A level business theme 3 notes

A level Edexcel business (King's College London)

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3.1.1
Corporate Objectives

a) Development of corporate objectives from mission statement/corporate aims
b) Critical appraisal of mission statements/corporate aims

DEFINITIONS
- Corporate objectives - the objectives of a medium to large-sized business as a whole
- Departmental and functional objectives - the objectives of a department within a business
- Mission statement - a brief statement written by the business describing its purpose and objectives designed to encapsulate its present operations
- Objective - a target of or outcome for a business that allows it to achieve its aims
- SMART - acronym for the attributes of a good objective: Specific, Measurable, Agreed, Realistic and Time-specific

A) Development of corporate objectives from mission statement / corporate aims

Hierarchy of business objectives -:
1. Mission statements (a memorable and inspiring statement, which outlines a business' main intent and sets out their primary objectives and general aims)
2. Corporate objectives (set out to help a firm achieve its mission statement and aimed at satisfying shareholders, which could flow from the mission statement)
3. Department / functional objectives (each department sets their own objectives, which should flow from the corporate objectives)

Departmental functional areas -:
- Finance
- Human resources
- Operations
- Marketing

Smart objectives -:
- Specific (clear definition)
- Measurable (so the objective can be checked)
- Achievable (so the objective can be attained)
- Realistic (sensible)
- Time-specific (setting a date for attainment or review)

B) Critical appraisal of mission statement / corporate aims

Critical appraisal - the purpose of the mission statement and their intended audience are often considered in appraisal

Uses of mission statements:
- Focus - can create a high level of involvement as those within the organisation strive to meet it

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- Identity - can establish the organisation's position in the market
- Profitability - can encourage productivity due to motivated workers who are aware that their job has a more significant purpose behind the duty himself

Limitations of mission statements:

- May be unrealistic
- Ambiguity may cause problems
- Can become obsolete as the business develops and the statement remains the same

Stakeholder perspectives - As a firm's corporate objectives are often aimed at shareholders, they may be related to profits / dividends. This could neglect and displease other stakeholders (e.g may rise prices for the customer, may ignore employee welfare, etc)

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3.1.2
Theories of corporate strategy

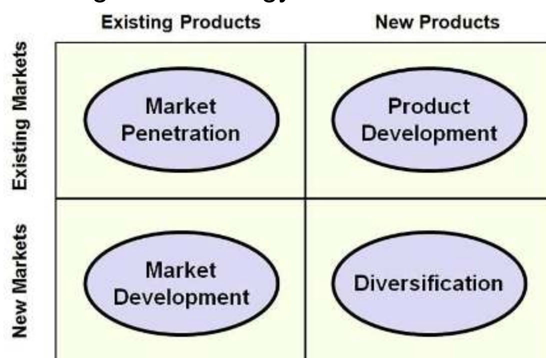
a) Development of corporate strategy:
o Ansoff's Matrix
o Porter's Strategic Matrix
b) Aim of portfolio analysis
c) Achieving competitive advantage through distinctive capabilities
d) Effect of strategic and tactical decisions on human, physical, and financial resources

DEFINITIONS

- Corporate strategy - the plans and policies developed to meet a company's objectives; it is concerned with what range of activities the business needs to undertake in order to achieve its goals and also whether or not the size of the business makes it capable of achieving the objectives set
- Distinctive capability - a form of competitive advantage that is sustainable as it cannot be easily replicated by a competitor
- Diversification - developing new products in new markets
- Market development - the marketing of existing products in new markets
- Penetration - using tactics such as the marketing mix to increase the growth of existing products in existing markets
- Portfolio analysis - a method of categorising all the products and services of a firm (its portfolio) to decide where each fits within the strategic plans
- Product development - marketing new or modified products in existing markets

A) Development of corporate strategy: Ansoff's matrix; Porter's strategic matrix

Ansoff's Matrix - Marketing planning tool that helps a business determine its product and market growth strategy.



Market penetration LR - The name given to a growth strategy where the business focuses on selling existing products into existing markets.
Market development MR - The name given to a growth strategy where the business

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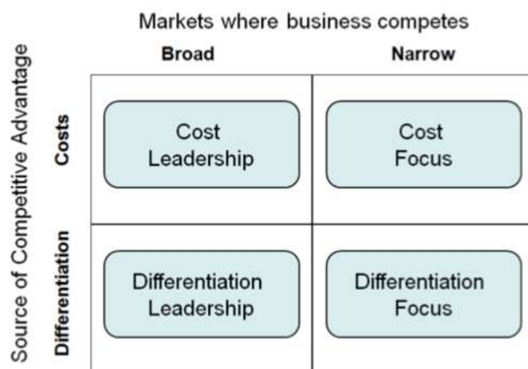
seeks to sell its existing products into new markets (e.g. new geographical market i.e. exporting the product to a new country or new market segment). This may be useful if the domestic market is saturated or if it is experiencing economic difficulty.
Product development MR - The name given to a growth strategy where a business aims to introduce new products into existing markets.This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets. A strategy of product development is particularly suitable for a business where the product needs to be differentiated in order to remain competitive. A successful product development strategy places the marketing emphasis on research & development and innovation, detailed insights into customer needs (and how they change) and being first to market.
Diversification HR - The name given to the growth strategy where a business sells new products in new markets.This is an inherently riskier strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks. However, for the right balance between risk and reward, a marketing strategy of diversification can be highly rewarding.

Uses of Ansoff to the development of corporate strategy:
- Useful tool for looking at the different strategic options for an organisation.
- Can help a firm to consider their future options for expansion in terms of potential opportunities or threats.

Limitations of Ansoff to the development of corporate strategy:
- Very simplistic in its purest form - larger firms require much more analysis.
- May not be enough on its own and should be combined with other tools (e.g. SWOT and PESTLE).

Porter's Strategic Matrix - Corporate strategy used to help a firm find a competitive advantage.



Cost leadership - involves producing products at the lowest cost (e.g. lean production methods, outsourcing etc.). This enables a firm to charge lower prices, increase sales and profitability and their market share.
Differentiation - where the product or service is unique and its USP adds value to the product (e.g. quality, branding, customer service etc.). This enables a firm to increase sales volume and have greater scope for charging higher prices.
Focus - where the business focuses on one segment of the market (e.g. niche market). Here, the product or service serves a very specific niche, with the high costs passed onto the consumer. This enables a firm to create high levels of customer satisfaction and loyalty.
If the business fails to select one of these strategies, Porter argues that they would be 'stuck in the middle'.

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Uses of Porter to the development of corporate strategy:

- The right strategy can help a firm increase sales and therefore profit.

Limitations of Porter to the development of corporate strategy:

- The chosen strategy may not always work in the expected ways (e.g. the cost of differentiation may outweigh any increase in revenue).
- A successful differentiation strategy can be copied (unless protected with intellectual property).
- A cost leadership strategy may result in an association with poor quality, leading to lower sales.

B) Aim of portfolio analysis

Boston Matrix - Tool used by firms to analyse their product portfolios in terms of market share and market growth.

Problem child/question mark (I) - Brand needs building or there if not possible, withdrawal may be necessary. Has potential to become a 'star'.
Star (G) - Brand needs further building. Future potential i.e. future 'cash cows'.
Cash cow (M) - 'Milked' for profits. Extra capital may be used for developing new products. Occasional discounting to halt becoming a 'dog'.
Dog (D) - Rebranding to try and regenerate interest or withdrawn if still struggling to make a profit.

Product portfolio - The collection of products offered by a business.
Product portfolio analysis - Looks at market share and market growth in order to assess new or existing products in terms of their market potential.

Uses of portfolio analysis:

- Can help a firm to decide what products it should offer or discontinue, and find gaps in their portfolio to fix the balance.
- Helps a business analyse future opportunities or threats.

Limitations of portfolio analysis:

- Only classifies businesses as 'high' or 'low' when they might be in the middle.
- It overlooks other indicators of profitability (too simplistic).

C) Achieving competitive advantage through distinctive capabilities

Kay (1993): Model of distinctive capabilities - Competitive advantage allows a firm to perform better than their rivals; the following distinctive capabilities are difficult for these rivals to understand and reproduce:

- Architecture - the framework of contacts inside or around the company with

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suppliers, customers and with employees.
- Innovation - can lead to competitive advantage and thus can prove to be a harbinger of success.
- Reputation - consists of the experience of customers, guarantee, quality and word of mouth.

These can be applied to business examples to analyse whether or not businesses have achieved a competitive advantage.

D) Effect of strategic and tactical decisions on human, physical and financial resources

Strategy - More long term and relates to achieving an overall goal.

Impact on resources:

- Human (recruitment, training, redundancy) - a strategy to make more staff redundant can save huge costs but may drain resources away from other aspects of the business.
- Physical (investment in fixed assets, location) - moving premises in the long-term may allow for a smoother transition.
- Financial (sources of finance) - a firm may take out a long-term loan to pay for property - this can spread finances over a longer period of time.

Tactics - Shorter-term actions that help to achieve the strategy.

Impact on resources:

- Human (recruitment, training, redundancy) - such shorter-term actions can help a firm towards a longer-term recruitment drive without being a big drain on resources in one big action.
- Physical (investment in fixed assets, location) - moving premises in the short-term may have a huge impact on the resources available to a firm.
- Financial (sources of finance) - a firm may take out a short-term loan to improve their cash-flow - these are often costlier.

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3.1.3
SWOT analysis

a) SWOT analysis o internal considerations: strengths and weaknesses o external considerations: opportunities and threats

DEFINITIONS

- External audit - an audit of the external environment in which a business finds itself, such as the market within which it operates or government restrictions on its operations
- Internal audit - an analysis of the business itself and how it operates
- SWOT analysis - an analysis of the strengths and weaknesses of a business and its opportunities and threats presented by its external environment
- Trade association - an organisation whose members are all involved in the same industry or trade; the organisation pursues the interests of these businesses

3.1.3 SWOT ANALYSIS

A) SWOT analysis: internal considerations (strengths and weaknesses); external considerations (opportunities and threats)

Developing a strategy - A firm needs to gather information to help it develop a strategy. This can be collected in the form of an audit (independent inspection).

- Internal audit - an analysis of the business itself and how it operates.
- External audit - an analysis of the environment in which the business operates.

SWOT analysis - Tool which may be used to represent the findings of an audit and can be used to make strategic and/or tactical decisions to achieve corporate objectives.

- Internal considerations: strengths (where the business performs well) and weaknesses (where the business performs poorly) encompass aspects of the business functions that they can directly influence (e.g. people, marketing, finance and operations).
- External considerations: opportunities (options that a business might be able to exploit) and threats (possible hazards have the potential to damage the performance of the business) relate to the external environment which can only be reacted to.

SWOT analysis is different for a range of businesses (e.g. micro start-up businesses and large multinationals).

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3.1.4
Impact of external influences

a) PESTLE (political, economic, social, technological, legal and environmental)
b) The changing competitive environment
c) Porter's Five Forces

DEFINITIONS
- Monopoly - a market dominated by a single business
- Oligopoly - a market dominated by a few large businesses
- PESTLE analysis - analysis of the political, economic, social, technological, legal and environmental factors affecting a business

A) PESTLE (political, economic, social, technological, legal and environmental)

PESTLE analysis - External influences can have a huge impact on business activity and performance.

- Political - some parts of the world are politically volatile. Still, political factors also influence businesses in stable, democratic countries.
- Economic - the general state of the economy can have a huge impact on business activity (e.g. boom/recession, employment, interest rates etc.).
- Social - society changes over time; even gradual changes can have an impact (e.g. ageing population, migration etc.).
- Technological - changes are often welcome by firms because they provide new product opportunities or help to improve efficiency. Firms who do not adapt may struggle to survive (e.g. social media, new technological developments etc.).
- Legal - the government provides the legal framework in which a business operates. Laws are passed to protect vulnerable groups.
- Environmental - people are growing increasingly aware of the environment (e.g. concerns about global warming means some people are more inclined to buy 'green' products - this has provided opportunities for some firms to specialise in such products).

B) The changing competitive environment

Competitive environment - The dynamic external system in which a business competes and functions.

- The more sellers of a similar product or service, the more competitive the environment is.
- The nature of dynamism within PESTLE and Porter's Five Forces and the external nature of change is important to consider.
- Competitive markets have low barriers to entry and it is easier for customers to switch.
- Uncompetitive markets are dominated by a single producer (monopoly) or a few large businesses (oligopoly).

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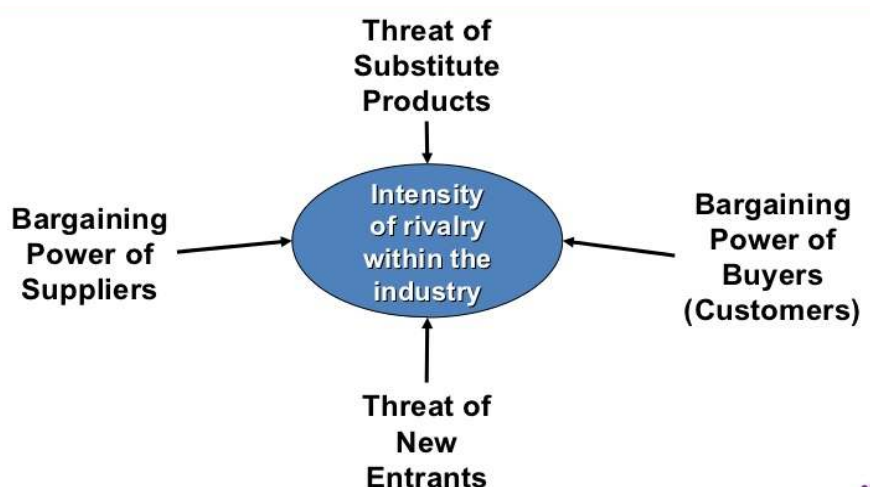
- The Competition and Markets Authority (CMA) - a government body that acts as a watchdog investigating anti-competitive practices and imposing heavy penalties on business that act illegally (e.g. forming a cartel - a group of businesses that agree to fix prices - is illegal CMA can protect consumers from fraudulent business practices).
- The growth of international trade means that many markets are very much more competitive than they were in the past, which forces businesses to strive for greater efficiency, cutting costs and improving product features.
- New technologies help develop new products and cheaper production methods.
- Businesses that can't keep up with changing environmental regulations will have little chance of competing and staying in business.

C) Porter's five forces

Porter's Five Forces - These five forces determine the profitability of an industry and can be used to analyse how a wider range of factors than simply competitors affect the environment in which a business operates.

- Rivalry within the industry - firms can buy a rival through horizontal integration, continuously introduce new products or heavily advertise to maintain market share.
- Bargaining power of suppliers - firms can buy a supplier through backward vertical integration or look for new suppliers
- Bargaining power of buyers - firms can buy a retailer through forward vertical integration or by making it too expensive for a customer to switch.
- Threat of substitute products - firms can continuously invest in R&D or secure a patent.
- Threat of new entrants - firms can create barriers to entry or heavily advertise to strengthen their brand.



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3.2.1
Growth

a) Objectives of growth:
o to achieve economies of scale (internal and external)
o increased market power over customers and suppliers
o increased market share and brand recognition
o increased profitability
b) Problems arising from growth:
o diseconomies of scale
o internal communication
o overtrading

DEFINITIONS

- Diseconomies of scale - rising long-run average costs as a business expands beyond its minimum efficient scale
- Economies of scale - the reductions in average costs enjoyed by a business as output increases
- External economies of scale - the cost reductions available to all businesses as the industry grows
- Internal economies of scale - the cost reductions enjoyed by a single business as it grows
- Minimum efficient scale - the output that minimises long-run average costs

A) Objectives of growth: to achieve economies of scale (internal and external); increased market power over customers and suppliers; increased market share and brand recognition; increased profitability

To achieve economies of scale -: When an increase in size results in a decrease in unit costs. The minimum efficient scale corresponds to the output at which average costs of production are at their lowest.

- Internal economies of scale - comes from within the firm.

Bulk buying	As firms grow larger, they can negotiate better deals with suppliers, resulting in lower unit costs of raw materials.
Technical	Equipment, machinery and premises is used more efficiently, meaning capacity utilisation has improved as a firm gets bigger, lowering unit costs.
Marketing	Unit costs of advertising will fall as a firm grows in size i.e an advert costs the same no matter how many sales it generates, meaning higher sales results in low unit costs.
Specialisation	Larger firms employ specialist employees/managers, increasing productivity and lower unit costs.

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Financial	Larger firms can negotiate cheaper interest rates due to larger amounts of collateral which lowers finance costs.
Risk bearing	The risk of being in business is reduced for larger firms.

- External economies of scale - arise from the industry as a whole, so all competitors can benefit (e.g having many specialist suppliers in close proximity, access to R&D facilities and having a pool of skilled workers to recruit from).

Increased market power over customers and suppliers -: As businesses grow, they become more dominant:
- Over customers - who become more brand loyal and therefore the business can charge higher prices as a result of less rivals.
- Over suppliers - who the firm has bargaining power over to negotiate lower costs.

Increased market share and brand recognition - As businesses grow, so too will their market share and brand awareness will increase as a result. This can result in the ability to charge higher prices and gain repeat custom.

Increased profitability - Often the main objective of growth; the larger the firm, the more profit they should make, which can be reinvested back into the business to continue growth, investment, innovation and therefore new product launches.

B) Problems arising from growth: diseconomies of scale; internal communication; overtrading

Diseconomies of scale - When an increase in size results in an increase in unit costs (e.g. technical difficulties, coordination problems and a loss of control as a firm becomes more geographically spread) which can lead to lower productivity, a higher labour turnover and increased absenteeism.
Internal communication - Too many levels of hierarchy can reduce the effectiveness of communication, which can demotivate workers.
Overtrading - Where a business accepts more orders than it can cope with. This may result in cash-flow problems if payments are delayed by debtors.

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3.2.2
Mergers and takeovers

a) Reasons for mergers and takeovers
b) Distinction between mergers and takeovers
c) Horizontal and vertical integration
d) Financial risks and rewards
e) Problems of rapid growth

DEFINITIONS

- Backward vertical integration - joining with a business in the previous stage of production
- Forward vertical integration - joining with a business in the next stage of production
- Horizontal integration - the joining of businesses that are in exactly the same line of business
- Integration - the joining together of two businesses as a result of a merger or takeover
- Merger - occurs when two (or more) businesses join together and operate as one
- Synergy - the combining of two or more activities or businesses creating a better outcome than the sum of the individual parts
- Takeover - the process of one business buying another
- Vertical integration - the joining of two businesses at different stages of production

A) Reasons for mergers and takeovers

- To achieve rapid (inorganic) growth - instantly acquire assets (e.g. customer base, IP etc.) - short and fast route to achieve the same result as organic growth.
- Synergy - combined results that business ventures might provide produce a better rate of return. This can arise out of EOS and greater market power that might result from a horizontal merger.
- Economies of scale - increased size of the company increases market power.
- Cross-selling - when the two companies merging sell each other's products and services, thus increasing sales.
- Diversification - helps smooth the earnings of a company, which can be rewarded by a higher share price.
- Access to new geographical markets - to avoid restrictive trade measures, overcome issues relating to culture and government policy.
- To reduce competition - a horizontal takeover involves the acquisition of a rival competition.
- To secure and control suppliers - backwards vertical integration allows a firm to secure key resources and even stop other rival firms from accessing them.

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B) Distinction between mergers and takeovers

Mergers - When two businesses join together to form one business.
Takeovers - The purchase of one company (the target) by another (the acquirer). This can be hostile or friendly.

C) Horizontal and vertical integration

Horizontal merger - Acquiring another business at the same stage of the supply chain as them and within the same industry (e.g. a manufacturer buying a competitor).
Backward vertical merger - Acquiring a business operating earlier in the supply chain (e.g. a retailer buying a competitor).
Forward vertical merger - Acquiring a business further up in the supply chain (e.g. a manufacturer buying a distributor).
Conglomerate - Where the acquisition has no clear connection to the business buying it i.e. a diversified merger.

D) Financial risks and rewards

Financial risks of mergers and takeovers -:
- Original purchase cost and the risk of overpaying (e.g. over-estimate of synergies).
- Cost of changing it into a new business.
- Redundancies of duplicate staff.

Financial rewards of mergers and takeovers -:
- Increased revenue due to synergy.
- Economies of scale.

E) Problems of rapid growth

- Clash of culture causing short-term issues.
- Making workers feel insecure during the merger/takeover and therefore increased staff turnover.
- Productivity may be hindered as workload and pressures increase, leading to poor customer service and the loss of repeat custom.

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3.2.3
Organic growth

a) Distinction between inorganic and organic growth
b) Methods of growing organically
c) Advantages and disadvantages of organic growth

DEFINITIONS
- Inorganic growth - a business growth strategy that involves two (or more) businesses joining together to form one much larger one
- Organic growth - a business growth strategy that involves a business growing gradually using its own resources

A) Distinction between inorganic and organic growth

Inorganic growth - When a business takes over or merges with another firm. This happens externally.
Organic growth - When a business grows from within. This happens internally.

B) Methods of growing organically

- New product launches.
- Opening new stores - in new and existing markets.
- Expanding into foreign markets.
- Expansion of the workforce - hiring new staff, leading to increased production, lower unit costs and economies of scale.

C) Advantages and disadvantages of organic growth

Advantages of organic growth:
- Retains company culture.
- Can be cheaper than merging (especially in the sense that many firms overpay).
- Can be planned for (unlike a takeover).
- Avoids risk and pitfalls of merging with another firm i.e. insecurities.

Disadvantages of organic growth:
- Slower than inorganic growth.
- Larger period between investment and return as mergers earn the firm revenues instantly.
- Can be limited - dependent on growth in the market.
- Risk of expanding into a foreign country without the expertise of an overseas company (that a merger can provide) that understands the market.

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3.2.4
Reasons for staying small

a) Small business survival in competitive markets:
o product differentiation and USPs
o flexibility in responding to customer needs
o customer service
o e-commerce

A) Small business survival in competitive markets: product differentiation and USPs; flexibility in responding to customer needs; customer service; e-commerce

Small business survival in competitive markets:

- **Product differentiation and USPs** - Making some smaller firms sufficiently different from larger competitors, and so are able to win customers despite having higher unit costs.
- **Flexibility in responding to customer needs** - As there are less customers to deal with and focus can be placed into market research to adapt more easily,
- **Customer service** - Can be more intimate, with personal relationships built, which can often be lost in larger firms where staff are changing over more often.
- **E-commerce** - Easier for firms to compete due to reduced overheads (so don't really need EOS).

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3.3.1
Quantitative sales forecasting

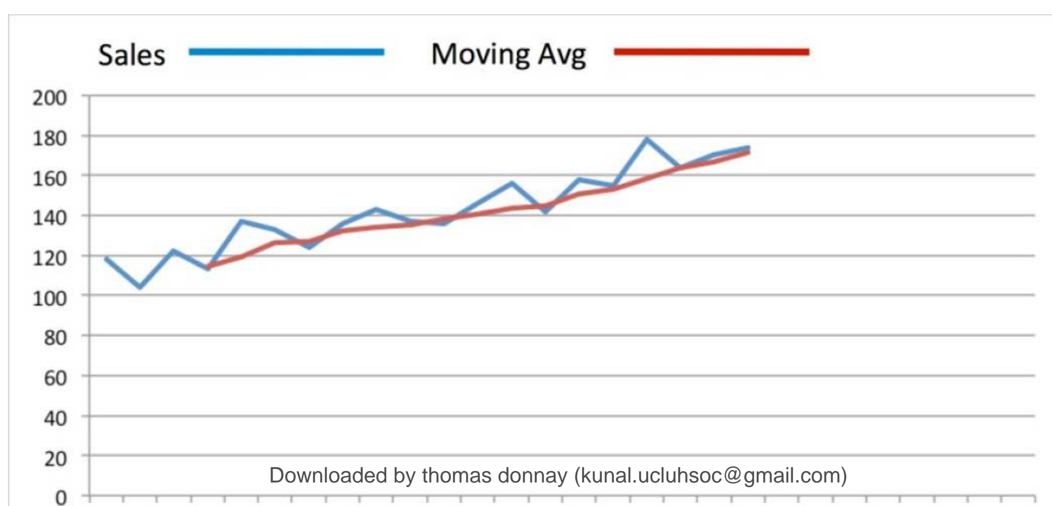
a) Calculation of time-series analysis:
o moving averages (three period/four quarter)
b) Interpretation of scatter graphs and line of best fit – extrapolation of past data to future
c) Limitations of quantitative sales forecasting techniques

DEFINITIONS
- Centring - a method used in the calculation of a moving average where the average is plotted or calculated in relation to the central figure
- Correlation - the relationship between two sets of variables
- Correlation coefficient - a measure of the extent of the relationship between two variables
- Moving average - a succession of averages derived from successive segments (typically of constant size and overlapping) of a series of values
- Scatter graph - a graph showing the performance of one variable against another independent variable on a variety of occasions; used to show whether a correlation exists between two sets of variables
- Time series analysis - a method allowing a business to predict future levels from past figures

A) Calculation of time-series analysis: moving averages (three period/four quarter)

Moving averages - Take a data series and smooth out the fluctuations in this data to show an average. This should take out the extremes of the data.

Calculation of a three period/four quarter moving average:
- Add the sales of the first 3 months i.e. Jan, Feb, Mar.
- Divide this figure by 3.
- Repeat the same process moving down the table but take off the first month each time (e.g. Jan, Feb, Mar then Feb, Mar, Apr then Mar, Apr, May etc.).



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B) Interpretation of scatter graphs and line of best fit – extrapolation of past data to future

Scatter graphs - Used to show correlations and the relationships between two variables. A line of best fit is plotted to show a positive (/) or negative (\) correlation (unless there is no correlation between the variables).
Extrapolation - Uses trends established from past data to forecast the future.

- Factors that may be considered include the stage in the product life cycle, economic growth and market saturation.
- Therefore, a firm cannot just assume continued growth at the same rates.
- Future data may be represented by a dashed line.

C) Limitations of quantitative sales forecasting techniques

External factors that limit the use of quantitative sales forecasting techniques:

- Consumer trends - demand fluctuates in many markets, and fashions and tastes change.
- Economic variables - demand may be sensitive to changes in variables such as exchange rates (depending on PED) and the overall strength of the economy is important.
- Competitor actions - the success of competitors is often unpredictable and may distort sales forecasts - there may even be new entrants to the market.

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3.3.2
Investment appraisal

a) Simple payback
b) Average (Accounting) Rate of Return
c) Discounted Cash Flow (Net Present Value only)
d) Calculations and interpretations of figures generated by these techniques
e) Limitations of these techniques

DEFINITIONS
- Average rate of return (ARR) - a method of investment appraisal that measures the net return per annum as a percentage of the original spending
- Capital cost - the amount of money spent when setting up a new venture
- Discounted cash flow (DCF) - a method of investment appraisal that takes interest rates into account by calculating the present value of future income
- Investment - the purchase of capital goods
- Investment appraisal - the evaluation of an investment project to determine whether or not it is likely to be worthwhile
- Net cash flow - cash inflows minus cash outflows
- Net present value (NPV) - the present value of future income from an investment project, minus the cost
- Payback period - the amount of time it takes to recover the cost of an investment project
- Present value - the value today of a sum of money available in the future

A) Simple payback

Investment appraisal - The process of analysing whether investment projects are worthwhile.
Payback - The period of time for which it takes a project to repay its initial investment.
Formula:
Payback = the number of full years + (the amount of investment not recovered / revenue/net cash-flow
generated in the next year x 12)
1. Start with initial cost of investment (e.g. £500,000).
2. Then takeaway the amount repaid after each year (e.g. if £200,000 is repaid within the first year and £300,000 is repaid in the second year, then the payback period is two years).
3. If the repayment is greater than the amount not recovered, use the second part of the formula.

Advantages:
- Easy to make comparisons (projects/targets).

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- Easy to understand i.e. the figure given is the time it takes for you to recover your investment.
- Useful for firms who have cash-flow issues and want to know when their investment will be recovered.

Disadvantages:

- Doesn't tell us about profitability (problem for shareholders).
- Doesn't take into account all forecasted information.
- Doesn't take into account the time value of money (e.g. investment may be worth less than simply putting cash in the bank and generating interest - opportunity cost).

B) Average (Accounting) Rate of Return

ARR - Calculates the return (profit made) of an investment as a % of the cost of the investment.

Formula:

ARR = (total net profit / assets lifetime) / cost of investment x 100

1. Add up the net cash-flow for each year and minus the cost of investment to give the total net profit.
2. Divide this figure by the assets lifetime (the number of years given in the data).
3. Divide this figure by the cost of the investment and multiply by 100 to give the ARR percentage.

Advantages:

- Easy to compare ARR percentages.
- Easy to interpret the ARR value once calculated i.e. the higher the figure, the more profitable the investment is.
- Focus is on profitability (a key issue for shareholders).

Disadvantages:

- Ignores the timings of cash-flows (unlike payback).
- Doesn't take into account the time value of money (e.g. investment may be worth less than simply putting cash in the bank and generating interest - opportunity cost).

C) Discounted Cash Flow (Net Present Value only)

NPV - Method which takes into account the time value of money, based on the principle that money at the present value is worth more than money at some point in the future.

Formula:

NPV = Sum of (discounting factor x net cash-flow/return) - cost of investment

1. Multiply the net cash-flows for each year by the discounting factor for each corresponding year.
2. Add these together and then minus the cost of investment.
3. If this figure is a positive number, then the investment is worthwhile (as it means it is worth more than putting the equivalent of the cost of investment in the bank and generating interest at the rate given).

Advantages:

- Takes into account the time value of money.
- Looks at all the cash-flows through the life of a project.

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Disadvantages:
- Complicated method, which some users may find hard to understand.
- Difficult to select the most appropriate discount rate as interest rates can fluctuate.

D) Calculations and interpretations of figures generated by these techniques

Go through exam and booklet questions

E) Limitations of these techniques

Business decisions are often not made using quantitative factors alone. Qualitative factors may also need to be considered:
- Staff - what decision meets their needs best.
- Image - what decision gives off the best impression.
- Subjective factors - decisions may be based on instinct.
- Reliability - investment appraisal is based on forecasted information.

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3.3.3
Decision trees

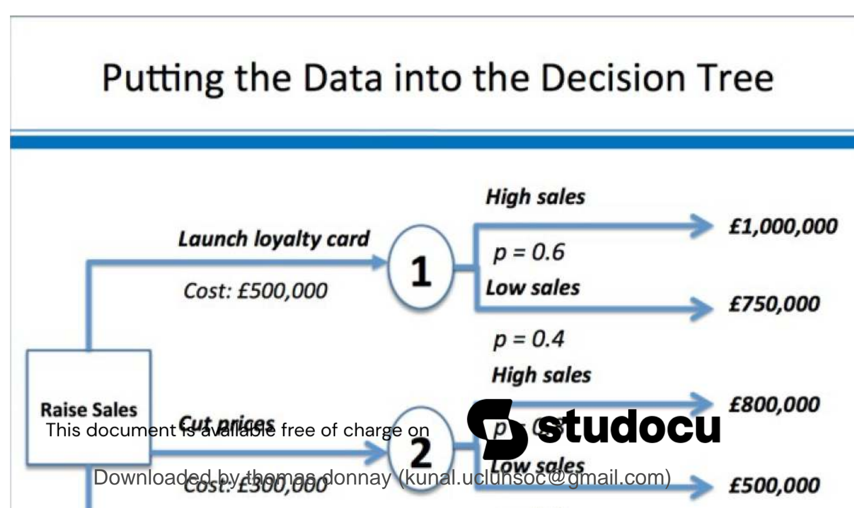
a) Construct and interpret simple decision tree diagrams b) Calculations and interpretations of figures generated by these techniques c) Limitations of using decision trees

DEFINITIONS
- Decision tree - a technique which shows all possible outcomes of a decision; the name comes from the similarity of the diagrams to the branches of the trees
- Earliest start time - how soon a task in a project can begin; it is influenced by the length of time taken by tasks which must be completed before it can begin

A) Construct and interpret simple decision tree diagrams

Decision trees - Can be used whenever there is uncertainty but probabilities can be estimated (e.g. a new product launch, a new marketing campaign on an existing product, relocation to a new building etc.).

How to construct:
1. Begin with a decision node (square).
2. There will be at least two decisions that the business can make, coming off each branch.
3. Each decision is shown using a chance node (usually a circle with a letter/number in it).
4. A further two branches come off each chance node, indicating the chances of success on one branch and the chances of failure on the other (these probabilities add up to 1).
5. Multiply the probability of success or failure by the expected profit or loss for each branch. Add the two for each decision.
6. Whichever expected monetary value is higher is the better decision.
7. If the cost is given, take this away from the expected monetary value in order to give the net gain.



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B) Calculations and interpretations of figures generated by these techniques

Decision trees look at how the probabilities and estimates of returns are arrived at.

C) Limitations of using decision trees

- The use of decision trees varies with business context.
- Probabilities and expected values are often estimated, which may lead to unreliable data and the wrong decision being made.
- Possibility of bias (probabilities of success may be over-inflated which distorts the data).
- Can very quickly become obsolete if there is a time lag in decision-making (of limited use in a dynamic market).

However, decision trees involve pairing numerical values with decisions, which explicitly shows which decision is worth more to the business. Furthermore, they force managers take into account the
associated risk of any given venture, which they can use to justify the final decision made.

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3.3.4
Critical Path Analysis

a) Nature and purpose of Critical Path Analysis
b) Complete and interpret simple networks to identify the critical path
c) Calculate:
o Earliest Start Time
o Latest Finish Time
o total float
d) Limitations of using Critical Path Analysis

DEFINITIONS

- Critical path - the tasks involved in a project which if delayed could delay the project
- Critical path analysis (CPA) - a method of calculating the minimum time required to complete a project identifying delays which could be critical to its competitions
- Free float - the time by which a task can be delayed without affecting the following task
- Latest finish time - the latest time that a task in a project can finish
- Network diagram - a chart showing the order of of the tasks involved in completing a project, containing information about the times taken to complete the tasks
- Nodes - positions in a network diagram which indicate the start and finish times of a task
- Total float - the time by which a task can be delayed without affecting the float

A) Nature and purpose of Critical Path Analysis

Critical Path Analysis - A method of planning out the activities so that the most resources can be put on the most critical activities.

Purposes of CPA:

- To work out the most efficient way of completing a project.
- To help firms make decisions about when to order in resources, arrange contractors and make financial arrangements with the bank.
- To allow a firm to identify those activities that cannot be delayed without holding up a project i.e. the critical path.

B) Complete and interpret simple networks to identify the critical path

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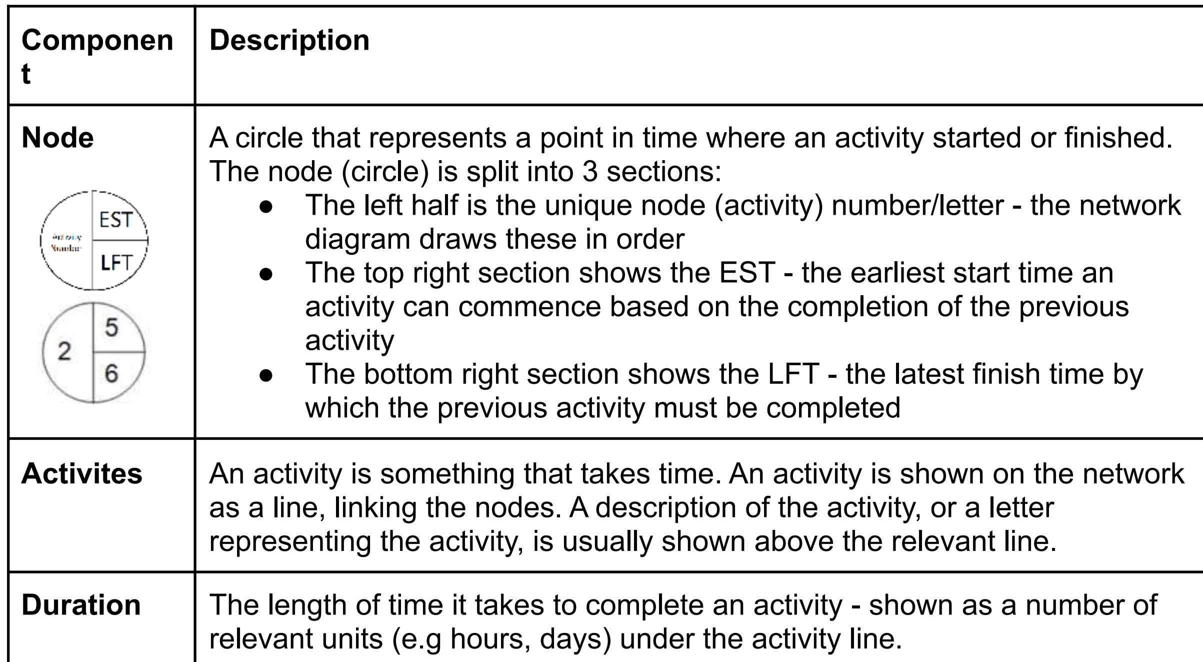
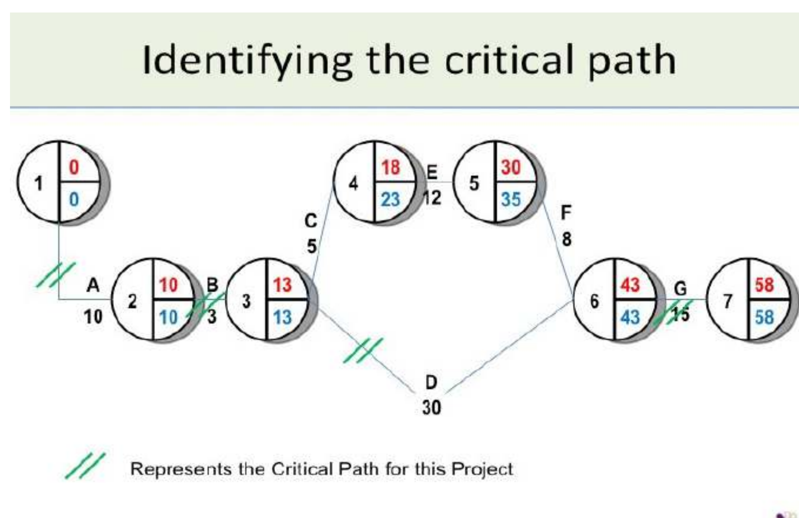


Component	Description
Node	A circle that represents a point in time where an activity started or finished. The node (circle) is split into 3 sections: ● The left half is the unique node (activity) number/letter - the network diagram draws these in order ● The top right section shows the EST - the earliest start time an activity can commence based on the completion of the previous activity ● The bottom right section shows the LFT - the latest finish time by which the previous activity must be completed
Activites	An activity is something that takes time. An activity is shown on the network as a line, linking the nodes. A description of the activity, or a letter representing the activity, is usually shown above the relevant line.
Duration	The length of time it takes to complete an activity - shown as a number of relevant units (e.g hours, days) under the activity line.

The critical path - The activities that cannot be delayed without holding up the whole project. It is the path with no float time.



C) Calculate: Earliest Start Time; Latest Finish Time; total float

Earliest Start Time (EST) -: The earliest start time an activity can commence based on the completion of the previous activity

Formula:

Work forward (from the first node) to calculate the EST (left to right):

1. The EST in the first node is always 0 (top right of the node).
2. For subsequent activities, the EST is found by adding the durations of the activities (e.g. if the duration of the first activity is 10 and the duration of the second activity is 3, then the value of the node is 13).
3. Continue adding until the final node has been reached.
4. If there is more than one path leading to the node, choose the highest number.

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5. Therefore, the EST in the final node is the earliest completion time for the project.

Latest Finish Time (LFT) -: The latest finish time by which the previous activity must be completed

Formula:

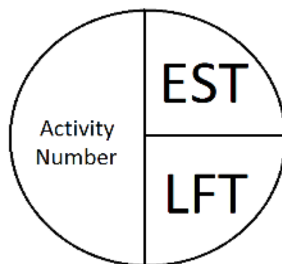
Work backwards (from the final node) to calculate the LFT (right to left):

1. The LFT in the final node is always the same as the EST (bottom right of the node).
2. When working backwards, subtract the duration of the activity from the LFT as we move backwards.
3. Continue subtracting until the first node has been reached.
4. If there is more than one path going back to the node, choose the lowest number.

Total float - The number of days that can be delayed without delaying the whole project. There is float time when the EST is lower than the LFT.

Formula:

Total float = LFT - EST - duration of the activity



***EST of activity after, LFT of activity before.**

D) Limitations of using Critical Path Analysis

- Can lead to rigidity, cutting corners to meet deadlines and therefore quality can be compromised.
- Relies on accuracy of the duration of activities - firms with no previous experience in undertaking a project may underestimate the time it takes.
- Encourages a firm to focus on the speed of a project rather than quality and flexibility to meet customer needs.

However, CPA can improve efficiency, planning and focus (e.g. only focussing on the critical activities, not holding unnecessary stock etc.). This can save time and costs.

The use of CPA also depends on how managers follow through with the completion of a project, the skills of the person conducting the CPA and external factors.

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3.4.1
Corporate influences

a) Corporate timescales: short-termism versus long-termism
b) Evidence-based versus subjective decision making

DEFINITIONS

- Asset stripping - the practice of buying businesses and breaking them up; profitable parts are sold for cash and the rest are closed down
- Evidence based decision making - an approach to decision making that involved gathering information and using a systematic and rational approach to reach a conclusion
- Long term - the time period where decisions only have an impact on the vision, mission and objectives of a business, typically longer than 5 years
- Short term - the time period where decisions only have an impact on the operational activities of a business, typically less than 5 years
- Strategic decisions - decisions concerning policy that can have a long term impact on a business and can be risky
- Subjective decision making - an approach to decision making where the personal opinions of the key decision maker strongly influence the course of action chosen

A) Corporate timescales: short-termism versus long-termism

Corporate timescales - Refers to strategy and the expectation of when a return (profit) will be achieved.
Short-termism - Where businesses and their managers are focused on quick financial reward, such as quarterly sales figures, often at the expense of investment in important areas such as research and development, staff development or technology investment. As a result, long-term profitability may be at risk.
Long-termism - A more holistic approach to business strategy, incorporating aspects such as Corporate Social Responsibility (CSR) and ethical behaviour. Advocates argue that operating within a long-term timescale is not just the 'right' thing to do, but also the most commercially prudent approach (showing care and thought for the future).
Businesses may be influenced by their corporate culture, ethics and stakeholder perspective

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when it comes to decision making.

B) Evidence-based versus subjective decision making

Evidence-based approaches - Encompass the use of decision-making techniques (3.3 and 3.5).

Advantages:

- Reduces risk.
- Success is more likely.

Disadvantages:

- Timely and costly.
- Depends on the accuracy of the evidence used.

Subjective decision making - Less structured and based on the decisions of key individuals in the business as a result of personal perspectives or instincts.

Advantages:

- Less time consuming and less costly.
- Manager may have an up-to-date, qualitative understanding of the market.

Disadvantages:

- Increases risk.
- Final outcome more likely to be unsuccessful.
-

Context is extremely important - small start-ups which have been loss-making in the first months of business are likely to be more short-term in their strategic outlook, and decision making may be more subjectively based on the views of the entrepreneurs involved in the business's inception (the starting point of the firm).

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3.4.2
Corporate culture

a) Strong and weak cultures
b) Classification of company cultures:
o power
o role
o task
o person
c) How corporate culture is formed
d) Difficulties in changing an established culture

DEFINITIONS
- Cultural dimensions - a set of characteristics that form the international context of business culture
- Organisational, organisation, corporate or business culture - values, attitudes, beliefs, meanings and norms that are shared by people and groups within an organisation
- Strong culture - a culture where the values, beliefs and ways of working are deeply embedded within the business and its employees

A) Strong and weak cultures

Culture - The prevailing attitudes and values in an organisation or business. Handy described it as "the way we do things around here." They are intangible and can be assets or liabilities but some indicators of a firm's culture include;
- The rituals - structure of worker's day and uniform.
- Organisational structure - span of control and tall/flat structures
- Staff interaction.
- Recruitment.

Strong cultures - Particularly difficult to change as they are deeply embedded into the ways a firm does things.
- Good communication with employees.
- Have a focus on core values.
- Recruitment and training involves trying to find individuals who best suit the culture of

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the firm.
- Usually based around the history, traditions and founders of the firm.

This can be good as it provides identity, makes workers feel part of the business and can reinforce the core values of the firm.

Weak cultures - Exists where a wide range of sub-cultures exist and one dominant culture isn't very embedded.
- Poor communication with employees.
- Lack of focus on core values.
- Often bureaucratic and fixed in its ways.
- Inconsistencies may lead to demotivated workers.

B) Classification of company cultures: power; role; task; person

Handy - Theorist who argued that there are four main types of organisational culture.
- Power - there is a central figure that makes decisions, few rules and procedures and a competitive attitude amongst employees to gain power.
- Role - decisions are made through well-established rules and procedures and power to make these decisions comes from the job titles i.e. a supervisor rather than an individual. It is very bureaucratic, with lots of paperwork (e.g. the civil service).
- Task - focus is on a project, and the power comes from those who can accomplish the tasks with the expertise to do so, which involves teamwork and a real emphasis on results (e.g. engineering).
- Person - groupings of similarly skilled people share expertise and knowledge to work on a client by client basis.

The best type of culture for a firm depends on the market they operate in - fast-changing, dynamic markets require a culture that is flexible to match (e.g. a task culture).

Other types of culture -:
- Toxic - where the behaviour and attitudes can damage a firm's reputation and lead to unethical behaviour.
- Risk-averse - where staff are likely to reject decisions that involve taking significant risk (e.g. diversifying or landing new products).

C) How corporate culture is formed

- The role of the founders and owners - their involvement in key decisions and their visibility in and around the business are key.
- The nature of the business and the products and services it sells - may determine the need for innovation (e.g. technology market).
- The degree to which these have changed over time.
- The business environment into which the business was born - links to PESTLE analysis. The history or heritage of a business may determine its core values.
- The recruitment and promotion process of key staff.
- Working hours.
- Attitude to customer service.

The formation of corporate culture depends on many factors that are unique to each business and its history.

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D) Difficulties in changing an established culture

Firms may change their culture to help them improve business performance, remain competitive, to respond to the changing external environment or to restore their public image. However, changing a culture - especially a strong one - doesn't come without its difficulties;

- An organisation's culture comprises an interlocking set of goals, roles, processes, values, communications practices, attitudes and assumptions. This interlocking means each component reinforces the other. Changes, such as those to management systems, customer service policies, or quality systems, can soon be drawn back into the existing organisational culture.
- Large organisations often have sub-cultures in different areas of the business (e.g. managers, part-time staff, sales assistants and delivery drivers) so it is not always as easy as changing one fixed culture.

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3.4.3
Shareholders vs stakeholders

a) Internal and external stakeholders
b) Stakeholder objectives
c) Stakeholder and shareholder influences:
o stakeholder: that the business considers all of its stakeholders in its business decisions/objectives
o shareholder: that the business should focus purely on shareholder returns (increasing share price and dividends) in its business decisions/objectives
d) The potential for conflict between profit-based (shareholder) and wider objectives (stakeholder)

DEFINITIONS
- External stakeholders - groups outside the business with an interest in its activities
- Internal stakeholders - groups inside the business with an interest in its activities
- Shareholder value - a measure of company performance that combines the size of dividends with the share price
- Stakeholders - those with an interest in the activities of a business

A) Internal and external stakeholders

Internal stakeholders - Groups or individuals within an organisation who have an interest in the
business.
- Employees - want to know about job security.
- Managers - want to know about budgets, targets, profit, promotion and bonuses.
- Owners - want to know about strategic objectives and profit.

External stakeholders - Groups or individuals outside of an organisation who have an interest in the business.
- Customers - interested in product availability, prices and promotions.
- Suppliers - interested in credit terms, contracts and profit margins.
- Community groups - interested in the impact of business on the local community.

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- Trade unions - interested in pay rates and workers' rights
- Competitors - interested in market share, market size, promotions and customer loyalty.

B) Stakeholder objectives

Employees - To gain pay and job security.
Managers - To meet their budgets and gain promotion/pay.
Customers - To find the best prices, quality products and/or receive good customer service.
Suppliers - To receive high prices for their supplies, be paid on time, have long term contracts and regular orders.
Trade unions - To have good working conditions and pay for their members.
Competitors - To find ways to succeed.
Government - To earn tax revenue and for businesses to grow to create jobs.
Stakeholders may share common concerns on certain issues; on others, they may not. They exert their influence over the organisation through the position they hold and the means available to them.

C) Stakeholder and shareholder influences: stakeholder (that the business considers all of its stakeholders in its business decisions/objectives); shareholder (that the business should focus purely on shareholder returns (increasing share price and dividends) in its business decisions/objectives)

Stakeholder influence - The business considers all of its stakeholders in decisions/objectives.
Shareholder influence - The business should focus purely on shareholder returns (increasing share price and dividends) in its business decisions/objectives.

D) The potential for conflict between profit-based (shareholder) and wider objectives (stakeholder)

Stakeholder approach - Based around the idea that more profit can be earned in the long-term by a firm looking after their stakeholders (e.g. quality customer service can lead to long-term repeat custom).
However, this depends on the reaction of their stakeholders or what their competitors are doing.

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3.4.4
Business ethics

a) Ethics of strategic decisions:
o trade-offs between profit and ethics
b) Pay and rewards
c) Corporate Social Responsibility (CSR)

DEFINITIONS

- Corporate social responsibility (CSR) - a business assessing and taking responsibility for its effects on the environment and its impact on social welfare; involves the idea that businesses bear a responsibility that stretches beyond their shareholders
- Ethical codes of practice - statements about how employees in a business should behave in particular situations/circumstances where ethical issues arise
- Ethics - in the context of business ethics, consideration of the moral 'rights and wrongs' of a decision at an often strategic level, in accordance with the law, and a business's code of conduct in relationship to CSR
- Living wage - an hourly rate of pay based on the basic cost of living, set independently of government and updated annually
- National minimum wage - the minimum pay per hour all workers are entitled to by law
- Remuneration - the reward for work in the form of pay, salary or wages, including allowances and benefits, such as company cars, health insurance, pension, bonuses, and non-cash incentives
- Sanctions or trade embargoes - sanctions are restrictions imposed on trade or investment with the aim of influencing a policy change in another country; trade embargoes can be included in sanctions, where commercial shipments are

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banned in and out of a particular country, or where embargo is placed on a particular product

A) Ethics of strategic decisions: trade-offs between profit and ethics

Business ethics - Considers the morals of a decision made by the business.
Strategic decisions affect how a business operates in the long term, which can be influenced by ethics:

- The environment - there are laws that limit the amount of pollution and environmental damage that a business can do; some firms may decide to undertake more stringent measures.
- Workers in developing countries - some companies decide to manufacture in developing countries to benefit from lower wages.
- Product availability - if a firm develops a new cure or drug that can save lives, they may charge high prices to cover for extensive research costs.

Trade-offs between profit and ethics - May occur when a firm makes an ethical decision and it results in a loss of profit due to raising costs (e.g. paying overseas a higher wage) or reducing revenues (e.g. selling medicines at low prices).
However, an ethical stance can lead to benefits, such as becoming a USP, the ability to charge a higher price due to a growing number of ethically minded customers and price inelastic demand. Therefore, higher costs can be offset by more customers and the ability to charge higher prices, resulting in more profit in the long-term.

B) Pay and rewards

Pay and rewards - Businesses use pay for different purposes (e.g. to attract employees, to motivate and
to maximise productivity levels).

- According to UK laws, firms must pay workers of the age of 25 the national living wage.

C) Corporate Social Responsibility (CSR)

CSR - Can be achieved when businesses take responsibility for its effects on the environment and social welfare. This approach considers all stakeholders and often comes from a willingness to act ahead of the law.

- CSR in the workplace - fair treatment of workers and the provision of social facilities.
- CSR in the environment - minimising effects of pollution and waste.

Advantages of CSR:

- Marketing advantages (especially important in the Western world, with a growing number of ethically minded customers).
- Positive effects on the workforce (creating a culture of social responsibility and increased motivation).
- Improved reputation and image, leading to positive customer recommendations.
- Reduced use of inputs (e.g. smaller products or reduced packaging), which lower costs of production.

Disadvantages of CSR:

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- Reduced profitability i.e. the trade-off between profit and ethics (perhaps only in the short-term).
- Reduced growth prospects due to avoiding unethical strategic decisions.

3.5.1
Interpretation of financial statements

a) Statement of comprehensive income (profit and loss account): o key information o stakeholder interest b) Statement of financial position (balance sheet) o key information o stakeholder interest

DEFINITIONS • Finance cost - interest paid by a business on any borrowed money • Finance income - interest received by a business on any money held in deposit accounts

A) Statement of comprehensive income (profit and loss account): key information; stakeholder interest

Statement of comprehensive income (profit and loss account) - A financial document showing the company's revenue and their expenditure (money coming in and money going out). This tells us about **profitability.**

Key information:

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- Sales revenue.
- Cost of sales.
- Gross profit.
- Operating expenses.
- Operating profit.
- Interest received.
- Net profit/profit before tax.
- Taxation
- Profit after tax.

Stakeholders are interested in a firm's profit and loss account because it helps them to assess the financial strength of the business. Any figures used should be put into context with competitor information and previous years (if available). For example, shareholders might use the profit and loss account to inform them if they will be paid dividends; the government wants to know about tax revenue.

B) Statement of financial position (balance sheet): key information; stakeholder interest

Statement of financial position (balance sheet) - Shows the value of the business (everything it owns and owns) on any given day. This tells us about **liquidity**.

Key information:

- Fixed assets.
- Current assets.
- Stock.
- Debtors and payments.
- Creditors.
- Capital reserves and share capital.
- Share premium account.

Stakeholders are interested in a firm's balance sheet because it helps them to assess the liquidity of a firm. Any figures used should be put into context with competitor information and previous years (if available). For example, shareholders might use the balance sheet to find out if their shares are safe; the government wants to know about job security.

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3.5.2
Ratio analysis

a) Calculate:
o Gearing ratio
o Return on capital employed (ROCE)
b) Interpret ratios to make business decisions
c) The limitations of ratio analysis

DEFINITIONS
- Gearing ratios - exploration of the capital structure of the business by comparing the proportions of capital raised by debt and equity
- Profitability or performance ratios - illustration of the relative profitability of a business
- Ratio analysis - a numerical approach to investigating accounts by comparing two related figures
- Return on capital employed (ROCE) - the profit of a business as a percentage of the total amount of money used to generate it
- Window dressing - the legal manipulation of accounts by a business to present a financial picture that is to its benefit

A) Calculate: Gearing ratio; Return on capital employed (ROCE)

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Gearing ratio - Measures the proportion of capital invested in a business that is borrowed.

- High gearing = considered bad: the business is more at risk of insolvency as it may not be able to pay back any borrowed funds.
- High gearing can discourage banks and new shareholders from investing more into the firm.

Formula:

Gearing = noncurrent liabilities (loans) / capital invested by business* x 100

***Formula:**

Capital invested = share capital + noncurrent liabilities

Return on capital employed (ROCE) - Measures the profitability of a business.

- The ideal ROCE is around 20%.
- This figure should be higher than the interest rate to make the investment worthwhile.

Formula:

ROCE = operating profit / capital invested (employed) x 100

For example, a ROCE of 20% means that for every £1 invested, there is a 20p return on capital employed.

B) Interpret ratios to make business decisions

- Gearing ratio - a high gearing ratio suggests that the business should borrow less and look for alternative methods of finance (e.g. share capital). A low gearing ratio might show that the business has scope to borrow more cash to finance a project.
- ROCE - a high ROCE is good for a firm. A low ROCE might show that the firm needs to use the money it borrows more wisely or should continue to operate without taking out any more loans (especially if ROCE is in line or below the interest rate as this suggests that it is better to leave funds in the bank rather than invest them).

C) The limitations of ratio analysis

Limitations of ratio analysis:

- Past data is used to make a future decision.
- Requires comparisons to put figures into context (e.g. other years, rivals, interest rates and ideals).
- Doesn't take into account external factors.
- Quantitative data - sometimes qualitative data is needed to make a more informed decision.

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3.5.3

Human resources

a) Calculate and interpret the following to help make business decisions:
o labour productivity
o labour turnover and retention
o absenteeism
b) Human resource strategies to increase productivity and retention and to reduce turnover and absenteeism:
o financial rewards
o employee share ownership
o consultation strategies
o empowerment strategies

DEFINITIONS

- Labour productivity - output per worker in a given time period
- Labour retention - the number of employees that remain in a business over a period of time
- Labour turnover - the rate at which staff leave a business
- Rate of absenteeism - the number of staff who are absent as a percentage of the total workforce; it can be calculated for different periods of time

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A) Calculate and interpret the following to help make business decisions: labour productivity; labour turnover and retention; absenteeism

Labour productivity - Measures the efficiency of the workforce; a higher productivity means lower unit
costs.
Formula:
Labour productivity (items per unit) = total production / number of workers
For example, if 50 workers produce 10,000 items a day, then labour productivity is 200 items per worker
per day.

Labour turnover - A high number of employees leaving can be problematic in that it leads to higher
recruitment/training costs, increases pressure on remaining staff and causes disruption to the
production process.
Formula:
Labour turnover = number of employees leaving / (average) number of employees x 100

Labour retention - A higher number of employees staying is advantageous for a firm in that it leads to
lower recruitment/training costs, shares the workload more evenly and keeps production running
smoothly.
Formula:
Labour retention = number of employees staying / (average) number of employees x 100

Absenteeism - Can show if there is low staff morale, which may result in lost orders and poor customer
relations.
Formula:
Absenteeism = number of work days lost through absence / total possible days worked* x 100
***Formula:**
Total possible days worked = number of workers x number of weeks worked x days worked per week
These figures should be compared to historical figures and the industry average.

B) Human resource strategies to increase productivity and retention and to reduce turnover and absenteeism: financial rewards; employee share ownership; consultation strategies; empowerment strategies

Financial rewards - Can improve motivation (Taylor) and the desire to work for staff.
Employee share ownership - Makes the employee feel part of the business; if they are a part of it and it experiences growth, the value of their shares could prospectively rise.

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Consultation strategies - If employees further down the hierarchy are listened too, they will be
productive and want to continue working in the business. Consultation also allows managers to find out any problems and attempt to find a solution.
Empowerment strategies - If employees feel they have greater control over their working lives, then this should empower them and make them feel valued within the business.

- Ways to increase productivity and retention depend on individual wants and needs.
- Ways to reduce turnover and absenteeism depend on what the cause is.

3.6.1
Causes and effects of change

a) Causes of change: o changes in organisational size o poor business performance o new ownership o transformational leadership o the market and other external factors (PESTLE) b) Possible effects on: o competitiveness o productivity o financial performance o stakeholders

DEFINITIONS

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- Organisational change - a process in which a large company or organisation changes its working methods or aims (e.g in order to develop and deal with new situations or markets)
- Transformational leadership - where new leadership such as a new CEO brings about change with the purpose of improving business performance

A) Causes of change: changes in organisational size; poor business performance; new ownership; transformational leadership; the market and other external factors (PESTLE)

Changes in organisation size - As a business grows, there is a need to restructure (e.g. with new layers of authority, wider spans of control etc.). This can provide new opportunities and roles for staff.
However, such change often brings uncertainty, making workers feel insecure, with the possibility of job losses and new staff.

Competitiveness	Growth in size can lead to EOS, lower unit costs and greater brand loyalty, thusly improving competitiveness.
Productivity	As a firm grows, it can afford to use the latest technology and improve capacity utilisation. Motivation of staff is affected by restructuring, which also affects productivity.
Financial performance	In the long-term, growth should lead to higher profits. Although, restructuring the firm may incur high costs, resulting in a high gearing.
Stakeholders	Growth brings promotion opportunities for staff. It can be difficult for larger firms to maintain close personal service with its customers.

Poor business performance - This relates to lower profits, higher losses and declining market share. Therefore, a business may decide to retrench (reduce costs or spending) as a result of such economic difficulty.

Competitiveness	Poor performance goes hand in hand with a loss of competitiveness.
Productivity	A loss of sales and lower capacity utilisation.
Financial performance	Poor performance may be a result of liquidity problems due to lower sales and therefore lower cash inflows.
Stakeholders	Workers may feel insecure and lack motivation. They may also look for work elsewhere due to fear of being made redundant.

New ownership - Occurs if a firm makes the transition from a private to a public limited company. Mergers and takeovers also cause this.

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Competitivenes s	Mergers will depend on how the companies integrate. A switch to a PLC may lead to EOS and lower unit costs.
Productivity	During the transition period of a merger or switching to a PLC, productivity often falls due to disruption caused by changes.
Financial performance	Share prices often rise when there is an acquisition.
Stakeholders	A merger may result in a clash of cultures, leading to unhappy workers and possible redundancies.

Transformational leadership - When a new CEO takes over, bringing their ideas and changes into the business (e.g. a new strategic overview).

The market and other external factors (PESTLE) - Firms should look to anticipate changes in the market (e.g. new competitors) and may use PESTLE analysis. For instance, lifestyles and technology change over time, economic activity fluctuates and changes in legislation can restrict business activity.

Competitivenes s	Determined by how quickly firms can respond to external forces (e.g. a business that adopts a new technology quicker will gain a competitive advantage).
Productivity	New technology can improve productivity. Recession generally leads to a fall in performance, whereas a boom has the opposite effect.
Financial performance	Changes in the external environment may result in higher costs for a firm as they respond.
Stakeholders	Workers may struggle to cope with external change (e.g. implementing new technologies).

However, changes in the external environment will not affect all firms in the same way. The significance of external factors depends on the industry that the business operates in (e.g. a recession may adversely affect luxury businesses such as restaurants but boost sales of discount supermarkets such as Aldi).

B) Possible effects on: competitiveness; productivity; financial performance; stakeholders

above

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3.6.2
Key factors in change

a) Organisational culture
b) Size of organisation
c) Time/speed of change
d) Managing resistance to change

DEFINITIONS

- Management of change - the process of organising and introducing new methods of working within a business

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A) Organisational culture

Organisational culture - The prevailing attitudes and values in an organisation or business. Handy described it as "the way we do things around here."

- A new culture needs to be deeply embedded into a firm for it to work - this may be problematic if there is an existing culture that is difficult to replace.
- Workers more used to change makes it easier to adapt; other cultures are less used to change,making the firm more resistant to change (e.g. long-serving staff).

B) Size of organisation

- Larger firms are often less adaptable and flexible due to greater layers of hierarchy and larger chains of command.
- When private limited companies grow, they may become a PLC, which has the benefit of raising larger amounts of finance to the public rather than to just friends or family.

C) Time/speed of change

- Businesses that operate in dynamic markets need to be able to deal with change quickly so they don't fall behind.
- Too much change in a short period of time can lead to conflict and demotivation.
- Fashion and technology industries are particularly volatile markets - firms must adapt and change quickly.

D) Managing resistance to change

- Some employees don't like change - they may feel safe with familiar working practices.
- Customers may resist change (e.g. online shopping).

3.6.3
Scenario planning

a) Identifying key risks through risk assessment o natural disasters o IT systems failure o loss of key staff b) Planning for risk mitigation o business continuity o succession planning

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DEFINITIONS

- Business continuity plan - shows how a business will operate after a serious incident and how it expects to return to normal in the quickest time normal
- Risk assessment - identifying and evaluating the potential risks that may be involved in an activity that a business proposes to undertake, ensuring compliance with health and safety regulation
- Risk mitigation plans - identify, assess and prioritise risks, and plan responses to deal with the impact of these risks on the operation of the business
- Scenario planning - a strategic planning method designed to explore uncertainties, learn how to protect the business from their worst consequences and prepare how to exploit any opportunities that might present themselves
- Succession planning - identifying and developing people who have the potential to occupy key roles in the business in the future

A) Identifying key risks through risk assessment: natural disasters; IT systems failure; loss of key staff

Scenario planning - A strategic planning method used to explore uncertainties and prepare for different situations that may arise.
Whilst scenario planning forces businesses to plan for the future, it is time-consuming and expensive, Therefore, there is a risk a business may not devote sufficient resources to it and therefore fail to carry out the process effectively.

Risk assessment - Involves a business identifying possible risks and quantifying their possible cost and the probability they might occur.
Identifying key risks:

- **Natural disasters** - Can result in high levels of damage, disruption and death. It may take some time for the business to return to normal operations after an incident, and so businesses must plan and prepare for these eventualities.
- **IT systems failure** - Data loss (e.g. customer details like passwords) could be disastrous for businesses and their customers. Scenario planning means that protection should be put in place.
- **Loss of key staff** - Can have serious repercussions on an organisation's stakeholders - especially if preparations for this eventuality have not been fully considered (this is what makes scenario planning so important). Planning should mean that the business can continue as normal when they do lose key staff.

B) Planning for risk mitigation: business continuity; succession planning

Risk mitigation - Taking actions that will reduce/minimise risk (e.g. spreading risk globally, securing data etc.).
Planning for risk mitigation:
Business continuity - Planning how to restore things back to normal after a setback.

- Continuity plans - show how a business will respond after a serious incident, including identifying financial consequences for the firm.
- A business needs to get up and running, so must minimise disruption so they can continue what they were doing before the incident occurred.
- To do this, there must be clear lines of authority to show who is responsible for

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making key decisions at times of crisis and the firm must be in a strong enough financial position to be able to withstand the short-term shock.

Succession planning - Identifying and developing individuals who have the potential to occupy key roles in the firm in the future.

- Helps a business deal with the problem of losing key staff.
- Without this, a firm may end up promoting an individual who is not well-equipped for the job.

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