NATIONAL QUALIFICATIONS CURRICULUM SUPPORT

Business Management

Business Enterprise

Revised Student Notes

[INTERMEDIATE 2]

Learning
+Teaching
Scotland

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The Revised Student Activities that accompany these Revised Student Notes are available separately.

Contents

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

Introduction

This pack contains student notes to support the learning and teaching process for part of Business Management (Int 2). It covers material from Outcomes 1, 2 and 3 of the Business Enterprise (Int 2) unit of the course and relates to the following three areas of the course content:

- **Business in Contemporary Society**
  Role of business in society
  Types of business organisations
  Objectives
  Role of enterprise and the entrepreneur
  Stakeholders
  Methods of obtaining finance
  Changes in the business environment

- **Business Information and ICT**
  Sources of information
  Uses of information in business
  ICT in business

- **Decision Making in Business**
  Types of decision
  Decision making as a process

Please not that, although the fourth section of the pack – Internal Organisation – is no longer included in Unit assessment, it remains part of the overall course assessment.

About this pack

The pack consists of student notes which are intended as a 'core text' for students and provide the basic material for Business Management at Intermediate 2. Students who have assimilated this material should have the requisite knowledge to enable them to achieve a satisfactory level of performance in this area of the course. However, depending on the capabilities of a particular group, teachers and lecturers may wish to provide additional material to help students achieve as high a grade of pass as possible.

In general, the student notes have been organised in a way that matches the order of the course content as set out in the Arrangements for Business Management (Int 2). This coincides with other material for the course such as the Course Planner and the Student Activities for Intermediate 2.

Using this pack

The student notes can be used in a number of ways, depending on teacher/lecturer preference. They can be given out as handouts which students may read in class or as homework. This may be at the beginning of a topic or to consolidate learning once a topic has been completed. The notes are complementary to the Student Activities for Business Management at Intermediate 2 and could be used in conjunction with them.

This pack is designed to stand alone but it is also complementary to the student notes at Higher level. In this case, the relevant section is Business Enterprise (H): Business in Contemporary Society. As far as possible, given the differences in the course content between the two levels, the format of this pack matches the layout of the pack at Higher level. This should help teachers and lecturers who are required to deal with a bi-level group, as well as students who move from one level to another.

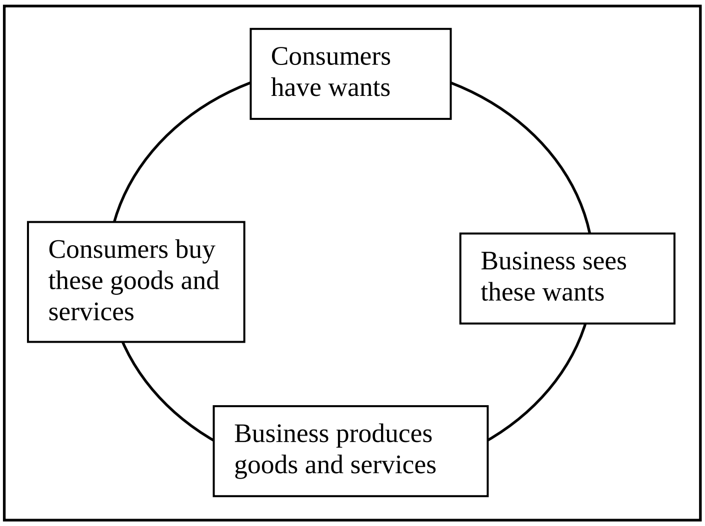
In using the pack, students should be encouraged to relate the material to any experience they may have of business and to developments in the local and national business environment. This can help to illustrate and exemplify the material in the student notes as well as helping to keep it current and up-to-date.

Section 1: Business in Contemporary Society

Role of business in society

Business activity is providing goods and services to give people what they need and want. We all have many different needs and wants: food, clothing, shelter, entertainment, travel and so on. Businesses have been set up to provide us with these.

The cycle of business illustrated below show s how production and consumption lead to the satisfaction of consumer wants. Businesses see the wants that consumers have and produce goods and services to meet them. Consumers buy these goods and services. They can then meet their wants by consuming these goods and services. This is the never-ending process of business activity.



The **output**s of business activity are the **goods** and **services**, which we want.

Goods

Goods are things we can see and touch, such as televisions, chocolate and cars.

There are two types of goods: **durable goods** and **non-durable goods**.

We can use durable goods again and again – like computers, CD players, etc.

We can normally only use non-durable goods only once – like, food, drinks, newspapers, etc.

Services

Services are things that are done for us. Some of the main service industries are banking, insurance, travel, education and health.

To produce goods and services, businesses need to use resources. These resources are the **inputs** for business activity. These resources are what we call the **factors of production**.

They are:

- **Land** –the natural resources such as oil, water, and the land itself.
- **Labour** –human resources, including all the people who work for the organisation.
- **Capital** –man-made resources such as machines, tools and factories.

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

Sectors of business activity

There are three sectors of industry:

- **Primary sector** – businesses that are involved in exploiting natural resources. (e.g. farming, mining, fishing).

- **Secondary sector** – businesses that are involved in manufacturing and construction by taking the natural resources produced in the primary sector and changing them into things we can use, (e.g. car manufacture, building firms).

- **Tertiary service sector** – businesses that are involved in providing services (rather than goods) such as banking and tourism.

All countries start out by being heavily involved in the primary sector, and as their economies grow, they move through each of the sectors.

In the UK we have gone through what is called *de-industrialisation* during the last 30 years.

Many of our manufacturing industries like ship building, steel-making, and car manufacture have been greatly reduced in size, and service industries are now much more important to our economy.

The tertiary sector is now the biggest sector in the UK economy. For example, there has been significant growth in employment in call-centre and e-commerce firms.

Types of business organisations

Organisations are made up of people working together, using resources to produce goods and services by changing inputs into outputs.

Business organisations exist to satisfy consumers' wants by making and providing goods and services.

Organisations fall into three sectors:

- **Private Sector** – organisations owned and controlled by private individuals and investors.

- **Public Sector** – organisations owned and controlled by the government.

- **Voluntary Sector** – organisations set up to raise money for good causes, or to provide facilities for their members.

Private sector organisations

The basic aim of most of these organisations is to make a profit. The most common types of private sector business organisations are:

- **Sole Traders**
- **Partnerships**
- **Limited Companies**
- **Franchises**

Sole Trader

A business which is owned and managed by one person (e.g. small shops, hairdressers, tradespeople).

Advantages
- It is easy and cheap to set up – there are no legal formalities.
- The owner makes all the decisions.
- The owner keeps all the profits.

Disadvantages
- It can be difficult to raise finance to start the business – the individual may have to rely on own savings or loans from friends and family. Banks may be reluctant to lend if there is no ‘track record’ of business performance.
- The sole trader has **unlimited liability**, – this means that if the business is not successful the owner could not only lose the business but also his/her home, car and possessions to pay off the business debts. As if this was not enough, they could be made bankrupt by the courts.
- The sole trader has to manage the business themselves, working long hours with few holidays, and may have problems if they fall ill even for a short time.

Partnerships

This type of business is owned and controlled by two or more people, but less than 20 (except for solicitor and accountancy firms, who are allowed more).

It is the type of organisation preferred by the professions, e.g. accountants, lawyers, etc. People starting their own business now rarely use this type of business organisation.

The partners have a *partnership agreement*, which is a legal document. It clarifies matters such as how profits are to be shared.

Advantages
- The work involved in running the business can be shared.
- Partners can specialise in certain areas of the business (e.g. one partner makes something while another partner sells it).
- More money can be invested in the business because there are more owners.

Disadvantages

- Like sole traders they have **unlimited liability** and could lose everything (except for certain types of 'sleeping' partners).
- There may be arguments between the partners on how to run the business.
- Partners can leave or new partners can be taken on, which can upset the running of the business.

Limited Companies

Many businesses set up as a limited company rather than as a sole trader or a partnership. The money required to set up the business (capital) is divided up into shares. These are then sold to investors. The company is run by a Board of Directors, which is appointed by the shareholders.

There are two types of company:

- Private Limited Company – Ltd
- Public Limited Company – Plc

Limited companies, as their name suggest have limited liability. The *shareholders* (there must be at least two) are the owners of the business.

To become a limited company you must register with Companies House in Edinburgh and complete two 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 shareholders receive dividends, which is their share of the profits, in return for investing in the business.

The main difference between the two is that Public Limited Companies (Plcs) are allowed to sell their shares to the public through the stock exchange, and private limited companies (Ltd) cannot. The majority of big firms like BP, British Airways, and Stagecoach are public limited companies.

Advantages

- Shareholders have **limited liability**. If the business fails, they only lose the amount of money they have invested and no more.
- Large amounts of capital can be raised by issuing shares.
- (**For public limited companies only**) Because investors can sell the shares at any time people are more willing to invest. The business can also sell more shares to raise money for big projects. This means they find it easier to plan, develop and expand.

Disadvantages

- All companies must be registered with the Registrar of Companies. This means they have to make a lot of financial information available, such as final accounts, which the public and their competitors can see.
- Big organisations can be very difficult to manage properly or well.
- It is more difficult to keep workers happy and well motivated in a big organisation.
- There are financial costs involved in setting up a limited company.

Franchises

Franchises are business arrangements where one firm pays for the right to run under the name of another. Many of the McDonalds branches are operated as a franchise.

The person or firm who owns and runs the business is called the franchisee. The firm that owns the name is called the franchiser.

With McDonalds, the franchisee buys the right to open a restaurant and trade as McDonalds, but they have to run the business the way they are told to by McDonalds.

Advantages

- McDonalds can open more branches and sell more meals.
- The new business benefits from the established reputation of McDonalds and will attract a lot of customers immediately.
- The new business will be helped and supported by McDonalds, including benefiting from their advertising.
- Good ideas can be shared among all the franchisees. For example one thought up the 'Egg McMuffin', and shared the successful recipe with all the others.

Disadvantages

- McDonalds reputation depends upon how good the franchisees are.
- McDonalds tell the franchisee exactly how to run the business.
- The franchisee will be restricted to purchasing all their supplies from McDonalds.
- The franchisee has to pay part of his/her profits to McDonalds.

Public sector organisations

These are organisations set up and owned by the government on behalf of the people.

The main aim of these organisations is to provide services to the general public.

Making a profit is not always the most important thing for these organisations. However, they are often required to work within a financial budget.

The most common types of public sector organisations are:

- Public corporations
- Government funded service providers
- Local authorities.

Public corporations

These are business organisations, which are owned and run by the government for us, like the BBC and the Royal Mail. The government appoints a chairman and board of directors to run them on our behalf.

There used to be many more public corporations but these were ‘Privatised’, (sold on the stock market). Examples are British Telecom, BP, and the gas and electricity companies.

Government funded service providers

The government provides us with some services such as the National Health Service, Social Security and Defence.

They are set up by the government to carry out their policies in these areas. Each year they are given a set amount of money to spend. Each usually has its own government minister who has overall control and provides guidelines to mangers as to how the service should be run. The managers make many of the decisions as to how the money could be best spent to meet the government objectives.

Local authorities

They provide us with services such as education, housing, leisure and recreation, and street lighting. They get their money from council tax, government grants and fees for facilities such as sports centres.

Voluntary sector

The aim of organisations in this sector is not to make profits, but to raise money for good causes or to provide facilities for their members. Most voluntary organisations are set up as charities, for example, Oxfam, RNIB, RSPCC, the Scouts, etc. They are formed by people sharing similar beliefs or concerns who then become members of the charity/organisation. Any profits that charities make are used to help people.

Charities have to be registered with the Charity Commissioners, who watch over their activities. To be recognised as a charity the organisation has to have one or more of the following as their main objectives:

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

Once they have been recognised as a charity they are given ‘charitable status’ which means they do not have to pay some taxes such as VAT.

The objectives of business

All business organisations have aims, which they try to achieve. These are referred to as objectives. An organisation’s objectives depend on a number of different things including:

- the type of organisation
- the size of the organisation
- the type of goods or services which the organisation produces
- the competitive environment which it faces
- the history of the organisation.

For example, private sector organisations need to earn profits from the goods and services they sell. Otherwise, they may go out of business. Public sector organisations, on the other hand, do not have to earn profits because they do not sell their services to the public. They get finance from the government and other sources to provide their services. Voluntary organisations such as charities seek to raise funds for their chosen ‘cause’ and at the same time to cover the costs of their operations.

The following list gives some of the objectives that different types of business organisation may have:

Objective	Meaning
Profit maximisation	The aims is to make as much money as possible out of the business. This is the most obvious objective, but it is not always possible to achieve along with the other objectives.
Growth	To grow and increase market share, the business may have to accept lower profits as its costs will be higher and it may be selling at reduced prices.
Survival	For some small firms this is the most important objective – they want to avoid having to close, or being taken over by bigger firms. Most big businesses are run by managers, who will run the business in order to make enough profits to keep the shareholders happy. For sole traders, increasing profits may mean working harder and longer than they really want to.
Social responsibility	Some businesses may wish to improve their public image by showing they are socially responsible. They may give money to good causes or spend money to avoid damaging the environment. This costs the firm profits, but may make them more successful in the long term.
Provision of a service	Most publicly funded organisations such as NHS Trusts and the Benefits Agency aim to provide services that people require. They may interpret it in different ways e.g. providing a high quality service, providing a service in different ways to meet the needs of different people.

The role of enterprise and the entrepreneur

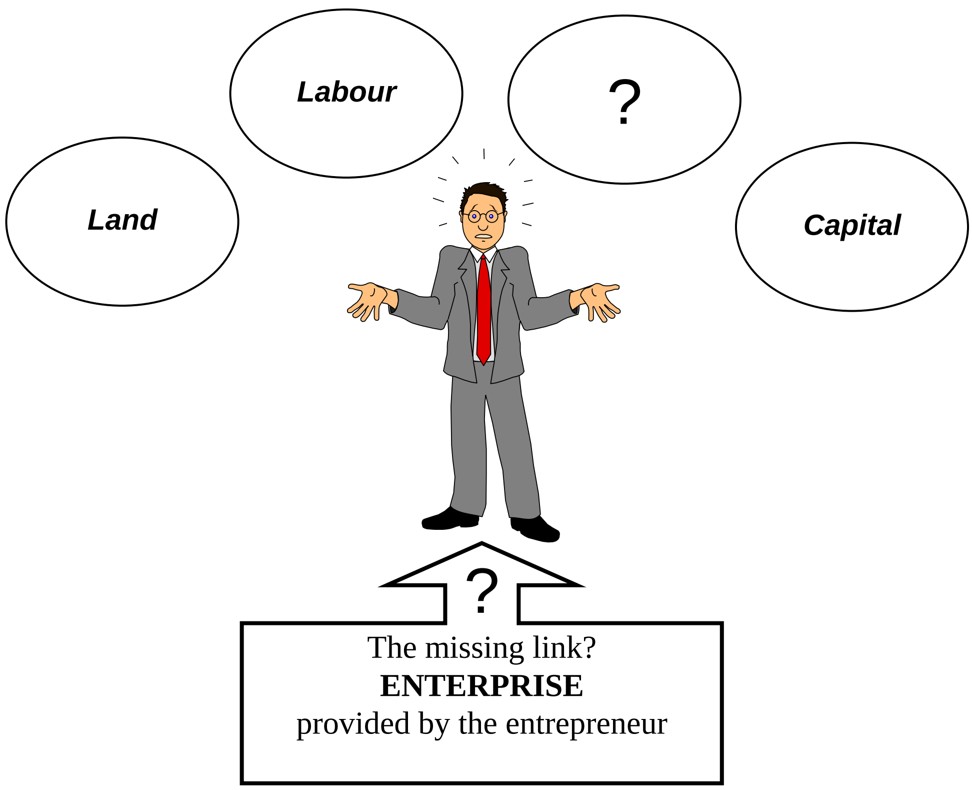
The entrepreneur is the person who brings together the workers, the natural and the man-made resources to produce goods and services.

Without the entrepreneur nothing would be produced. He or she will identify an opportunity to provide new goods or services, or to provide existing goods or services cheaper or in a better way.

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

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

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



Stakeholders

If a business is successful it will benefit more people than just the owners. On the other hand, if it fails, then more people than just the owners will lose out.

The people who are affected by the success or failure of the business are known as stakeholders.

Internal stakeholders

- shareholders/owners
- managers
- employees

External stakeholders

- suppliers
- banks and lenders
- customers
- the government
- community

The aims of stakeholders

Stakeholders may have different aims, depending on who they are and their role in the organisation. In other words, their aims reflect the stake that they have in the organisation.

Shareholders/ Owners	Shareholders have invested money in the business and will want to see the price of their shares rise, and their share of the profit (dividend) increased. Shareholders are the owners of limited companies. Owners such as sole traders or partners are stakeholders in their own businesses. They will want to see the business achieving its objectives because their livelihoods depend on their business being successful.
Managers	will want job security, better pay and working conditions, and good promotion prospects.
Employees	will also want job security, better pay and working conditions and good promotion prospects.

Suppliers	will want more orders from the business, and to be paid on time.
Banks and lenders	will want to lend money to businesses but also require assurance that they will be repaid.
Customers	will want low prices, high quality and good after-sales service.
The government	will want the business to keep within the law, pay their taxes, and provide employment.
Community	will want the business to treat the environment properly, to treat workers fairly, and not to exploit customers.

The influence of stakeholders

Stakeholders are able to affect the way businesses operate. However, some stakeholders are more powerful than others, and so they can exert more influence. In private sector organisations, the stakeholders with most influence tend to be people like shareholders or managers. In public sector organisations, the government may be the most influential stakeholder. Members of the community in their role as taxpayers may have more influence over public sector organisations than they do over private sector organisations.

The following table summarises the type of influence that stakeholders may have. Remember that each situation is different. The actual amount of influence that any stakeholder has in an organisation depends on the situation of the organisation at the time.

Shareholders/ Owners	Shareholders can vote at the Annual General Meetings to remove, or appoint Directors, and can vote on major issues like whether or not the business should be taken over. Owners such as sole traders or partners can influence an business by deciding on the overall objectives of the firm. They will also make all the major decisions about the running of the business.
Managers	make most of the decisions in the business and therefore have widespread influence.
Employees	can take or threaten industrial action such as striking or working to rule, to try and get the business to do as they want. The success of the business depends on their working efficiently.

Suppliers	can change the periods of credit or discounts they offer and the price of their supplies.
Banks and lenders	can charge higher rates of interest on loans to high risk businesses. They may withdraw lending facilities if loan repayments are not made on time.
Customers	can stop buying the business's products if they don't like them, or if they feel the business is not being socially responsible.
The government	can introduce laws which affect the way the business is run, and set up bodies to regulate the business (e.g. Offwat).
Community	can put pressure on firms through pressure groups (e.g. Greenpeace), or by highlighting what they think is wrong (e.g. writing to Watchdog).

Methods of obtaining finance

All businesses need finance to grow and, from time to time, to survive. The most important source is money it has saved from profits which have been built up over a number of years. Rather than pay out all the profits to shareholders or owners, the business retains some of the profits it makes and invests them, to make more profits in the future.

This is an **internal** source of finance.

There are also internal sources of finance. These can be long or short term, depending on what the money is needed for.

Short-term sources of finance

Source	**Advantages**	**Disadvantages**
Overdraft – a short term facility at the bank to overdraw on your account.	can be agreed in advance, and for many firms a permanent facility can be available.	interest rates can be quite high.
Trade Credit – your suppliers give you time to pay.	because you don't have to pay immediately you can sell the goods before you have to pay for them. This improves your cash flow.	your customers may also expect time to pay. If the period is too long you may find it hard to get other suppliers who will do the same.

Hire Purchase – often used to obtain equipment or vehicles. The cost plus interest is paid in equal instalments over a set period of time.	the cost is spread, making the item easier to afford. Fixed repayments help with budgeting.	the items are owned by the hire purchase company until the last instalment is paid.

Long-term sources of finance

Source	**Advantages**	**Disadvantages**
increasing the amount of money invested in the business (**capital**) by the owner/shareholders.	you don't have to repay the amount raised, or pay interest.	profits may have to be shared out amongst more people. you may not be able sell enough new shares to raise the money you need.
by **bank loans** or **mortgages**.	budgeting and planning is easier as repayments are made in regular fixed installments.	you have to repay the amount borrowed plus interest.

Help from the government

The government tries to encourage entrepreneurs to start up new businesses through:

- Local Enterprise Councils (LECs) – these have been set up in Scotland to offer advice, grants and training to local businesses. They also try to encourage new business start-ups in their area. An example is Scottish Enterprise.
- The Loan Guarantee Scheme – this makes it easier for smaller businesses to borrow money by guaranteeing to repay most of the loan.
- Corporation tax for small firms – this is much less than for larger firms.
- Various forms of help for firms who want to sell their product abroad, including advice on foreign markets and guaranteeing credit given to UK firms operating in overseas markets.
- The European Union – this offers financial help through the Regional Development Fund and the Social Fund.

Of course, public corporations and local authorities get their finance from the government and through taxation. For example, the BBC gets most of its money through television licence fees. Local authorities get a block grant of money from the government and collect local taxes from households and businesses.

Changes in the business environment

In order to survive businesses must be able to cope with changes that take place in their environment. Firms who can’t or won’t adapt tend not to last very long, as the pace of change appears to be continually increasing.

Changes in the public sector

Even public corporations such as the BBC and government-funded service providers such as the NHS have to cope with these changes.

For example, the NHS is under increasing pressure to lower waiting lists, introduce new services and increase efficiency while at the same time it is expected to make new treatments available, some of which can be very expensive. And it has to do all this with a fixed budget.

This has meant contracting out or ‘outsourcing’ some of its activities. For example, providing meals for in-patients is not part of what we would call the ‘core business’ of the NHS. So they now invite private catering firms to bid or quote a price for providing this service to hospitals.

It would be expected that the catering firm would have greater expertise, be able to get cheaper supplies, and provide better quality for a lower price.

Most government-funded and local authority-funded services now have to ‘outsource’ parts of their non-core activities.

Changes in the private sector

It is the same for the private sector. For example, the Bank of Scotland recently announced it has outsourced its information communications technology (ICT) function to IBM. IBM will now have full responsibility for providing all computer and other communications facilities for the bank for the next 10 years. The 500 members of staff who worked in the ICT section of the Bank of Scotland will now become IBM employees.

IBM has much greater experience in ICT than the bank and will be able to provide a better service now and in the future for less cost than the Bank of Scotland could do.

The importance of small firms

The vast majority of firms start off small. There are very few successful large firms that did not start off as a one or two person business.

This is mainly because it can take years to be successful, and setting up a new business on a large scale is much riskier.

For example, the internet company Boo.com was set up with a multi-million pound investment that took around two years to get up and running – yet it folded within a few months of starting operations.

So small firms are important, as they provide opportunities for new entrepreneurs to enter the market.

Small firms cater for small markets, where the level of profit is too low to support large firms. So small firms offer goods and services that would not be offered by large firms.

The problems with large firms

Bigger firms are more difficult to control in terms of the large number of resources they use. Management have less overall control and are less aware of what is going on, and workers are more difficult to motivate. Importantly, communications are more difficult amongst thousands of employees.

The development of world markets (globalisation) has meant increased competition for business in the UK, and this has meant having to improve the quality of goods and services offered and to lower costs to reduce prices.

All these factors have led to large businesses seeking ways to be able to react to change more quickly. They have restructured their internal organisation, outsourced non-core activities, removed unnecessary layers of management (de-layering), and reduced productive capacity (downsizing) closing or merging factories.

Being smaller or leaner allows them to cope with changes in the business environment much better than before.

Multinational Companies

These are companies which operate in two or more countries throughout the world and which have their headquarters in one country. Multinational companies are playing an increasingly important role in the Scottish and UK economies. They are major employers, and they bring new technologies, new skills and new management techniques. They can be a major influence in the progress and development of business activity.

In the central belt of Scotland, a major electronics industry has been established with multinational companies like IBM setting up major operations. In the northeast, the oil industry is dominated by multinationals such as Total, Shell and BP Amoco, and suppliers such as Kvaerner.

Reasons for becoming a multinational are to:

- increase market share
- take advantage of cheaper workers and premises or local skills
- take advantage of government grants
- cut down transport costs for the countries they sell to
- compete and sell in the European Union
- sell to the global market.

Many multinationals are setting up factories in eastern Europe and China because the labour and production costs are so low.

When multinationals set up in a country, they can bring some disadvantages to that country:

- They are very powerful, and may even influence the government of the country.
- Local employment can be very dependent on one large employer.
- They may use up local natural resources which cannot be renewed.
- They can force local firms out of business.
- The profits they make go back to their home country.
- In recessions, they are more likely to close down the local factories than the ones at home.

Multinational companies also have a number of advantages:

- They bring new jobs to an area.
- They are often at the forefront of new technology and can bring this to another country.
- They are often more efficient than local companies.
- They can lead to the introduction of new management techniques.

- They often export their output and so can help the host country's balance of payments.
- They can lead to new businesses being set up locally e.g. by people who have learned new skills by working for the multi-national.

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 look to join with another firm.

Integration

Businesses will often merge with another firm in the same market – this is known as 'Horizontal Integration'. For example, the Royal Bank of Scotland recently took over Nat West Bank. This helps the Royal Bank because:

- The Royal Bank of Scotland now has a much bigger market share, and less competition.
- It can now buy from suppliers in much greater bulk and so can get better discounts.
- It can cut costs by avoiding duplication in areas such as advertising, finance, etc.
- It now has all the assets of the Nat West including their bank network.
- The Royal Bank is now much bigger and much less likely to be taken over by another bank.

The Royal Bank and Nat West are selling to the same market. However firms sometimes merge with their suppliers or their customers – this is known as 'Vertical Integration'.

For example, a car manufacturer may wish to buy a firm that makes their engines. The car manufacturer is buying a supplier. This can benefit the car manufacturer by:

- guaranteeing supply of engines of the right quality and the right price at the right time.
- earning the car manufacturer the profits that the engine producer made.

Diversification

Sometimes a firm will buy over another in a completely different market. It may do this to take advantage of a market where there are lots of profits being made, or if it wants to spread the risk of one market failing.

Another reason may be that the business sees natural connections between the markets. For example, there have been a number of very big mergers between media companies (supplying TV channels, music, film and video) and internet companies. Time Warner merged with AOL because it saw the future of its sales being over the internet rather than through traditional outlets.

Forces for change in business

Businesses operate in an ever-changing world. The rate of that change is becoming faster. If a business is to survive, it must be in a position to respond to these changes.

Forces for change come either from **internal pressures** or **external pressures**.

Internal pressures

New technology will bring changes to the way the business works. The development of new products will require new production, selling to new markets and possibly new skills for the workforce.

Businesses face an uncertain future in terms of costs.

Increases in the costs of raw materials cannot be passed on to the consumer in markets where there is a lot of competition, so the firm will have to look at ways of becoming more efficient.

This could include changing the production process, or cutting back on the number of employees. Cost cutting and changes in the financing of the business will bring changes to the work place.

External pressures

Changes in national and EU legislation
Changes made in local, national and European Union laws affect business.

For example, the minimum wage legislation brought many changes for firms in terms of who they employed and how much they had to pay.

The EU has brought in a number of pieces of legislation, which affect the rights of workers. For businesses this can mean increased costs and changes in their operations to comply with these laws.

Changes in taxation
The government will change the levels of taxation and the exemptions for tax each year, which will increase or decrease the costs of a business. For example, if they increase the rate of VAT then prices will rise, meaning people will probably buy less.

Changes in corporation tax will increase or decrease the business's profits. An increase in profit will make the firm more likely to increase investment, such as a new computer network. A decrease in profits is likely to lead to cost cutting measures.

Changes in demand
- The UK now has a much older population than ever before.
- The average age of a first time mother is now 29.
- The average family now has less than two children.

All these factors mean that firms' customers have changed and they have to provide different goods and services. For example, one of the growth markets is providing holidays for the over 60s.

Socio-cultural changes (changes in lifestyles, fashions, and attitudes)
- Most women now work.
- People live much longer.
- More people own their own homes.
- There are more single families.
- There is more concern about the environment
  (and more car ownership!).

Again, firms have to respond to the different wants of consumers. For example, few firms now use animal testing on cosmetic products. Nearly all firms use clear labelling on their food products.

Changes in technology
The growth of the Internet and ownership of home PCs, coupled with a reduction in costs means that consumers can shop worldwide. For business this means they have to compete worldwide in what we call the **global market**.

New inventions or improvements in processes in some industries mean that one firm will have an advantage over all the others. They have to work hard and fast to catch up or they will not survive.

For example, the introduction of the 'bagless' vacuum cleaner by Dyson has meant dramatic falls in sales and profits for other manufacturers. These competitors of Dyson have now introduced their own bagless vacuum cleaners to try and regain their lost share of the market.

Changes in the competitive market

Every business wants to stay ahead of the competition and to have new and better quality products; to produce more cheaply; to have a better reputation; to sell more. Their long-term survival depends on achieving at least one of these aims.

The problem is that their competitors will always be trying to take their customers away. The actions of competitors are the biggest single threat to any business. A business that achieves all of these aims will effectively push all the others out of the market.

To survive, the business must always be seeking ways to be better than the competition.

Summary

Businesses produce goods and services to satisfy consumer wants. Once consumers wants are satisfied they then have new wants, which businesses will try to satisfy. This is known as the cycle of business.

Businesses use inputs such as workers, raw materials, and machinery to produce outputs, which are the goods and services.

The entrepreneur is the person who organises the inputs and takes the risk of producing goods and services.

There are three areas of business activity – primary, secondary and tertiary.

Organisations exist either in the public, the voluntary or the private sector. The public sector is made up of organisations, which are funded by local or national government.

The voluntary sector is made up of organisations, which are set up by groups of private individuals, but their main purpose is not to make profits. Charities are in the voluntary sector.

The private sector is made up of privately owned organisations in the form of sole traders, partnerships, private limited companies or public limited companies.

Businesses have different objectives such as profit maximisation, growth, survival and social responsibility. Which of these is the most important depends on the organisation.

Stakeholders are those who are affected by the success or failure of the business, and who have some influence on the business.

In order to survive and grow, businesses will need to obtain finance. The sources of finance may be either long term or short term.

Businesses are subject to increasingly rapid change. The sources of these changes may be internal or external. In order to survive, a business must be aware of these changes, and be able to adapt quickly.

Glossary

Term	Meaning
business activity	any activity which provides us with goods and services.
cycle of business	the identification and satisfaction of unending consumer wants.
durable goods	things that we can use again and again (e.g. televisions).
goods	things we can see and touch (e.g. cars).
inputs	the resources that are needed in order to produce goods and services.
non-durable goods	things that we can normally only use once (e.g. food).
outputs	goods and services produced by businesses.
partnership	a business that is owned and run by two or more people, with unlimited liability.
primary businesses	businesses that are involved in exploiting natural resources (e.g. oil).
private limited company	a business with limited liability whose shares are not available to buy on the stock market.
Private sector	businesses that are privately owned.
public limited company	a business with limited liability whose shares are available to the general public to buy on the stock market.
secondary businesses	businesses that are involved in manufacturing and construction.
sole trader	a business that is owned and run by one person, with unlimited liability.
tertiary businesses	businesses that are involved in producing services such as banking or retailing.
unlimited liability	the owner or owners of the business can lose everything that they own if the business fails.
limited liability	the owner or owners will lose only the money they invested in the business if it fails.

franchise	an arrangement where one or more firms operates under the name of another, e.g. Benetton.
voluntary sector	businesses which are set up and run for the benefit of a good cause.
public corporations	organisations that have been set up by the government to provide specific services (e.g. BBC).
Government-funded service providers	services which are provided directly by the national government (e.g. NHS).
local authority-funded service providers	services that are provided by local authorities (e.g. education).
objectives of business	the aims which the business attempts to achieve.
entrepreneur	a risk-taker who is willing to organise the resources needed to produce goods or services to the public in the hope of achieving the business objectives.
stakeholders	those who have influence over the business and are affected by its success or failure.
capital	money invested in the business.
bank loans/mortgages	a source of long term finance for the business, repaid (with interest) over a fixed term, usually a number of years, with set repayments.
overdraft	an agreement by your bank that you may take out more money than is in your account, up to a certain limit.
trade credit	your suppliers allow you to have the goods now and pay later.
multinational businesses	businesses which produce goods or services in more than one country.

Section 2: Business information and ICT

Introduction

Businesses need good information in order to make good decisions. Without information a business would not be able to function.

It may be useful to think of information as being the blood pumping round the body of the business. Without it the business will not survive; if it is not good quality the business will not survive; a healthy business needs good information.

Here are some definitions:

Data

Collections of facts or quantities, which have been put together in some way.

Information

Data that has been processed in a way that helps people make decisions and plan for the future.

The 'Information Age'

Electronic and computer technology has allowed us to access huge amounts of information for business and personal use. The internet is the most obvious example.

Sources of information

Where the information comes from will influence how useful the information is. It is also important to be aware of the type of information so that you know best how to use it.

There are two main types:

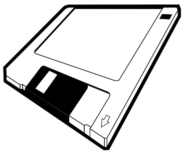
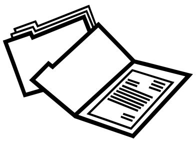
Quantitative information

This is information which is mostly number based. For example 'Sales in Glasgow are down 8 per cent'. It is information that can be measured.

Qualitative information

This type of information is more concerned with peoples feelings and opinions. For example 'I like cheese and onion crisps best'.

Businesses can get information from four main sources. Each source can produce both quantitative and qualitative information.

primary information 	is first hand information gathered by a business for their own purposes using questionnaires, interviews, etc For example, banks often carry out surveys of their customers to see if they are satisfied with their service, and ask about any improvements that can be made.
secondary information 	has been collected by someone else for their own purpose. However, businesses can also make use of it. This will include information contained in reference books, business and government statistics, information from market research companies, information from competitors, etc. For example, a government report on levels of air pollution will provide important information for car manufacturers on research and development of cleaner engines.
internal information 	is information from a business's own records, which is only available to them. This type of information is very important in helping to manage the organisation e.g. sales forecasts produced by the sales department will tell production how much they should plan to produce.
external information 	is any information gathered from outside the organisation – for example, a newspaper article describing the closure of one of your main competitors will allow you to move for their customers' business.

To manage the organisation well, it is important to use all the different sources. However, each source can have different costs. Information from different sources brings different benefits to an organisation.

Types of Information

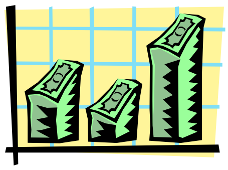
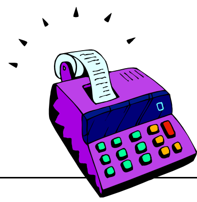
When we receive information it comes in a variety of forms. For example, we may receive a postcard to remind us of a dental appointment, or we may get a phone call from a friend to meet them later that evening. However, it would not be appropriate for the friend to send us a postcard to meet them later.

How the information is actually presented will affect how useful it is.

written	letters, memos, reports, notices, etc.
oral	face-to-face, over the telephone etc.
pictorial	pictures can give people the idea much faster than trying to explain it to them.
graphical	charts and graphs make it easier for people to understand, especially when there are a lot of numbers involved.
numerical	rows and columns of numbers produced in a certain way to aid understanding. For example, the financial accounts of a business.

Most pieces of information will use a mixture of these types of presentation. The bigger the piece of information, the more types that will be used.

Benefits of using the different types of information

written	• Written information can be easily referred to – you can go back and check again. • You can easily see who it has come from. • You can keep it as a record. • You can go and check how reliable it is.	
oral	• You get a response straight away. • Allows you the chance to get to know people. • You can give or get advice and guidance. • Discussion is much easier.	
pictorial	• Information is easy to remember. • It is a good way to stress certain points you wish to to make.	
graphical	• Good way to display complicated information. • Allows comparisons to be easily made.	
numerical	• Allows for forecasting, calculations, and comparing different courses of action if used with a spreadsheet programme. • Can compare yourself with competitors.	

Uses of information in business

Businesses need information to function properly. They use information for four main functions:

- monitoring and control
- decision-making
- measuring performance
- identifying new business opportunities.

Monitoring and control

A business will compare its actual performance against its budgeted performance. It will use records from previous year's performance and take account of any changes that have taken place to draw up its budgets.

For example, government statistics on the rate of inflation and consumer spending will indicate what should happen this year. The business may also use reports from market research companies to look at changes in their market. All this will be used to make sure the business is running as it should.

Decision making

Managers have to make decisions. In order to make the right decisions they have to have accurate up-to-date information.

For example, decisions about what new products to introduce will be the result of extensive market research and reports from the sales department. Without this information the wrong products could be produced which would not sell.

Measuring performance

Information allows you to compare your business's performance against that of your competitors.

For example, you can use your sales figures to compare your success against your competitor's sales.

Identifying new business opportunities

Businesses need to update their products and, where possible, introduce new products or identify new markets for their products.

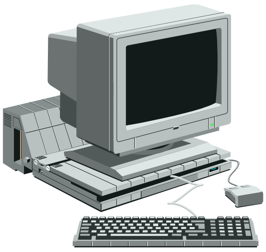
For example, market research indicates that over 40 per cent of CDs are bought by consumers over the age of 30 – this indicated to record companies that there would be a market for CDs of albums that were first popular in the 70s, 80s and 90s.

Information and communication technology (ICT) in business

Introduction

In recent years, the introduction of Information and Communication Technology has significantly changed the way in which organisations operate. Organisations can share vast amounts of information because of the ease of communication and availability of information that can now be accessed. Small businesses are now able to compete more easily with larger companies. The Information and Communication Technology revolution has also led to a large number of people being able to work from home.

Information in organisations is usually processed by computers. Organisations require hardware to input the information. Information may be fed into the computer by means of keyboards or scanners. The information can be stored on hard disc, floppy disc or CD ROM. Software packages allow the information to be processed. Other hardware like printers produce the processed data in a form which can be used.



Information and Communication Technology is often abbreviated to ICT. This abbreviation will be used here. In recent years, the term information and communication technology (ICT) has begun to be used instead of information technology (IT). This is because of the growth of things like the internet which combine communications and information technology. Usually, IT and ICT mean the same thing.

Uses of Information and Communication Technology

The main uses of ICT in businesses are for:

- ***Decision making***
  Decision making will be improved if there is access to information. ICT has helped decision makers a great deal – they are able to store more information and retrieve it instantly. Spreadsheets packages permit

information to be changed to allow different situations/scenarios to be tried out. Management can then base decisions on possible outcomes illustrated. Databases are a powerful tool in information management. They enable businesses to use searching, sorting and reporting facilities to analyse the information held.

- ***Provision of information***
  ICT makes it much easier for businesses to provide information. They can distribute information to people inside the business via e-mail and on the internet/intranet using web sites. For example, information on sales can be used by the operations department to plan future production levels. The marketing department could also use sales information to see which products or services are selling best.

- ***Maintenance of records***
  ICT makes it much easier for businesses to keep records of what they do. For example, a database can be used to save vast amounts of information. It can be sorted or searched through for specific information. Databases can be used to hold information on:

  - staff in the human resources department
  - customers in the marketing department
  - maintenance firms in operations
  - suppliers or customers that the finance department deal with.

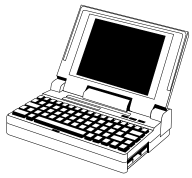
  Manipulating data on databases may help business to make better decisions. A database on employees may help businesses identify employees who are due to retire or employees who have completed particular types of training. A database of employees may also help to prove that the business is acting in accordance with laws against discrimination.

- ***Communications***
  Computers can be used for communication within and outwith organisations using packages like e-mail, internet or video conferencing. The can also be used for word processing letters, news sheets, notices and advertisements.

ICT can have other uses as well. It can be used to keep track of what is happening in the business. For example, spreadsheets can be used to check on departmental and organisational budgets so that action can be taken if too much is being spent.

Types of Information and Communication Technology

Personal computers



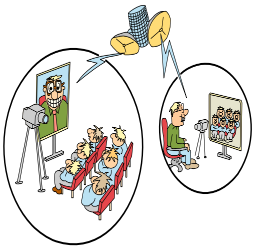
Personal computers (PCs) and laptops allow staff access to information from their desk-top, when travelling or when working from home.

Mainframe and Mini-computers

These have more processing power than personal computers. They are used to handle large amounts of information e.g. for a whole organisation or for a department.

Video Conferencing

Interactive video-conferencing allows people to attend meetings from their base by linking each of the members of the group by means of a computer via cameras and monitors.



People can hold meetings without having to travel to the same place, saving time and travel costs.

Multimedia

Interactive multimedia is any computer-delivered electronic system that allows the user to control, combine and manipulate different types of media, such as text, sound, video, computer graphics and animation. Multimedia can be used in organisations for training programmes, advertising and promotional CDs.

Computer Aided Manufacture

Computer controlled machinery e.g. robots can improve quality by ensuring standard output. Computer controlled machinery can be versatile and adaptable, and is capable of greater and faster production.

Internet

The internet allows firms to access vast quantities of information. They can also set up their own websites to market and sell their products. Using the internet and e-mail for selling company products is known as **e-commerce**.

Using e-commerce opens up new markets, can increase sales and allows small companies to compete with larger companies.

E-mail

Fast easy communication between people is available as long as the users have access to a computer and the internet. It helps organisations to communicate between factories or branches and with customers or suppliers. Two way communication can take place online.

Software

Databases

A database is any collection of data or information which is organised for quick search and retrieval by a computer. Records can be stored, modified and sorted using the database.

Spreadsheets

Spreadsheets are used to analyse figures and calculate information. Formulae are inserted into the spreadsheet and the computer completes all the calculations.

Word processing

Word processing allows information to be keyed in. The material can then be altered and stored or printed out. It is an efficient and effective document presentation package.

Desk top publishing (DTP)

Desk-top publishing allows documents to be produced to a very high standard. Text and graphics can be incorporated to produce professional advertising information, quality documents for customers, reports, newsletters, training documentation and inhouse magazines etc.

Benefits and Costs of Information and Communication Technology

Benefits of Information and Communication Technology

Speed

Goods and services can be produced more quickly using ICT. Computer controlled machinery means goods can be produced more quickly. It also results in increased output and higher quality. Using a work scheduling package can save time in working out a schedule as well as saving the company money and reducing labour costs.

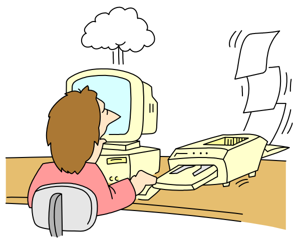
Receiving orders from customers via e-mail means they can be quickly processed. Word processing packages can save time because documents like letters do not have to be typed out several times. Standard letters and mail merge can be used to save time also. Vast amounts of information are available on the internet which would otherwise have taken a great deal of time to research.

Flexibility

ICT can help businesses to be more flexible. Organisations can use software packages like DTP to get a greater variety of layouts or images for advertisements, handbooks or company brochures as well as improving the quality of output. E-mail and the internet give businesses more options in the way that they can communicate with customers. Software for scheduling work makes it easier for companies to change production schedules.

Handling of complex information

ICT can help companies to improve the way they analyse information. For example, on sales trends or costs of production. Databases mean companies can access much more information, more quickly. It is also easier to search databases for particular items of information. Computers can process large quantities of data. Some companies have set up systems which enable them to automatically reorder stocks when levels fall to the reorder level. Retailers are able to keep track of how much of each item is sold in each store.



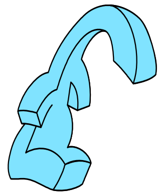
There are other benefits of ICT such as:

- increased efficiency – for example, when using customer databases or producing goods
- reduction of waste when using computer controlled machinery
- improved environment, as there is less waste
- improved communication using e-mail or mobile phones
- using a website may gain publicity and boost sales
- opening up new markets through e-commerce.

Costs of Information and Communication Technology

However, there are also drawbacks relating to the installation and use of new Information and Communication Technology.

Financial outlay



There are initial purchase and installation costs when introducing computerised machinery, computers or setting up websites. There are also financial costs of buying suitable software. These can become large if the business needs specially written software. Hardware and software must also be kept up-to-date and upgrades to hardware and software mean more expense for the firm.

ICT may also lead to change, and there are costs involved in managing the change. These can involve management time to negotiate with staff and follow the initiative through. There can also be costs involved in staff time as employees have to get used to new ways of working.

Staff training

Employees need to be trained to work with ICT equipment. This is an ongoing requirement because hardware and software are always changing. Training may reduce output because it takes up staff time. It means they cannot be doing their normal work at the usual speed. The financial costs of training may therefore be high.

Data loss/damage/corruption

There is always a danger that some data may become lost/damaged/corrupted. Most businesses try to avoid this problem by keeping back-up copies of all data. Additional storage of data costs more money and takes up staff time.

There may be other problems with storing data using ICT systems. Hackers may get into the system and get access to confidential data. Viruses could also disrupt the working of an ICT system. Also the system may break down for other reasons like a power cut.

Other drawbacks of ICT include the following:

- ICT may mean changes in the work staff carry out. Some employees staff may not feel happy about the change in their role – they may feel threatened by the introduction of ICT.
- There may be job losses, as fewer personnel are needed to complete the work.
- Staff motivation may be reduced as they may find they are doing monotonous tasks.

Data Protection Act (1998)

Organisations which hold personal details on computerised systems must comply with the terms of the Data Protection Act – this will involve ensuring that proper information handling systems are in place and that staff are trained appropriately.

The Act states that **information** held must:

- be obtained fairly and lawfully
- be adequate and relevant
- be accurate and up-to-date
- be kept secure
- not be disclosed to others.

Individuals are entitled to copies of the information held about themselves if they request it, and, where appropriate, any incorrect details must be amended or erased.

Glossary

Some of the terms used in the notes are explained a little more fully below. There are also some terms which have appeared in other units but which are also relevant to Information and Communication Technology included in the glossary.

Term	Meaning
automation	machines are operated by computers rather than workers.
CAD	computer aided design.
DTP	desk top publishing.
GIGO	(garbage in/garbage out) the quality of the output depends on the quality of the input.
hard copy	printed copy of information on screen or stored on computer.
LAN	local area networks – several personal computers linked together with one server.
modem	device that allows computers and telephones to communicate.
networking	linking people together electronically.
on-line	direct access to information.
robot	programmed machines controlled by computers to function like workers.
teleworking	using telecommunications to work from home.
user-friendly	computer packages which are easy to use successfully with little experience.
workstation	the location of computer/word processor operator.

Section 3: Decision making in business

Decision Making

A decision is making the choice between different options to achieve an aim or goal.

We all make decisions every day about what to wear, what to eat, what music to listen to, etc.

These are routine day-to-day decisions that we normally don't have to spend a long time thinking about, and are normally easy to make.

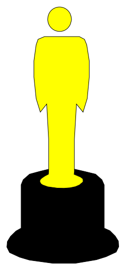
Other decisions are about where we want to be in the future, like what career we want. These decisions may take some time to make, and we don't make them very often.

It is the same in business. Managers have to make routine decisions that are easy to make, but can still be very important – for example, whether or not to order more stock today or next week. Next week will save us some money, but we may run out before then or lose sales.

They also have to make decisions that affect the long-term prospects of the business – for example, should we develop a new product?

We have to decide whether the cost of development will be too high, or should we risk losing customers by not developing a new product.

Types of Decisions



All decisions in business are important. Managers will decide on the aims and objectives of the organisation, they will organise resources to achieve these aims, and deal with the day-to-day problems that arise.

They may have to change these decisions if there are changes in the business environment.

When we look at these decisions we can identify 3 main types of decision:

- Strategic
- Tactical
- Operational.

Strategic decisions

- These are the 'long-term' decisions about where the organisation wants to be in the future
- Senior managers and the owners make these decisions for the whole organisation

Managers and owners planning a long-term strategy for an organisation have to consider:

- Where are we now?
- Where do we want to be in 5, 10, 20 years time?
- What resources will we need to achieve this?
- What changes do we have to make in order to achieve our new goals?
- How can we do better than the competition?

Example
Tesco's decision to become the number one supermarket in the UK. They were number 2 to Sainsbury's. They decided to increase the quality of their products to match Sainsbury's, and to introduce new services (such as their financial services) which would make Tesco's more attractive than Sainsbury's to the consumer.

Tactical Decisions

- These are 'medium term' decisions made by senior managers.
- They are based on how to achieve the goals or aims of the organisation as set out in the strategic decisions.

- They detail how resources will be used to achieve these aims.

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

This fitted in with their strategic decision to become the number one supermarket in the UK. For example, getting new suppliers was a way to increase the quality of their products.

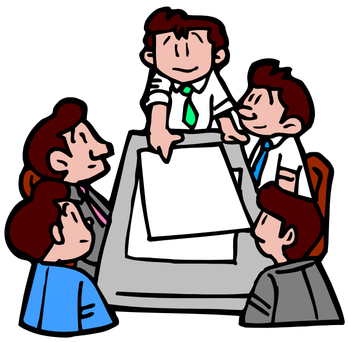
Operational decisions

- These are the 'day-to-day' decisions.
- They are more likely to be made by junior managers and supervisors.
- They are made in response to minor problems that arise each day.

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

Evaluation

An important part of decision making is checking how your decision worked. Did things go as expected?



If not then some changes may be needed. Decisions may have to be changed for any number of reasons.

It is important that managers evaluate their decisions and make adjustments if necessary.

Decision making as a process

Decision making process

The first step in arriving at the correct decision is to identify exactly what you are trying to achieve. This is not always as straightforward as it sounds.

For example a business which found that its profits were falling decided that it should reduce its expenditure. It had a choice of reducing the amount spent on raw materials, labour or overheads. It decided to reduce the cost of labour by making some of its workers redundant.

Rather than increase profits as expected it found that profits fell even further.

It then carried out a full investigation and found that the reason for the fall in profits was due to the quality of workers it had recruited originally. Its competitors were offering better pay and so were getting the best workers. The reason for the fall in profits was the amount of wastage in production and low productivity due to the inexperience of its workers.

What the business should have done was to increase pay to its workers to make sure it kept its experienced and skilled staff. They made exactly the wrong decision because they looked at the symptom of the problem (falling profits) rather than the real problem (low productivity).

Decision making model

Making good decisions involves going through several stages. This is known as the decision making model. The stages of the model are:

- Identify the real problem.
- Identify a number of possible solutions.
- Decide on the best solutions.
- Communicate the decision.
- Implement the decision.
- And, finally, make sure the decision is working as expected.

The role of managers

Managers are the people who take responsibility for running the business. For example, senior managers in Tesco make strategic decisions. Managers of individual stores make operational decisions on moving staff from one task to another. The type of decision that managers make will depend on factors such as how high up they are in the organisation and the situations that they have to deal with.

Managers have to make the business decisions, but they also have to make sure that the decisions they make work for the business.

To do this they have to:

- make sure that everyone that needs to know about a decision is told
- make sure thay everyone understands what they have to do
- give the workers the resources they need
- make sure they do it, and that they do it properly.

Managers must ensure that all the staff they are responsible for are aware of the decisions that are made, and how they will affect them.

Managers cannot watch over all staff all of the time, nor do they have time to check every piece of work each worker does.

To help managers make sure that their decisions work they:

Delegate
They give subordinates the authority to carry out tasks. This helps with motivation and reduces the manager's workload.

Motivate
They get workers to work harder. This can be done by telling workers to work harder. However, this may not be successful and it may be better for managers to encourage them by helping them enjoy their tasks through team-working, participation in decision making, and by giving them some responsibilities.

Once the real problem or objective has been identified, managers then have to come up with a number of possible solutions. When producing possible solutions they have to take into account a number of factors.

The need to fit in with organisational objectives

When considering possible solutions the manager should take into account the strategic objectives of the organisation.

For example, a factory manager cannot increase profits by using cheaper materials if producing high quality goods is one of the stated aims of the senior management or owner of the business. Profit will not increase unless those cheaper goods are just as good or better than the materials used before.

The decision must fit within the mission statement or the set aims and objectives of the organisation.

Other objectives of the organisation may be:

- profit maximisation
- survival
- growth
- social responsibility
- provision of a quality service.

Tesco's objective was to be the number one supermarket in the UK. Managers made a number of tactical decisions to fit in with this objective, e.g. getting new suppliers.

The stakeholders of the organisation

As we have previously seen stakeholders are those who are affected by the actions of an organisation. Any decisions made may well affect the stakeholders as well.

The stakeholders are:

- shareholders/Owners
- employees
- customers
- suppliers
- banks/Lenders
- community
- government.

Shareholders

They will be very interested in any decision that affects the dividends they receive as their share of profits. Any decision that will reduce profits, even for a short while, will not be popular with the shareholders.

If shareholders are unhappy with the decisions made, they can voice their concerns at the Annual General Meeting, and even take a vote to replace members of the Board of Directors or the Chief Executive. This is something that the managers of the business would want to avoid, so they would have to consider how the shareholders will feel about decisions made.

Employees

Employees who work for the business will be very interested in any decisions which affect their pay and conditions, and their job security. Any decision that reduces pay, erodes terms conditions or threaten jobs will worry employees.

If they are unhappy they will be less motivated and so produce less, so it is important that employees are aware of why the decisions are being made and exactly how they will affect them.

If the employees are still not happy or see better alternatives, there are a number of things they can do.

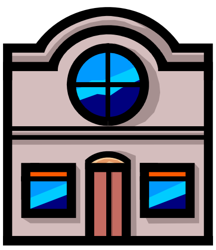
If they are members of a trade union or an employee association they may be able to influence what happens in the organisation through negotiation. If this fails they can take some form of industrial action to try to prevent the decisions being implemented. They can work to rule, work much slower, refuse to work overtime, or go on strike.

Customers

Customers will be concerned if the decisions made affect the price, quality, or service of the product – they may change their buying habits if the product does not meet their requirements.

Suppliers

Suppliers will want to get regular orders with prompt payment – these may be affected by decisions made by the business.

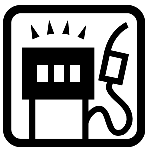


For example, if there is a decision to increase production then more materials will be ordered from the supplier. The suppliers may then have to vary the period of credit and/or the level of discount offered to the firm.

If the supplier finds it difficult to provide the extra materials, then the decision may have to be changed.

Banks/Lenders
If a firm has borrowed money, then banks or lenders will have a financial stake in the success of the business. Banks will want to ensure that any decisions made will not affect the firm's ability to meet its loan and interest repayments on time.

Community
The community could be affected in a number of ways by the decisions made in the business.



For example, if the business decides to expand, this could lead to more traffic congestion on the local roads and more pollution, or could mean the destruction of the local beauty spot, affecting local wildlife.

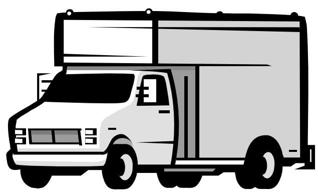
The local community could be worried by such a development.

They could form a local pressure group which would campaign against the expansion, or they could involve a large organisation like 'Friends of the Earth' to campaign for them. The local council would come under pressure to stop the expansion going ahead.

It is important that the concerns of the community are taken into account when making decisions which will affect them, particularly when one of the objectives of the business maybe social responsibility.

Government
The government passes legislation which affects businesses, and so this will have to be taken into account when decisions are made.

For example, the government recently increased the cost of road transportation through increases in the cost of road tax and fuel for lorries. Obviously in terms of keeping costs down, the less distance the product has to travel by road to its markets the better, so the business may decide to move its factory nearer to its main customers.



If the government decides to reduce the rate of income tax, consumers would have more money to spend and this could mean greater demand for the business's products. The business will then have to decide if they want to expand, so that it can satisfy the consumers' new demands.

It is also important for the business that any decisions it takes are legal, otherwise they could be prosecuted.

The government can introduce legislation at any time to prevent what they see as undesirable actions by businesses, e.g. a firm gaining a monopoly position in a particular industry. Therefore it is important that businesses take into account what the government will approve or disapprove of when making decisions.

Deciding on the best alternative

The decision on which option to choose will depend on which of the possible alternative solutions best meets the objectives of the organization.

Once decided, managers should communicate the decision and arrange for any resources that need to be put in place. They then have to check to make sure the solution is working as expected, and if not, find out why not.

Summary

There are three basic types of decision:

- Strategic decisions
- Tactical decisions
- Operational decisions.

Strategic decisions are concerned with setting the long-term aims and objectives of the organisation. They do not go into detail about how these aims and objectives should be achieved.

Tactical decisions are concerned with how the strategic decisions are going to be achieved. They are more short-term decisions and will go into detail about how resources are to be used to achieve the aims and objectives of the organisation.

Operational decisions are day-to-day decisions, dealing with the problems that arise in the daily running of the business.

All decisions are subject to change in the political, economic, social, technological, environmental and competitive environment that the business operates in.

The decision making process involves:

- identifying the real problem
- identifying a number of possible solutions
- deciding on the best solution
- communicating the decision
- implementing the decisions
- and finally making sure the solution is working as expected.

Managers are responsible for the decision making process, and have to take account of how stakeholders will react to decisions made.

Stakeholders influence how the business performs, and will therefore influence the decisions that are made.

Glossary

Term	**Meaning**
decisions	making the choice between different options to achieve an aim or goal.
strategic decisions	decisions which set out the aims of the organisation.
tactical decisions	decisions which state how these aims will be achieved.
operational decisions	routine day-to-day decisions dealt with by an organisation.
delegation	giving staff the authority to make operational decisions in order to carry out tasks.
motivation	encouraging employees to enjoy their work and to feel part of the organisation.
organisational objectives	the aims which the organisation sets out to achieve.
stakeholders	those who are affected by or have influence over the actions of an organisation.
Shareholders	the owners of an organization. They each own **shares** in the business.
Annual General Meeting	the yearly meeting of shareholders at which the Chairman and Board of Directors report on how the business has done during the year.

Section 4: Internal Organisation

The structure of organisations

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

People working for a business have to know:

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

Different businesses will be organised in different ways.

For example, a small shop owned by one person with two assistants will not be highly structured. The owner will make all the decisions. However, if the owner is out the assistants will have to know if they can make decisions or wait until he/she comes back. They will have to know if one can tell the other what to do.

It is unlikely that a small business like this would need a great deal of structure. However, if the owner does not tell the staff about their responsibilities, then there may be problems.

In large businesses the problems would be even greater if it was not structured properly.

Functional activities

The most common way to organise a business is around the **functional activities** of the business departments.

These departments are most commonly:

- Human Resource
- Marketing
- Finance
- Operations
- Administration.

How big the departments are will depend on how important they are for the organisation. For example, if the business does not employ a large workforce then the Human Resource Department would not be very big; or if the business had only one or two big customers then the Marketing department may not be very large.

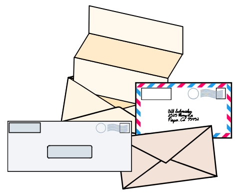
When the business is organised into departments based on the functional activities it means that all the people within that department will have skills or expertise in that area.

Advantages of functional departments

- The resources of the organisation will be better used.

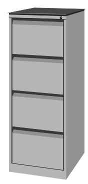
  For example, if all administrative work is carried out in one department it will mean that:

  – all the filing will take place in one area
  – there is less chance of files going missing
  – filing cabinets and storage will not have to be kept all over the building.



- Staff will become experts in their own field.

  For example, staff working in Administration will become expert in maintaining filing systems.

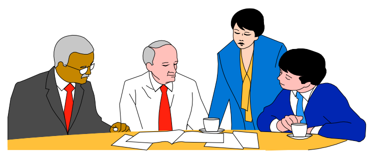


- Career paths are created within the departments.

  For example, once you have developed expertise in one of the departments it is easier to obtain promotion in that area.

- Communication and cooperation within the department can be very good

  All the people within the department work together and know each other well.



- Teamwork improves.

  Working together means that staff have a feeling of ‘all being in it together’ and they are motivated to work harder for each other and for the department. This also improves their abilities to solve problems.

- Decision making is better.

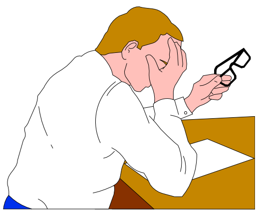
  Each department has a manager who makes the decisions for the department. The department manager is the expert that senior managers can obtain advice from in that particular area of operations.

Disadvantages of functional departments

- Staff can feel they work for the department rather than the organisation.

  This can lead to staff seeing other departments as rivals and competitors rather than fellow workers. This can lead to in-fighting which causes time wasting and inefficiency.

- Communication barriers between departments.

  Although there may be excellent communication within departments, it is often only the managers of different departments who have formal contact with each other.

  This means that communication between departments can be slow, which means decision making for the whole organisation is less effective and more time-consuming than it should be.

- Some problems cannot be solved by one department.

  Many day-to-day problems will need the attention of more than one department. It may be difficult to identify who has overall responsibility.

- Change may be more difficult.

  Barriers between departments can make it difficult to make changes which effect the business as a whole. They mean that change can be slow or even not happen at all. As a result, opportunities to do something new can be missed.

Activities of the functional departments

Marketing

It is the responsibility of the Marketing Department to firstly identify what consumers want. This is done using market research.

The department then decides upon the correct **marketing mix** for the organisation. The marketing mix is made up of the 'four Ps':

- price
- product
- place
- promotion

The **price** has to be one that consumers are willing to pay, but which still allows the business to make acceptable profits.

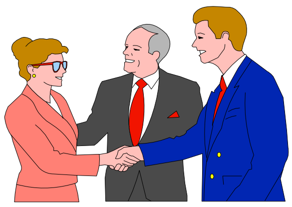
The **product** will be designed to do what the consumers think it should do.

The **place** is concerned with getting the product to the market in the right place at the right time in the right quantities.

The **promotion** will communicate with consumers to tell them all about the product.

Human Resources

The Human Resource Department manages the staffing of the business. It organises recruitment, staff training and appraisal, and is concerned with staff welfare.



Staff have to be experts in employment law, making sure that the business meets all the legal requirements they have for their employees.

The Human Resource Department is sometimes called the Personnel Department.

Finance

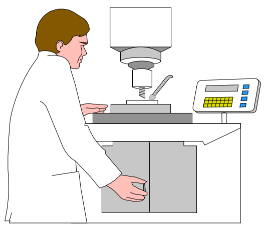
The Finance Department is responsible for keeping all the financial records of the business; control of money flowing in and out of the organisation; and making sure that the business can pay its debts to keep on trading.

The department provides senior management with the information needed to make decisions, by forecasting the financial outcome of different courses of action, and preparing budgets.

The department is also be responsible for drawing up the reports and final accounts of the business.

Operations

Operations is concerned with the purchase and storage of raw materials; the actual production of the end product and the storage and distribution of the finished goods.



Sometimes, the Operations Department is known as the Production Department.

Administration

Administration is responsible for the flow of information around the business. The department is also concerned with keeping records of what the business does.

Research and development

The size of this department really depends on the type of business. The department is constantly looking for ways to produce new products or improve existing products.

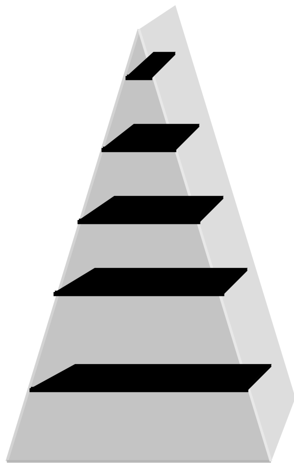
If the business is producing pencils, then there would not be much need for research and development. On the other hand, if it was a business that produces medicine, a lot of time and effort would be spent on research and development.

Forms of organisational structure

Businesses can have various different types or forms of organisational structure.

Hierarchical structure (Tall structure)

This is the traditional structure for many organisations. It is also sometimes called a **pyramid structure** because of its shape.



Decisions and instructions are passed down from the senior managers of the organisation to the workforce, and information passes back up the pyramid.

An employee’s position in the pyramid indicates the level of responsibility that that individual has – the higher up the pyramid, the greater the responsibility.

The organisation will be split into functional departments and employees have clearly defined roles and responsibilities.

Employees working in the same department usually have expertise or experience in particular areas. This means that each worker can become very good at what they do.

Because the work of one worker is very dependent on the work of others, procedures have to be laid down to make everything run smoothly.

Problems with the hierarchical structure

Change
All this means that the organisation cannot change very quickly. In the modern world the external pressures for change (**P**olitical, **E**conomic, **S**ocio-cultural, **T**echnological, **E**nvironmental and **C**ompetitive) are very strong. If the organisation cannot change quickly it will fail to survive.

P.E.S.T.E.C.

Communication
Another problem with this type of structure is the speed of communication.

Communications have to pass through each layer of the structure. At each layer it stops until passed on to the next. This causes unnecessary delay.

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

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

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

As we saw earlier, organising the business around functional activities causes the same kind of problems. So these problems are especially likely to occur in businesses which have functional departments in a hierarchical structure.

Flat structures

In flat structures there are fewer levels of management. Smaller organisations tend to have few levels. With a flat structure there are less problems with communication, decision making and to changes in the market.

A typical small printing business may be organised like this:

Owner

Manager

Office staff | Production staff | Sales and distribution staff

The owner has overall control of the business, but also knows all the people that work for him/her. The owner will see and speak to all the staff on a daily basis, so communication between the top and the bottom of the organisation is very quick.

Consultation will also be quick and efficient as the owner and manager can easily meet all the staff face-to-face to discuss any problems that may arise.

This sort of structure helps make the whole business an effective team. There is unlikely to be any rivalry between the office staff and the production staff or sales and distribution.

This teamwork will allow the business to respond to changes in the market very quickly, and so the business will have a much better chance of surviving and being profitable.

Changing structures

As you would expect, large organisations want to stay large, but also want to achieve the benefits that flatter structures offer.

Many large, modern organisations are trying to move away from a tall hierarchical structure. One way to do this is to reduce the levels within the organisation. This is called **delayering**.

School structures, for example, have changed recently – they no longer have Senior Teachers or Assistant Head Teachers and there may be fewer Principal Teachers. This can reduce the time communication and decision making takes, and may make schools more responsive to change.

Another way to deal with the problems of a hierarchical structure is to take people out of departments and put them into teams. Many large businesses now organise their workforce into teams. This also helps to break down the barriers between functional departments.

The teams will be made up of staff from different departments working together on specific projects or for different major customers, or for different parts of the market. Many of the major oil companies now have teams from their suppliers working in the oil companies offices. This means that they are far more aware of their customer’s needs, they can work directly with them, and can make changes quickly.

The teams will normally have a team leader, but the rest of the team will all have the same level of responsibility.

Being part of a team means that the staff will have the opportunity to develop their own skills. This would increase job satisfaction and so the workers will be better motivated.

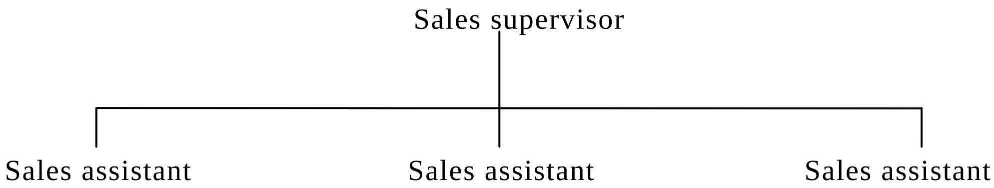
This type of structure is called a **matrix structure**.

Formal structures

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

Span of control

We can also see how many people each manger is in charge of. This is called the span of control. In the example below we can see the sales supervisor has a span of control of 3. There are 3 sales assistants who report directly to the sales supervisor.



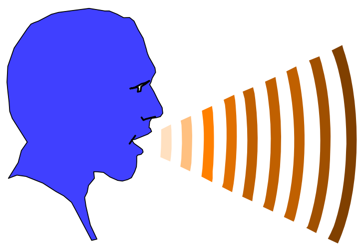
These are the formal relationships between workers in the organisation.

Informal structures

Even in hierarchical organisations informal structures can be created by relationships between employees.

For example, staff from different departments who play golf together, or members of the same social club will exchange information outwith the normal channels,

Informal communication channels, often called 'the grapevine', can appear. Staff communicate between themselves without using the formal structure.



The information passed through the grapevine may be accurate or inaccurate. If it is inaccurate, then management must correct the information in case it leads to bad feeling or resentment.

Factors affecting the internal structure of an organisation

Size

- As a business grows, it becomes harder to control all the staff within the organisation.
- In order to keep control and supervise, managers will be appointed to look after groups of workers.
- Departments will be formed and the number of levels will increase.
- The bigger the organisation, the more organised it will have to be.
- Large businesses will tend to have tall organisational structures.
- Small businesses will need less organisation and so will tend to have flat structures.

Technology

- The introduction of new technology can change the structure of a business.
- For example a new information technology system could reduce the need for a large administration department.
- Greater use of the internet may change how the sales department is organised.

Product

- Having a small number of large customers for your product means that a flat structure using teams may be more appropriate.
- For example, a building firm will have only a few large jobs on at any one time, so the staff will be split between each of these jobs.

Market

- If the market is small and local then the organisation will be small.

- For example, the market for a hairdressing business will normally be the local community, so a flat structure with few employees will be all that is needed.

- If the market is big and widespread then the organisation may well be large and organised around the geographical areas it covers.

- For example, a national double glazing company will have a head office, and a number of regional sales teams for different parts of the country.

Summary

Businesses need to be organised because staff need to know:

- who they are responsible for and who they are responsible to.
- what tasks they are responsible for.
- where to go for information and advice.

Businesses are commonly organised around the functional activities, which are:

- Human Resource
- Marketing
- Finance
- Operations
- Administration.

The advantages of functional departments are:

- resources are better used
- there are greater skills and expertise
- career paths are created
- communication and cooperation within the department are excellent
- team work improves.

The disadvantages of functional departments are:

- rivalry between departments
- barriers to communication between departments
- departments still have to work together.

The main types of organisational structure are:

- hierarchical/Tall structure
- flat structure
- matrix structure.

The main problems with a tall structure are:

- the organisation is slow to change
- communication is slow
- decision making is slow.

Flat structures tend not to have these problems.

Large businesses are trying to overcome the problems of tall structures by delayering (removing levels of management) or by forming matrix structures (teams) dedicated to one product or customer or project.

These are examples of formal structures.

Informal structures for communication are formed within the organisation.

- The information in the ‘grapevine’ may be inaccurate.

The factors affecting which structure is used are:

- the size of the organisation
- what technology it uses
- what its products are
- what market it operates in.