

Advanced Higher Business Management

Guidance Document

NB: As the Advanced Higher Course develops and extends the concepts of Higher, knowledge of the Higher Course is assumed as a basis for study at this level.

Managing Organisations — The External Environment

Multinational companies	Reasons for growth of multinational companies	Nature of the industry; falling cost of transport of people and goods; reduction in barriers to trade; low cost communication enabled by ICT; global media; new markets — eg China, India; opportunity to gain economies of scale	
	Methods of growth such as foreign direct investment, buying overseas companies	<p>Contract production; production under licence; franchising; joint ventures</p> <p>Full multinational production (foreign direct investment) — setting up production facilities abroad by:</p> <p>Creating new facilities</p>	<p>Franchising advantages: eg quick method of expansion; minimum investment by franchiser; franchiser gets royalties and fees</p> <p>Reasons for joint ventures: eg sharing of specialist knowledge; entry to markets where expertise is lacking; sharing of risk</p> <p>Advantages: eg purpose built; can choose any location; can impose corporate culture from the outset; ensures uniform facilities throughout the world</p> <p>Disadvantages: eg costs of construction may be high; time taken to recruit and train employees</p>

		Buying an existing enterprise	<p>Advantages: eg knowledge of local market; may be able to acquire loss making business cheaply; workforce and customer base already in place; can begin operations immediately; quick way to gain foothold in new market</p> <p>Disadvantages: eg image may be tainted by bad reputation of acquisition; no suitable premises may be available; facilities may not be specifically suited to the organisation's needs</p>
	A recognition of the issues raised by multinational companies, for example, transfer pricing, exploitation of local resources, foreign control of economy, increasing importance of global operations	<p>Transfer pricing</p> <p>Exploitation of local resources</p> <p>Foreign control of the economy</p>	<p>Relates to sales of goods and/or services between branches of a MNC; prices agreed internally; ignores market forces; high profits declared in low tax countries — low profits in high tax ones; minimises tax paid; deprives governments of taxation revenue; illegal in many countries</p> <p>Ability of MNCs to minimise costs because of cheaper cost of land, wage rates etc, lack of stringent employee protection laws, lower health and safety standards in many host countries; depletion of host country's natural resources; degree to which MNCs should demonstrate social responsibility</p> <p>MNCs' influence on government policy due to their ability to provide jobs; pressure on host</p>

		Increasing importance of global operations	<p>countries from powerful home countries, eg USA, Japan</p> <p>Globalisation of customers; new customers in emerging markets; globalisation of competitors; technology advances; speed of customer responsiveness; reduced trade barriers</p>
	Effects on host country — balance of payments, loss of control by home government, changing skill mix of employees, effects on overall level of employment		<p>Advantages: eg foreign currency inflow; improved balance of payments; direct and indirect job creation; new skills learned; improved infrastructure; technology trickle down; management expertise shared with locals</p> <p>Disadvantages: eg exploitation of legal loopholes; local firms forced out of business; depletion of natural resources by MNCs; production may be switched out of subsidiaries at short notice causing unemployment, loss of any government assistance given; adverse effect on balance of payments if MNCs buy inputs from branches in other countries; repatriation of profits</p>
	Effects on home country — balance of payments, loss of control by home government, changing skill mix of employees, effects on overall level of employment		<p>Advantages: eg balance of payments improved by repatriated profits; exports increased by home branches supplying subsidiaries; transfer of skills learned elsewhere back to the home country; decline in unskilled jobs providing an impetus to</p>

			<p>improve education, leading eventually to higher standard of living</p> <p>Disadvantages: eg unemployment especially in unskilled work; adverse effect on budget — lower tax revenue, more spending on unemployment benefits, training to equip workers for more skilled jobs; adverse effect on balance of payments of initial outflow of capital</p>
European Union	EU policies, for example, Single European Market (SEM), Social Chapter, European Monetary Union (EMU)	<p>Single European Market (Single European Act)</p> <p>Effects on business</p>	<p>Frontier control between members removed; free movement of factors of production within EU; mutual recognition of product standards; firms from all member countries allowed to compete for government contract in any of them; no restrictions on foreign exchange transactions between members; removal of barriers to competition in banking and insurance; increased consumer protection</p> <p>Eg lower costs; economies of scale; more competition in the EU; remaining barriers; more opportunities to export goods and services; UK businesses forced to be more efficient</p>
		Social Chapter (Maastricht Treaty) Contents — ie statements of policy	Free movement of workers; fair remuneration; improved living and working conditions; social protection; freedom of association; vocational

		<p>Legislation</p> <p>Effects on UK business</p>	<p>training; gender equality; information, consultation and participation of workers; protection of health and safety; protection of children, adolescents, the elderly, the disabled</p> <p>Eg Works Council Directive; Parental Leave Directive; Directive on Onus of Proof in sex discrimination cases; Working Time Directive; greater employment rights for part-timers</p> <p>Good: eg motivating effect of greater participation; greater consultation leading to improved employee relations; shorter hours leading to greater productivity</p> <p>Bad: eg costs of implementing directives, setting up works councils etc; increased cost of labour — minimum wage and paid holiday entitlement; harder to compete with non EU firms; increased regulation making the labour market less flexible</p>
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	<p>Candidates should be aware of current developments in EU activities and their likely effect on organisations in the UK</p>	<p>Enlargement: 10 new members in 2004, two in 2007, more waiting to join; low GDP per head in new members; significant EU aid to new members</p>	<p>Advantages for UK firms: eg low labour costs; tax incentives; closeness to European markets; fewer legal procedures to set up companies; large pool of labour, eg young graduates with language skills; widespread internet usage; opportunities for UK firms to help bring new members up to EU standards; initially little competition from firms in</p>

			<p>the new members</p> <p>Disadvantages for UK firms: eg EU membership likely to drive up wage rates; most new members small and poor; different business practices and corruption in some countries; competition from firms in other EU countries/increased inward investment from non EU firms</p> <p>Eg WTO trade negotiations, environmental issues — see media</p>
Business issues	<p>Candidates should be aware of current issues affecting business and how these may influence the way in which organisations operate, for example, business ethics, social responsibility, environmental issues, globalisation, degree of government involvement in organisations, expansion of organisations, technological changes like e-commerce</p>	<p>Business Ethics</p> <p>Social Responsibility</p> <p>distinguish from:</p> <p>Corporate Responsibility, also known as Corporate Social Responsibility (CSR)</p>	<p>Moral principles such as personal and corporate integrity; benefits and costs of ethical behaviour</p> <p>Responsibility to external stakeholders</p> <p>Obligations to internal and external stakeholders</p> <p>Advantages: eg customer loyalty, good publicity, competitive edge; good quality applicants attracted; preparedness for new legislation</p> <p>Disadvantages: eg lower profits; increased costs, having to turn down lucrative opportunities, danger of policy backfiring</p>

		<p>Expansion of organisations</p> <p>Technological changes</p>	<p>Integration: horizontal, vertical, lateral, conglomerate (diversification); mergers, takeovers; internal (organic) growth</p> <p>IT developments: eg office software; computer aided design, computer aided manufacturing; videoconferencing; the Internet; e-mail; developments such as PDAs, WAP</p> <p>Benefits: eg cost and time savings; increased quality of output</p> <p>Costs: eg risks of hacking, viruses; breakdowns etc</p> <p>Legislation: Computer Misuse Act; Data Protection Act; Freedom of Information Act</p> <p>E-commerce — buying and selling using the Internet — B2C; B2B</p> <p>Advantages: eg 24 hour trading; customer data can be used for marketing; global market; cost savings; huge online catalogue; easy price comparisons; order tracking</p> <p>Disadvantages: eg security, hacking, viruses; data misuse; delivery problems; impersonal</p>
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Managing Organisations — The Internal Environment

Outcome 1

<p>Role of management</p>	<p>Planning, organising, controlling, co-ordinating, commanding (Fayol); managerial roles (Mintzberg)</p>	<p>Fayol’s managerial skills: technical; human; conceptual</p> <p>Mintzberg’s roles: interpersonal – figurehead, leader, liaison; informational — monitor, disseminator, spokesperson; decisional — entrepreneur, disturbance handler, resource allocator, negotiator</p> <p>Drucker: management by objectives</p> <p>Stewart: demands, constraints, choices</p>
<p>Management thought</p>	<p>Different schools of management thought including classical school, such as Taylor; human relations school, such as Hawthorne studies; systems theory; contingency theory</p>	<p>Scientific management (eg Taylor, Gilbreths): mechanistic view of workers; time and motion studies; standard time set; financial motivation (piece rate)</p> <p>Classical school (Fayol, Weber): based on scientific management; formal structures; hierarchy; rules and procedures; centralised (bureaucracy)</p> <p>Human relations (Mayo): Hawthorne effect: motivational effect of informal organisation; psychological and social needs</p> <p>Neo Human relations (eg Maslow, Herzberg) — stressed individual needs of worker, group relationships, leadership style</p>

		<p>Systems (eg Tavistock Institute): inputs, processes, outputs; organisations seen as open systems interacting with other systems; emphasis on relationships between system parts and the system and its environment; best fit of technical, social and economic factors</p> <p>Contingency (eg Burns & Stalker, Fiedler, Hersey and Blanchard): no one best way to manage; depends on variables eg task, time, nature of workers and manager, working environment</p> <p>Relevance of each school to modern organisations</p>
<p>Motivation to work</p>	<p>Methods to increase motivation to work such as job enrichment, job enlargement, job rotation, empowerment, financial incentives, for example group bonus schemes</p>	<p>Maslow: hierarchy of needs — physiological, safety, social, esteem, self actualisation</p> <p>Herzberg: hygiene factors, eg money, supervision; motivators, eg responsibility, recognition.</p> <p>Non financial incentives: eg job enrichment — making jobs more interesting; job enlargement — widening the scope of jobs; job rotation — increasing variety and flexibility by moving workers between jobs; empowerment — increasing workers' responsibility by giving them decision making power; team working — meets psycho-social needs; increases autonomy if group is self regulating; quality circles</p> <p>Financial incentives: eg individual and group bonus schemes, performance related pay, commission on sales, profit sharing</p>

		schemes, employee share ownership, fringe benefits (perks); problems with financial incentives
Teams	Role of teams in organisations	Formal and informal teams
	Characteristics of effective teams, for example Belbin; communication between team members, nature and clarity of task, appropriate processes and procedures	<p>Characteristics: size appropriate to the task; clarity about the task; commitment of all members to the team goal; good mix of complementary team roles; appropriate communication networks; effective procedures for handling task and maintenance functions; leadership style chosen</p> <p>Team roles (Belbin): Co-ordinator, Supporter, Specialist, Innovator, Shaper, Completer-finisher, Implementer, Monitor-Evaluator, Resource Investigator</p> <p>Communication networks: circle, wheel, all channel, chain</p> <p>Possible problems with teams: eg inter-group conflict; intra-group conflict; 'groupthink'; time wasting; subculture at odds with the corporate culture</p>
	Stages of group development: forming, storming, norming and performing (Tuckman)	<p>Forming: purpose of group explained, getting acquainted; polite and formal behaviour</p> <p>Storming: disagreements, conflict, power struggles</p> <p>Norming: conflict resolved; roles and relationships established</p> <p>Performing: co-operation, commitment to the task, productivity increases</p>

Leadership	Awareness of different theories of leadership, eg trait theory, leadership style, contingency theory	<p>Trait theory — leaders born not made; have certain characteristics in common; cannot change</p> <p>Leadership Style — continuum from boss centred (autocratic) to subordinate centred (laissez faire) leadership, ranging through persuasive, consultative, participative, democratic; factors affecting style</p> <p>Contingency Theory — best style depends on variables, eg the task, nature of workers, nature of manager, time available</p> <p>Theorists — eg Fiedler, Hersey and Blanchard, Adair, Brown</p> <p>Relevance of theories to modern management practice</p>
Personal effectiveness of managers	Principles of time management — assigning priority, grouping similar activities together, clear objectives, time logs, controlling interruptions, saying no; Parkinson's Law, Pareto's Law	<p>Time and task management: eg work analysis; distinguishing urgent and important tasks; allocating adequate time for important tasks; use of to-do lists; future planning; delegation; setting SMART targets; arranging breaks during the least effective time of the day; breaking down tasks into manageable portions; identifying constraints; dealing with distractions</p> <p>Causes of poor time management</p> <p>Awareness of how time management techniques may be used to improve effectiveness</p>

	<p>Personal qualities — behaviours associated with enterprise and entrepreneurship, (including self-employment) such as self-confidence and self-reliance, ability to deal with uncertainty, communication skills, administrative and organisational skills, technical skills</p>	<p>Technical, human and conceptual skills (Fayol)</p> <p>Human skills: eg people management skills such as ability to motivate, co-ordinate, communicate; social skills such as the ability to relate to customers, the press etc</p> <p>Conceptual skills: eg ability to develop and maintain a vision for the future</p> <p>Technical skills: eg specialised knowledge, analytic ability, problem solving skills, ability to multi-task</p> <p>Awareness of similarities and differences between qualities needed by managers and entrepreneurs</p>
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Managing Organisations — The Internal Environment

Outcome 2

Factors causing change	Analysis of forces driving change and those restraining change (force field analysis)	Internal driving forces (drivers)	Eg changed objectives; new personnel; changes in staff skills, backgrounds, needs; product obsolescence; research and development leading to creation of new products; change in financial circumstances; pressure to be proactive
		External driving forces (drivers)	Eg PESTEC factors such as new laws, change in interest rates or taxes, market change, developments in technology, environmental concerns, action of competitors; publicising of new management techniques, eg quality circles, the learning organisation, empowerment; knowledge explosion; changing nature of the workforce
		Internal restraining forces (resistors)	Eg resource limitations; lack of motivation to change; lack of experience/ability; employee resistance: threat of redundancy, expected loss of earnings/status/deskilling, fear of the unknown
		External restraining forces (resistors)	Eg PESTEC factors; lack of availability of finance for the change; public opinion
		Assets for Change — positive aspects not directly related to the particular change planned	Eg a longstanding reputation for excellence; a strong financial situation

		Force field analysis diagram	Drivers; resistors; equilibrium; arrows of different length pointing towards equilibrium; assets for change listed
		Critical analysis	Relative importance of the different factors; inter-relationships between factors
		Usefulness of force field analysis	<p>Advantages: eg gives an overview of the forces helping and hindering; summarises relative strengths of different factors; identification of resistors helps to plan strategies to overcome them</p> <p>Disadvantages: eg does not go into great detail; can be subjective; is a static picture of a constantly changing situation</p>
Stages of change	Preparation, unfreezing, changing, refreezing, evaluation	<p>Preparation</p> <p>Unfreezing</p> <p>Changing</p>	<p>Identify the desired situation; specify objectives for each part — eg using brainstorming, spider diagrams, Critical Path Analysis; identify drivers and resistors; set timescales; identify the resources needed</p> <p>Reduce resistors — eg by training; offering incentives; involving employees; explaining the benefits to the workforce; using an appropriate management style; arranging funding</p> <p>Implementing all the changes — ensure resources, supportive management and advice available</p>

		<p>Refreezing</p> <p>Evaluation, ie checking that the change is going according to plan and that the objectives have been met</p>	<p>Stabilise the organisation in its new equilibrium state, eg by offering opportunities to practise what has been learned and positive affirmation of behaviour that fits in with the new order</p> <p>Methods: eg checking progress against milestones; checking for slippage on the critical path; holding regular meetings to assess progress; establishing a system of regular written feedback; setting deadlines for any adjustments</p>
Approaches to managing change	Awareness of a range of approaches to managing change, for example, directive (top-down), piecemeal initiatives; participation; negotiation, for example, productivity improvements; action-centred; use of experts, use of change agents	<p>Directive (top-down)</p> <p>Piecemeal</p> <p>Participative</p> <p>Negotiated</p> <p>Action centred</p>	<p>Imposed by managers; total or piecemeal; useful if change has to be implemented quickly</p> <p>Bringing in changes gradually, eg Kaizen, STEP change</p> <p>Involvement of workers in change; develops confidence, trust, good communication and co-operation between management and workers</p> <p>Agreed in consultation with the workforce; worker participation in decision making process; total or piecemeal — eg Ringi</p> <p>Trying out various solutions to a problem before choosing the best</p>

		<p>Total</p> <p>Use of experts</p> <p>Use of change agents</p> <p>Change Initiatives: TQM; MRP; JIT; OPT; CIT; PERT</p>	<p>Changing the organisation completely, eg Business Process Re-engineering</p> <p>Management consultants; external change agents</p> <p>Qualities include vision, clear values, energy, charisma, communication skills, innovative ideas, ability to delegate, persuade and build teams.</p> <p>Total Quality Management, Materials Requirement Planning; Just in Time; Optimised Production Technology, Computer Integrated Manufacture, Programme Evaluation and Review Technique</p>
	Effects of organisational culture on managing change	Influences on organisational culture	History and ownership, size, technology, goals, nature of the workforce, external factors
		Types of organisational culture	Eg Handy: Power, Role, Task, Person; Schein: Organisation A, Organisation B; Burns & Stalker: Mechanistic, Organic
		Features of a culture that accepts change	Involvement of employees in decision making; a proactive approach; an environment where people are not afraid to take risks; wide sharing of information; positive handling of conflict; honesty from managers about the challenges of change as well as its benefits

	Results of change and effects of change on the organisation		Increased efficiency; enhanced competitiveness; compliance with legislation; avoidance of bad publicity/generation of good publicity; redundancies/redeployment; pressures of change, eg stress, absenteeism
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Researching a Business

NB: As most of the topics in this Unit build on what has been learned at earlier levels only a brief expansion is offered in most cases.

Business details	Internal organisation, for example, structure, organisation chart, nature of jobs; functional activities, such as marketing, financial situation; objectives, for example profit, survival, growth; strengths and weaknesses (internal), opportunities and threats (external), SWOT analysis	Structure Functional Activities Objectives SWOT	Tall, flat, entrepreneurial, centralised, decentralised Marketing, finance, operations, research and development, human resource management Mission statement; strategic and tactical objectives Relative importance of, and interrelationships between, strengths, weaknesses, opportunities and threats; use of PESTEC to analyse external factors; use of a weighting system
Stakeholders	Examples could include owner(s), shareholders, financial institutions, customers, family members, government, local community, management		Relative levels of interest and influence
Decision making	Structured decision making model: extent to which it is used, alternative ways of making decisions	Decision making model	Identify the problem, identify the objectives for the solution, identify the

		Alternative ways of making decisions	constraints, gather and analyse information, devise possible solutions, select the best one, communicate, implement and evaluate the decision Eg fishbone technique; brainstorming
Strategy for future development			
Resource requirements	Finance, labour, premises, plant and equipment		
Sources of data	Primary, secondary, internal, external	Advantages and disadvantages Examples	Eg Primary: first hand, specific, up-to-date, costly; Secondary: often cheap, readily available, may not be fully relevant, complete or accurate; Internal: readily available, not available to competitors, gives view of internal environment only; External: useful for assessing market factors, accessibility often inversely related to usefulness Primary: interviews, performance data, market research information, survey results, interviews with stakeholders;

			secondary: printed and visual media, government statistics; the internet, textbooks, pamphlets, leaflets etc
Methods of data collection	Desk research, field research, observation, questionnaire, interview		
Future levels of activity	<p>Forecasts of future resource requirements based on sales forecasts, use of market research techniques, human resource planning, financial plans based on cash flow forecasts and projected profit and loss statements</p> <p>Proposed strategy relating to marketing — marketing mix, target markets, segmentation; human resources — recruitment and selection, training; finance — sources of finance; operations — process, quality assurance, distribution</p>	<p>Market research techniques</p> <p>Human resource planning: ie ensuring future availability of appropriately skilled staff</p> <p>Financial plans: Cash Flow Forecasts</p>	<p>Market research — observation, interview, questionnaire</p> <p>Influences on future demand for labour, eg demand for product, age profile of current staff, labour turnover</p> <p>Influences on future supply of labour, eg internal: skills profile of current staff, external: unemployment rate, what qualifications are needed and how long they take to achieve</p> <p>Deficit may indicate need to arrange overdraft, chase up payment from debtors, defer plans, look for cost reductions or opportunities to increase revenue</p> <p>Surplus may indicate opportunity for capital investment, repayment of borrowed finance</p>

		Projected Profit and Loss Statements	Brings all budgets, eg production, sales, marketing together; appropriate adjustments can then be made to maximise profit/minimise loss
		Marketing mix	Product, price, place, promotion
		Target markets	Differentiated, undifferentiated, mass, niche
		Market segmentation — eg by gender/age/socio-economic group	Uses, eg more accurate targeting of the marketing mix, cost saving of focusing on research on specific group of customers
		Recruitment	Job analysis, job description, person specification, internal and external sources Application forms/CVs, interviews, group assessments, psychometric testing, skills testing
		Training	On the job, off the job, internal, external
		Sources of finance	Internal, external, long-term, short-term
		Operations — process	Job, batch, flow

		Quality assurance Distribution	Methods of ensuring customer satisfaction, eg codes of practice, symbols, warranties, ISO 9000 Distribution networks, warehousing, suitability of methods of transport, eg cost, speed, security
Sources of assistance	Local Enterprise Companies (LECs), central and local government schemes, venture capital, advice and support from financial institutions etc	Appropriateness of the source chosen, eg unsuitability of short term finance for long term projects; government grants available only in very limited circumstances	
Implementation of strategy	Implementation plan, including planning techniques such as Gantt chart. Control, for example budgetary control, milestones, target dates, critical path analysis	Gantt Charts	Scientific management tool; plots tasks in a project against time; method of scheduling production Advantages: lays out the order of tasks; helps identify links between tasks; helps to assess how long a project should take; shows at a glance what should have been achieved at any point in time; allows you to plan allocation of resources

		<p>Budgetary control</p> <p>Milestones/target dates</p> <p>Critical path analysis (network analysis)</p>	<p>Use of budgets to monitor progress by: comparing planned and actual expenditure and income; identifying and analysing variances; taking corrective action; holding managers accountable for targets set</p> <p>Dated indications of what should be achieved at various points during the course of the strategy; failure to reach a milestone by the target date indicates a need for corrective action</p> <p>Diagram: nodes, activities, earliest start times (EST), latest finishing times (LFT)</p> <p>Uses: shows the order in which everything must be done; indicates float time; indicates things that can be done simultaneously; helps to identify slippages which could delay the project</p>
Strengths and weaknesses of strategy	These should relate to issues such as coherence of strategy, timescale, validity of forecasts, comprehensiveness of strategy, cost of strategy, suitability of strategy in terms of organisational objectives, acceptance of strategy by stakeholders	Specific to the individual candidate's Business Report	