Unit 2: BUSINES AND PEOPLE (Exam = 1 hour)

Unit 3: PRODUCTION, FINANCE AND THE EXTERNAL BUSINESS ENVIRONMENT (Exam = 1.5 hours – Case Study)

This revision book is split into the two units. A glossary of key terms for unit 3 is at the end of the booklet. You will also be provided with some model answers for unit 3 at a later date.

A copy of the diagnostic that you completed in class has been included for your own use.

This revision guide has been written by the Business Studies Department – St Crispin’s School.
Unit 2: Business and People

TYPES OF BUSINESS ORGANISATIONS
Unincorporated business = sole traders and partnerships
Incorporated business = limited companies

Other types of business organisations = franchises, multinationals, public corporations, charities (not-for-profit organisations), co-operatives

Sole traders (sole proprietors)

A sole trader describes any business that is owned and controlled by one person - although they may employ workers. Individuals who provide a specialist service like plumbers, hairdressers or photographers are often sole traders.

Sole traders do not have a separate legal existence from the business. In the eyes of the law, the business and the owner are the same. As a result, the owner is personally liable for the firm's debts and may have to pay for losses made by the business out of their own pocket. This is called unlimited liability.

Advantages

- It is easy to set up as no formal legal paperwork is required.
- Generally, only a small amount of capital needs to be invested, which reduces the initial start-up cost.
- As the only owner, the entrepreneur can make decisions without consulting anyone else.

Disadvantages

- The sole trader has no one to share the responsibility of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
- Sole traders often work long hours. They may find it difficult to take holidays or time off if they are ill.
- They face unlimited liability if the business fails.
Partnerships – Between 2 and 20 partners

Dental surgeries are often partnerships.

Doctors, dentists and solicitors are typical examples of professionals who may go into partnership together and can benefit from shared expertise. One advantage of partnership is that there is someone to consult on business decisions.

The main disadvantage of a partnership comes from shared responsibility. Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another. Like a sole trader, partners have unlimited liability.

FRANCHISES

An entrepreneur can opt to set up a new independent business and try to win customers. An alternative is to buy into an existing business and acquire the right to use an existing business idea. This is called franchising.

A franchise is a joint venture between:

- A franchisee, who buys the right from a franchisor to copy a business format.
- And a franchisor, who sells the right to use a business idea in a particular location.

Many well-known high street opticians and burger bars are franchises.

Opening a franchise is usually less risky than setting up as an independent retailer. The franchisee is adopting a proven business model and selling a well-known product in a new local branch. However, the independent retailer will have less control and will have to pay part of its profit to the franchisor as a royalty payment.

CO-O-PERATIVES

A cooperative may also be defined as a business owned and controlled equally by the people who use its services or by the people who work there.
Everyone has an equal say in the business no matter how many shares they own. It is therefore very democratic.

For worker co-ops the profit is split between the workers and this can be very motivating as the profit goes only to workers and not to any other shareholders.

**PUBLIC CORPORATIONS**

An organisation owned by the government, eg Post Office, BBC. The main objective would be to provide a good service for customers and NOT to make a profit.

**MULTINATIONALS**

Companies that operate in several countries are called multinational corporations (MNCs). The US fast-food chain McDonald’s is a large MNC - it has nearly 30,000 restaurants in 119 countries.

Advantages enjoyed by multinationals;

- cheap raw materials
- cheap labour supply
- access to markets where the goods are sold
- friendly government policies
Limited companies

NB – limited companies are in the PRIVATE SECTOR

A limited company has special status in the eyes of the law. These types of company are incorporated, which means they have their own legal identity and can sue or own assets in their own right. The ownership of a limited company is divided up into equal parts called shares. Whoever owns one or more of these is called a shareholder.

Shareholders receive dividends which are part of the profit. Because limited companies have their own legal identity, their owners are not personally liable for the firm’s debts. The shareholders have limited liability, which is the major advantage of this type of business. If the business went bankrupt then the shareholder would only lose the money they paid for the shares and not any of their personal possessions.

A major disadvantage however, is that financial information can be obtained by anyone. Also to form a limited company can be time consuming. Limited companies pay corporation tax on their profits.

There are two main types of limited company:

- A private limited company (ltd) is often a small business such as an independent retailer in a market town. Shares do not trade on the stock exchange. Shareholders are usually family and friends. Therefore there is no risk of a takeover as all shareholders have to agree if they want to sell their shares. However, because small number of shares are sold less finance can be raised.

- A public limited company (plc) is usually a large, well-known business. This could be a manufacturer or a chain of retailers with branches in most city centres. Shares trade on the stock exchange so lots of capital can be raised to invest into the business and help it to grow. However, anyone can buy shares and if another company buys over 50% of the shares they can takeover the control of the company. This is because 1 share = 1 vote. For a ltd company to change to a plc at least £50,000 worth of shares must be sold.

Unlike a sole trader or a partnership, the owners (shareholders) of a plc are not necessarily involved in running the business, unless they have been elected to the Board of Directors.

TIP – Do not confuse PUBLIC CORPORATIONS WITH PUBLIC LIMITED COMPANIES
Business Objectives

When a sole trader sets up they may have some unstated aims or objectives - for example to survive for the first year. Other businesses may wish to state exactly what they are aiming to do, such as Amazon, the Internet CD and bookseller, who wants to “make history and have fun”.

Objectives give the business a clearly defined target. Plans can then be made to achieve these targets. This can motivate the employees. It also enables the business to measure the progress towards to its stated aims.

The main objectives that a business might have are:

- **Survival** - a short term objective, probably for small business just starting out, or when a new firm enters the market or at a time of crisis.

- **Profit maximisation** - try to make the most profit possible - most like to be the aim of the owners and shareholders.

- **Profit satisficing** - try to make enough profit to keep the owners comfortable - probably the aim of smaller businesses whose owners do not want to work longer hours.

- **Sales growth** - where the business tries to make as many sales as possible. This may be because the managers believe that the survival of the business depends on being large. Large businesses can also benefit from economies of scale.

A business may find that some of their objectives conflict with one and other:

- Growth versus profit: for example, achieving higher sales in the short term (e.g. by cutting prices) will reduce short-term profit.

- Short-term versus long-term: for example, a business may decide to accept lower cash flows in the short-term whilst it invests heavily in new products or plant and equipment.

- Large investors in the Stock Exchange are often accused of looking too much at short-term objectives and company performance rather than investing in a business for the long-term.
Alternative Aims and Objectives

Not all businesses seek profit or growth. Some organisations have alternative objectives.

Examples of other objectives:

**Ethical and socially responsible objectives** - organisations like the Co-op or the Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate.

**Public sector corporations** are run to not only generate a profit but provide a service to the public. This service will need to meet the needs of the less well off in society or help improve the ability of the economy to function: e.g. cheap and accessible transport service.

**Public sector organisations** that monitor or control private sector activities have objectives that are to ensure that the business they are monitoring comply with the laws laid down.

**Charities and voluntary organisations** - their aims and objectives are led by the beliefs they stand for.

Changing Objectives

A business may change its objectives over time due to the following reasons:

A business may achieve an objective and will need to move onto another one (e.g. survival in the first year may lead to an objective of increasing profit in the second year).

The competitive environment might change, with the launch of new products from competitors.

Technology might change product designs, so sales and production targets might need to change.
Primary Sector, Secondary Sector and Tertiary Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary sector</td>
<td>Produces raw materials, involves some sort of extraction e.g. mining, farming, fishing, chopping down trees</td>
</tr>
<tr>
<td>Secondary Sector</td>
<td>This is the manufacturing sector where raw materials are turned into finished goods for sale. E.g. Car factory or paper mill</td>
</tr>
<tr>
<td>Tertiary Sector</td>
<td>This is the retail and service businesses so all shops and people that offer services to others e.g. cleaners, gardeners, dog walkers etc. A service is something you cannot hold or touch e.g. insurance.</td>
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</tbody>
</table>

**Decline of primary jobs**

- We are running out of natural resources, our coal and fish stocks are almost gone, so less miners and fishermen
- We also cannot compete against cheap foreign imports so less farmers
- We have more leisure time so need more entertainment e.g. cinema jobs

**Decline of Secondary jobs**

- We cannot compete against foreign imported made goods
- We are facing a process of de-industrialisation as we become a less industrial nation and move toward knowledge work such as web design and money management
- We are automating manufacture of goods such as robots to make cars, means less jobs for workers.

**Decline of primary jobs**

- We are running out of natural resources, our coal and fish stocks are almost gone, so less miners and fishermen
- We also cannot compete against cheap foreign imports so less farmers
A business’s location can make an important difference to its success. Choosing the right location means taking into account a number of factors.

The importance of location

Being close to main roads can be an advantage for a business

**Location** is the place where a firm decides to site its operations. Location decisions can have a big impact on costs and revenues.

A business needs to decide on the best location taking into account factors such as:

- **Customers** - is the location convenient for customers?
- **Staff** - are there sufficient numbers of local staff with the right skills willing to work at the right wage?
- **Support services** - are there services offering specialist advice, training and support?
- **Cost** - how much will the premises cost? Those situated in prime locations (such as city centres) are far more expensive to rent than edge-of-town premises.

- **The importance of infrastructure**
- **Infrastructure** refers to the facilities that support everyday economic activity, eg roads, phone lines and gas pipes.
• An efficient **transport network** enables staff to get to work easily. It also allows supplies to be brought in from far afield and permits finished products to be moved to market cheaply and quickly.

• The impact of location depends on the type of business. For example, it is important for shops and restaurants to be **conveniently located** for customers. A delivery-only takeaway may prefer to locate in inexpensive premises on the edge of town close to good transport links.

**Government and location**

The government offers grants and assistance to businesses that locate in areas with high unemployment. Incentives include:

• **Grants** to help with the cost of setting up a business. Grant money does not need to be repaid.

• **Loans**, which are repayable over many years at low rates of interest.

• **Tax breaks**, for example firms may be made exempt from paying business rates.

**Overseas location decisions**

Moving a business can have both advantages and disadvantages

Setting up a business overseas involves a number of challenges including:

• **Cultural and language barriers** where managers are unfamiliar with local customs.

• **Legal issues** where local laws are different.

• **Exchange rate issues**. Unexpected changes in the value of sterling can have an impact on prices, costs and profits.

**Stakeholders**

**What are stakeholders?**

A **stakeholder** is anyone with an interest in a business. Stakeholders are **individuals, groups or organisations** that are affected by the activity of the business. They include:

• **Owners** who are interested in how much **profit** the business makes.

• **Managers** who are concerned about their **salary**.

• **Workers** who want to earn **high wages** and **keep their jobs**.

• **Customers** who want the business to produce quality products at reasonable prices.

• **Suppliers** who want the business to continue to buy their products.

• **Lenders** who want to be repaid on time and in full.
• The **community** which has a stake in the business as employers of **local people**. Business activity also affects the **local environment**. For example, noisy night-time deliveries or a smelly factory would be unpopular with local residents. **Internal stakeholders** are groups within a business - e.g. owners and workers. **External stakeholders** are groups outside a business - e.g. the community.

**Conflict of Stakeholders**

**Conflict between managers and workers** can lead to **industrial action**. Some workers are members of **trade unions**, which negotiate with employers over pay and conditions, and may organise **strikes**. Industrial action is bad for Vandyke Pizzeria because it can stop production, let down customers and lose the business money.

**Poor communication** between internal stakeholders can lead to **reduced morale** and a **loss in productivity** or **competitiveness**.

**Growth**

**Economies of Scale**

This is the reduction in unit/average cost due to an increase in the scale of production of the business.

• Large firms can borrow more cheaply
• Large firms can produce a range of products and have a larger market share. This is called **DIVERSIFICATION**.
• Large firms can buy materials in bulk and get a discount (money off)
• Large firms can use better and more efficient machinery
Some firms prefer to stay small

Because they:-

- like to give personal service to their customers
- they are unable to gain the money needed for expansion
- are sole traders who prefer to keep total control
- find it difficult to keep control over large enterprises

How do firms grow?

**Vertical backward**
Merge or buy a cocoa farm

**Horizontal**
Merge or buy Mars

**Vertical forward**
Merge or buy a corner shop

**Diversification**
Merge or buy Sky

**Lateral**
Merge or buy a chocolate fountain business

<table>
<thead>
<tr>
<th>Horizontal integration</th>
<th>Occurs between businesses in the same industry at the same stage of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Backwards vertical</td>
<td>A business takes over or merges with a supplier</td>
</tr>
<tr>
<td>Forwards vertical</td>
<td>A business takes over or merges with another business which provides an outlet for the goods and services produced</td>
</tr>
<tr>
<td>Diversification</td>
<td>Merge or takeover of another business involved in an unrelated business activity</td>
</tr>
<tr>
<td>Lateral</td>
<td>Merge or take over a business that is related to your product, but is not the same</td>
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</tbody>
</table>
RECRUITMENT AND SELECTION

Firms recruit, select and train staff in different ways with varying degrees of success.

Recruiting staff

Without the right staff with the right skills, a business cannot make enough products to satisfy customer requirements. This is why organisations draw up workforce plans to identify their future staffing requirements. For example, they may develop plans to recruit a new IT Manager when the current one plans to retire in eight months time.

Recruitment is the process by which a business seeks to hire the right person for a vacancy. The firm writes a job description and person specification for the post and then advertises the vacancy in an appropriate place.

- **Job descriptions** explain the work to be done and typically set out the job title, location of work and main tasks of the employee.
- **Person specifications** list individual qualities of the person required, eg qualifications, experience and skills.

Firms can recruit from inside or outside the organisation.

- **Internal recruitment** involves appointing existing staff. A known person is recruited.
- **External recruitment** involves hiring staff from outside the organisation.
The table below shows the advantages of internal and external recruitment

<table>
<thead>
<tr>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheaper and quicker to recruit</td>
<td>Outside people bring in new ideas and a wider range of experience</td>
</tr>
<tr>
<td>Limits the number of potential applicants</td>
<td>Longer process</td>
</tr>
<tr>
<td>People already familiar with the business and how it operates</td>
<td>Larger pool of workers from which to find the best candidate</td>
</tr>
<tr>
<td>Provides opportunities for promotion with in the business – can be motivating</td>
<td>More expensive process due to advertisements and interviews required</td>
</tr>
<tr>
<td>Business already knows the strengths and weaknesses of candidates</td>
<td>It does not create and internal vacancy which also has to be filled</td>
</tr>
</tbody>
</table>

**METHODS OF SELECTION**

Application forms, CVs, references, interviews, presentations, role-play and tests can be used to show if an individual is suitable for the specific job on offer.

You need to be aware of the advantages and disadvantages of each;

<table>
<thead>
<tr>
<th>Method of selection</th>
<th>advantage</th>
<th>disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Application forms – a standard form is sent to applicants to complete</td>
<td>*Easy to compare as all applicants will answer the same questions. *The business can chose the questions</td>
<td>*The candidate may have specific skills that they can not showcase on the form. *Hs the candidate completed the form themselves?</td>
</tr>
<tr>
<td>CV</td>
<td>*Will show the candidates ICT skills</td>
<td>*Difficult to compare. *Questions cannot be directed by the business.</td>
</tr>
</tbody>
</table>
*The candidate has more freedom to show off certain qualities.

| Interviews | *The business can meet the candidate and see their appearance, communication skills, etc... | *Some very suitable candidates may be overcome by nerves and my underperform. The best candidate may therefore not be chosen |

**Media used to advertise jobs:**

**LOCAL NEWSPAPERS** – Relatively cheap, useful for attracting local people who could easily commute to the business.

**NATIONAL NEWSPAPERS** – More expensive, usually to attract specialist workers from a wider area. This is allows for a better selection of candidates.

**JOB CENTRES** – Run by the government. Are in the public sector. Free for businesses to advertise. Often used for semi-skilled and unskilled jobs.

**INTERNET** – Cheap so reduces the firms costs. Useful for attracting people with ICT skills.

**Training**

Training is a very important part of the Human Resource Department’s work. In some large firms there is very often a separate training department. Ideally, training should involve the worker before they actually start the job, during the first few weeks of employment and throughout their careers.

**The purpose of training**

- Train new workers for particular jobs
- Help to improve the efficiency of existing workers
- Avoid accidents at work
- Retrain workers so they can cope with new technology
- Help workers gain promotion to better jobs within the firm

**INDUCTION:** This should be available to all new employees. Basic induction will involve health & safety procedures, location of work-space, staff canteen (if
available), procedures for breaks and lunch, meeting with co-workers etc. The purpose of induction is to 'settle' a new employee in and make them feel welcome, as well as giving them information.

**ON-THE-JOB**: This takes place in the work-place, while actually carrying out the job itself. It may involve being coached by an existing member of staff - particularly for promoted positions; or it may involve 'buddying-up' with a similar worker so that they can teach you how to do certain tasks.

The great thing about on-the-job is that it is not only CHEAPER for a business, but it also means that any difficulties can be identified and sorted out quickly.

**OFF-THE-JOB**: This takes place either away from the work-place altogether, or within the work-place but away from the job itself. It is quite often provided by 'outside' experts, for example training on a new piece of computer software for the accounts department. It may last only a few days or it may involve a longer commitment from both the employer and the employee - for example, college day release to attend a college course.

The great thing about off-the-job is that there are no distractions from work while it is taking place. Because it may be provided by specialists, it is often of high quality. A business may send only ONE of its employees on the course and then they can come back into the business and CASCADE the training to other members of the organisation - i.e teach or show others, making it very cost effective for the business!

Unfortunately off-the-job can also be quite expensive if it is necessary to take lots of employees away from their work. Also if a business sends out only one employee and then expects them to come back to train the rest, they could end up with the whole workforce copying the mistakes of the original employee!

**Motivation**

Companies can motivate employees to do a better job than they otherwise would. Incentives that can be offered to staff include increased pay or improved working conditions. Motivational theories suggest ways to encourage employees to work harder.
What is motivation?

**Motivation** is about the ways a business can encourage staff to give their best.

Benefits of motivation:

* **Increased output** caused by extra effort from workers.
* **Improved quality** as staff take a greater pride in their work.
* **A higher level of staff retention.** Workers are keen to stay with the firm and also reluctant to take unnecessary days off work.

Managers can influence employee motivation in a variety of ways:

**Monetary factors:** some staff work harder if offered higher pay.

**Non-monetary factors:** other staff respond to incentives that have nothing to do with pay, e.g. improved working conditions or the chance to win promotion.

**Payment methods**

Managers can motivate staff by paying a fair wage. Payment methods include:

- **Time rate:** staff are paid for the number of hours worked.
- **Overtime:** staff are paid extra for working beyond normal hours.
- **Piece rate:** staff are paid for the number of items produced.
- **Commission:** staff are paid for the number of items they sell.
- **Performance related pay:** staff get a bonus for meeting a target set by their manager.
- **Profit sharing:** staff receive a part of any profits made by the business.
- **Salary:** staff are paid monthly no matter how many hours they work.
- **Fringe benefits:** are payments in kind, eg a company car or staff discounts.

**Non-pay methods of motivation**

Managers can motivate staff using factors other than pay through:

- **Job rotation:** staff are switched between different tasks to reduce monotony.
- **Job enlargement:** staff are given more tasks to do of similar difficulty.
- **Job enrichment:** staff are given more interesting and challenging tasks.
- **Empowerment:** staff are given the authority to make decisions about how they do their job.
- **Putting groups of workers in a team** who are responsible together for completing a certain task.
Motivational theories

- Managers can make use of a number of motivational theories to help encourage employees to work harder.

Maslow argues that staff can be motivated through means other than pay. Maslow suggests there are five hierarchies or levels of need that explain why people work. Staff first want to meet their survival needs by earning a good wage. Safety needs such as job security then become important, followed by social, self-esteem and self-fulfilment needs. Moving staff up a Maslow level is motivational.

The five levels of motivation described by Maslow

LEADERSHIP STYLES

<table>
<thead>
<tr>
<th>Description</th>
<th>Advantages</th>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td>Autocratic</td>
<td>Senior managers take all the important decisions with no involvement from workers</td>
<td>Quick decision making&lt;br&gt;Effective when employing many low skilled workers</td>
</tr>
<tr>
<td>Democratic</td>
<td>Workers allowed to make own decisions.</td>
<td>Authority is delegated to workers which is motivating&lt;br&gt;Useful when complex decisions are required</td>
</tr>
</tbody>
</table>
Communication

Effective communication is important both within an organisation and externally. Effective communication improves business efficiency.

What is communication?

Communication is about passing messages between people or organisations. Messages between a sender and receiver take place using a medium such as email or phone.

One-way communication is when the receiver cannot respond to a message. Two-way communication is when the receiver can respond to a message. This allows confirmation the message has been both received and understood.

Types of communication

There are a number of technical terms you need to learn:

• **Internal communications** happen within the business.
• **External communications** take place between the business and outside individuals or organisations.
• **Vertical communications** are messages sent between staff belonging to different levels of the organisation hierarchy.
• **Horizontal communications** are messages sent between staff on the same level of the organisation hierarchy.
• **Formal communications** are official messages sent by an organisation, eg a company memo, fax or report.
• **Informal communications** are unofficial messages not formally approved by the business, eg everyday conversation or gossip between staff.
• A **channel of communication** is the path taken by a message.
VERBAL COMMUNICATIONS

Eg face-to-face, voice-mail, video conferencing, telephone

😊 The person can check that the message has been understood.
😊 The person can emphasise points by their voice or body language

😊 No permanent record to refer back to. No evidence.

WRITTEN COMMUNICATIONS

Eg letters, memos, reports, faxes, emails

😊 A written record exists

Can be reread to check understanding

Can avoid confrontation

😊 It is not possible to gain an instant response.

Communication makes a big impact on business efficiency. Effective communication means:

- **Customers** enjoy a good relationship with the business, eg complaints are dealt with quickly and effectively.
- **Staff** understand their roles and responsibilities, eg tasks and deadlines are understood and met.
- **Staff motivation** improves when, for instance, managers listen and respond to suggestions.

Barriers to communication

1. **Timing** – the message may be sent at the wrong time
2. **Clarity** – the message may be unclear or the language may be too complex.
3. **The wrong method may be used**, eg an email when an urgent response is necessary.

HOW CAN ICT BE USED IN BUSINESS?

For word-processing reports and letters – professional look

Spreadsheets – for keeping accounts

Databases – for records of customers
ADVANTAGES AND DISADVANTAGES OF ICT IN BUSINESS

Quality of work improves, information can be shared more easily, more effective communications, productivity improves (eg quicker to type documents than to write them)

Internal organisation

Organisation charts are diagrams that show the internal structure of the business. They make it easy to identify the specific roles and responsibilities of staff. They also show how different roles relate to one another and the structure of departments within the whole company.

An organisational chart showing the structure of a company
For example, the Marketing Manager in the Midlands can see at a glance that she is in charge of ten subordinates, and that her line manager is the Director of Marketing.

Organisational terms
There are a number of technical terms you need to learn:

- **Hierarchy** refers to the management levels within an organisation.
- **Line managers** are responsible for overseeing the work of other staff.
- **Subordinates** report to other staff higher up the hierarchy. Subordinates are accountable to their line manager for their actions.
- **Authority** refers to the power managers have to direct subordinates and make decisions.
- **Delegation** is when managers entrust tasks or decisions to subordinates.
- **Empowerment** sees managers passing authority to make decisions down to subordinates. Empowerment can be motivational.
- The **span of control** measures the number of subordinates reporting directly to a manager.
- The **chain of command** is the path of authority along which instructions are passed, from the CEO downwards.
- **Lines of communication** are the routes messages travel along.

### Types of organisation

- Tall organisations have many levels of hierarchy. The span of control is narrow and there are opportunities for promotion. Lines of communication are long, making the firm unresponsive to change.
- Flat organisations have few levels of hierarchy. Lines of communication are short, making the firm responsive to change. A wide span of control means that tasks must be delegated and managers can feel overstretched.
- In centralised organisations, the majority of decisions are taken by senior managers and then passed down the organisational hierarchy.
- Decentralised organisations delegate authority down the chain of command, thus reducing the speed of decision making.
One method of reducing costs is to remove a layer of management in a hierarchy while expecting staff to produce the same level of output. This is called **delayering**.

**APPRAISAL**

The appraisal process should seek to enable appropriate steps to be taken to realise potential, monitor performance and recognise achievement.

Set objectives

Do your job

Monitor your performance

Review your performance against your objectives

**Investors in People**

- Focuses on the people who work in the business
- Ensuring a good level of training and development for staff
- Employees who are trained are more likely to be motivated
- Idea is that if people are improved, then the organisation will improve
- IIP is externally assessed, key issues include:
  - Resolving people issues
  - Improving skills

Developing personal responsibility
Employers can legally expect their employees to:

- Meet the terms of their contracts
- Cooperate in meeting the objectives of the business
- Comply with health and safety regulation

Employees can legally expect to be:

- Paid according to their contracts
- Provided with a safe working environment
- Appropriately trained
- Permitted to join trade unions
- Allowed access to any confidential records kept on them as employees

**Getting a Job**

A business **cannot** discriminate against a person on the grounds of:-

- **Sex** (Sex Discrimination Act)
- **Age** (Age Discrimination Act)
- **Racial origin** (Race Relations Act)
- **Disability** (Disability Discrimination Act)

A business cannot advertise for a ‘young male’ machinist.

A business cannot advertise for machinist of European origin.

Disabled applicants must be given the job if they are the best candidate. However, if there are big costs involved in adding lifts or rebuilding they may not be employed.

**Starting Work**

When a person gets a job they sign a Contract of Employment which lists their conditions of work

- Pay
- Hours
- Holidays
- Pension
- Notice (how long you have to wait before leaving)

Once you start working you are protected by:

<table>
<thead>
<tr>
<th>Employment Law</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equality Acts eg:</strong></td>
</tr>
<tr>
<td>- <strong>Equal Pay Act;</strong> men and women doing same job must get same pay</td>
</tr>
<tr>
<td>- <strong>Race relations Act;</strong> prevents discrimination against people of different races; prevents black or white people being promoted just because of their race</td>
</tr>
<tr>
<td>- <strong>Sex discrimination Law;</strong> to prevent men / women from being treated differently at work</td>
</tr>
<tr>
<td><strong>Other laws:</strong></td>
</tr>
<tr>
<td>- <strong>Health and safety at work regulations;</strong> to protect workers, provide safety equipment</td>
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</table>
The difference between wages and salaries

Wages are weekly, salaries are monthly

The Pay Slip

**Gross Pay** – Pay before deductions

**Deductions**

**Income Tax** – paid at 10% 22% and 40% depending on the amount earned.

**PAYE** – Pay As You Earn, tax is deducted/taken before you get the money.

**National Insurance** – deducted at 9% for sickness benefits, unemployment benefit and old age pension

**Pension** – Extra payments towards a private pension.

**Net Pay** – the amount left for the employee to spend.

**Extra Earnings**

**Overtime Pay** – for work above the standard amount for the week. Usually times 2 / double time or time and a half

**Bonus pay** – extra pay because the employee is very Productive/works hard and meets targets.

**Example of a Simple Pay Slip**

| Gross Pay | 1537.50 | Income tax | 316.23 |
| Bonus     | 200.00  | NI         | 94.87  |
| Total Gross pay | 1737.50 | Total Deductions | 567.47 |
| Net pay   | 1170.03 |
Trade unions

A trade union is a group of workers who join together in order to protect their own interests and to be more powerful when negotiating with their employers.

Each employee who wishes to join a trade union must pay an annual fee, which contributes towards the costs and expenses that the trade union incurs when it provides services to its members, and supports industrial action by the workers.

Trade unions have a number of aims:

1. To improve the pay and the working conditions of its members.
2. To support the training and the professional development of its members.
3. To ensure that their members’ interests are considered by the employers.

Industrial Action

If the negotiation process collapses (whether it was negotiating for pay or for working conditions), then there are a number of different methods of industrial action which the trade union can propose to its members that they use in order to achieve their demands:

1. Non co-operation. Refusing to attend meetings and use new machinery or processes.
2. Work to Rule or ‘Go Slow’. Refusing to perform any tasks not in the contract of employment and keeping the output of products to a minimum.
3. Overtime Ban. Refusing to work any hours over and above the required weekly number of hours.
4. Picketing. Standing at the entrance to the workplace and not allowing any person or vehicle to cross the ‘picket line’ and enter the workplace.
5. Strikes. This is often the last resort for a trade union. It involves the employees stopping their work, leaving the workplace and refusing to return.

Whichever method of industrial action is implemented, the trade union and the employees are using it in an attempt to reduce output (therefore also reducing sales and profits) and hoping that the employer will give-in to their demands.

Advisory Conciliation and Arbitration Service (A.C.A.S.)

The Advisory Conciliation and Arbitration Service was set up by the government in 1975 as an independent body that helps to settle industrial disputes and claims of unfair dismissal by employees.

A single union agreement is an agreement between workers and employers that all workers belong to the same union and this makes negotiations easier.
KEY TERMS – BUSINESS AND PEOPLE, UNIT 2

Chain of production - Stages a product goes through from raw material to finished goods.

Interdependence – The way in which businesses in different sectors depend on each other

De-industrialisation – The reduction of importance in the secondary sector.

Added Value - When a business increases the value of a product.

Business Objectives - Objectives are what the business is trying to achieve eg growth, survival, profit.

Satisficing - The business will make enough profit to meet its needs and not as much as possible.

Dividend - Payment made to shareholders from the profits.

Market share - Amount of a market a business controls. Given as a percentage.

Private Sector - Business activity owned by private individuals.

Public sector - Business activity controlled by local or national government.

Stakeholders - An individual or group of people who have an interest in a business.

Incorporated – A limited company owned by shareholders with limited liability.

Unincorporated - A type of business which has unlimited liability.

Co-operatives – Trading organisation where a number of independent producers work together.

Sole Proprietor – One person owns the business.

Partnership – Between 2 and 20 people own the business.

Unlimited liability – The owners are responsible for all the debts.

Limited Liability – The owners does not risk losing personal possessions in order to pay off the debts.

Bankruptcy - Affects unincorporated businesses when their liabilities are greater than assets.

Insolvency – Affects limited companies when their liabilities are greater than their assets.

Private limited company Ltd – a business owned by shareholders who are usually family and friends.

Public limited company – a business owned by shareholders. Shares are traded to the public on the stock exchange.

Merger - 2 or more businesses join together to make one larger business.

Take-over – one business buys control of another.

Conglomerate - merger or take-over of another business in a totally different business activity.

Diversification – A process of spreading the risk by reducing dependence on one product or service.
Footloose-A business is able to locate anywhere it chooses.

**Uniform business rate** – A tax paid by businesses to cover provision of local services.

**Grants** – Payment of money from government which doesn’t have to be paid back.

**Infrastructure** – such things as roads, power supplies, telephones and water supplies.

**Greenfield site**-development on land previously unused.

**Brownfield site** – development on land previously used by another business activity.

**Economies of scale**-increase in scale of production produces reduction in average cost of production.

**Sleeping partner** – a person invests capital in a business but takes no an active part in running it.

**Deed of partnership** – legal agreement between partners stating responsibilities of each partner.

**LLP** – limited liability partnership.

**Registrar of companies** – maintains records of all limited companies

**Board of directors**-elected by shareholders to run the company.

**AGM** – annual general meeting in which directors are elected.

**Managing director** – person responsible for putting into action decisions made by directors.

**Capital**-money

**Institutional Investors** – bank and investment companies who own a large part of companies.

**Franchise**-a marketing arrangement that allows another business to trade in the same style as an existing business.

**Franchisor**-person who offers the business franchise to other businesses.

**Franchisee**-person or business buying a franchise.

**Royalty**-payment made to the franchisor based on sales and revenue of the franchisee.

**Globalisation**-the world interdependence of business activity.

**Multinational company** – a company which operates in several countries.

**Public sector** – business activity owned and run by local or national government.

**Public corporation**- an organisation which is owned by national government, eg. BBC.