This document has been updated for the 1988 spec

THE FUCKING BUSINESS BIBLE

PART 1: AS & A2 CONTENT

a box office hit by some dude showing the

fucking crazy task of cramming the whole

2 years of business in one document.

And then the lord said: “Let there be a fucking index”

3.2 Managers, leadership and decision making

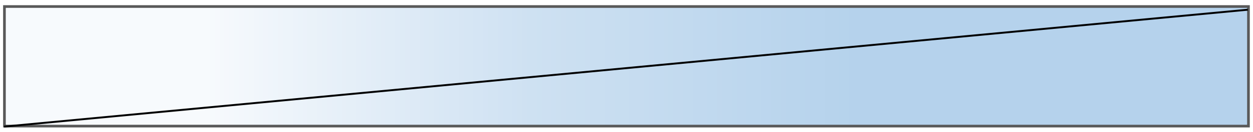
3.2.1 Understanding management, leadership and decision making

What managers do

Within a business managers...
- set objectives
- analyze performance
- lead and motivate
- make decisions

Types of management and leadership style and influences on these

Tannenbaum-Schmidt Continuum



MANAGER CENTERED **SUBORDINATE CENTERED**

^ Decides
^ Sells his idea
^ Presents idea
^ Shows his idea
^ Presents the problem
^ Sets framework
^Gives independence

Blake Mouton Grid

Country Club Style		**Team Leader**
	Middle Road	
Impover ished		**Perish**

Country Club - caring, relaxed, output may suffer

Team Leader - motivated people

Middle Road - compromise, average performance

Impoverished - ineffective, no work no well being

Perish - emphasis on the task to be done

The effectiveness of different types of management and leadership

Autocratic Leadership

One way communication, minimal delegation, strong supervision, works better for smaller organizations, good emergency management, over-worked managers as all decisions done by them

Democratic Leadership

Encourages delegation, constructive ideas, works best on multinational businesses

Laissez-Faire

Minimal management input, gives power to employees to make decisions, can lead to lack of coordination or direction, works best when the leader and subordinate have the same skills

3.2.2 Understanding management decision making

The value of decision making based on data (scientific decision making) and on intuition

Decision making can be scientific or intuitive; (drawn by hand)

The value and use of decision trees in decision making

Decision trees are valued because of a variety of reasons;

- Makes managers think of all available solutions, so maybe a new solution could be uncovered
- Using decision trees is a logical progress and can remove bias or gut feelings
- It forces managers to quantify and therefore make every decision comparable

However it can have limitations;

- The factors are financial and quantifiable, however some factors cannot be assessed such as the reactions to staff
- The accuracy depends on how well made the estimates are
- It is difficult to use a decision tree when outcomes cannot be determined
- It can bias people; manager saying how the project failed because the decision tree 'told

him to do certain thing'

Influences on decision making

Decisions are made based on factors, here are the factors;

- The business's mission and objectives; a decision is correct if it goes in the interest of the business
- Ethics; the decision made can be financially effective but will people view the business badly?
- The risk involved
- The external environment; PEST-C
- Resource constraints; how much information, time, labour and materials does the manager have?

3.2.3 Understanding the role and importance of stakeholders

The need to consider stakeholder needs when making decisions

Each stakeholder has different powers and interests, and its important to know all of them;

Stakeholder	Nature
Shareholders	return on investment, VIP treatment
Employees	steady job, job security
Customers	after-sale support, clear pricing
Suppliers	frequent and regular orders, fair pricing
Creditors	profitable returns on investments, minimal risk
Local community	steady employment, provision of facilities

After we know the the nature of stakeholders we need to know how much attention businesses should pay to each one;

Level of interest in business; high AND level of power over business; high	KEY PLAYER
Level of interest in business; high AND level of power over business; low	KEEP INFORMED
Level of interest in business; low AND level of power over business; high	KEEP SATISFIED
Level of interest in business; low AND level of power over business; low	MIN EFFORT

Shareholder needs and the possible overlap and conflicts of these

For example, investors might see a new product launch as a risky decision, however customers will always be happy to be able to choose from more solutions.
Another example could be to raise prices, this could go against customers but benefit shareholders

Influences on the relationship with stakeholders

The relationship with stakeholders depends on a variety of factors regarding the relationship to the business;

- Internal factors;

- Type of management; is it autocratic or democratic? is there concern for people or profits?
    - Main objectives; is the objectives to grow, to make profits or to help the community?
    - Size of business; sole trader, private limited...?
- External factors;
    - Market conditions; sales trends, competitions?
    - Stakeholder power over business; dominant stakeholder?
    - Govt policies; codes of conduct, laws...

How to manage the relationship with different stakeholders

There are of course a variety of relationships that a business and a stakeholder can develop;
- Pull communication; stakeholders need to engage with the business
- Push communication; business will notify stakeholders of change or solution
- Consultation; this is for stakeholders with high interests
- Participation; medium power
- Partnership; high interest and high power stakeholders

3.3 Decision making to improve marketing performance

3.3.1 Setting marketing objectives

The value of setting marketing objectives

The value of setting marketing objectives is that it allows to coordinate activities from within the business, furthermore by having clear marketing objectives other functional areas of the business will know what to do, for example HR will know how many people to employ

There are certain marketing objectives which are explained below;
- Sales volume and sales value; the volume (5kg) or value (£30) of a product
- Sales growth target
- Market share
- Brand loyalty

External and internal influences on marketing objectives and decisions

Marketing decisions will be influenced by both sides;
- Internal;
    - other functional areas of the business
    - existing position of business

- overall strategy

-External;
- PEST-C

3.3.2 Understanding markets and customers

The value of primary and secondary marketing research

- Primary marketing research; time and cost expensive, more reliable
- Secondary marketing research; less expensive, already there, but perhaps not what you want
- Qualitative research; numerical form data (70%)
- Quantitative research; descriptive data (when I saw the film I felt...)
- Market mapping; analyzes market conditions to give the position of one business relative to others

The value of sampling

- It saves money and time as not the whole population has to be considered, only a sample
- There is always a risk that...
  - The people are not an accurate representation of the average population
  - The sampling is conducted under the wrong questions
  - Sampling size is too small

The interpretation of marketing data

- Negative vs Positive correlation; positive correlation / and negative correlation \
- Confidence intervals; how certain you are of your findings (for example of sampling data gathered)
- Extrapolation; to forecast sales business look at their recent progress in terms of sales

The value of technology in gathering and analyzing data for marketing decisions

- It is a tool to speed the outcome of things (calculations, manipulate data etc etc)
- But also it is a tool to speed up income of things (cameras, internet browsing history etc etc)

The interpretation of price and income elasticity of demand data

- If the figure is above 1 then it is elastic, if its below 1 it is inelastic
- The more elastic the more it varies depending on price and income conditions
- Some products are bound to be inelastic (water for example)

The value of the concepts of price / income elasticity of demand to marketing decision makers

- By understanding the concepts a firm will be able to plan for changes the incomes of their customers
- If the decision makers understand how demand inelastic their product is they will be able to rise prices to the point of maximum profits

3.3.3 Making marketing decisions: segmentation, targeting and positioning

The process and value of segmentation, targeting and positioning

There are different ways to segment the market;
- Demographic segmentation; age or gender for example
- Geographic segmentation; area to live in
- Income segmentation; high-income, low-income
- Behavioral segmentation; measures how they buy (when, how much..)

The values of segmentation are therefore;
- managers understand what each group of people wants
- enables more focused marketing

There can also be targeting, this is when a business targets a specific business segment - this is done because;
- there is sufficient demand in the targeted segment
- the targeted segment has a great growth potential

There is also positioning, and this is how the business perceives its products relative to other customers, the position of a product depends on;
- price
- benefits it offers
- brand image

Influences on choosing a target market and positioning

There are different influences on choosing the positioning of a product;
- the strengths of the business; if the business is big it can have economies of scale
- its competitors; what are other competitors doing? is there enough space for a new entrant?
- external conditions; PEST-C

There are also different target markets;
- Mass markets; this provides for the average consumer
- Niche market; this is for customers who are generally ready to pay an extra for a less-usual product or service, niche markets are smaller but can slowly became mainstream

3.3.4 Making marketing decisions: using the marketing mix

The elements of the marketing mix

- The 7P's determine how the product is seen by the rivals
  - Price
  - Product
  - Place
  - People
  - Promotion
  - Process; how you actually buy the product
  - Physical process; referring to the physical premises of the business

The influences on and effects of changes in the elements of the marketing mix

The influences can be external or internal;
- Internal influences include...
  - Changes to the internal financial position of a business
  - Changes to the staff
  - Changes to operations; for example, greater efficiency means lower prices
  - Changes to objectives; new manager for example might want higher quality items, wanting different products might altogether change the type of product the business is offering;
    - Convenience items; widely distributed, not high customer loyalty (milk...)
    - Shopping goods; customers decide which to buy (smart phone)
    - Specialty goods; customers have been considering that product in particular (Rolex)

- External influences are...
  - PEST-C

Product decisions

- The value of the Boston Matrix;

HIGH	Problem child	Star
Market Growth	Dog	Cash cow
LOW	**Market share**	**HIGH**

The Boston matrix is a tool to determine, within the business' product portfolio, where products are, the value of the Boston Matrix;
- helps categorize, which allows managers to decide on strategies

The meaning in each category is as follows;
- Dogs; low everything, either invest or let it go
- Cash cow; can produce cash to fund new products
- Problem child; potential, but not established, could go well, could go wrong
- Stars; product in fast growing market, invest in them

- The value of the product life cycle and the extension strategies;
    - The product life cycle shows the different stages a product goes through;
        - Development
        - Introduction to market
        - Growth
        - Maturity
        - Decline
    - There are of course ways to delay the decline stage of a product by extension strategies;
        - Increase promotional expenditure; to renew interest in product;
        - Renovate product in some ways (for example a new flavor)
        - Find new target markets
        - Find new usage occasions (cereal at night)

- Influences on new product development
    - Are existing products coming to the end of their life cycle?
    - Are there new opportunities in the market?
    - Does the brand want to build on its reputation?
    - What are competitors doing?

Pricing Decisions

There are different types of pricing strategies;
- Price skimming; heavily branded item charges an extra costs because they are new (iPhone)
- Penetration pricing; charging low prices to gain market share

Decisions about the promotional mix (to finish by hand)

3.4 Decision making to improve operational performance

3.4.1 Setting operational objectives

The value of setting operational objectives

- Quality; managers have to decide how they want to be seen by the customers
- Speed of response; this can bring a competitive advantage to the business
- Dependability; making sure that customer needs are always satisfied
- Costs; if the cost of production is lower more profit can be achieved
- Flexibility; if the business is flexible it can meet customer requirements better
- Added value; trying to convert any given input into the maximum output

External and internal influences on operational objectives and decision

- Internal influences are;
    - Marketing; determining what has to be produced
    - Human resources; determining whether or not the workforce can produce it
    - Finance; determining whether or not its financially possible to determine it

- External influences;
    - PEST-C

Analyzing operational performance

Interpretations of operation data

Here are some examples of data that might alarm and invoke changes within in the business;

- Labour productivity low; invest in training? change reward system?
- Unit costs are higher than expected; high level of defects? low labour productivity?
- Capacity is low; invest in expansion, or is it too expensive?
- Capacity is high; increase demand? downsizing?

Calculation of operations data

- The following calculations are in order to establish the operational performance of the business;
    - Labour productivity;
        - output per employee
        - total output / number of employees
    - Unit costs;
        - cost per unit produced

        - total costs / total output
    - Capacity;
        - the maximum output the business can produce with its current resources
    - Capacity utilization;
        - expresses current output as a percentage of the maximum output
        - current / max * 100

3.4.3 Making operational decisions to improve performance: increasing efficiency and productivity

The importance of capacity

- It can drive down unit costs, which allows for lower prices or higher profits
- Having optimal capacity allows the business to be responsive in case of emergency whilst still keeping unit costs low

The importance of efficiency and labour productivity

- The unit cost is lowered by being efficient (more units per hour for example)
- By having higher labour productivity the business can employ less people, which lowers costs

How to increase efficiency and labour productivity

- Increase output per employee by offering rewards
- Always know what is affordable and achievable

The benefits and difficulties of lean production

Lean production occurs when the manager reduces waste and operations become more efficient, the ways this is done is by;

- improving quality and therefore reducing the faulty units
- reducing inventory; this lowers cost of maintaining it, risk of stock going off is reduced
    - Some business decide to only gather inventory when needed, this is ‘Just-in-time’
- reducing time spent on creating the final product
- Kaizen, using continuous improvement, small changes over time can make big differences
- Andon, ‘andon cord’ pulled when problem appears, everyone sees how to fix it
- changing layout of facilities

The difficulties arising from lean production therefore are;

- the fact that if the supplier fail the business is left vulnerable
- will the employees want to take the responsibility and will they have the work ethic?
- a great relationship is needed with the supplier

Difficulties increasing efficiency and labour productivity

- it might reduce overall quality
- less time with each customer might reduce satisfaction
- will the employees resist it? (why work more if we get payed the same? could some of us be fired?)
- should employees deserve more pay?

How to choose the optimal mix of resources

It is important to understand that there are two types of processes;
- Capital intensive; require mostly machinery (oil)
- Labour intensive; require human labour (hair dressing)

To choose the optimal mix of resources it is important to know;
- the size and scale of your operations
- the type of process; how much land, labour and capital do you need to do farming for example

How to use technology to improve operational performance

By using technology the business can ensure that;
- they are more flexible to customers needs
- reduce costs by having more efficient processes
- be innovative; for example allowing you to watch films online

In order to do this managers must ensure that;
- there is the appropiate financing to do this
- there is the appropiate trained staff
- be able to foresee other issues (more technology might cut jobs, employees might go on strike)
- make sure the technological development implemented will be good long-term

3.4.4 Making operational decisions to improve performance: improving quality

The importance of quality

- it is important to remain competitive
- it makes the business look reliable

Methods of improving quality

- understanding customer requirements; are they in the right market?
- training
- investment in technology
- selecting the right partners (suppliers for example)
- can a process be improved?
- Quality Assurance; checking for errors at every sector of the production process

The benefit and difficulties of improving quality

The benefits or improving quality are;
- making sure everything is delivered as expected
- makes the business more competitive
- stronger brand image

The difficulties in improving quality;
- feeling that the business is doing well enough; employees might feel criticized and not cared for if management always expects an improvement in quality
- should you pay more to the workforce if they work harder?
- some workers might have ways of improving quality, but it may not be their job
- is there enough financing to fund training?
- is there a change of culture? - if there is this could cause problems

The consequences of poor quality

- there is money being spent which doesn’t generate profits back since the product is low quality
- damage brand image
- legal costs if there is a faulty product

3.4.5 Making operational decisions to improve performance: managing inventory and supply chains

Ways and value of improving flexibility, speed of response and dependability

- The value of being more flexible is that people get more customization; this is called mass customization and it can give the company a better brand image and a wider customer base
- The value of having a faster speed of response is that it can give the business a competitive advantage
- The value of having more dependability is that things are delivered when expected, this might take time and investment

How to manage supply to match demand and the value of doing so

There are ways to match supply and demand;
- employing flexible; this makes sure that every employee can do whatever is demanded
- using queuing systems; this helps manage high levels of demand
- outsourcing
- increasing price
- accepting being outsourced; this is when demand is low
- producing only when ordered; makes sure there isn’t any unsold stock

Influences on the amount of inventory held

- Holding inventory costs money; maintenance and space for example
- Holding inventory creates opportunity cost; could the money spent be used for something better?
- Inventory may go out of date

To manage inventory we use Inventory Control Charts, the key elements are;

- Buffer inventory; minimum inventory the business wants to hold
- Lead time; the time between a new order being placed and the arrival time of the order
- Re-order level; the level at which a new order should be placed
- Re-order quantities; the quantity ordered once an order is placed

Influences on choice of suppliers

- Cost and quality of materials
- Dependability; are the supplies delivered on time?
- Ethics; it may be cheaper, but how much does it harm the image of the business?

How to manage the supply chain effectively and efficiently and the value of this

In order to manage the supply chain one has to consider a variety of factors;

- what to produce by your self and what can you buy from others?
- which other business to work from?
- supplier strategy?; work with many or one?
- what are the penalties for a supplier?; can you be benefited if they are not dependable?
- how much do you care about your image?

If all of the above are considered then the business is insured...

- that the right supplies
- arrive at the right time
- for the right price
- in the right terms and conditions

The value of outsourcing

The benefits of outsourcing are...

- enables businesses to use specialist personnel
- it can increase the business' capacity

Of course it is important to look out for the drawbacks and complications;

- if the outsourced company's quality, delivery time or ethics are wrong the company will be affected
- it can be more expensive; as you don't only pay for the item but for the profit of the outsourcer

3.5 Decision making to improve financial performance

3.5.1 Setting financial objectives

The value of setting financial objectives

- it allows to set a benchmark on the performance of the business
- they allow for performance measuring
- they allow the business to see where it could improve
- it can work as a tool for motivation

The distinction between cash flow and profit

Cash flow; this is the movement of cash into and out of the business over a period of time
Profit; measures the overflow in the sum of revenue minus cost to produce a product(s)

The distinction between gross profit, operating profit and profit for the year

- Gross profit; direct costs (variable costs) - sales revenue
- Operating profit; all costs - sales revenue
- Profit for the year; interest (paid or received) and tax

Revenue, costs and profit objectives

- Revenue objectives;
    - this might be increasing the revenue a business generates more and more as years go by
    - this sort of objective is more effective for business desiring to grow in size
    - more revenue doesn't necessarily mean more profits

- Costs;
    - there are two types;
        - the business can either reduce the costs by a x%
        - the business can aim to do cost minimization (Ryanair for example)

- Profits;
    - there are two types;
        - as a simple figure; for example profits of $34bn
        - as a percentage compared to sales; this is called profit margin
    - it can be motivating to set profit objectives

- but it can also be risky, as getting below expected profits can be damaging for the image

Cash flow objectives

It is extremely important to have clear cash flow objectives, especially for companies that have long cash flow cycles

Objectives for investment (capital expenditure) levels

A business can set objectives for the capex (capital expenditure), of course it would be much more effective if the business can ensure a number of things;
- it doesn’t have any unpaid loans pending
- the business can sell shares to raise finance
- the item bought can be sold for a good price if financing is urgently needed

Capital structure objectives

Capital structure refers to the way the business has raised the capital in order to purchase assets, there are different objectives that could be aimed for when doing this;
- if the more than 50% of the capital is borrowed, the company is highly geared;
  - this means that it needs to pay back its borrowing
  - the business is at risk of increasing interest payments
- if less than 50% of the capital is borrowed, the company has low gearing;
  - the business owners might have lost the control of the business
  - the business doesn’t need to return the money; act of faith of shareholders
  - being low geared might help more whist in prosperous times, when shareholders might not see a problem in spending more and more

External and internal influences on financial objectives and decisions

Internal;
- objective of senior managers; if the business is very share based, then making profit will be the top priority, if the business wants to grow then revenue will be the priority
- overall objectives of business
- nature of business and product being sold

External;
- PEST-C

3.5.2 Analyzing financial performance

How to construct and analyze budgets and cash flow forecasts

The way managers need to construct budgets is by..
- research on the market to predict possible trends
- research costs (materials, wages...)

- draw expected revenue based on the researched gathered

Cash flows are interesting for a manager because they allow for;
- support on loan applications
- help avoid any cash flow crisis

The way a cash flow forecast is constructed is by...
- make three sections;
    - cash in; monthly, cash sales and similar inflows
    - cash out; monthly, expenditure of any type (rent, raw materials, loan payment..)
    - net monthly cash flow; has three sections
        - opening balance; cash position at beginning of each month (same es end of last month)
        - net monthly cash flow; sum of ins and outs
        - closing balance; sum of opening balance and net monthly cash flow

The value of budgeting

Advantage of budgeting;
- control finance and therefore allow for managers to make informed decisions
- allows for improvement of functional areas simply by allocating a higher budget to that area
- budgets are used to motivate and give responsibility
- revenue can be used as targets

Disadvantages of budgeting;
- training required (which costs money and time)
- it can be difficult not to be biased when allocating a budget
- managers might not adapt the budget to a short-term change and could lose advantage

How to construct and interpret break even charts

There are a variety of things to calculate whilst doing a break even chart;
- break-even output; fixed costs / contribution per unit
- margin of safety; measured in units, it measures the amount which a business output exceeds the break even level
- contribution per unit; selling price per unit / variable costs per unit
- total contribution; contribution per unit * number of units sold

The value of break-even analysis

Advantages;
- by using break even analysis a business can forecast the business’s number of customers
- no expensive training needed and it is fast to complete
- proves evidence of financial planning when applying for a bank loan

Disadvantages;
- it assumes that the business will indeed get those sales
- it is a simplification (assumes same price throughout sale process)

- costs are not steady, sometimes fixed costs might rise (more space needed)
- the analysis is only as accurate as the data it has been based upon

How to analyze profitability

There are different types of analyzing profitability;

- gross profit margin; gross profit x 100 / revenue
- operating profit margin; operating profit x 100 / revenue
- profit for the year; profit for the year x 100 / revenue

The use of data for financial decision making and planning

- it is important to use the tools given to plan (objectives) and convince (get loans for example)
- however we also need to use qualitative data and not only quantitative

3.5.3 Making financial decisions: sources of finance

Internal and external sources of finance and advantages and disadvantages of long and term sources of finance

Internal;

- Retained profits; re-investing profits of financial year
    - adv; no need to pay interest back, no extra loss of control by business owners
    - disadv; investors might not want to reinvest
- Sale of assets; selling assets (normally non-current (+1 year)) in order to raise finance

External;

- Overdrafts; short-term finance, more expensive but flexible
    - adv; flexible way to fund day-to-day running
    - disadv; high interest rates, bank may ask for repayment at any time
- Debt factoring; selling unpaid bills for cash, you will only get 80% of the final payment
    - adv; cash received immediately, no interest because its not an overdraft
    - disadv; it can limit the profit margin because not all is payed back
- Loans and mortgages; require collateral, convincing and have interest rates
    - adv; great for long term, avoid owners losing control
    - disadv; collateral is needed, there might be a large amount of interest rates
- Venture capital; a mixture of share capital and loans for small business, typically below £500,000
    - adv; can bring expertise as part of the deal, not 100% of intake needs to be interest
    - disadv; small amounts normally, sometimes managers might not wish to have venture-man
- Share or equity capital; selling shares to raise finance, you might lose direction of business
    - adv; can be used to raise large quantities, there is no interest

- disadv; only available to companies, existing customer

3.5.4 Making financial decisions: improving cash flow and profits

Methods of improving cash flow

- Improving control of working capital; working capital is day to day running
- Negotiate improved terms for trade credit; less time for those who have to pay, more time for you
- Debt factoring; although it can reduce the profit margin it can supply with immediate cash
- Arrange short-term borrowing; whether its a low-interest overdraft or a short-term loan
- Sales and leaseback; selling (for example a building) and leasing it back from the new owner

Methods of improving profits and profitability

- Reduce cost of production; either by moving to lower-wage locations or reducing quality, this can create more problems though
- Increase prices; depending on the PED, but increasing prices could give a wider profit margin
- Improve the business's efficiency; create more output with the input given
- Use capacity more fully; fixed costs are spread over
- Reduce the number of substandard products; take off the products that don't sell well
- Improve methods of production; alter the way products are produced in the business

Difficulties improving cash flow and profit

- identifying that there is a problem
- researching the cause of the problem
- coping with the adversities when 'improving' cash flow (such as bad publicity)

3.6 Decision making to improve human resource performance

3.6.1 Setting human resource objectives

The value of setting human resource objectives

- used to judge the performance of the business
- good working customers can give the business an advantage

There are different types of human resource objectives;

- employee engagement and involvement; how much are employees interested in the success of the business?
- talent development; refers to the further development of star employee
- training; refers to the way in which employees gain job-related skills
- diversity; the level of different views the employees might have
- alignment of values; how similar the ‘core values’ of the company and the employee are
- number, skills and location of employees

Internal and external influences on human resource objectives and decision

Internal;

- corporate and overall objectives
- hard / soft HR; hard=employees are just another resource, soft=employees>other resources
- types of product; depending on what the business sells hard or soft HR will be better

External;

- PEST-C

Calculating and interpreting human resources data

- labour productivity; total output per time period / number of employees
- unit labour costs; cost to produce items / items produced
- employee costs as percentage of turnover; turnover / costs of employees * 100
- labour turnover and retention; number of staff leaving during year * 100 / average number of staff

The use of data for human resources decision making and planning

3.6.3 Making human resource decisions: improving organizational design and managing the human resource flow

Influences on job design

Job design is the process of grouping/dividing tasks to create complete jobs, there are different types;

- Job enlargement and rotation; constantly changing between similar jobs and
- Job enrichment; jobs are re-designed to provide them with more challenging jobs
- Empowerment; they are designed to give the worker more control over his work

The Hackman and Oldham model of job design;

- A model which stresses the importance of employees having;
    - skill variety; use a range of skills

- task significance; they are working on something that could make a difference to the business
- autonomy; having independence on how they work
- feedback; employees receive information on the quality of their work

The influences on the job design; (to what extend managers will implement it)
- the overall objectives on the business; business is innovating and needs engaged workers?
- employee performance; why spend time if the workforce is already working perfectly?
- health and safety and other legal requirements; for example extended periods of using a computer?
- does the current system meet customer requirements?
- existing and potential skills of the workforce; do the employees have the potential to do 2 jobs?
- resources available; can the business spend money and time on job design?

Influences on organizational design

Organizational structure refers to the way a business is structured to carry out its activities
The influences on this are;
- hierarchy; is the organizational structure tall? does it have a lot of layers?
- spans of control; how many people report to one manager?
- authority
- centralization (decisions made by management) and decentralization (decisions made by everyone)

Influences on delegation, centralization and decentralization

Internal;
- Leadership and management styles
- Business overall's objectives
- Skills of the workforce

External;
- ET-C (from PEST-C)

The value of changing job and organizational design

- changing the job/organizational design can make the business more competitive
- can improve performance of workforce (by creating more engaging jobs)
- de-layering can reduce costs
- if done properly it can help the business have a strong employer brand

How managing the human resource flow helps meet human resource objectives

The human resource flow is the movement of employees through the business, starting at recruitment

The elements of the human resource flow are;

- Human resource planning; assessment of current and future workforce and sets out actions needed to meet the human resources objectives
- Recruitment and selection
- Training
- Redeployment; when the workforce is offered alternative employment within the busines
- Redundancy; when employee is dismissed because his job no longer exists

3.6.4 Making human resource decisions: improving motivation and engagement

The benefits of motivated and engaged employees

The benefits of having motivated and engaged employees is that employees are;

- intellectually engaged
- emotionally engaged; happy to do their job
- socially engaged in the business zone

There are a few theories that cover this;

Taylor's - motivation is an external factor achieved by money;

1. Study the work process to determine the most efficient production method
2. Observe the best workers at it
3. Train the remaining workers to the same standard
4. Implement pay piece rate and close supervision

Maslow's - psychological needs will fulfill the employee performance

1. Psychological needs; food and water
2. Security needs; safe and secure work environment
3. Social needs; contact and friendship with other employees
4. Esteem needs; achievement feelings
5. Self-actualization; fulfill the full potential

Herzberg's - psychological needs will fulfill the employee performance

1. Growth and advancement vs relationship with workers
2. Responsibility vs Salary
3. Interest in work vs working conditions
4. Recognition vs supervision
5. Personal achievement vs company policy and administration

How to improve employee engagement and motivation

Financially;

- piece rate; per x produced per y
- share ownership; get x of what the business made
- performance-related pay; exceed target x get payed x

Non-financially;

- Job design; things like job enrichment
- Appraisal systems; process of evaluating and working to enhance performance of workers
- Teamwork; breaking a situation into something solvable by x people

Influences on the choice and assessment of the effectiveness of financial and non-financial reward systems

- the cost involved
- the attitude of the management team
- the training given to the management
- the skill level of the workforce
- the importance of public’s perception of the business
- the effectiveness of communication inside and outside the business

3.6.5 Making human resource decisions: improving employer-employee relations

Influences on the extend and methods of employee involvement in decision making

- the leadership and management style
- the overall objectives
- nature of work and employees
- employment legislation

How to manage and improve employer-employee communications and relationships

Value of good employer-employee relations

Value to employers;

- helping to develop good employer brand
- promoting employee engagement
- improving the business’ corporate image
- can develop competitive advantage

Value to employees;

- financial benefits
- security
- possibility of greater participation in decision making

3.7 Analyzing the strategic position of a business

3.7.1 Mission, corporate objectives and strategy

Influences on the mission of a business

The influences on the mission of a business are...

- Values, of the founders and employees
- Industry of operation
- Views on society
- Ownership type of business

Internal and external influences on corporate objectives and decisions

Internal - pressure (to deliver fast results and to give dividends) may lead to future competitiveness loss, culture and leadership

External - EST (from PEST-C)

Distinction between strategy and tactics

Strategy

Long term, uncertain and needs resources. Difficult to reverse. Follows the business aim

Tactics

Short-term, less wasteful of resources. Done to ease the implementation of strategies

Links between mission, corporate objectives and strategy

- A strategy is carried out in order to achieve a corporate objective
- Corporate objectives are decided in order for the business to reach its mission

Impact of strategic decision making on functional decision making

- A business will decide its strategic decision and then the functional decisions will be

supporting it
- Functional decision making are decisions made by the 4 functional areas of the business

The value of SWOT analysis

- A SWOT analysis is used by a the managers to discover the Strengths, Weaknesses, Threads and Opportunities.
- Can be used once, then environment changes and variables need to be re-adjusted
    - SWOT analysis ranks every item entry and uses a 2x2 layout;

Strengths	**Opportunities**
- lorem (7) - ipsum (3) - dolor (1)	- sit (5) - amet (1)
Weaknesses	**Threads**
- consecetur (6) - adipiscing (3) - elit (1)	- sed (9) - do (2)

    - SWOT aims to develop strategies to: build S, reduce W, exploit O, protect from T

3.7.2 Analyzing the existing internal position of a business to assess strengths and weaknesses: financial ration analysis

How to assess the financial performance of a business using balance sheets, income...

Balance sheet (drawn by hand)

Income statements (drawn by hand)

Financial Ratios

Profitability / ROCE

- Assess the amount of profit made by the business in relation to its revenue
- *operating profit / total equity + non-current liab * 100*

Liquidity / Current Ratio

- Ability of business to settle its immediate debt, concern: short-term financial position
- *current assets / current liab*

Gearing

- Examines relationship with internal vs external sources of finance, concern: long-term
- *non current liab * 100 / total equity * non current liab*

Efficiency

Payables

- Time taken by business to pay money it owes to suppliers
- *payables / cost of sales * 365*

Receivables

- Time taken by business to collect owed money
- *receivables / sales rev * 365*

Inventory Turnover

- Measure the company's success in converting inventory into sales
- *cost of goods sold / avg inventory held*

The value of financial ratios when assessing performance

- The results for the same business over previous years can be compared using ratios
- The results for the different business on the same industry can be compared using ratios
- The results for the business in relation to different industry business can be compared too
- Note; ratios cover financial performance, there are more factors affecting performance

3.7.3 Analyzing the existing internal position of a...

How to analyze data other than financial statements to assess the strengths and....

Apart from the financial data there are other functional areas where data can be gathered, then this information can be used to compare to other businesses or to past records of the business

Operations Data (planning and controlling the production process) could measure...

- The efficiency on converting input to output and therefore unit costs
- The quality of the output produced and whether customers are satisfied
- The capacity utilization to make sure that $\text{output}_{max = }\text{capacity}_{max}$
- Other data could be used too, depends on business (ie, Domino's and response time)

Human Resources data (especially for labour intensive businesses) could measure...

- Labour productivity, that is the quantity produced per employee per unit time
- Absenteeism rates, which could be hard to quantify in monetary terms
- Health and safety data, which could be also hard to quantify in monetary terms
- Labour turnover (+1 year stay) & retention; smaller figure, money saved on training
- Labour costs per unit produced, this relates to the efficiency

Marketing data (mostly for comparing with competitors) could measure... (drawn by hand)

The importance of core competences

- Core competences are the unique abilities offered, in order to gain competitive advantages
- By building on core product a business ensures that it excels in something someone else can't
- Three factors make a core competence: (using the Apple iPad as an example)
    - *Does it provide access to a wide range of markets?*, yes; adults, kids, professionals...
    - *Do they contribute to the end product?*, yes; the iPad has a great design and is intuitive
    - *Are they difficult for competitors to imitate?*, yes the iPad is hard to copy
- By having a core competence matching a market opportunity a business can ensure success

Assessing short and long-term performance

- Managers either invest in the future or avoid pressures for short-termism
- By considering various internal aspects we can see if the business aims for long or short term:
    - R&D, if the business invests in its future then it aims to maximize long-tern performance
    - Profit quality, if the profit-generating strategy isn't sustainable then the profit is low quality
    - Employee Engagement, by having engaged employees the business ensures they are an asset to the company
    - Customer satisfaction, high satisfaction will build customer loyalty and market share
    - Money spent into employees, ie; training although effective and rewarding is costly
    - Brand image & reputation, good image = short-term ineffective (cost), but long-term good
    - Sustainability, ie; investing on sustainable supply sources will enhance long-term performance

The value of different measures of assessing business performance

There are two methods of alternatively measuring the performance of a business

Kaplan and Norton's balanced scorecard
- Creates four quantifiable categories which the business can lay the aims upon
- The 4 categories are:
    - Financial performance; revenue, cash flow, ratios...
    - Customer value performance; loyalty, delivery speed, satisfaction with service...

- Internal business process performance; quality, productivity...
- Innovation & learning performance; effectiveness of training, are new products profitable?

Elkington's triple bottom line

- Creates three categories that help assess the business performance
- The 3 categories are:
    - Profit, of course necessary to review performance
    - People, ensuring that business is socially responsible with its many stakeholders
    - Planet, ensuring that the business is ecological (i.e. cutting CO_2, reduce waste...)
- This three categories combine but cannot be totaled out giving this a major flaw

3.7.4 Analyzing the external environment to assess opportunities and threads: political and legal change

The impact of changes in the political & legal environment on strategic & functional decision making (drawn by hand)

3.7.5 Analyzing the external environment to assess strengths...

The impact of changes in the UK and the global economic environment on strategic and...

The following economic factors can affect a business

- GDP

  Measures value of country's total outputs over a period of time (usually a year). The economy will suffer periods of boom, whereby everyone spends, which through a recession will turn into a slump, whereby people and business decide to safe money for better times.

- Taxation, there are various types...
    - Income Tax, it is payed by employees on their wages and by business owners in the UK
    - VAT, tax levied on spending, normally circa 20%
    - National Insurance payments, maintain the cost of state benefits such as health care
    - Corporation Tax, payed by all companies in the UK.
    - Customs and excise duties, sometimes payed on imported price inelastic goods

- Exchange rates

This is the price of one currency in terms of the other one, appreciation of currency means that said currency is worth more than another currency.

- Inflation
  Inflation is a rise in the price level and a fall in the value of money. It is measured by the CPI.

- Fiscal Policy
  Use of taxation and public expenditure to manage the level of economic activity.

- Monetary Policy
  Controlling amount of money and interest rates within the economy to achieve a desired economic activity.

- Protectionism
  It is a set government policies which attempt to limit the entry of imports, the policies are:
  - Tariffs, a tax on imports
  - Quotas, physical boundaries on the number of imports that can enter the country
  - Subsidies, paying local business to make their products cheaper and have demand
  - Soft loans, to reduce the costs of competing with importers a convenient loan is offered
  - Technical barriers to trade, having standards (safety, design...) so importers raise costs
  - State procurement, benefit of domestic business by having govt contracts (military)

Reasons for better globalization of businesses

- The support of many governments and major businesses
  Many governments and organizations believe globalization is beneficial and therefore they encourage it

- The falling costs of international transports and communications
  Thanks to advancements in technology and transportation it is possible to now sell items like fruit from Chile to the US or to have a UK company's customer service in India.

- The growth of global trading blocs and the reduction of barriers to trade
  The fact there are places like free trading areas (like the EU) and reduced barriers means that companies can now export much easier.

- The growth of multinational companies
  This can be thought of as the driving force for globalization, multinationals in the haunt for more customers and therefore more profits have made globalization a reality.

The importance of globalization for businesses

- Increased sales, revenues and profits
  The wider the audience the business can target the more possible customers which means higher profits to a certain extend (economies of scale or tariffs for example)

- Cheaper resources
  Not only the final product can benefit from globalization, but also the raw materials and labour

- Economies of scale
  By being able to implement a global strategy a business can benefit from economies of scale

- New products
  Developing markets with new and cheap (or more technologically advanced) solutions can compete against established multinationals

- Need for increased investment
  Globalization sharpens competition and therefore firms need investment in order to further develop their products and services in order to gain a competitive advantage

- Threat of take over
  Smaller business might be vulnerable to takeovers by large multinationals

The importance of emerging economies for businesses

- Massive labour sources
  Countries like China with hundreds of millions of cheap labour are very attractive for a business that requires low skilled workers

- Large markets
  Because of the growing disposable income in emerging economies, multinationals like McDonald’s or Coca-Cola have tried to settle in those markets

- Natural Resources
  Some economies like Brazil are lucky enough to have natural resources

3.7.6 Analyzing the external environment to assess opportunities and threads: social and technological

The impact of the social and technological environment on strategic and functional decision making

Social changes are hard to predict as they vary widely, the biggest change is when the disposable income grows as fast as people grow, changes include:
- Urbanization and migration
- Change in consumer behavior
- Growth of online businesses

Corporate Social Responsibility
Implications
- Taking into account the impact of their activities on the local community
- Producing in a way which minimizes pollution

- Treating employees fairly

Difference between stakeholder and shareholder concept

Shareholder concept

This relies on the maximization of profit and has only interest in the dividends. Often the firm can be pressured by the need to generate profit, this can lead to unethical behavior

Stakeholder concept

Some management teams operate according to the stakeholder expectations, this means that they will consider all the shareholders when making a decision.

Carroll’s Corporate Social Responsibility Pyramid (CSR)

Philanthropic Responsibilities \ Improve lives of others in society
Ethical Responsibilities \ Behaving in morally correct ways
Legal Responsibilities \ Obeying the laws
Economic Responsibilities \ Be profitable

The pressures for socially responsible behavior

By being socially responsible a business can ensure that...

- new customers are attracted because of the way the business operates
- accessing markets in a socially responsible way can give a business an operating advantage
- better employees are attracted
- overall reputation

3.7.7 Analyzing the external environment to assess opportunities and threads: the competitive environment

Porter’s five forces, how and why these might change and the implications of these forces

Porters 5 forces are:

1. Power of suppliers

   Raw materials are essential in order to create a products or services and therefore can have a great power. The power of suppliers can depend on..

   - Total number of suppliers
   - Cost involved in changing from one supplier to another one
   - The availability of substituting materials (hard to replace material supplier has power)
   - Size of supplier against size of business
   - The threat that the business has that the supplier might go to another firm or takeover

2. Power of buyers

   Buyers and customers are the ones that generate the profits and therefore can have some control on the business. This depends on...

   - The availability of similar products might increase the power of the buyer
   - Products that have a high price elasticity

- The type of customer (in Apple; customer buying $0.99 app vs buying Watch Edition)

3. Thread of substitutes

A substitute is an alternative product that offers similar features and benefits, the thread of substitutes are high when...

- The price of the substitute falls
- The price of your product rises
- It is easy for customers to switch from one product to another one

4. Threads of new entrants

Other business can enter a new market and be successful when the barriers to entry are low (not in airlines or the soda business for example), this can happen when...

- There is low customer loyalty
- How fast the new entrants can benefit from economies of scale (mass or niche market)
- How easily the new entrant can get access to suppliers
- Government encourages the entry of new businesses to a certain sector

5. Competitive rivalry

This affects the competitive position of the business and is shaped by...

- How easy the entry to an industry is (can a new business suddenly offer better?)
- How easy it is for customers to move to another product
- How much differentiation there is between one or another product
- How big competitors are to each other
- How different the strategies of each business are
- Whether or not the market is growing (if its not takeover might need to be considered)

3.7.8 Analyzing strategic position: investment appraisal

Financial methods of assessing an investment

The different ways to assess an investment financially are the following (none of this predict the future):

Payback calculation

This calculates the time taken to pay back, to perform the calculation do the following

number of full years
+ amount yet to recover
/ revenue next year

i.e. 3 years + £100 / £300

Year	Out £	In £
1	500	100
2	0	100
3	0	200
4	0	300

Average rate of return (ARR)

This method is more complex and meaningful, it shows the annual investment return, it is calculated the following way

ARR = average annual profit * 100 / asset’s initial costs
average annual profit = total net profits over assets life (before tax) / assets life

Net present value (NPV) (drawn by hand)

Factors influencing investment decisions

Investment criteria

There are a number of criteria that a business needs to take in order to make an investment decision

- Rate of interest, is it more profitable than having it in a bank generating money?
- Level of profit, the amount of profit made based on the investment (similar to ROCE)
- Corporate aims and objectives, investment will be taken if it can serve the aims
- Environmental and ethical issues, dependent upon the company's ethical commitment

Risk and uncertainty

A project with a huge amount of risk attached to it might not be taken. Please note, risk is when the costs > the profits or the sales forecast > actual sales. The difficulties on forecasting this figures arise from a number of factors

- Project's timescale, the larger the timescale the more things that can go wrong
- New markets, the business has less knowledge and no experience in a new market
- Competitors reactions, if competitors attract more customers forecasts won't be met

The value of sensitivity analysis

Sensitivity analysis is a technique that varies the forecasts and allows for a range of outcomes, typically the outcomes vary from 80% to 120% of the original predictions. Of course the more items one accounts for in a sensitivity analysis the higher variations, which results in low value predictions. This is a major flaw in sensitivity analysis.

3.8 Choosing strategic direction

3.8.1 Strategic direction: choosing which markets to compete in and what products to offer

Factors influencing which markets to compete in and which products to offer

Ansoff Matrix

	Existing products	**New products**
Existing markets	Market penetration	New product dev
New markets	Market dev	Diversification

The reasons for choosing and value of different options for strategic direction

There are a couple of factors affecting the final decision:
- The expected costs
- The expected returns
- The opportunity costs
- The risk
- Whether it fits with the strengths of the business, i.e. can the business compete in new market?
- Impact on stakeholders
- Ethical issues involved

3.8.2 Strategic positioning: choosing how to compete

How to compete in terms of benefits and price

Strategic positioning refers to how a business is perceived relative to other businesses in the industry, there are different ways to find the strategic positioning, Porter’s Low cost, differentiation and focus strategies and Bowman’s strategic clock.

Porter’s Low cost, differentiation and focus strategies

According to Porter, one good competitive advantage can be to be different, this involves deliberately choosing a unique mix relative to competitors.

Porter identified two possible positioning approaches for a business;

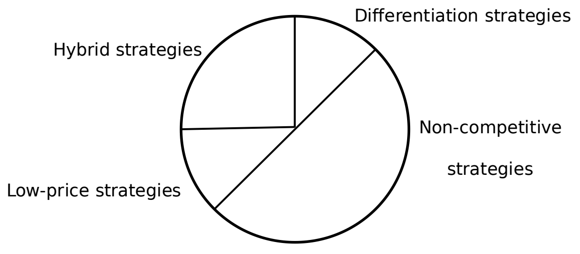
Cost-leadership strategy, becoming the cheapest in the market, this is done by...
- Lower input costs, such as cheap raw materials
- Economies of scale
- Experience, experience can allow knowledge of the cheapest resources for example
- Product/Process design, for example landing in STD instead of LGW

Differentiation strategies

Offering uniqueness means that a premium service can be charged and if the benefits outweigh the costs then the business can be successful.

Bowman’s strategic clock

Bowman displays the options open to a business on a clock, from that it is possible to analyze the strategic positioning.



Differentiation; w/ or w/o price premium, used to increase market share or margins

Hybrid strategies; entering markets

Low price-strategy; having lower prices

Influences on the choice of a positioning strategy

- Where the competitors are positioned; the business wants to know where the other competitors are order to know where to position itself.

- External environment; for example many business have had to become more eco-friendly

- The strengths and competences of the business; the right positioning depends on what the business can and can't do, there is no point in a differentiation strategy if the business can't perform to such standard.

The value of different strategic positioning strategies

It is obviously important for a business to understand where it stands in the market, if the business doesn't know whether its selling a watch for £20 or £2000 then it will be very difficult for customers to feel attracted to the business. Each strategic position has its advantages and draw backs.

The benefits of having a competitive advantage

By having a competitive advantage business can differentiate themselves from the other competitors, by doing this competitors gain an advantage as customers might be more interested.

The difficulties of maintaining a competitive advantage

Other business will try to copy the advantages; however there are ways in which this can be stopped:
- Legal protection; for example laws by govt against foreign competition or patents.
- Control over resources; this will prevent other accessing them
- Having a different culture; as this will be very difficult to copy

3.9 Strategic methods: how to pursue strategies

3.9.1 Assessing a change in scale

The reasons why businesses grow or retrench

Some business might grow because:
- Economies of scale (unit costs lower as business grows)
- They are selling more

- They might want to move to new markets
- To give out more dividends and make more overall profit
- They want power

Some businesses might retrench because:
- The demand for the product they are selling is non-existent
- Diseconomies of scale (unit cost rise as business grows)
- Control and coordination problems
- Communication problems
- Motivation issues; as the business grows employees might feel they are no longer important

The difference between organic and external growth

- Organic growth occurs when the business expands because of its own operations

- External growth occurs when there is a take over or merge in the business

How to manage and overcome the problems of growth or retrenchment (drawn by hand)

The impact of growth or retrenchment on the functional areas of the business

On growth;
- Finance; external financing might be required; careful cash flow planning if internal sources are planned, if cash flow is not done correctly budgeting might also be inaccurate
- Human resources; new staff and training might be required; for existing employees this will be more work but overall positive if motivated since they can go higher in the hierarchy
- Operations; it has to be carefully planned whether or not expansion is needed (only long-term should be invested on in some scenarios
- Marketing; more marketing on the same or new markets might be required, more effective marketing might lead to pressure to the marketing team

On retrenchment;
- Finance; short-term the business will lose money on redundancy payments but might get money in sale of assets, it all depends on the kind of business. long-term performance is up to the new business model that they follow
- Human resources; redundancy and re-positioning of staff will need to be considered
- Operations; this could make the business more efficient reducing the unit costs
- Marketing; by having a smaller market to worry about they might target better

Assessing methods and types of growth

Methods of growth;

Merger

The agreed joining of two or more organizations in order to share their resources.

Takeover

The agreed or hostile (owners of targeted business against take over) purchase of one business by another one.

Ventures

In order to avoid possible culture clashes, the businesses share some resources but maintain their identity

Franchising

Selling the rights of your business model to a third party for an initial fee and a portion of the future profits, the freedom the franchisee to make changes is defined in the contract

Types of growth;

Vertical integration

When two business join in different parts of the supply chain; this is beneficial because a retailer might get cheaper raw materials (backward integration) or even because a producer might be closer to the final customer (forward integration)

Horizontal integration

When to businesses join at the same stage of production; this is beneficial because the businesses can share product portfolio and resources.

Conglomerate integration

This is when two businesses join from completely different backgrounds; this might be beneficial because the risk are spread out since the industries are different for PEST-C problems.

3.9.2 Assessing innovation

The pressures for innovation

Examples of external pressures include: (PEST-C)

- Political change; for example the opening of new markets which require changes to the product
- Economic change; may create ways of lowering costs
- Social change; pressure in on business for more eco-friendly approaches
- Technological change; new developments might create new ways of doing business
- Competitive pressures; by having rivalry there might be pressure to gain an advantage

The value of innovation

- It is valuable as it can maintain the business with an advantage over its competitors

- Innovation can generate things such as; cheaper materials, better quality, higher reliability...
- There is also risk attached, as some ideas might work on paper but might never be accepted in their market

The ways of becoming an innovative organization

Kaizen groups

It means continuous improvement, by holding meetings with a range of employees that feel valued in the company the business will implement small changes which will, on the long-term, generate a benefit for the business

R&D

By investing in R&D a business will make sure that is always looking for a better way of doing products or processes. This can lead to businesses gaining a massive advantage over competitors, however to a certain extend there is a risk attached as cost, profit and time predictions can be extremely difficult to make.

Entrepreneurship

It is internal entrepreneurship, this means that the business allows the employees to have their own ideas and to develop them, an example of this is the ‘Like’ button Facebook

Benchmarking

This is when a business learns from the best of the market in order to replicate their performance or some of it

How to protect innovation and intellectual property

The two ways to protect the company’s intellectual property are copyrighting and patenting;

- Copyright; this protects literary works (books, music, web content...)
- Patenting; this protects inventions of products (machines for example)

The impact of an innovation strategy on the functional areas of the business

- Human resources; management must reward initiative and a culture of trial/error has to be developed, furthermore project teams and overall team work must be embraced

- Finance; money must be raised for R&D (external or internal), risk of failure will be present and financial evaluations which are hard to estimate will have to be carried out

- Marketing; insight into why customers are dissatisfied with the current solution must be covered

- Operations; innovation might require new products, skills and processes

3.9.3 Assessing internationalization

Reasons for targeting, operating in and trading with international markets

The reasons behind the increment in globalization include;
- Trade agreements; by having this each country can specialize in what they are most efficient at
- Technology; as it becomes cheaper to share information between international locations
- Transportation costs; it is now much cheaper and efficient to transport by air and sea

Methods of entering international markets
- Exporting; business produces domestically but also sells overseas, this is mostly low risk
- Licensing; when an overseas business owns the rights to produce/sells the business products, the risk is taken by the firm being licensed
- Alliances; Sharing of risk, profit and resources between overseas businesses
- Direct investment; high risk, when operations are set up on another country, called a Multinational business

Factors influencing the attractiveness of international markets

- The size and growth potential of market
- The expected costs of entering the market
- PEST-C of market
- Culture differences between original country and overseas country
- Competition in market
- Risk involved
- How entering the new market fits the overall business strategy
- Can the business manage the overseas growth

Reasons for producing more and sourcing more resources abroad

Reasons for producing abroad;
- Costs are reduced; labour can be cheaper for example
- Nearer to the resources; mining business for example
- Cheaper to produce overseas and sell rather than produce in UK and export
- A given area might have the perfect skill for a job
- May overcome barriers, such as trade barriers and tariffs

Ways of sourcing;
- Outsourcing; when a business moves its production overseas
- Re-shoring; when a business moves its production back to domestic country
    - Why come back?
        - Problems with quality maintenance abroad
        - Problems with delivery from overseas
        - No more cost saving (salaries need to be the same since new law established)
        - Image (seen as a company that supports domestic production)

Ways of entering international markets and value of different methods (drawn by hand)

Influences on buying, selling and producing abroad

The factors that a business might consider when considering whether to produce or sell above are...

- Pressure for growth; if growth is required and local market does not offer it then overseas
- Pressure for lower costs; business might in need of getting the lowest costs
- Local availability of resources; if materials are not available locally

Managing international business including pressures for local responsiveness and pressures for cost reduction

The way to manage international business include the Bartlett and Ghoshal's strategies;

- International

  Products made for local environment and then sold internationally, there is no intl adaptation and decisions are made from the home office.

- Multi-domestic

  Different parts of the business operate fairly independent in their own regions, each section of the business adapts to the their local environment, there are no resources shared though

- Global

  Abroad components heavily dependent on domestic business for resources, the firm sells standardized products across the globe

- Transnational

  Maximize responsiveness and integration across all divisions of business, benefits of global business exists too as the business shares personnel, resources and knowledge

The impact of globalization on the functional areas of the business

- Marketing; will have to work to find information about new markets (how to promote, pricing...)
- Operations; the business might benefit from lower unit costs or more efficient supply chain overseas
- Human resources; they will have to deal with recruiting people and maintaining the culture

3.9.4 Assessing greater use of digital technology

The pressures to adopt digital technology

There are pressures to adopt digital technologies such as;

- Need to keep up with market; if all other shops have website so should your business
- Need to be more effective; gathering data is simpler with new technologies, this is beneficial
- Need to keep to costs down; by operating online instead of the street costs are kept down

The types of new technologies are;

- E-commerce

Buying/selling goods/services over internet 24h a day. It can be B2C, B2B or C2C. It is cheaper to set up than a physical shop and there is more access to suppliers

- Enterprise resource planning (EPR)
  Increase of efficiency by having a piece of software manage the business activities (inventory, marketing, sales...)

- Data mining
  An analytic process designed to find patterns in different areas; for example predictions of sun might increase the number of people going out which means that prices can be raised as there will be more demand

- Big data
  This links back to data mining because it simply relates to the massive amounts of data that are collected nowadays from different sources

The value of digital technology

- Improvement in communications and information availability
- Better management; “you cannot manage what you can’t measure”, more data allows better decision making
- Enabling new ways of doing business

The impact of digital technology on the functional areas of the business

- Human resources; the work force might need to change as more technology skills are needed
- Marketing; there should be more efficient marketing as technology gives more data
- Finance; this depends on the type of technology, for example transaction fees lower on website
- Operations; (using ERP) will give more efficient and better budgeting

3.10 Managing strategic change

3.10.1 Managing change

Causes of and pressures for change

The pressures for change are;
- the need to keep up with competition
- an increasing number of customer complaints
- owners wanting higher returns
- general poor business performance

The type of changes include;

- internal change; this happens from the business it self (i.e. employees wanting less hours)
- external change; this happens outside the business, for example a political change

The way to manage change is by using the Lewin's force field analysis;

- To change, the forces driving the change should be larger than the forces resisting the change
- By default there is the same weight on 'resistance to change' and 'drive for change'
- The forces resisting change go against the ones which drive the change, for example;
    - lack of financing
    - reluctance of staff to change how they work
    - some stakeholders might resist the change
- At some point either the drive for change will grow or the resistance will decrease and change will happen.

The value of change

Although change can be scary it comes with certain benefits;

- Some changes bring positive benefits
- Some changes can be predicted and therefore managers can be ready for it
- Some changes are company driven and therefore help it differentiate

The value of a flexible organization

The ability to respond/prepare to change depends on the flexibility of the business, flexible organizations include;

- Restructuring; to change the way the structure is based (either by functional areas or by regions...)
- Delayering; to reduce the layers of hierarchy to lower the communication barriers
- Flexible employment contracts; when contracts allow for flexibility (such as location or job)
- Organic structure vs mechanistic; mechanistic is very formal with defined procedures and hierarchy (good for things like insurance companies, organic is fluid teams and can be more beneficial
- Knowledge and information management; it is important to have good communication between all the parts of the business, to manage change managers need to know what is happening on the business

The value of managing information and knowledge

Having great communication in the business means that managers know what is going on, by managing data effectively managers can ensure that;

- they identify changes before or as soon as they happen
- develop sustainable strategies to respond to change
- evaluate the effectiveness of the strategies chosen

Barriers to change

There are always employees which will resist to change, this is because of;

- Self-interest; people always want to protect their own interest
- Preference for current situation; change can be seen as a hassle
- Differing assessment of the situation; some people might be resistant because they don’t think its the best option
- Misunderstanding; people might not understand why change is needed

Overcoming resistance to change

- Education and communication; managers need to explain to managers why change is needed
- Support; managers need to let know employees that they have support to cope with change
- Participation; allow employees to have some input into the process of change
- Manipulation; the key is to win over key influencers and get them to help with other employees
- Negotiation; use of some sort of reward in order to be able to negotiate

3.10.2 Managing organizational culture

The importance of organizational culture

Organizational culture is important as it refers to the values of the company, this in turn determines what employees prioritize and how they react in different situations. There are two cultural topics; the first one being Handy’s model of culture and the second one being Hofstede’s national cultures.

Handy’s model of culture has 4 types of culture;

- Power culture; this is when every decision runs through senior management and therefore is most likely to be only used in small businesses
- Role culture; this is when everyone knows their role and who to report to, this is normally used by growing former power cultures
- Task culture; here the individual’s power depends on their ability to solve the problem in question, it is therefore very useful for businesses handling lots of small projects
- Person culture; everyone is given their own space and can make their decisions, this is extremely useful in situations such as surgeons in hospital

Hofstede’s national cultures composed of 5 different sections;

- Individualism vs collectivism; is the business made of team work or is it made of praising the best worker?
- Power distance; whether or not there is a clear sense of rank and status or if the position from within the company comes from being good at what you do
- Short-termism vs long-termism; does the business aim high at the future or do the just want performance to be delivered as soon as possible?
- Masculinity vs femininity; it is how the business approaches work life, masculine is competitive and self-centered and feminine is relationship-centered, caring and involving
- Uncertainty avoidance; how comfortable people are with getting different level of responses for example, “get there” or “get there by doing this and this at this time”

The influences on organizational culture

- History of the business; some businesses look back to when they started to base themselves
- Present leadership; the current leader is supposed to set an example, so it depends on which views the leader has
- Society in general; what, in that society, is considered good practice and what is to avoid.
- Experience and performance of business; if what you are doing now works then why change it?
- Ownership; the ownership of the business will influence what the overall culture aims

Reasons for and problems of changing organizational culture

There are certain reasons for changing the organizational culture;

- Is there a new leader in the business?
- Have society's values changed?
- Is the performance of the business suffering?
- Are the owners of the business different?

There are problems with changing the organizational culture;

- The work force of the business will be resilient to change as change will be seen as a threat
- Changing the culture of someone is like changing their personality, so it will take some time
- Changing cultures might involve training, which means an investment will be needed

3.10.3 Managing strategic implementation

How to implement strategy effectively

Effectively strategy implementation involves;

- planning who and what is needed when and where
- setting clear standards so that everyone knows what is expected of them
- getting the necessary resources for the job
- being able to coordinate what needs to happen
- ensuring that capable people are in charge
- establishing clear points where progress can be measured

The value of leadership in strategic locations

By having the correct leader managing strategic decisions a business ensures that;

- Everyone knows what and why things are being done
- Everyone feels supported in order to perform the strategy under the best performance
- All the required resources are in place
- There is good communication
- Design systems to check quality are set up
- Workforce feels motivated to (through rewards for example)
- There is someone representing the business
- There is someone that can work around barriers (for example negotiating)

The importance of organizational structure in strategic implementation

It is important to have a clear organizational structure in order to implement strategies, this then leads to knowing;

- what specific jobs are involved
- how many people does a superior oversee
- how many levels of hierarchy there are
- what authority do different jobs have

There are different types of organizational structure;

- Functional structure; this is when the business is split into their different functional areas, this can however lead to each area not having empathy for the other areas
- Product structure; different products split the company (a bank with a business or individual section for example) however this can lead to competition in the business
- Regional structure; this strategy makes sense if the business is working in very distinct regions, this allows the business to have a specific image in only one region
- Matrix structure; here the workforce have at least two superiors of the same rank, this works for example in car industry (manager A tells you about how the industry is doing whilst manager B tells you about the specific car model), this can however be difficult as employees have to handle two people or more in charge and not only one

The value of network analysis in strategic implementation (drawn by hand)

3.10.4 Problems with strategy and why they fail

Difficulties of strategic decision making and implementing strategy

- They are large decisions involving risk, time and cost
- Every decision is different and therefore cannot be completely assessed
- Whoever makes the decision has at least some bias, which gives them a perspective

Planned v emergent strategy

- Planned strategy is the one managers intend to implement
- Emergent strategy is the one that develops over time
- In a perfect world both would be the same, however because strategic implementation can be so difficult, they often are different although sharing similarities

Reasons for strategic drift

- There has been a development in the external environment which the business hasn't fully prepared yet
- The business has failed to implement the strategy correctly
- Which ever the reason is the business could be doomed to failure depending on how far into the drift things start changing

The possible effect of the divorce between ownership and control

- The effect is that the wrong strategy is picked because of a fault in the communication between the managers of the business and the shareholders, this can be because sometimes managers might not necessarily want what is best for the company, but what is best for themselves

Evaluating strategic performance

Always think of all the aspects of success the business has had, such as whether or not it has been ethical, or it has had a difficult year and is still recovering. Do not only consider the comparison of profits made to the top business in the sector

The value of strategic planning

- It bases its plans on data, this will aid in any possible irrational decision by having quantifiable information
- It can provide the business with an overall direction because there is a clearly defined strategy

The value of contingency planning

This is when managers plan for the unlikely events, this is of value because it means that the overall responsiveness of the business to the worst-case scenario is above average, in turn this can increase by a few points the level of risk taken when making a strategic decision as the managers know that the workforce will be ready.