Level 2 Diploma in Business Administration

(Resource Workbook)

Chapter 2-

Understand Employer Organisations (and Business)

Unit 2 (Edexcel) – Part 1

Resource Workbook and extended reading

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Understand Employer Organisations (and Business)
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Unit 2 – Understand Employer Organisations

Research assignment criteria

Level: 2; Credit Value: 4	
Learning Outcome	**Assessment Criteria**
1. Understand organisational structures	1.1 - Explain the differences between the private sector, public sector and voluntary sector. 1.2 - Explain the functions of different organisational structures. 1.3 - Describe the features of different types of legal structures for organisations.
2. Understand the organisational environment	2.1 - Describe the internal and external influences on organisations. 2.2 - Explain the use of different models of analysis in understanding the organisational environment. 2.3 - Explain why change in the business environment is important.

Introduction

This Resources Workbook and the various exercises within it, introduce you to the challenges of understanding employer organisations and business: key skills are examined that will enable you to confidently tackle these elements of your role or future role.
The exercises will require you to consider theories that align with each topic but, importantly, you will be expected to make parallels with your own experience in the workplace, which will help in ensuring that you understand your organisation.

This Resource Workbook is divided into three parts:

Part 1- Covers information that can support you in completing your assignment for Unit 2 – Understand Employer Organisations

Part 2 - Covers information on legislation and Employment Rights and Responsibilities. This information along with the ERR workbook will support your knowledge and understanding of these important topics.

Part 3 – Provides extra reading materials and activities on business planning for extended knowledge development .

Introduction to Business Principles

Having a good understanding of business principles is essential for any business administrator. Decisions made at different levels have implications for the wider business and often affect costs and profitability in some way.

The Public, Private and Voluntary Sectors

Public Sector Organisations

Public Sector organisations provide a service to the public and are controlled by the Government or local government**.** They are usually funded from money collected in taxation or through Government borrowing and provide services including, for example, the Police Service, Councils, Schools and the NHS. Whilst there may be elements of their work that generate income, their primary objective is to provide a public service rather than to make a profit. Nonetheless, the same principles that apply to profit-making businesses apply to the Public Sector in seeking to get economy, efficiency and effectiveness in delivery of services.

Private Sector Organisations

Private Sector organisations operate privately to make a profit with income generated from the sale of their products or services. Examples would be supermarkets, high street shops, etc. Although many private sector firms are owned and controlled by individual businessmen and women, many are owned by groups of people: for example, companies may be owned by shareholders, who have invested in that company. The private sector includes sole traders, partnerships, limited companies and public limited companies.

Voluntary Sector Organisations

Voluntary sector organisations are independently run and funded by donations and fundraising activity. They provide services in line with their constitution (i.e. the reason they were set up) and are usually controlled by a directors or a management committee. An example would be the British Heart Foundation or the Women's Royal Voluntary Service. The Voluntary Sector is often referred to as the Third Sector or 'Not for Profit' Sector. Whist they do not exist to provide profit for shareholders, they need to generate income and will seek to use 'excess of income over expenditure' for furthering the organisation's purposes and provision of services.

Businesses may be set up with different types of business structure and legal frameworks that affect the way they operate and how profits are distributed. Issues affected include who shares in the profits and losses, what and how tax is paid, who is liable and to what extent for business debt, and how the business might interact with investors, creditors and employees.

The Features and Responsibilities of Different Business Structures

The main legal structures for business entities in the UK are:

Sole Traders
An uncomplicated and straightforward structure, consisting of an individual who owns and runs the business him or herself. A sole trader is personally liable for the debts of the business, but has all the profits. The owner pays income tax on net profit via the Inland Revenue's Self-Assessment system.

Partnerships
A partnership is where 2 or more people come together for the purpose of operating a business. The partners share the profits on the basis of their ownership (often but not necessarily 50:50) and are personally liable for any debts of the business. There is an exception to this personal liability for partnerships where a different legal entity, a 'Limited Liability Partnership (LLP)' is formed. In the case of LLPs, partners' liability for business debt extends to the amount of investment they have made into the partnership.

Partnership agreements are usually drawn up to cover such issues as:

- Profit-sharing
- Drawings
- Benefits in kind
- Interest paid on capital invested in the partnership
- Dissolution of the partnership

Limited Companies
The principal difference between limited companies and sole traders/ partnerships is that they are a separate legal entity in that the extent of any liability is limited either by guarantee or to the unpaid value of shares. Profits and losses belong to the company rather than individuals. Limited companies offer a good basis for expansion and are more attractive to outside investors. The main types of limited company are:

Private Limited Company (limited by shares) – liability is limited to the amount unpaid on share holdings of directors. Most UK companies are private companies limited by shares.

Private Limited Company (limited by guarantee) – liability is limited to the amount share-holding directors have guaranteed to add to company assets if the company is dissolved.

Public Limited Company (PLC) – company shares may be offered for sale to the public with liability limited to the amount unpaid on shares held by shareholders. A public limited company is subject to strict regulation, particularly in relation to the publication of financial information.

By law all limited companies must be registered with the Registrar of Companies. The Registrar holds records of all UK private and public limited companies, their shareholders, directors and financial reports. The information held is publically available.

Vision, Mission and Strategy

Most organisations have a vision and/or mission statement that defines its purpose. Vision and Mission statements are the inspiring words chosen by successful leaders to clearly and concisely convey the strategic direction of the organisation, communicating the intentions of the organisation to those people who have an interest in the organisation. The term commonly used for people with an interest in an organisation is *'stakeholder'.*

Both types of statement are slightly different, although both typically convey the direction of the organisation. Vision Statements define the organisation's purpose, reflecting the values of the organisation rather than bottom line measures of success. For employees, it gives direction about how they are expected to behave and inspires them to give their best. Shared with customers, it shapes customers' understanding of why they should work with the organisation. For example, look at the Vision Statement of the largest fast-food company in the World, McDonald's:

> *'McDonald's vision is to be the world's best quick service restaurant experience. Being the best means providing outstanding quality, service, cleanliness, and value, so that we make every customer in every restaurant smile'*

A Mission Statement typically defines the organisation's purpose and primary objectives. Its prime function is internal – to define the key measure or measures of the organisation's success – and its prime audience is the leadership team and stockholders. The mission statement therefore focuses on what constitutes success for the business. For example, consider the Mission Statement for The Walt Disney Company:

> *'The Walt Disney Company's objective is to be one of the world's leading producers and providers of entertainment and information, using its portfolio of brands to differentiate its content, services and consumer products. The company's primary financial goals are to maximize earnings and cash flow, and to allocate capital profitability toward growth initiatives that will drive long-term shareholder value.'*

Organisational Goals and Objectives – Strategic Plans

Once a vision and mission has been formulated it is usual to have a set of organisational goals, which are the medium for setting out the 'big picture' of what the organisation is seeking to achieve.

Goals are high-level targets that an organisation seeks to achieve over the long-term (3-5 years). Whilst goals are usually quite difficult to measure and quantify, they set the direction of the organisation and support the mission statement.

Objectives are more specific statements that describe what the organisation wants to accomplish in the short-term (up to 12 months). The successful completion of short-term objectives should contribute to the achievement of long-term goals. Objectives should be SMART: specific, measurable, achievable, realistic, and time-bound. Well-constructed objectives should incorporate their own key performance indicators.

Usually, the Vision, the Mission, the Organisational Goals and the Organisational Objectives would be set out in the Strategic Plan – i.e. the organisational strategy or 'the long term view'. The strategic plan would flow through the organisation in the form of action plans that set out how the objectives will be achieved. This whole process should ensure that the organisation itself has clear definition around what it is looking to achieve and that every person in the organisation understands his or her role within it.

Where organisations operate without having an effective strategic plan they tend to 'drift' and become inefficient and ineffective. Ultimately, they will be very unlikely to achieve competitive advantage without one.

Internal and External Influences on a Business

Much that happens in a business is because of internal and external influences; a significant number of change initiatives that take place in organisations are as a result of something happening elsewhere. Indeed, in every organisation there are a myriad of things that can influence or initiate change; these are often called 'change drivers'.

Activity: Looking at your own organisation, list potential internal and external influences:

Internal and external influences might include some or all of the following:

- New technology;
- Government legislation;
- The appointment of a new chief executive or senior figure;
- Customer demand for new and improved products and services;
- Internally-driven improvements in productivity and/or profitability;
- Need to reduce costs;
- Financial recession;
- Local and (increasingly) global competition;
- Competitor innovation;
- Product obsolescence;
- Loss of market share;
- Loss of revenue;
- Higher taxation;
- Mergers and take-overs; and/or,
- Organisational inefficiency.

The influences do not necessarily set out *what* has to be changed to survive or *how* that change could be made.

For example, a reduction in the annual budget for a given department within an organisation might be addressed in a number of ways: money could be saved by reducing the number of people employed within the department or by changing the output in some way or, possibly, by doing less of whatever the department does.

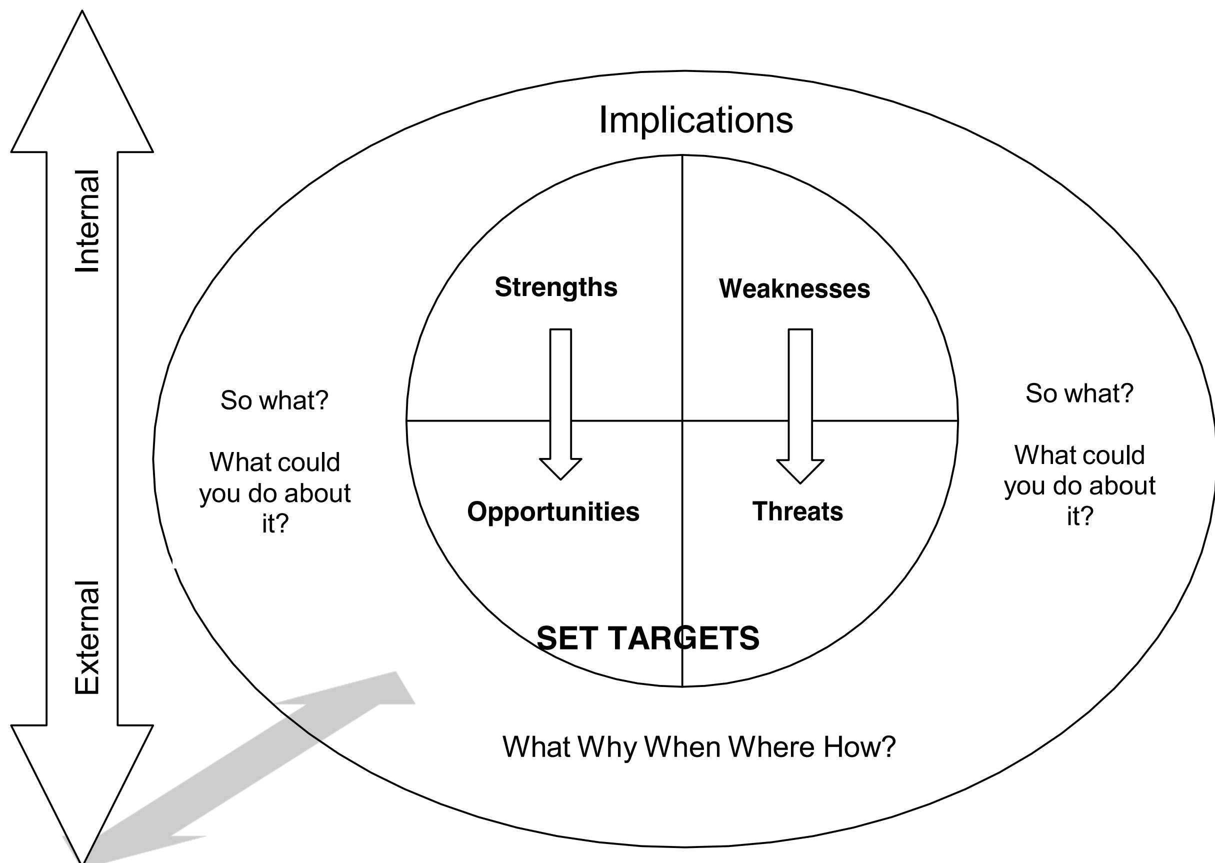
Analysing the Internal and External Environment

Successful organisations are constantly looking ahead to spot opportunities and to identify where new challenges might lie. SWOT Analysis and PESTLE Analysis are tools that help in isolating issues and opportunities for business. SWOT analysis can also be useful in assessing and evaluating an idea or opportunity.

SWOT Analysis

SWOT analysis – standing for **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats – helps provide focus on key issues. Strengths and weaknesses are internal factors. Opportunities and threats are external factors. Identification of strengths and weaknesses, opportunities and threats is all very well but it is a deeper level of analysis that answers the more difficult questions such as 'so what' and 'what could you do about it' and 'what are the implications of your observations' that are where time is likely to be well invested. Strengths will always give you opportunities, while weaknesses will usually present a threat. When undertaking SWOT analysis, it is good practice to:

- Keep it simple;
- Be realistic in assessing strengths and weaknesses;
- Be specific and avoid ambiguity;
- Consider applying SWOT to your competition (opens up new thinking, where identification of others' strengths might give you opportunities to replicate and their weaknesses might give you opportunities to get ahead); and,
- Avoid over analysis and consider the implications of your observations.



The SWOT ANALYSIS Framework (Format: AH Raymondson, 2008)

Activity:

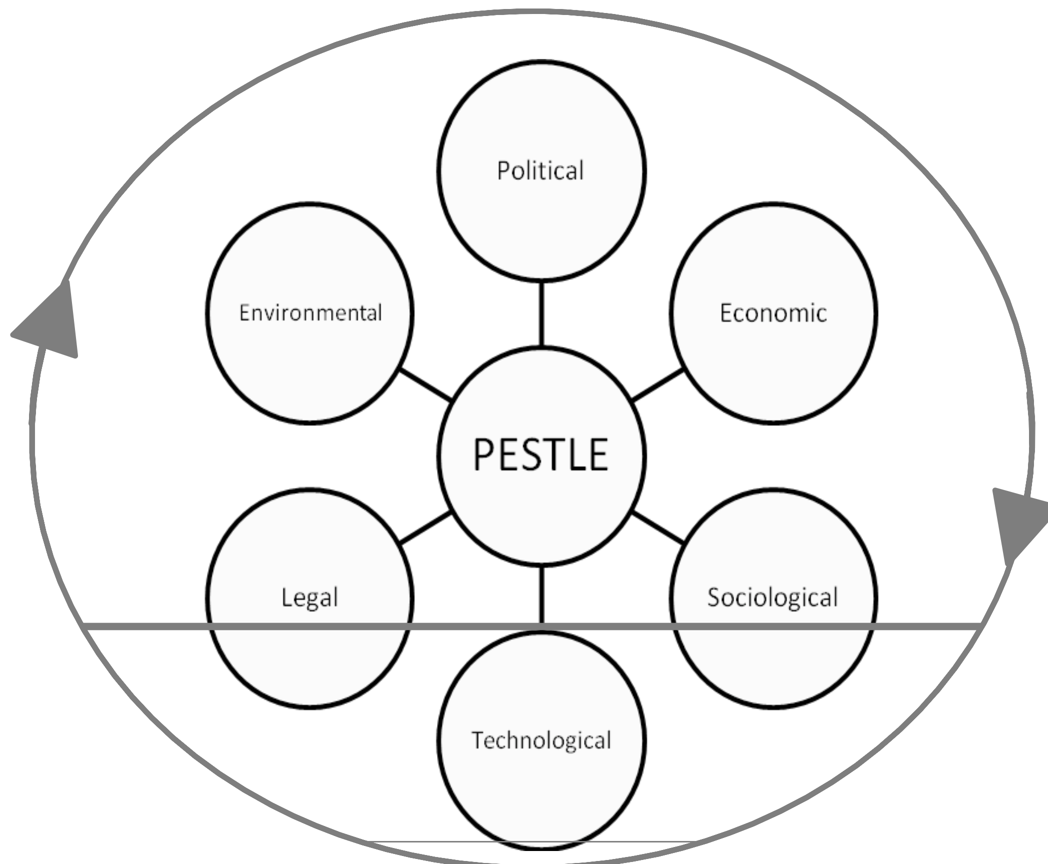
Undertake a SWOT analysis of your department or organisation and identify at least 3 possibilities for change.

PESTLE Analysis

PESTLE analysis – standing for **P**olitical, **E**conomic, **S**ociological, **T**echnological, **L**egal and **E**nvironmental factors – is useful in understanding the external business environment as a whole, and is often used together with SWOT analysis. It can be useful in analysing drivers for change and in considering the implications and impact of change in the external environment on the organisation.

Questions in applying the framework might revolve around:

- What key political influences are likely to impact on the business?
- What significant economic factors are there?
- What sociological aspects are most prominent?
- What technological advances are imminent?
- What current and future legislation might affect the business?
- What environmental issues need to be considered?



The PESTLE Framework (Format: AH Raymondson, 2010)

The PESTLE Framework

Activity: Consider some recent changes made by large organisations. Frame your thinking against the PESTLE model. What has been the impact of those changes for smaller organisations in terms of opportunities and/or threats? Use the following table below to capture your thoughts:

'PESTLE' Framework Element	Change	Threats / Opportunities
Political		
Economic		
Sociological		
Technological		
Legal		
Environmental		

An example of an environmental issue that might span several of the PESTLE elements is the move to reduce greenhouse gasses. Legislation requires organisations to take certain actions and numerous economic benefits have been created for companies providing, for example, low emission materials and equipment, such as 'clean' vehicles, loft insulation and low energy lighting. Application of technology has a part to play also in this field – as with development of advanced computer processing units in vehicles to control engine efficiency, which contributes to achievement of 'lean burn' engines and lower emissions. Similarly, the creation of low emission zones in cities has created both threats and opportunities – difficulties for transport companies

arise and opportunities for those providing solutions – for example production of catalytic exhausts for delivery vehicles to enable them to meet the emissions requirements.

Activity: Now, reconsider the PESTLE model to establish what changes might be necessary in your organisation. Consider too, the benefits of each change identified. Use the following table below to capture your thoughts:

'PESTLE' Framework Element	Issue	Necessary Change	Benefits of the Change (human & financial)
Political			
Economic			
Sociological			
Technological			
Legal			
Environmental			

Benefits of Change

In an organisational context, any proposed change must bring *benefit* if it is to be meaningful. By failing to understand the benefit(s) from a proposed change, and by not being clear about the benefit, organisations run the risk of failing to successfully deliver the change.

One of the biggest challenges organisations face in identifying the potential benefits of a change is the definition of a readily understood measure of success. For example, a company decides to manage one of its support functions differently by outsourcing that function. To quantify the benefit in this case is reasonably easy since a comparison between the cost of in-house delivery and the cost of an out-sourced service could reveal a cost saving. This easily quantified benefit is defined as a *tangible* benefit.

Where things become more difficult is where there is a significant payback period – that is, the benefit of the change will not be derived for several years – or where the benefit is *intangible*. An intangible benefit is one that is not easily quantified. For example, a company proposes to allow staff greater freedom to choose their own working hours arguing that staff morale will be improved. Finding measures to confirm that the benefit – improved morale – has been achieved is challenging and, indeed, imprecise.

Activity: Think of 3 significant changes that have taken place in your organisation and identify the potential benefits of change to your organisation and the people within the organisation.

Activity: Having identified the potential benefits of change, consider how you might 'sell' those benefits to others, so that they would be like to engage in the initiative.

The benefits of change might include:

Organisational Benefits	Personal Benefits
− Improving efficiency − Creating new opportunities to grow the business and increase turnover and profits − Creating significant differentiation and market space between you and your competitors − Leading your company to think to the future, to motivate, to inspire − Reducing costs − Opening up new markets − Creating investor confidence − Utilising partnerships, acquisitions, licensing options and intellectual property assets − Operating in and dominating a wider market − Becoming more competitive − Improving decision making − Providing stimulation for employees and improving employee retention rates	− Challenging (greater job satisfaction) − Motivating − Exciting − Rewarding (bonus payments) − Professional and personal development

It would be fair to say that most organisations tend to think in terms of tangible benefits when considering proposed change initiatives. The reason for this is simple: a quantifiable return on investment makes the decision to proceed with a change viable or justifiable.

Part 2 :

Legislation and ERR (Employment Rights and Responsibilities) Information

Health and Safety Responsibilities

UK Health and Safety Executive Management Standards

All organisations have responsibilities for ensuring that health and safety risks arising from their organisation's activities are well managed. Ensuring the health and safety of employees and others coming into contact with the organisation is paramount and a key issue for organisations. Effective risk management of health and safety issues will help:

- Ensure the well-being and productivity of employees;
- Prevent injury or death from work activity;
- Improve the organisation's reputation with stakeholders and the public;
- Avoid costs of litigation and penalties; and,
- Encourage better contractor relationships.

The UK Health and Safety Executive has outlined a set of management standards that represent a set of conditions that, if present, reflect a high level of health and well-being and which relate directly to organisational performance.

The Management Standards:

- Demonstrate good practice through a step by step risk assessment approach;
- Allow assessment of the current situation using surveys and other techniques;
- Promote active discussion and working in partnership with employees to help decide on practical improvements that can be made; and,
- Help simplify risk assessment.

(HSE, 2010)

Activity: Undertake an Internet search to obtain HSE guidance on workplace H&S responsibilities. Summarise below the key responsibilities that organisations have for ensuring staff health and safety.

Applying the 5-Step Health and Safety Risk Assessment Process

There is a requirement to undertake risk assessments to help in avoiding accidents and activity that is detrimental to health. The 5-step process is:

Step 1 Look for the hazards. Identify all the hazards you might expect to find in your workplace.

Step 2 Decide who is at risk. Which individuals or groups of people are most at risk from the hazards listed above?

Step 3 Assess the risks. What precautions are already in place and what precautions need to be added to minimise risk?

Step 4 Record your findings. Ensure you have documented all the points needing to be carried out and report back to management.

Step 5 Review the process. When will you repeat the process? Are there any changes you would make next time? How will you monitor the progress of any changes requiring implementation between this assessment and the next one?

The Law and H&S

Employers should take qualified legal advice in relation to their duties under the Acts that relate to health and safety at work. Briefly, the legislation includes:

Health, Safety & Welfare at Work Act (1974)

This Act places a duty on employers to ensure the health (including mental health), safety and welfare of employees and to provide safe and healthy working systems.

The Management of Health & Safety at Work Regulations 1999 (including the Approved Code of Practice)

These regulations address the requirement for employers to assess all risks to the health and safety of employees and to provide them with comprehensive information on those risks and to take actions to mitigate those risks.

Sustainable Ways of Working

Sustainable working practices involve organisations participating in environmentally friendly or ‘green’ practices to ensure that workplace activities address environmental concerns whilst maintaining business continuity and profitability. The objective of sustainable working practices is to meet current needs without restricting future generations in being able to meet their needs because of our actions.

Practices involve designing products and services that protect environmental conditions and seeking where possible to source materials from renewable sources along with being environmentally and socially responsible in operation of the business. Current key themes in sustainable working include:

The efficient use of resources and energy

- Minimising energy/water/paper use and waste.
- Promoting renewable energy and recycling.
- Sustainable purchasing.
- Use of environmental management systems such as heat and light controls.

Limiting pollution

- Reducing litter and noise pollution.
- Reducing contamination and emissions.

Transport

- Use and promotion of sustainable transport.

Infrastructure

- Improving management of buildings.
- Sustainable re-use of land and buildings.

Enhancing the diversity of nature

- Protecting and promoting bio-diversity, wildlife and the natural environment.

Activity: Describe 3 practical changes that could be made in your workplace to improve the organisational approach to sustainability.

Your observations could be wide ranging but might include, for example, actions such as:

- Use of low emission vehicles;
- Having sets of recycling bins within easy access to all employees;
- Having oil spillage facilities readily available;
- Provision of awareness training on sustainable working;
- Selling or leasing ‘spare’ buildings;
- Using recycled paper and packaging;
- Updating heating systems to be more energy efficient; and,
- Sourcing local products with minimal transportation miles.

Legislation Affecting the Management and Confidentiality of Information

Data Protection Act (1998)

Personal data and the storage of records relating to employees and customers is governed by the Data Protection Act (1998) (DPA).

An employer has an obligation to destroy data once an employee has left and should remove personal data and information when it is no longer needed. There are some instances where retaining information about, say, a disciplinary or grievance issue once an employee has left the company is justified. For example:

- The data/information may provide evidence for a legal claim brought after they have left;
- There may be a legal obligation to keep a record relating to the employee for a specified period of time, for example where actions were taken following a disciplinary or grievance matter; and/or,
- You may retain sufficient information to provide a reference for the employee to a new employer.

The DPA sets out the following ‘data protection principles’ which require managers to ensure that information is:

- Used fairly and lawfully;
- Used for limited, specifically stated purposes;
- Used in a way that is adequate, relevant and not excessive;
- Accurate;
- Kept for no longer than is absolutely necessary;
- Handled according to people’s data protection rights;
- Kept safe and secure; and,
- Not transferred outside the UK without adequate protection.

There is stronger legal protection for more sensitive information, such as:

- Ethnic background;
- Political opinions;
- Religious beliefs;
- Health;
- Sexual health; and,
- Criminal records.

The Freedom of Information Act (2000)

The Freedom of Information Act (2000) (FOI) provides public access to information held by public authorities. More specifically:

- Public authorities are obliged to publish certain information about their activities; and
- Individuals are entitled to request information from public authorities.

The Act covers any recorded information held by a public authority in England, Wales and Northern Ireland, and UK-wide public authorities in Scotland. Information held by Scottish public authorities is covered by the Freedom of Information (Scotland) Act (2002). Recorded information includes printed documents, computer files, letters, emails, photographs, and sound or video recordings.

Public authorities include Government departments, local authorities, the NHS, state schools and police forces. However, the Act does not necessarily cover every organisation that receives public money; for example, some charities that receive public grants and some private sector organisations undertaking public functions are not included.

The FOI Act does not give people access to their personal data such as their health records. If a member of the public wants to see information that a public authority holds about them, they would need to make a subject access request under the Data Protection Act 1998.

PART 3
Extra Reading Resources –Business Planning Resource Materials

The Purpose, Content and Format of a Business Plan

A business plan is a written document that describes your business. It covers business goals and objectives, strategies, sales and marketing along with financial information including forecasts.

A business plan has two main purposes:

- It is used to help run the business or organisation. Thorough analysis of your business to create a plan for all aspects of the business significantly improves your prospects for success. For this purpose, it should be a 'living document', one which is regularly reviewed and adapted as necessary to suit the changing business environment.
- It is used when seeking finance or investment from a bank or other funding source. A bank or other lender will not invest in your company unless you can demonstrate that you have a clear route to success. Banks want to mitigate risk of default and private investors want a realistic and achievable plan for achieving a return on their capital investment.

A business plan helps in:

- Clarification of business ideas
- Pre-empting potential problems
- Setting out your goals
- Measure progress
- Convince customers, suppliers and potential employees to support you.

A typical business plan would be tailored to the specific requirements of the business but might include:

Business Description – Business Name and legal status (Sole Trader, Partnership, Limited Liability Company (Ltd Co) etc.); your raison d'être or reason for existence; what products and/or services do you offer?

Goals – What you intend to achieve and why?

Target Market and Customers – To whom you are seeking to sell your products and/or services.

Market Analysis – Is your target market growing, static or shrinking? Why? How large is the market and what are the barriers to entry for new competitors.

Values Statement – What values do you operate?

Competition – Who are your main direct and indirect competitors and what advantages do you have over competitors. What is unique about your product or service – your USP (Unique Selling Proposition)?

Marketing/Sales Strategy – How are you going to market and sell your products/services? What is the projected cost of planned sales and marketing initiatives?

Internet (e-commerce) Marketing and Sales Strategy – How will you capitalise on the opportunities offered by the Internet and what costs have you provisioned for?

Personnel Skills Assessment – What skills exist within the organisation; what if any skills gaps exist and how do you keep skills well-honed?

Workplace Location – Where and how are your premises financed? Leasehold or freehold? What if any plans do you have for expansion?

Equipment Requirements – Outline existing and necessary equipment and costs for future requirements.

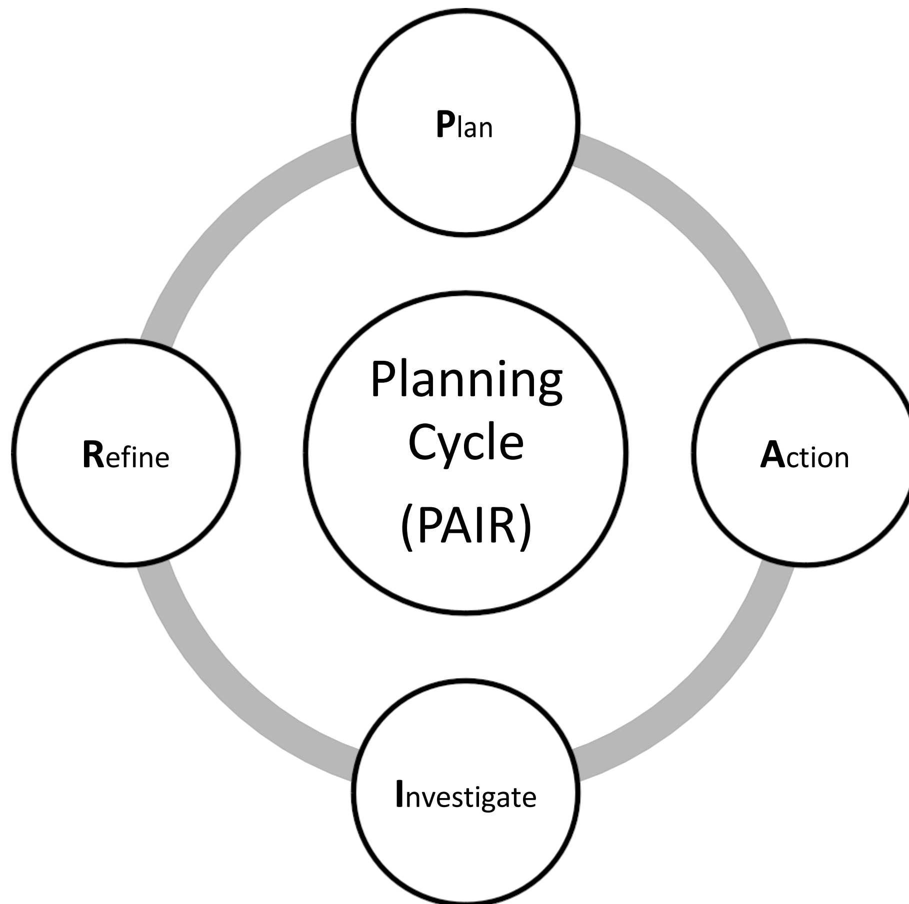
Licenses, Permits and Insurance – What if any licences, permits and insurances are required and at what cost?

Cost Analysis – What are the projected costs (fixed, variable)?

Income Forecast – What are the revenue projections for the next period (financial year)?

Cash Flow/Break-Even Statement – A detailed estimate of cash inflows and outflows along with a statement as to what volume of sales is required on a monthly basis to breakeven?

The Business Planning Cycle



The Business Planning Cycle AH Raymondson (2014)

The business planning cycle is a planning sequence designed to give structure to organisational and business planning. Typically, it has the following stages in the on-going sequence.

Plan: Develop and establish (or review in the case of an existing plan) viable operational plans that address all elements of the business. Set goals.

Action: Implement the Plan.

Investigate: Examine the efficacy of the Plan against measures of success defined in the planning stage, look at increasing economy, efficiency and effectiveness in processes.

Refine: Make changes as required to perfect processes in delivery of the plan.

Budgets

A budget is a plan for income and expenses, which allows a business to operate within its means. A budget is usually drawn up for each financial year on the basis of estimated sales and costs. The actual performance of the business can be monitored and measured against this proposed plan.

Different budgets can be created depending on what particular aspect of the business requires focus. The most common budget operated at team leader level would be a cash budget for a particular purpose: for example, a stationery budget or a discrete project budget, which would be monitored and managed to ensure that the allocated cash is not exceeded and any underspend is declared such that it can be redistributed as required. One way of monitoring a cash budget is to use a Budget Control Chart.

Activities	**Budget (£)**	**Actual (£)**	**Variance (£)**	**Total (£)**
Purchase Materials	450.00	507.00	57.00	57.00
Preparation of ground	200.00	185.00	- 15.00	42.00
Concreting	250.00	245.00	- 5.00	37.00
Erect Shed	125.00	135.00	10.00	47.00
				47.00

Example Budget Control Chart for Building of Shed (BCC)

The BCC format enables monitoring of actual project activity spend against the agreed and planned budget. When a variance arises, the authorised person can decide whether or not formal corrective action is required. In the example above, the first activity ‘Purchase Materials’ was more expensive than envisaged. Noting that, the authorised person could justifiably change his or her plan for one or more of the activities that are to follow. For example, it might be cheaper to use paving slabs instead of concreting the ground. The key point here is that informed decisions can be made at key times during to control actual spend.

It is typically the case that there are additional costs associated with any slippage or delay. Most businesses understand and prepare for this, ensuring that they have contingency plans in place to enable them to rectify slippages. It can be difficult to anticipate precisely what contingency is required. Consequently, a contingency budget might be retained by the organisation to use when and if required.

Business Risk Management

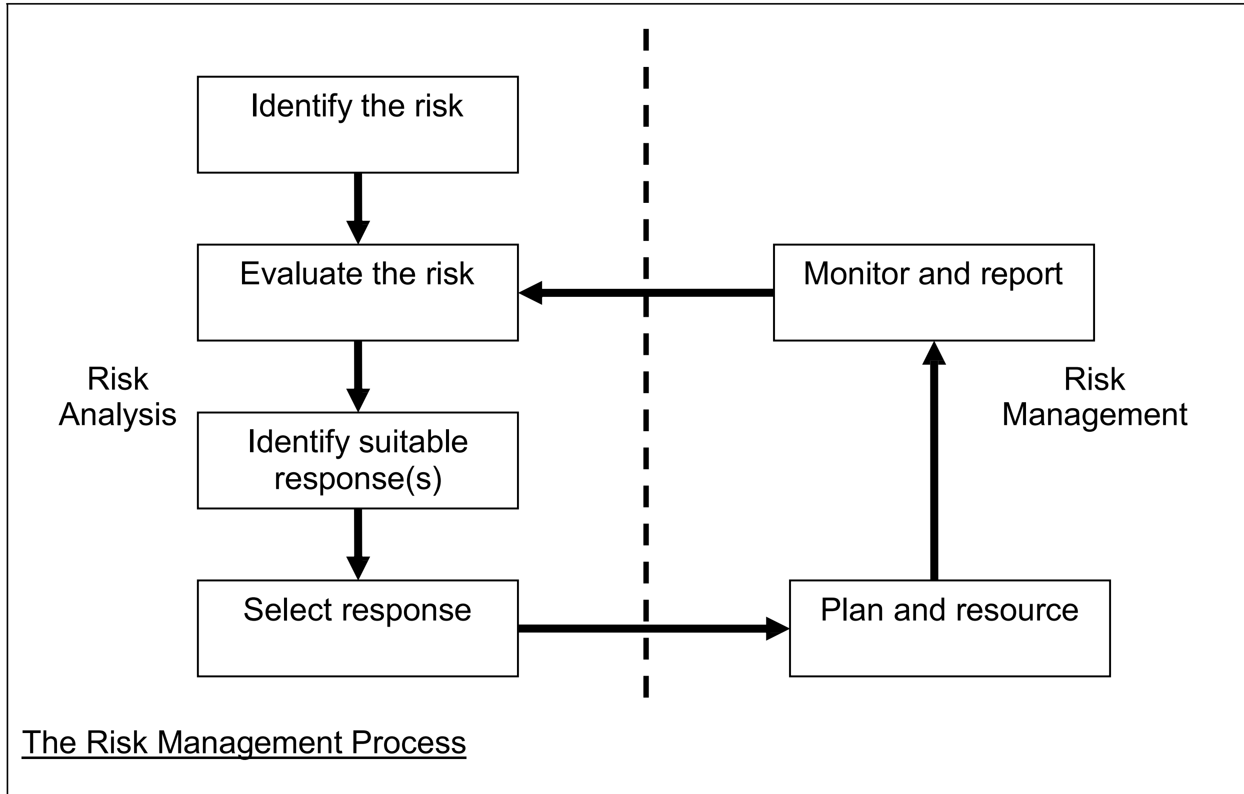
In business it is reasonable to assume that things will go wrong either through omission (we forget to do something or fail to anticipate a potential problem), or, commission (we do something that we should not). These occurrences are collectively known as 'risks'. Risk can be defined as:

> *'A chance or possibility of danger, loss, injury or other adverse consequences'*
>
> (Concise Oxford Dictionary)
>
> *'An uncertainty of outcome'*
>
> (PRINCE2)

It is worth noting the distinction between a risk and a hazard. A Hazard is defined by the HSE as 'a potential source of harm or adverse health effect on a person or persons'. For example if machine had spilt oil, then the oil is a hazard in that people could slip on it. However if it is prevented from spreading by sand and cordoned off the hazard remains but the risk is significantly lower. Minimising hazards is a key objective of risk management.

Whichever definition of risk you prefer, it is clear that a well-managed business will take account of, and try to anticipate, potential risks to the business. A business risk is a risk that will affect day-to-day or future business. For example, a company announces that it is going to trade online from a specific date and then fails to have the web technology available on the launch date. The loss of anticipated sales is a business risk and the adverse impact upon its reputation is simply a business risk too. The loss of anticipated sales will adversely affect the annual sales figures – another business risk.

The risk management process effectively comprises 2 distinct phases: risk analysis and risk management. The first phase (risk analysis) involves identification and evaluation of a risk, and assessment and selection of a suitable response. The second phase (risk management) is concerned with resourcing the response (carrying out the actions necessary to prevent or manage the risk) and reviewing what effect the response had. The process is depicted in the diagram overleaf.



The Risk Management Process

Activity: Imagine that you an operations manager in a factory. You are teaching a member of staff to operate an industrial sewing machine, used in your production of aircraft seats. Follow the above process and outline what you would do in each of the activity boxes.

Having completed the activity you will have identified a number of risks, such as getting fingers caught in the machine as material is fed through it. You may well have considered what the outcome of such an injury might be. Evaluating the risk of injury might include consideration of the impact of training, the experience of the individual operator, working with sufficient space, appropriate lighting and safety guards on the machine etc.

In risk management, it is customary to specify each individual possibility rather than adopt a *'one-size fits all'* approach. Having done that, each risk is evaluated on the basis of its *probability* – the likelihood of the risk occurring – and the *impact* – the consequence of that risk occurring. The grid below illustrates how to evaluate probability and impact:

	Probability	**Impact**
High	Can be expected to occur sooner or later	Significant impact on the ability of the project to meet its objectives
Medium	May or may not happen – fairly high likelihood of occurrence	Some impact on project objectives – may be manageable within tolerances
Low	Unlikely to happen, but may still be significant	Marginal effect, but still requiring some extra work/effort to mitigate

Evaluation of the risk and its significance will effect on the response that is selected. There different responses to a risk, which include:

Risk Response	**What it means**
Prevention	Stop the threat occurring or prevent the impact
Mitigation	Actions taken to reduce the probability or the impact
Transference	Impact passed to a third party (eg. Insurance)
Contingency	Actions to be taken if the threat arises
Acceptance	Tolerate the risk

Constraints Affecting Business Plans

A plan rarely comes to fulfilment exactly as it has been envisaged. Things go wrong due to changes in the expected circumstances; thorough consideration of possible constraints enable contingency plans to be prepared and for potential setbacks to be overcome.

Examples of constraints include:

Legal Constraints

All UK business operate within the UK legal framework; laws can change and new ones can be introduced that may affect plans. For example, an increase in rates of corporation taxation would impact business.

Financial Constraints

Unforeseen events would be likely to put pressure on limited funds. Similarly, expected sales may not materialise, making outgoings less affordable.

Social Constraints

Businesses rely on having suitably qualified and experienced staff available. If people leave the organisation there is no certainty that a suitable replacement can be immediately found.

Environmental Constraints

Businesses need to comply with environmental legislation and this may impose a constraint on preferred working practices.

Technological Constraints

Technology is rapidly developing and it is important for businesses to be able to compete for business online, having web sites optimised for search engines so that potential customers can find the business. The absence of a good web presence can be a significant restraint.

Competitive Constraints

It can be difficult for businesses to predict the actions competitors will take in reaction to business activity. Competitors with bigger budgets may react to your marketing activity and swamp projected growth as a result.

Financial Terminology

To have a good understanding of business, it is important to have a working knowledge of the terminology used in finance.

Financial Reports

The principal statements of account or reports are the profit and loss statement, the balance sheet and the cash flow statement. Reports are prepared by businesses for 2 main audiences:

External Audiences – Financial accounting: concerns the preparation of the annual accounts for filing in line with legislative requirements for reporting and taxation.

Internal Audiences – Management accounting: concerns information for monitoring and control of the business and for making associated management decisions. They are produced throughout the reporting year – typically monthly.

The Profit & Loss Statement

The Profit & Loss (P&L) Statement is a summary of transactions over a period. It shows income generated, costs incurred & either a profit or a loss for the period. It records relevant transactions to determine various levels of Profit (or Loss) from the organisation's activities over the period. In outline, the main sections of a P&L statement are:

Sales
Less direct costs of sales
Gross Profit
Less Expenses
Net Profit

The Balance Sheet

The Balance Sheet is a snapshot of an organisation's financial position at a given point. It shows all the assets, liabilities and accumulated reserves showing the organisation's net worth. It shows what is owned and owed by the business. In outline, the main sections of a Balance Sheet are:

Fixed Assets
Current Assets (Stock, Debtors [people that owe money], Cash)
Current Liabilities (Trade Creditors [money owed], Other Creditors)
Net Current Assets
Less Long Term Liabilities
Total Net Assets
Financed by:
Initial Capital
Retained Profits
Shareholders' Funds

The Cash Flow Statement.

The Cash Flow Statement lists the inflows and outflows of cash (cash is all money in actual notes or cheques, bank transfers, etc.) for an organisation over a given period. It can be either a forecast or a record of historical data. It records net cash flows, along with opening and closing balances. It helps businesses to manage funds, monitor cash needs and provides an indicator of solvency – i.e. how much cash is available. In outline, the main sections of a typical Cash Flow Statement are:

	Week 1	Week 2	Week 3	Week 4 etc
Cash Income				
Total Cash Income				
Cash Expenditure				
Total Cash Expenditure				
Cash Balance				
Bank				
Opening balance				
Closing balance				

Costs

All businesses incur costs and it is important to minimise costs to improve profitability.

Activity: List 5 different costs incurred by your department.

The main categories of cost within a business include:

- Employee Costs
- Property Costs
- Materials Costs
- Supplies Costs
- Support Services Costs
- Storage Costs
- Selling Costs
- Transport and Delivery
- Administration Costs
- Depreciation Costs
- Maintenance Costs
- Overheads

Different Types of Cost Classifications

Variable costs: costs that move with changes in the volume or activity of the business.

Fixed costs: costs that remain constant in the short term irrespective of the level of activity.

Direct costs: costs directly attributable to a product or process.

Indirect costs: costs which are not directly attributable to a product or process.

Capital Costs: costs of acquiring or upgrading physical assets such as property, industrial buildings or equipment.

Activity: List 2 examples of each of the above cost classifications (variable, fixed, direct and indirect costs) as applicable in your organisation

Variable costs Fixed costs Direct costs Indirect costs Capital costs

If we use a fish and chip shop as an example:

Variable costs:	Potatoes and oil
Fixed costs:	Rent and rates
Direct costs:	Again, potatoes and oil
Indirect costs:	Might include the cost of a specialist cleaning contractor or accountancy services
Capital costs:	Might include replacement of an out-dated frying range

Measuring Business Performance

Activity: Why do businesses need regular, accurate and timely information and reports?

Accounting and key performance indicators together form a system for measuring, analysing and reporting financial and non-financial information that helps a business make decisions to fulfil the goals of an organisation. The quality of decision making can only be as good as the quality of the information in reports used to make those decisions; hence, the need for accuracy and focus on having the ‘right’ or most appropriate key performance indicators.

Key Performance Indicators

There are numerous systems for measuring performance used in organisations. At supervisory level, the focus is more on measuring work performance, output and quality in fairly narrow, but clearly defined areas. To achieve this we need to be able to have a ‘benchmark’ or ‘indicator’ of performance against which we can measure the work performance, output and quality. These measures are often referred to as key performance indicators (KPIs).

Key performance indicators come in three main types:

- **Input KPIs** measure assets and resources used (purchases made) to achieve business results. Examples might include:
  - Funding for training;
  - Raw materials; and
  - Quality of raw materials (e.g. grade 1, 2, 3 etc).
- **Process KPIs** measure the efficiency or productivity of a business process. Examples might include:
  - Production time;
  - Days to deliver a completed order;
  - Number of days to reply to customer requests;
  - Number of personnel trained in use of a piece of equipment; and,
  - Days taken to fill vacancies.

- **Output KPIs** measure the financial and non-financial results of business activities. Examples might include:
    - Sales revenue;
    - Number of new customers;
    - Increase in full-time employees;
    - Return on investment; and,
    - Customer satisfaction.

A mix of the three types of KPIs – process, input, and output – would be applied to give a broad picture of your team or business performance. Any variances then need to be investigated and appropriate action needs to be undertaken.

Activity:

a. List at least 2 examples of KPI that are, or could be, applied in your monitoring of workplace performance:

b. How might personal and team performance data be used to inform management reports in your organisation?

Team performance contributes to overall organisational performance and reporting is likely to include measures that relate to a wide variety of performance issues, such as:

- Sales
- Return on investment
- Achievement of quality standards – including cost parameters and time
- Levels of customer service
- Manning levels
- Maintenance of equipment
- Budget performance
- Procurement costs
- Resource usage
- Continuous improvement
- Training and development of staff
- Annual appraisals
- Volume of production
- Down time
- Absences
- Recruitment and retention

Managers need information in easily and speedily digestible formats. Logically created tables and graphical information is often better than screeds of text. Ultimately, in presenting information for inclusion in reports it is useful to have accompanying analysis of the implications of the information and to present recommendations for consideration by more senior managers.

Reporting to Internal Stakeholders

Beyond the necessity for upward reporting of information, it may be required by business administrators to disseminate information to other stakeholders. Provision of open, timely and relevant information to those who it affects is an essential element of effective management.

Dissemination of information should take account of:

- What you need or plan to disseminate – the message
- To whom – the audience
- Why – the purpose
- How – the method
- When – the timing

Purpose

The purpose of the dissemination activity may be to:

- Raise awareness
- Inform
- Engage
- Promote results

Message

Think about the key message you want to send. What do they need to know? How can you communicate it clearly?

- Focus on clear, simple messages.
- Get the right message to the right audience.

Audience

Think about whom you want to reach and what they can do for your project. Identify people likely to be affected by your information – i.e. the stakeholders and whose support you need.

Methods

You should select an appropriate dissemination method. Options include:

- Intranet/Newsletters
- Meetings
- Flyers
- Presentations
- Posters
- Workshops
- Demonstrations
- Journal articles
- Reports

Activity: Think of 3 examples of information that could be more effectively disseminated to stakeholders. What would you recommend to improve the effectiveness of its dissemination?

The Principles of Accountability, Authority, and Responsibility

Responsibility:

> *'A duty or obligation to satisfactorily perform or complete a task (assigned by someone, or created by one's own promise or circumstances) that one must fulfil, and which has a consequent penalty for failure.'*

(Business Dictionary)

Characteristics of *responsibility* include:

- Places an obligation on a subordinate to perform assigned duties.
- It originates from the superior-subordinate relationship.
- Responsibility cannot be delegated only assigned.
- The person accepting responsibility is accountable for the performance of assigned duties.

Accountability:

> *'The obligation of an individual or organization to account for its activities, accept responsibility for them, and to disclose the results in a transparent manner. It also includes the responsibility for money or other entrusted property.'*

(Business Dictionary)

Every employee/manager is accountable for the job assigned to him or her. In practice it requires the person to complete the job in line with agreed (or commonly understood) expectations and inform his superior accordingly. Accountability is the liability created for the use of authority. It makes the person who is accountable, answerable for performance of the assigned duties.

When authority is delegated to a subordinate, the person is accountable to the superior for performance of assigned duties. If the subordinate does a poor job, the superior normally remains accountable for the poor performance. Accountability requires the subordinate to explain the factors causing poor performance.

Activity: What do you see as the differences between responsibility and accountability?

In simple terms the difference comes down to:

Responsibility is a task which someone is expected/nominated to complete. For example, it is a quality manager's responsibility to ensure the quality of goods produced.

Accountability is where someone holds someone else accountable for discharging a responsibility. For example, a senior manager holds the quality manager accountable for ensuring the quality of goods produced.

Authority:

'Institutionalized and legal power inherent in a particular job, function, or position that is meant to enable its holder to successfully carry out his or her responsibilities.'

'Power that is delegated formally. It includes a right to command a situation, commit resources, give orders and expect them to be obeyed, it is always accompanied by an equal responsibility for one's actions or a failure to act.'

(Business Dictionary)

An essential component of business, authority confers power to a role to enable organisational objectives to be achieved, including making decisions and giving instructions. A business administrator will not be able to function efficiently without sufficient authority. Authority is delegated from above but must be accepted by others.

Delegation and Delegated Levels of Authority plus Responsibility

'Grant of authority by one party (the delegator) to another (the delgatee) for agreed purpose(s).[…] The delegator remains responsible for the delegatee's acts or omissions in carrying out the purpose of the delegation.'

'Management: Sharing or transfer of authority and the associated responsibility, from an employer or superior (who has the right to delegate) to an employee or subordinate.'

(Business Dictionary)

Delegated Levels of Authority and Responsibility

Authority and responsibility is usually delegated such that the person being delegated to has a specified set of parameters within which they can act. This concept of delegated levels of authority is used widely in financial delegation. For example authority and responsibility might be delegated for an office stationery budget. In this case, responsibility would include, say, ensuring that the budget is properly administered. The delegated level of authority, for example, might be for individual items up to £50 in value. Beyond that value, it would require referral and approval by the line manager it would be the individual's responsibility to ensure that this is done.

Notes

Note: Every effort has been made to ensure the accuracy of this workbook. However, no liability can be accepted for misapplication of the content. In particular the legislative elements are subject to frequent change and readers are advised to check the latest legal situation before taking action in the workplace.

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