

CfE

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PUBLISHING

HIGHER BUSINESS MANAGEMENT



BrightRED Study Guide



CfE HIGHER

BUSINESS MANAGEMENT



Don't forget to check out
the BrightRED Digital Zone

INTRODUCTION

INTRODUCING CFE HIGHER BUSINESS MANAGEMENT

Business organisations come in many different structures and sizes, ranging from the local sole trader to the global multinational organisation. All of these organisations are important to both the local and the international economy, because they create employment, income and wealth for society. All organisations, irrespective of their size, require skilled and talented entrepreneurs to lead them through the cyclical nature of the global economy.

As consumers and employees, we interact with businesses every day and depend on business organisations to produce goods and services to satisfy our needs and wants. The study of Higher Business Management will help you to understand the role of business in society and the key functional areas of business organisations. It will also help you to develop and apply skills for learning, skills for life and skills for work.

HIGHER COURSE CONTENT

The Higher Grade course comprises three main units of study:

UNDERSTANDING BUSINESS (HIGHER)

This unit focuses primarily on the range of different types of organisations in our economy, with emphasis on large-scale organisations such as public limited companies.

In this unit you will study the structure and objectives of business organisations, how they achieve growth and the internal and external factors that can impact on their success. You will gain an understanding of the conflict of interests between different groups of stakeholders and how the actions of one stakeholder can impact on another.

MANAGEMENT OF MARKETING AND OPERATIONS (HIGHER)

In this unit you will study how the marketing function is used to influence consumer behaviour and the importance of using market research to give business organisations a competitive edge. There will be a particular focus on the marketing mix.

The study of operations examines the processes and procedures used by organisations to produce their goods or services in an efficient and ethical manner including inventory management, production methods and quality assurance.

MANAGEMENT OF PEOPLE AND FINANCE (HIGHER)

In this unit you will gain an understanding of how organisations recruit and maintain an effective workforce, including training and motivating employees. Organisations must also ensure that they adhere to all forms of employment legislation and maintain harmonious working relationships with employees.

You will also examine the sources of finance available to different organisations and how managers can budget to ensure good cash flow. You will gain an understanding of the importance of financial statements and how organisations use ratio analysis to interpret these accounts to help them make key business decisions.

DON'T FORGET



Marketing is one of the most important functional areas of a large organisation. It is important that consumers are made aware of an organisation's products and services, or sales and profits are unlikely.

DON'T FORGET



Employees are one of the most important resources to any organisation.

DON'T FORGET



Financial management is vitally important if organisations are to generate profit and maintain liquidity.

DON'T FORGET



Reference will be made to the impact of technology on business management throughout all three units.

COURSE ASSESSMENT - EXTERNAL

QUESTION PAPER

The question paper is worth 90 marks (75% of the total). It consists of two sections:

- 1 – A case study with short answer questions from any areas in the course. 30 marks.
- 2 – Four topic-based questions drawn from any areas in the course. 60 marks.

ASSIGNMENT

This assignment gives you an opportunity to apply your knowledge and understanding of business and business concepts. It will require you to make decisions, solve problems, draw conclusions and present and communicate your findings. You will be required to collect information, analyse and evaluate business data and produce a business report.



ONLINE

Check out two specimen assignments at www.brightredbooks.net

EXAM HINTS

Before you start answering questions in the external exam paper, you should identify the key 'command word' used in each question. This will ensure that you tailor your response to the demands of the question being asked.

Command Word	Meaning
State	Listing or bullet points would be acceptable here.
Suggest	More than just naming or stating. Put forward a recommendation or advise on a possible course of action.
Outline	Identify key features and provide a brief description where appropriate.
Describe	Give a description and use examples where possible as part of the description.
Explain	Give a definition and an example as to how something may or may not be affected.
Discuss	Give advantages and disadvantages where possible. Use examples to expand your answer and, if possible, give a conclusion to your answer.
Compare	You must be able to compare the similarities or differences between the items, again giving a conclusion if necessary. A key word that you can use in this type of question is 'whereas'.
Justify	You must be able to give reasons why a certain course of action is being taken.
Consequences	You must be able to identify the initial impact of the action being followed.
Implications	You should be able to state what the likely outcome of a particular action will be in the longer term, either on a person or on an organisation.

Discuss, compare, justify, consequences and implications are the most difficult command words to address. More marks are likely to be awarded to questions using these words – make sure that you know how to respond and do not simply list key points!

HOW THIS STUDY GUIDE CAN HELP YOU

This study guide has been developed to give you the knowledge you need to prepare you for all aspects of your assessments in Higher Business Management.

The guide is presented in a clear and concise way, and is fully supported by the Bright Red Digital Zone (www.brightredbooks.net). We have used case studies, short response questions and specimen exam-style questions to challenge your knowledge and understanding of topics. These activities will also help you to develop the following key skills for business and for life: numeracy, analysis, decision-making, communication, planning, evaluation, research, problem-solving, presentation, ICT and creativity.

This book is suitable either for students progressing from National 5 Business Management or for those starting their studies at Higher level.



ONLINE

The answers for all of the activities in this book, as well as extra tasks, tests and links, can be found at www.brightredbooks.net

DECISION-MAKING IN BUSINESS ORGANISATIONS

THE ROLE OF MANAGEMENT: OVERVIEW

- **Plan** – managers must plan for the future survival of an organisation.
- **Organise** – managers bring resources together.
- **Command** – managers instruct others to ensure all tasks are completed.
- **Coordinate** – managers must ensure that all functional departments are working collegiately to achieve strategic aims.
- **Control** – managers must have an overview of the entire organisation and ensure that aims and objectives are being achieved.
- **Delegate** – managers give authority and responsibility to subordinates to carry out particular tasks or roles.
- **Motivate** – managers must encourage others to fulfil their roles and provide opportunities for them to progress in their job.

DON'T FORGET



If managers are not making good decisions the organisation could fail!



In simple terms it could be said that a manager:

- works with subordinates to get 'the job done'
- deploys resources effectively and efficiently
- controls and coordinates activities in an organisation
- is accountable to and carries out the wishes of the owner of an organisation
- makes **decisions** about the running of an organisation to meet its objectives.

Managers must make key **decisions** to achieve the organisation's aims and objectives and improve performance. The more important a decision is, the more senior the person responsible for making it will be.

There are three main types of business decision: strategic, tactical and operational.

STRATEGIC DECISIONS

What are strategic decisions?	Strategic decisions set out the long-term aims of an organisation, provide focus and direction for the organisation and establish what it hopes to achieve at some point in the future – for example, improved profitability.
Who makes strategic decisions?	Strategic decisions are usually made by the most senior people in any organisation – in other words, the owners of the organisation or their representatives.
Examples of strategic decisions	<ul style="list-style-type: none"> • increase market share • increase profitability • diversify into a new product range • improve the organisation's image • decide on a target market • expand the business into a foreign country

TACTICAL DECISIONS

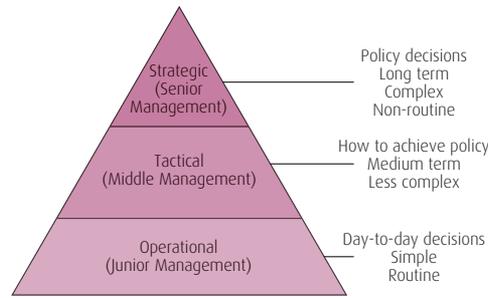
What are tactical decisions?	Tactical decisions set out the medium-term actions required to achieve strategic decisions. They describe, in detail, how resources are going to be brought together and used within the organisation.
Who makes tactical decisions?	Tactical decisions are made by senior management, middle management or heads of departments.
Examples of tactical decisions	<ul style="list-style-type: none"> • choosing whom to give subcontracts to • analysing when and where to open new branches • developing a new marketing campaign • looking to source cheaper suppliers of raw materials to reduce expenditure • changing the pricing policy by raising or lowering prices

OPERATIONAL DECISIONS

What are operational decisions?	Short-term (day-to-day) decisions usually address problems that arise each day or week. For example, if a secretary has telephoned to say they are ill and cannot come into work, the operational decision might be to transfer another member of the administrative staff to cover their duties until they return.
Who makes operational decisions?	Operational decisions are usually made by low-level managers, section heads or team managers, although all staff in the organisation could be involved in making them.
Examples of operational decisions	<ul style="list-style-type: none"> • considering how to respond to a customer's complaint • considering how to deal with staff absence • working out the best way to organise work rotas • working out when to pay suppliers to take advantage of cash discounts • deciding how much overtime should be allocated • deciding on a new filing system for customer records

contd

These three types of decision are likely to be interconnected within an organisation. For example, if the **strategic** decision is to increase profitability, the **tactical** decision might be to find cheaper suppliers of raw materials to reduce expenditure. Finally, the **operational** decision might be to decide when to pay suppliers to achieve cash discounts for prompt payment.



All three types of decision focus on achieving increased profitability.

EVALUATION AND REVIEW OF DECISIONS

As well as making decisions, managers or decision-makers have to look at the outcomes of their decisions. What was actually achieved? Was this what we expected? If not, do we have to make any further alterations to the work we are now doing as a result of decisions made?

Facts and figures are a valuable part of this evaluation process – for example:

- increase in profits
- increase in sales
- less staff absence
- positive feedback from customer surveys
- greater market share
- increase in output
- reduction in costs.

Managers must therefore undertake a continuous process of review, evaluation and remediation of the decisions they make at all levels – strategic, tactical and operational. No decision, however large or small, can stand in isolation and fail to affect the organisation in one way or another. The more managers reflect on the decisions they have made, the more successful they will be at adapting to change and improving organisational performance.

Short- and medium-term (operational and tactical) objectives have to be reviewed to assess their performance in meeting the long-term (strategic) targets set by management. Similarly, long-term (strategic) aims also have to be reassessed (and perhaps altered) in view of the achievements made in the medium- and short-term (tactical and operational).

DECISION-MAKING MODELS

SWOT ANALYSIS

This is another strategy used by managers to minimise the risks associated with making decisions within an organisation. A SWOT analysis involves analysing the current position of a product, a department or even the whole organisation, and trying to identify the possible **Strengths, Weaknesses, Opportunities** and **Threats** that could affect its future.

- **Strengths** – the positive **internal** factors that the business is currently experiencing.
- **Weaknesses** – the **internal** areas where the business currently performs poorly.
- **Opportunities** – the **external** activities or circumstances that the business could potentially take advantage of in the future.
- **Threats** – the **external** problems or challenges that the business could potentially face in the future.

A SWOT analysis is simple and easy to follow, and managers can use it to help them:

- build on current business strengths
- gather and analyse information
- address any weaknesses identified
- capitalise on available opportunities
- take measures to protect the organisation from threats
- be proactive rather than reactive.

DON'T FORGET

Strengths and weaknesses are the **internal factors** that the company currently faces. Opportunities and threats are the **external factors** that the company might face in the future.

ONLINE

To see an example of a SWOT analysis, head to www.brightredbooks.net

ONLINE

Other decision-making strategies include POGADSCIE, Thought Showers and PEST Analysis. Read more about these at www.brightredbooks.net



VIDEO LINK

Visit www.brightredbooks.net and watch a good video on swot analysis.

THINGS TO DO AND THINK ABOUT

- 1 Describe what is meant by a SWOT analysis and what it is used for. (3 marks)
- 2 Explain why it is important for managers to evaluate decisions and how they can do this. (4 marks)

ONLINE TEST

Want to test yourself on this topic? Head to www.brightredbooks.net

MANAGEMENT OF MARKETING AND OPERATIONS: MARKETING

THE ROLE OF MARKETING



WHAT IS A MARKET?

A market is a **medium** or meeting place through which **sellers** of a particular product or service can interact with the **buyers** of those particular goods and services. There is the possibility that a **transaction** will take place and the buyer will give the seller money in exchange for a good or service.

The price the buyer is willing to pay during the transaction is usually determined by the factors of **supply** and **demand**. Demand is simply how much of a product consumers are willing to buy and at what price, whereas supply represents how much the market can offer. Price, therefore, reflects supply and demand.

TYPES OF MARKETS

Organisations sell their products or services in different types of markets. A **consumer** market consists of individuals who are buying a product or service for their own personal use, whereas an **industrial** market is one where similar organisations buy products or services to use them in the manufacturing of their own products or services. A durable good which has been sold for the main purpose of being used in the later production of other goods or services is known as a **capital good**.

In some circumstances, the same good can be classified as both consumer and industrial. For example, a car can be purchased by a family as a consumer good, but it will be classed as an industrial good if it's purchased by a company for use by its employees.

MARKET SHARE

When analysing markets, the **market share** can be defined as the percentage of business (total sales) that is held by one product or one organisation in relation to the entire market or business segment. It is usually measured by either the volume of units sold or the revenue made by sales. A high market share can help to create brand loyalty and allow a business to enjoy market growth, and this in turn attracts potential investors.

Organisations that hold a large market share have many advantages:

Economies of scale	Organisations with a large market share can afford to buy in bulk, therefore reducing the costs of their raw materials. They can also afford to produce their product at a cheaper price, which can force smaller organisations out of the market.
Cost savings	These organisations can often afford to make special components or ingredients in-house, rather than buying them from a specialist company at a price. They can also spread large costs such as advertising over a larger scale of output, which can give them much greater bargaining power than a smaller organisation, which has less influence.
Retained profits	If large profits are made, there is more money available to be reinvested back into the organisation. Retained profits are an important source of long-term finance for an organisation, and can be used in any way the company directors see fit.

MARKET GROWTH

Market growth is an increase in the demand for a product or a service over a period of time. It is usually slow if there is low demand for the product or service. If consumers develop a **product** or **service loyalty**, then market growth will increase. But if the price of the product or service increases, then demand will probably fall and growth will decrease.

An organisation could be selling its products or services in a high- or a low-growth market.

ONLINE



Learn more about market share by following the link at www.brightredbooks.net

DON'T FORGET



High-growth markets are very attractive to an organisation that wants to increase its market share, because it can be very difficult to build market share in an established market with market leaders once the market growth has begun to slow. For example, many organisations in the soft drinks market find it difficult to build market share, because Coca-Cola and PepsiCo share the bulk of the market between them.

THE ROLE OF MARKETING

TALKING TO CUSTOMERS

Marketing is much more than reminding customers about a product or service. It enables organisations to get close to their customers and build relationships with them.

All organisations need customers to survive. No customers means no sales. The challenge for most organisations is attracting customers and keeping them. Profitable businesses are built upon good customer relations. This can be done through dealing with complaints effectively or reacting to changes in consumer trends.

CONSUMER BEHAVIOUR

All organisations must also understand consumer shopping behaviours. These are outlined below.

Routine/habitual	This is a type of purchasing scenario whereby the purchaser of a product or a service has past experience with purchasing it and automatically makes the decision to purchase again. Brand recognition plays a large part in routine response behaviour.
Impulsive	This is a spur of the moment, unplanned decision to buy made just before a purchase, triggered by seeing the product or upon exposure to well-crafted promotion. Such purchases range from small (chocolate, clothing and beauty products) to substantially large (motor vehicles and holidays) and may lead to financial difficulties.
Informed	With the growth of e-commerce in recent years impulsive shopping on the high street is becoming a thing of the past; today's shopper is seen as the "well-informed shopper", one who spends around 10 hours researching online and visiting several websites before buying online.

MARKETING ANALYSIS

Marketing aims to make a profit for the business by identifying, anticipating and satisfying customer requirements.

- Identifying customer requirements:** An organisation needs to determine exactly what it is that customers want, because if its products or services don't meet customers' requirements, they won't buy them. Consumer tastes and trends change regularly, so the marketing department needs to ensure that products and services evolve to reflect these changing tastes and trends.
- Anticipating customer requirements:** The main role of the marketing department is to investigate what customers want now and what they will want in the future. Consumer trends are important in anticipating future desires and marketing departments must ensure they are up to date with market trends.
- Satisfying customer requirements:** Satisfied customers are essential if a business is to succeed. Organisations aim to satisfy their customers by providing good-quality products and services that offer value for money, by producing well-presented and packaged goods and delivering them promptly, and by providing excellent after-sales service.



+ DON'T FORGET

Consumers have three main shopping behaviours:

- routine/habitual
- impulsive
- informed.

+ DON'T FORGET

Marketing applies to both tangible products and intangible services.

➔ ONLINE

Head to www.brightredbooks.net for some great activities on the role of marketing.

💡 THINGS TO DO AND THINK ABOUT

Look up the CIM paper outlining the role of marketing and how it has changed since the first definition of marketing was published over 30 years ago. The paper: 'Tomorrow's Word: Re-evaluating the Role of Marketing' is available at www.brightredbooks.net

✓ ONLINE TEST

Take the test on the role of marketing at www.brightredbooks.net

TECHNOLOGICAL FACTORS

Technology has seen many dynamic changes over the years, from the dawn of the industrial revolution in the eighteenth century to the digital revolution of the twentieth century and the knowledge age of the twenty-first century. To stay competitive and ensure that they identify, anticipate and satisfy consumers' needs, organisations need to be constantly evolving through **invention** and **innovation**. Technology can help make this happen.

DON'T FORGET



Turn back to the 'Marketing' chapter to refresh your memory about how technology can be used in the marketing department.

Technology can also be used very effectively within the operations department.

VIDEO LINK



Watch the video clip at www.brightredbooks.net to see how technology has had a massive impact on a small bakery.

ELECTRONIC POINT OF SALE (EPOS) AND BARCODES

This is more commonly known as an 'electronic checkout'. The EPOS system is controlled by computer and allows a receipt to be given to the customers, with all the details of the transaction listed. This acts as proof of purchase.

The EPOS system scans the barcodes on the products, which then looks up the price of the item and deducts the item from the total inventory balance.

This means that at the end of the trading day, the business has an up-to-date list of all items sold. This also allows for automated inventory control as the system can be set to automatically re-order items if it reaches a particular level. It also acts as a deterrent to theft by staff.

HAND-HELD SCANNERS

Some supermarkets offer a 'Quick Check' service which allows customers to scan barcodes of their items as they shop using a small handheld scanner. The idea is that customers scan and then pack their items as they move around the supermarket so there is no need to unpack/repack shopping at the point of checkout.

This is much more convenient as it saves time for the customer and money for the organisation, as they do not need to provide as many checkout assistants. Customers simply pay and go! Inventory levels within the business are also automatically updated when customers scan products.



DATABASES

These can be used to record supplier details or items of inventory. Databases can consist of thousands of records that can then be easily searched and sorted to enable the user to locate particular items. Databases can also create reports that can be used to list top-selling items – useful for sales departmental meetings.

COMPUTER-AIDED DESIGN (CAD)

This system is used to design an item before it is manufactured. This used to be done by hand in a technical drawing.



contd

Advantages	Disadvantages
The accuracy of the drawing has increased significantly, and human error – for example, in drawing measurements – have been reduced.	The initial expense of purchasing the necessary equipment and software is high.
Ideas can be saved, modified, printed and shared, which saves time and allows clients to see a 3D visual concept of their design. It's also easier at this stage to see where changes need to be made, therefore saving valuable time.	Staff must be trained in how to use the software and hardware
It reduces space as hard copies of drawings no longer need to be stored.	Less people are now required to create CAD drawings so it can have an impact on unemployment.
Standard layouts or templates can be created and saved as a time-saver.	

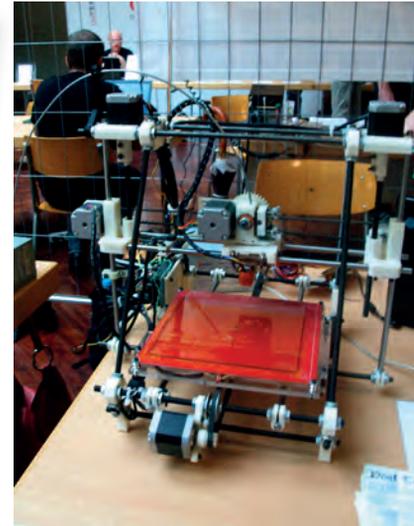
COMPUTER-AIDED MANUFACTURE (CAM)

This system uses machinery that is controlled by computers.

Advantages	Disadvantages
It produces consistent results.	The expense of the machinery is high.
It can produce highly accurate results.	It can take time to programme the machinery with the operating code.
It can run efficiently 24/7.	Staff need to be trained in how to use the system.
Difficult shapes can be created because CAM is so precise.	

ROBOTICS

This is when production is completely automatic and conducted by *machinery/robotics*. This allows for a consistent approach within production and a standardised product to be created meaning no quality differences. This can be, although an expensive method of production for an organisation, a more efficient method as human error is removed so no mistakes are made. Production can run 24/7 with no need for breaks, unlike human workers who require time off.



+ DON'T FORGET

To support routine administrative procedures, all departments will make use of:

- e-mail
- Internet
- Word processing.

THINGS TO DO AND THINK ABOUT

Answer the following questions in sentences.

- 1 Name one advantage of using CAD. (1 mark)
- 2 Name one disadvantage of using CAD. (1 mark)
- 3 Name one advantage of using CAM. (1 mark)
- 4 Name one disadvantage of using CAM. (1 mark)
- 5 Outline two advantages of using robots in the production process. (2 marks)

▶ VIDEO LINK

Watch the video clips at www.brightredbooks.net for further ways in which innovation and technology invention are having an impact on operations.



BUSINESS MANAGEMENT

William Reynolds and Nadene Morin

This BrightRED Study Guide is the ultimate companion to your CfE Higher Business Management studies! Written by our trusted authors and experienced teachers William Reynolds and Nadene Morin, this book is full-colour and packed with clear and accessible information, excellent examples, activities and advice. Inside, you will find:

- ▶ **All the essential course information, fully up-to-date with SQA course changes**, arranged in easily digestible double-page topic spreads.
- ▶ **Detailed examples**, case studies and activities to make sure all that study sticks!
- ▶ **Don't forget** pointers offering advice on the key facts to remember, and on how to avoid common mistakes.
- ▶ **Things to do and think about** sections encouraging the regular review of key points covered.
- ▶ **Digital Zone activities and tests** to supercharge your learning efforts online!
- ▶ **An index** of key terms to help when revising.

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