



2008 Business Management

Advanced Higher

Finalised Marking Instructions

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Business Management – Advanced Higher 2008

NB Throughout the paper marks are given for each relevant point, including description, elaboration, diagrams, or explained examples. No marks are given at this level for mere identification of points.

SECTION ONE

1. *Assess the benefits to Scotland as the home country of RBS.*

Max 3 marks per point. Max 3 marks for general points about multinationals not specifically related to RBS.

- Balance of Payments benefits – as the sixth largest bank in the world as measured by revenue RBS is likely to be a significant contributor to the UK Balance of Payments, which will benefit from repatriated profits from operations in other countries, an important boost as almost half of RBS’s profits (42%) are earned outwith the UK.
- Employment benefits – RBS provides direct employment for 17,000 in Scotland, and a further 45,000 jobs indirectly – eg in supplying firms, cash machine maintenance etc.
- The presence of the national HQ in Edinburgh represents direct investment in Scotland that would not otherwise take place; jobs there tend to be highly skilled ones.
- National reputation benefits – the worldwide scope of RBS’s operations – eg Corporate Markets which provides services “to large and medium sized businesses and financial businesses throughout the world” – will raise the profile of Scotland as a centre of financial excellence; because the HQ is here there is more impetus to develop new products and ideas within Scotland; RBS’s stated aim of becoming “a global benchmark against which other organisations are judged” means it continually strives to show excellence in all areas, further enhancing its reputation and that of the home country; having a rapidly growing company benefits Scotland (turnover increased by £10,000m between 2001 and 2005).
- Customer benefits – RBS’s heavy involvement in the USA where it has 4.4m personal customers may lead to new services being offered in Scotland.

(6 marks)

2. *Discuss the advantages and disadvantages for RBS of its decision to invest in China.*

Max 3 marks per point. To gain full marks at least one point for and one point against the wisdom of the decision must be addressed.

Advantages

- China is a rapidly growing economy – it “produces 13% of world output”; is predicted to be the second largest economy in the world by 2015; is currently experiencing huge growth in secondary industry; is already “the world’s fastest growing financial market”; as economic growth continues and standards of living rise demand for services such as banking will increase, meaning that the market is likely to continue to expand for many years.
- RBS has a very small presence in the Asia Pacific in comparison to the USA for instance (£0.2bn income in Asia Pacific as opposed to £4.6bn from the USA).
- By combining a partnership agreement with share ownership RBS was able to expand its influence in China in a fairly cautious way; it limited its direct investment to £900m; as the Bank of China was state owned RBS’s 5% investment, though small, was fairly secure.
- Keeping up with the competition – rival banks in the USA and Europe already had stakes in Chinese banks; RBS would have lost out on a rapidly growing market had it not followed suit; UK market is fairly saturated.

Disadvantages

- RBS has little previous experience of China and will have to overturn a culture where “Chinese banks, including the Bank of China, have a history of fraud, corruption and bad debt”; this could be a costly and lengthy battle; failure in China could harm its reputation elsewhere.
- Disadvantages appear to have been small and do not seem to have materialised – proof of the wisdom of the decision may be that the value of RBS’s investment more than doubled in the course of a year though it can be argued that these figures, which resulted from the flotation of the Bank of China, represent a paper gain only and need to be treated with caution. (Credit candidates who make a specific attempt to draw a justified conclusion.)

(8 marks)

3. *Explain how RBS's approach to employee relations may help to increase motivation of its employees.*

Max 3 marks per point. To be awarded a mark, candidates must explain how each measure would increase motivation. Up to 3 marks for appropriate reference to motivational theorists – eg Maslow or Herzberg.

- The Group Work Out programme – by “bringing together groups of employees to work on specific projects” workers are motivated by being part of a team: having a specific role, feeling involved; having others to bounce ideas off/seek support from; involving “people from all levels of the business” will help to reduce hierarchical barriers and improve working relationships between subordinate and superior; involving members from different divisions will help employees to get the whole picture and appreciate the role of other departments – the recognition of effort and the giving of responsibility will both act as satisfiers according to Herzberg.
- The profit sharing scheme – as the bonus is directly related to annual profit, employees are motivated to strive to maximise profit; the success of this motivator is illustrated by the average 10% bonus payment over recent years; financial incentives sometimes lose their motivational effect as employees come to take them for granted but, as this one is linked to profit levels which vary each year, employees are more likely to continue to work to achieve a good level of bonus – this meets Maslow's lower level needs – physiological and safety – and is an example of Herzberg's hygiene factors.
- Training and development – the Leadership Journey programme will develop confidence in employees about their ability to lead and motivate them to work to achieve promotion; the Business School at headquarters “offers courses for senior management” which will enhance their skills and motivate by equipping them for further promotion.
- Good conditions of work – RBS is committed to creating “working conditions which will enable staff to give of their best” – eg new HQ – extensive consultation via focus groups etc prior to constructing it meant employees' wants were taken into account eg resulting in the inclusion of Tesco, Starbucks, fitness facilities and a crèche; staff will be motivated by the time saving in having shopping, leisure facilities and childcare facilities close at hand.

(9 marks)

4. *With reference to Exhibit 1 discuss how the different divisions of RBS help it to meet customer needs.*

Max 3 marks per point.

- Having separate divisions for corporate and retail banking enables the divisions to develop in-depth knowledge of their segment; the banking requirements of businesses are very different from those of individuals in terms of the sums involved and services required (credit examples); the further subdivision of Corporate Markets into UK and Global customers means that RBS can recruit employees suited to each division eg people with particular language skills or expert knowledge of foreign business for Global Banking and Markets, thus providing a service tailored to the needs of customers in different countries.
- Similarly the separation of Retail Banking from Direct Channels will enable the services to be tailored to the needs of customers for banking services and credit cards respectively; means wealthy customers are catered for by their own department – sensible because these are the ones that will have a lot to spend/invest; earnings from these customers will contribute significantly to profit.
- Having separate divisions in different countries eg Ulster Bank and American Citizens enables divisions to operate with a degree of independence suited to countries with different currencies and in different financial environments; a divisional structure like this helps the company integrate new acquisitions eg Churchill; it is also consistent with their multi-brand multi-channel strategy.
- Concentrating all the insurance services, home and international in the RBS Insurance Division will help RBS to develop global expertise in the field and so provide a better service to customers.
- While not directly involved in serving the customer, the Manufacturing Division provides the infrastructure in terms of “processing cheques, managing accounts, cash machines and Internet banking, purchasing and property management”; it will contribute to customer satisfaction by creating efficient systems with minimal errors and delays and ensuring the branches are well maintained and attractive to customers.
- Having functions such as finance, HR and communication operating across the whole group enables common policies to be applied eg in regard to training or complaints procedures and should help to ensure uniformity of service to the customer.

(6 marks)

5. *Evaluate the benefits to RBS of the Money Makes Money scheme.*

Max 3 marks per point.

- HR benefits – employees will develop their teamworking skills through participation in project teams; will be motivated by being given responsibility for seeing the project through from beginning to end and having an opportunity to input their ideas; develop marketing and leadership skills, and gain personal satisfaction from working to help the disadvantaged.
- Increased custom – networking with local businesses will improve relationships with them and may lead to more corporate customers; the event itself will improve RBS's standing in the community in which it occurs and present its name in a positive light, which may lead to more private customers.
- Enhanced reputation – community projects are clearly important to RBS – its 2005 £56m investment was the second biggest in the UK; media coverage can enhance reputation generally and may lead to more favourable treatment by the government – eg when seeking planning permission – than that offered to firms without such a record of community involvement.

(8 marks)

6. *Explain why RBS has adopted a “multi-brand multi-channel strategy”.*

Max 3 marks per point.

- Diversification – targeting many different markets means a fall in demand in one area may be compensated for by growth in another; different segments may be targeted and their needs responded to appropriately; new products may be specifically tailored to them eg loans and overdrafts to small business customers by First Active in Ireland.
- Operating under different brand names may enable RBS to benefit from well established brand loyalties; limit the effect of negative publicity about one brand on the rest of the organisation.
- Using different channels of distribution gives access to a wider range of customers ie beyond bank branches – multi-channel approach has allowed RBS to be a first mover in using new technology eg Direct Line insurance by phone, and more recently Internet users have been targeted by MINT; this means RBS can offer its services more cheaply, reduce the need to maintain premises etc; Tesco Personal Finance gives RBS access to supermarket customers who can open bank accounts as they shop.
- Credit candidates who point out that turnover and profits have increased substantially because of this approach.

(5 marks)

7. *RBS has expanded by means of organic growth, joint ventures and acquisitions of other firms. Analyse the benefits for RBS of this combination of approaches.*

Max 3 marks per point. Max 4 marks for general points about the different methods of growth not related to the case study.

- Organic growth – RBS gained first mover advantage by setting up Direct Line as the first motor insurance company selling direct to customers and by being the first bank to launch internet banking services; by 2005 RBS was the market leader for car insurance in the UK and Direct Line had won several awards.
- Joint Ventures – RBS’s partnerships with Tesco and Virgin mean that it has been able to sell financial products to a much wider market; it benefited from Tesco’s expansion in Europe as customers in Tesco’s new branches were offered financial services, so that RBS was able to grow its market share without having to set up premises in Europe itself. RBS’s partnership with Wal-Mart gives it the opportunity to expand widely in America as Wal-Mart is the largest retailer there.
- Acquisitions – RBS entered the US market by purchasing Citizens Bank in 1988; this purchase gave RBS a foothold from which it was able to expand, so that it now owns more than 20 firms in the USA and serves 4.4 m customers; Citizens Bank is now the seventh largest bank in the USA; acquiring Bibit meant RBS swallowed up a competitor to World Pay, “its own Internet payment specialist” and became the “leading Internet payment company in the EU”.

(8 marks)

Section Two

8. (a) *Since 2000 several new members, such as Poland, have joined the European Union. Discuss ways in which EU enlargement may affect UK businesses.*

Up to 3 marks per point. To gain full marks at least 2 beneficial and 2 adverse effects should be discussed.

- EU enlargement refers to the extension of membership of the EU to include 10 new members in 2004. These are mainly Eastern European, countries such as Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus. Bulgaria and Romania are expected to join in 2007. (Up to 2 marks for definition).
- The larger market will give more scope for economies of scale because it will give firms the chance to produce more and therefore lower average cost.
- Joint ventures will become more feasible, with the UK firm providing the cash, machinery and expertise while the Eastern European firm provides land, buildings and labour; however, many of the governments of the new members are unpredictable, and have a bureaucratic structure left over from Communist days which can cause delays as firms seek to comply with regulations; corruption can be a problem in some countries where bribery of officials is accepted as the norm.
- Lower wage costs in new member states will help firms to cut costs by relocating their operations, though EU membership may cause wage rates to rise over time.
- Businesses will be able to source supplies free of any trade barriers from a wider market.
- New markets will be available to UK firms; the total population of the new member countries is between 75 and 100 million; this will be especially beneficial to firms whose UK market is saturated, such as Tesco which has expanded into Poland and Hungary; however, the low average income in most of the new applicants may limit demand for products of UK firms and so constrain their ability to expand.
- As most of the new entrants have below average living standards, EU regional development funding is likely to be channelled to them rather than long standing members so fewer EU grants may be available to UK businesses.
- The enlarged EU will create greater competition, as firms in the new member countries take advantage of reduced trade barriers to expand into older member countries; this may initially reduce the profits of UK firms but will also give them an incentive to reduce prices, improve efficiency and develop new products and markets to compete.

- Although the UK is not in the Eurozone, as new members join UK firms may benefit from dealing in a single currency over a wider area.
- Enlargement may open up sources of recruitment for UK firms which help to reduce skills and labour shortages eg in the building trade and in restaurants and hotels.

(14 marks)

8. (b) *Personal effectiveness is vital to a manager's success. Explain ways in which poor time management might reduce effectiveness of a manager.*

Up to 3 marks per point. To gain a mark, candidates must make some reference to how each example of poor time management would reduce effectiveness.

- Effectiveness means doing the right things.
- Poor time management means that managers may not concentrate on the main purpose of their job and spend time on other less important matters. In this way, effectiveness is reduced as managers focus on relatively unimportant matters and fail to concentrate on important areas such as planning.
- Failing to set long, medium and short-term objectives means that managers will not identify the right things that they require to be effective.
- If managers do not schedule activities appropriately, some will be omitted and some given too little time – managers may therefore fail to do all the right things or may rush their work; if items are not prioritised in terms of importance and urgency, this can lead to most of a manager's time being taken up with urgent and non important matters which will encroach on the important items.
- Allowing frequent disturbances and conducting lengthy phone calls may deflect managers from doing the right things; managers who do not delegate will have less time to do the right things and will be unable to take advantage of the skills and experience of their subordinates.

(11 marks)

9. (a) *Resistance to change is a common problem in organisations. Analyse the reasons for this and ways in which managers may overcome it.*

Maximum 7 marks for reasons for or ways of overcoming resistance.

- Reasons for individuals' resistance to change – fear of alterations to well established ways of doing things with which employees are comfortable eg disruption of working relationships; fear that the change will bring new demands eg the need to work with new machinery or be retrained, and consequent fear of failure; fear of deskilling and consequent loss of status; fear of redundancy eg because machines will replace labour; fear of financial loss or less pleasant conditions of work; stereotypical beliefs eg habitual suspicion of management intentions; uncertainty about the unknown future and a sentimental attachment to the past.
- Reasons for organisational resistance – inflexible culture developed over a long time; lack of necessary resources or of the means to acquire them; binding agreements with stakeholders which limit the capacity to change and cannot be easily broken eg contracts with suppliers or agreements with Trade Unions; parochial self interest of groups within the organisation such as middle managers who fear loss of influence eg if more worker participation is introduced.
- Ways to overcome resistance – creating trust in management by explaining clearly why change is needed; employing a participative management style which involves employees in the change process from the earliest stages, encouraging everyone to contribute ideas; keeping staff fully informed of what is happening to reduce them/us fears; explaining how the change will benefit the workers, giving them a personal interest in making it a success; encouraging staff to share any concerns they have, and responding positively to them, to reduce fear of failure; offering financial incentives linked to acceptance of the changes; taking employees' social and emotional needs into account when creating new working patterns; building confidence by giving full training; leading by example; willingness to be flexible; use of internal or external change agents.

(13 marks)

9. (b) *Discuss the benefits and challenges e-commerce might bring to retailers and manufacturers.*

Up to 8 marks each for discussion of benefits or challenges. Max 8 marks if only retailers or only manufacturers referred to.

- E-commerce involves buying and selling over the Internet. It can take various forms, such as B2B (business to business) and B2C (business to consumer). (Max 2 marks for definition.)
- Retailers are more likely to be involved in B2C and manufacturers in B2B.

Benefits

- Even small retailers can now sell to a global market with millions of potential customers.
- Internet retailers' fixed costs are greatly reduced as shops and staff are no longer needed, allowing them to undercut traditional retailers significantly.
- A side effect of the ordering process is that firms gather information about customers' tastes, location etc which can be used to develop new products or promotions.
- Manufacturers can source supplies all over the world, leading to a wider choice of inputs and possibly lower average cost if cheaper prices outweigh delivery costs.
- Manufacturers and retailers can set up electronic links with suppliers and customers to co-ordinate deliveries, receive orders, exchange information and monitor progress of orders, thus improving efficiency and speed of service eg Tesco has a permanent link with Heinz so that information about orders, stock is exchanged continuously.
- There has been a rise in demand for products associated with e-commerce eg jiffy bags, credit cards.

Challenges

- Both retailers and manufacturers face extra costs connected with Internet security eg for encryption of credit card details, defence against hackers and viruses; complying with Data Protection Legislation; developing cost effective delivery systems that get the goods to consumers quickly in good condition.
- Competition has become much fiercer as suppliers and customers can access firms all over the world; leading to pressure on both manufacturers and retailers to increase efficiency and cut costs to compete.
- The wider stock and far lower prices of Internet retailers have forced traditional retailers to compete on personal service eg bookshops with cafes – but Internet only firms, such as Amazon.com, benefit from the continued existence of traditional retailers as customers can view goods in a high street store then order at home from the Internet firm.
- Challenges are more likely to apply to retailers than to manufacturers as the latter usually set up arrangements with potential suppliers, so that all the security issues are dealt with at the outset.

(12 marks)

10. (a) *Teamwork is increasingly important in modern business. Analyse factors that can help teams become effective.*

Maximum 3 marks per point. Answers must demonstrate how the points discussed influence organisational effectiveness.

An effective team needs to:

- Have a clear understanding about the nature of the task it is undertaking – developing a clear focus helps the team to pull together to achieve its goal
- Develop an identity so that it can work on its own initiative and devise procedures to monitor its own work
- Be of a size appropriate to the task – eg sufficient numbers to generate ideas in a brainstorming session, but small enough so that members can communicate with each other
- Make use of effective communication networks eg the all channel for brainstorming tasks, the chain for disseminating information. Effective communication between team members ensures that all members know what is required and that each works for the team
- Consist of members with different skills so that all the team roles which Belbin argues are necessary for an effective team will be covered (max 3 for explanation of Belbin's team roles)
- Develop processes and procedures – successful teams develop ways of working which help them to achieve
- Have passed through the stages of team development eg forming, storming, norming and performing so that problems are dealt with and it reaches maximum effectiveness in the performing stage.

(11 marks)

10. (b) *Explain how any 2 of the following might affect a business.*

Max 8 per heading. Answers which do not attempt to explain how the concept might affect firms should be given a maximum of 4 marks.

Market Research Techniques

- Definition – a way of collecting information about the market for a good or service eg its size and nature.
- Secondary research reuses existing information – eg government reports; often quantitative but can be qualitative; usually cheaper than primary, but it can be out of date, is less focused and is not unique to the firm.
- Primary research is original research designed to find out information on a market; as it is expensive it may increase a business's costs; information yielded may not always be accurate eg questionnaires may not be answered truthfully; however, it is essential as it is up-to-date, provides first-hand qualitative views of users and potential users, and is not available to competitors, therefore provides guidance as what the firm should do and could give it a market edge.
- Market research techniques allow a firm to make more informed decisions on future strategies by ensuring it has adequate information on which to base its decisions.

Consumer Protection Legislation

- Increased costs – laws such as the Food Safety Regulations, the General Product Safety regulations, the Weights and Measures Act, the Consumer Safety Act may increase a firm's costs as it amends its products to comply or buys more accurate machinery. (Max one mark for description of Acts where the implication for firms is not explained).
- Greater emphasis on quality – the Sale of Goods Act requires firms to supply products without flaws and meet the specifications claimed by the manufacturer; the Consumer Protection Act makes firms liable for damage caused by their products – firms have to ensure they have quality procedures in place to avoid prosecution.
- Greater competition – the Fair Trading Act and the Competition Acts prevent firms collaborating to restrict competition; they therefore have to become more market oriented eg by increasing market research and standards of customer service in order to gain an edge; firms contemplating integration may have to revise their plans if the Competition Commission intervenes because the result will be their gaining over 25% of the market.

Management by Objectives

- Definition – a system applied throughout the whole organisation in which each manager sets mutually agreed targets for each of their subordinates after discussion with them.
- Clear focus – subordinates are able to prioritise their work according to the objectives that have been agreed; everyone is working towards the overall goals of the organisation, reducing the chance of inter-departmental rivalry.
- Motivation – subordinates are motivated by being able to measure their progress against the targets set; they may be more inclined to seek help early if they realise they are falling behind.
- Control – managers can use the targets as a measure of achievement and identify less effective employees; regular checks on how employees are doing in relation to their individual objectives will reveal who is struggling and give managers a chance to begin corrective action early.
- But – the process of setting objectives can be time consuming; care needs to be taken that they are appropriate (SMART); subordinates will be demotivated if the targets are too challenging, or not challenging enough; very specific objectives may act as a constraint if the environment changes and the employee is not free to act appropriately.

Human Resource Planning (HRP)

- Definition – HRP is the forecasting of a firm's future labour requirements in terms of the numbers of workers and skills required (demand), and the analysis of how these requirements might be met (supply).
- Effective HRP can give a firm a competitive edge by ensuring it has the right staff in the right place at the right time.
- Calculating the likely demand for workers – analysis of internal factors such as productivity and current staffing levels, labour turnover rate, average age of staff, and external factors such as changes in technology, legislation etc – eg the EU working time directive limiting work to 48 hours per week has increased the labour requirements of many organisations; an organisation seeking to downsize could use information about the average age of staff to decide whether to offer redundancies or simply reduce the workforce via natural retirement; accurate forecasting of an organisation's labour needs enables it to target its recruitment procedures more precisely – eg by drawing up job descriptions and person specifications with future needs as well as current ones in mind.

- Calculating the likely supply of workers from within the organisation – carrying out a skills audit to identify any skills gaps – training programmes can then be tailored to close these; identification of any departments whose labour needs are likely to decrease – perhaps workers there could be redeployed, with appropriate training, to other departments.
- Calculating the likely external supply of labour – information gained from analysis of PEST factors can help an organisation to improve its chances of attracting labour – eg by deciding to locate a new factory in an area with a large pool of appropriately skilled labour; by increasing opportunities for flexible working, tele-working and part-time work to meet the needs of the growing number of older people and women with children in work.

(14 marks)

11. (a) *In 2006 there was some concern about whether the Body Shop, a business with a reputation for adopting an ethical approach to business, would continue this stance after being taken over by L'Oreal. Discuss whether an ethical business can be a profit maximising one.*

Max 3 marks per point. Up to 2 marks per point may be given for examples which are well explained. Max 11 marks if no conclusion.

- Definition – being ethical means conducting business according to a moral framework eg not testing on animals (max 2 marks).
- Profit is the difference between revenue and costs; profit maximising firms therefore seek to keep revenue as high and costs as low as possible.
- The concept of an ethical organisation is closely linked to social responsibility; however a firm may state that it is socially responsible because it thinks it will earn more profit and not because of principle, which would be unethical.

Ways in which being ethical may help to increase revenue

- Increasing environmental awareness of consumers means an ethical firm may attract more customers, increase revenue and increase customer loyalty. An ethical firm may be able to establish a niche for itself eg the Co-op was the first firm to offer a wide range of Fair Trade products such as chocolate which attracted consumers concerned about exploitation of lesser developed countries.
- Being ethical is a stimulus to firms to innovate eg Sainsbury's invention of biodegradable wrapping for fruit and vegetables, Tesco's awarding of loyalty points for re-using carrier bags, thus widening consumer choice and meeting more of their needs, resulting in increased sales.
- Ethical measures may bring the firm good publicity – and help it to avoid the costs of negative publicity – and can be used in promotion, which is likely to attract more customers who share the principles of the firm, resulting in an increase in revenue and hence profit.
- If the firm is seen as ethical consumers may be willing to pay more for its products eg Ecover environmentally friendly soap powder is more expensive than other brands.

However

- Companies which publicise their ethical stance are subject to greater public scrutiny than others; a small amount of adverse publicity can severely damage the reputation of a such a company eg customers may feel betrayed by L'Oreal's takeover of the Body Shop.
- Ethical organisations may have to pass up profit earning opportunities which other organisations might exploit.

Ways in which being ethical may help to minimise costs

- Ethical organisations may attract a better quality of applicants, leading to greater productivity from employing a more skilled workforce than less ethical firms, and thus reducing average cost; the commitment of existing employees may be enhanced by the knowledge that they are working for a caring firm, providing better working conditions than others, increasing their motivation and productivity.
- Some ethical measures, such as energy saving and recycling, may lower costs directly; having environmental standards and safety requirements in excess of those prescribed by current legislation means that firms avoid penalties eg for pollution and the cost of altering their operations to comply with changes in legislation.

However

- Being ethical may mean that firms have to spend more on environmentally friendly equipment, ethical sources of supply etc, better wages and conditions for their employees (max 2 for examples), which would increase costs and reduce profitability.
- Credit should be given for a reasoned conclusion.

(12 marks)

11. (b) *Explain what is meant by the Contingency School of Management and how its ideas might affect the behaviour of managers in modern business organisations.*

Max 4 marks per point. Max 7 marks for answers consisting of explanation of contingency theory with no reference to how it might affect management behaviour.

Explanation

- The contingency school holds that no single ideal method of management exists: the best approach will depend on the variables (contingencies) of the particular situation faced; it builds on the ideas of the systems school which focused on interrelationships between structure and behaviour in an attempt to reconcile the ideas of the classical (accused of focusing on the organisation structure but ignoring human needs) and human relations (accused of ignoring structure by focusing on human needs) schools; the contingency approach recognises that each situation is unique and the method of organisation needs to be tailored accordingly.
- The variable factors in any situation may include the size, type and history of a particular organisation; the nature of the work; the skills and experience of its workforce, the nature of the managers, the market environment, all of which can affect the approach to management chosen (one mark for each 2 examples of variables mentioned up to a max of 2).

Relevance today

- Nature of the manager – organisations need to ensure a “leadership fit” by matching task oriented managers to situations requiring a formal approach to organisation and relationship oriented ones to more fluid ones; credit appropriate reference to Fiedler.
- Size of the organisation – a hierarchical structure is often suited to large organisations as it gives greater control than other structures; many modern multinationals use a combination of structures eg RBS keeps functions such as Finance and HRM centralised while allowing managers in different businesses in the Corporate Market and Retail Market Divisions to respond to the characteristics of the markets in which they operate.
- Nature of the work – a bureaucratic structure and scientific management with its emphasis on improving productivity by setting standard times and output targets is suited to manufacturing firms using flow production where the work is routine and repetitive; in the service sector or in job production where a unique product is being crafted a more decentralised structure may be more appropriate; a more organic structure with decision making dispersed down the organisation is appropriate for situations where there is direct contact with customers and flexibility to deal with non-routine situations is therefore needed; organisations which combine production and service may need to adopt different approaches in each area eg a restaurant might have a kitchen where everyone does what they are told to by the head chef but allow flexibility to staff welcoming diners to respond to customer requests for specific seating as they see fit. Credit appropriate reference to management theorists – eg Burns and Stalker’s mechanistic and organic systems.

- Nature of the workforce – inexperienced or new workers may require a more directive approach than experienced ones (credit reference to Hersey and Blanchard's situational leadership model); a bureaucratic (mechanistic) structure where roles and expectations are clearly spelled out will be more appropriate than an organic one where individuals are given freedom of action to respond to different circumstances.
- The market environment – increasing competition for customers now able to source products from all over the world via the Internet means many firms need to develop flexible structures which can respond rapidly to market changes; mechanistic structures may still be appropriate to firms in slow growing markets with little competition; privatisation of most state owned monopolies in the UK over recent years means there are very few such markets left.

(13 marks)

[END OF MARKING INSTRUCTIONS]