemployment rising?
Not yet, but the Bank is praying that it will. It isn't sadistic: it just thinks unemployment is so low that wages and inflation will spiral out of control. The monthly figures are erratic, but the overall picture is clear: unemployment, which has been falling for six years, is now at, or near, a turning point, and is certain to rise over the coming year. Everyone thinks so – except, of course, the Treasury. Nothing could be more embarrassing for the Government than lengthening dole queues.

So has Labour messed up?
Labour has had a lot of bad luck. It inherited the economy at the peak of the business cycle, hence the claims made in its opening aria – things could only get worse in the short term. And they have. The Asian economies collapsed, piling on the problems – but even the more hysterical members of the Opposition don't blame the Chancellor for that.

So is Labour blameless?
Only according to its spin doctors. Most economists reckon that Labour's first budget was fundamentally flawed because it increased taxes on businesses, not on consumers, and so did little to tackle the consumer boom, leaving that to the Bank.
The Tories claim Labour has attacked the savings culture, and certainly the abolition of Peps and Tessas has proved less than triumphant. But the Chancellor has instituted many sensible reforms likely to pay dividends in the longer term.

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Conduct a PESTEC analysis of the North East of England identifying the factors that have affected the industries in that area.

Solutions to Activities

Activity 1

EGFM

Strategic decisions
• including Kirsty Wark on the Board of Directors
• targeting 15- to 24-year-olds

Tactical decisions
• stating that they were not only interested in a quick profit but the 'the team would all be there for the duration'

Operational decisions
• hold some kind of publicity day like Fun FM did

Fun FM

Strategic decisions
• making £3m available for set-up costs
• targeting 4- to 14-year-olds

Tactical decisions
• creating 225 jobs in city-centre premises

Activity 2

Strategic
• to win a national/international competition – such as the World Cup
• to have a team in the next winter/summer Olympics

Tactical
• to win the next match/competition/event
• to purchase new equipment

Operational
• substituting one player for another during a match
• changing equipment during a competition (different golf clubs at different holes)

Conflicts arise when:
• national coaches have different training schemes from local clubs
• players are required for national matches/training and this prevents them from competing in club matches
• local clubs will not release players
• players suffer injuries competing at local/national level which removes them from competition.

Resolving conflict involves:
• each coach having a clear view of the needs/aims of the other
• each coach being prepared to make some compromise
• discussing the situation with the players involved to get their views/preferences
• reducing the number of individual club games
• scheduling individual club games at one time during the year and national ones at another.

Activity 3

A mission statement
A mission statement is a brief outline of the key aims and purpose of the organisation. It is often used as part of the marketing information released by the company. It is also used to inform employees of the aims of the organisation and to try to encourage them to adopt these aims themselves.

Why define aims and objectives?
Crucial to making structured decisions
• organisations must know WHAT they are working towards
• goals motivate groups/individuals
• a legal requirement for company set up (see later notes)

• strategic or long-term objectives or mission statements give general purpose and guidance
• must allow flexibility to adapt to changing circumstances

• tactical or short-term objectives should be more precise – but must be kept under review and adapted to meet changing circumstances

- precision makes for clear understanding
- precision allows measurement of achievement
- precision needed depends on the hierarchical position of the individual concerned

- may indicate a sign of managerial inadequacy to concentrate on one objective and neglect others.

Why review results?
- to see if the decisions taken have achieved the desired results
- if not why not?
- to identify where improvements could be made in the future
- to identify if the decision-making process in itself could be improved
- external factors may affect the efficiency of decisions taken earlier and therefore adjustments may have to be made.

Activity 4

Strategic
- To win gold medals at the next Olympic Games

Tactical
- To pick a team for the National Championship

Operational
- Substituting Haining for an injured rower on the day

Activity 5

Stagecoach

Strategic
- to be the largest private transport provider in Britain
- to offer transport in all areas – road, sea, air and rail

Tactical
- the purchase of a major share in New Zealand Railways
- to purchase a large shareholding in Virgin Railways

Operational
- to complete the driver shift rota for Stagecoach buses for the next week
- to begin negotiations with trade union official about pay rises for this year.

Oxfam

Strategic
- to provide aid assistance to those in need
- to promote understanding between peoples

Tactical
- to begin a campaign to raise funds for Kosovo or Sudan
- to run a series of educational advertisements on television

Operational
- to change the opening hours of its shops from 10 am – 4 pm to 9 am – 5 pm
- to buy crafts from an Indian craft importer

The SNP (or other Parties)

Strategic
- to be the party of government in Scotland
- to increase the influence of Scotland and the Scots people in the European Union

Tactical
- to launch a campaign to attract new voters in elections to the Scottish Parliament
- to recruit and elect young, intelligent Scots to stand as prospective MSPs in the new Parliament

Operational
- send party workers out to leaflet door-to-door
- hold rallies around the country with well known supporters as key speakers

McDonald's

Strategic
- to be the largest fast food franchise in the world
- to have the most widely recognise d logo in the world

Tactical
- opening restaurants in Moscow and throughout Russia
- purchasing land in South America to raise cattle on

Operational
- give Anastasia doll free with every Big Mac meal for 12-year-old girls and younger
- give a free milk-shake with every Chicken McNuggets and fries.

Activity 6

Strategic
• to increase market share by targeting designer clothes consumers

Solutions for the rest of this exercise depend very much on the discussion that arises from the student groups involved.

Activity 7

Solutions for this activity are dependent both on the organisation chosen and on the method of research used by the individual student.

Activity 8

There are no right or wrong answers for this activity.

It may be appropriate to suggest that students use the information gained through this activity as the basis for discussion with a member of the guidance team.

Activity 9

Strengths	*Weaknesses*
Cheap to tax/insure	Image
Does not rust – it's plastic	Poor commercial record in last ten years
Has low top speed (90 mph)	
Established brand	

Opportunities	*Threats*
Green product – plastic doesn't rust	Competition from other small cars (Clio, Peugeot 106, etc.) – these are easily comparable in price – and more fashionable
High mileage – low fuel consumption	Strong £ at present hinders exports
In keeping with government policy on pollution	
Create fashionable image for young cost-conscious first-time owners	
Create safety image (low mph)	

Students will draw their own conclusions from the case study and SWOT. These will depend on their reading of the current situation and their attitude to the Robin. Good students should make links between careful marketing and the strengths of the car being a green anti-pollution vehicle, current government policy, and cheap running costs.

Activity 10

Making a decision using the structured process:

If analysis suggests action taken was NOT sufficient to regain market share, and ultimately to increase it, go back to stage 3.

Activity 11

There is no one solution for this activity as it will depend upon the students involved and the choice of holiday, discussion, and decision taken.

Activity 12

• the decision has been made to use £100m from the sell-off of air traffic control to fund a huge rail freight expressway.

• the government

• the rail-freight operators
  the road-freight operators
  other road users

• other road users

• tactical (it is a way to meet the long-term transport policies of this government)

• finance
  political opposition
  road-freight users NOT switching to rail-freight

There is no solution to part (b). It will depend very much on the responses from individual students.

Activity 13

Political
• Expectations of something better from a Labour government
• Many senior MPs are Geordies (the Geordie 'mafia' para 7)
• Former MP 'bitterly disappointed' by performance of local MPs
• Government incentives offered to firms to start-up in North East
• Legacy of Tory drive to replace old UK-owned industries with new foreign investment
• NDC spends its money attracting investment from all over

- Chancellor agrees that economic growth will slow down over coming year
- Treasury claims that growth will be moderate but more sustainable
- Slowdown deliberately engineered by government
- Taxes have been raised
- The government would be embarrassed by lengthening dole queues
- Labour inherited the economy at the peak of a business cycle
- Labour spin doctors say the party is blameless
- Tories claim Labour has attacked the savings culture
- The Chancellor claims that sensible reforms will pay dividends in the long term

Economic
- A crushing recession in the North East
- London has become a power base of services to Britain and, financially, to the rest of the world
- Thousands have lost jobs or face the threat of unemployment
- Job losses are a fact of life in the bid to keep the lid on inflation
- There is no prospect of work with the 120 mines all closed and the new industries also paying off in the short term or permanently
- World markets are drying up
- Surplus of producers in the global market
- Most companies are satellites
- Easy to pay off UK workforce
- NDC spend 66% of its money attracting national and local investment, 33% on foreign investment
- Increased investment in call centres by Barclays Bank, BT and Orange
- Manufacturing still represents over half the workforce in the area
- The service sector is much stronger in the South East than in the North East
- Many economists pessimistic, predicting Britain is on the edge of a recession
- The Bank of England agrees that the chances of recession are higher than one-in-eight
- The Bank of England has put up interest rates to keep inflation under control
- Manufacturing industry is in recession
- Service sector is growing strongly
- There have been large-scale redundancies
- The 'brakes have been slammed on' and 'the economy will shudder to a halt'
- The Bank of England hopes that unemployment will rise as it sees this as a brake on inflation
- Asian economies have collapsed
- Monthly unemployment figures are erratic
- The overall picture shows unemployment beginning to rise next year

- Economists believe that Labour's first budget was fundamentally flawed – increasing taxes on businesses not on consumers
- The abolition of Peps and Tessas has been less than triumphant

Social
- people were given hope with regeneration programme
- up to 500,000 job losses
- GMB secretary and officials trying to find a buyer for factory to save 700 jobs
- Workers paid off don't expect to work again
- Many workers faced unemployment previously when traditional industries ship building, mining, steel working paid them off
- Workers talking about the shock – 'a bolt from the blue' of unemployment
- People desperate for work
- When small numbers of staff are paid off it doesn't make headlines – but still affects families and individuals

Technological
- Hi-tech industries most affected by global over-production
- Factories were state-of-the-art
- Siemens, Nissan, Fujitsu, Grove Europe all involved
- Factories were owned by foreign organisations and investors
- Hi-tech industries are susceptible to economic fluctuations
- The success of the Hi-tech industries may be short-lived

Section 4: Internal Organisation

Note: This section is no longer included in Unit assessment. However, it still forms part of the overall course assessment.

Grouping of activities

'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.

Functional grouping

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

- Marketing
- 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.

Product/service grouping

Here the grouping of activities is based around a particular product or service and is usually described as a *division*. Each division is a self-contained unit. 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.

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.

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.

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 firms 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.

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.

Summary

Whilst it may seem easy to structure organisations by grouping their activities into one or other of the examples given above, a great many organisations have their activities arranged in a combination of ways. For example, a manufacturing organisation may be very largely structured along a *product* basis, but may have a *functional* arrangement for its financial activities. A structure based on *customer* grouping may have a human resources department that serves the entire organisation – a *staff* relationship.

Each type of activity grouping has both advantages and disadvantages for the organisation. Product, geographical or customer-based organisations may be faster to respond to changes in the market place, but there may be a lot of duplication of activities and services within the organisation. Functionally based organisations are led from the top and may be highly structured with long and complex decision-making processes. They may also suffer from rivalry between functional departments. However, there is little duplication of services and many benefits to be gained from departmental specialisation.

Functional activities of organisations

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.
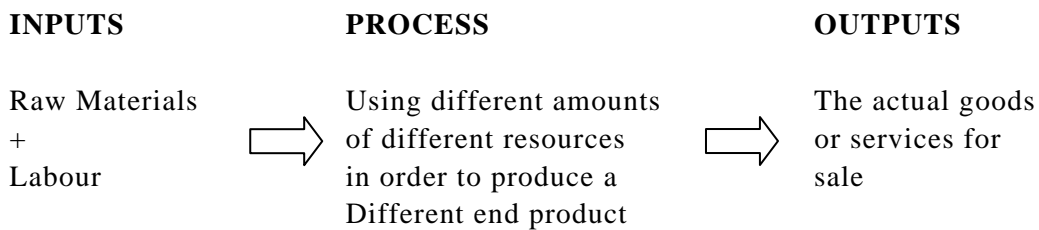
Management accounting is concerned with applying accounting techniques that will provide the organisation's management with sufficient financial information to assist them in the process of decision-making. It is concerned both with the actual use of funds within the operations of the organisation and 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 + Labour	Using different amounts of different resources in order to produce a Different end product	The actual goods or services for sale

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.

Forms of organisational structure

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.

Example: A school's hierarchical structure (Christon Academy)
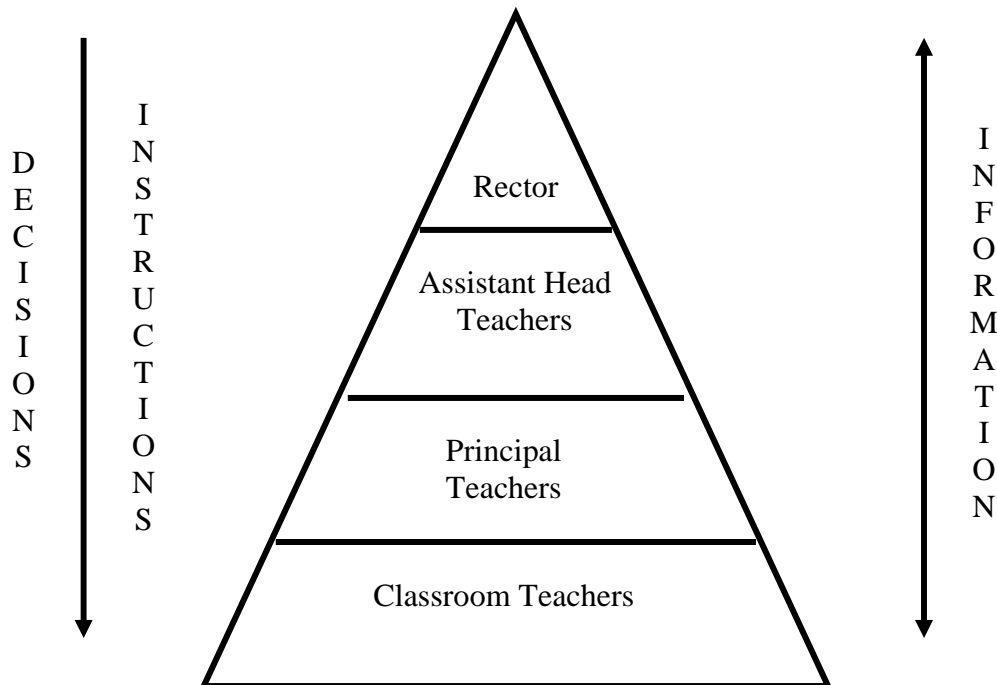
It is important to remember that many individual schools belong to a much larger organisation. They are part of a local authority and the local authority itself is part of a larger organisation. All local authorities in Scotland come under the control of the Scottish Parliament.

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.

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.

Example: A doctor's practice

Dr McCoy	**Dr Crusher**	**Dr Bashir**
Nurse	**Nurse**	**Nurse**

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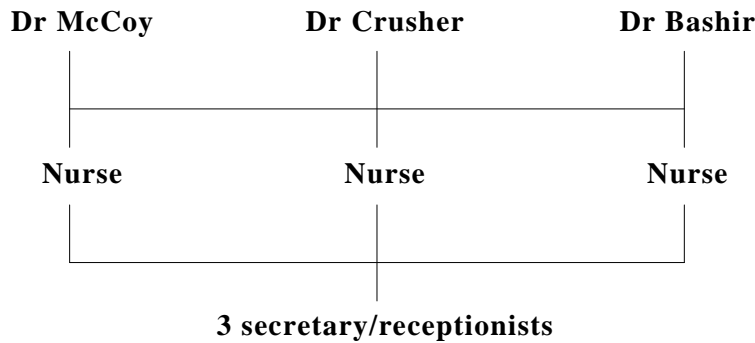
Increasingly, large organisations are moving towards a flater structure, largely in an attempt to overcome the problems of a hierarchical structure. This often involves cutting out some of the layers of the hierarchy (see later notes on 'delayering').
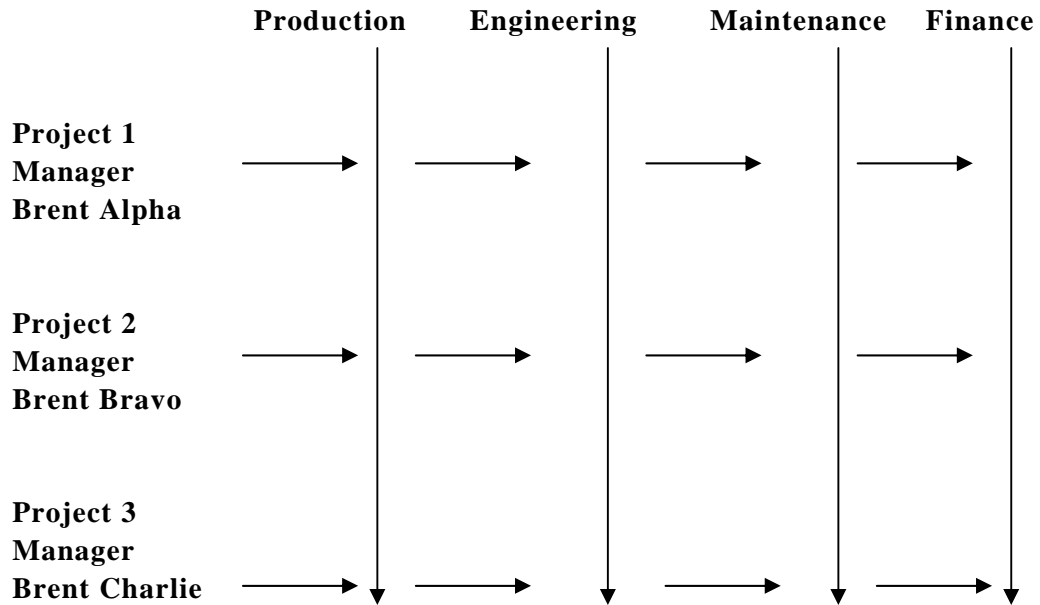
Matrix structure

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.

Example: Shell UK Exploration and Construction

	Production	Engineering	Maintenance	Finance

Project 1 Manager Brent Alpha

Project 2 Manager Brent Bravo

Project 3 Manager Brent Charlie

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.

Decision

Maker
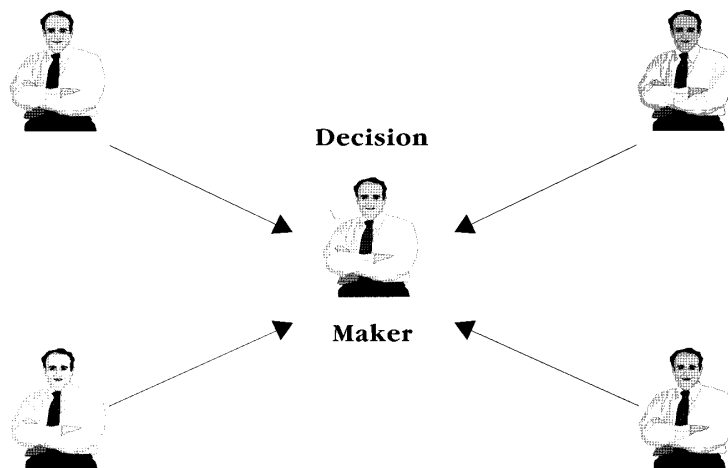
Centralised structures

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:
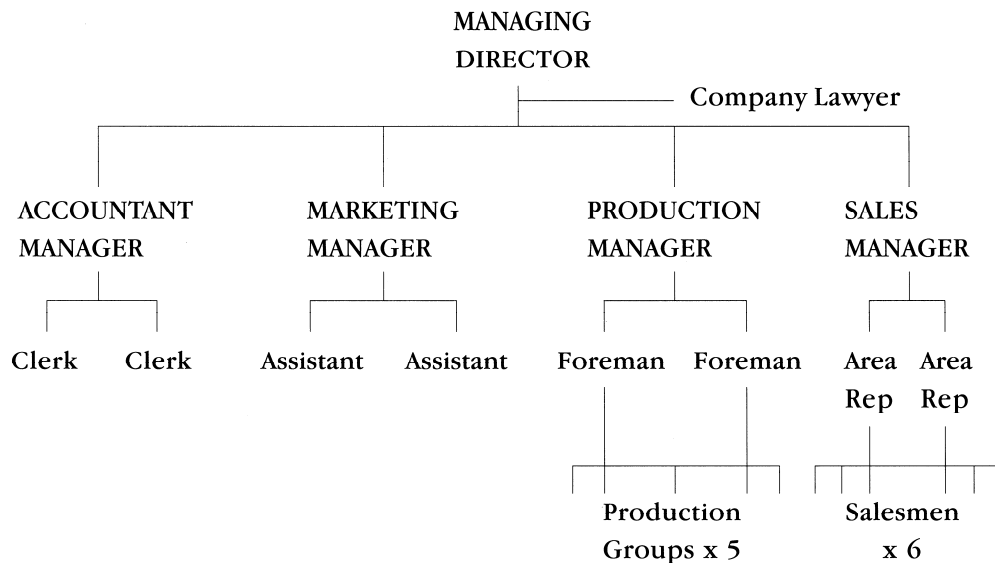
• The delegation of authority is felt by many to be a key motivator for subordinates and allows them to be groomed for senior positions when they become available;
• Subordinates often have better first-hand knowledge of the requirements of their departments or customers, and can therefore make better 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.

Aspects of organisational structure

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.

```
                              MANAGING
                              DIRECTOR
                                         ────────── Company Lawyer

      ACCOUNTANT        MARKETING        PRODUCTION        SALES
       MANAGER          MANAGER           MANAGER         MANAGER

    Clerk    Clerk    Assistant  Assistant   Foreman  Foreman    Area   Area
                                                                  Rep    Rep

                                             Production          Salesmen
                                             Groups x 5            x 6
```

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 (see below) that occur.

The span of control

This refers to the number of workers or subordinates under a supervisor or manager. There is no perfect size for a span of control. Henri Fayol, a writer on management, suggested that the optimum size should be between 3 and 6 subordinates because this gives the manager a lot of control over his subordinates. He also argued that 3–6 subordinates was all that a manager could cope with.

In this diagram the Area Manager has a span of control of 5 sales staff.

Area Manager

5 x sales staff
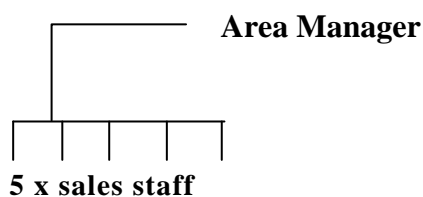
There are, however, four important factors that should be considered when deciding on the span of control of any manager or supervisor:

- 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 third factor that should be considered is 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.
- Fourthly, 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.

Line relationships

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

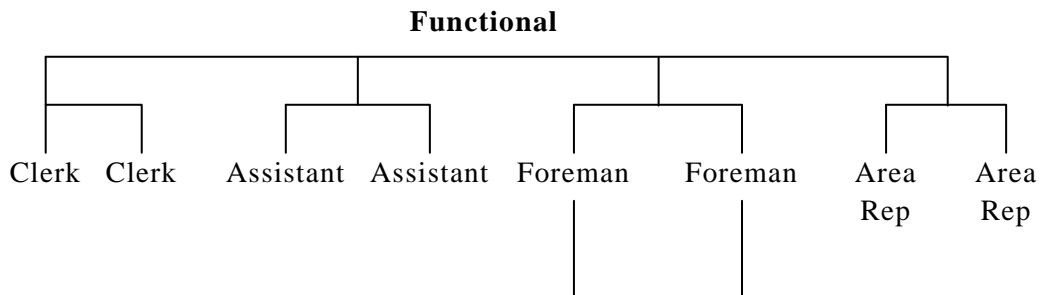In the diagram below the *line relationship* is between the Area Manager and the five sales staff.

Area Manager

L
i
n
e

5 x sales staff

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.

Functional

Clerk Clerk   Assistant Assistant   Foreman   Foreman   Area   Area
                                                            Rep   Rep

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 *staff relationship* seen in this organisation chart is the company lawyer.

```
                      MANAGING
                      DIRECTOR
                          |
                          |_____  Company Lawyer
                     Staff
                          |
        _____|_____
        |             |                 |           |
   ACCOUNTANT     MARKETING         PRODUCTION     SALES
    MANAGER        MANAGER           MANAGER      MANAGER
```
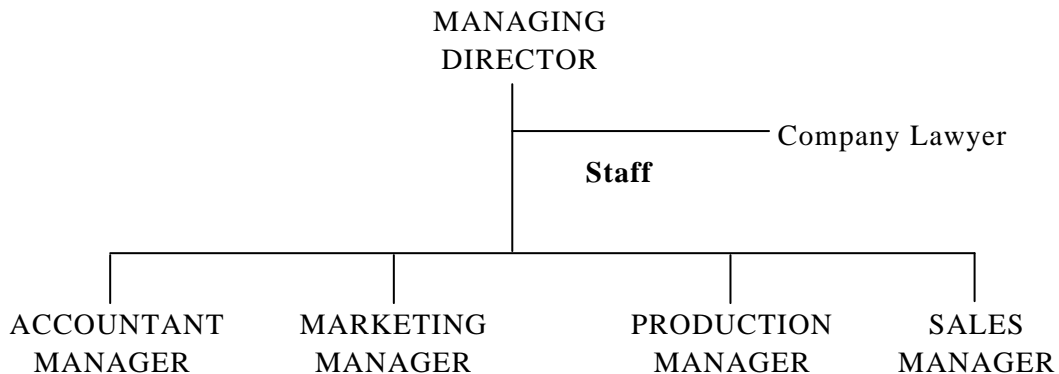
Formal and informal structures

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.

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.

Awareness of organisational culture

The culture of an organisation has been defined as:

> 'a set of behavioural and attitudinal norms, to which most or all members of an organisation subscribe, either consciously or subconsciously, and which exert a strong influence on the way people resolve problems, make decisions and carry out their everyday tasks.'
>
> D Clutterbuck and S Crainer, *Makers of Management*

The *culture* of any organisation influences the attitudes of its staff towards each other and towards individuals from outside the organisation who come into contact with it. The wearing of a uniform or the type of dress adopted is one of the most obvious 'corporate images'. However, attitudes towards others and business motives and philosophies can also suggest a 'corporate culture' within an organisation.

For example McDonald's Restaurant franchise has very strict rules about:

- shop layout and colour schemes,
- staff dress,
- staff attitudes towards customers,
- available food and portion size,
- quality of food.

In fact, you can walk into a McDonald's anywhere in Britain and expect to find everything exactly the same as you would find in your local McDonald's.

Edgar Schein believes that this 'corporate culture' is made up of three main elements, all of which go some way to instilling the sense of 'identity' in individuals within the organisation.

Artefacts:	Physical layout of shop/office/factory, dress code/uniform;
Values:	Principles upon which people base their behaviour;
Underlying assumptions:	The source from which all the values and behaviour spring (such as the original or existing owners or managers).

If the culture is centralistic and bureaucratic, the likely result is a very highly structured organisation with clearly defined roles for all individuals and a hierarchical system of communications (for example, the Health Service). In such a system, job descriptions, appraisal forms, succession charts and the like are vital in helping to analyse the needs of the organisation and in deciding how these needs are to be met.

Where top management believe in delegation and devolution, the emphasis is more likely to be on self-development, team working and management support. Two-way communication links are fostered. Worker initiative and participation in decision-making are likely to be encouraged, as, for example, in most Japanese manufacturing firms.

Where management see themselves as an 'elite' group, features such as accelerated promotion and graduate training programmes tend to predominate. This system provides selective managerial support for the 'right' individuals (those from well known schools and universities, for example) and concentrates on 'high fliers' – those with outstanding potential. This corporate culture is to be found in the Police, the Army and the Civil Service.

Anyone in an organisation who does not adopt the culture of that organisation is likely to feel isolated. Individuals are more likely to conform than to rebel.

However, Schein suggests that there has to be a great deal of consensus or agreement among individuals in the organisation before there can be an identifiable corporate culture.

He sees the five main areas of consensus as:

1.   Consensus about the core mission – what business are we in and why?

2.   Consensus about goals – what, specifically is everyone meant to do?

3.   Consensus about the way to accomplish the goals – how should tasks be divided up? What reward system or incentive scheme will be used? How will the separate activities be integrated?

4.   Consensus about how to measure progress – the nature of the reporting and feedback systems.

5.   Consensus about remedial or repair strategies – when and how to intervene when things go wrong.

More and more in today's business world corporate culture is recognised as a positive force. It can motivate staff and lead to an organisation where everyone understands their individual roles and obligations. It is also seen as a major influence in *external recognition* – especially from consumers.

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 the 'Tiger Economies' of South East Asia. 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 tiger economies have now opened manufacturing facilities in the UK, leaving our home-grown firms 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,
• employees doing what they are told,
• paying people for the position they hold,

- management alone making decisions,
- management having the *right* to manage,
- different levels of management having different levels of decision-making power.

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.

De-layering

This involves the cutting out of levels of management within the organisation in order to 'flatten out' the structure and is one of the strategies used by companies in recent years to overcome the effects of aggressive competition in the market place.

One of the steps that businesses have been forced to take in order to become more competitive and to survive the worst of a recession is to look at the organisational structure and see where savings could be made.

Organisations found that some of the levels of management were not only unnecessary, but were also hampering the lines of communication. This, in turn delayed the process of change as information passed through too many layers of authority, created unnecessary work and slowed down the decision-making process.

All levels of management are dependent upon those below them to supply the information that is required and often consult them before decisions are made.

It became obvious that the best people to make decisions were the staff who were directly involved, and so levels of management, especially middle management, were removed. Staff were empowered to make their own decisions.

Where successful, organisations became much flatter, with far fewer layers in the hierarchy, communications improved and decisions were made more quickly. Organisations became more responsive to changes in the market and

could adapt more quickly. One such organisation was General Accident, the insurance giant, which carried out a process of de-layering in the late 1980s.

However, in some instances, too many layers were removed and the remaining staff, managers and subordinates alike, found that the extra work that they had to take on was too much. A number of companies, such as Vetco Grey, an engineering and fabrication production organisation, have now begun to re-employ staff at middle management levels.

Down-sizing

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

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

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

Recessions in Western economies force companies to look very closely at ways of reducing costs in order to survive. Many find that their productive capacity exceeds the actual or predicted demand for their product. Even after a recession, the demand for their products may continue to be less than it had been before.

For some organisations down-sizing meant the closure of factories or production units. For others it meant the merging of two or more separate operations under separate management functions, and bringing them together under one management umbrella. And for some it meant the scaling down of their production capacity.

Duplication occurs not only in production and management, but also in areas such as sales, research and development and administration. For example, having two separate sales forces for different product ranges is an expensive luxury. This may be sustainable, and even necessary, during an economic boom, such as in the mid 1980s. However, with ever increasing competition and the lingering effects of a recession, many organisations find that the additional cost of supporting such duplication make them uncompetitive.

A recent example of down-sizing has been seen in one of the world's giant oil corporations, Shell Exploration and Production. At a time when the dollar price of oil was very low, the organisation found it had to justify and sustain the position of four administration staff for every off-shore production worker. Cost cutting had to take place. Shell decided to close their large prestigious offices in London and base their European Operations headquarters in Aberdeen. This move meant considerable numbers of job losses but resulted in significant savings for Shell.

The role and responsibilities of management

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

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

Student Activities

Activity 1

There are many different ways of grouping the activities of organisations. Complete the table below by identifying the key characteristics of each type of grouping and giving one example of a company you have found that uses that type of grouping.

(The first one has been done for you.)

Type of grouping	Key characteristics	Organisation using this type of grouping
Functional	Activities are grouped into departments based on similar skills, expertise and resources used.	A secondary school
Product/service		
Customer		
Place/territory		
Technology		
Line/staff		

Activity 1 Teacher Notes

Students should NOT give as examples organisations mentioned in the Student Notes, but should research and identify other organisations to match the appropriate grouping type.

Internet www.tesco.com/

This site also provides good information on the organisational activities grouping of Tesco.

The Times 100 Case Studies

There are a number of case studies that outline or describe the organisational activities groupings of companies. Check the curriculum content index for details of these.

There are also examples given of various types of grouping of organisational activities in most of the Business Studies textbooks available.

Activity 2

Complete the table and identify two advantages and two disadvantages of each type of grouping of activities.

Grouping of activities	Advantages	Disadvantages
Functional		
Product/service		
Customer		
Place/territory		
Technology		
Line/staff		

Sources of information as for Activity 1

Activity 3

This activity could be undertaken as individual work or could be used as a paired or group exercise.

If using this as a paired or group activity it may be appropriate to copy the information gathered by each group so that all of the students have information on all of the functional activities.

Individual work

(a)   List the five main functional activities of a modern business organisation.

(b)   Outline the main activities of each function.

Paired or group work

(a)   Using **ONE** of the main functional activities of a modern business organisation, outline the main activities of this function.

(b)   Prepare a report on this activity and present it to the class.

Activity 4

There are several main forms of organisational structure.

Complete the table below and list the key characteristics of each type of organisational structure and identify an organisation that uses it.

Type of structure	Key characteristics	Organisation using this type of structure
Hierarchical		
Flat		
Matrix		
Entrepreneurial		
Centralised		
Decentralised		

Activity 5

Invite a manager from a local business in to talk to the class about the method used in his/her organisation to group activities in the organisational structure.

Students might be interested to find out the reasons behind the present structure – historical, in response to competition, in response to internal changes (new technology or working practices), in response to external factors (legislation, changing markets, etc.).

Activity 6

Teacher Notes

(a)   This could be done as a follow-on from Activity 5.

(b)   If the organisation is large it may be best for the student to follow through only ONE department, rather than create a diagram that might lose clarity in its complexity.

(c)   It may be most appropriate for the students to create an organization chart for their school or college.

Student Instructions

(a)   Draw an organisation chart for an organisation that you know.

(b)   Clearly show the positions held by individuals within the organization and the links between these individuals.

(c)   It is NOT necessary to name individuals within the organisation; you should simply use the position or job title.

(d)   Clearly identify   (i)   a line relationship
                        (ii) a staff relationship
                        (iii) a functional relationship
                        (iv) the span of control of ONE of the managers

(e)   Identify three things that an organisation chart might be used for.

(f)   Apart from the names of the individuals in each position/job, what additional information might you add to an organisational chart that would be of particular help to a receptionist?

Activity 7

Teacher Notes

This activity could be carried out as individual written work, in groups, or as a whole class discussion or debate.

Student Instructions

Read the following passage and discuss the arguments for and against the suggestion that informal structures hinder the smooth running of an organisation.

Scene: A staff canteen, during a coffee break.

'Did you hear what was wrong with Liz?' asked Joe. 'She hasn't been in for two weeks now, and there's a temp sitting at her desk.'
'Well *I* heard that she had been sacked – she was always in and out of the boss's office, asking him questions. Can't have been up to the job,' replied Mary.
'Only possible reason for her not coming back,' she went on, 'I know she needed the money – and she liked the job – at least that's what she told *me*.'
'Oh, no,' added Sheena, 'she has looked dead worried lately. I think she wanted out. Lately she's been no fun – hasn't had time to talk to any of us in the office. Not like she used to. The way she's been lately – all of us felt we were out of order if we chatted. *She* always had her nose in some book or other. I'm sure it was stuff she shouldn't have been at during office time.'
'Maybe that's why she got sacked,' mused Joe, 'if she'd been moonlighting, you know, and the boss found out.'

Later that week the staff newsletter contained the following article:

Staff Changes:

We are pleased to announce the promotion of Ms Elizabeth Jess to Senior Administrator in the Clydebank Office.

Ms Jess secured this position following her success in the recent examinations that she was undertaking.

We will be sorry to lose her from the Glasgow Office, but would like to take this opportunity to wish her well in her new appointment.

Activity 8

Teacher Notes

This activity could be set as homework, as it may need to be researched outside school/college time.

Students should work in pairs or small groups.

Allocate each pair or group an organisation to visit and ask them to report back on signs of that organisation's culture.

The questions below might help the students with their research.

This activity could be extended if:

Students think of their own questions for the organisation and then make up a questionnaire for the public to ask if the culture their organisation *wishes* to present is, in fact, what the general public perceive them to be presenting.

Student Instructions

Describe how the ***organisational culture*** of the organisation that you are studying is put over to the public and to the people who work in it.

You may find it helpful to break your answer down into three elements:

1.   The ***artefacts*** used by the organisation

2.   The ***values*** shown by the behaviour of staff to others

3.   The ***underlying assumptions*** or source of this culture

Activity 9

Teacher Notes

This activity could be set as an individual piece of written work – either at school or at home – or used as a topic for a whole class discussion. Preparation and/or research time would have to be allowed if the latter option was being used.

Student Instructions

New Unionism states that **'WE ORGANISE OR FOSSILISE!'** [1]

Discuss the view that organisations must change their structure in order to remain competitive in the 21st century.

You should back up your arguments with examples of companies that ***have or have not*** changed their organisational structure in recent years, describing those changes that have been made.

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[1] From Trades Union Congress web-site at www.tuc.org.uk/newunionism

Solutions to Activities

Activity 1

There are many different ways of grouping the activities of organisations. Complete the table below by identifying the key characteristics of each type of grouping and giving one example of a company you have found that uses that type of grouping.

(The first one has been done for you.)

Type of grouping	Key characteristics	Organisation using this type of grouping
Functional	Activities are grouped into departments based on similar skills, expertise and resources used.	A secondary school
Product/service	Activities are based round a particular product or division. Each division is self-contained.	Virgin Group
Customer	Activities are based round individual clients, or groups of clients.	AXA Equity and Law Insurance
Place/territory	Activities are based round geographical territories.	Kleeneze
Technology	Activities are based round the technological requirements of the product (often the manufacturing of it).	Unilever
Line/staff	Line - based round a vertical hierarchy. Staff - based on providing support for line activities.	The Civil Service

Activity 2

Grouping of activities	Advantages	Disadvantages
Functional	Similar skills, expertise, resources used; clear definitions of departmental responsibility.	Duplication of resources and tasks; cumbersome, slow to respond to external changes.
Product/service	Each division is self contained; smaller units; quicker responses to external change; product specific expertise; allows great diversity in product portfolio.	May be duplication of resources, tasks and personnel; products may be too diverse; sharing R & D or capital equipment is no possible.
Customer	Allows customer loyalty to be built up; gives a feeling of personal service; highly responsible to customer needs.	Can be expensive in terms of personnel; continuity may be lost if staff change; record keeping and administration can be time consuming; there may be duplication of services.
Place/territory	Allows customer loyalty to be built up through personal service; responsive to customer needs; responsive to cultural/regional differences.	Can be expensive in terms of personnel; continuity may be lost if staff change; record keeping and administration can be time consuming; there may be duplication of services.
Technology	Increased specialisation in production processes; maximum use of capital equipment can cater for very diverse markets - reduces risk, problems are easily pinpointed.	Capital equipment is expensive; staff may require specialist training; only appropriate where products are different and in large organisations.
Line/staff	Line - shows clearly the level of responsibility/authority of job holder, clear job definition; Staff - work for whole organisation, often specialist staff.	Line - hierarchical, communications slow, demarcation in tasks/roles; Staff - specialists are expensive, may duplicate line tasks.

Activity 3

(a) • Marketing
     • Human Resources Management
     • Finance
     • Operations
     • Research and Development

(b) *Marketing*

   • 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 organization.

   • 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 Resources Management

   • 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

- Financial accounting,
- Management accounting,
- Financial reporting.

Operations

INPUTS   ⇨   **PROCESS**   ⇨   **OUTPUTS**

Research and Development

- Technical research,
- Innovation,
- New product development.
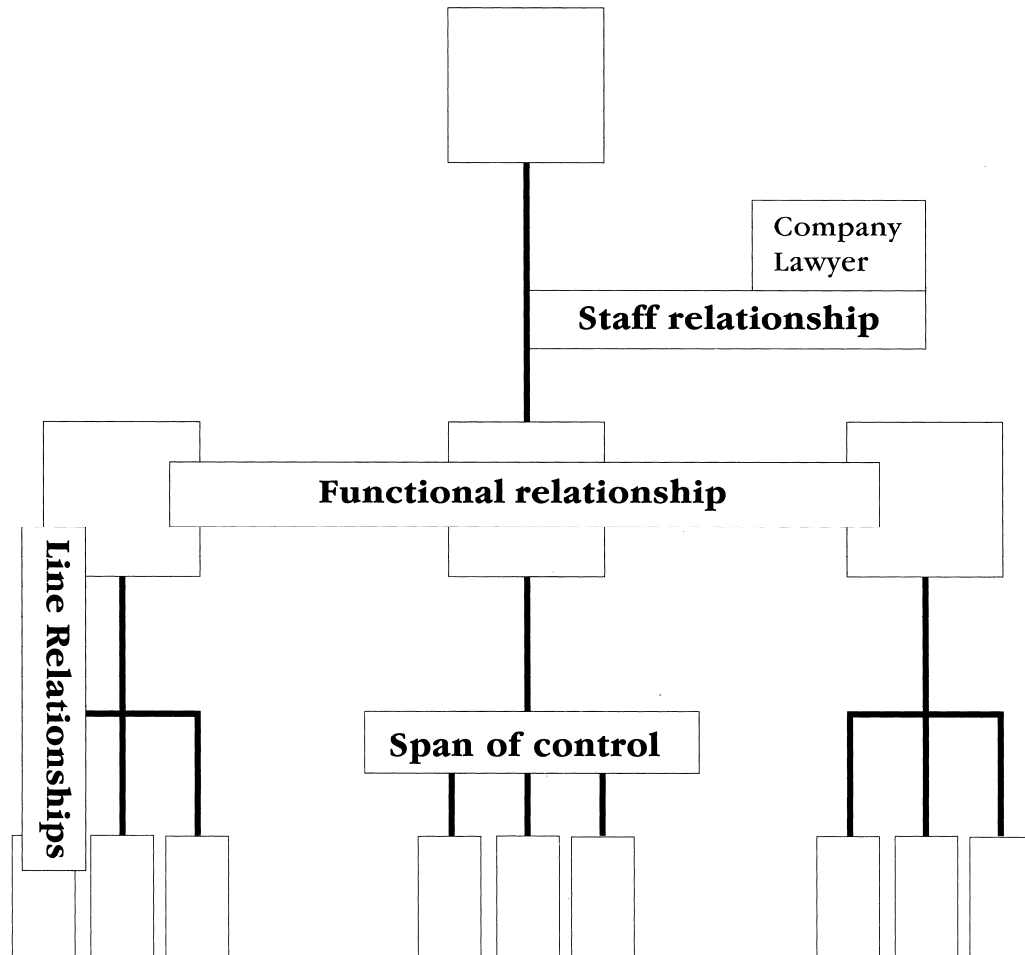
Activity 4

Type of structure	Key characteristics	Organisation using this type of structure
Hierarchical	Steep pyramid Many layers Clearly defined roles Specialisation	Police Civil Service Hospital/Health Board Armed Forces
Flat	Few layers Fast communications Quick decision-making	Small organisations Lawyers Doctors
Matrix	No hierarchy Project/task based Variety of tasks Expensive in terms of support staff	Oil companies Software production companies Marketing companies
Entrepreneurial	Input from and decisions made by very few staff Reliance on key workers Heavy workloads	Small companies Newspaper publishers Football clubs (Rangers, Celtic, etc.)
Centralised	All control and decisions made by senior management Large organisations Standardised procedures	Ford Motors Heinz GlaxoWellcome
Decentralised	High degree of delegation Rapid, responsive decision-making - proactive Flexible	The Virgin Group Dixons

Activity 5

The solution to this activity will depend on the visitor and organisation chosen to speak to the class. The student or the group could be helped in the construction of questions they might wish to put to the speaker.

Activity 6

(a-d) Organisation chart for ……..(name of organisation)

Company
Lawyer

Staff relationship

Functional relationship

Line Relationships

Span of control

(e)   Identifying the relationship between individuals in an organisation,
       Identifying lines of authority/responsibility,
       Identifying job holders' titles,
       Identifying job holders' names,
       Identifying the size of the organisation,
       Identifying an appropriate contact person.

(f)   Telephone number

Activity 7

For informal structures:

- Give a feeling of security to the individual,
- Give an individual a feeling of belonging,
- Communications are usually quick,
- Confer social status,
- Can pass information to many staff.

Against informal structures

- Exclusion can lead to feelings of alienation and rejection,
- Information is not always accurate,
- May pass on confidential information inappropriately,
- May be used to sabotage management plans,
- May be used to incite unrest.

Activity 8

The solution to this activity will depend on the organisation chosen by the student or the group. Note should be made of the following:

ARTEFACTS: physical layout of shop/office/factory, dress code/uniform

VALUES: principles upon which people base their behaviour

UNDERLYING ASSUMPTIONS: the source from which all the values and behaviour come (such as the original or existing owners or managers).

If the Activity is extended into consumer research students should receive help with the construction of an appropriate questionnaire.

Activity 9

The solutions to this activity will come from the description of any organisation that has undergone changes in recent years.

Examples might include: Shell UK Exploration and Construction
the National Health Service
any nationalised industry
the Virgin Group
British Petroleum
Asda/Tesco/etc.
banks and building societies

Changes may include: structure of the organisation
number of staff employed
size and nature of market
opening hours
products offered.