

**BUSINESS:** *Creating informed, discerning employees, consumers and future leaders*

## Topic 2.4.1 Business Calculations

### Key Vocabulary

**Revenue** – the money that a business receives from selling its goods and services. Also called Turnover or Income

**Cost of sales** – the name for the costs that are directly involved in the making of a product for a manufacturer or the provision of a service for a service provider

**Gross profit** – the amount left after the cost of buying or making the product has been deducted from revenue

**Expenses** – costs of the business that are not directly involved in the making of the product, e.g. rent, rates

**Net profit** – overall profit made by a business. The amount left after deducting all costs.

**Gross profit margin** – expressed gross profit as a percentage of sales revenue

**Net profit margin** – expresses net profit as a percentage of sales revenue

**ARR** – Average Rate of Return. Expresses the average yearly profit as a percentage of the sum invested. Shows profitability and can be compared with interest rates on bank deposits

### Core Knowledge

#### Key formulas:

**Gross profit** = Revenue – cost of sales

**Net Profit** = Gross profit – expenses

**Gross profit margin** = (Gross profit ÷ Sales revenue) x 100

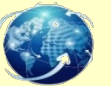
**Net profit margin** = (Net profit ÷ Sales revenue) x 100

**ARR** = (lifetime profit ÷ years the investment will last) ÷ initial investment x 100

In all cases the higher the number the better, BUT these must be compared to other businesses and previous performance

### Wider Business World

**RyanAir** – has a greater Net profit margin than other airlines as it keeps costs down by not offering meals on board



### Synoptic Links

**Revenue & costs** – knowledge of these terms is built on in this topic; fixed costs are expenses; variable costs are cost of sales

### Don't be a "man on the street"



- Remember not all investments will be profitable
- Even if an investment is not profitable, this does not mean a business should dismiss it – it may be needed to maintain a competitive position
- A business cannot lose profit – it makes a profit OR a loss
- A loss in one year does not always indicate failure – this may be due to high one-off costs

# Topic 2.5.1a Organisational structures

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## Key Vocabulary

**Centralised structure** – an organisation where most decisions are made at head office not within the branch

**Decentralised structure** – an organisation that allows staff to make decisions at a local level

**Flat structure** – an organisation with few layers of hierarchy

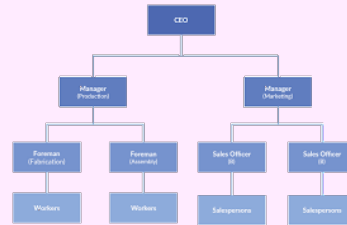
**Hierarchical structure** – an organisation with many layers of management, therefore creating a tall organisational pyramid

**Organisation chart** – a diagram that shows the internal structure of an organisation

**Span of control** – the number of people a manager is directly responsible for in an organisation

**Subordinate** – the term for people underneath another in an organisation chart

## Core Knowledge



An example of an organisation chart. Each box represents an employee or set of employees. The vertical lines represent lines of communication.

|                          | Benefits  | Limitations  |
|--------------------------|---|--|
| <b>Tall hierarchical</b> | Regular promotion opportunities<br>Easier to maintain standards / check everyone's work | Very hard for lower levels to communicate with the top<br>Decision making may be slow due to many layers |
| <b>Flat</b>              | Fewer managers needed<br>Workers have more responsibility                               | Each manager is responsible for more people<br>Fewer promotion opportunities                             |
| <b>Centralised</b>       | Decisions taken with an overview of whole company<br>Consistent policies and decisions  | Reduces delegation, so local managers can not respond to changes quickly<br>Less job satisfaction        |
| <b>Decentralised</b>     | Involvement in decision making by more staff<br>Can adapt to local conditions           | Managers will need more training<br>A mistake in one branch could impact reputation                      |

## Wider Business World

**Sainsbury** – an example of a centralised business where local branch managers have little power over decision making

**NHS, police force** – examples of tall hierarchical structures



## Synoptic Links

**Recruitment** – an organisation structure shows the roles within a business

**Finance** – more managers increases costs for the business

**Motivation** – responsibility is a non-financial factor

**Growth** – as businesses expand so will their structures. This can include adding in or removing layers

## Don't be a "man on the street"



- When counting a span of control, only include those directly underneath, not all staff
- Delegating work and having more responsibility can make staff more motivated – they feel valued. Don't assume employees want to do as little work as possible
- Consider the level of skills of the workers – more skilled generally need less supervision so flatter structures can work well

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## Topic 2.4.2 Understanding Business performance

### Key Vocabulary

**Line graph** – shows data represented as lines, making it easy to identify trends

**Bar graph** – data represented so that the height of the bar represents the quantity involved. Good for making comparisons

**Pie chart** – shows data represented in a circle, with each slice of the pie representing a proportion of the whole, e.g. market share

### Core Knowledge

Data can be figures or visually represented. The most common types of visual representation are graphs.

|      | <b>Line graphs</b>   | <b>Bar charts</b>   | <b>Pie charts</b>   |
|------|--|---|---|
| Pros | Good for data shown over many time periods and for comparisons with how one factor affects another | Good for data over 2-3 time periods<br>Good for comprising size / number of several different items | Good for showing proportions  |
| Cons | Too many lines can be confusing<br>Assumptions can be made about trends continuing                 | Cannot be easily used to compare data over many time periods  | Show big differences clearly but not small differences<br>Cannot show trends over a number of years |

A business can use a variety of data:

- **Financial data** – profit margins, profit levels, ARR, break-even point, cash flows
- **Marketing data** – analysis of sales figures, market research data
- **Market data** – analysis of data such as market size, changes in market size, figures for different segments

#### **Limitations of data:**

- A need to understand why trends are happening and the causes of these trends
- Bias can be in place when interpreting data
- Some numbers will be estimates not facts

### Wider Business World

**Government** – use line charts to show changes in taxation, inflation etc; pie charts to show how taxation is distributed



### Synoptic Links

**Business calculations** – profit and profit margin calculations can be used to assess financial performance

**HR** – data on staff retention and performance can be used

**Operations** – productivity and quality data can also be measures of performance

**Marketing** – data on sales figures and market research

**External influences** – economic factors may affect a business performance

**Aims** – the importance of each measure can be different depending on the aims of the business

### Don't be a "man on the street"



- Remember that data may be biased or unreliable – always check the source
- One set of data alone is not much help – a business will need to compare to previous years or competitors to put the data into context
- Financial data alone is not the whole picture – consider what external factors may have caused a change, as well as HR and Marketing data
- Don't confuse market data and marketing data

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## Topic 2.5.1b Communication

### Key Vocabulary

**Communication** – the passing of information from one person or organisation to another

**Insufficient communication** – too little communication which may leave some staff under-informed and demotivated

**Excessive communication** – too much communication, causing overload for staff; a particular problem with email

**Barrier to communication** – something that prevents the flow of communication

**Jargon** – technical or obscure words used by a particular group of people that may not be understood by everyone

### Core Knowledge

#### **Communication methods:**

- **Verbal** – meetings, telephone, digital methods such as Zoom
- **Written** – letters, reports, posters
- **Digital** – email, instant messenger, texting, social media

#### **Communication problems:**

- Too little communication – can lead to employees being unaware of what is happening, leading to mistakes and inefficiency
- Too much communication so employees are overloaded
- Other information or activities act as barriers to communication

#### **Barriers to communication**

- **Written** – illegible handwriting, poor spelling and grammar, poor font or presentation
- **Verbal** – language not understood, accent not understood, speaking too fast or slow, not pausing when speaking
- **Receiver** – poor attitude, not listening
- **General** – timeliness, structure of communication not clear, cultural differences, use of jargon, technical issues, no opportunity for feedback

### Wider Business World

**Microsoft** – research by Financial Times identified Microsoft as having excellent communication



### Synoptic Links

**Motivation** – too little, or too much can lead to poor motivation

**Technology** – has enabled more methods to be available

**Stakeholders** – different groups will need to be communicated with in different ways

**Globalisation** – being able to use electronic communication has helped with globalisation

### Don't be a "man on the street"

- Remember that not all people have the internet or social media, so don't assume this is always the best way to communicate
- Remember that email is not free communication – it is cheaper than traditional methods, BUT, still costs in terms of connections and time to compose / send and monitor



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## Topic 2.5.1c Different ways of working

### Key Vocabulary

**Full time work** – 35-40 hours per week

**Part-time** – less than 35 hours and usually predictable hours /days

**Flexible hours** – where days and hours vary from week to week

**Zero hour contract** – a type of flexible working where employees are not guaranteed any work from week to week

**Freelance contract** – an agreement over one job between a business and a self-employed worker

**Permanent contract** – an agreement between a business and an employee that work and income will be provided consistently into the long-term future

**Remote working** – working away from the office, typically at home

**Temporary contract** – an agreement between a business and an employee that work and income will be provided for a specific time period, e.g. six months

### Core Knowledge

3 main types of employment: full-time, part-time and flexible hours

3 main types of contract: permanent, temporary and freelance

Benefits of a full or part-time contract are:

- Stable earnings and high degree of job security
- Regular contributions towards pension
- Likely to receive holiday and sick pay, providing more security
- More likely to be sent on training courses to improve skills

The impact of technology:

- Has made it easier to work with people without being physically close to them
- Can be used to monitor staff, e.g. productivity, breaks, accuracy
- Can be used to improve efficiency by doing repetitive jobs more consistently and accurately
- Remote working has pros and cons – a lack of natter and banter could mean good ideas are missed

### Wider Business World

**Remote working** – due to COVID-19 there has been a huge increase in people working this way

**Amazon** – reputation for poor working conditions with excessive monitoring

**Brompton bikes** – uses automation and robotics alongside skilled workers



### Synoptic Links

**Technology** – has enabled more remote working and can contribute to improvements in efficiency

**Recruitment** – the type of contract offered may impact where and how the vacancy is advertised

**Training** – more likely for permanent staff

### Don't be a "man on the street"

- Remember not all self-employed people are super rich and successful entrepreneurs
- Self-employed workers will not get holiday pay, sick pay or contributions by their employer into their pension
- Flexible working may sound ideal to some, but for others it would not work. Don't assume everyone wants to work as little as possible!



## Topic 2.5.2 Effective recruitment

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### Key Vocabulary

**Directors** – people who make the biggest decisions faced by the business, e.g. aims and objectives

**Managers** – the people who organise others to carry out tasks

**Supervisors / team leaders** – these people ensure that the staff below them do what they are supposed to do

**Operational staff** – a member of staff who has specific responsibility for meeting for meeting a target set by the business that is focused on achieving the business's aims and objectives

**Support staff** – staff who provide help to operational staff, providing assistance with computer networks, administration task etc

**Job description** – a short account of the main features of the job

**Person specification** – a description of the type of person who would best fit the job: their character, their experience and skills

**Application form** – a series of questions a job-seeker must fill in when trying to get an employer interested in interviewing them

**CV** – curriculum vitae. Sets out the person's experience, qualifications and other relevant facts

**References** – people such as teachers or previous bosses who are willing to answer questions about the qualities of a job applicant

**Internal recruitment** – appointing someone from within an organisation

**External recruitment** – appointing a new employee who does not work for the business

### Core Knowledge

In a large business there are 5 main job roles:

- Directors
- Senior Managers
- Supervisors / team leaders / junior managers
- Operational staff
- Support staff

Documents used in the recruitment process:

- **Job description** and **person specification** – created by the business so they are clear about the job that is needed to be filled and what the ideal candidate would be like
- **Job advert** – this can be placed in various places, such as job centre, recruitment agency, online, internal notice board or email, newspapers or specialist magazines
- **Application form, CV, letter of application** – completed by the candidate to provide all the information required by the business
- **References** – supplied by people who know the candidate to support an application

A candidate can be chosen through an interview, assessments, further tests or tasks

|                 | Benefits   | Limitations   |
|-----------------|--|---|
| <b>Internal</b> | Quicker and cheaper<br>Motivational for employees<br>Business knows the candidate well | Existing workers may not have necessary skills<br>Creates a new vacancy |
| <b>External</b> | Wider range of applicants<br>New skills and ideas                                      | Expensive and time consuming processes                                  |

### Don't be a "man on the street"

- Don't confuse Directors or Managers with owners of a business
- Not all businesses will have all job roles – it will depend on the structure and size of the business
- Not all vacancies will be advertised in the same way, or place. It will depend on the role and urgency



### Wider Business World

**McDonald's** – only recruit online

**Merlin entertainments** – require candidates to attend assessment centres

**B&Q** – one of many businesses that no longer accept CVs, only application forms



### Synoptic Links

**Organisational structures** – HR will need to know where a vacancy fits within the hierarchy

**Legislation** – there are laws regulating how employees can be recruited

**Motivation** – offering internal promotion opportunities can be non-financial motivation

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## Topic 2.5.3 Effective training and development

### Key Vocabulary

**Formal training** – the official training program, e.g. a 2 year graduate training program

**Informal training** – the unexpected, unplanned extra advice or demonstrations that come from colleagues or occasionally from customers

**On-the-job training** – training that occurs in the workplace whilst doing the job, e.g. on an apprenticeship

**Off-the-job training** – training away from the workplace, e.g. in a college

**Induction training** – training that occurs when you first start a job or join a new business

**Self-learning** – teaching yourself, perhaps by thinking why a problem occurred and making sure you learn from your mistakes

**Ongoing training** – regular, perhaps weekly training sessions for all staff

**Target setting** – when you are set goals by a manager and your job is to achieve them

**Performance review** – discussion between you and your line manager about how well you are working towards the targets set for you

**Retention** – calculation of how many staff stay loyal rather than leaving

### Core Knowledge

| Benefits of providing training   | Costs of providing training  |
|--|--|
| Improvements to efficiency and quality   | Paying to send staff on courses or bringing in external providers can be expensive |
| Wider range of staff skills allows a business to respond to market changes quickly | Staff who are training cannot do normal work                                       |
| Boosts motivation of staff   | Staff may leave for better jobs  |

Training can be:

- Formal and informal
- Self-learning
- On-going throughout your career

A formal method to ensure staff develop throughout their career, and to ensure staff contribute to the business aims is to set targets for staff each year. These are reviewed in performance reviews or appraisal meetings.

#### **Why train?**

- Motivate staff therefore improving retention
- Introduction of new technology or working practices

### Wider Business World

**Teachers** – must have a minimum of 5 training days per year (INSET)

**Doctors** – an example of on-the-job training as part of their medical degree and after

**Aldi** – offer a training program for all new branch managers



### Synoptic Links

**Motivation** – providing training can motivate staff by making them feel valued

**Aims** – performance targets usually relate to the overall aims of the business

**Technology** – an investment in new technology will be wasted if staff are not trained to use it

**Sales process** – effective training leads to better customer service, part of the sales process

### Don't be a "man on the street"

- Remember training does need to have a formal qualification linked to it
- Remember to analyse training benefits from the employer's point of view, not the employees



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## Topic 2.5.4 Motivation

### Key Vocabulary

**Motivation** – the desire to do the best you can

**Remuneration** – all the financial rewards received from work, both direct and indirect

**Fringe benefits** – rewards you get from work that are non-financial such as a company car or free membership of a club

**Salary** – an annual amount paid to employees, usually divided into 12 equal payments

**Wage** – an hourly rate

**Overtime** – working more than your contracted hours. Sometimes paid at a rate above your usual pay

**Bonus** – extra payments over and above your basic wage, often related to a target

**Commission** – being paid a percentage of the value of a sale you made

**Promotion** – being given a more important job in the organisational structure

**Job rotation** – having several tasks to do at work to remove the boredom of doing the same thing all the time

**Job enrichment** – being given a range of activities and responsibilities, some more complex than others

**Autonomy** - the independent power to decide what you are going to do at work

### Core Knowledge

Having staff who want to work, want to do the best job possible and are committed to the success of the business is important because

- Higher productivity
- Attracts the best employees to apply for vacancies
- Lower staff turnover, so lower recruitment costs
- Better quality production or customer service, leading to repeat customers and less wastage
- More ideas from staff

#### **Why is motivation important?**

motivated workers → high productivity → increased output → higher profits ☺

unhappy workers → low productivity → low output → low or no profits ☹

#### **Financial methods**

- Payment, i.e. a wage or salary
- Fringe benefits (more likely in private sector)
- Bonuses
- Commission
- Promotion

#### **Non-financial methods**

- Job rotation
- Job enrichment
- Autonomy

### Wider Business World

**Avon** – sales representatives are paid a commission rate

**Clothing retailers** – use job rotation, e.g. time on tills, time on changing room, time on shop floor



### Synoptic Links

**Costs & revenue** – remuneration impacts on fixed costs; commission on variable costs, therefore affecting profit margins

**Training** – employees who are invested in tend to be more motivated

**Business aims** – bonuses can be related to targets, which usually relate to the business aims

### Don't be a "man on the street"

- Remember earning more money does not motivate staff to work harder – they may be pleased but won't do any more
- Financial rewards cost the business, so can affect profit margins, unless greater sales and revenue can be generated or cost savings
- Don't confuse job rotation and job enrichment
- Don't assume that staff want to do the littlest amount of work

