Business and People 1 hour exam Total of 60 marks = 25% of overall GCSE

Business

How to do well in the exam

- Know your facts – almost 50% of the marks in this exam are for the recalling of facts.
- Get your notes in order – use the VLE to check you have got all the notes you need. Print off any you are missing.
- Be familiar with the type of question to be asked – mock exams will help you.
- Give full answers – the number of lines available on your answer sheet is a good guide. If there are 10 lines and you've filled in just 2, that's not good!
- Read the question carefully and refer to the case study in the exam.
- Always explain your answers - PEE: point, explain, example. If you feel you need more info in the case study to answer the question, state what info you need!

Types of Business Activity – primary, secondary and tertiary sectors

Type of Business Activity	Definition	Examples
primary sector	produces or extracts raw materials for other businesses to use	fishing, mining, farming
secondary sector	manufactures (makes) products with raw materials	car manufacturer
tertiary sector	provides a service for its customers	retail, banking, travel, entertainment, customer service, education, health

Interdependence = all businesses depend on other sectors - e.g. a farmer grows potatoes, Walkers make crisps, Tesco sell them! This is an example of a **chain of production** where each businesses **specialises** in one kind of work (**specialisation**) and the secondary sector **add value** to the original raw material (e.g. Walkers add value to the potato – this is called **added value**!)

Changes in the three sectors of business activity in the UK –what has changed and why?

Type of Business Activity	Less or more important	Reason for change
primary sector	less	• raw materials used up (e.g. coal), machines have replaced jobs (e.g. farming) • foreign competition can produce cheaper raw materials (e.g. coal)
secondary sector	Less (the decline of manufacturing is called **de-industrialisation**)	• foreign competition means many goods made overseas (cheaper to produce – e.g. clothes in Primark!) • machinery has replaced jobs (e.g. car plants)
tertiary sector	much more	• Increase in wealth so more money spent in shops, on travel, entertainment etc • Increase in leisure time • Customer service is more important so businesses can keep their customers

Business Objectives (aims) and private, public and voluntary (not for profit sectors)

<table>
<tr><td>Objectives (often found in mission statements)</td><td>Explanation</td><td>Conflict</td></tr>
<tr><td>Profit</td><td>Maximisation of profit – main aim of most businesses in the private sector</td><td rowspan="4">*Profit v. growth – the desire to grow quickly could soak up profit (some shareholders will not like this!)
*Profit v. survival – profit may have to be put on hold if a business is struggling to survive
*Profit or growth v. service – some might want to ‘get rich quick’ at expense of service</td></tr>
<tr><td>Growth</td><td>Usually the best way to raise profit and the aim of most businesses in the private sector:
Sales growth
Increased market share (e.g. Ford having a greater percentage share of the UK car sales)
Eliminate competition</td></tr>
<tr><td>Survival</td><td>Very important for a new business or an established business facing problems</td></tr>
<tr><td>Providing a service</td><td>All businesses will want to provide a service but it is the most important aim for the public sector</td></tr>
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Sector	Definition	Examples	Objectives
Private sector	businesses owned by private individuals	Tesco	Usually profit and growth but with new or struggling businesses, main aim is survival
Public sector	organisations controlled by central and local government	NHS, education, police, fire and local councils + **public corporations** like the BBC and the Post Office	Most important aim is service!
Voluntary (not for profit) sector	Charities and social clubs.	Oxfam Scout/guide groups	Raise money, further a cause, provide a service for its members

Stakeholders = individuals or groups with an interest in a business

You should be able to think why some or all of the following could be stakeholders in a business and why they often have conflicting interests:

- Workers
- Managers
- Owners
- Customers
- Suppliers
- Government
- Local community
- Competitor
- Interest and pressure groups

Type of Business Organisation in the <u>Private</u> Sector

	Unincorporated		**Incorporated**	
Definition	Sole proprietors and partnerships are easier to set up but have no separate legal identity		**Incorporation** is a legal process which Ltd and PLC businesses must go through. The **Registrar of Companies** issues a **Certificate of Incorporation** once companies have registered.	
	Sole proprietor (or trader)	**Partnership**	**Private Limited Company (Ltd)**	**Public Limited Company (PLC)**
Definition	One person owns the business.	A min of 2 and a max of 20 partners own the business. A **deed of partnership** states how profit will be shared.	Shares are sold to private investors (managers, friends, family, wealthy backers).	These companies sell their shares on the London Stock Exchange to the public – they must have an **issued share capital** of >£50000 and are usually the largest companies. Minority shareholders own a small percentage of the shares and major shareholders, known as institutional shareholders, like investment companies, own a large number of shares
Common features	• **Unlimited liability** – owners are personally liable for all business debts so personal possessions may be lost in insolvency • The owner(s) pays income tax is paid on profit • Financial information is private – stays with the owner(s)		• Limited liability – the liability of the owners (shareholders) is limited to the amount of money they have invested in the business (i.e. the shares they bought) • Companies are owned by shareholders • The business has a **separate legal entity** from its owners • Corporation tax (tax paid by businesses) is paid on any profit • Finance can be raised through sale of shares • Financial info is available to public • A **Board of Directors** runs the company, made up of **directors** elected by shareholders at the **Annual General Meeting (AGM)**. The **Chair of the Board of Directors** is responsible for the way the board operates and the **Managing Director** runs the overall company.	
Main difference	A sole proprietor company is owned by one person but a partnership is owned by 2-20 partners		Shares in a PLC are sold to the public on the stock exchange and so PLCs can raise more money than a Private Limited Company	
Advantages	*Easy to set up *Not much **start-up capital** needed *Owner has 100% control *Owner can keep profit *The company's financial info stays private	*More capital available *More specialist skills available *Illness not such a problem *The company's financial info stays private with partners *Easy to set up ***Sleeping partners** can contribute capital	*Limited liability *Capital from investors who buy shares in the company * Company has a separate legal identity from owners * Continuity – company continues to trade in the event of a death of one of the owners (shareholders)	*Limited liability *PLCs can easily raise large sums of finance through sales of shares – much more than most Private Limited Companies *Company has a separate legal identity from owners * Continuity – company continues to trade in the event of a death of one of the owners (shareholders)
Disadvantages	*Unlimited liability *Possible shortage of **capital** – can't always borrow money *Illness! *Hard work needed *Owner might not be able to sell/pass business on *Shortage of skills	*Profit has to be shared among partners *Unlimited liability *Disagreements! *Can still be short of capital	* Financial info has to be made available to public which means competitors can see it! *Incorporation costs money and takes time *Shares cannot be sold to general public so capital might be short *Shareholders will expect a share of the profits in the form of **dividends**	* Financial info has to be made available to public in the form of an annual report so competitors can see it! *Incorporation costs money and takes time ***Takeover** – it is possible for other companies to buy up large numbers of shares and takeover the ownership of the company *Shareholders will expect a share of the profits in the form of **dividends**

There are also some other types of business organisation:

- **Co-operatives** – some independent producers (e.g. dairy farmers) work together and trade as though they are a single larger business (and get a better price)
- **Social Enterprise** – a business that is run for the benefit of the community. Not all the profits are kept by the owners – some are put back into community projects
- **Multinational companies** – these are usually large PLCs that have a head office in one country with offices/factories in other countries – e.g. Sony. With increasing **globalisation**, there has been a growth in the number of MNCs. Advantages: production can be located in countries where labour costs are low. Disadvantages: communication problems caused by location in different countries.
- **Franchise** – is not a type of business arrangement but is a marketing arrangement. An existing business **(franchisor)** sells to another business **(the franchisee)** the right to use its products, services and logos. A franchise can be organised into any one of the four main forms of business organisation in the private sector.

Reasons for Business Failure

- Poor management
- No demand for product or service
- Wrong location
- Poor cash flow – money is not coming in for large parts of the year (e.g. a Xmas decoration shop!)
- Running costs are too high
- Too much competition
- Poor quality of goods or services
- Not enough profit made
- Unfavourable exchange rate can affect companies if they are trading outside of the UK

Types of Business Growth

- **Merging** – one business decides to merge (join together) with another
- **Takeover** – one business buys control of another by buying enough shares in the business to be able to outvote other shareholders
- **Internal expansion** – a business grows by increasing its production – e.g. by building a new factory

Integration = when a company merges with or takes over another business. There are different types of integration – try to think of advantages & disadvantages for each.

Type of integration	Explanation: one business merges with or takes over another business:	Example: a brewery buys
Horizontal	in the same industry at the same stage of production	another brewery
Backwards vertical	that is a supplier of goods/services for this company	a hops farm (hops is used to make beer!)
Forwards vertical	that provides an outlet for its products or services	a pub chain
Diversification (or conglomerate)	in an unrelated business activity	a coffee shop chain

Factors Affecting Location of a Business

For some companies, location is less important. They are **footloose** – e.g. call centres or internet companies do not need to be in town centres (expensive!)

Factor	Explanation/example
Type of product or service	A shipbuilder will be near the sea so that the finished boat can be launched!
Availability of and access to raw materials	A paper mill might be near a forest!
The cost of the location	The cost of land and buildings varies – e.g. costs in central London will be more than in rural Suffolk
Access to and nearness to markets	A Tesco superstore will be near a large centre of population!
Climate and physical geography	East Anglia is flat so is suited to growing cereal crops – e.g. wheat
Availability of transport links	Many warehouses are located in Rugby as it is near the M1 and the M6
Tradition	Many Cornish pasties are made in Cornwall!
Cost of labour	With increasing **globalisation**, companies often move production overseas where wages are lower and they can reduce costs
Central government	Central government often encourage businesses to locate in a certain area by providing grants. It has announced that the Regional Development Agencies (RDAs) will close at the end of March 2012. Economic development and regeneration will in future be led by Local Enterprise Partnerships in 22 new Enterprise Zones (e.g. Alconbury Airfield)
Local government	Councils encourage businesses to locate in their area with grants – e.g. provision of industrial estates or technology parks on greenfield (sites with no previous business) or brownfield (sites with previous business activity) sites.

People

Recruitment and Selection (carried out by the **Personnel or Human Resources Dept** in most companies)

- **Recruitment** = process by a company to seek out interested and qualified applicants for a job vacancy
- **Selection** = the process of choosing one person from all the applicants to fill the vacancy

The main stages:

- **Needs analysis** – a company decides how many workers it needs to employ, what type and when. A job description (lists the duties a worker must perform) and a person specification (lists the knowledge, experience, qualifications and qualities needed for the job) are drawn up at this stage.
- **Advertising the post**: a job advert should get the right people applying! Think what it should contain (duties, requirements, salary etc) and where the advert should appear. Think why some jobs adverts appear in local newspapers but some appear in national newspapers, specialist magazines, job centres or the internet. At this stage, a company decides if it is to use internal recruitment (only staff already in the company apply) or external recruitment (people from outside the business can apply). You should be able to think of advantages and disadvantages of internal and external recruitment!

- **Selecting from the applicants** – firstly, the organisation draws up a **shortlist** of applicants to invite to interview from all the people who applied for the jobs. Letters of application, application forms and CVs are used to decide the shortlist. Secondly, there is the **final stage of selection**: interviews are usually used to decide who will get the job, but references, psychometric tests (testing personality), presentations and tests (e.g. maths, IT) can also be used. There are advantages and disadvantages for all these methods use to decide who should get the job – e.g. an interview shows how well applicants present themselves but of course, they can put on a 'show' and deceive!

You need to be able to explain why finding the right people to work for a company and then retaining them (**retention**) are so important.

Recruitment agencies and employment agencies are also involved in recruitment and selection. A recruitment agency will, for a fee, do much of the recruitment and selection work for a company. An employment agency, for a fee, provides workers (e.g. office staff)to a company for short periods of time.

Motivation – the encouragement given to staff to work hard and work well so that they feel good about the company and have high **productivity**.

What motivates workers? Maslow's theory, pay and non-pay methods of motivation.

Maslow's hierarchy of needs – workers have a variety of needs that need to be satisfied in the workplace if they are to be motivated. Starting at the bottom of the pyramid are physiological needs (enough wages to provide food, shelter and the basics) → safety needs → social needs (e.g. teamwork) → self-esteem (e.g. worker gets an award) →self-fulfilment (self-fulfilment) (e.g. worker feels that he has achieved his potential)

Non-Pay Methods of Motivation

Method	Description	Comment
Fear	Fear of being told off or getting the sack makes workers work harder	Won't work in the long term as workers may leave or lack motivation
Job rotation	Different jobs are performed by staff.	Often used on production lines to stop boredom
Job enlargement	Workers given different tasks in addition to the work they already do	Provides variety for the workers
Job enrichment	Workers given more responsibility and so have self-esteem	Training is often given so workers can cope with new responsibilities
Team working	Workers placed in teams to perform tasks or take part in social events or team-building courses as most workers like the social contact and perform better	Workers in groups may be given responsibility for what they do – they are **empowered (empowerment** can also be used for individuals)
Award schemes	E.g. employer of the month award scheme	Meets self-esteem needs of a worker
Promotion	Recognises achievement of worker (self-actualisation)	Possibility of gaining promotion also encourages workers
Leadership	A good leader/manager motivates: most workers are more likely to be motivated by laissez-faire or democratic leadership than by autocratic leadership	• Autocratic leadership – the leader decides and workers obey! • Laissez-faire leadership – the leader decides objectives but workers are given responsibility for deciding how to achieve them • Democratic leadership – workers discuss plans with management and contribute to decision making
Working environment	Good working conditions (e.g. good canteen) will make staff happy to work for a company	

Pay Methods of Motivation

Method of Pay	Description	Comment
Time rate	Set sum paid for each hour worked	No reward for quality of work done
Overtime pay	A higher rate of pay to persuade workers to work extra hours	Costs company more money but may be cheaper than hiring new staff
Salary	Worker is paid set sum for the year – e.g. teacher	Worker may not want to work hard as is not paid more for working longer hours
Piece rate	Sum of money paid for each item produced	Workers may rush their work and produce poor quality
Bonus	Extra lump sum paid to worker for reaching a target	Will not motivate if the target set is too high
Profit-sharing	A share of company profit is paid to workers	Not all workers will deserve this!
Fringe benefits (perks)	Non-money rewards (e.g. gym membership) given to staff	£100 of vouchers costs a company less than giving £100 take-home pay (no tax!)

Training

You need to know why training is important for the individual and for a business. Remember, the UK needs a highly trained workforce if it is to compete in a global economy. **Training needs**: workers need training for different reasons.

- Some might need to acquire **technical, personal** (e.g. how to communicate better), **management or team work skills**.
- New workers need **induction training** to introduce them to the organisation so that they can settle in (tour of the workplace, meeting new colleagues etc)
- Some need **product knowledge** training (e.g. to help them sell products to customers)
- Some workers starting a new career will need **retraining**
- A business will allow **personal development** of workers that might not be linked directly to work to boost their self-esteem (e.g. contribute to evening classes)

	Definitions/methods	Advantages	Disadvantages
On-the-job training	Training carried out in the worker's place of work. Either someone with experience helps the trainee when he/she is doing the job or the trainee shadows another worker and so learns by watching. **Coaching** can be part of on-the-job training: one worker (the **coach**) works with another **(coachee)** in the workplace and then makes suggestions as to how the coachee might improve.	*Trainee gets individual training *Cheaper for company *Trainee is trained in the way of the firm *Worker might still be working whilst training	*Trainer cannot fully do own job if training *Trainee may not produce good quality work *Not suitable for groups of workers
Off-the-job training	The trainee completes training away from where he/she normally works, either in a college or training centre, or in another part of the company's site (e.g. in a lecture room). **Lectures, demonstrations, role-play and team building exercises** can all be part of off-the-job training.	*Experts may provide training *Workers often enjoy change of environment	*Usually more expensive (e.g. fee for outside trainer)

- Staff appraisals: at least once a year, an employee **(appraisee)** will meet with his/her boss **(appraiser).** Last year's performance and targets will be reviewed and next year's targets (together with any training needed) are decided. This is particularly important where a worker is **on performance-related pay**.
- Investors in People (IIP) award is a quality assurance scheme for organisations who provide structured opportunities for staff development.
- Lifelong Learning: a government programme to encourage learning throughout a worker's life so that workers have the necessary skills and qualifications.

Employment Laws – laws in place to protect workers against unfair treatment.

Law	Description
Equal Pay Act 1970	Women are paid same as men when they do the same work
Race Relations Act 1976	People cannot be treated differently **(discrimination)** on grounds of race, colour, nationality or ethnic origin
Sex Discrimination Act 1975	Stops discrimination on gender. Job adverts can only ask for a specific gender in exceptional circumstances (e.g. female PE teacher)
Health and Safety at Work Act 1974	Employer is responsible for protecting worker from dangers in the workplace. The law covers training, safety equipment, breaks etc. All companies with more than 5 employees must have a written health and safety policy.
Minimum Wage Act 1997	Minimum wage set for 16-17, 18-21 and 22+ to avoid **exploitation of workers**. A few exceptions – e.g. au pair
Employment Rights Act 1996	A written contract of work (or a 'statement of particulars) with job title, hours etc must be given to worker within 2 months of start
Disability Discrimination Act 1995	Employers cannot discriminate against the disabled when recruiting or in the workplace. Premises must provide access, unless it is physically impossible to do so (e.g. install a lift)

- **Employment tribunals** – courts of law that deal with disputes between workers and the employer.
- **Redundancy** – workers' employment is ended because they are no longer needed by the firm (e.g. if bankrupt, using more machines, **restructuring** or cutting costs). The employer must pay redundancy money if the employee has worked for > 2 years. A firm may ask its workers if any want **voluntary redundancy**.
- **Dismissal** – for **gross misconduct** (e.g. assaulting a customer!) or for **incompetence** (not doing the job properly)

Trade Unions – organisations that protect the interests of workers (e.g. National Union of Teachers)

- They have strength in numbers (they may represent a lot of workers in a business) and do two main jobs:
- Act as a pressure group –i.e. they seek to influence the UK government (or sometimes the EU) to make laws in the interests of its members, the workers.
- Protect the interests of its members – e.g. working conditions, hours, redundancy, unfair dismissal, safety, discrimination, pay etc. – and give expert advice and support (e.g.in legal cases at tribunals). They also seek to secure good pay for their members by negotiating pay deals with a company.

There are 3 main types of **industrial action**:

Industrial action	Description
Strike	Workers withdraw their labour (refuse to work!). A strike can damage the employer, customers and the workers – think why?!
Overtime ban	Workers only work the hours stated in their contracts and do not work overtime hours.
Work to rule	Workers only do tasks that are included in their job descriptions and refuse to do anything else.

- Industrial relations is the term for dealings between unions and management
- Single union agreements – all workers in a firm are in the same union which may make it easier for management to negotiate and may give workers more strength.
- ACAS – Advisory Conciliation and Arbitration Service is an organisation which helps to settle disputes between workers and employers

Communication (within companies)

Types of communication

- **One-way:** message is sent but the sender is not expecting a reply (e.g. a report)
- **Two-way:** person receiving the message can reply to the sender (e.g. phone call, conversation, email)
- **Internal:** between people who work in the same organisation (can be **vertical** – between people on different layers of the hierarchy – or **horizontal** – between people at the same level in the organisation).
- **External:** between one person in an organisation and one person outside that organisation.
- **Formal:** official means of communication – e.g. letter, report, appraisal documents
- **Informal:** not formal! E.g. conversation at break

Methods of communication – you need to think of advantages and disadvantages for each method

- **Verbal** (e.g. face-to-face conversation, lectures, telephone)
- **Written** (e.g. letters, reports, emails)
- **With images** (e.g. poster, video clip)

There can be **barriers to communication** – factors that stop the receiver understanding fully the message from the sender:

- Timing – message sent at wrong time (e.g. receiver not there!)
- Clarity – if a message isn't clear, it might not be understood fully
- Attitudes – the sender or receiver may not be in the right frame of mind for clear communication to work!
- Wrong method – an urgent email doesn't work if emails aren't checked all the time!
- Technical hitch – e.g. server is down so emails cannot be sent or received

ICT (Information and Communications Technology) – includes applications on PCs (Word etc), internet, email, mobile phone technology etc

Advantages of ICT for companies	Disadvantages of ICT for companies
Productivity is higher Quality of presentation is improved Info can be processed and then shared more easily Better communications within a firm and with customers and other businesses Workers can work at home. Meetings can be held by video-conferencing (less travel is good for the environment!).	Training needed ICT equipment can be expensive Technical problems can occur Health and safety issues (repetitive strain injury if using keyboard too much!) Security problems if the firm's system is hacked into

Working from home can be good for the worker (e.g. no commuting) but also has some disadvantages (no social contact in workplace). Can you think of other points?

Organisation Charts – you should be able to understand why organisations have organisation charts?!

- Most are organised by **function** (department -e.g. Finance, Marketing, IT)
- They show a **hierarchy** with several **layers.** Higher layers have more authority and responsibilities (but they also are **accountable** – will be blamed if something goes wrong in their area)
- There is a **chain of command** running down the layers.
- The number of **subordinates** for whom a manager has responsibility is called a **span of control**. **Staff** are delegated responsibility by their **Line Managers**.
- Organisation charts only show **formal groups, not informal groups**.
- **Tall structures** have lots of layers so lines of communication & responsibilities are clear and there are plenty of opportunities for promotion. Managers have narrow spans of control so do not have too many workers to look after.
- **Flat structures** have fewer layers so communication is quicker, more ideas pass from 'bottom' to 'top' and managers have wider spans of control and so have to trust their workers who feel **empowered.** **De-layering** (getting rid of layers) leads to flatter structures and can save money (fewer manager salaries have to be paid!)