



**THE TIMES 100**  
**BUSINESS CASE STUDIES**

**EDITION**  
**17**

[www.thetimes100.co.uk](http://www.thetimes100.co.uk)



# Welcome to The Times 100

This, the 17th annual edition of The Times 100 Business Case Studies, continues to support and inspire both teachers and students of Business Studies through its unparalleled insight into companies.

The case studies provide not only greater understanding of how real businesses work, but the practical examples and context they give also help students to deliver more in-depth answers and achieve higher results. As ever, thanks to the generosity of our corporate sponsors, we are able to bring this unique resource to UK schools and colleges.

The printed edition is once again supported by a wealth of additional material on The Times 100 website [www.thetimes100.co.uk](http://www.thetimes100.co.uk) and I would welcome your feedback on how useful you find these additional resources or importantly, what else we could do to enhance your experience of working with The Times 100.

This year, our new website has enabled us to open up The Times 100's vast archive of case studies from previous editions. You may now purchase a pdf download of a case study for a nominal fee or take advantage of our collections of case studies on CD, themed by curriculum areas. For more information go to The Times 100 shop at <http://shop.businesscasestudies.co.uk/>

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## Contents

## Page

What The Times 100 includes	3
Index of case studies with relevant curriculum topics	4
The case studies in alphabetical order by client	8
Example lesson resources pack, including lesson PowerPoint	109
Example crossword and word search	114
Key glossary terms for Edition 17 case studies	116

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## How to use this resource

The Times 100 Business Case Studies is a unique annual resource containing business case studies from blue-chip companies. Each case study is constructed around a key element of the Business Studies curriculum.

By using real information from the sponsoring companies, the case studies provide real-life examples which help students engage more easily with curriculum topics and learn the complexities of business.

Students and teachers tell us how important The Times 100 is to business studies teaching:

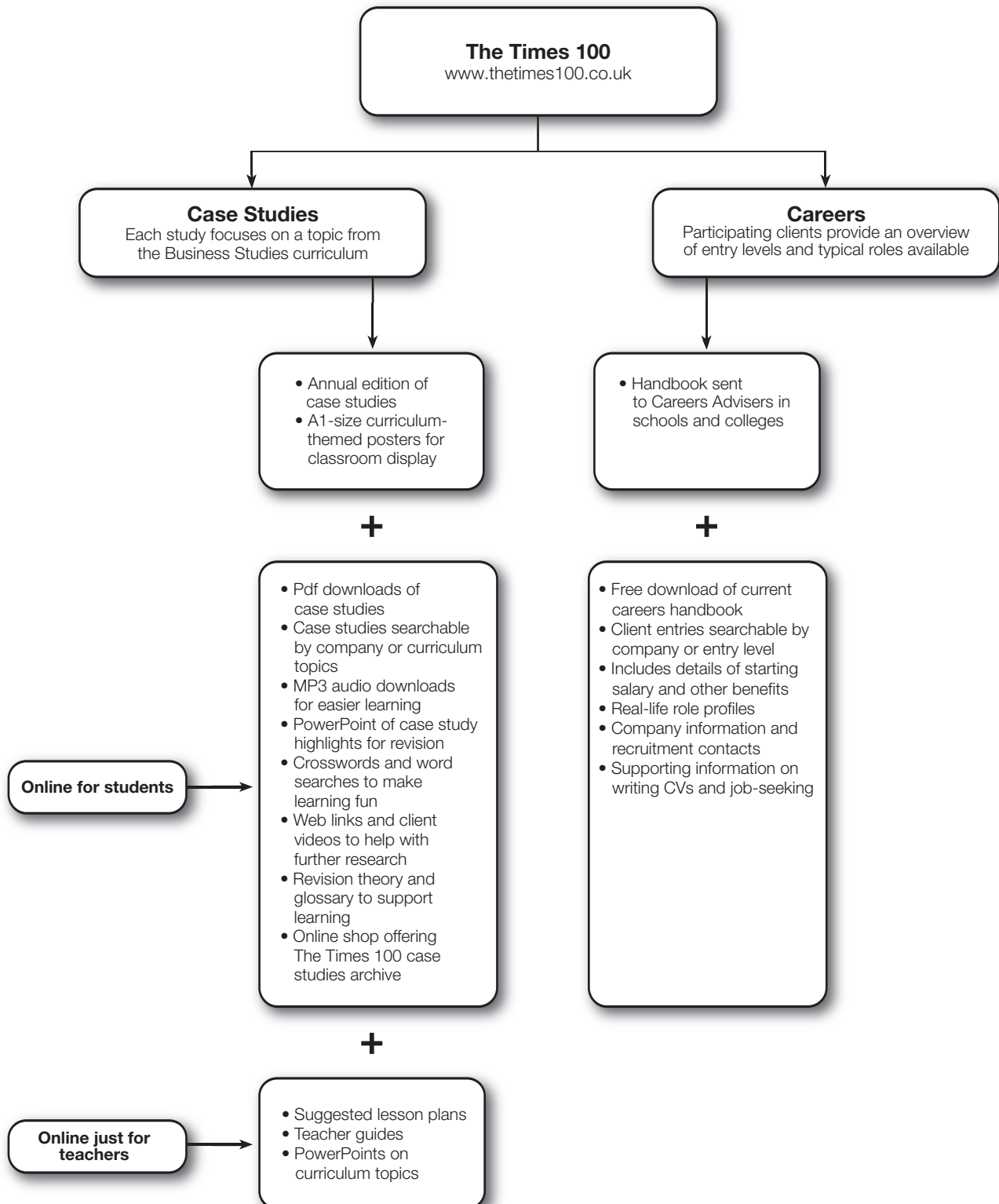
- *The case made the supply chain a lot clearer as it shows lots of examples from Kellogg's to help it fit the three main sectors. Before we had studied the primary, secondary and tertiary sectors but not in this much detail.*
- *The case study was good at showing how matrix structures work in a real business. Because KBR is involved in so many very different projects it needs to make sure that the people working on them have the right skills and experience to ensure they are successful.*

The Times 100 website [www.thetimes100.co.uk](http://www.thetimes100.co.uk) has become one of the leading business studies websites. It receives over 6 million visitors and generates over 18 million downloads each year.

**If you are a teacher or a student or are new to using The Times 100, the following overview will show you all the different elements available and help you to get the best out of the resource.**



# What The Times 100 includes





# Edition 17 case studies and curriculum topics

The table shows current edition case studies relevant to key topics in GCSE, A level and Scottish specifications. For a fuller list of all Times 100 case studies by topic, go to <http://businesscasestudies.co.uk/case-studies/by-topic/>

Where a case study shows the Careers icon **C**, this means that you will find information on career opportunities with this client on The Times 100 Careers pages <http://businesscasestudies.co.uk/career-info/>

Where a case study shows the STEM icon **S**, this means the topic of the case study or the company involved is relevant for students following or interested in STEM subjects.

	Business expansion through training and development	Page 8	PEOPLE		
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Identifying training needs</li> <li>On-the-job training</li> <li>Off-the-job training</li> <li>Development</li> </ul>		How innovation drives research and development	Page 12	C S	OPERATIONS
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>New product development</li> <li>Innovation</li> <li>Research</li> <li>Development</li> </ul>		Growth through investment	Online	S	STRATEGY
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Growth as business strategy</li> <li>Organic growth</li> <li>Inorganic growth</li> <li>Measuring growth</li> </ul>		Decision making techniques	Page 16	C S	FINANCE
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Decision making</li> <li>Types of decisions</li> <li>Decision trees</li> <li>Ratio analysis</li> </ul>		Developing the skills for managing change	Page 20	PEOPLE	
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Managing change</li> <li>Causes of change</li> <li>Barriers to change</li> <li>Evaluating change impacts</li> </ul>		Marketing and product strategies for growth	Page 24	C	MARKETING
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Ansoff's matrix</li> <li>Market development</li> <li>Product development</li> <li>Diversification</li> </ul>		Developing a career path in retail	Page 28	PEOPLE	
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>Training</li> <li>Development</li> <li>Retention</li> <li>Roles &amp; responsibilities</li> </ul>					

## Edition 17 case studies and curriculum topics



 <p>The Institution of Engineering and Technology</p>	<h3>Entrepreneurship in engineering</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Entrepreneurship</li> <li>• Characteristics of an entrepreneur</li> <li>• Business start-up</li> <li>• Engineering and enterprise</li> </ul>	<p>Page 32</p>	<p>G S</p>	<p>STRATEGY</p>
	<h3>Engineering Advantage - strategy in action</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Strategy</li> <li>• Values</li> <li>• SLEPT analysis</li> <li>• Innovation</li> </ul>	<p>Page 36</p>	<p>G S</p>	<p>STRATEGY</p>
	<h3>Using market research to support decision making</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Market research</li> <li>• Primary market research</li> <li>• Secondary market research</li> <li>• Quantitative &amp; qualitative research</li> </ul>	<p>Page 40</p>	<p>G S</p>	<p>MARKETING</p>
	<h3>Devising a communications plan</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Communication process</li> <li>• Communication plan</li> <li>• Communication channels</li> <li>• Barriers to communication</li> </ul>	<p>Page 44</p>	<p>G</p>	<p>PEOPLE</p>
	<h3>Developing a sustainable supply chain to add value</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Sectors of industry</li> <li>• Supply chain</li> <li>• Sustainability</li> <li>• Efficiency</li> </ul>	<p>Page 48</p>	<p>G S</p>	<p>STRATEGY</p>
	<h3>Using skills to respond to the external environment</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Political factors</li> <li>• Economic factors</li> <li>• Social factors</li> <li>• Technological factors</li> </ul>	<p>Page 52</p>	<p>G S</p>	<p>ENVIRONMENT</p>
 <p>National Trust</p>	<h3>The use of social media in promotion</h3> <p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Marketing mix</li> <li>• AIDA model</li> <li>• Above-the-line promotion</li> <li>• Below-the-line promotion</li> </ul>	<p>Online</p>	<p>G</p>	<p>MARKETING</p>



# Edition 17 case studies and curriculum topics

	Effective strategies for long-term growth	<b>Curriculum topics</b> • Aims & vision • Objectives • Strategy • Tactics	Online	<b>G</b> <b>S</b>	STRATEGY
	Creating shared value in the supply chain	<b>Curriculum topics</b> • Corporate social responsibility • Supply chain • Benefits of responsible behaviour • Stakeholders	Page 56	<b>G</b>	ENVIRONMENT
	Managing change through training and development	<b>Curriculum topics</b> • HR strategy • Training • Development • Roles & responsibilities	Page 60		PEOPLE
	The importance of sustainable purchasing and supply	<b>Curriculum topics</b> • Purchasing & supply • Supply chain • Skills • Sustainability	Page 64	<b>G</b> <b>S</b>	OPERATIONS
	Adding value through health and safety	<b>Curriculum topics</b> • Health & safety • H&S legislation • Implementing H&S • Business benefits of H&S	Page 68		OPERATIONS
	Beyond corporate social responsibility	<b>Curriculum topics</b> • Corporate social responsibility • Business ethics • Stakeholders • Supply chain	Page 72		ENVIRONMENT
	Corporate responsibility and stakeholders	<b>Curriculum topics</b> • Internal stakeholders • External stakeholders • Stakeholder conflict • Benefits of stakeholder focus	Online		STRATEGY

## Edition 17 case studies and curriculum topics

	<h3>Apprenticeship training within the steel industry</h3>	<p>Page 76</p>	<p>G S</p>	<p>PEOPLE</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Workforce planning • Training</li> <li>• Training in action • Benefits of training</li> </ul>				
	<h3>Values into vision</h3>	<p>Page 80</p>	<p>G S</p>	<p>STRATEGY</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Mission • Vision</li> <li>• Values • Strategies</li> </ul>				
	<h3>Using diversity and inclusion to build a competitive edge</h3>	<p>Page 84</p>	<p>G</p>	<p>PEOPLE</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Diversity strategy • Diversity</li> <li>• Inclusion • Equal opportunities</li> </ul>				
	<h3>Delivering a superior customer experience</h3>	<p>Page 88</p>	<p>G</p>	<p>OPERATIONS</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Customer focus • Customer satisfaction</li> <li>• Benefits of customer focus • Measuring customer satisfaction</li> </ul>				
	<h3>Developing responsiveness through organisational structure</h3>	<p>Page 92</p>	<p>G</p>	<p>PEOPLE</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Organisational structure • Culture</li> <li>• Skills • Roles &amp; responsibilities</li> </ul>				
	<h3>Using cost-benefit analysis to appraise investments</h3>	<p>Page 96</p>	<p>G S</p>	<p>FINANCE</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Cost benefit analysis • Average rate of return</li> <li>• Payback • Stakeholders</li> </ul>				
	<h3>The benefits of budgeting</h3>	<p>Page 100</p>	<p>S</p>	<p>FINANCE</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Types of budgets • Setting a budget</li> <li>• Using a budget • Benefits of budgeting</li> </ul>				
	<h3>Creating quality customer care</h3>	<p>Page 104</p>	<p>G S</p>	<p>OPERATIONS</p>
<p><b>Curriculum topics</b></p> <ul style="list-style-type: none"> <li>• Quality control • Quality assurance</li> <li>• Total Quality Management • Measuring quality</li> </ul>				



# Business expansion through training and development



## Introduction

Aldi is a leading retailer with over 8,000 stores worldwide. It continues to expand in Europe, North America and Australia. The Aldi brand is associated with value for money. Its stores provide customers with a wide range of products. There is an emphasis on high quality products and providing excellent value for customers.

Aldi's slogan is 'spend a little, live a lot'. It works hard to keep prices low for its customers. The company buys large quantities of products from carefully selected suppliers. Its buyers are experts who choose the best quality products at the most competitive prices. The savings achieved by sourcing products in this way can be passed on to customers. Aldi keeps costs down in other ways. It ensures its operations are as efficient as possible, for example, store layouts are kept simple and opening hours focus on the busiest times of the day.

Aldi places great importance on how it trains and develops its employees. Training is the process of providing employees with the necessary knowledge and skills to perform their tasks and roles competently. Training not only helps to increase business efficiency but it can also make staff more motivated by increasing their job satisfaction. While training is narrowly focused on helping a company become efficient and effective in the short term, development is more about building the long-term capabilities of the workforce.



It is about helping individuals to gain knowledge, learn new skills and develop a wide range of attributes. Development makes employees more adaptable and more able to take on a wider range of roles.

This case study will demonstrate how Aldi's training and development programmes help ensure its employees have the skills and competencies that the business requires both now and in the future.

## Identifying training needs

Workforce planning is the process of finding out how a business will meet its labour requirements both now and in the future. Aldi, like other businesses, needs to predict its future staffing needs accurately. It needs to plan for both the number of workers it will require and the specific skills that the business will need in the future. The company can then recruit new staff if necessary. It can also ensure that it has training and development programmes in place to meet these needs.

Aldi identifies future training needs through an ongoing analysis of company performance in key areas at all levels. For example, the company monitors the availability of its products to the customer within its stores. If the level of availability drops below the targeted level then a programme of training on order accuracy would be undertaken. It also considers future developments within the business and within the grocery retail sector in order to predict both the total numbers of staff it will need and, more crucially, the skills and competencies that will be required.

Aldi's rapid expansion means that its current workforce cannot meet its future staffing requirements. The company will need to recruit more than 4,000 new members of staff within the next 12 months to meet the requirements of current exceptional sales growth and new store openings. To attract the best candidates, it offers industry-leading salaries at all levels.

To ensure it gets people with the right set of skills, the company produces clear and detailed job descriptions for each post. These show the tasks and responsibilities for that position and in turn, the skills and competencies needed by an individual to succeed in that role.

Through a process of interview and assessment, managers identify if candidates have the precise skills and competencies that the job requires. If the selection process shows that they are suitable, then they will be recruited and Aldi can be confident that they will fulfil the challenges of their role.

Although Aldi expects new recruits to make an immediate contribution to the business, it also provides training so that they can develop their careers within the company. Aldi has entry levels for apprentices, store assistants, deputy managers, assistant store managers, trainee store managers and graduate trainee area managers. Aldi organises high-level training for recruits to all levels. For example, in their first year, graduate recruits receive training in all areas of the business. This ranges from training in-store to understand how the retail operation works, to regional office tasks such as logistics, trading and financial planning.

All new recruits go through a comprehensive structured training plan. New employees learn about the philosophy of Aldi and its expectations of them. This is important in making new employees quickly feel part of the Aldi family. This training will be appropriate to the role, so could be in a store or at an Aldi regional office.



## On-the-job training

On-the-job training is training that takes place while employees are actually working. It means that skills can be gained while trainees are carrying out their jobs. This benefits both employees and the business. Employees learn in the real work environment and gain experience dealing with the tasks and challenges that they will meet during a normal working day. The business benefits by ensuring that the training is specific to the job. It also does not have to meet the additional costs of providing off-the-job training or losing working time.

There are several methods of providing on-the-job training. Four frequently used methods are briefly described here:

- **Coaching** – an experienced member of staff will help trainees learn skills and processes through providing instructions or demonstrations (or both).
- **Mentoring** – each trainee is allocated to an established member of staff who acts as a guide and helper. A mentor usually offers more personal support than a coach, although the terms 'mentor' and 'coach' are often used interchangeably.
- **Job rotation** – this is where members of staff rotate roles or tasks so that they gain experience of a full range of jobs.
- **'Sitting next to Nellie'** – this describes the process of working alongside a colleague to observe and learn the skills needed for a particular process. This can be a faster and more useful way of learning a job role than studying a written manual. The colleague is always on hand to answer any questions or deal with any unexpected problems.

For most on-the-job training at Aldi stores, the store manager acts as the trainer. A typical format is for the manager to explain a process to the trainee, then to demonstrate it. The trainee then carries out the process, while the manager observes. Once the manager is happy that trainees are competent, they can then carry out the process unaided. This process is used, for example, to teach a store assistant how to operate the till and to instruct a trainee manager how to order stock accurately.

All positions from apprentices through to trainee area managers follow this type of structured ‘tell, show, do’ training. Trainee area managers also undergo job rotation. They have the opportunity to experience all aspects of the business to give them a complete overview of how Aldi operates. They can then see how each department and business operation relates to and links with other parts of the company and other processes.

## Off-the-job training

As the name suggests, off-the-job training is provided away from the immediate workplace. This might be at a specialist training centre or at a college or at a company’s own premises. This type of training can be particularly useful for developing transferable skills that can be used in many different parts of the business. It may be used, for example, to train employees in the use of new equipment and new methods or to bring them up to date with changes in the law. Typical off-the-job training courses offered to employees by Aldi include:

- recruitment, interviewing and selection
- employment law
- influencing skills
- performance reviews (appraisals)
- Aldi Management System (how to develop and performance manage people).

For each aspect of training Aldi decides whether on-the-job or off-the-job training is the better option. Off-the-job training may involve extra costs, such as payments to training organisations. It also means that staff taking training courses are not at work, so their jobs have to be covered by others. This can lead to an increase in payroll costs. However, balanced against these costs are the gains that Aldi makes from off-the-job training. These include the benefits of having more motivated staff, greater staff productivity and employees with better skills and the ability to provide improved customer service.



Aldi provides training opportunities for young people. The Aldi apprentice scheme combines on-the-job and off-the-job training. Apprenticeships are open to 16-18 year olds. Apprentices training as store assistants also study for an NVQ in Retail Apprenticeship. They complete store assistant training and gain an NVQ Level 2 in their first year. They then take a store management training programme over two years and work for a Level 3 advanced qualification.

The variety seems to suit apprentices. As Sam, an Aldi apprentice says: *‘The fast pace of the role is really exciting, with lots of chances to learn new and useful skills. As well as the on-the-job training, there is also studying towards a recognised qualification that I can fit around work.’*

Emily, another apprentice, recognises that the programme is a good opportunity: *‘After attending college I was looking for an opportunity that would allow me to use my customer service skills and the Aldi apprenticeship has given me just that. There is a lot of competition for places, so you really need to want to succeed. I really feel part of the store team. It can be challenging but it is well worth it.’*

At the end of their apprenticeships, Sam and Emily will have the knowledge and skills to take on deputy manager or assistant store manager positions. From there each can rise to become a Store Manager in the business. Aldi’s current growth means that there are many opportunities for promotion, so Sam and Emily could soon join the many others who have been promoted within the business.

## Development

Development is not the same as training. Development focuses as much on personal growth as skills that are directly related to the job. A development programme is designed to make individuals more skilled, more flexible in their approach and better qualified for their chosen careers.



Through a development programme, employees can obtain transferable qualifications that benefit the individuals concerned as well as the business. This can have disadvantages for the business, as it gives workers greater value in the job market. However, Aldi is willing to take this risk as it believes in providing what is best for its staff. Development options for apprentices include working for various qualifications. Aldi has a fast-track approach for graduates. Opportunities for graduate recruits at Aldi include secondments to different international countries to develop all-round expertise.

The Aldi retail placement scheme takes university students on a one-year placement. This allows the chosen individuals to show what they can offer the business and to find out what the business can offer them. Aldi offers an excellent reward package for students on a placement, but in return expects trainees to have enthusiasm, drive and ambition. Successful students get the opportunity to apply for a place on Aldi's Area Management training programme.

To support their development, managers help employees to set personal goals. These are identified during an appraisal process. This is when a member of staff sits down with their line manager to evaluate past and current performance, to consider what skills are needed going forward and to set targets for the future. This could involve identifying further training or development opportunities.



## Conclusion

Aldi seeks to provide its customers with quality products at prices that provide value for money. It wants efficient operations, with its stores staffed by people who are keen and competent. Aldi's success is shown by the fact that it is expanding rapidly. It is opening new stores and experiencing sales growth that requires it to take on more staff. This means that it needs to combine good recruitment policies with robust selection processes.

Staff are recruited from school or college into Aldi's apprenticeship scheme or directly into stores for positions from store assistant up to trainee Store Manager. Those from university with a 2.1 degree or better are able to apply for the Graduate Area Manager programme. All recruits are assured of appropriate on-the-job and off-the-job training, as well as career development opportunities. Promotion is open to all staff, regardless of the route they choose to join Aldi.

Aldi puts great emphasis on developing its people. Over 85% of Aldi directors have been recruited from within the company. This commitment to training and development makes Aldi a business of choice for both ambitious teenagers and top graduates. This is shown by its placing in the Top 5 in *The Times Top 100 Graduate Employers* and the Graduate Employer of Choice for 2012 for General Management.



1. Describe what is meant by training. (2 marks)
2. Explain the difference between on-the-job and off-the-job training. Explain why you think both training approaches are used by Aldi. (4 marks)
3. Analyse the similarities and differences between training and development. Which do you think is most important to Aldi and why? (6 marks)
4. Evaluate the different ways that Aldi attracts and trains new staff. Which of these do you think is the most important route for Aldi? Give reasons for your answer. (8 marks)

# How innovation drives research and development



OPERATIONS

## Introduction

Using a laptop computer, Smartphone or iPad has become an essential part of everyday life for many people. Few, however, will be aware of how the technology that drives these tools is created. ARM is the world's leading semiconductor intellectual property (IP) supplier. Intellectual property is that which originates in the mind such as ideas, literary works, music and designs. ARM's business model is not typical. It does not own any factories but instead designs and licenses its technology to a network of partners who carry out the manufacturing. Over 900 licenses have been sold to more than 250 different partner companies. These include the world's leading semiconductor and systems companies, such as Samsung, NVIDIA, Texas Instruments and Qualcomm.

From its founding in 1990 in Cambridge in the UK, it has grown to become a major developer of digital electronic products. The company has offices around the world, including design centres in the UK, USA, India, Scandinavia, France and China.

ARM is a Research & Development (R&D) focused business. Its 'products' are intangible and cover a diverse range of applications. They are used in everything from sensors to servers. Mobile phones, tablet computers, washing machines, car braking systems and network routers all use ARM technology.



In return for its technology, ARM receives a licence fee for the original IP from the partner and a royalty on every microchip produced. To date, over 20 billion chips containing ARM technology have been manufactured. ARM relies on the high levels of creativity, innovation and knowledge of its people to continue to develop new ideas and provide customers with the benefits of emerging technology. Its R&D activity is collaborative and generates innovation in other companies. For example, leading brand Smartphones contain ARM technology that has been incorporated into chips manufactured by a variety of semiconductor companies. In turn, they use diverse software and applications running on various operating systems such as Android. This sharing of information contributes to increasing the industry's knowledge base.

This case study will look at the processes of research and development at ARM and show how these support the company's leading market position.

## New product development (NPD)

New products may stem from invention or innovations. Invention is the formulation of new ideas for products or processes. Innovation is the practical application of new inventions into marketable products or services. Product development may follow different routes:

- A product-orientated approach is where a company develops a new product. It then seeks a market and 'pushes' the product out to that market. This might be to solve a problem or to take advantage of an opportunity. An example could be developing new functions for mobile phones. This is a higher risk approach as the company will carry the costs of development without knowing what the returns might be.
- A market-orientated approach develops a product to meet a known current or future customer need. This need would have been identified through market research. Developing a product to specific requirements may reduce costs and increase the probability of product success. Having a market waiting to buy the product gives assurance of return on the investment.

- Responding to competitor products allows a business to catch up or overtake business rivals. This development may lead to a better product.
- Changes in technology may lead to the development of a more effective product or one which sets a new benchmark for the market. For example, the Amazon Kindle is changing the way people read books.

ARM adopts a route of innovation to transfer its technology into products customers want and need. Its technology supports three key types of chips:

<b>A</b> - class processors (applications)	These are equivalent to PC processors; these are 'high end' and are used in everything from smartphones to servers and supercomputers where multi-tasking is needed.
<b>R</b> - class processors are 'real-time'	These are embedded in things and do only one job, such as the overall braking control on a car.
<b>M</b> - class processors (micro controllers)	These are general purpose and programmable. They are used for a single less complex task or a larger process. These are used in, for example, washing machine programmes or on the ABS brakes on each wheel of a car.

ARM's product development also takes various external factors into account, for example, the need to develop low carbon products, increase energy security and address impacts on global warming. In addition, meeting global economic challenges is also high on ARM's agenda. For example, developing countries such as Brazil and China are becoming more affluent and buying more consumer electronics.

Other factors affecting ARM include the customer's desire for greater computing mobility, lower power consumption and increased battery life. Consumers are also looking to 'cloud' technology, for example, in mobile phone apps, to provide remote access to virtual storage and software. This provides convenience and lower cost. ARM's main technical driver is power efficiency, making microchips smaller whilst increasing their performance. The smallest processors are now the size of human hair or crumbs.



## Research

The research process involves inquiry into and discovery of new ideas to solve a problem or create an opportunity. ARM invests around £140 million per year into its research programmes. As a knowledge-based research and development business, the majority of costs are associated with the company's high quality employees.

ARM's corporate R&D	This looks 5-10 years into the future for new ways to do things. It also considers future products.
ARM's advanced product development	This is concerned with how to apply new technology 3-5 years in the future.
ARM's product development	This is focused on new products for launch in 1-2 years.

ARM's R&D is predominantly market-orientated. It is influenced by feedback from hundreds of customers – and their customers – from different industries and with different needs. ARM employs a 'Push/Pull' model. The push is where ARM puts its latest developments out to manufacturers to drive new technical innovations. The pull reflects what customers and consumers are asking for, i.e. market demand. ARM's R&D team talks to people at every level within key industries to establish what they need and what demand there is for different products in order to ensure products are customer-orientated.

External influences also affect ARM's research. For example, energy efficiency is high on the public agenda. R&D into low power techniques has always been a key focus for ARM. The microprocessor market is now focused on evaluating the benefits of similar products across competitors. For example, which has lowest power, highest performance (speed) and the smallest scale (which is vital for mobile devices).



## Development

Development involves transforming ideas into a product fit for market. From numerous ideas at the research stage, ARM will take only a few with potential into the development stage. The key elements of the development process include:

- A product brief – identifying what market need it fills. To produce a product brief, ARM works with around 1,000 companies. These companies may be ARM customers, competitors and collaborators all at the same time. ARM's engineers talk to partners who make the microchips to establish what is possible technically and its market-focused people identify what the market is asking for.
- A product specification – outlining the main features, benefits and costs. ARM combines this feedback and establishes priority needs. These are then evaluated to focus on the application which will lead to a deliverable product.
- A process of evaluating alternative solutions – through computer modelling, samples or prototypes. ARM will select lead partners for specific projects. The partners' R&D teams then work with ARM's R&D team to develop the initial idea.
- A sequence of testing – to check the product meets requirements. Once tested, the design is then licensed to the partners to manufacture, on which ARM receives royalties.

The development of ARM's Cortex-M0+ processor, which was released in early 2012, is a world-leading innovation. It has the lowest energy consumption of any processor and generates low carbon. The Cortex-M0+ (M class) is a very simple processor. However, its profile reflects the concept of 'machine to machine communication'. It is believed that this is the next major step in technology. For example, it could automatically control a fridge's temperature depending on whether it is full or empty.

Typically projects take around 18-24 months. However, the Cortex-M0+ had a relatively short timescale. Initial conception of the idea was in December 2010. The project team was set up in April 2011 and delivery to the customer was in February 2012 – just 10 months of development time after the specification was finalised. The ARM team involved is proud of achieving completion to such a tight timescale.

The project path followed a clearly defined structure:

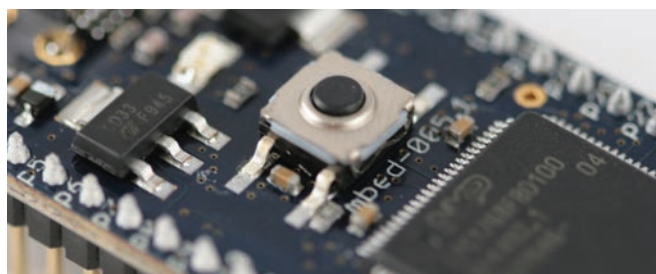
- The idea was generated via the feedback from product managers and the marketing managers.
- An outline product specification was devised by working with the lead partner Freescale.
- The project team of three key people including a Project Manager was created. The project team determined the required team size, estimated schedule, agreed stages and milestones to meet customer requirements. The project approval also included deciding how Cortex-M0+ would fit into the existing ARM 'roadmap' (or timetable) of products already underway and planned for the future.

ARM's typical project process gives opportunity for lead partners to add their influence or interact with the product development team. This might include changing the specification or having early access to the product for testing. Freescale was given access to Cortex-M0+ at the beta design stage. This enabled them to develop a prototype which could be demonstrated at conferences and to key customers. This generated early interest in the product and reduced the time to market, which increases the revenue potential for ARM and Freescale.

## Challenges and benefits of R&D

The challenges of a typical R&D process include:

- large costs – of people, time and equipment
- long timescales – for example in the pharmaceutical industry it can take as long as 10-20 years to complete full testing
- high risk – difficulties in anticipating changing market and consumer needs over the duration of R&D projects, which leads to uncertain outcomes.





ARM meets these challenges and reduces the potential risk of its projects by:

- working with lead partners to understand what is technically possible
- listening to what its customers and their customers are asking for
- managing timescales by adjusting the team size and ensuring the right skills are in place in order to deliver on time.

Challenges to R&D at ARM are mainly technical or economic. Moore's Law describes the shrinking process of technology. Moore's Law is named after Intel co-founder Gordon E. Moore and predicts that the number of transistors on an integrated circuit (and therefore its performance and capability) will double approximately every two years. The law is used in the semiconductor industry to guide long-term planning and to set targets for research and development.

However, it is not possible to shrink things forever and the smaller technology gets, the more complex microchips become. As technology becomes more complex, ARM requires more people to carry out the work. As chips get more complex, the skills required for the work are more intricate. This human element becomes a real challenge for ARM due to the specialist nature of the work teamed with a global skills shortage. It also brings challenges of communication between stakeholders because of the mix of geography, culture and time zones within which ARM operates.

ARM has a continual challenge in recruiting skilled people. It has ongoing recruitment and offers internships each year to attract the best skills. It has employed around 400-500 people in the last year. ARM provides an exciting, collaborative and team-based environment. Training for new graduates involves rotation across several projects to develop skills rapidly. Although needing very high levels of skills to enter the business, once in the organisation, ARM people are highly employable.

ARM's approach to R&D delivers significant competitive advantage. Its unique, world-leading products and technology enhance the business' reputation and ongoing research generates opportunities which keep its product pipeline strong. ARM's business model enables the business to gain the potential to earn future income over many years from licensing its intellectual property.

## Conclusion

R&D supports invention and innovation. ARM, as a market-orientated business, relies on innovation to maintain its market-leading position in an industry focused on advancements in technology. Through the use of feedback, from both technical experts and customers, ARM ensures its product development reflects market demands. Its partnership approach reduces risk whilst minimising the time it takes to get a product to market.

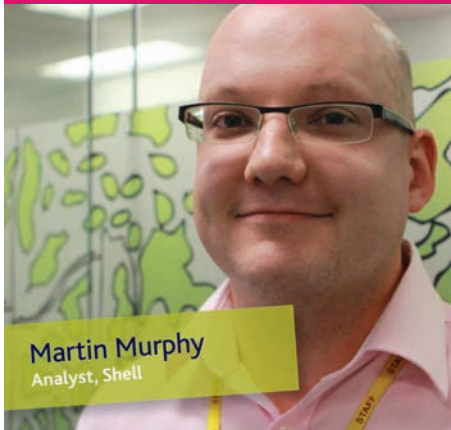
ARM's ongoing recruitment cycle helps ensure it has employees with the required specialist skills and competencies to maintain its position in the market. This is an ongoing challenge due to the complexity of the work. 95% of ARM's workforce is made up of graduates, with around 70% of these being educated to Masters degree level or higher. Although entry levels are high, the innovative nature of the work offers a highly creative and rewarding environment.



1. Describe the difference between invention and innovation. (2 marks)
2. Explain the importance of new product development, especially for technology-driven organisations like ARM. (4 marks)
3. Analyse the challenges businesses face when undertaking large-scale research and development. (6 marks)
4. Evaluate how far its partnership approach to research and development gives ARM a competitive advantage. (8 marks)



## Decision making techniques



### Introduction

A business aims to generate value for its owners, customers and other stakeholders. It must decide how to combine valuable resources – typically buildings and equipment, materials, people and knowledge – in such a way that the value of the output exceeds the costs of the input.

As resources flow into or out of a business, information flows too. Much of this information leaves a footprint in the form of financial data as the activities along a business' value chain result in financial outcomes. These are reported in financial statements including the cash flow and income statements as well as the formal balance sheet. Traditional accounting is concerned with reporting on a business in financial terms about its past performance.

Management accountants go beyond this to prepare both financial and non-financial information to support the business. They combine the relevant expertise of a traditional professionally qualified accountant with an understanding of the drivers of cost, risk and value in a business. This enables them to provide analysis and insights which are used to improve future performance.



CIMA, the Chartered Institute of Management Accountants, is the world's leading professional body of management accountants. CIMA-trained management accountants help to lead the process of strategy formation in a business. Strategy is the plan for achieving objectives. However, strategy only points the way. Many decisions – large and small – must be made. Management is all about decision making and management accountants play a vital role in providing the crucial evidence that helps managers to make the right decisions.

Detecting, monitoring and evaluating risk is a very important element of this process. Management accountants use their accounting know-how to factor risk into decisions to help senior managers make realistic plans. The effectiveness of this depends on good communication. Even the best information has little value if not received by the right staff in the right format at the right time.

### Types of decisions

A business continually makes decisions at all levels. Think of a retailer such as Next. To keep the brand's high profile position, its managers have to make many decisions. Each major strategic decision leads to tactical decisions, which break down into operational decisions.

Decisions are broadly taken at three levels:

- Strategic decisions are big choices of identity and direction. Who are we? Where are we heading? These decisions are often complex and multi-dimensional. They may involve large sums of money, have a long-term impact and are usually taken by senior management.
- Tactical decisions are about how to manage performance to achieve the strategy. What resources are needed? What is the timescale? These decisions are distinctive but within clearer boundaries. They may involve significant resources, have medium-term implications and may be taken by senior or middle managers.

- Operational decisions are more routine and follow known rules. How many? To what specification? These decisions involve more limited resources, have a shorter-term application and can be taken by middle or first line managers.

Imagine Next is planning to expand its product range. Its decisions would involve all three levels.



All decisions depend on information. The key is to get the right information to the right people at the right time. For example, management accountants at Shell, the global oil and gas company, have been improving the way the company deals with the strategic and operational data about its global energy projects to improve strategic planning.

The company brought together data from 1,200 projects and opportunities across 40 countries into a single system. Bringing the information together was a complex task due to the size of the company's operations. However, the system has helped to define strategies and provide greater insight and detail to the Executive Committee and Board. This has given greater clarity on the business' current and potential performance and highlighted where the company should allocate resources. To date, the system has helped Shell to increase net present value by over 15%.

## How are decisions made?

Management accountants use their skills alongside hard information to support decision making. Through intelligent analysis of information, they can generate alternative solutions and match these to the larger strategy. Each alternative can then be evaluated for its contribution towards objectives, taking into account:

- the timescale: money received in the future being worth less than money received today
- the risk: factoring in the probability of under- or over-performance (also called negative or positive variance).

Once a decision is made and implemented it needs careful monitoring to ensure it keeps on track and any problems are detected early.

The Electricity Supply Board (ESB) in Ireland faced the challenge of reducing its costs from €250m to €200m over five years. A team including management accountants was formed to break down costs and identify waste. The team discovered that ESB was carrying the costs of electrical faults caused by external building and construction companies. Meanwhile the ESB technicians were over-burdened with paperwork. The team simplified and centralised this within a designated administration team. This meant the technical staff had more time to give a faster, flexible response to faults and to diagnose their causes. Major savings followed as faults plummeted by 75% and cost-efficiency at the company's call centre significantly improved.

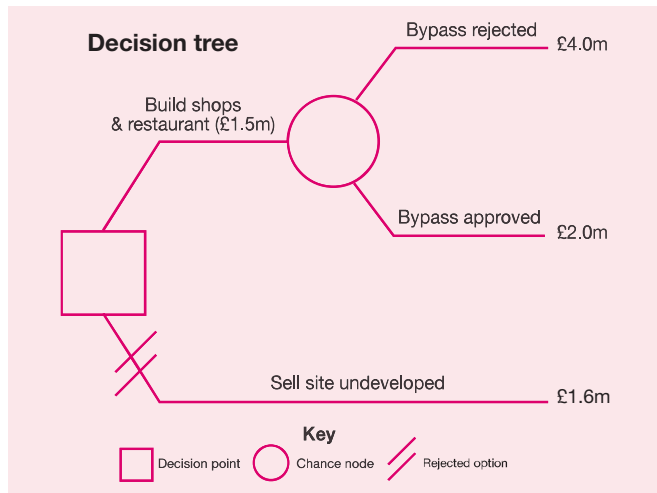
Some operational decisions can be made mainly from experience and based on an assessment of circumstances. More complex decisions need a systematic and structured approach. This is where decision-making models help.

## Decision trees

Most business problems may potentially have more than one solution. Each choice can lead to varying outcomes, some more likely than others. To illustrate this, consider the decision faced by Prospect plc, a (fictitious) property development business. The company owns a town centre building site. This could be sold now for an estimated £1.6m. Alternatively the site could be developed with shops and a restaurant at a cost of £1.5m. The property could then be sold for £4m - provided that a bypass proposal is rejected by the local council. The odds of the bypass being rejected are judged at about 75:25 due to environmental objections. If, however, the bypass were to be built, much tourist trade would be lost and the value of the development would only be £2m. Which choice should Prospect plc make? A decision tree is a useful tool when analysing choices of this kind.



A decision tree is an outcome and probability map of the scenario.



There are three possible outcomes to this scenario, each of which can be given a financial value.

Outcome	Probability	Estimated value
Outcome 1 – the site is developed and the bypass is rejected.	The development value is £4m. However, there is only a 75% chance of this occurring.	A 75% chance of receiving £4m is 'worth' £4m X 0.75 = £3m
Outcome 2 – the site is developed and the bypass goes ahead.	There is a 25% chance of receiving only £2m	If the bypass goes ahead it is 'worth' £2m x 0.25 = £0.5m
Outcome 3 – the site is sold undeveloped.		Undeveloped, the site is worth £1.6m

To calculate the possible yield of developing the site, the values of outcomes 1 and 2 are combined. The cost of development is then subtracted: £3m + £0.5m - £1.5m = £2m

This compares to the value of selling the undeveloped site at only £1.6m. On this basis, depending on its attitude to risk and the likely timescales, the company is likely to build the shops and restaurant.

Decision trees encourage managers to look at a range of options rather than relying on 'gut feeling'. However, they are only as accurate as the data on which they are based. This data is usually based on estimates. They do also run the risk of over-simplifying a problem particularly where human or other external factors are involved. Other analysis tools can supplement the decision-making process.

## Ratio analysis

Businesses generate a huge amount of data. Management accountants can use a number of the company's key accounting statements to extract greater meaning from this information.

The income statement sets out the total sales revenue and subtracts the costs of generating that revenue to give operating profit. This is the surplus earned by the normal operations of the company and tells us most about underlying business performance.

To continue to use the earlier illustrative example, Prospect plc is expanding rapidly as it builds a commercial property portfolio consisting mainly of shops and offices. The company receives rents and also benefits from any profits when it sells property and sites.

*Prospect plc - Summarised income statement for year ending 31 March 2012 (against previous year for comparison)*

	£m 2012	£m 2011	
Sales revenue	120	80	<i>From products/ services sold</i>
(less) Expenses	105	60	<i>E.g. costs, overheads</i>
(equals) Operating profit	15	20	

The balance sheet (or statement of financial position) shows the wealth of a company at a particular date. It lists the company's assets (what it owns) followed by its liabilities (what it owes) – the difference being the net assets. Assets may be current, such as cash, or fixed, such as property or equipment. This value represents the shareholders' equity – the value in the company that the shareholders actually own.



Prospect plc - Balance sheet/statement of financial position as at 31 March 2012

	£m 2012	£m 2011	
Fixed (non-current) assets	135	80	
Current assets	75	45	
Current liabilities	60	25	<i>E.g. short term loan, suppliers' bills</i>
Net current assets (or working capital)	15	20	<i>Current assets less current liabilities</i>
Total assets (current plus fixed) less current liabilities	150	100	
Non-current liabilities	70	30	<i>E.g. mortgages, pension fund</i>
Net assets	80	70	<i>(Total assets - current liabilities) less non-current liabilities</i>
Total shareholders' equity	80	70	

This looks as if Prospect plc has expanded very fast indeed – but how strong is its performance? Accounting ratios allow different pieces of financial data to be compared. Analysing some key ratios helps to explore behind the figures and offer strong clues for the business to steer towards its objectives (previous year data in brackets):

#### Return on Capital Employed (ROCE)

This is a measure of profitability. ROCE compares the level of profit made to the value of the capital invested in the business.

$$= \text{operating profit} / (\text{equity} + \text{non-current liabilities})$$

$$= 15 / (80 + 70) = 10\% \text{ (20\%)}$$

#### Profit margin

Another profitability ratio, profit margin, identifies what percentage of the revenue remains as profits after all costs have been paid.

$$= \text{operating profit} / \text{sales}$$

$$= 15 / 120 = 12.5\% \text{ (25\%)}$$

#### Current ratio

This is a measure of liquidity i.e. the ability of a firm to pay its short term debts.

$$= \text{current assets} / \text{current liabilities}$$

$$= 75 / 60 = 1.25 \text{ (1.8)}$$

#### Gearing

The gearing ratio shows how much of a firm's capital is from long-term loans, which must be paid back regularly with interest. The more highly geared a firm is, the greater the risk it faces.

$$= \text{non-current liabilities} / (\text{equity} + \text{non-current liabilities})$$

$$= 70 / (80 + 70) \times 100 = 46.6\% \text{ (30.0\%)}$$

The chart shows every sign of a firm that has expanded too quickly:

- sales have increased by an impressive 50% in one year
- however, profitability has halved
- liquidity has weakened while gearing is more risky at nearly 50%.

The result is a danger signal! Management accountants investigate this sort of data in order to alert managers to worrying trends, as well as to possible opportunities.

## Conclusion

Management accountants use complex business data to help businesses identify critical points and isolate weak and under-performing systems. It can also uncover opportunities that lie hidden under routines and processes.

CIMA-trained management accountants work at all levels in a business and partner with managers across various business functions. This can become a real source of competitive advantage that is resistant to copying by competitors.

1. List two of the types of decisions that are made by managers. (2 points)
2. Explain the factors that need to be taken into account when making decisions. (4 points)
3. Analyse the arguments for and against the use of decision trees. (6 points)
4. Evaluate the use of accounting ratios when making strategic decisions. (8 points)

# Developing the skills for managing change



## Introduction

Change is something that happens in businesses all of the time. Change can occur in an organisation's internal or external environment. As a result, this process of change is constant. Change management looks at the drivers of change in the business environment. Effective managers are proactive in creating solutions to improve the organisation's performance. They must then manage employees through the change process. It is in the interest of managers to try to predict the changes that are likely to take place. In other words, they have to plan and drive change initiatives. This involves managing the change process and making it part of an organisation's strategy. Strategies help a business achieve its aims and objectives. This then helps businesses to develop in a more focused way to fit the environment in which it operates, whilst facing new challenges with more certainty.

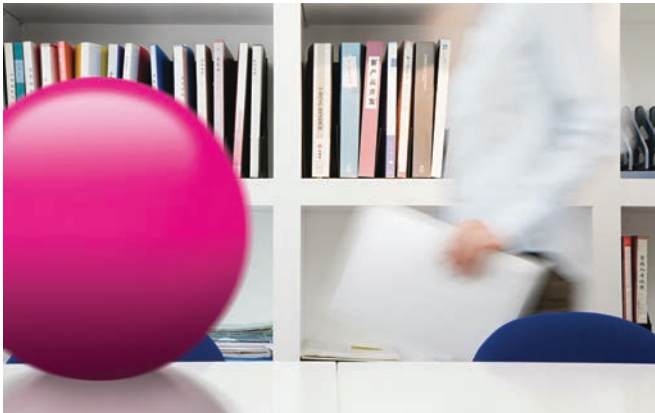
Organisations require skilled and well-qualified managers and leaders to drive change initiatives and effectively manage employees through the process. The only chartered professional body within the UK dedicated to creating high quality standards for management and leadership is the Chartered Management Institute (CMI). It has around 90,000 members and 400 business members and has been providing advice that supports individuals and businesses for more than 60 years.

The products and services CMI provides support the development of managers and leaders in both the public and private sector. This case study illustrates how CMI supports the development of effective managers. Effective managers are vital when implementing change within a business.



The core purpose of CMI is to increase the number of professionally qualified managers. This is vital because within ten years the UK will need to fill nearly one million new management and leadership roles. These new managers will face many different economic and social challenges. These challenges must be proactively managed to anticipate where and when changes within the organisation may be necessary. To meet these challenges they will require a range of management and leadership skills and qualifications. To ensure that schools and colleges are able to shape and develop future managers and leaders, CMI has created Campus CMI. The resources provided by Campus CMI help to deliver management qualifications. These are designed to help develop talented individuals who are able to manage the process of change effectively.

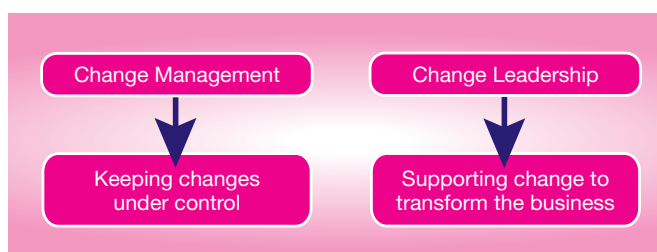




## What causes change in a business?

Every organisation faces challenges from within the business. For example, the internal environment might be affected by inefficiency, changes in the workforce or high levels of staff absenteeism. Organisations also face many challenges in their external environment. These might include legislation that sets new standards, advances in technology or changes in the market or the economy.

To meet these challenges, managers must anticipate and plan for effective improvements to the organisation's processes. On the one hand, this may involve change management. This requires leaders who have the tools or structures that keep any change effort under control. The goal with change management is to minimise the impacts of the change. On the other hand, this may involve change leadership. This involves supporting the change process. Leaders need to have the vision to change an organisation. To do this they need to harness the driving forces of change in order to transform an organisation.



Change affects the decisions that an organisation must make in a variety of ways. Human resource planning is an important aspect of the change management process. This helps to ensure that the workforce can meet the required changes. For example, this might involve retraining to develop new skills to meet the changing needs of consumers. Alternatively, a business might have to invest in new production methods designed to improve efficiency.

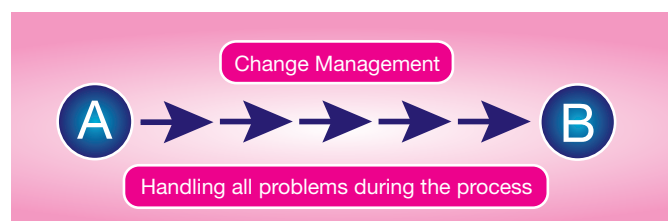
Every change strategy will involve setting objectives. It is important, therefore, to constantly evaluate change programmes. By doing this it is possible to monitor whether changes have helped an organisation to improve the way it meets its business objectives.

Serco is one of the world's leading service and outsourcing companies. It employs more than 70,000 people and helps governments to improve services. In 1994 Serco took over management of HMP and YOI Doncaster, a category 'B' remand centre in South Yorkshire. The prison had faced many challenges in recent years. For example, the prison inspection report identified a number of areas where improvements could be made. The report rated the prison at Performance Level 2, where Level 4 is the highest and Level 1 the lowest. Staff morale was low, with a high turnover of first-line managers. To address these issues Serco decided to use CMI's programme of management training and qualifications. CMI training provides managers with the knowledge and skills required to implement changes to improve the centre's performance.

## Managing change

Change is inevitable and needs to be handled effectively. To remain competitive organisations need to continually look for more efficient and effective ways to operate. Change management is therefore high on the agenda for many organisations.

Managing change involves a transition from A to B. As this takes place, managers need to handle the challenges that may come up during the process. At the forefront of this is the setting of change objectives. They then have to work out the best way to achieve these objectives.



Every organisation is a complicated system so managing change is not necessarily an easy process. For example, there will be a number of different interdependent parts affecting the whole organisation. Changes in technology could have an impact on working procedures, the structure of the organisation and its people. As leaders manage change, they have to manage the different inter-related parts of the organisation. The ability to manage these parts well is therefore a vital skill for managers.



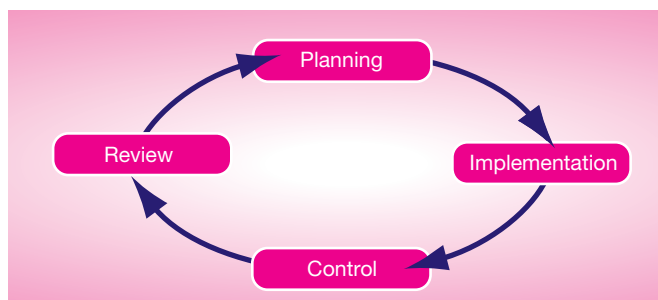
Managing change involves making decisions at different levels. These include:

- Strategic decisions - major decisions affecting the whole of an organisation.
- Tactical decisions - at departmental level to work towards achieving change objectives.

The way in which decisions are communicated and carried out varies depending on the style of leadership or the culture of the organisation. There are four main methods:

- ‘Total imposed package’ which comes from the top, covering the whole organisation and is implemented in one go.
- ‘Imposed piecemeal initiative’ where change is imposed but in stages.
- ‘Negotiated total package’ where the aim is to seek a package of change via negotiations with the staff.
- ‘Negotiated piecemeal package’ where there is a gradual implementation of change through a series of negotiations with the workforce.

Communication plays a key role in the process of change. Managers and leaders need to identify effective communication channels through which to reach the appropriate stakeholders. This must happen at every stage in the change process. Employees need to understand the reasons for change. They may want to ask questions to clarify how they can support the process of change.



As planning takes place a time frame should be drawn up. Good communication ensures transparency when implementing changes. This can help motivate employees as they feel included in the process. Controlling the process is important as it helps to reduce conflict. Reviewing the process ensures that change objectives are being achieved.

CMI qualifications provide managers with the skills and competencies required to plan, implement, control and review the change process. For example, at HMP & YOI Doncaster, having identified areas of weakness within the prison, it was important that managers could identify solutions that could bring about change to create improvements. Training by CMI helped managers to respond to issues in an imaginative and flexible way. It also provided managers with the opportunity to take qualifications that would improve their career development.



## Barriers to change

There can often be barriers to change. These can include:

- the culture of an organisation resisting the power structure
- managers feeling threatened by the process of change
- resistance from employees
- a lack of understanding about why change is to take place
- a lack of communication or trust
- employees fearing the unknown.

Effective managers take barriers to change into account. They do this during the planning stage of the change programme. For example, the culture of an organisation can be a barrier to change. The culture is the way in which employees work through custom and practice, reflecting the norms of an organisation. This can makes employees rigid in their approach to their work which could create resistance to change if not managed effectively.

Removing resistance is a vital role for managers. To minimise resistance an effective manager will communicate clear objectives. This will help everybody to get involved in the process and enable them to understand why change is necessary. Communication also helps to avoid rumours. Change can be a sensitive process. Employees need to feel that they have sufficient resources to carry out any changes. Some staff may need retraining. Involving employees at each stage helps to create support for the change process.

Working within a culture of change can have a positive effect on an organisation. For example, it may support the process of Total Quality Management (TQM). It also encourages employees to look forward to the process of change as the benefits have been made clear.

There were a number of barriers to change within HMP & YOI Doncaster. These included low staff morale, a high turnover of front line managers and a limited budget to support the process of change. CMI training helped the managers at the centre to overcome these barriers. CMI qualifications encouraged managers to put their ideas into practice to make a positive difference to the centre's performance.



## Evaluating the management of change

As change takes place, it is important to monitor and evaluate the results of the change programme. This involves relating the changes to the original strategy and objectives. If changes are not evaluated it will be difficult for managers to determine how well they managed the process. Monitoring and review will also help them to understand where further improvements may be required. If, for some reason, the change process has not been successful, managers can evaluate why the change process has failed.

One method of evaluating the process of change is through key performance indicators (KPIs). These monitor how well parts of an organisation are working towards fulfilling business objectives. For example, if an objective was to increase productivity, output can be measured and then compared to output data from before the change programme. This helps to establish if it has increased.

Evaluating the outcomes helps to keep the process of change moving forward. For example, if the original strategy needs to be revised, it allows managers to make decisions that enable future processes of change to be more effective.

The changes that took place at HMP & YOI Doncaster were striking. After the CMI training and development, staff morale and managers' confidence grew. They started to think more strategically about how to overcome challenges. First-line manager turnover fell significantly. This was because the issues identified in inspection reports had been tackled. Managers were able to approach challenges in a completely different way. They developed a better understanding of leadership and management, and of their own strengths and development needs as leaders. The programme helped to reduce costs and retain talent. Ultimately, it enabled individuals to contribute effectively to the setting and fulfilling of the organisation's objectives.

## Conclusion

Organisational change takes place for a number of reasons. Often this is because of changes in the internal and external environment. Organisations implement changes to increase the effectiveness of the business. Change can be a complex process and there may be barriers to overcome. This is why implementing change programmes within an organisation requires effective managers. CMI training and development ensures that managers have the skills and competencies required to manage their team through a process of change. It enables them to deal with the change process and to monitor and evaluate change. This helps to reduce possible resistance to change and establish if the change objectives were achieved.

1. Describe one internal factor and one external factor that might cause change in the business environment. *(2 marks)*
2. Explain two benefits of having well trained managers when managing change. *(4 marks)*
3. Using an example, analyse why individual employees might resist the process of change. *(6 marks)*
4. Evaluate why an organisation might want to create a culture of change. *(8 marks)*



# Marketing and product strategies for growth

MARKETING



## Introduction

As an organisation develops a strategy, it is not making short-term decisions. Instead, it is creating a pathway that leads to a long term goal. Strategic managers have to make many decisions. For example, they have to differentiate their activities from their competitors. This means making their products and services distinctive and different from those of rivals, creating a unique selling point (USP) that, in turn, strengthens its brand. They also have to consider the scope of their activities. For example, should they simply operate in one market or should they enter a range of different markets? If they do enter different markets, how should they enter them?

This case study illustrates how Enterprise Rent-A-Car has expanded its operations beyond its core business of car hire. The case study uses Ansoff's matrix to illustrate how it has developed its strategies to improve and grow the business, creating new products and extending its services into new markets.

More than 55 years ago, in 1957, Enterprise was founded by Jack Taylor, an entrepreneur, in Missouri, USA. Starting with just seven cars he invested his money and ideas into Executive Leasing, which later became Enterprise. Since then the company has become the largest car rental company in North America, and arguably the world, with annual revenues of \$14.1 billion and 68,000 employees in 2011. Enterprise Rent-A-Car is an internationally recognised brand, operating within the United States, Canada, the UK, Ireland and Germany. It currently has more than 7,000 rental offices in five countries.

However, as the company has developed it has maintained the approach and feel of a smaller business. In fact, Enterprise is still a privately-owned business, with three generations of the Taylor family involved in managing the organisation. Even though Enterprise is a big company, it is run like a small business. Its branches are decentralised. This means that local managers have the freedom to make decisions based on the needs of each location.

Enterprise's ability to keep the customer at the centre of everything it does depends on the skills and commitment of its employees. The main focus for Enterprise is to find new ways to provide real solutions for people and businesses with transportation problems. A focus on customer service is the driving force behind the business. For example, customers benefit from a local pick-up service to take them to the branch to collect their car. It is this level of customer service that makes Enterprise different from its competitors.

## Ansoff's matrix

According to the Chartered Institute of Marketing, 'Marketing is the management process responsible for identifying, anticipating and satisfying consumer requirements profitably'. To do this, organisations require a marketing strategy. A marketing strategy is something that affects every part of an organisation. It is about using everything that a business does to create value for others. This includes customers but it also benefits employees and shareholders. The main purpose of a marketing strategy is to set out the means by which agreed marketing objectives are to be achieved.





There are many types of marketing objectives. For example, these might include:

- increasing market share
- growing sales/turnover
- enhancing the strength of the brand
- creating loyal customers
- managing costs effectively, thus increasing profitability.

A common marketing objective is to achieve growth. There are a number of ways in which organisations can grow. For example, they might expand internally. This is known as organic growth. A quicker but higher risk option is external or inorganic growth. This involves acquiring or merging with another business.

One positive benefit of growth is that it helps a business to reduce costs through economies of scale. These include:

- efficiencies arising from use of new technologies
- improved buying power as it can bulk buy at lower costs
- the ability to recruit more specialists to improve decision making.

By lowering costs, an organisation increases its profitability and becomes more competitive.

One way of analysing the various strategies that an organisation may use to grow the business is with Igor Ansoff's (1965) matrix. This considers the opportunities of offering existing and new products within existing and/or new markets and the levels of risk associated with each.

		Increasing risk →	
		Existing products	New products
Market	Existing markets	Market penetration	Product development
	New markets	Market development	Diversification

↑ Increasing risk

This matrix suggests four alternative marketing strategies:

- Market penetration - involves selling more established products into existing markets, often by increased promotion or price reductions or better routes to market, for example online.
- Product development - involves developing new products or services and placing them into existing markets.
- Market development - entails taking existing products or services and selling them in new markets.
- Diversification - involves developing new products and putting them into new markets at the same time. Diversification is considered the most risky strategy. This is because the business is expanding into areas outside its core activities and experience as well as targeting a new audience. It also has to bear the costs of new product development.

Enterprise has focused most of its growth strategies on market development, product development and diversification. These are highlighted in the following sections.



## Market development

In 1957 Jack Taylor was a 35 year-old sales manager interested in the unheard-of practice of leasing cars. This was then a new and affordable alternative to running a car. Jack Taylor's background in the US Navy made him realise the importance of taking care of those around you. His motto was, *'Take care of your customers and employees, and the profits will follow'*. Customer service and good employee relations therefore became the cornerstone of the business. It was this that helped the business to grow.

From 1957 – 1993 Enterprise concentrated on expanding its operations across the USA. In this time it opened over 1,000 rental branches. Throughout the 90s Enterprise developed into markets in Canada, the UK, Germany and Ireland.



In the car rental business, as all organisations are providing a similar product, a key factor that differentiates one organisation from another is the quality of the service that is provided for customers. Enterprise's dramatic growth strategy has been made possible through its high level of customer service. By listening to its customers, it is able to provide greater satisfaction, with employees being a vital part of that process.

To provide superior customer service, Enterprise locates its branches as close as possible to its customers. The convenience of this service gives Enterprise a competitive advantage over its rivals. However, in response to customer needs, Enterprise opened its first on-airport location in 1995. The demand for this service was so great that by 2005 Enterprise had over 200 on-airport branches. This meant that Enterprise kept ahead of its competitors and increased its market share.

## Product development

Product development strategies have helped Enterprise to develop services in a market where it was already an established and profitable business. This was considered to be a medium risk strategy. Examples of Enterprise's product development include its unique 'Pick-up' service. This helped to lead the market in this product offering. Enterprise's Flex-E-Rent service (a long term vehicle rental solution designed to meet the growing needs of today's businesses) and its Business Rental Programme (offering customers a bespoke programme with special pricing) are examples of product developments. These have widened its service range to improve the customer experience and strengthened its brand identity.

Factors in the external environment affect decisions about product development. These are things taking place outside the business that influence decisions within the organisation. Governments around the

world are committed to reducing global warming through more eco-friendly technologies, while consumers are looking for different mobility solutions. Enterprise therefore created WeCar, a membership car-sharing programme which offers customers a car at an affordable hourly rate. It typically uses fuel-efficient vehicles or hybrids to help address concerns about the environment. Car sharing or hourly car rental can also help to reduce the number of cars on the road. In this way, WeCar members help to contribute to a cleaner environment.

Having the ability to respond quickly to the external environment with new products and services is a benefit of being a privately-owned business. Enterprise allows employees to make decisions at a local level and has created an entrepreneurial spirit within the organisation. This means that strategies are constantly reviewed to ensure that Enterprise remains the market leader. New avenues of business are explored and researched. Underlying all of these changes are Enterprise's founding values. These are Enterprise's driving forces behind growth and include values such as:

- 'Our brand is the most valuable thing we own.'
- Great things happen when we listen...to our customers and to each other.
- Customer service is our way of life.'



As a result, Enterprise's activities are polycentric. This means that some services are only offered in certain markets. For example, Rent-A-Car is operated in all markets globally. WeCar is operated in the UK and the USA and Flex-E-Rent is only available in the UK.

## Diversification

Diversification strategies involve widening an organisation's scope across different products and market sectors. It is associated with higher risks as it requires an organisation to take on new experience and knowledge outside its existing markets and products. The organisation may come across issues that it has never faced before. It may need additional investment or skills.



On the other hand, however, it provides the opportunity to explore new avenues of business. This can spread the risk allowing the organisation to move into new and potentially profitable areas of operation.

Enterprise's values help to define what the organisation stands for. They also identify its capability and competences. Its core values of 'brand, honesty, service, fun, hard work, listening, inclusion and community' are transferable. This means that the skills from the main business can be applied to other business opportunities through diversification, potentially reducing the risks associated with this strategy. Examples of Enterprise's diversification strategies include:

- a) Car Sales was established by Enterprise in 1962. This business involves selling used cars to both the public and businesses. It is now one of the largest sellers of used cars in the USA.
- b) In 1974 Enterprise purchased Keefe Coffee Company, which later developed as the Centric Group. The 1973 energy crisis had created uncertainty for Enterprise. As fuel became scarce

and expensive, many customers swapped large cars for smaller and more economical vehicles. This led to a collapse of sales in the used car market. Enterprise relied on that market to sell on its vehicles. The future of the business was not certain and so Enterprise diversified to buy Keefe. It was hoped that acquiring small, underdeveloped businesses would generate more opportunities for Enterprise.

- c) In 1977 Enterprise invested in Mexican Inn Chili Products. However, the company had little experience of both the packaged goods industry and the packaged food business. Poor sales and a guaranteed buy-back arrangement with retailers (where unsold goods could be returned) meant that the business did not make a profit. Therefore the company sold the business but learned a lot from the experience.

This last example illustrates the risk that diversification poses. Just because a business is successful, like Enterprise, it can never guarantee success in every venture it undertakes. However, the experience with Mexican Inn did not put Enterprise off later acquisitions that were outside the car rental business, for example, TRG Group which is a leading manufacturer of luggage, backpacks and travel accessories.

## Conclusion

A marketing strategy is something that constantly evolves, adapting to changing market conditions. Within Enterprise, the outcomes from its many different types of business are constantly reviewed and evaluated. Judgements are then fed into the decision-making process. This enables new strategies to be developed to improve operations.

However, while strategies change, one aspect of the business has remained in place. This is a continued focus on high levels of customer service and employee relations. This strategy has enabled Enterprise to enjoy continued growth for more than 55 years and the prospect of further growth in the future.

1. What is a marketing strategy? (2 marks)
2. Explain how the diversification strategy within the Ansoff matrix differs from the other three strategies. (4 marks)
3. Show with examples how research into product development at a local level helps organisations to respond to the needs of its local environment. (6 marks)
4. Evaluate why some diversification decisions might be higher risk than others. (8 marks)

## Developing a career path in retail



### Introduction

'Harrods of London' is a British institution. It is probably the most well-known and respected retail store in the world. For 162 years, Harrods has built its unique reputation supported by its key brand values – British; Luxury; Innovation; Sensation; Service. Harrods employs approximately 5,000 people from 86 different nationalities who deal with up to 100,000 customers a day at peak times.

Harrods needs employees who can face the challenges that its reputation and standards bring. It needs people who are looking for an exciting and rewarding long-term career with responsibility and prospects. Its challenge is to find (and retain) employees with the right mix of skills and abilities, who can be developed to become the managers of the future.

To achieve this, Harrods has to counter some of the negative perceptions about working in retail. Working in a shop has traditionally been seen as low-skilled – with long hours, poor pay and little chance of promotion. However, because quality is key at Harrods, employees are well-paid, respected and have clear career paths open to them. Senior managers at Harrods have come from all walks of life and started out with various levels of qualifications. All have benefited from development opportunities provided by the company.

### The importance of training and development

Training and development is vital to any business. Its purpose at Harrods is to better the performance of employees to enable Harrods to meet its business goals. For example, at Harrods the Sales Academy develops employees' sales skills, leading to increased sales when they return to the shop floor. Allowing employees to acquire new skills, expertise and qualifications supports employee progression which leads to increased motivation. This supports Harrods' retention strategies.

Training is about gaining the skills needed for a job. These may be learned at the place of work (on-the-job) or away from work (off-the-job). On-the-job training tends to be more cost-effective and relevant. However, off-the-job training is usually carried out by professional trainers. It also occurs away from the distractions of work. Training tends to have very specific and measurable goals, such as operating an IT system or till, understanding a process, or performing certain procedures (for example, cashing up).

Development is more about the individual – making him or her more efficient at a job or capable of facing different responsibilities and challenges. Development concentrates on the broader skills that are applicable to a wider variety of situations, such as thinking creatively, decision-making and managing people. In short, training is typically linked to a particular subject matter and is applicable to that subject only, while development is based on growing broader skills which can be used in many situations.

Harrods employees come from diverse backgrounds and different nationalities. They have differing levels of competency, education and experience. Harrods offers comprehensive Learning and Development opportunities. These opportunities are offered at a variety of levels to suit the needs of all Harrods employees. These range from workshops for Sales Associates and Warehouse Operatives to developmental programmes for senior managers.

Amber is a Harrods Retail Manager who started as a Sales Associate at Harrods through an online application. Harrods has created a web site [www.harrodscareers.com](http://www.harrodscareers.com) to enable candidates to apply for roles easily.

*'I wasn't sure I would get the job but it seemed a really challenging role and I was keen to try. I had only a little background in retail and none at all in the luxury retail market. Mostly I had been working in the hospitality sector.'* **Amber**

However, Harrods Learning and Development ensured Amber acquired the skills she needed to carry out her role. Development at Harrods is linked to the company's Business Competencies which fall under four headings: Working at Harrods, Your Impact on Others, Making Things Happen, Focus on Improvements.

Each Business Competency is supported by workshops so that every skill can be improved. Learning is offered off-the-job in 'bite-size' sessions. These sessions give employees the chance to learn more effectively over a much shorter period, reducing time away from work and bringing a tightly focused approach to skills development. They have been described as concise and punchy and a workshop typically lasts 90 minutes. All the Business Competencies are supported by self-help guides which are run either on-or off-the-job and include activities such as observation and review, reading, and 'one minute guides' offering top tips and tactics.



Identifying key competencies also helps Harrods to design its recruitment process to ensure that it attracts the best candidates. They must have the right approach to sales, customer service and decision-making and support the 'theatre of retail' that underpins Harrods' reputation. This is about flair, showmanship and expertise. Harrods Learning and Development department must be proactive in responding to changing customer needs. For example, Harrods has introduced cultural awareness training for employees better to serve the increasing number of customers from the Middle East, China, Brazil and Russia.

## Developing a career path

Harrods stands out from its competitors by providing a wide variety of development opportunities for all employees. This means the business can recruit and retain good managers and maintain improvements in sales and business performance. Individuals' self-esteem and motivation is raised. Once a year, managers talk to employees about their progress and ambitions during appraisals. Employees then identify their personal development targets.



The sales and service programmes include the 'Harrods Welcome'. This induction provides essential training for new employees, such as Harrods' brand values and The Theatre of Selling. Other courses ensure the effectiveness of Harrods sales associates:

- 'Your Theatre' is a two-day programme to improve sales skills and provide the highest level of customer service. It introduces the idea of selling as a 'theatre' requiring specific skills and expertise. 'The Theatre of Selling' element covers personal presentation, effective questioning, product selection and closing the sale. 'The Science of Selling' develops employee awareness of customer types and needs.
- The Harrods Fashion Programme is run in partnership with the London College of Fashion. It enables sales associates to understand the entire 'product journey' from design to sale.
- The School of Communication offers voice, body language and presentation skills workshops.

For suitable candidates, the Harrods Sales Degree provides the high level sales skills the company needs. This is the first and only degree of its kind in Sales. It is recognised globally and can be completed in two years.

High Potential programmes are concerned with succession planning. They are aimed at ensuring there is a strong pipeline of potential senior managers. The Harrods Management Programme develops ambitious and career-focused employees into a management role. Jessica joined the company after graduating with a degree in Art History. After just three years she is now a Harrods Retail Manager. She runs the Designer Collection sales floor, managing 26 employees and controlling a substantial budget.

*'My quick progression to Retail Manager was helped by the fact that Harrods allows people to take control of their own development to a large extent. Harrods supports you if you are keen to get on. The Harrods Management Programme gave me eight months of training, both in-house and external. This, together with the support of my mentor, has equipped me with the specific skills I need to carry out my job effectively.'*

**Jessica**

Harrods offers other programmes:

- The Business Academy which supports managers as they progress into more senior positions.
- The Oxford Summer School which is a challenging academic learning opportunity held at Keble College, Oxford. This is designed to highlight some of the problems, decisions and challenges of running a retail business. 10 prized places are awarded to high potential managers.
- The Buying Academy which develops Assistant Buyers into Buyers of the future.



## Retaining talent

Employee retention is important for businesses. A low employee turnover can keep recruitment costs down. It also ensures a skilled and experienced workforce. Employee development is beneficial for both the employee and the business. However, sometimes employees think that their new-found skills will enable them to gain a better job elsewhere. Harrods, therefore, has put in place strategies to keep its talented Retail Managers. It has found that employees who develop within the company tend to stay. Those brought in from outside are more likely to leave. Another vital part of retention for Harrods involves identifying the 'DNA' (key factors) of great sales people. It then matches applicants to these factors.

To reduce employee turnover Harrods has developed a better management structure, improved benefits and created initiatives which make Harrods a 'great place to work'. Harrods has put in place a system of rewards and incentives:

- An excellent package of employee benefits including good pay, employee discounts and a good working environment.
- Commission and sales bonuses for individuals and teams.
- Improved work schedules which help to give a better work-life balance.

Harrods also has systems to improve employee communications so that it can listen to feedback and address any issues. There is an Internal Communications department, regular performance assessment meetings and SMART targets for employees to reach. These initiatives have seen employee turnover fall from 51.4% in 2006 to 25% in November 2011.

## Careers at Harrods

Harrods ensures there is a clear career path for any employee, from any background. Three key levels in Harrods are the sales employee, department managers and senior managers. At each level, employees can benefit from Harrods development programmes in order to build a career.

James is a Sales Associate and one of Harrods first Sales Degree students. When an injury prevented him from following his previously chosen career in contemporary dance, he applied to Harrods. He has never looked back. Harrods training has given him transferable skills. He has been able to work within more than one department, providing the same high levels of customer experience.

*'The course is absolutely fantastic. I feel very privileged to be on it. It is very much focused on work-based learning. It provides real insight into consumer psychology and behaviour - why people do what they do and how they shop - and how to deal with challenging situations. My managers are very supportive. If I need to take some time out during the day to make notes on an interesting situation, then I can. It has offered some amazing opportunities, such as giving me behind-the-scenes information on how Harrods works and increasing my awareness of its global influence. I have realised that Harrods offers great benefits, good conditions and an opportunity to work amongst fantastic people.'* **James**

James will complete his BA Honours in 2012. He believes that the qualification will provide the additional skills he needs before he steps up to the next level at Harrods. James now expects his future to be with Harrods.

Amber's application was successful because of the customer skills she was able to bring from previous experiences. She is now the Retail Manager of Childrenswear. Her responsibilities range from overseeing budgets to managing both stock and people, as well as upholding the Harrods standards of service. By taking advantage of the Harrods Management Programme, Amber has risen to a better paid and more responsible job.



## Conclusion

People may have negative ideas about retail work based on their own experiences of part-time or vacation work. Harrods is different as it is possible to start building a career from any level.

Harrods is about the 'theatre' of retail. As with a theatre production, however, excellence is built on hard work and basic skills. The flair must be underpinned with discipline and attending to day-to-day issues, such as unpacking and displaying stock and managing employees.

Providing development opportunities is a key factor in how Harrods maintains its high levels of employee retention. The business looks after its employees and helps them along their career path. As a result employees are loyal to the company and continue to offer exceptional levels of commitment and service.

*'Retail is a challenging environment but I find it exciting. Although the company aims to hire the right people for the job in the first place, there is a whole range of training available to ensure we are equipped with key skills, for example, brand training for all the different ranges we offer. Harrods promotes the view that all employees should manage themselves responsibly and take advantage of opportunities offered.'*

**Amber**

Sabrina joined Harrods 10 years ago as a part-time Sales Associate whilst studying for her degree. After graduating she worked in Human Resources (HR) and, with Harrods support, gained further qualifications. This led to a series of promotions and experience in other roles including Business Manager. Her current role is Head of Personal Shopping, managing a team of 50 people. Personal shopping is about creativity and exceptional service. Her role requires strong organisational skills, commercial understanding and practical and strategic thinking. Sabrina's experiences at Harrods shows how diverse a career in the retail environment can be.

*'Knowing that my senior managers recognised my ability and supported me in my career development has made me eternally loyal to the company. Before coming to Harrods I hadn't really considered a career in retail, now I can't imagine working anywhere else. The thing I enjoy most about working at Harrods is that every day is unique and the work is interesting and innovative.'*

**Sabrina**



1. Describe the difference between training and development. (2 marks)
2. Explain the importance of developing employees. (4 marks)
3. Analyse the methods by which Harrods ensures it recruits and retains its employees. (6 marks)
4. Evaluate how training and development leads to career progression at Harrods. (8 marks)

Exam-style questions



## Entrepreneurship in engineering



### Introduction

In an increasingly service-orientated world of work, it is easy to miss the vital role engineers play in transforming our lives. Engineering is the crucible in which scientific, mathematic and design skills come together. The Engineering industry makes up nearly one-fifth of the UK economy and employs over 4.5 million people. The UK is still the world's seventh biggest manufacturer. Engineering is a key part of a range of industries including music, TV and film, construction, transport, cosmetics, medicine, food and fashion.

Britain has been a leader in engineering for over 300 years. British engineers transformed modern transport by designing and building some of the first railway engines (Thomas Stevenson), ships (Isambard Kingdom Brunel), aeroplanes (Geoffrey de Havilland) and motor cars (Rolls-Royce). They also developed new road building techniques, bridges and viaducts.



More recently engineers have embraced new technologies and materials to create alternative energy sources, such as wave power (from the sea) and credit card sized computers that plug straight into your TV (Raspberry Pi). They have designed high tech, energy-efficient buildings such as the new Olympic Park for the London 2012 Games. It was a British engineer and entrepreneur, Tim-Berners Lee, who first developed the internet. For more information and insight into the impacts of engineering on our lives visit [www.ietfaraday.org](http://www.ietfaraday.org)

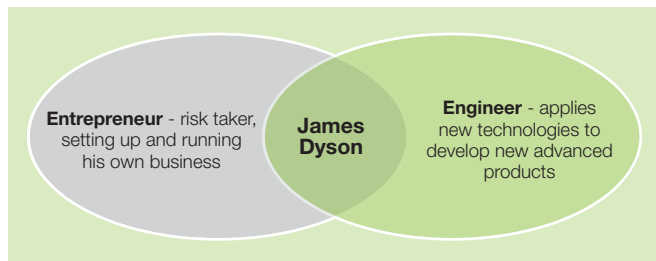
To be at the leading edge of engineering development, it is important for engineers to share their ideas. This is where the Institution of Engineering and Technology (IET) plays a vital role. The IET is a world leading professional organisation with the vision to share and advance knowledge, promoting science, engineering and technology across the world. Through professional development, partnerships and networking the IET offers a professional home for life. It is a trusted source of essential engineering intelligence to over 150,000 members across 127 countries. Anyone with an interest in engineering can join the IET ([www.theiet.org](http://www.theiet.org)) to network with people with similar interests.

The IET has developed close partnerships with businesses and is licensed to award a range of engineering qualifications such as CEng, IEng, Eng Tech and ICT Tech. Businesses have a massive demand for more engineers and technicians. The IET is heavily involved with running activities for students and developing resources for science, maths and technology teachers to enable students to see the relevance of their learning to the engineering sector.

Engineering skills are particularly effective when combined with enterprise. This case study examines the relationship between engineering and enterprise and the role that the IET has played in developing engineer entrepreneurs.

## Why people become entrepreneurs

An entrepreneur is someone who is prepared to sacrifice their own time, effort and money to turn a good idea into a marketable product. For example, Charles Rolls and Frederick Royce were motor engineers. They showed enterprise by setting up the Rolls-Royce car manufacturing company. James Dyson is an example of a modern engineer entrepreneur. He invented the ball wheelbarrow and the Dyson Dual Cyclone Vacuum cleaner. His Dual Cyclone idea involves filtering dust in a funnel of air that spins at up to one thousand miles per hour with 100% efficiency. Dyson's enterprise has created a global brand, employing workers in many countries and selling across the world.



Entrepreneurism is not for everyone because it requires hard work, long hours and the ability to keep going in difficult times. It is not sufficient just to have a good idea. The entrepreneur needs to conduct market research to find out if it is a product that consumers will be willing to buy at a price that yields an acceptable profit.

When Dyson built the Dual Cyclone it took thousands of hours of experimentation with over 5,000 prototypes (trial models) to iron out weaknesses. The process of testing and market research cost money. Entrepreneurs are not guaranteed a pay-off at the end of their hard work - more new enterprises fail than succeed. However, the rewards for successful enterprise are considerable.



Nature of reward	Description
Personal satisfaction	The opportunity to do something different. To choose your own career path.
Financial	The opportunity to reap a profit from your hard work and enterprise.
Independence	The opportunity to make your own decisions. As an owner you can set your own targets and standards.
Self-fulfilment	Being able to use your own skills and abilities. What you enjoy becomes your career.

## Characteristics of an entrepreneur

There is no such thing as a typical entrepreneur. Some entrepreneurs are quiet and hard-working, while others are more outgoing and flamboyant. The key to being a successful entrepreneur lies in the ability to take an idea and then, through the process of innovation, develop it in such a way that it becomes a marketable product or service. Research indicates that there are a number of characteristics that are quite likely to be present in high-achieving entrepreneurs:

- *The ability to learn from others* – entrepreneurs tend to be good at networking. They benefit from being members of organisations like the IET where they can learn best practice ideas from others.
- *Self confidence* – a belief in their own abilities and ideas.
- *Being innovative/inventive* – being able to generate ideas, either for new products/services or new ways of applying them.
- *Self motivation and determination* – the drive to keep going and see things through.
- *Showing initiative* – it is necessary to have not only the ideas for the business, but also the detailed plans to achieve objectives (both thinking and doing).



- *Analytical abilities* – capable of researching and evaluating each aspect of the business, from development, through finance, production, to marketing and sales.
- The ability to *make decisions* and to take (considered) risks.
- A *focus on results* that ensures products are sold for a profit.

The combination of many of these skills and qualities, with the right support, ensures ideas do not just remain as dreams but become real, viable businesses.

## Starting up a business

There are a number of legal requirements that must be met to form a business. A new business will adopt one of a number of possible structures. Many very small start-up businesses are in the form of a sole trader (one owner) or partnership (two or more owners). These forms of business give the owner/s more freedom to make decisions themselves and to keep the profits their hard work has earned.

A business can also take the form of a limited company. A limited company is owned by shareholders who share the profits the business makes. The company is run by directors. However, limited companies tend to be more expensive to run and administer than sole traders or partnerships. They need to be registered with the Registrar of Companies and have to produce complicated paperwork.

Starting up a business involves a number of steps:

**Step 1:** Generating good business ideas. These might be, for example, based on the skills of the owners, or by spotting a gap in the market or extending an existing idea.



**Step 2:** Market research in order to find out information such as whether potential customers like the product or service, how they would use it, how often they would use it and how much they would be willing to pay. For example, in creating the hybrid car, the developers needed to check that customers would be prepared to pay for the extra engineering that went into the new designs.

**Step 3:** Identifying the target audience and the characteristics of the typical customer for the new product. This allows the business to create the right sort of advertising and promotion to reach them. For example, competitive long distance runners make up a distinct segment of customers for SatNav directed watches as they show distance travelled.

**Step 4:** Identifying suitable sources of finance. These may come from personal funds, bank loans or special grants from trust funds for new enterprises such as the Prince's Trust and Shell Livewire.

Finally, all start-up businesses need a well worked business plan. The plan should set out the objectives of the business, sales targets, marketing details, the main costs and the resources needed, including equipment, accommodation and people. The plan can be used to demonstrate to a potential lender or investor that the business idea is well thought out and likely to generate a return on investment.

## A young entrepreneur's story

Matt Wilson is an engineer, an entrepreneur and regards himself as a pioneer in cloud-based communications. His tale is one of rags to riches. At sixteen years old he had no job and £100 in his pocket. Today at 34, he is a chartered engineer, an IET Fellow and Chief Executive of his own highly successful business: Crosby Communications PLC. Matt started a disco agency at the age of twelve. He funded it by washing cars in his neighbourhood. It was a real success and at fifteen he was interviewed on local BBC radio as a 'budding entrepreneur that would go places'.



He had a keen interest in electronics and the entrepreneur in him enjoyed hunting out and fixing old TVs and radios which he sold through his local newspaper.

After finishing school Matt became unemployed. His dad convinced him to use his interest in electronics to take an apprenticeship in electrical engineering. At the same time Matt set up the small company that was to become Crosby Communications PLC.

*'I started the business whilst doing an apprenticeship, doing odd jobs such as fitting telephone systems into offices. During the day I went to college to learn theory. This was coupled with placements in companies where I learned how to install electrical systems. I didn't start trading officially until I was 18, building the business up on a part-time basis.'*

**Matt**

The toughest challenge Matt faced was getting the finance he needed to get the business off the ground. He continued with his DJ work to save money to fund the new company. Once he had raised the cash he needed, Matt was able to concentrate on the voice, data and video business of Crosby Communication. He continued to grow the business, branching into other areas to spread the risks. Once established, Matt turned his attention towards self-development, seeking to get himself and the company recognised for the technical abilities that he and it possessed. To gain this recognition he joined the IET and in the summer of 2010 Matt achieved IET Fellow status.

*'I joined IET in 2007 because I wanted to be part of an important institution that is not solely academic. The IET is made up of engineers, real people with hands-on experience in engineering. Becoming a Fellow helped me to further my career and become involved in committees whose policies affect the engineering industry. This commands a lot of respect. My customers also recognise the quality of my work because I have achieved Fellow status.'*

**Matt**

Matt is now an active member of the IET, working on local committees and mentoring a number of new engineers in his area. He is an IET Science, Technology, Engineering and Maths (STEM) Ambassador, going to schools to get children interested in STEM subjects. There is a huge demand from business of all sizes, across the UK and overseas, for people with good maths and science qualifications and the practical ability to apply those skills as professional engineers and technicians. Many of the IET's members are involved with programmes led or supported by the

IET to make young people aware of the careers available to them in the engineering sector. They also help to get students participating in activities that will get them excited about technology and give them some of the practical experience valued by universities and employers, for example, FIRST LEGO League, F1 and 4x4 In Schools, Greenpower and Young Engineers Clubs.

*'From no money, no prospects and unemployed, I transformed my life with Crosby Communications PLC. I am proud because I've taken it from being a company worth £1 when I started, to now being worth millions in terms of company valuation. This pride comes from putting the time in and seeing that all the stress and hassle was worth it in the end. I am the first to be doing telecoms in the cloud – which uses my joint skills of engineering and the commercial experience/application.'*

**Matt**

## Conclusion

Engineers have been at the heart of the British economy and industry for a long time. Matt Wilson is part of a long line of British engineers going back to Brunel and more recently James Dyson.

There are many different types of engineers ranging from mechanical and electrical engineers to software designers, bio-technology engineers and those working with nano-technology (on a minute scale). These engineers form communities through professional organisations such as the IET in order to share good ideas. The IET also gives professional accreditation and status to the work of engineers. Engineers like Brunel, Dyson and Matt Wilson are not just ideas people - they are entrepreneurs, having set up their own companies to put their ideas into the market. This involved taking risks but the rewards are high. These rewards are not just financial, but perhaps more importantly, are concerned with the freedom to take pride in one's own work and shape the future. For more information on the IET please visit [www.theiet.org](http://www.theiet.org).

1. What are the benefits that people like James Dyson and Matt Wilson have gained from becoming entrepreneurial engineers? (2 marks)
2. Describe the main characteristics of a successful entrepreneur. (4 marks)
3. Using the case study, analyse the problems entrepreneurs have to overcome to bring a product to market. (6 marks)
4. To what extent does success as an entrepreneur depend solely upon the characteristics and qualities of that person? (8 marks)

## Engineering Advantage – strategy in action



### Introduction

Achieving competitive advantage is not easy, particularly in global markets. Businesses that do well in these markets need to be able to use their systems, technologies and knowledge effectively across the whole of the organisation and respond to local people, cultures and different ways of working.

One such organisation that uses its knowledge and expertise to achieve competitive advantage is IMI. IMI is a global engineering group involving many different engineering specialities. It is recognised worldwide for its innovation, expertise and global service and sells engineering solutions in over 50 countries to match customer needs.

IMI's competitive advantage comes from combining the knowledge and skills of its people with an in-depth understanding of what its customers want and need. IMI's strengths of expertise and innovation differentiate it in the markets it serves.

IMI operates in a B2B (business to business) environment, providing tailored products and services to companies. These include large household names such as Chevron, Shell, Volvo Trucks, General Motors, Coca-Cola and McDonalds, as well as smaller niche companies dealing in specialised equipment or building materials.

The company has a long history of working in valve and fluid engineering technology. It uses this expertise to design and develop products to control the flow of liquids or gases for organisations in a wide range of markets. These include nuclear, oil and gas, medical devices and the food and drink industry. By providing specialised products and services, IMI adds value for customers and helps them, for example, to reduce carbon emissions or improve energy efficiency.

The business spans five areas or 'platforms', most of which rely on IMI's core skills and competencies in valve and fluid engineering:

- *Fluid Power* – develops precision-engineered valves to control air or fluid flow in many industries. Examples of applications include ventilators and anaesthesia machines; compressed air systems for train door control; and valve solutions for controlling emissions on heavy duty trucks.
- *Severe Service* – develops specialised valves to control the flow of steam, gas or fluids in heavy industries such as nuclear, oil and gas, and petrochemicals. These industries require the highest levels of safety, operating in conditions of extreme pressure and temperature.
- *Indoor Climate* – produces valve solutions for heating and cooling systems to reduce energy consumption, for example, thermostatic valves for radiators or energy efficient heating systems for office blocks such as the Shard in London.
- *Beverage Dispense* – provides cooling and dispensing equipment for drinks such as carbonated soft drinks and smoothies for retailers, restaurants and hotels.
- *Merchandising* – develops innovative displays for shops to influence consumer buying decisions.

This case study looks at how IMI has developed its strategy of 'Engineering Advantage', combining its skills and knowledge, customer insight and innovation to achieve global market leadership.

### Setting strategy

Strategies are the long-term plans that a business puts in place to achieve its aims and objectives. IMI's goal is to achieve market leadership in the global niche markets it serves. A niche market is a relatively small and often highly specialised segment of a market, which has few competing companies supplying it.

There are many different strategies an organisation can choose to achieve its goals. For example, these might include developing new products, growing by acquiring other companies or reducing costs.

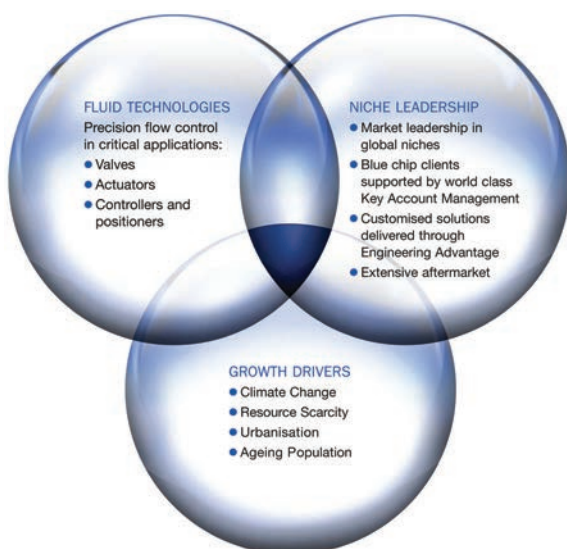
IMI's strategy focuses on:

- increasing business in its chosen niche markets
- accelerating growth by investing in new products and emerging markets
- maintaining high operating margins and reducing costs of manufacturing and costs within its supply chain.

Few competitors can provide the specialist knowledge and tailored fluid engineering solutions IMI offers, so it is able to command higher margins for its high quality products and services in its chosen niche markets. IMI's strategy brings together three key aspects:

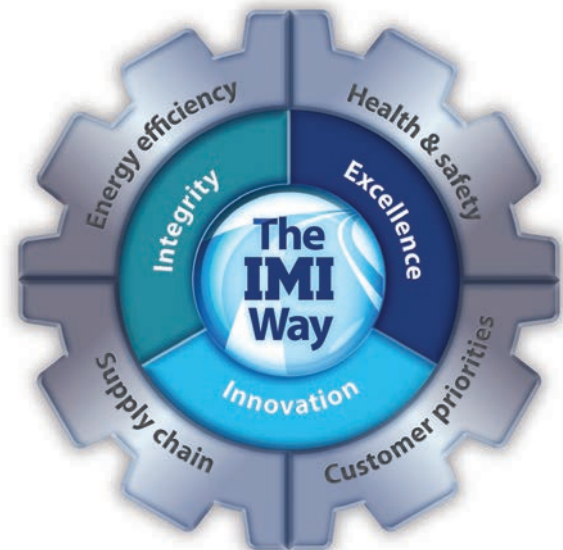
- its engineering skills in fluid technology and innovation
- its market leading positions in its chosen niche markets
- its exposure to markets which are benefitting from long term structural growth trends such as climate change and urbanisation.

IMI calls the point of overlap between these three factors, the 'sweetspot'. Where these three areas come together is known as strategic convergence. It is an area where IMI expects to achieve clear market leadership, higher profit margins, greater product differentiation, opportunities to meet global trends and to grow. Over half of IMI's operations are positioned within the strategic 'sweetspot' today, with plans to increase this to over 70% over the next five years.



## Strategic convergence

Strategic convergence provides IMI with a clear focus. At the 'sweetspot' IMI's knowledge and skills are delivering products and services which meet long term customer needs and help to give greater product differentiation. This means offering products which



do things competitor products cannot. This enables IMI to attract higher profit margins as well as gaining clear market leadership and creating barriers to entry for other competitors. This strategy IMI defines as 'Engineering Advantage'.

By understanding the needs of its markets and customers, IMI is able to provide them with customised products and services. This creates customer loyalty and enhances competitive advantage.

IMI's technical focus is on the precise and reliable control of gases and fluids. However, to retain its leadership position IMI needs its people to develop business competencies such as:

- Key Account Management (KAM) – which requires highly talented and customer-focused people to maintain the company's in-depth insight into what its markets need.
- Project management – translating the insight offered through KAM into products and services which deliver real commercial advantage for its customers. That advantage could be unique selling features to increase market share or lower supply chain costs.
- Seizing the initiative in emerging economies – IMI invests in emerging economies – areas of the world that are rapidly growing and industrialising such as China, India, Brazil and Eastern Europe. These offer great potential for growth, so IMI needs people with strong commercial skills and local market knowledge to win new business.

IMI's people are a key factor in helping to deliver its strategy and their skills are a core competence for the business. Engineering and technical know-how is important. However, IMI looks for people who also have an entrepreneurial spirit. This mindset helps the company to look for new and creative ways to add value for customers and the business.

IMI also supports ongoing development of its people in various ways in order to maintain its innovative edge. For example, the IMI Key Account Management Academy not only provides training for employees but also establishes best practice across the Group. This also helps the company to transfer knowledge from one part of the business to another.

## External drivers for growth

Businesses need to take account of and react to what is happening outside the company – the external environment. These environmental factors may be analysed through the acronym SLEPT. These stand for:

- Social factors – for example, the UK's ageing population is affecting the availability of skills
- Legal factors – regulatory standards or legislation such as Health & Safety might lead to increased training needs
- Economic factors – the current global recession is causing downturn in demand
- Political factors – government initiatives are requiring businesses to address the issues of climate change
- Technological factors – the impact of the internet makes it easier to compare the value of products and services.

These external factors may influence how a business will achieve its strategies. By monitoring the external environment it is possible to identify whether factors represent either an opportunity or a threat to achieving its strategies.

IMI has identified four clear global trends within its external environment. These trends are shaping the direction that the business is taking to achieve growth.

### 1. Climate change

IMI has responded to this global issue by developing products to provide cleaner energy as well as helping organisations to reduce their energy consumption.

*IMI is supplying severe service valves into a number of major liquefied natural gas projects (LNG) in Australasia. The demand for LNG has been growing because gas is a much cleaner fuel to use for power generation than coal. IMI has a market-leading position in applications such as anti-surge valves. These valves have to be able to provide very precise control at very low temperatures down to minus 162°C.*

### 2. Resource scarcity

There is a global need to manage resources such as water and energy more efficiently in order to ensure sustainability. IMI is developing a range of engineering solutions to manage the use of energy, water and waste more efficiently. IMI's innovative engineering has also developed ways of controlling building environments.

*In France IMI has developed the country's first 'energy positive' building which produces more energy than it consumes. IMI's technical skills in valve and fluid control have produced a new pressurisation and heating control system. This allows the building owner to control the temperature of each room depending upon heating requirements. This not only gives better comfort to users, but the building has been designed to reduce energy consumption by 65% compared to buildings constructed under current standards of regulation.*

### 3. Urbanisation

The rapid urbanisation taking place around the world, particularly in emerging markets such as China, requires significant investment in mass transit infrastructure. This is to ensure that the rapidly expanding urban populations have reliable transport options to enable them to travel easily around the cities and, of course, to work.

*CSR Zhuzhou in China services main line electric locomotive trains. They required a new type of pantograph (the equipment which links the train to the overhead electricity cables) as their existing pantograph could only cope with speeds of up to 200km per hour. IMI's subsidiary, Norgren, was able to create a new pantograph which could operate effectively at 400km per hour in addition to coping with temperature fluctuations from - 40°C to +80°C – without affecting performance. The new technology and design not only met the high standards of the Chinese Ministry of Rail, but also effectively utilised both standard and bespoke Norgren technology to set it apart from the competition.*



#### 4. Ageing population

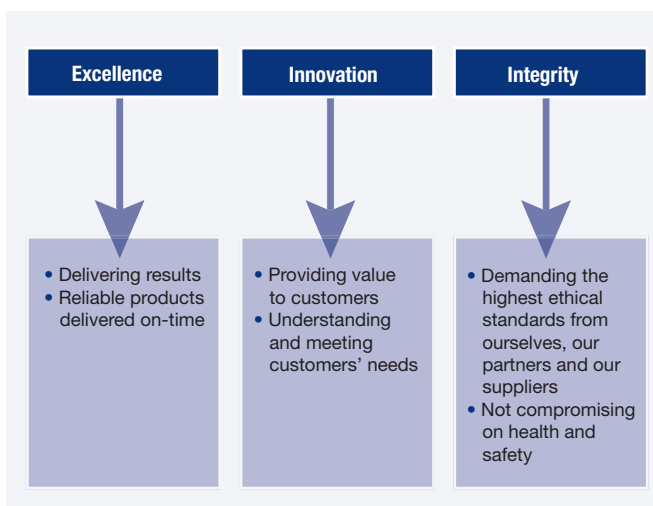
IMI's technical expertise is also used to support many different types of medical equipment. As the global population is living longer, more support is needed to keep people healthy. IMI is delivering specialised products to support this.

*Shenzhen Mindray Electronic Co Ltd is a developer of medical devices for patient monitoring in China. The company needed a regulator to control the flow of inlet gas for a life support ventilator. This had to meet very strict size dimensions and performance specifications. IMI's new regulator is 15% lighter and 20% smaller than those previously available, which makes the device more portable and convenient. The new regulator is also 60% quicker to assemble and is 10% cheaper than previous models. This has enabled Mindray to supply more ventilators across China and the world and meet the increasing need for life support systems.*

#### Internal values

IMI believes in behaving responsibly towards all its stakeholders, including its customers, shareholders and employees. Its values of Excellence, Innovation and Integrity guide the behaviours of all employees. Values are the beliefs shared by those within an organisation which underpin its business strategies.

IMI's values translate through its processes to increase the value of its products and services to customers. They also define the high standards for how the business and its employees deal with customers and stakeholders. This commitment to the business behaving in a responsible manner is known as the IMI Way.



The IMI Way is an integrated approach across the company and enables the business to achieve sustainability in its management of:

- Health and safety – IMI promotes a strong health and safety culture. This minimises risks to people as well as to communities and the environment.
- Energy efficiency – IMI has an internal commitment to become more energy efficient in developing its products and processes.
- Risk in the supply chain – IMI sources materials and components from many countries. To make sure that products are sourced responsibly, it sets out standards for its suppliers as part of its Supply Chain policy. This includes aspects such as minimum working conditions.
- Supporting customers to act responsibly in business – IMI helps its customers to recognise and develop opportunities for sustainability.

*Kroger Co. is one of the largest US grocery retailers. Sustainability is one of its core values. In 2010 it introduced a new retail service area in which frozen beverages could be served. To support this service they wanted a sustainable frozen dispenser, with high performance and reliability. IMI's expertise produced a final product which reduced energy consumption and wear on components. In addition, the LED lighting used in the product provided seven times the life expectancy of traditional bulbs. The effect was to reduce carbon footprint, eliminate waste and create energy savings of more than 25% over traditional equipment.*

#### Conclusion

Using a powerful combination of knowledge, skills and market insight enables IMI not only to develop innovative solutions for its customers, but also to create a competitive advantage.

IMI's strategy of Engineering Advantage enables IMI to support its customers in niche markets across the globe in a responsible way. It brings together the company's values, expertise and knowledge in order to meet the challenges of the global drivers it has identified. Its strategy brings together its people and processes to maximise the capabilities of the business, provide more value for customers and make the organisation distinctive.

1. Describe what is meant by a niche market. (2 marks)
2. Explain the purpose of developing a business strategy. (4 marks)
3. Analyse how managing knowledge and skills contributes to IMI's competitive advantage. (6 marks)
4. Evaluate other ways in which IMI might differentiate the business within global markets. (8 marks)

Exam-style questions





## Using market research to support decision making



### Introduction

Organisations that operate in the business-to-consumer (B2C) market are increasingly turning to market research to support their decision making processes. A retail business, for example, might be considering opening new stores, expanding internationally, proposing to diversify its product range or thinking about acquiring another company. Before proceeding, the business will require specific information to understand the implications of making such changes. The process of collecting this information and developing this understanding is known as market research.

This case study focuses on how JD (part of JD Sports Fashion PLC), the UK's leading retailer of fashionable sports and leisure wear, uses market research to support and develop its business. As a B2C retailer, JD's performance depends on providing the most desirable brands and products at the right price and in the right locations to meet with the demands of the consumer.

Founded in 1981 in Mossley, near Manchester, JD today is a nationally recognised UK high street fascia. For 20 years, the business expanded through organic growth, meaning that growth was generated by building sales revenue through increasing its network of stores.

JD has expanded more rapidly in recent years through acquisitions (inorganic growth), significantly increasing its JD store base through the purchase of First Sport (2002) and All:sports (2005). Through the purchase of Scotts (2004), Bank (2007) and, most recently, Blacks (2012), it has diversified the business into the young branded fashion and outdoor markets.

The Group has also made international acquisitions including Chausport (France), Champion Sports (Ireland) and Sprinter (Spain) as it has expanded its business overseas.

The group has also secured brands such as The Duffer of St George, Sergio Tacchini (under UK licence) and the fashion brands Chilli Pepper, Nanny State and Sonneti. The JD Sports Fashion Group now has over 900 stores across the UK and Europe and a reputation for stocking exclusive and stylish ranges.

### What is market research?

The exchange between sellers (supply) and buyers (demand) for particular goods or services is called a market. A market does not necessarily exist in a single location, nor need it be a real location – products can be bought and sold online.

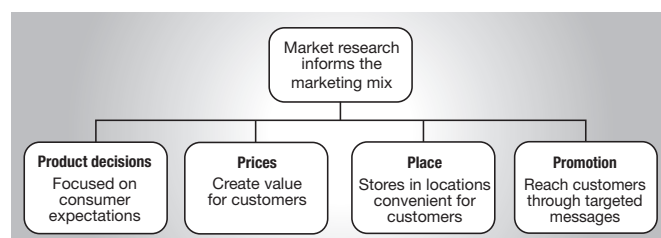
Markets change constantly and businesses need to have a clear understanding of both the supply and demand. The principal role of market research, therefore, is to provide a business with a comprehensive view of consumers in order to develop products and services that satisfy their needs better than the competition.

Also, given the increased complexity of the business environment, it is no longer enough to make key decisions using a 'gut-feel' approach alone. Decisions need to be informed and market research helps to support this process, significantly reducing the level of financial risk attached with investment decisions.



Market research involves the capture and analysis of consumer, competitor and market trend data. This enables JD to assess more accurately the level of demand for its products. It also influences decisions to target capital investment on projects that will offer the best return on that investment, such as opening a new store or entering a new market.

Market research provides consumer feedback. It is essential for JD to have this dialogue with the consumer to gain insight into what they think about its range of products, brands and services. This enables the business to meet its demands and outperform the competition. It helps the business develop a clear and informed strategic business plan which all business colleagues can work towards fulfilling. For example, this information can create a winning marketing mix to target promotions to reach different customer groups or influence decisions on range planning in new stores.



Research can also provide information about the size and performance of markets. It can inform a business about who the key competitors are, what they are doing, and their market share. Potential areas of opportunity within an international, national and local context can also be identified. By using tools such as an Ansoff's matrix to assess the levels of risk, JD can then decide which marketing strategies to focus on.



These are:

- market penetration – winning greater market share in its existing markets
- market development – entering new countries or new retail sectors
- product development – acquiring or developing new products or brands
- diversification – taking the business in a completely new direction.

	<b>Product</b>	
<b>Market</b>	<b>Present</b>	<b>New</b>
<b>Present</b>	Market penetration	Product development
<b>New</b>	Market development	Diversification

## Primary market research

There are principally two types of market research – primary and secondary. Primary research is sometimes known as field research. This is because it involves gathering data through new research. This data can be collected in either a quantitative or qualitative format.

Quantitative research is numerically-based and obtains the hard numbers from which decisions can be made with confidence. Examples of quantitative market research at JD include:

- Exit surveys – carried out face-to-face with consumers as they leave the store. This is a simple survey covering a cross-section of stores to gather the views of consumers in different locations and regions. At JD the purpose of the survey is primarily to understand the reasons for visit, frequency of visit/purchase and reasons for and against purchase.
- The 'shopping bag' survey – the JD research team monitors what carrier bags customers entering JD stores are carrying. This helps identify what other stores JD customers use and are spending money in. It provides competitor insight and an idea of which retailers attract a similar customer profile to JD, a variable that can influence the location of new JD store openings.
- On-site fieldwork – JD's dedicated Site Research team invests significant time researching new locations. This involves defining the extent of a location's catchment area, reviewing the presence and quality of the competition and assessing the pitch and visibility (i.e. how busy the area is) of a unit. This helps build a detailed SWOT analysis of each new site.



Qualitative information is a primary form of market research which focuses on consumer feelings and opinions on a product or service. This type of research illuminates the facts and figures collected through quantitative research. Examples of qualitative research at JD include:

- Focus groups – by speaking at length with small groups of 8-10 people, more insightful questions can be asked regarding brands and new product developments. At JD these are typically run in schools and colleges, where it can get direct feedback from its core consumers.
- Depth interviews – this involves a researcher accompanying the consumer on a shopping trip in store. This drills deeper into shopper behaviour and their reactions to stores.

When undertaking market research, it is important to reflect the views of all consumers within the business’ target market. However, this would be a huge exercise. One way of managing this is to use sampling methods. Sampling involves taking the responses of a representative group of consumers that are likely to reflect the opinions of the customer base.

## Secondary market research

Secondary research is sometimes known as ‘desk research’. This research draws on material that has been collected by another organisation to provide market information. Secondary research data provides a fact-based overview of the market. Examples of secondary research include:

- Government census data – the census is conducted every 10 years across the UK and brings together data on factors such as the number of people, their ages and occupations in a location.
- Geo-demographic data – collected by specialist agencies, this segmentation tool profiles consumers based on their lifestyle (e.g. marital status, number of children) and their lifestyle (e.g. newspapers read, leisure activities, TV programmes watched).

- Commercial market research reports – prepared by research experts, these provide estimates of the size (volume of sales) in each product or market category and market share by operators within these sectors. At JD this information is invaluable when assessing new product markets (e.g. outdoors) or international opportunities (e.g. France and Spain).

However, there are drawbacks with any form of market research. It costs money to collect and analyse large amounts of information and the results are not always definitive. Numerical data might be biased, particularly if the sample size is too small. Focus groups may be skewed if one member of a focus group is too dominant and stops others from voicing their opinions.

## Market research at JD

The location of stores is a critical element of the success of a retailer in any market. Sound competitive locations can provide a source of competitive advantage. To achieve this it is essential to build a clear understanding of the consumer and how they interact with a retailer and its sales channels (i.e. stores, internet or kiosks).

So, how does JD build up information about its consumers and develop a clear location strategy? One method employed by the company is its check-out survey. This is a simple but highly effective survey that is carried out with customers at the till. By collecting the customer’s home postcode, gender and age and matching this data to the products purchased, JD can build up detailed consumer profiles.



JD also asks purchasers a further question: has the item been purchased for yourself or for another person? This helps JD to understand the difference between customers (the purchaser) and its consumers (the end user). For example, some purchases are made by parents buying clothes or shoes for their children. This additional question helps prevent the survey results from being misinterpreted.

The survey is carried out annually over a two-week period and involves over 350,000 customers. This provides a robust sample from which to extract invaluable insights into consumer buying behaviour. In-depth analysis of the survey results helps the company:

- understand how far customers travel to stores – this enables JD to define real catchment areas for each store and understand the overlap with other existing stores
- build consumer profiles by gender, age, brand and lifestyle
- identify and quantify new store location opportunities
- influence product ranges to meet the buying habits of customers in different locations
- assist with marketing strategies to target the consumer more effectively.

This type of information is collected regularly by large retailers such as supermarkets through the data collected on their store loyalty cards. However, loyalty card schemes can be very expensive to run. Till surveys, although only providing a snapshot of the consumer, offer a cost effective means of gathering data. JD is relatively unique on the high street in using this type of survey to capture additional customer information. More recently this survey has been replicated across JD stores in France and Spain.



It is important that research is properly managed to ensure that the data collected is valid and reliable. It is also useful, where practical, to use a variety of methods to validate research findings. At JD the findings from the exit surveys (smaller sample sizes) are validated by the check-out survey (larger sample size).

Put together, this information helps JD to anticipate the level of demand customers may have for its products. Sales expectations can be accurately forecast to ensure profitable stores are opened.

JD has also embraced the internet as a means to support business strategies. The data collected through the online ordering process is 'live' information and it provides a valuable insight into consumer demand. It can influence store ranges and support decisions about its stores network by highlighting 'hotspots' with high levels of demand but no physical presence. In an increasingly multi-channel world, capturing, analysing and acting on this information offers a business a key competitive advantage. Again, this information can provide useful insight into potential international opportunities.

## Conclusion

In recent years, the UK retail industry has faced challenging conditions. However, against this tough economic backdrop, JD has managed to maintain growth through a thorough understanding of market opportunities. Market research is not a one-off process. Markets change and a business like JD needs to evaluate customer trends and monitor competitors on a regular basis in order to remain competitive.

JD has therefore established research mechanisms to provide ongoing feedback. These provide a mix of qualitative and quantitative market data obtained directly from consumers and from published research. By understanding its consumer base, JD has established itself as the market leading retailer of fashionable sports and leisure wear.

1. Describe the difference between primary and secondary market research. (2 marks)
2. Use an example from the case study to explain the purpose of market research. (4 marks)
3. Analyse why market research should be viewed as an ongoing process. (6 marks)
4. Evaluate how market research, if undertaken properly, adds value to the decisions made by a large company. Why does it help to reduce risk? (8 marks)

## Devising a communication plan



### Introduction

Research shows that children benefit from eating a healthy breakfast prior to the start of the school day. However, too often children have no breakfast at all or eat chocolate or crisps and a fizzy drink on their way to school.

This case study examines how Kellogg's devised a plan to communicate the importance of breakfast to selected target audiences through a multi-platform campaign. This was in support of its 'Help give a child a breakfast' campaign launched in October 2011.

Kellogg's is the world's leading producer of cereals. Its products are manufactured in 18 countries and sold in more than 180 countries. Kellogg's produces some of the world's most easily recognisable brands such as Kellogg's Corn Flakes, Coco Pops and Rice Krispies. For more than 100 years, Kellogg's has been a leader in health and nutrition through providing consumers with a wide variety of food products.



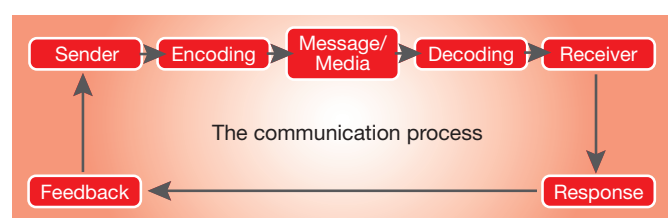
Kellogg's has been active in supporting breakfast clubs in schools for many years, working with the education charity ContinYou, the experts on breakfast clubs. Breakfast clubs provide a healthy meal at the start of the day in a safe and friendly environment. They also provide a great opportunity for kids to play, learn and socialise with classmates.

Since 1998, this partnership has set up 500 breakfast clubs in schools across the UK. Interested schools have been supported with training on how to start a club and have received a start-up grant from Kellogg's.

According to research by Kellogg's, many schools have run into trouble with the funding of their breakfast club due to recent budget cuts by the UK government. Kellogg's responded by putting a team together to create a communications plan which highlighted the importance of breakfast clubs to parents, schools, the UK government and the public.

### Writing a communication plan

The communication process involves transmitting information from a sender to a receiver. However, effective communication needs to ensure that the message has been not only received but also clearly understood. This is relevant whether the communication is internal or external.



The message needs to be sent in a way that will appeal to and be understood easily by the target receiver or audience. This involves selecting an appropriate format or channel to deliver the message.

Examples of media that may be used include a leaflet, a television advert and a personal letter. The feedback part of the process is vital as this is how the sender knows if the message has been received correctly.

For the message to be effective, barriers to communication (known as 'noise') need to be eliminated or reduced. Noise is anything that might distort the message or prevent the receiver getting or understanding the message. For example, noise might include using language or jargon that the receiver will not understand or using a channel such as email or the internet when the receiver does not have a computer.

A communications plan uses the same principles of tailoring the message and the delivery channel for a target audience. A communications plan also sets out the overall objectives to be achieved and the means by which these will be measured.



Businesses engage in both internal and external communication. Internal communication may involve transmitting messages to shareholders, senior managers, other employees or contractors. Communication externally may be to a range of stakeholders including customers, suppliers, the media, government or the wider public. In each case, the nature of the message and the format used may be tailored to suit the audience. An effective internal communications plan can help to give clear direction within the organisation and improve employee motivation. Externally, it can even change public opinion.

## Background and purpose

Research commissioned by Kellogg's showed that as many as 1 in 7 children in the UK do not eat breakfast and that up to 25% eat crisps, chocolate or fast food on the way to school. In addition, 1 in every 8 (around 3,000) breakfast clubs in the UK have closed due to government budget cuts and up to 45% of remaining clubs were at risk of closure.

Research with teachers showed that the majority believe that the lack of breakfast opportunities would lead to poorer academic results and worsening behaviour in schools.

The purpose of the Kellogg's campaign was to show its commitment to breakfast clubs in schools in the UK. The important messages that the campaign was aiming to get across were that:

- breakfast is important for people of all ages especially young people
- breakfast clubs positively impact on children's behaviour, attendance and ability to concentrate in morning lessons
- Kellogg's has supported breakfast clubs since 1998
- by buying Kellogg's Corn Flakes you are helping to feed children at breakfast clubs.

Kellogg's faced potential noise for its messages from different sources. At the time, the government spending review was high profile in the press which could have resulted in the Kellogg's story being overlooked. In addition, other food companies also support breakfast clubs which could have led to confusion or dilution of its messages.

It also needed to make clear that this was not a marketing effort to promote Kellogg's brands but a part of the company's long-standing Corporate Responsibility programme. Corporate Responsibility involves understanding the impact the business has on the wider community and working to make that impact positive. Kellogg's has been supporting breakfast clubs in schools and local communities for 14 years and has invested over £1.5 million to date.

## Fitting the message to the audience

The Kellogg's breakfast club campaign had a number of key objectives which depended on promoting the right messages to different audiences. Key aspects of the campaign were not only to get messages across about the benefits of breakfast and breakfast clubs, but also to raise funds for the clubs through the sale of Kellogg's products and to make schools aware of the available funding from Kellogg's to support their breakfast clubs.

In order to achieve these objectives, Kellogg's devised a communication plan for internal and external stakeholders. The main internal stakeholders being targeted were Kellogg's employees. They were encouraged to get involved through information posted on the company intranet (internal communication). Employees were also invited to attend a breakfast club in the atrium of the Kellogg's building with two local primary schools and then visit breakfast clubs that received funding from Kellogg's.



Objective	Target audience
Develop greater understanding of the impact of Kellogg's long-term support of breakfast clubs as part of its Corporate Responsibility programme	Shareholders, employees, customers, national media, wider public, government, others
Change or increase public awareness of the impact of breakfast club closures	Shareholders, employees, consumers, national media, wider public, government, others
Raise additional funding for breakfast clubs by attracting consumers to support the initiative through donations made from the purchase of Kellogg's Corn Flakes	Consumers
Improve public perception of the company	Consumers, the wider public and key opinion formers
Motivate employees by involving them in the initiative	Employees

However, the campaign was primarily designed for the needs of external audiences. These included:

- Schools – to alert them to the Kellogg's grants available, inviting them to apply for funding.
- The media – to generate excitement and press interest about the campaign and to increase public awareness of the issues involved.
- Parents – to demonstrate Kellogg's socially responsible stance and inform them how breakfast clubs could support their children.
- Members of Parliament (MPs) – asking them to encourage schools in their constituencies (i.e. the area that they had been voted to represent) to apply for funding.
- The public – to attract consumers to buy Kellogg's products in order to generate additional funding for the breakfast club initiative.



## Using the right medium

In order to convey any message effectively to a targeted audience, the most suitable medium and channel needs to be used. For example, if a company wants to promote products with a mass market appeal to a wide audience, it might use well-scripted television advertising. To advertise a job opportunity for a finance director of a company, a business might place an advertisement in the Financial Times (or other financial and business-related publications).

Take, for example, the message that 'Kellogg's supports breakfast clubs'. How should Kellogg's communicate this message to children and parents? Kellogg's approach was to use a multi-platform campaign. This is an approach which communicates over a range of media, rather than using just one, in order to reach many different audiences.

The various campaign communications involved a mixture of formal and informal communications. Formal communications are through approved channels and so might include, for example, a company policy document or a press release. Kellogg's formal communications included the letters sent to MPs.

In contrast, informal communication is more spontaneous and less structured, for example, a chat with colleagues over coffee. Informal communication can be very effective in a business as it has the advantage of being quicker and more direct. Kellogg's face-to-face interactions at breakfast clubs and the briefing to mummy bloggers demonstrated a more informal approach to communication. The problem with informal communication is that it could result in rumours that can cause messages to be mistrusted or even convey inaccurate information.

Format/channel of communication	Campaign activities
Written communications	<ul style="list-style-type: none"> <li>Letters were sent to MPs and to schools</li> <li>Press releases were sent to television, radio and newspapers (as well as appearing on the Kellogg's website)</li> <li>Information about the campaign was added to eight million boxes of Kellogg's Corn Flakes</li> <li>Information for employees was communicated through internal briefings and posters displayed in the company's social areas e.g. reception and restaurant</li> </ul>
Television and radio advertising	<ul style="list-style-type: none"> <li>Various visual (television) and audio (radio) advertisements were placed</li> <li>The launch of the campaign featured on ITV's Daybreak programme</li> </ul>
Internet and social media	<ul style="list-style-type: none"> <li>A dedicated website featured the campaign and included videos of a local breakfast club</li> <li>A twibbon (a method of raising awareness through Twitter) was created so that people could show their support for the campaign on their twitter and facebook accounts</li> <li>A media partnership was created with Netmums (a social networking site for parents offering advice, information of interest and a blog)</li> <li>Messages were communicated through the company intranet</li> <li>Kellogg's employees also received voicemail messages encouraging them to support the campaign</li> </ul>
Face-to-face	<ul style="list-style-type: none"> <li>Kellogg's held a briefing day about the campaign with mummy bloggers</li> <li>MPs were invited to attend their local breakfast clubs to award funding cheques</li> <li>Kellogg's employees volunteered at their local breakfast club and joined a breakfast club held at a Kellogg's on-site launch</li> </ul>

## Conclusion

Breakfast clubs provide a healthy meal at the start of the day in a safe and friendly environment. They also provide a great opportunity for kids to play, learn and socialise with classmates.

Kellogg's has long supported breakfast clubs and so planned a multi-platform approach to communicate key messages about the importance of breakfast and breakfast clubs to various audiences.

The feedback to any communication is important to evaluate whether messages are reaching the target audience effectively.

Kellogg's therefore carried out an evaluation of its campaign. Highlights include:

- The first six weeks of the campaign generated 73 press articles across a variety of media – including news coverage on ITV's Daybreak and news articles in The Observer and The Independent. All carried positive reaction to the messages and reached a potential audience of nine million people.
- Over 700 schools applied for funding and around 500 of these received a grant of up to £450 for their breakfast club.
- Kellogg's employees have attended 15 of those breakfast clubs with the local MP to see what difference the funding has made to the children.
- The money raised from the campaign will provide a million breakfasts by the end of 2012.

These results clearly indicate that Kellogg's has communicated its messages effectively. The time taken in planning the communications through a multi-platform approach worked in relation to each of the targeted audiences. As a food company that takes its responsibility for nutrition seriously, Kellogg's has maintained its commitment to write to and talk to key government officials to get the message over about the importance of breakfast for children. This highlights how effective communication is not just a one-off event but an ongoing cycle requiring evaluation and a response to feedback received.

- What are the key steps in the communication process? (2 marks)
- Explain two benefits of Kellogg's using its multi-platform campaign to communicate its messages. (4 marks)
- Choose two audiences of Kellogg's campaign shown in the case study and identify which media you think would be particularly effective for getting the messages across to them, explaining why. (6 marks)
- How far do you think the Kellogg's campaign will go in changing the press and public opinion about breakfast clubs? Justify your opinions. (8 marks)



# Developing a sustainable supply chain to add value



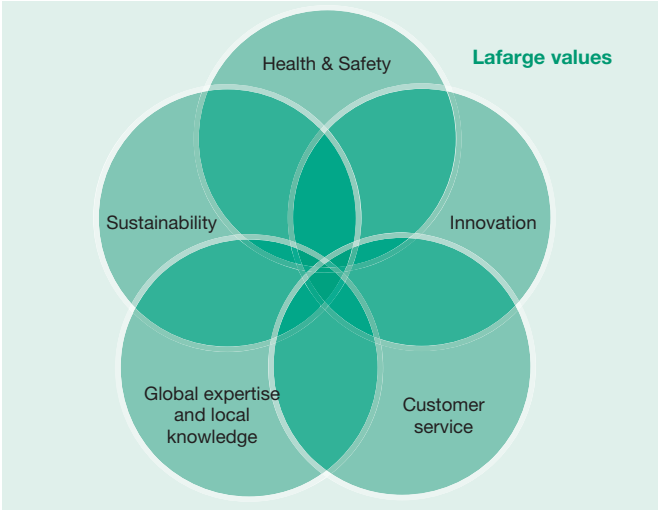
## Introduction

Lafarge may not be a company name that you would quickly recognise but its products and expertise have helped to create some of the UK's biggest infrastructure projects, including the M25 motorway, the Channel Tunnel, Canary Wharf in London and several UK power stations.

The Lafarge Group is the world's largest supplier of building materials and has a global reputation for developing creative and innovative products, services and solutions. The company produces essential products – cement, aggregates and concrete – which are integral to society. Cement and concrete are basic materials in all walks of life – everyone relies on the country's infrastructure such as roads, hospitals, power stations, housing and railways.

The Group employs over 68,000 people in 64 countries and Lafarge's four Business Units in the UK (Cement, Aggregates, Readymix concrete, and Asphalt) have nearly 3,000 employees working across more than 200 sites around the country. As market leader, it holds around 40% of the UK cement market. Lafarge's business is based on its core values. These, along with highly skilled and experienced people, provide the platform for operating safely and responsibly.

Lafarge is facing many interesting challenges. As a major extractor of raw materials in the primary sector, issues of sustainability and corporate social responsibility are of high importance. The drive for increased sustainability affects every part of Lafarge's activities – from extraction and manufacture, to transport and delivery, to waste reduction and restoration. In recognition of its high record of achievement, Lafarge has won several major industry awards in the UK, including one from the Environment Agency for its work on recycling water.



Managing health and safety for employees, contractors, the wider public and the environment throughout these processes is vital. Lafarge believes that *'No task is so important that anyone should get hurt doing it'* (Dyfrig James, President Lafarge UK). It has a stated goal of 'Zero Harm' – that is, zero accidents, incidents or job-related illness. This objective applies to employees, its supply chain and the public.

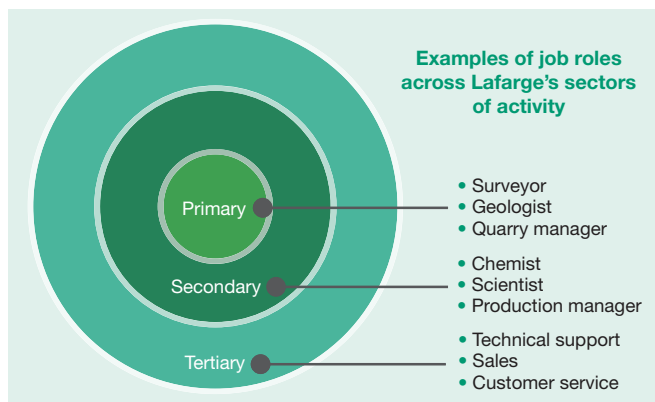
Together, the drive for increased sustainability, coupled with a continuous focus on health and safety, is generating a need for high quality recruits at both graduate and apprentice levels. They will provide the creative solutions that the business and the industry need to meet these challenges. Such recruits are needed, not just in science or engineering, but also in manufacturing and commercial parts of the business.

This case study will explore how Lafarge UK is active in all three sectors of industry and how it manages the need to develop the business alongside protecting the environment and respecting local communities.

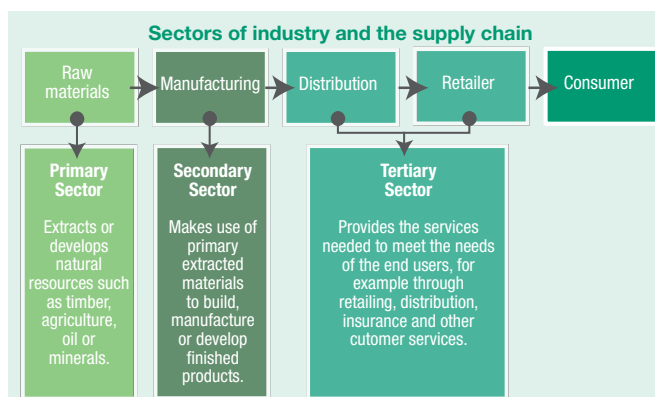
## Sectors of industry and sustainable supply chains

Business activities may be classified by the type of production that takes place. All activities fall into one of the following three sectors of industry:

- Primary – involving the extraction of raw materials or the growing of crops
- Secondary – involving a transformation of raw materials into finished goods
- Tertiary – covering the provision of services.

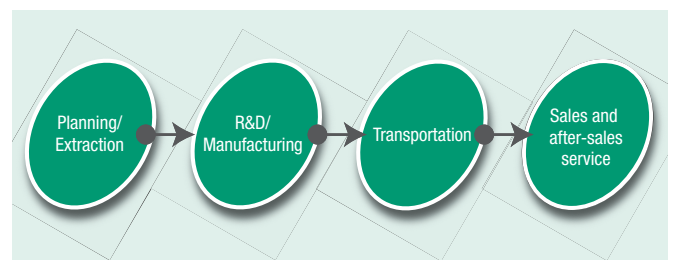


Since the C19th, the balance of UK activity overall has been changing, moving to an increasingly service-orientated economy. Industries such as mining (primary) and manufacturing (secondary) have reduced due to cheaper goods from overseas competitors. In 2011, the primary sector accounted for 1.4% of UK GDP, the secondary sector for around 22% of GDP, with the tertiary sector dominating with just over 76% of GDP. However, certain key industries in the UK, such as steel and cement, have experienced growth, with new technologies and innovation driving demand. Lafarge therefore needs more people with both specialist and generalist skills to meet that growth.



The interdependence between the sectors is known as the 'chain of production'. This identifies the interlinked stages that a product goes through from raw materials to arriving at the final customer. Each stage adds value to the previous one. A sustainable supply chain aims to ensure that the business is conducted in a manner which can be maintained in the future and which does not impact adversely on future generations. The key challenge is to deliver products and services that give value to the business and the customer, whilst maintaining a positive environmental impact.

Lafarge operates in all three sectors of its industry, extracting raw materials, manufacturing finished goods and providing sales and after-sales service for customers. In this way, Lafarge is able to take control of and manage not just operational efficiencies but also quality, health and safety and its impact on the environment.



## Primary sector

Cement is a product that originally dates back to the Egyptians and Romans. However, since its 'rediscovery' in the C19th, it has been evolving in response to new technology and innovation resulting in the complex product of today. In a typical year, the UK mineral products industry contributes to the building of 160,000 new homes, improvements to water services and the maintenance of the UK road and rail networks.

There are around 1,300 quarries and manufacturing sites in the UK producing £5bn worth of products each year. Over 80% of the raw materials used in its processes come from Lafarge's own operations and are therefore under its direct control. This integrated supply chain ensures Lafarge can manage quality, quantity and guaranteed delivery through its own activities.

In its primary sector activities, Lafarge's extraction processes involve drilling or controlled explosions to blast limestone, granite, shale or clay from quarries. This provides the raw ingredients required to make cement, aggregates and concrete. The rock is transported to a crusher to produce the different sizes of rock needed to suit different products for customers.

Lafarge is committed to sourcing its materials and managing extraction in the most responsible and sustainable way possible. Rock quarries are usually operated for many decades and then restored. Sand and gravel quarries are shallower than rock quarries and can be worked in stages. This means the land is used and restored in phases. As the majority of raw materials to make cement comes from new quarries, Lafarge is also investigating how it can reduce dependence on these sources. It is looking at ways of treating waste and by-products from other industries to replace natural materials. This is an important aspect of its sustainable practices.

In addition, it works with external bodies such as the Environment Agency in the planning stages of assessing a new quarry site. This means Lafarge can take into account key issues affecting the environment from the outset. At the end of the quarry's life, Lafarge is committed to the restoration of land. For example, it uses recovered inert waste from its extraction and waste management processes as part of the restoration process.

It then works in partnership with other organisations (such as the Staffordshire Wildlife Trust) to re-use the land for the good of the community and to provide a lasting legacy. For example, the National Memorial in Staffordshire is on a former quarry site. Lafarge has also been involved in managing 34 SSSIs (Sites of Special Scientific Interest), as well as creating award-winning parks, lakes and education centres. Over 700 SSSIs have been developed in the UK from former sites of mineral operations.

## Secondary sector

A business will aim to add value (both financial and non-financial) as a product moves from inputs to outputs across the three sectors of industry.



Globally Lafarge invests over 170 million Euros every year into research and development. This makes it one of the world's leading research and development companies. This investment helps to provide ongoing innovation in its secondary sector production processes which benefits customers. Its skilled chemists and scientists work in laboratories across the UK. For example, it created a self-compacting concrete called Agilia®. This saves customers' time and money in the construction process.



It creates value for the client due to less time being needed for application and lower costs of equipment. This also contributes to a healthier environment for construction workers.

The manufacturing process to create cement involves heating the raw materials to a very high temperature, grinding the clinker finely and adding different minerals to the resulting cement to give different properties. Important properties customers look for include increased resistance to weather or a higher quality finish. Lafarge is the leader in the development of low carbon cement products and has five main manufacturing locations, producing five million tonnes of cement each year.

By its nature, cement manufacturing consumes large amounts of non-renewable resources and also generates CO<sub>2</sub>. Lafarge is therefore committed to reviewing its processes to reduce its impact on the environment. Its production plants are certified under British Standards for both quality and environmental management. One way in which Lafarge helps to minimise its impact and emissions is by having on-site concrete production plants for large-scale projects. This is more efficient and enables Lafarge to provide continuous supply throughout the life of the project.

As a major user of significant amounts of water in its processes, Lafarge is also piloting 'water footprint' assessments. These aim to use water more efficiently and reduce consumption where possible. Other examples of Lafarge's 'best practice' include:

- using the fly-ash waste product from iron and steel smelting to make low-carbon cement
- using alternatives to fossil fuels (such as chipped used tyres) in the kiln heating process
- investing in more efficient manufacturing units
- offering a cement recycling service to customers for unused, outdated bags of products.

Lafarge also takes innovation right through the supply chain into its packaging. Its weather-resistant plastic packaging is easier to handle and is tear-resistant. Both effects benefit customers. Plastic packaging for cement, perhaps surprisingly, is more sustainable than paper as less material is lost through damaged bags, which is better for the environment.

## Tertiary sector

At the later stages of the supply chain, Lafarge’s activities in the tertiary (or service) sector range from transporting finished goods to providing a specialist advice and after-sales service for customers. This ensures they get the best use of the products.

Lafarge supplies its products in large volumes to intermediaries, such as local authorities or building companies, where the products are used on major projects. An example is Terminal 5 at Heathrow Airport.

Lafarge uses different means of transport – road, rail and water – to help it reduce carbon emissions wherever possible. Lafarge has a fleet of road vehicles for transporting bulk cement. It has modernised the fleet to increase the loads each tanker can carry in order to reduce the number of vehicles on the road and reduce emissions. Of its nationwide network of 14 depots, 11 have direct rail access. More than one million tonnes of cement a year is moved by rail, more than any other company. This removes hundreds of thousands of vehicles off the roads each year, reducing congestion, pollution and CO<sub>2</sub> emissions. Lafarge is also an expert in transporting by water.

One important area of added value for customers is through Lafarge’s Construction Solutions and Contracting services. Its technical sales people, along with IT, purchasing and customer service teams, provide ongoing support and advice for customers:

- Lafarge Contracting specialises in providing asphalt-based solutions for surfacing projects. These might be as wide-ranging as car parks, race tracks, bus lanes, housing developments and airport runways.
- Construction Solutions uses all Lafarge’s expertise, from aggregates to cement, to offer a ‘one-stop-shop’ service. This provides all the expertise and materials to take a project from initial design, through production, to finished installation in one combined service.

Lafarge continues to demonstrate its innovation and sustainability in the tertiary sector. As part of its sustainability plans, Lafarge goes beyond simply managing or restoring its extraction sites.



By adopting the principles of re-using waste products from other industries, Lafarge can respond to environmental challenges in a sustainable way:

- Its energy recovery service recycles used tyres for fuel.
- Landfill sites have processes for separating out waste in order to recover re-usable materials.

## Conclusion

To generate the cement and concrete that the building industry needs, it is necessary to extract raw materials from the earth. In order to minimise the impact its activities have on the environment and create a sustainable business, Lafarge has put in place principles and best practices across its integrated supply chain.

By focusing on re-use, recycling and reducing emissions in every stage, from initial planning of a quarry, to final restoration of the land, Lafarge is maintaining a sound business whilst respecting the environment and supporting local communities.

Lafarge continues to be heavily involved in restoration projects such as the newly completed Chalk Grassland project in Kent which has restored 40 hectares of grassland for sheep grazing. It is also in partnership with the RSPB on a prospective project at the Dunbar Works in Scotland, where the quarry site is being transformed into a nature reserve.

1. State the three main sectors of industry and give one example of each from the case study. (2 marks)
2. Describe two ways in which Lafarge is acting sustainably. (4 marks)
3. Analyse how Lafarge uses its supply chain to help add value. (6 marks)
4. Evaluate the extent to which Lafarge’s investment in researching and developing sustainable practices benefits the business, its customers and society. (8 marks)

## Using skills to respond to the external environment



### Introduction

Businesses do not operate in isolation. They are constantly faced with internal and external factors that impact on the dynamics of their operations. Monitoring the external environment is vital to identify changes that could affect the business operations. Being able to address and adapt to these changes ensures the longer term survival of the business.

Logica is an innovative IT services organisation that brings people, business and technologies together. Logica employs more than 41,000 people and has clients around the world in a variety of industries including automotive, oil and gas and manufacturing. Logica's services aim to add value for clients through, for example, improving efficiency and productivity or reducing waste.



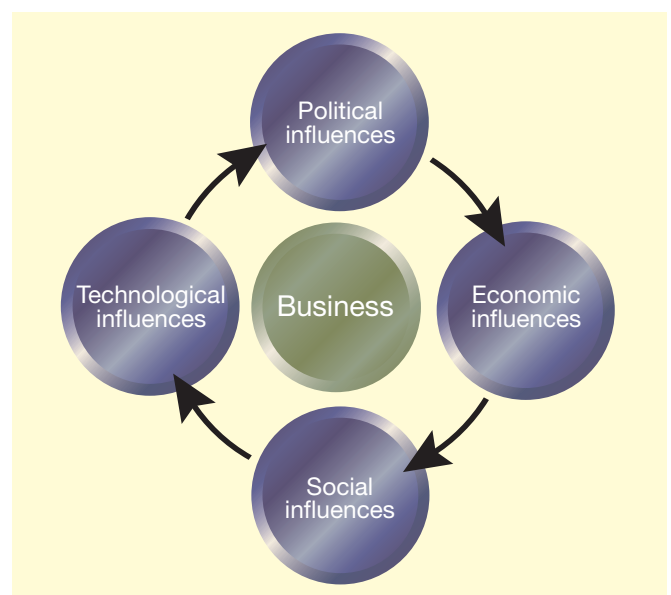
This case study illustrates how Logica monitors its external environment using PEST analysis. This is a structured business tool that looks at the political, economic, social and technological influences affecting a business. By auditing and monitoring these influences, Logica can be proactive in ensuring it remains competitive by adapting its own business and by generating innovative and unique solutions for its clients.

For businesses to stay ahead of their competitors, they have to deliver innovative products and services. Logica works with customers to aid business development.

For example, Logica has provided:

- the automated ticketing system for London Underground
- the outsourcing of IT and technical applications for Taylor Wimpey, the UK house building business
- business applications for the Ministry of Justice's Courts, Tribunals and offices
- the design of electronic security services for the UK's Department of Defence
- the system for generating Premium Bonds (ERNIE).

Logica therefore requires highly skilled employees who are able to adapt and deal with a range of challenges. The work of Logica is not just about developing technology. It is about getting business benefits from the technology available. It is also about enabling clients to reduce environmental impacts. Logica's experts increasingly provide sustainable and long-term solutions for its customers. For example, it works with governments and automotive companies to develop and promote sustainable methods of transport.





## Political factors

Business decisions may be influenced by political factors. For example, recent public sector budget cuts by the UK government and increased university fees are affecting the education sector. For students this has meant making key decisions about how they intend to pursue their careers. This in turn has meant that academic providers need to review how they will meet the challenges of generating income.

Logica identified that these changes in the educational landscape could have an impact on the number of potential employees with the skills and competencies that it requires. For example, it had to consider the affordability of higher education for students and how this could influence long-term development opportunities within the company. The increasing cost of becoming a student may restrict the social mobility of talented individuals and they may then need to consider alternative routes to gaining qualifications and experience.

Logica has therefore reviewed its workforce planning. It has now engaged in strategies to ensure it has enough workers with the right skills both now and in the future. To address the changes in the educational landscape, Logica has introduced apprenticeships and enhanced its graduate scheme. Logica has embraced the strategy of direct training as it provides the company with a new pool of talent, with the focus on individuals who have decided to specialise in IT or Computer Science. This is why Logica has embarked on creating Level 3 Apprenticeships in 2012. This widens the range of talented young people that Logica needs and supports the organisation's long-term commitment to career development of its employees.

Also, in 2007 Logica launched a three-year sponsored degree programme with the University of Winchester. The degree programmes BA (Hons) Business Management and BA (Hons) Business Management with IT attract applications from students throughout the UK. These degrees allow students to combine academic study with on-the-job learning. Students spend one day a week studying on campus and four days a week working at Logica. Logica pays the course fees as well as offering students an attractive salary from day one. Upon graduation they can further develop their professional career within Logica.

As part of its sustainable focus, Logica has also responded quickly to government initiatives on climate change and reducing emissions. For example, it has been involved in the government's new Cycle Hire Scheme in London. It secured the contract for the major IT components with Serco, the contractor responsible for designing, building and operating the system. Logica's role is central and focuses on the design and build of the simple-to-use payment system. This is supported by a back office function.

## Economic factors

Economic factors change rapidly and are sometimes difficult to predict. The global economic recession has affected how most firms conduct business, perhaps by looking for cost-savings or reducing waste. As businesses focus on areas where efficiencies can be made, some might choose to outsource functions to reduce costs, rather than employing people with specialist skills. This has created increased demand for outsourced services such as those Logica offers. Logica's employees have the specialist IT skills required to offer businesses of all types efficient and effective ways to manage systems and processes.





Logica was selected by BAE Systems, the global defence and security company, to provide a Human Resources outsourcing service for its employees within the UK. Logica works with BAE to increase the effectiveness of its systems and to enhance the efficiency of its operations. This improves how BAE engages with its employees to maximise their potential. This also helps BAE to reduce its costs and focus on growth.

The recession in the UK has also heightened the need for the government to cut spending. One example of this is the government's commitment to achieving savings through the better use of its technologies. As a result Logica has been awarded a 10-year outsourcing contract with the Serious Organised Crime Agency. During this contract Logica will manage the Agency's information and communication technologies and related services. This creates efficiencies by bringing together data centres and networks, whilst helping the Agency to exploit intelligence and case management more effectively through an integrated system.

Similarly, Logica's services have helped Transport Scotland to put together the largest ticketing scheme in the world. This has involved the installation of new electronic ticket machines on 7,000 buses and 200 bus operator sites. The system processes over 12 million journeys every month and delivers cost-savings in terms of employee time.

## Social factors

Social factors reflect the constant change in society's interests, beliefs and actions. There are now different working patterns available which allow men and women to balance work and life commitments better. New technology is driving faster and more integrated forms of communication - 25 years ago the mobile phone was just an evolving concept; the personal computer and internet were just starting to make an impact.

The make-up of society is also changing. The UK has an older and more diverse society with people from many different backgrounds and cultures. A diverse workforce brings together people with different skills and competencies. Diversity is therefore a focus of Logica's HR strategy. Logica competes with many other firms for a limited pool of highly talented individuals with good IT and numerical skills. To increase this pool of talent, Logica aims to increase the number of females in its workforce. Within the IT industry, females only account for an average of 16% of the graduates in Computer Science/IT.

Logica understands that increasing the number of females in its workforce will bring different strengths. Logica has been heavily involved in driving equality within the workplace. It has supported the Women's Empowerment Principles (WEPs). This is a partnership initiative of the United Nations. It has joined 267 nations across the world in order to improve gender equality. This has helped to empower women within the workplace and the community. To do this they have created a Women's Mentoring Programme aimed at supporting women in their career development. This will ensure that more women rise through the ranks into positions of senior management.

Another way that Logica is addressing this issue is by supporting IT clubs in local schools near Logica's offices across the UK. These clubs promote the importance of IT and demonstrate the variety of exciting career opportunities available within the industry, particularly for young women.

By offering a range of different routes into the business and making education more affordable, Logica is able to provide an exciting and desirable option for career development.





## Technological factors

The speed of technological advances means that existing electronic equipment, IT processes and systems will quickly become dated. To remain competitive a business must ensure that its processes and systems support innovation and creativity for itself and its customers. Logica has embraced recent advances in technology to offer its clients the most advanced and sustainable services possible. An example of this is the use of 'cloud' technology. Cloud technology allows companies to access and buy into data storage or software 'on demand' through the internet. It enables companies to access a shared infrastructure. This eliminates the need for firms to buy software for every staff member or support a server to store company data and pay for staff to maintain it. This in turn reduces waste in terms of both time and money and can help a business to become more competitive by unlocking capital. This capital can then be invested in other areas.

Logica has also worked with the UK police force to develop the Police National Database. This is the most secure national police system developed to date and only authorised and vetted users will have access to the system. It will make a big difference to policing in the UK as all police forces will now have easy access to key information from forces around the country. The system will make a real difference in protecting people in society.

Technology can also help businesses to meet the issues of sustainability. Sustainability is now a high priority and businesses are keen to reduce waste and be more energy-efficient. Using more efficient IT systems can help reduce waste, recycle more or cut carbon emissions. For example Logica has created innovative software for Ford which monitors vehicle emissions. If drivers behave in an environmentally efficient way, they may benefit from fuel discounts. Systems like this help businesses save money through reduced fuel consumption whilst also reducing emissions.

Logica's technology supports its clients in many ways but to do this it needs to be able to offer a dynamic and innovative working environment for its highly skilled employees from diverse backgrounds. Logica's people are key to the technologies that it provides, as employees need to have both the IT skills and an innovative mindset. As an example, graduates within the business may be involved in any part of the organisation, from business consultancy, systems design and development and implementation, to testing the support of new technologies, training or applications management.

## Conclusion

The external environment in which businesses operate changes very quickly. Political, economic, social and technological changes all put pressure on organisations. Logica is a global business that provides innovative solutions in data and systems management for its clients, helping their organisations to respond to external factors. The nature of the work that Logica can offer an employee is both challenging and stimulating.

By monitoring and auditing its own external environment, Logica has also been able to adapt its business to maximise efficiency and exploit opportunities. This has been done through adjusting its service offering to utilise advancements in technology and drive improvements to IT services for clients.

In addition, Logica has been proactive in dealing with the political and social influences that have affected the educational landscape. It now offers a variety of entry routes into the business, such as apprenticeships, sponsored degrees and graduate programmes. The business has created long-term career development opportunities for young people. Logica is also actively addressing the shortage of females within IT. 28% of its recent intake of graduates were female. This is a significant improvement on the industry average of just 16%. Logica hopes to increase this further through its IT clubs in schools, which further promote the exciting and varied career opportunities available within the industry.

1. Describe the four elements of a PEST analysis. (2 marks)
2. Give four examples of other external factors not featured in the case study. (4 marks)
3. Analyse how social influences have changed the attitudes and approaches of employers towards employees. (6 marks)
4. Evaluate how the external environment influences the decisions that businesses make. (8 marks)



## Creating Shared Value in the supply chain



### Introduction

Nestlé is the world's leading nutrition, health and wellness company. It employs around 330,000 people and has 461 factories in 83 countries around the world; almost half of these are in developing countries. In the UK, Nestlé employs more than 7,000 people across 19 sites. The company is one of the UK and Ireland's major exporters, exporting over £300 million worth of products every year to over 50 countries around the world.

Nestlé is a household name within the UK, producing some of Britain's most popular brands such as KIT KAT®, NESCAFÉ®, SMARTIES®, GO CAT® and SHREDDIES®. Over one billion KIT KATs are produced in the UK every year.

Nestlé has a series of corporate business principles designed to guide the way in which the organisation and its employees operate. These principles are at the basis of Nestlé's culture and aim to protect the trust of its consumers and other stakeholders. The principles and their associated policies are concerned with activities related to:

- consumers
- human rights and labour practices
- employees
- suppliers and customers
- the environment.



Nestlé works within the secondary sector of industry, creating and supplying products to customers. It converts raw materials into finished goods for consumers to enjoy. Raw materials used in many of Nestlé's products are sourced from the primary sector. For example, Nestlé brands such as KIT KAT, AERO® and SMARTIES contain cocoa sourced from cocoa farmers around the world.

Nestlé works with cocoa farmers in order to help them run profitable farms and eliminate child labour, whilst developing a sustainable supply of cocoa for Nestlé products.

This case study looks at the importance of applying the principles of corporate social responsibility to a business' activities. It will demonstrate how Nestlé creates shared value within its cocoa supply chain to enhance the lives of cocoa farmers whilst also improving the quality of its products for consumers.

### Corporate Social Responsibility

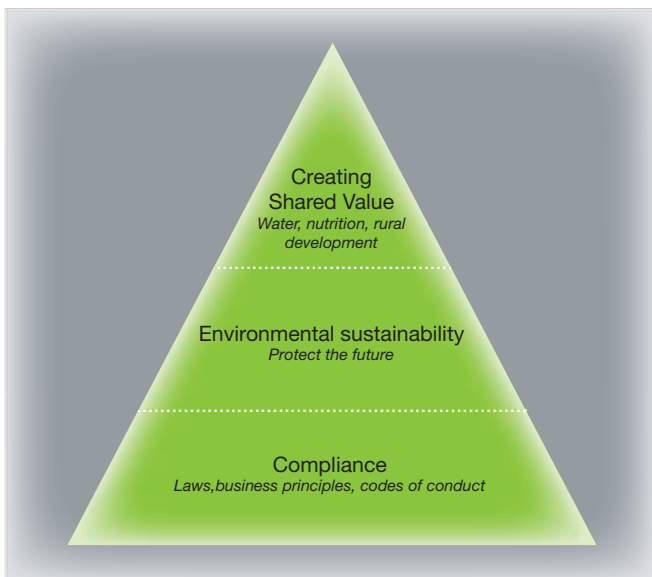
In Business Studies curriculum terms, Corporate Social Responsibility (CSR) involves the business taking a broad view of its activities, looking beyond profits for shareholders and focusing on other stakeholders. A stakeholder is anyone that has an interest in or may affect the decisions and actions of a business. Stakeholders can be internal or external to the business. Internal stakeholders include employees and shareholders. External stakeholders include suppliers, customers, the communities in which the business operates and the environment.

For companies like Nestlé, which work with suppliers from a range of countries, many in poorer regions of the world, it is becoming increasingly important to take a wider view of its responsibilities. Nestlé believes for a company to be successful in the long term and create value for its shareholders, it must also create value for society. It calls this *Creating Shared Value*.



Creating Shared Value has become an integral part of the way in which Nestlé does business. It is based on compliance with international laws and codes of conduct, the company's business principles and a focus on environmental sustainability. However, Creating Shared Value goes beyond compliance and sustainability. It aims to create new and greater value for society and shareholders in the areas where the company can have the biggest impact – nutrition, water and rural development. These are core to its business activities and vital for its value chain:

- Water: because the ongoing quality and availability of it is critical to life, to the production of food and to Nestlé's operations.
- Rural development: because the overall well-being of farmers, rural communities, workers and small businesses and suppliers is intrinsic to the long-term success of Nestlé's business.
- Nutrition: because food and nutrition are the basis of health and of Nestlé's business as the leading Nutrition, Health and Wellness company.



Nestlé actively seeks engagement and partnerships with external stakeholders to optimise positive impact. It aims to use the power of its core activities and partnerships for the joint benefit of the people in the countries where it operates and of its shareholders.

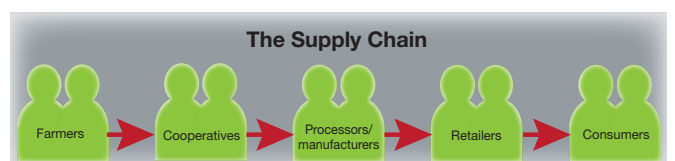
Global principles and goals set by organisations such as the United Nations also help to shape a company's approach to corporate social responsibility. For example, Nestlé's Corporate Business Principles incorporate the 10 United Nations Global Compact Principles on Human Rights, Labour, the Environment and Corruption. Nestlé is an active member of several of the Compact's Working Groups and Initiatives.



## Creating Shared Value along the supply chain – The Nestlé Cocoa Plan

Supply chain activities transform natural resources and raw materials into finished products which are delivered to the end consumer. Each stage of the process adds value to the overall end product.

Nestlé operates within complex supply chains. Its cocoa supply chain goes from cocoa bean to chocolate bar. This path starts with cocoa from *farmers*, who grow the crops; to *cooperatives*, which manage the sale of the crops; to *processors and manufacturers*, such as Nestlé which create chocolate products; to *retailers* such as supermarkets; and finally to *consumers* who purchase the products.





Nestlé sources materials from thousands of farms, many of them small farmers in poorer rural regions of the world. In many rural communities, a lack of investment in infrastructure has a serious impact on the quality and quantity of raw materials that Nestlé and other companies rely on. Nestlé provides training in order to encourage sustainable production, protect the supply and quality of its raw materials and have a positive, long-term impact on the local economy and farmers' standards of living.

Around two-thirds of Nestlé's worldwide expenditure is on raw materials. Nearly 40% of this goes on three main ingredients: milk, coffee and cocoa. Cocoa is the main ingredient in chocolate and as such is vital to Nestlé. It comes from cocoa beans that grow in a pod on a cocoa tree.

The Nestlé Cocoa Plan was launched in October 2009 in the Côte d'Ivoire, Africa. It is a prime example of Nestlé's Creating Shared Value approach to business and involves investment of £67 million between 2010 and 2020, building on £37 million in the 15 years before the plan. The initiative aims to help cocoa farmers to run profitable farms, respect the environment, have a good quality of life and give their children a better education.



However, it also aims to ensure a sustainable and high quality supply of cocoa for Nestlé in the long-term. Some of the areas it focuses on to achieve this are improved farmer training, buying from cooperatives and paying a premium, and working with certification programmes such as Fairtrade. This creates value through the supply chain, particularly for farmers and their families along the way.

The Cocoa Plan has become a key way in which Nestlé is tackling issues facing cocoa farmers as well as their families and communities. Nestlé sources most of its cocoa production from Côte d'Ivoire. Both the quality and quantity of cocoa supplies are in decline. The average cocoa farmer is over 55 years old and so the industry needs to consider where the next generation of cocoa farmers will come from. Many younger people in the region are leaving the countryside to work in cities. As a result there is a shortage of labour and skills. Ultimately, the aim is to raise the standard of living of cocoa farmers to ensure a new generation of cocoa farmers will take over and benefit.

## Benefits of responsible behaviour

The Cocoa Plan is a clear example of Nestlé Creating Shared Value both for the company and for cocoa farmers, their families and their local communities. Through it, Nestlé benefits from ensuring the supply of high-quality and sustainably sourced cocoa for its products. It also ensures it supports the cocoa farming community's development and meets certified ethical and environmental standards.

Nestlé's focus on improving supply has delivered benefits in many areas:

- a) *Investing in plant research* - By developing higher quality seedlings which produce typically 50%–200% more cocoa, this enables cocoa farmers to grow more and sustain a higher income. Nestlé has set up a Research and Development Centre in Abidjan in the Côte d'Ivoire to support the development of higher-yielding, disease-tolerant cocoa plantlets.
- b) *Investing in training farmers* – Training farmers to understand better crop management techniques and pest management, as well as improving their awareness of child labour issues helps to improve outputs and boosts farmers' incomes.
- c) *Improving social conditions* – Nestlé has set up a partnership with the World Cocoa Foundation to build and repair schools within the cocoa farming regions and support cocoa farmers and their families. This will mean that attending school will become a more attractive and viable option for parents and children and that the risk of child labour will be reduced.
- d) *The Fairtrade and UTZ labels* – Crops are certificated under the Fairtrade label. Nestlé pays a premium for its cocoa beans, which

improves the growers' levels of income and helps to secure the future growth of communities. Nestlé is also the first food company to join the Fair Labor Association (FLA) and has its work in Côte d'Ivoire assessed openly and independently.

The Cocoa Plan is an evolving and growing programme. Each year more cooperatives of farmers are being added to the plan. The plan has also been extended to other countries such as Indonesia, Ghana, Venezuela and Ecuador.

## Communicating with stakeholders

Effective communication with stakeholders is also an important element of responsible business behaviour. For Nestlé, engaging with stakeholders underpins Creating Shared Value. It enables it to identify emerging issues, shape its responses and continue to drive improvements in its performance. Topics raised by stakeholders are discussed with them in a variety of local and international forums. These include: nutrition, health and wellness; education and access; Nestlé's role in public policy issues; auditing and disclosure of infant formula marketing practices; and food safety.



Nestlé engages with stakeholders through a variety of ways. For example:

- Through Nestlé's annual reports and *Creating Shared Value* reports, stakeholders can see where funds are invested, how the company is addressing issues such as environmental performance and the positive impact of Creating Shared Value activities.

- Stakeholder convenings, held in various countries where Nestlé has operations, communicate its approach and invite feedback on its Creating Shared Value efforts.
- The Nestlé Supplier Code establishes the minimum standards that its suppliers, their employees, agents and subcontractors need to meet. This demonstrates how Nestlé is committed to developing responsible practices right through its supply chain.
- The Nestlé corporate website contains information on all company policies, principles and activities.
- There are dedicated websites to key projects such as the Cocoa Plan. These sites bring together all the detail of the initiative in an easy-to-read and understandable way.
- This case study aims to help to reveal to young people the complexities of global supply chains and how companies such as Nestlé respond to these issues.

The Cocoa Plan has led to numerous partnerships with other organisations such as the Fair Labor Association and the Red Cross/Red Crescent societies. These relationships help Nestlé to fight illegal labour practices. Nestlé also has partnerships with supply chain organisations and governments which support good agricultural practices. These practices have created benefits for stakeholders across the industry, including consumers, shareholders, farmers and other partners. For example, one partnering initiative with the Co-operative Group is paying for educational packs for schools in the Côte d'Ivoire region.

## Conclusion

Creating Shared Value has enabled Nestlé to adopt a wider focus to its responsibilities. In doing so, it has been able to bring about a whole series of benefits to stakeholders, whether they are farmers and their communities, shareholders or consumers.

The Cocoa Plan is Nestlé's way of dealing with issues facing cocoa farmers and their communities. This is a long-term process that has created better outcomes for all involved in the cocoa industry. It has enabled Nestlé to support local communities as well as improving both the quality and output of cocoa.

1. Describe what is meant by the supply chain. (2 marks)
2. Explain the difference between primary and secondary industries. (4 marks)
3. Using examples from the case study, analyse how Nestlé's Creating Shared Value contributes to its corporate social responsibility activities. (6 marks)
4. Evaluate how the values of an organisation can be used to benefit the different groups of stakeholders. (8 marks)

# Managing change through training and development



## Introduction

Britain relies on rail. The railway is a vital part of Britain's economy and infrastructure. More people travel by rail now than since the 1920s, even though there are 50% fewer rail routes now than in the 1960s. Every day Network Rail gets three million people to their destinations. It also moves thousands of tonnes of goods around Britain. Rail is a greener and safer mode of transport than car so it is no surprise that passenger numbers have increased by more than 40% in the past ten years. These numbers are expected to double by 2034.

Network Rail is the business responsible for the tracks, bridges and tunnels that make up the British rail network. These, along with signalling and level crossings, form the railway's infrastructure. Its responsibility extends to 20,000 miles of track and 40,000 bridges and tunnels. It also runs 18 of Britain's major rail stations, from Edinburgh Waverley to London King's Cross. Network Rail's job is to keep all of these services running both efficiently and above all safely. Its mission is *'to provide a safe, reliable and efficient railway fit for the 21st century.'*



Network Rail faced huge challenges when it took on these responsibilities ten years ago. At the time, the rail network faced a number of problems. Trains were late, costs were high and there had been a lack of investment in both people and equipment. These issues meant that there was low public confidence in the rail network.

Since then, Network Rail has focused on a sustained programme to bring down costs. New ways of working have reduced costs by 28%, largely due to economies of scale. Track and equipment has been renewed and punctuality has risen to over 90%. Major projects have been delivered on time and to budget, leading to more public confidence in the service. Network Rail has changed its focus to 'predict and prevent' rather than the previous 'find and fix'. This is both more cost-effective and efficient and helps to avoid delay or disruption to journeys for passengers. Between 2009 and 2014, Network Rail will have invested around £12 billion in the rail network. Britain now has the fastest growing network in Europe. This case study examines the role of people in improving the rail network and the British economy.

## HR strategy

Network Rail invests in people and, in so doing, invests in its future. It is one of Britain's biggest employers, with 35,000 employees. It offers a broad range of roles, from maintenance and signalling engineers to project managers. There are opportunities in all functional areas. These include specialists in human resources (HR), information technology (IT), finance and customer service. To achieve its work programme Network Rail needs to recruit and retain talented engineers. Its engineers are currently working on some of the most exciting projects in Europe. These include HS2, the new high-speed rail link between the north and south of Britain, and the London Crossrail project. There are also major upgrades to some of the country's biggest and busiest stations, like London King's Cross and Birmingham New Street.



Network Rail's vision is to improve the rail network by providing faster and more reliable journeys. Network Rail's HR strategy focus is on recruiting a diverse workforce. This not only gives depth to the culture of the business but also ensures that it can access the widest pool of talent. To make sure it has a continuous stream of the right talent to keep its long-term projects on-track, it offers training to suit all applicants, whether school leavers or graduates, male or female. The company also offers a range of opportunities for employees to acquire recognised qualifications, including a unique postgraduate programme, sponsoring a Master's degree in project management, and apprenticeships. In addition, it provides development opportunities for employees to make sure that their knowledge and skills meet its world-class standards. Many of Network Rail's current senior engineers and managers started their careers through these programmes.



## Training

To maintain the quality of staff, Network Rail has put major investment into improving the knowledge and skills of its workforce. It operates a 'learning for life' policy and staff are expected to continue learning throughout their careers. Training is usually defined as being job-related. It provides staff with new or improved skills so that they can carry out a role or task better. Training staff brings a number of benefits to a business. It makes staff more efficient and therefore they produce more output. At the same time it improves safety and reduces the risk of accidents. Workers become more flexible, allowing the business to use them in whatever areas they are needed. This can also help to improve motivation. The provision of good training has led both to higher quality applicants and to better customer satisfaction.



The UK is currently facing a shortage of young people with skills in technology and engineering. This is partly due to fewer young people taking qualifications in science and maths in further and higher education. Network Rail has recognised that it needs to fill this gap. It has therefore put in place high quality training to make sure that it has people with the right skills it requires in the future. There are two main types of training – 'on-the-job', which is training based in the workplace, and 'off-the-job' which is based at a college or other learning centre. Network Rail has developed many such centres to fulfil its specific needs. It currently has 26 modern training centres across Britain. It has invested £23 million in four new state-of-the-art workforce development centres (WDCs) in Scotland, Kent, Bristol and Walsall.

These allow it to train up to 100 frontline engineering and maintenance people at once. Examples of off-the-job training at the Walsall centre include practical training on a purpose-built 60 metre stretch of internal track with signalling and 150 metres of outdoor track. Trainees learn how to practise procedures in controlled environments that they can then use when they return to the British Rail network. On-the-job training includes trainees accompanying mentors, for instance, when fixing signalling issues, and learning hands-on how to maintain the network effectively.



The Advanced Apprenticeship Scheme is a three-year programme, designed for young people aged over 17 with at least 4 GCSEs. Both boys and girls are encouraged to apply. This is the largest scheme of its type in Britain and allows young people to earn while they learn. Apprentices spend a year training with the Royal Navy at Europe's largest engineering training facility at HMS Sultan in Hampshire. Here they learn both technical and leadership skills. A further two years are spent in on-the-job training around Britain, returning to HMS Sultan for additional courses and learning. At Network Rail's own training centres a mixture of classroom learning and job-related experience is given.



Network Rail uses its own expert engineers as trainers. This means that apprentices gain knowledge from people with direct experience of rail issues and projects. By the end of the apprenticeship, young people have the knowledge, qualifications and experience to become engineers in a number of rail-related areas. These include track, signals, electrification and overhead lines. In addition to being paid, apprentices are given accommodation whilst training, subsidised rail travel and generous annual leave.

The Graduate Programme helps Network Rail to build the leaders of the future. Graduates control the pace and content of their work so that they can progress at their own rate. They gain key experience on a range of placements and receive regular reviews of their progress and performance. There are opportunities in all engineering disciplines (civil, mechanical and electrical). Trainees work on some of the biggest engineering projects in Europe and get involved in management and decision-making roles in all functional areas.

## Development

Once trained, Network Rail makes sure that its employees have access to development opportunities. Development is about enhancing relevant skills, qualities and knowledge to give a person greater competency. People who take development opportunities can move into more challenging, higher level roles. However, there is the risk that a person who has better skills can more easily find another job elsewhere. Network Rail recognises this risk, but knows that it is balanced by the excellent opportunities and conditions that it offers. The development programmes that it runs lead to further nationally recognised qualifications ranging from NVQs and HNCs through to degrees and diplomas. These are all backed by a university, college or professional body as appropriate.



Network Rail also offers employees the chance to take part in its own leadership programme. This is designed to develop employees so that they can take on managerial roles. It is held at the Westwood Leadership Development Centre in Coventry, in partnership with the University of Warwick and is available to employees at all levels of the business. Every year thousands of Network Rail staff benefit from this course. They develop the skills and strategic knowledge to help the company deliver its challenging goals and targets.



## Careers at Network Rail

There are career opportunities at all levels within Network Rail, within all the main functional areas. This means not just opportunities in engineering, but also in many other disciplines. All of the jobs benefit from Network Rail's commitment to excellence through its training and development programmes.

Bill is a track maintenance operative. This job is vital to ensure the safety of the public. Bill works to stringent safety guidelines and is committed to carrying out reliable, faultless work. Network Rail has its own in-house maintenance team and provides them with protective clothing and, of course, training. Track maintenance operatives work carefully to maintain safely all the signal, track, power and telecoms equipment across 20,000 miles of track in Britain.

*'This is a mostly outdoors role; I use both automated and manual tools to carry out general maintenance on the track. This can include anything from lookout duties for the team to highly complex work'.*

**Bill**

Cho is a signaller. She operates the signals and points that help make sure trains run safely and on time. Cho needs to be able to make decisions quickly and calmly. Signallers are responsible for maintaining Network Rail's high standards with calm and methodical decision-making. Skills required for this job include being able to take the lead, being assertive and being in command of many different situations. Good communication skills are therefore vital.

Katie is a project management assistant. She provides support to the whole team for the day-to-day management of a wide variety of projects. These must run to time and within cost budgets. To maintain quality across projects requires a highly organised and flexible person. Katie's duties include working with both paper and people. She:

- monitors progress and produces programme reports
- develops effective ways to manage change
- deals with internal and external customers and stakeholders.

## Conclusion

From a position where public confidence was low, Network Rail has improved rail efficiency and customer satisfaction. Whilst keeping safety as its central focus, it has also invested in the future. Network Rail has dramatically increased the punctuality of its services and aims to continue to improve on this success. Part of this is due to Network Rail's vision and values, which have been used to underpin its training programme. High quality training, from apprenticeships to Master's level, makes sure that the business has the best engineers and the best leaders. Its investment in the future is tied up in its investment in people. It recruits and retains the best people for a wide range of jobs and roles. It is able to go forward with some of the most challenging, but also the most exciting engineering projects in Europe.



1. Describe how Network Rail influences Britain's economy. (2 marks)
2. Explain the similarities and differences between training and development. (4 marks)
3. Analyse the benefits of Network Rail's Advanced Apprenticeship scheme as a means of developing new recruits. (6 marks)
4. Evaluate the various methods that Network Rail uses to train and develop its employees. Which do you think are most effective? Explain your answer. (8 marks)

Exam-style questions



# The importance of sustainable purchasing and supply

OPERATIONS



## Introduction

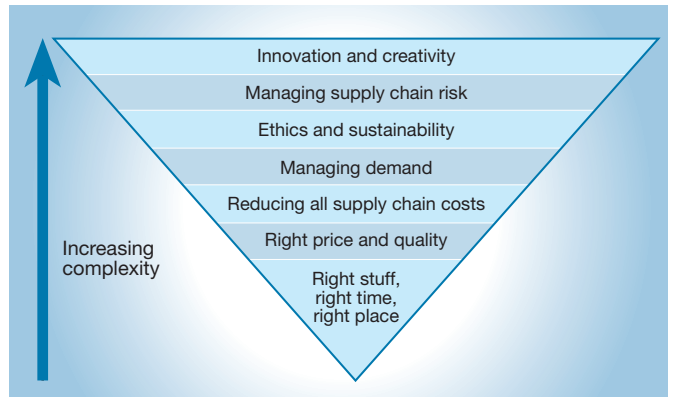
What would happen if Christmas trees were not available until Easter? How would you feel if you tried to buy a coffee at your favourite high street café only to be told they had run out of coffee beans? Making sure the key components that a business or service relies on are available when needed is the responsibility of the purchasing role.

Purchasing and supply – also known as procurement - may appear to be a ‘hidden’ function in many organisations. In fact, procurement is a highly strategic role, whether the organisation is manufacturing or service-orientated, in the public or private sector, for profit or not. Procurement is complex. It covers the full supply chain from contracts (negotiating), procurement (purchasing) and logistics (storage/distribution).

All businesses need inputs in order to be able to operate. These might be physical inputs, such as raw materials, like engine components for a car manufacturer. They may also be service based, such as specialist engineering consultancy when trialling new technology or distribution services for a high street retailer. It is vital that inputs not only meet the required quality and reliability standards, but also that they are competitively priced.



Purchasing and supply focuses on sourcing, pricing and buying the right things, at the right price and at the right time in order to deliver a service or product. Effective purchasing can help an organisation to reduce costs, maintain quality and manage the levels of risk to its supply chain. The scale or importance of the item is relative to the level of risk to the business. Missing coffee beans will affect the day’s profits; getting the wrong size of engine for a car could close down the production line.



For the oil and gas industry with its high levels of risk, the Chartered Institute of Purchasing & Supply (CIPS) is providing training to improve the efficiency and effectiveness of purchasing and supply. OPITO, the focal point for skills, learning and development in the oil and gas industry, undertook a labour market survey of the industry which identified a sector-wide skills shortage. Oil & Gas UK then undertook a supply chain survey. This showed that there is both a current shortage and a likely future need for purchasing and supply chain specialists for the oil and gas industry.

CIPS and OPITO are therefore working together to promote career opportunities and develop specialised training to meet this need. This case study explores the role of purchasing and supply in the oil and gas industry.



## The purchasing and supply role

Every business, from an NHS hospital to the biggest brands in the world such as Coca-Cola or McDonalds, needs supplies. Purchasing may involve the day-to-day necessities like photocopier paper, soap and towels for wash rooms or service support for IT equipment. However, the purchasing role also covers high-tech or large scale equipment for major projects such as the building of an aircraft carrier or the Olympic stadium, as well as the skills required to operate it.

Purchasing and supply roles therefore require high levels of skill. CIPS is the professional body which aims to promote the highest standards of excellence in purchasing and supply management across all industries. It provides these through its professional qualifications programme, focused training and education and by rigorous assessment procedures.

Those involved in purchasing and supply are in a position to consider every stage of a business' processes, from raw materials to waste management. This 'helicopter view' can help a procurement manager to spot ways of making efficiencies or opportunities to improve the quality of products or services bought. They can see not just internal impacts, but also what is happening in the external environment and the marketplace. This can help to generate new ideas to add value to the business, identify how it can increase competitive advantage or improve sustainability.

An example of how vital the role is occurred when BP needed to manage the supply chain of emergency goods following the Deepwater Horizon oil spill in the Gulf of Mexico in 2010. The supply chain team had to source everything from mealworms to feed wounded birds, to booms to prevent the oil spreading further, to dispersant materials to remove the oil. The challenges included finding sufficiently large quantities available quickly as well as trying to keep budgets under control.

Procurement managers are also involved in researching suppliers in new markets and developing new and innovative procurement methods to improve effectiveness. They also agree and manage service level agreements (SLAs). An SLA is a contract that specifies standards, timings and payments for the supply along with penalties for missing targets. It sets out the responsibilities and expectations for both the business (the buyer) and its suppliers. A key element of the SLA is ensuring that the price quoted by suppliers will not be subject to change, thus affecting the purchasing budget.

Longer term purchaser and supplier relationships can provide stability and add value to both parties. The purchaser may be able to get the best possible terms and prices or a supplier may 'go the extra mile' for the business in an urgent situation. This type of collaboration builds trust between buyer and supplier, which might enable a just-in-time relationship, where both parties hold minimum stock and so reduce costs.

## Purchasing and supply in oil and gas

The oil and gas industry is divided into the 'upstream' and 'downstream' operations. Upstream involves exploring for oil and gas and extracting it safely. The downstream part of the industry is concerned with refining, distribution and sales. The oil and gas industry has very long supply chains. Many companies may be involved in supplying the materials, components and services at different stages and across the various processes involved in extracting, refining and distributing oil and gas. Procurement becomes even more important in this type of global operation. A company such as BP sources services and supplies from many different countries. These include mechanical and electrical parts, professional services such as project management or legal expertise for drawing up contracts.

Reliability is a crucial factor in supply, both of quality and timing. If supplies are of poor quality, delivered late or cost more than was agreed, this will affect productivity and profitability. If production is delayed or faulty products need to be scrapped, this can reduce profits. Poor quality inputs could also affect the safety of the process – a major consideration in the oil and gas industry.

For example, to help improve safety and quality of supply, BP is introducing safety performance indicators into contracts of suppliers involved in high risk activities. Suppliers who do not meet these standards may be removed from contracts. As part of this safety focus, BP is also planning to reduce use of agency staff in procurement roles and boost its in-house expertise in supply chain management.

An important decision for many businesses is whether to carry out a particular part of its process itself ('make') or buy in the components or expertise it needs. This decision might depend on, for example, whether the skills and capacity are available in-house; whether there is a need for high security of supply; or whether it is simply cheaper to outsource. For example, an oil company could choose to rent or own an oil platform. If it rents, its costs are limited to the rental period, with repairs and maintenance the responsibility of the owner. Buying outright might cost more initially but the company has the benefit of the asset. However, it also has the issues and costs of maintenance and ultimately, disposal. Purchasing managers work with operational managers to consider these issues and find the most cost-effective and efficient solution for the business.

## Sustainable procurement

Other key factors to consider when choosing a supplier include their ability to respond quickly to changing customer needs and how well they can help towards meeting a business' sustainability goals. CIPS offers a structured online audit process to help purchasing managers map their organisations' purchasing systems against best practice. This enables them to assess how energy efficient and sustainable their purchasing processes are.

Sustainable procurement is a high profile matter for businesses today. It can help to save money, reduce waste, improve competitiveness and build a business' reputation. As part of their sustainability programmes, many oil companies have invested in local transportation networks or built schools. They provide jobs and by sourcing supplies locally help to develop the local economy.

The global oil industry has a responsibility to the countries in which it operates to manage its operations in as sustainable way as possible. A purchasing manager might want to consider whether the supplier behaves responsibly, for example, adhering to ethical standards or sourcing raw materials in an ethical way.



For example, Shell is working with its existing suppliers to implement the Shell Supplier Principles. These set out the minimum standards which Shell suppliers need to meet. These include using energy and natural resources as efficiently as possible to minimise impact on the environment and cover health and safety issues.

Other aspects of sustainable business include managing waste effectively and reducing the company's carbon footprint. This can be improved by choosing suppliers who also take their responsibilities towards environmental impact seriously. For example, Marks & Spencer made £70 million of efficiency savings during 2010/11. Alongside reductions in waste and packaging and increased energy efficiency, the company is working with suppliers to reduce carbon emissions in the supply chain by improving efficiency of deliveries.

## Roles and skills

Although engineering and technical roles are crucial in the oil and gas industry, oil companies also require lawyers, accountants, geologists, electricians, plumbers, crane drivers, mechanics, divers and designers. Roles in purchasing and supply cover all levels, from operational such as buyers and store managers, to strategic such as in supply chain analysis or strategic sourcing, so there are opportunities for everyone.

Entry levels vary. Many people join oil and gas companies after having worked in other industries. Some young people join the industry straight from school; others after a college or university course. For example, Hannah has a degree in mathematics and economics.

*'I wanted a career that would offer variety and challenge. As a purchasing manager I have both. My job has given me a detailed knowledge of different parts of the oil and gas industry, plus a significant amount of responsibility.'*

Graeme is a group procurement and supply chain manager with over 25 years experience in the industry. With an engineering background, he did not originally consider purchasing and supply as a career but got a taste for the challenges of the procurement role when he spent six months in the job as part of his degree.

*'The procurement process in oil and gas is complex, with a key reliance on safety. In addition, some of the materials we use in this industry are highly specialised, which can mean long lead times for purchase. However, the engineers or companies needing the materials expect very quick responses, so management and forecasting to anticipate their needs is highly important.'*

People involved in purchasing need business knowledge and the ability to analyse markets. CIPS provides six levels of qualifications for the procurement and supply profession across the world. All UK qualifications are Ofqual (the Office of Qualifications and Examinations Regulator) accredited and appear on the Register of Regulated Qualifications. Students may start a CIPS qualification with no entry requirements.

Steve is head of global procurement and supply chain management at Prosafe, a leading owner and operator of oil and gas rigs.

*'Procurement is a highly strategic role. The oil and gas industry supports the whole world economy, from the fuel in vehicles to plastic paperclips. My company provides oil companies with accommodation vessels which are like floating hotels. Deliveries might reach a platform only once a week, so every last detail from wi-fi access and toilet paper to all the operational and engineering requirements has to be in place, at the right time, in the right quantity and quality. Young people may not be aware of how interesting it is to work in purchasing and supply chain roles - there is no "standard day". I love it and I believe the job I do makes a difference.'*

Muhib is a procurement specialist at BP. He sources both equipment and services and deals with contracts that range in value from £1 million to £60 million. His role includes careful assessment of the effectiveness of each supplier to ensure BP is getting value for money. This is a large responsibility and it may involve deciding whether or not to change supplier. This is a major decision as it carries potential risk to the company and the continuation of its operations.

*'Purchasing and supply is a powerful and highly responsible role, dealing with high value contracts. The real satisfaction I get is from seeing what I do make a huge difference. I really enjoy my job and see my long term future career in this industry.'*

## Conclusion

Well-managed procurement ensures that supplies of the required quality are available at the right time, place and cost. Supply chain managers help to:

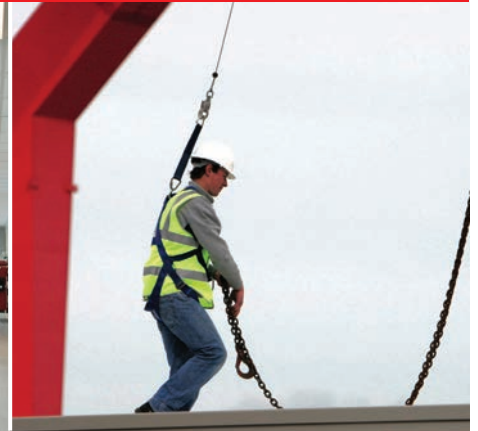
- reduce costs and improve profitability – bulk buying can provide economies of scale
- reduce waste by selecting inputs that generate less waste (and also lower costs)
- manage demand, for example, through just-in-time supply
- improve cash flow by securing favourable prices and payment terms
- improve efficiency by making sure suppliers hit deadlines
- improve the competitiveness of the business by seeking out innovative products and services to add value.

In the oil and gas industry, where safety is a central concern, effective management of purchasing and supply is a vital role. Its procurement managers need to have good people skills, sound common sense, commercial and business skills and the ability to communicate appropriately at all levels. OPITO and CIPS are working together to ensure that the industry has the relevant training and qualifications programmes to meet the long-term needs of the oil and gas industry.



1. Describe what is meant by procurement. (2 marks)
2. Explain the benefits that effective purchasing and supply brings to a business. (4 marks)
3. Analyse why the selection of suppliers is such an important issue in the oil and gas industry. (6 marks)
4. Evaluate the key skills needed by a good procurement manager. Which of these do you think is most important? (8 marks)

## Adding value through health and safety



### Introduction

Adding value to a product involves making it more desirable and better for the final consumer. Ways of adding value to a product or service include improved design and functionality. For many products one of the most important ways of adding value is through health and safety (H&S). This is particularly true in the construction industry where customers, employees and the wider public expect buildings to be safe as well as attractive.

*Portakabin* is part of the Shepherd Group. This is a family company which preserves all the benefits of family values. These benefits include caring for employees, valuing the communities to which it supplies modular buildings, as well as the local community in York where the company is based.

The *Portakabin* brand is the most widely recognised brand in modular construction in the UK. *Portakabin* modular buildings provide high quality working environments for many other businesses and organisations, for example, office buildings and schools through to hospitals and hospitality suites.

Health and safety policies form a key component of the *Portakabin* Corporate Social Responsibility document and are an integral part of the business where it is actively promoted through a diverse working culture. *Portakabin* not only constructs and sells new modular buildings but also hires out buildings, for example, when a school needs interim accommodation quickly. Therefore, health and safety is a key consideration in each of these situations, especially in relation to a safe environment for children to work and play in throughout the school day.

Modular building is at least 37.7% safer than traditional construction methods. Modular buildings are produced in a factory and then assembled at the construction site. The materials are relatively safe to transport. They can be assembled quickly using standard procedures and checks, reducing risk at every stage of

the process. For example, there are 90% fewer vehicle movements to site in modular construction when compared with traditional construction methods.

The overall responsibility for health and safety in a company rests with the Board of Directors. They ensure that effective H&S policies and practices are in place in the company and that they demonstrate a commitment to health and safety being promoted. However, health and safety is also the responsibility of everyone who works for a company. Training is vital to ensure that everyone understands what is expected of them.

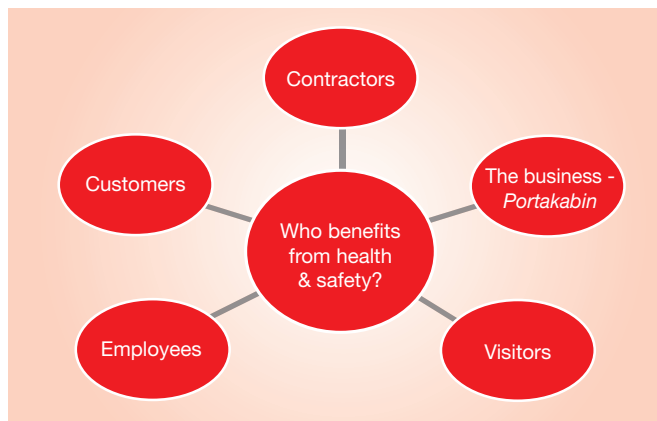
Often the importance of health and safety and how it is achieved can be overlooked when analysing business practices. This case study explains in detail how *Portakabin* implements health and safety policy and highlights the benefits this brings to the business.

### The importance of health and safety at work

Focusing on health and safety protects employees in every activity that they carry out. Health and safety also protects customers and the wider public as well as contractors working for a company. Operating primarily in the European market *Portakabin* needs to take account of both UK and European Union health and safety legislation. The construction industry has its own additional regulations covering aspects of design and management and safe working practices.



As the leading supplier of modular buildings in the UK, *Portakabin* has set itself the goal of being the best company in its industry in relation to health and safety. This includes setting standards for contractors (e.g. transport companies and suppliers of components). *Portakabin* takes its duty of care to employees, customers and visitors very seriously. Strict health and safety policies are in place at all company sites. Proven safety procedures are used when working on customer sites such as safe driving guidelines. These are issued to all employees to create benefits all round.



*Portakabin* has recently achieved OHSAS 18001 certification at its York manufacturing site. This is the internationally recognised British Standard for Occupational Health and Safety Management Systems.

To achieve the certificate *Portakabin* was required to demonstrate that it complied with a specific set of criteria and standards.

## Health and safety legislation

Companies have overall responsibility for the health and safety of their employees and others. The responsibility of the company relates to creating and implementing the overall framework, e.g. policies, procedures and training which creates a good health and safety culture.

However, under the Health and Safety at Work Act 1974, employees also have responsibilities. Employees' responsibilities include:

- to take reasonable care of their own health and safety
- to take reasonable care not to put other people – fellow employees and members of the public – at risk by what they do or do not do in the course of their work
- to cooperate with their employer, making sure they understand and follow the company's health and safety policies.

To carry out risk management effectively a company needs to have an overall safety management system. *Portakabin* has a safety management system that includes the following elements:

- a general statement of intent (commitment to health and safety)
- identification of who is responsible for H&S
- reporting structure (what H&S reports will be produced, by whom and for whom)
- arrangements for H&S (the actual details of H&S practice)
- identification of legal requirements and how these are being met
- objectives and targets (setting the internal standards to be achieved)
- monitoring and measuring (e.g. recording incidents to check objectives are met)
- periodic review for continual improvement (e.g. recording incidents/accidents to check incidents are closed).

Requirement	Portakabin response
Implementation of an occupational health and safety management programme	Documented procedures for consulting and communicating with employees, customers and others about health and safety aspects and issues
Risk policies where risks are regularly assessed and controls are in place to remove or limit risks	Risks and hazards are regularly assessed and controls are put in place to remove or limit hazard exposure therefore reducing the risk factors as far as reasonably practicable. For example, safe work instructions, risk assessments and the requirement to wear PPE such as safety glasses, gloves, helmets and safety clothing when welding or working with chemicals
Guidelines and structures setting out responsibilities for health and safety	Detailed procedures, risk registers that identify significant risk to others and clear operating procedures (e.g. design elements, manufacturing risks for assembly and loading and unloading of the finished building)
Measuring and monitoring of health and safety understanding and performance to ensure continual improvement	Encouragement of reporting of accidents, incidents and near-misses by every employee for assessment, trend analysis and any further corrective action plan



One of the most important parts of the safety management system at *Portakabin* is the identification of where responsibility for H&S lies. *Portakabin* has put in place comprehensive documentation that clearly shows what employees are responsible for:

- Taking care of their own health and safety and that of fellow employees.
- Understanding the health and safety policy and carrying out their work safely.
- Ensuring that all protective equipment is properly used and looked after.
- Reporting any accidents/incidents or near-misses which might lead to injury.
- Using the correct tools and equipment in line with training and instructions.
- Co-operating with any investigation designed to improve health and safety.
- Setting a personal example when visiting the workplace or sites by abiding by local rules and wearing appropriate protective equipment.
- Promoting the company's commitment to H&S at all levels.
- Knowing emergency procedures at the location where working.

Appropriate training is given depending on the individual person's role. For example, a director will have training in legal duties and responsibilities; an operative will have training specific to the role for example, manual handling training. *Portakabin* employs full-time H&S professionals who are qualified at degree or diploma level specifically in health and safety.

## Implementing health and safety

Implementation means putting something into practice. *Portakabin* has a commitment to health and safety which goes beyond simply meeting minimal legal requirements. This is demonstrated through the achievement of the OHSAS 18001 Standard.



a. **Risk policy.** An effective policy should provide clear outlines of where a company and its people stand in relation to a policy area. It should be widely communicated and understood by all. It starts out with a 'statement of intent'. This sets out that *Portakabin* aims to achieve *'the prevention of injury and ill health and the promotion of the health and well-being of all employees'*.

Other aspects of the policy are:

- To achieve continuous improvement of standards by annually reviewing policies, procedures and safe systems of working and setting clear objectives and targets.
- For all employees to take ownership of health and safety. This should be their first consideration in everything they do.
- Having an 'open door' policy to reporting health and safety issues and concerns.
- Encouraging reporting of accident, incident and near-misses.

b. **Risk identification.** Companies assess all health and safety risks which are documented as part of a wider risk register. Safety procedures are then put in place to reduce or limit these risks. The risk register and safety procedures are continually updated.



c. **Training.** H&S training for new employees is initially carried out during an induction programme. This covers all company procedures that directly affect the new employee and establishes a strong health and safety awareness.

Existing employees regularly receive update training. This includes training where:

- there are modifications to new or existing machinery and equipment
- an employee changes job role or position
- people are working with hazardous substances. This is referred to as COSHH (Control of Substances Hazardous to Health) training.

Employees also receive training in handling materials and equipment (set out in Manual Handling Regulations).

d. **Measuring and monitoring.** *Portakabin* regularly carries out checks to make sure that its health and safety practice is continually improving. It has a number of measures in place to record its health and safety performance. These include the analysis of accident reports. The company has an 'aim for zero' approach to accidents. Another key indicator is the number of working days lost. Figures for accidents and working days lost due to accidents are constantly monitored. This makes sure that the company is alert to negative trends and patterns. These are immediately investigated.

## Business benefits of health and safety focus

Careful attention to health and safety adds value to a company and its products. Having a strong health and safety record enhances brand image. It also means that the company is able to deliver the right products at the right time with the minimum of delay and safely. This is vital in the highly competitive construction industry. The overall impact of these benefits is to make *Portakabin* a supplier of choice because it provides the company with a competitive edge over rivals.

*Portakabin* customers include businesses, health authorities and schools. They seek to work with suppliers who have the same concerns for health and safety as they do. *Portakabin* has therefore been able to build very strong relationships with regular customers. The esteem in which the company is held by customers impacts positively on employee motivation. For the company the strong health and safety record substantially reduces downtime (i.e. time lost to inactivity) and associated costs and creates a safe culture.



Accidents caused by injury at work potentially create substantial losses to a business and are de-motivating to the workforce. In the UK injuries that cause an employee to be away from work for more than seven days must be reported online to the Health and Safety Executive (a government H&S body) within 15 days. This requirement is set out under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR). The accident incident rate for *Portakabin* under RIDDOR is 37.7% less than the average in the construction industry.

*Portakabin* demonstrates its commitment to improving health and safety in its recently launched 'Aim for Zero' campaign. This focuses on the behaviours required to achieve zero incidents and accidents.

## Conclusion

Health and safety delivers many business benefits to *Portakabin*. As a family company the heart of the *Portakabin* business lies in a motivated group of employees working together to build strong communities. Focus on H&S by the company and its employees demonstrates a shared commitment to each other. This positively affects relationships with customers and other stakeholders.

The central aim of a commercial business is to produce valued products at a profit. *Portakabin* is able to concentrate on producing its high quality modular buildings, knowing that it has effective risk management in place. A strong focus on health and safety not only enhances customer satisfaction and loyalty but also strengthens the image of the brand.

1. Describe how having a positive approach to health and safety benefits a business. (2 marks)
2. Explain how health and safety legislation affects a company and its employees. (4 marks)
3. Analyse three ways of implementing health and safety at *Portakabin* and explain why they are important. (6 marks)
4. Evaluate the business benefits that *Portakabin* achieves from its clear focus on health and safety. (8 marks)



## Beyond corporate social responsibility



### Introduction

Primark is a subsidiary company of the ABF (Associated British Foods) Group. The company was launched in 1969 in Ireland trading as Penny's. By 2000, there were over 100 stores across Britain and Ireland. By 2012 Primark had 238 branches across the UK, Ireland and Europe. Primark has become distinctive for offering unbeatable value while never losing its innovative, fashion-driven edge.

Like many retail fashion businesses, Primark does not manufacture goods itself. Its expertise lies in understanding its customers and working with its suppliers to produce goods to Primark's specification. It then gets the right goods to the right places at the right prices. Its profitability depends on sheer volume of sales. Primark's value-for-money prices rely on low costs. These are achieved in part through economies of scale and efficient distribution.

Primark's products are mainly sourced from suppliers in Europe and Asia. Its key sourcing countries are China, India, Bangladesh and Turkey. Putting the manufacturing of garments into these countries creates jobs. These are often at better rates of pay than other types of work on offer, improving overall standards of living.



Primark has initiated a programme of activities which supports its corporate social responsibility (CSR) stance and ensures that its trading meets the company's values and ethical standards. Underpinning its programme of activities is Primark's Code of Conduct which ensures that all workers making its products are treated decently, paid a fair wage and work in good working conditions. For more information please visit [www.primark-ethicaltrade.co.uk](http://www.primark-ethicaltrade.co.uk)

This case study looks at Primark's involvement in the HERproject (Health Enables Returns) which is raising awareness and delivering healthcare education to female workers in supplier countries.

### What is CSR?

Businesses need to acknowledge and respond to factors in their environment, for example, changes in available workforce or the business' impact on its local communities. Corporate social responsibility represents the responsibility that a business has towards all its stakeholders, not just to owners or shareholders, to deal with their needs fairly.

Internal stakeholders include shareholders and employees. Shareholders want a return on their capital and this depends on making a profit. That in turn means by adding value. Employees want job security, good pay and conditions and job satisfaction. External stakeholders include customers, suppliers, non-governmental organisations, workers and the local communities where products are made. All of these have different needs.

An organisation therefore needs to be able to respond and demonstrate responsibility in different ways. This might include activities as wide-ranging as encouraging employees to volunteer in community projects; sponsoring and supporting charity work; or contributing time and money to improving its environmental impact.



## Why Primark embraces CSR

As an international business with a global supply chain and a growing retail base, Primark believes that business has a responsibility to act and trade ethically and that, by doing so, it can be a force for good. Its business directly contributes to the employment of more than 700,000 workers across three continents. Ensuring that their rights are respected is key to its continued growth.

Primark does not own the companies or factories that produce its goods, but it does have a responsibility to the workers in those factories, to its customers and shareholders, to ensure that its products are made in good working conditions. The HERproject in Bangladesh is an example of how Primark is actively seeking to make positive changes in the lives of its supplier workforces.

In Bangladesh, over 50% of the manufacturing workforce is made up of women. The jobs available to women in garment factories give them greater independence and help to reduce poverty. However, these women often have little education and low levels of literacy as they drop out of education early to help their families.

They also lack basic knowledge of health, hygiene and nutrition and an understanding of how a woman's body works. Poor hygiene often causes persistent and painful infections. Childbirth is particularly hazardous and post-birth complications are common. There is little understanding of the symptoms of sexually transmitted diseases (including HIV) or the means of preventing transmission. Far more women than men are malnourished and many women suffer from anaemia. These issues, often combined with a lack of access to qualified medical advice, mean that the female workforce is particularly vulnerable.

The HERproject uses education as the key tool against all these interrelated problems. The programme aims not only to improve the health of female workers through training and education, but

also to give them the tools to help them take charge of their personal and working lives. These benefits in turn pass on to their families and help to enhance whole communities.

## Making CSR happen

The HERproject is an initiative started by BSR (Business for Social Responsibility), a non-governmental organisation that works with over 250 companies on environmental, social and human rights. The HERproject has so far helped over 50,000 women in different countries. It has done this through working with companies like Primark, Primark's suppliers and local health providers.

The HERproject is simple but surprisingly powerful:

- A small number of female staff in a factory (around 10%) is selected to become health education trainers called 'peer group educators'.
- The local health service provider trains the peer group educators, who are then responsible for training the other women based in the workplace, passing on the message and helping to disseminate what they have learned.

The process emphasises mutual help and encouragement. The women trainers are effective because they fully understand the local culture. They are not seen as outsiders imposing strange ideas. Instead, the trainers understand why the women may be reluctant to seek help with issues that can be sensitive. They can build their self-confidence as well as their practical knowledge.

*'I didn't have anyone to tell me how to look after myself, it wasn't taught at school. The trainers told me that many diseases come from the unpurified water that I was taking from the tap. This water can be the cause of sickness, cholera and diarrhoea. At first my family said to me, how do you know this stuff? You work in a garments factory! I told them it's what I have learnt from the HERproject. When I began to give them advice they started to get interested in the project. Everyone I have told now boils their water and they don't suffer like before.'*

**Umme Habiba (garment worker)**

The HERproject is also helping others not directly involved in the project. Outside the workshops informal learning continues. Women build supportive relationships and talk to each other out of work. This is reinforced by the project helping to set up factory clinics and creating vital referral links to local hospitals.



Selina Kamal is a factory quality inspector and a peer educator for HERproject. Through her own training she is now more aware of the importance of cleanliness for herself and her children. They all now drink purified water and eat more vegetables. She has already helped a friend, Shilpi, who is a school teacher.

*'I came to Selina after I had two miscarriages and irregular periods. Selina advised me to go the doctor as she knew something must be wrong. The doctor prescribed me medication for my problem.'*

**Shilpi (teacher)**

## The value of the HERproject

Improving the health of women workers in Bangladesh and helping to empower and educate the female workforce is an important ethical goal in its own right. The benefits to communities can also be seen. Over time, initiatives like this can support key issues such as reducing infant mortality.

Factories in Bangladesh taking part in HERprojects have seen healthy returns on the money invested by Primark in the programme. This has been achieved through improvements in productivity, a more stable workforce, lower absenteeism, decreased labour turnover, improved quality and a reduction in housekeeping costs. As an example, the managing director of one factory in Bangladesh found that absenteeism in the factory fell by 55% during the first six months of the HERproject. Turnover of female workers dropped from over 50% to around 12%.

Mrs Kaniz Fatema is the managing director of a medium-sized factory in Dhaka, Bangladesh. When the HERproject was introduced to her factory a year ago, she was unconvinced, viewing it as 'just another project'. However, just one year later her view has been transformed. Women's health is now high on her agenda. A healthier workforce is literally paying dividends. Absenteeism and labour turnover are down by a startling 50%. Productivity is up and even internal staff communication is more effective. Mrs Kaniz Fatema now employs a female doctor and has set up a scheme to provide sanitary napkins to her female workers, helping to embed a new culture within the factory and allowing health education in the factory to continue after the project ends.

*'HERproject has made a real difference in my factory. The workers have increased their productivity as they are now looking after themselves better. I have become a lot closer to my female workers. I have also told other factory managers about the success of the project at our factory. The male workers are now asking when we will start a similar project for them.'*

**Mrs Kaniz Fatema (factory manager)**

Other benefits are harder to measure but are increasingly recognised by the factory managers. Getting women to communicate effectively on health matters builds trust and confidence. This feeds back into better communication with supervisors and managers. This, in turn, leads to improved teamwork and the motivation to accept more responsibility and leadership roles in the community.

*'Workers now stay longer and are more productive. The HERproject has also helped my relationship with the women workers. They are not so shy to talk to me anymore. If there are problems, I now hear about them.'*

**Mr Riaz (factory manager)**





This demonstrates the principles of the Hawthorne effect theory of motivation. Theorist Elton Mayo found that factory workers with long hours of routine work were motivated by someone taking an interest in them and their work. Feeling that they mattered as individuals, they experienced a new connection with the job. As a result, productivity improved. In a similar way, by focusing on the women workers and their health issues, the HERproject is also delivering improved motivation. See the HERproject video at [http://www.primark-ethicaltrading.co.uk/ourwork/c/womens\\_health](http://www.primark-ethicaltrading.co.uk/ourwork/c/womens_health)

*'Not only has HERproject given women the knowledge to improve their health behaviour, it has empowered them to seek leadership roles in their jobs and their communities. The peer-to-peer model – with women teaching each other about women's health – has given them the confidence to go against the grain in regions where the traditional role for women is not as strong.'*

**Racheal Yeager (BSR HERproject Manager)**

## Conclusion

The industrialised countries of the world benefit from the lower costs of labour in countries such as Bangladesh and India. However, more consumers are now asking if this is ethical and questioning its sustainability.



Some trade-offs between stakeholder needs are inevitable. CSR does not come free. It involves a real commitment of resources, management time and energy. On the other hand, as studies of the HERproject in other countries have shown, each dollar invested in the health of female employees can yield more than three dollars in business benefits. In addition, the improvements in human well-being are incomparable.

Despite criticism of globalisation, business and trade can be a force for good. This is increasingly recognised in the ways that consumers assign values to brands. Primark is making progress in taking on wider responsibilities and devising relevant projects that work on the ground. It has done this with help from NGOs and organisations such as BSR. Its approach with the HERproject is not purely about business benefits, but focused on making a difference to the lives of its supplier workers.

To date, 4,500 women in Primark's factories have been trained under the HERproject in Bangladesh. The project results have shown such benefit that the project is being rolled out to Primark's suppliers in China and India. Primark's ongoing involvement with the women workers in Bangladesh and other supplier countries will help to provide it with a sustainable and ethical business model.



1. Describe what is meant by CSR. (2 marks)
2. Explain the basis for a company undertaking CSR activities. (4 marks)
3. Analyse why the HERproject has been a business success, over and above improving the well-being of the workforce. (6 marks)
4. Evaluate to what extent you think Primark has been able to reconcile the interests of its shareholders and those of the employees of its suppliers. (8 marks)

Exam-style questions

## Apprenticeship training within the steel industry



### Introduction

Sheffield Forgemasters International Ltd (SFIL) is a steel producer and engineering company. Based in South Yorkshire, the heartland of traditional steel production, the company has six subsidiaries, including operations in America and Europe. It is one of the biggest private sector employers in the area. The company manufactures bespoke heavy steel castings and forgings. SFIL specialises in providing high quality total engineering packages for its customers. It supplies businesses in many industrial sectors, with customers in the defence, nuclear, oil and gas exploration, power generation, marine and construction industries.

Engineering is a highly skilled and specialised profession so SFIL needs well-trained employees. SFIL offers employees industry-leading training courses that are tailored to its own needs. It has been running a highly acclaimed apprenticeship programme since 2005. The company invests £1 million a year into this programme. It allows the company to supply its next generation of skilled workers, trained to its own high standards. Apprentices will form the future backbone of the business. Some apprentices have progressed to supervisory and managerial positions. As Graham Honeyman, SFIL's chief executive, explains:

*'Our commitment to apprenticeships is evidenced by them gaining permanent positions and rewarding salaries from day one.'*

Applicants to the programme are usually aged between 16 and 24 years old. This allows SFIL to train young people in the 'Forgemasters Way' and to benefit from government funding. Apprentices are trained in all areas of the business. They do a variety of jobs during their apprenticeship and experience the many roles needed in steel-making and heavy engineering.

The scheme has an excellent reputation. It received the Large Employer of the Year award at the 2011 National Apprenticeship Awards. SFIL also features as one of the top 100 apprenticeship employers in the UK.

It is proving attractive for many young people. As Dan, a 20-year-old apprentice, states:

*'I chose this scheme because SFIL has a really good reputation in my local area and I knew this could lead to a job for life.'*

This case study looks in more detail at SFIL's apprenticeship programme. It draws on the experiences of three current apprentices: Dan, Kurt and Rebecca. It also considers the broader training challenge for a modern engineering business such as SFIL.



## Workforce planning

Workforce planning is the process of establishing and meeting a company's labour needs. It needs to take into account the skills as well as the overall number of employees required to conduct the business. It has to consider anticipated future demand as well as current needs. SFIL faces many of the same workforce planning issues as other businesses. It needs to provide staff development, to respond to changes in its external environment and to remain ahead of the competition. SFIL also faces additional challenges due to the highly skilled and specialist nature of its work.

SFIL's workforce planning has to take into account many factors. For example, it needs to understand the local labour market. Skilled workers may move in or out of the area. It needs to consider the wider economy. A global economic downturn may reduce demand for its products. Within this ever-changing context, SFIL needs to plan the number of workers it will need in the future. It must assess the skills that these workers will need. By forecasting these future needs of the business, it can produce a plan to ensure that it will have trained staff that can deliver what its customers want.

SFIL strives to be the best at what it does. To achieve this, the focus of its operations is on quality. It believes in continuous improvement and being a leader through innovation in developing new products and processes. So to succeed, it needs a strong skills base. As these are vital features of SFIL's current and future growth, they must also be built into training programmes. This focus on quality is a feature of the apprenticeship programme. Kurt, a 21-year-old apprentice, says:

*'I completed a level 2 foundation course in engineering to give me basic skills. I now work in the furnaces, calibrating the temperature to very strict standards. This heat treatment phase is a vital part of the manufacturing process and the slightest change in temperature can affect the hardness of the metal. We supply materials to lots of different industries, including the nuclear industry, so our materials must meet the highest quality and safety standards – there is no margin for error.'*

Another way that SFIL drives up quality is by taking on only the best people as apprentices. In 2010 there were more than 250 applicants for just 30 apprenticeships. SFIL undertakes a pre-recruitment screening exercise to make sure only the best



candidates are interviewed. This is producing results. According to the local college, the 2011 apprenticeship cohort was the best intake so far. Dan, who started in 2010, explains the process:

*'I started my apprenticeship after going through firstly a group interview, where everyone was really friendly, and then an individual one.'*

SFIL is currently training 64 apprentices. This is just under 8% of the total workforce. This underscores SFIL's commitment to training the next generation. It will help the company ensure that it has highly skilled workers to meet the needs of the business in the future.

The apprenticeship programme has helped SFIL to improve its skills base. This is vital as it increases the company's capacity to handle new and complex projects. Graham Honeyman says:

*'Apprentices have contributed to the organisation's success for many years. They are now engaged in refining work practices and control systems to improve efficiency and productivity across the operation.'*





## The importance of training

Training is the process of acquiring knowledge and skills. It ensures that workers are better able to perform their jobs. The objectives of training include:

- increasing productivity by introducing more effective ways of working
- educating employees in the use of new equipment and new methods
- making employees more adaptable by providing them with the skills to carry out a variety of tasks
- increasing job satisfaction and producing a motivated workforce.

Apprentices at SFIL benefit from both on-the-job and off-the-job training. On-the-job training takes place at SFIL's premises. Trainees receive support and instruction as they carry out their allocated job roles. Off-the-job training takes place at a college or another learning centre. Dan spends one day a week at college studying the theory of metallurgy. During the four days of the week he is working, he puts this theory into practice. He has, for example, been trained to use ultrasonics to scan for cracks in the metals and he has now qualified to work on this unsupervised. Kurt's off-the-job training includes a BTEC level 3 course in manufacturing engineering at a nearby college. This training supports his role working in the furnaces calibrating the temperature of the process. Dan and Kurt's roles are highly skilled and are vital to ensure SFIL's high quality standards.

Rebecca, a 23-year-old business and administration apprentice, is supported by other models of training:

*'I undertake formal training for my NVQ and I get to apply what I learn in the workplace. My training takes place mostly on site. I receive project work set by my tutor, which I complete and have assessed by email. The tutor visits on a regular basis to carry out appraisals of my work. I've also been on in-house training courses for things like Microsoft Word and Excel. I have taken a "train the trainer" course to learn how to run training programmes for the company's own instructors. So I've acquired lots of new skills.'*

There are several qualifications that apprentices can take depending on their level of education and the job for which they are training. These range from BTEC, City and Guilds and NVQ awards all the way up to doctorate-level degrees.

## Training in action

Apprenticeships are designed to provide the foundation for undertaking key roles within many of the company's divisions. They equip successful school and college leavers with skilled trades. Dan, Kurt and Rebecca work in different parts of the business, but have all been shortlisted for the prestigious Cutlers Award. These awards encourage apprentices to expand their knowledge of industry through travel and reading.

Each apprentice is developing different skills, showing the variety of approaches that SFIL provides on its apprenticeships. Apprentices come from a variety of backgrounds with varied qualifications. Dan says:

*'I left school with A-levels in Business Studies, General Studies and PE, so not exactly engineering-related subjects, but SFIL has helped me to build up the right skills. I am now on a BTEC level 3 in Materials Engineering, which can eventually lead to a full degree.'*

Dan enjoys the 'family' atmosphere at SFIL. Many SFIL employees have been with the company for years. This means that he can consult colleagues with plenty of experience as he is working with some of the best people in the industry.



Rebecca has a different background. She says:

*'Being honest, I didn't do as well in my GCSEs at school as I had wanted. I did beauty therapy at college and worked for a time in a beauty salon and then after that in a call centre but neither gave me the sort of job satisfaction I wanted. I joined SFIL on an apprenticeship in business and administration. This might seem different from the traditional view of an apprenticeship in an industrial area but it works in a similar way. I work in the engineering forge performing a variety of different roles, such as purchasing, as well being the PA to the managing director, which involves setting meetings, managing spreadsheets and reports.'*

In the longer term, each apprentice will aim to gain further qualifications and secure their future at SFIL. Each will be able to carve out a career path that suits them and the business. Kurt is planning to take a foundation degree to increase his theoretical knowledge and experience. Rebecca can see herself moving into a purchasing manager role or even into sales or accounts. The open policy at SFIL means apprentices have many different opportunities.

## The benefits of training

As well as benefiting the apprentices, the apprenticeship programme generates clear business benefits. As well as addressing serious skills challenges, it also helps to:

- increase productivity
- reduce staff turnover
- create loyal employees
- produce efficiency gains.



By increasing the skills and knowledge base of apprentices, SFIL is able to handle increasingly complex projects, resulting in stronger order books. Apprentice experiences are varied, but all help to build a stronger business. Dan, for example, can now be entrusted with really important aspects of SFIL work, looking for cracks in the metal. If any are found, he is part of the team identifying how to correct the problem. This is a really important aspect of SFIL's work. It involves working with equipment and materials that cost millions of pounds and are used in critical sectors like the nuclear industry. Products need to be of the highest quality to meet the customers' standards and to ensure operational safety.

## Conclusion

Sheffield Forgemasters seeks a competitive advantage through being the best and through innovation to improve its products and processes. The development of its apprentices is an important means of achieving these goals. Through the scheme, it is able to develop people who will form the backbone of the company in the future. They are being equipped with required skills, as identified during workforce planning. Both male and female apprentices are offered the support they need to succeed. Rebecca says:

*'Being female in a traditionally male environment is great – I love working with engineers.'*

The company continues to invest £1 million a year in its apprenticeship training programme. Apprentices are offered a wide range of progression routes, tailored to both their needs and the needs of the business. Many apprentices progress to obtain further qualifications and develop long-term careers in the highest levels in the organisation.

1. Describe two ways in which SFIL gains by starting apprentices at a young age. (2 marks)
2. Using examples from the case study, explain the difference between 'on-the-job' and 'off-the-job' training. (4 marks)
3. Analyse the statement by chief executive Graham Honeyman. What do you think he considers to be the key benefits of apprenticeships? (6 marks)
4. Evaluate the different training programmes described. What do you think makes each effective? Give reasons for your answer. (8 marks)

Exam-style questions



# Values into vision



STRATEGY

## Introduction

In 2011 the world's population reached 7 billion, compared to just 3.5 billion in 1969. Current estimates suggest that it will reach 9 billion by 2050. To feed these extra people and to meet the demand of increasingly affluent and urban populations, world food production will need to approximately double over the coming 25 years. Meanwhile there are up to two billion people lacking food security.

To make matters worse the effects of global warming, more frequent floods and droughts and changes in temperature could have a negative impact on food production. Whether used for feeding humans or animals, it is plants growing in fields which provide the majority of our food supply.

Syngenta is a company focused on researching and developing crops. In particular, it adds value through the application of plant science to seeds and crop protection. Operating globally in 90 countries, with over 26,000 employees, it has major facilities in the UK, France, Germany, Switzerland, the USA and India.

The company was formed in 2000 by combining the agri-business divisions of Zeneca and Novartis. Its UK origins date back to the 1920s when ICI started agricultural research and the production of farm chemicals.

In 2011 the company's sales were a record-breaking \$13,264 million (approx. £8,550 million). This provided rewards for shareholders and funds continued world-class research for the future. The company's research and development (R&D) spending is \$1,000 million (approx. £650 million) each year. This has led to a stream of innovative products with which growers can improve their crop yields. Syngenta, through the expertise of its research and development team, is a world leader in producing seeds. Its work is unique in meeting the global challenge of feeding the ever-increasing population from limited resources.

## Mission and vision

A business organisation needs a mission or purpose to create a sense of direction and effectively allocate resources and make decisions. This is conveyed by its aims which express how it adds value. Aims help direct resources to the needs of profitable markets. They point the way towards the business' objectives and strategy.



Aims are only useful if they trigger action. This is why many companies concentrate their aims into a single memorable purpose. Syngenta's purpose is *'Bringing plant potential to life'*. This is designed to energise and inspire the Syngenta community which includes all the company's stakeholders – its employees, customers, shareholders, creditors and suppliers.

This shared sense of purpose provides the basis for the organisation's key objectives. These are the 'destinations', the major goals that the business intends to fulfil. In a large organisation they are broken down into supporting functional objectives. Properly co-ordinated, these functional objectives should enable the organisation's corporate objectives to be achieved.

Like many major companies, Syngenta condenses its objectives into a vision. This is a short statement that paints a picture of where the company wants to be in the future. It is designed to co-ordinate and motivate employees to work towards a common goal.



Most sugar (70%) is obtained from sugar cane and Brazil is the dominant producer. While world demand for sugar is rapidly rising – up by 45% in 20 years – the industry has modernised little and is largely unmechanised. Syngenta’s vision was to improve the production and planting of sugar cane in order to reduce costs and increase productivity in an ecologically sustainable way.

Syngenta’s product *Plene* is an example of how Syngenta puts that vision into practice. In *Plene*, Syngenta has designed a fully integrated system for sugar cane production. This has resulted in a 15% reduction in grower costs, better working conditions for labourers and reduced soil erosion.

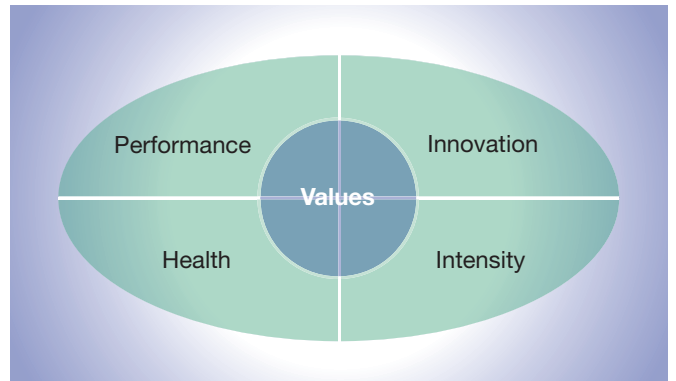
A range of project teams worked on the realisation of this project. High quality, disease-free seedlings were selected at Syngenta’s nurseries. These are processed and treated with Syngenta technologies. Planting has been mechanised through a partnership with John Deere, the agricultural machinery manufacturers. This has reduced labour input and increased productivity. The results are a faster germination, greater resistance to disease and a more productive harvest.

## Values

Every individual has his or her own values – those beliefs that they hold to be most important and which guide their behaviour. This might include always being truthful or understanding what is right or wrong.

An organisation’s values demonstrate what the organisation stands for and help to create a set of shared behaviours which distinguish the company from others. Syngenta’s values deeply influence everything that the company does. Significantly, its purpose and values not only express its ability to add commercial value but also reflect its beliefs as a human-focused organisation.

Syngenta’s values include four key aspects: innovation, intensity, health and performance.



*Innovation* is the engine that drives Syngenta’s success. Ongoing innovations add value for customers and give competitive advantage as competitors find them difficult to copy.

This requires the Syngenta development teams to take nothing for granted but constantly ask questions, breed creativity and seize opportunities.

*Intensity* means passion, energy and commitment to success, always with customers in mind. It is a shift of mindset from 'doing a job' to 'starring in a role'. Syngenta employees use initiative to build teams and develop partnerships.

*Health* is a large idea based around vitality and well-being. It embraces people, the natural environment and the eco-systems of which they are part. The health value affirms growth and development as it celebrates knowledge and ideas.

*Performance* is about achievement and quality. Syngenta must add value for all of its stakeholders. It seeks profitability by investing in people and research. Effective performance is achieved through an insistence on high standards of safety and ethics and a determination to uphold all Syngenta’s values.



The business' work on developing seeds demonstrates these values. Seeds are never standard. Each variety differs in the quality of its crop, its resistance to disease and its suitability for different soils and climates. For example, sunflower seeds are a major source of vegetable oils used in cooking and food processing. Syngenta has built a portfolio of seeds to meet each significant market and grower need. For instance, it worked with a Spanish vegetable oil producer to develop a seed that yielded healthier oil that is high in unsaturated fats (which are healthier than saturated fats). With high yields and effective disease resistance, Syngenta seeds are now market leaders in many countries.



## How values drive culture

A company's values give everything it does relative importance. For example, one company may be driven by costs. Saving money becomes the first consideration when decisions need to be made. Another company may focus on building its reputation. Delighting the customer is then the job of everyone.

These are different values and over time they create different business cultures. Culture can be summed up by the phrase 'the way things are done here.' Culture shows itself in different patterns of behaviour and different ways of responding to the various stakeholder groups. Behaviours that influence the organisation's culture may seem trivial but are highly symbolic. Does the company encourage its people to talk to each other, to share ideas and find solutions? Does it recognise and reward good ideas and achievement? Is it aiming to reduce travel costs by using teleconferencing and internet meetings? Is re-cycling a priority? Answers to questions like these can indicate whether it believes in true equality or encourages its people to 'think outside the box'.

Cultures take time to make but once established they are surprisingly powerful and resilient. This has special importance at Syngenta as the business was formed in 2000 from earlier

companies that had different identities and therefore cultures. Syngenta has been working hard to reinforce its chosen core values and make them central to its culture. The theorist Charles Handy identified four main types of culture.

### Handy's culture types (1978):

**Power culture** - where power is concentrated in a leader or top management team. Quite informal and flexible, it allows trusted staff to get on with the job.

**Role culture** - where authority is arranged in a hierarchy and power depends on formal status. Many rules and procedures can make change difficult. Most often seen in large bureaucratic organisations.

**Task culture** - is purpose- and project-driven with leadership based on expertise for the task in hand. Often copes well with rapid change but may lack overall cohesion.

**Person culture** - stresses the individual's right to make decisions with shared rules only for mutual benefit. Effective for professionals and independent workers such as lawyers but may break up as conditions change.

To demonstrate Syngenta's belief in its people, it has a scheme called the Syngenta Awards. These recognise and celebrate the company's values in action. All staff are actively encouraged to put forward relevant stories concerning how they achieved success in a project. Not only are those involved in these stories rewarded at a ceremony but they are also shared across the company as a source of ideas and inspiration. It is culture in the making.

For example, Humphrey Kiruaye, a trained agricultural advisor, is a Syngenta sales manager in Kenya. As well as marketing improved seeds and crop protection products, he helps local farmers adopt best practice for yields and safety. He helped a farmer build a water storage pond for irrigation and showed him how to reduce the amount of water he used without affecting his healthy crops. The farm became a teaching centre for local growers and now includes chemical storage and disposal systems, beehives for better pollination and fish in the storage pond.





## Strategies

A strategy answers the question: how shall we do it? It is an integrated plan that emphasises the chosen route towards one or more objectives. Usually a business will have one central strategy that is focused on its overriding objective. This is broken down into separate but linked strategies for each of the main business functions – marketing, operations, human resources and finance. Within each of these areas, additional, more detailed plans help to set out the paths and actions that make the strategy come to life.

Syngenta's strategy puts the farmer at the centre of everything it does and is expressed as 'integrate, innovate and outperform'. Integrated offerings of seeds, seed care and crop protection products are customised to the needs of the grower. Innovation through Research and Development (R&D) in plant science delivers a stream of products with patent protection. Thinking like growers and the challenges they face will give Syngenta a competitive advantage, so that it outperforms for the benefit of growers and shareholders alike.

For example, the cultivation of rice offers a strategic challenge. 90% of the world's rice is produced in Asia, where it is an essential daily food for at least two billion people. Most of the crop is produced on smallholdings. The majority of its 200 million growers use traditional, labour-intensive methods, which is a challenge in the face of increasing labour shortages. Syngenta therefore sought to answer the following questions: How, at proportionally lower costs, could yields be improved? How could labour intensity be reduced and food security improved? How could these goals be achieved without endangering longer-term sustainability? The Syngenta product *Tegra* provided many of the answers.

*Tegra* is an integrated solution that applies technological and business innovation to each stage of the production process. Its target market is rice farmers in the better irrigated lowlands across Asia where relatively plentiful water allows greater yields.

The *Tegra* cycle begins when farmers place orders with retailers for quality treated seeds. The seeds are set to grow using Syngenta treatments in seedling trays by nursery franchisees. The seedlings are then passed to transplant franchisees. This type of business uses mechanised equipment to offer final growers seedlings-in-the-field. Finally the rice plants are grown in a carefully controlled regime before harvesting and transport to market. This process ensures that each plant has the optimum chance of healthy growth.

## Conclusion

Syngenta is a creative organisation which combines its resources of technology, innovation and people skills to provide added value to many parts of the world. This process brings benefits to Syngenta's customers who enjoy best value for money in the products that they buy. It also brings benefit to Syngenta's shareholders who earn attractive rewards for their investment.

Syngenta's world-leading position stems from the knowledge and innovative research that makes it distinctive. Capturing this know-how to deliver products that are outstanding in meeting growers' needs is the key challenge for Syngenta.

However, it is also important that Syngenta's values are delivered through the product. Those values are critical to its big strategic question: 'How do we increase yields without compromising environmental sustainability?' They equally apply to many smaller local questions such as: 'How do we help this small grower increase yields yet keep within budget?'

This is where Syngenta's values really matter and become the foundations of its brand integrity. They are the hidden ingredient in its products and are the starting point for the global achievements of thousands of employees and growers.

1. Describe the difference between aims and objectives. (2 marks)
2. Explain how Syngenta's values contribute to its success. (4 marks)
3. 'Culture does not appear on the balance sheet yet it is an organisation's greatest asset'. How far might this be true at Syngenta? (6 marks)
4. Syngenta's strategy relies on managers working together whilst maintaining a departmental focus. Evaluate the extent to which teamwork is essential for meeting stakeholder needs. (8 marks)

## Using diversity and inclusion to provide better service



### Introduction

Tesco is the UK's leading retailer, serving millions of customers every day. It also employs more people than any other company, with over 300,000 employees in the UK. With almost 3,000 stores, Tesco has a presence in every major town and generated revenues of over £42 billion in 2011/12. Stores range from the convenient town centre Metro and Express formats, to larger Extra stores. Tesco provides banking, insurance and telecommunications services as well as having a strong online presence.

Tesco is a business that puts people first, ensuring its customers and colleagues are at the heart of everything it does.

*'Our core purpose is to create value for customers to earn their lifetime loyalty. Our success depends on people: the people who shop with us and the people who work with us.'*

Earning customer loyalty is crucial and Tesco focuses on this by helping customers in lots of small ways which together can make a big difference. 'Every little helps' is more than just a slogan. It describes Tesco's way of working with all of its stakeholders, and that includes colleagues as well as customers.



Tesco works in a competitive market where products, stores, tastes and even the way customers shop are constantly changing. Tesco needs to be proactive in preparing to face these changes. This means finding talented people who will be ambassadors for the brand in the communities it serves. Diverse communities mean that it needs to recruit and train people who reflect this diversity, so that all sections of society are included. This case study looks at how Tesco benefits by focusing on diversity and inclusion in its employment strategies.

### Diversity and inclusion

In the UK we have a diverse society. There are people from many different backgrounds and cultures. There are also changes taking place in the number of men and women in the population. These changes to population are called 'demographics'. One key demographic is that an increasing number of older people are working – an ageing workforce. Tesco's policy is to ensure that its workforce has a balance of different people. It is keen to search for talent wherever it lies. At Tesco, 'Everyone is welcome'. Tesco recognises that every person is different and will bring unique talents and experiences to a role.

*'Difference can be our strength because talent and diversity are two sides of the same coin. To focus on one while ignoring the other is like trying to run a store with no customers – it just won't work.'*



Tesco has a particular understanding of what is meant by 'talent'. It believes in recognising the strengths of each individual person, regardless of their background and investing in them to help reach the goals that they set for themselves – being the best they can be. There is a constant hunt for talent.

*'Talent is about people and we all have a role in talent spotting, recruiting, developing, promoting, moving, rewarding and engaging them'.*

Diversity, inclusion and equal opportunities are so central to the workplace that there are laws to ensure fair treatment. For example, it is against the law to make unfair choices against people on grounds of age, race, disability, gender or sexual orientation. This is called discrimination.

Tesco's diversity strategy is central to the way it approaches recruitment, training and development and is reflected throughout the objectives of the business. In practice, that means that every role and every employee at Tesco has a place in something called the 'framework for talent'. This framework is used to find and develop talent for the future and has three parts:

- talent plans for the business
- career plans for individuals
- succession plans for jobs.

All colleagues set objectives and draw up personal plans for development as part of a regular review process. Every employee has the same opportunity to discuss his or her performance and career and is given the opportunity to get on.



In addition, managers and personnel teams meet regularly to talk about who is ready for a move to meet a new challenge or help them develop. This all takes place within a regular annual cycle, so each employee's objectives and development plans can be regularly reviewed and updated.

## Engaging with diverse groups

Tesco has established a number of networks to ensure that it engages with all its people. Its four key networks are:

- **Out at Tesco.** This group represents those with different sexual orientations. It has over 1,000 lesbian, gay, bisexual and transgender (LGBT) members and is recognised by other groups as an excellent example of how such networks should operate.
- **Women in Business.** This is the longest established network. There are a number of branches supporting women's issues, raising the profile of women in the business and supporting them to develop their careers through training, mentoring and career sponsorship.
- **Tesco Asian Network.** This helps to raise the profile of careers at Tesco to Asian groups. It holds two events each year where Asian colleagues are invited to attend to network, share experiences and visit a 'careers fair' about opportunities at Tesco. It has inspired a series of 'parents' evenings', which have helped Asian parents to understand the career opportunities available at Tesco and understand the range of jobs their children could enjoy in the business.
- **ABC Network.** This is the most recent network, which builds on an idea raised at an Asian Network event. Its aim is to make Tesco the employer of choice for African, Black British and Caribbean colleagues and to provide training and development opportunities which will enable more black people to reach senior positions within the business.



Tesco also has strong links with many organisations representing disabled people, such as Whizz-Kidz. It also has its own Diversity Council. The Council sets the diversity strategy for Tesco. Its goals are to show that Tesco is inclusive, to make everyone welcome and to play an active role in the diverse communities it serves. Tesco is currently working with disabled colleagues to establish whether there is a need for a disability network. The business also works with a number of diversity partners. These partnerships help Tesco to build and improve its diversity strategy. These partners are:

- Stonewall. Tesco is a 'Diversity Champion' member of Stonewall, a charity which exists to ensure equal rights for lesbians and gay men in a society where they can be open, honest and safe at home, at school, at work and in the community.
- EFD (Employers Forum on Disability). EFD is currently working with Tesco to help it to do a better job for disabled colleagues. It will also help encourage more disabled people to choose Tesco as a great place to work.
- Opportunity Now. This group offers support for gender equality in business. It is committed to supporting the business to offer opportunities to both men and women. Its key objective is equal treatment of genders but, as it is women who are most often under-represented, this tends to be its focus.

## A diversity strategy

The importance that Tesco places on diversity is shown by the detail of its strategy. The key aspects are that *'everyone is welcome'* and the aim is to *'raise the bar on talent'*. Tesco has a dedicated talent and diversity team. This team communicates the diversity strategy throughout the business to ensure that its objectives are reached.

Tesco recognises that within each person there is raw talent, ideas and energy. It sees that everyone is an individual who is seeking a good work-life balance and aims to help all employees to be the best that they can be. It encourages the business to create challenging, interesting and flexible opportunities to release this potential at every level of the business, from the shop floor to the boardroom. By ensuring that the best people are in the right jobs, Tesco is able to compete in a highly competitive market.

The main strands for Tesco's diversity strategies are:

<b>'Everyone is welcome'</b>	<b>'Raising the bar on talent'</b>
We all have talents; we just need the encouragement to realise potential.	As Tesco sees the unique talents of people, it will have interesting people in interesting jobs.
Tesco reflects the communities it serves. It searches for talent within groups that are under-represented.	It takes risks on talent to bring extra skills to the business.
Tesco values difference. It welcomes its benefits for itself and its customers.	All are helped to develop and build new and diverse talent.
Tesco brings in talent through creative channels to find the best and most diverse people.	By engaging with its people, Tesco helps them to engage with its customers.  Tesco sets clear objectives with expectations of both performance and potential.





## Benefits of a diversity strategy

Tesco's diversity strategy brings many benefits to the business. It means, for instance, that Tesco is always aiming to recruit from the widest possible talent pool, helping it find the best person for the job. The workforce will have a better understanding of customer needs as it reflects the same diversity as the customer base. It also opens up new ideas and opportunities that may arise from different cultures.

Having a mixture of different age groups within the workforce can also help to raise morale. The mix of young and older people brings a broad range of knowledge, experience and social skills to the company. A diverse workforce is more flexible, since it consists of a wide range of people from all walks of life, all able to work together to deliver the best service in all circumstances. It also leads to better performance and lower costs, since employees are able to offer a variety of expertise that enables jobs to be done effectively, improving productivity and reducing waste.

A key part of the strategy is Tesco's aim to employ people from disabled or disadvantaged groups. Tesco offers an interview guarantee to candidates from Remploy, Shaw Trust and Whizz-Kidz – three organisations that work with disabled people. This guarantee means that where Tesco has a vacancy and any of these groups has a suitable candidate, he or she must be interviewed. The interview guarantee does not mean a job offer will be made, but in many cases applicants from these partners get the job as they are the best candidate. Tesco also offers work placements to give candidates the experience of working in retail.

Former Tesco Chairman Sir David Reid is chairman of the Trustee Board at Whizz-Kidz, a charity that supports and empowers young wheelchair users. Tesco therefore has a strong relationship with the charity. Whizz-Kidz was chosen as Tesco's Charity of the Year in 2006. Research conducted by Whizz-Kidz showed that many young wheelchair users found it hard to develop adult skills and outlooks, so the charity provides training to help young people become more confident and independent.

Tesco is backing a five-year project, launched by Whizz-Kidz and also supported by the National Lottery, to set up a network of clubs for young wheelchair users. The 'Kidz Unlimited' project provides a chance for young disabled people to socialise and raise issues that are important to them. It also provides training, work skills, advice and access to work placements.

## Conclusion

Tesco recognises that the communities it works in are diverse and constantly evolving. In addition, each individual has skills and potential that Tesco can help them to realise. Tesco's diversity and inclusion strategy ensures that 'everyone is welcome' and that systems are in place to help people reach their potential. This strategy helps Tesco find, train and employ the best talent from all parts of society, particularly groups that may otherwise be under-represented, for instance, young wheelchair users.

This strategy helps to create a workforce that reflects the same diversity as is found in society. This means it better reflects Tesco's customer base. The business wants to attract and keep the best people so it works hard to make Tesco a great place to work. By encouraging employees' development, Tesco works to ensure all colleagues – wherever they work – can fulfil their potential. A strategy that supports its people and is good for customers is therefore one that is good in helping Tesco to provide better service in a competitive market.

1. Describe what is meant by diversity and equality. (2 marks)
2. Explain which groups are particularly covered by equality laws. (4 marks)
3. Analyse Tesco's diversity strategy, explaining why it is important to the workforce, the customers and the business. (6 marks)
4. Describe the different network groups and organisations that Tesco supports. Evaluate why each is of importance in helping the business be more competitive than its rivals. (8 marks)



## Delivering a superior customer experience



### Introduction

The reputation of a business may be affected by what its customers think and say about its products or services. This is driven by the experience of customers when dealing with the business. High quality customer service will encourage customers to become regular or repeat users or purchasers. On the other hand, a poor customer experience may damage a business through loss of consumer confidence.

TNT was founded in Australia in 1946 by Ken Thomas with a single truck. Today, TNT is a global business and the market leader in business-to-business (B2B) express delivery services, delivering up to 150 million items per year. It has the largest individual share of the national market and employs over 10,000 people across the UK and Ireland. TNT operates in the tertiary (or service) sector of the economy which provides widely varying services to other businesses and to consumers. The tertiary sector is the largest sector of the UK economy, ahead of the primary (extraction) and secondary (manufacturing) sectors.

In 2008 TNT recognised that the increasing expectations of customers meant the business had to make major changes to ensure it could meet their needs.



In-depth research showed that customer satisfaction depended not just on the process of delivering the service, but also on how the service was carried out. This resulted in TNT adopting a core strategy focused on delivering a quality customer experience. It developed a two-year programme to implement and communicate its Customer Promise to employees and customers.

In order to achieve the levels of process innovation and continuous improvement that the customer focus strategy required, TNT also needed to ensure the capabilities of its people were aligned to this, particularly in delivering a high quality customer experience. A review of new employees to the company showed that only 10% held qualifications above QCF (Qualifications and Credit Framework) level 2, compared to the industry norm of 52% (as identified by Skills for Logistics Research).

This case study examines how TNT's Customer Promise reflects its core strategy of customer focus and aligns with its corporate values to influence the organisation's culture.

### Why is customer focus so important?

Customer service is a series of activities designed to deliver customer satisfaction. The process of providing customer satisfaction is based on an understanding of what customers want and need. Effective businesses aim to anticipate and meet or exceed these needs. It also requires effective communication. A high quality customer experience needs to apply from initial contact through to after-sales care, whether the customer generates a one-off transaction or regular repeat business.

There are many different aspects which underpin customer satisfaction in a business. These include:

- ease of use – educating customers so that they know how to get the best from the service or product and designing services that are easy to use and access

- personal relationships – building a rapport with customers to make them feel valued and that their needs are important, so that they develop an attachment to the service
- appropriate payment systems – enabling customers to pay in ways that are convenient to them and at appropriate time, such as on satisfactory completion of service
- an effective complaints process – dealing with any problems or complaints promptly and making sure customers know of the outcome
- after-sales service – checking that customers have had a satisfactory experience and offering other potentially relevant services to extend the customer relationship.

The various elements of providing a satisfactory customer experience should relate to customer needs. Relevant factors for TNT customers involve:

- on-time delivery – TNT aims to deliver all documents, parcels and freight to the customer’s required timescale through its door-to-door integrated air and road network
- 24/7 tracking – TNT’s sophisticated online technology makes it possible for customers to track where their consignments are at any time of day, giving them reassurance
- personal attention – TNT can accommodate specific customer requirements for safe delivery of unusual or fragile items. For example, on one occasion, the company transported a life-sized fibreglass Friesian cow from Scotland to a farm in Northern Ireland!

## The customer experience at TNT

TNT’s market is highly competitive. In TNT’s market there are at least 13 direct competitors. TNT’s Customer Promise is designed to deliver a competitive advantage, something that competitors will find hard to copy. As well as providing a ‘superior customer experience’, the Promise:

- supports TNT’s market-leading position
- helps to retain existing customers and attract new ones
- motivates staff by demonstrating their valuable input
- provides a means of differentiating the business.

In order to achieve differentiation, TNT has embedded the company’s values - ‘to be a trustworthy, values-based company with a reputation for integrity, transparency and compliance’ - into its Customer Promise. TNT claims: ‘Actions speak louder than words and that when we say “Sure we can”, we mean it’. This ‘can-do’ attitude and positive mindset affect all aspects of TNT’s business.

The Customer Promise highlights the expertise and positive mindset behind TNT’s strapline ‘Sure we can’. It shows that TNT listens to customers and can add value. For example, TNT promises a ‘friendly voice at the end of the phone’. To ensure this, TNT’s own knowledgeable people deal directly with customers. Its promise ‘to resolve problems promptly’ is demonstrated by how it intercepts and repackages damaged parcels to avoid goods being damaged and customers disappointed.

Employees are instructed to be honest with customers – even if there is a problem. This fulfils its promise ‘not to over-promise’. TNT aims for its drivers ‘to do you proud’ by training them so there is the same focus on quality customer service throughout the whole process. Its promise ‘to look after you’ is demonstrated in a variety of ways: by offering a range of delivery options such as door-to-door delivery as well as online booking which allows customers themselves to reschedule deliveries where necessary to make things easier. Its promise ‘to keep our promise’ is upheld by the fact that the standards are set at the top by the managing director and communicated throughout TNT so everyone is working to the same values.

Other examples of practical changes to improve the customer experience included an online ordering service for customer stationery and an online invoicing option for those customers who want it.





TNT monitors and reviews regularly all activities relating to the customer experience, both internally and externally, to ensure it remains fresh for both customers and employees.

## Communicating the promise

TNT's people meet with or talk to customers on a regular basis. They are the public face of the organisation and represent its brand values. They hear first-hand what customers want or like. TNT recognises that its Customer Promise will therefore only be effectively delivered if its employees understand every aspect of the customer relationship. Part of setting up the Customer Promise involved communicating the change both within the organisation and externally to customers:

- Employees received a letter from the MD announcing the Customer Promise. TNT also arranged workshops to ensure everyone had the same information. It organised a job shadowing scheme so employees could understand how their roles affected other staff and potentially the customer. Alongside this, various communication tools were used to refresh the messages for all employees. These included a pocket guide, a key ring, posters, an internal magazine and videos on the intranet.
- Customers received new literature. These included the MD's letter, an information pack for new customers and a regular customer magazine, as well as direct mail about the Customer Promise to 300,000 existing, lapsed and prospect customers. TNT also set up a new feedback option on its website for customers to give their views on the service.

TNT encourages its people to 'think on their feet'. They are expected to seize opportunities and not just meet customer requirements but also exceed them. This is part of the organisation's entrepreneurial culture. TNT encourages people to make decisions for themselves (based around documented procedures and values), rather than wait to be told what to do. This helps to give faster responses to customers. TNT also set up an employee suggestion scheme, called l'dea. Employees can make suggestions for improving working practices and TNT can learn from its people as well as helping them to develop. This is part of its two-way commitment model.

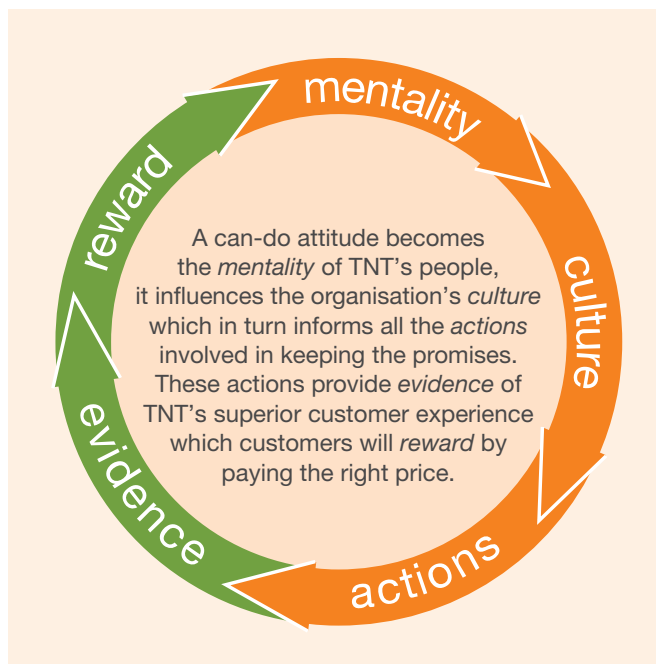
## Recognising the people behind the promise

Employees are one of the most important resources a service organisation has and TNT's ability to deliver on its Customer Promise rests in its people. Effective organisations need engaged people who have the skills to deliver the company's aims and objectives. This needs a two-way commitment. Employees need to be committed to the organisation; the organisation needs to support and reward its employees.

TNT recognises the contribution its people make in different ways. First, it invests in developing people, offering a variety of career options from driving to marketing. It carries out a training needs analysis for new employees. This assesses their existing skills and abilities in order to identify the training and development requirements that employees may have in order to carry out their current roles effectively. This also helps them to progress their career within TNT.

TNT provides the training people need to do the job (learning the specific skills and knowledge required to work in the TNT way), as well as opportunities for personal development. TNT was one of the first 16 businesses to achieve Investors in People (IIP) status. This is an independently accredited standard awarded to organisations that demonstrate commitment to people development. Investing in people helps to increase customer satisfaction and leads to more business.

TNT's focus on enhancing people's wider capabilities as preparation for future roles in the company leads to a 'win-win' situation. Employees gain from good jobs with prospects. The organisation gains from employing people who are able to promote its brand values and deliver exceptional service. Developing people helps to ensure the company has the right skills in the workforce to improve performance today and grow the business tomorrow.





Examples of TNT's training and development programmes include:

- a foundation degree with Hull College – this is mapped to national qualifications and focuses on the logistics industry. This is a great example of workplace learning and bridges the gap between academic study and work
- a foundation degree with Coventry University – this is mapped to national qualifications and focuses on management and leadership
- a five-year apprenticeship programme for young people in vehicle maintenance – this ensures that TNT has the skills it needs to keep its fleet up to standard.

TNT people are recognised in other ways. Employees are encouraged to move between roles to learn more about the company. This form of job enrichment means employees experience variety at work and improve their skills in different areas.

TNT also offers the opportunity to develop and progress within the company. Around 70% of supervisory roles are filled internally. Graduates who start working for TNT are expected to take on management roles within five years.



High performing teams and depots receive recognition and rewards through TNT's awards schemes. TNT's 'Delivering More' scheme rewards and recognises those employees who have gone beyond the call of duty. Over 4,000 awards are made each year.

## Conclusion

Effective customer service involves meeting or exceeding customer needs. However, customer service is not just about what you do for your customers, it also concerns how the service is carried out.

TNT monitors and measures performance to ensure its activities are delivering the strategy. For example, it conducts telephone interviews each week with a sample of customers to review their perceptions of its services and assess levels of customer loyalty.

Since TNT's strategy of focusing on the customer experience was set up in 2009, it has delivered strong results:

- TNT has achieved the highest levels of customer satisfaction in its market measured on 31 aspects linked to the Customer Promise.
- The Customer Promise programme has increased productivity and generated savings overall of almost £660K.
- The company achieved its targets in 2010 and 2011 despite the difficult economic climate.
- 100% of new operations employees will have a relevant qualification, making TNT the industry leader.



1. What is customer service? Give two examples of different aspects of customer service. (2 marks)
2. Explain how each of the elements of TNT's Customer Promise relates to customer service. (4 marks)
3. Using the TNT website, identify three additional examples of ways in which TNT provides quality customer service. (6 marks)
4. Evaluate how developing its employees enables TNT to benefit its customers. What drawbacks might there be for the organisation? (8 marks)

Exam-style questions

## Developing responsiveness through organisational structure



### Introduction

UNISON is the UK's biggest public service trade union. It represents 1.3 million members who deliver essential services to the public. These are services that protect, enrich and change lives. Its members work in all areas of public service. They work in hospitals, town halls, universities, colleges, schools, social services and clinics. Most people in the UK rely on these services.

There are UNISON branches in all sorts of organisations in the UK. As a trade union, UNISON represents and supports its members in issues at work. It looks after their welfare and campaigns for changes on their behalf. UNISON also has a role in local and national negotiations and in collective bargaining. This is where UNISON negotiates with employers and groups of employers for all of its members collectively. One of its key roles is in campaigning on behalf of members. This could be for changes that will benefit members such as better wages or working conditions or against policies that threaten members' jobs. UNISON therefore campaigns against government spending cuts that will have a negative impact on public services and those employed in this sector.

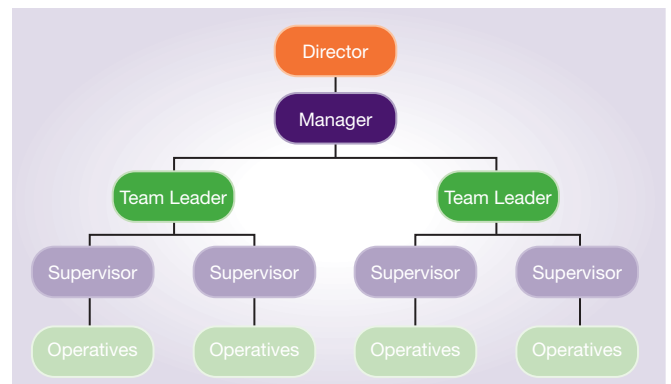
UNISON, on behalf of its members, has concentrated its campaign efforts over the past two years on the future of public services and the challenges that they face from government cuts. Public sector cuts planned by the coalition government in 2012 would mean more than 730,000 public service job cuts.



This case study looks at organisational structures and how UNISON's structure is designed to allow it to make decisions and respond to changes quickly in order to help its members.

### The structure of an organisation

Organisational structure refers to how the workers within a business are organised and how they relate to each other. A visual representation of the structure can be shown in an organisation chart. This shows who has authority over whom and the different roles that workers carry out.



Certain organisational structures suit particular types of organisations. This will depend on the size of the business, its aims and the way it sees itself (known as its corporate culture or image). It may also be affected by factors outside of its control (external factors) such as the nature and spread of its customers. Structure is often linked to the type of business. For example, it could be organised by:

- product - for instance, a chemical company could be split into paints and plastics
- function - for instance, departments of finance, marketing, human resources and operations
- geography - this could be by UK region or even internationally e.g. Europe, Asia, America.



It is important for a business to choose a structure that helps it operate efficiently. The structure should also help to achieve the organisation's aims and objectives and make best use of people and resources. The main types of business structure are:

- **Hierarchical (tall) structure.** This means that the business is organised in layers, with the higher layers having more authority than those below them. The advantage of a tall structure is that every role is clearly defined. Decisions can be made quickly by those at the top of the organisation but communication may be slower as the message has to pass through all the layers.
- **Horizontal or flat structures.** Here there are fewer layers and more people in each layer. Decision making may need to take account of several groups within a layer. However, communication is usually more effective. Flat structures often work well with skilled and motivated workers.
- **Matrix structures.** Sometimes the business needs to use people with a variety of skills who are drawn from many parts or functional areas of the business such as marketing, operations, finance and human resources. These can be organised into teams to complete projects.

UNISON has a complex structure that reflects the complex nature of the work that it carries out. Its structure is split by function and by region. UNISON's 1,100 staff work in either its new centre on Euston Road in London or in one of the 12 UK regions. Within each region there are employees responsible for different areas of the union's work. These areas include health, learning and development, and local government and education. The members are organised into branches throughout Britain and Northern Ireland. This tall structure helps it to act quickly and respond to changes:

- The National Executive Council, which is elected by members, can focus on policy and providing leadership.
- The UNISON Centre concentrates on providing a range of services to members and the regions such as legal, financial and personnel services.
- Regional employees can deal with issues particular to their geographical area e.g. when a local employer announces redundancies.

## Managing organisational structures

The type of structure that a business has reflects how it behaves. It defines its culture or way of working. A highly centralised, hierarchical structure means an organisation is run from the top. It may have a well-known person at its head who makes most of the decisions. A decentralised structure is likely to create a much more democratic culture, where everyone's opinion is valued. Decisions will often be made by groups of people or in consultation with different layers.

The national structure of UNISON is centralised with many decisions affecting the whole union made by the senior members and workers in the new UNISON centre. However, UNISON's culture is one of equality. It is a culture that gives people freedom to express their views and to be part of decision making. Therefore, some power is given to the regions so that they can make decisions. Quite often the people in the regions will have a better idea of local needs. This decentralisation helps UNISON to be responsive at all levels.

*'I feel there is a genuine 'no blame' culture at UNISON. I am able to contribute my opinions to the highest level and be listened to and complimented on my work.'*

Whatever the structure, there are certain key features that are common:

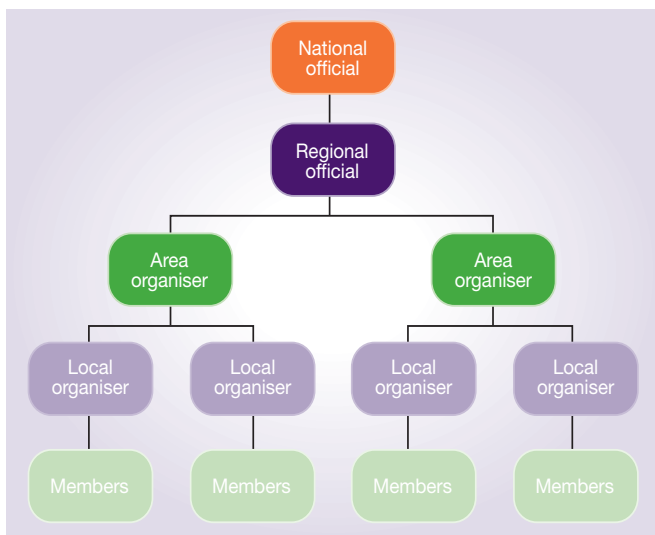
- **Span of control** – the people for whom a manager is directly responsible. A narrow span means tight control; a wide span can provide more opportunity for employees to contribute. This can lead to better motivation. There are narrow spans of control in tall structures and wide spans of control in flatter organisations.
- **Chain of command** – how authority passes down the organisation. It also shows who has power delegated (or passed down) to them.



- Accountability – who makes decisions and takes responsibility for outcomes.
- Communication channels – the way in which messages are passed up, down and across an organisation. It is also vital that the message is spread outside the organisation. For this, UNISON uses cutting-edge communication techniques. At the UNISON Centre for example, there is a media centre, plus television and radio recording facilities.

## Job roles within a trade union

Within most large organisations there are roles at different levels within the hierarchy such as directors, managers, team leaders, supervisors and operatives. UNISON is no different. The qualities and skills needed for these roles are different. For example, those at the top of the hierarchy will have to think more strategically and may need greater leadership skills than those lower down. UNISON's job roles are specific to the aims of the union.



The *local organiser* reports to the area level. This post recruits and supports members at a local level. Personal qualities needed include:

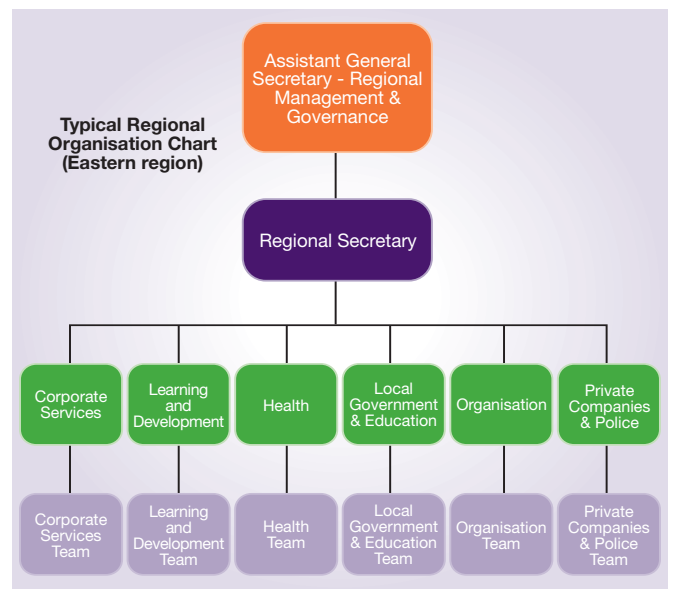
- problem-solving skills
- communication skills
- ability to act on own initiative
- resource management
- general understanding of issues facing trades unions and employers.

The *area organiser* reports to the regional level. This post organises work across branches as well as region-wide campaigns and events. Responsibilities include representing members in negotiations and claims and helping the region to

deliver its operational plan. Personal qualities required also include skills in research, analysis and developing materials as well as communication and negotiation skills.

*'The best part of my job as an area organiser is supporting members and giving them the skills, tools, knowledge and confidence to stand up for themselves and others. I get a real sense of pride when I am supporting branches and members through difficult times.'*

The *regional organiser* reports to the regional manager. This role builds and organises branch memberships. Key responsibilities involve supporting and mentoring activists, running regional projects and managing the team. Regional organisers require strategic thinking skills. They will also need to be able to manage resources and teams of people.



The *regional secretary* is the senior official in the region. As regional manager, he or she leads the Regional Management Team and sits on UNISON's Senior Management Group (SMG). The SMG is chaired by the General Secretary. The role here is one of strategic and national development and communication of policies. This person needs leadership qualities to go with the high level of responsibility. He or she needs high level problem-solving, critical thinking and communication skills. The post holder will typically have worked as a senior manager to develop these skills. All roles include the need for some physical skills (such as lifting or ability to travel) but, in accordance with equality policies, these can all be modified for anyone with a disability. Having a disability is no bar to employment with UNISON.



## Careers and training at UNISON

At the local level, a recent addition has been the role of ‘fighting fund organisers’. Faced with huge cuts to public services, UNISON is recruiting over 100 such fighting fund organisers.

These people need to have good analytical and presentation skills. They will undertake an induction training programme which prepares them to go into workplaces and recruit members. These fighting fund organisers may come from a range of different backgrounds and are central in taking the union in new directions. Their jobs will include using new methods such as social networking to keep in touch with members. New roles such as this are helping UNISON to change its structure to focus more at the local level. This makes the organisation more decentralised.

UNISON is also building clear career paths for organisers. Local fighting fund organisers will recruit members, mentor stewards and help branches to grow. To step up to area level management means more responsibility. Area officials provide representation for members. They also carry out bargaining with employers. These two activities and experience provide a good launching pad for a regional role. At regional level, jobs involve responsibility for large-scale negotiations, leading projects and managing teams of organisers.

*‘There are always new challenges, sometimes outside my comfort zone, but training and support is given for this. It makes me feel good about myself when I have tried something different.’*

This career path was designed to provide greater flexibility. It helps the union to direct resources to where they are most needed. When an employer suggests changes that will harm members – such as redundancies or a transfer of services into the private sector – a team of organisers can be on hand to work with the branch, supporting members in their workplace.

## Conclusion

UNISON, as the UK’s largest public service union, has a responsibility to support its members in the face of current challenges. These include massive cuts to public services. This means supporting not just members, but also their families and all those who rely on public services.

To meet these aims, UNISON has a clear structure. Within this, there are defined roles and responsibilities at each level. As a person rises through the structure, they are expected to take on more responsibilities. They will also have more authority – the right to make decisions. There is also a clear career path from one level to the next so that organisers can rise through the organisation.

*‘UNISON makes a valuable contribution and difference to the lives of working people, often at the most difficult times of their professional lives. I find it rewarding to work for an organisation whose aims I share and for whom I am prepared to go the extra mile.’*

UNISON is keen to provide a good working environment, but also to face the challenge of supporting members. Its Investors in People Award shows its commitment to quality.



1. Describe what a trade union does with reference to UNISON. (2 marks)
2. Explain the difference between what is meant by ‘authority’ and ‘responsibility’ within an organisational structure. (4 marks)
3. Analyse the roles within a typical hierarchical structure, using UNISON as an example. (6 marks)
4. Evaluate why UNISON’s structure is appropriate to the union, giving reasons to support your answer. (8 marks)



# Using cost-benefit analysis to appraise investments



## Introduction

Every morning millions of people in the UK have a bath or shower, make a cup of tea and wash the dishes before they start the day. Thousands of businesses use water in hundreds of different ways – from hairdressers and hospitals to factories and farms. Yet most people do not consider where water comes from or where it goes once they have finished using it.

It is the job of United Utilities to bring three million households and 200,000 businesses in North West England an incredible 2,000 million litres of clean water each day – and take it all away again. It then treats it to make it safe to go back into the environment through rivers and the sea.

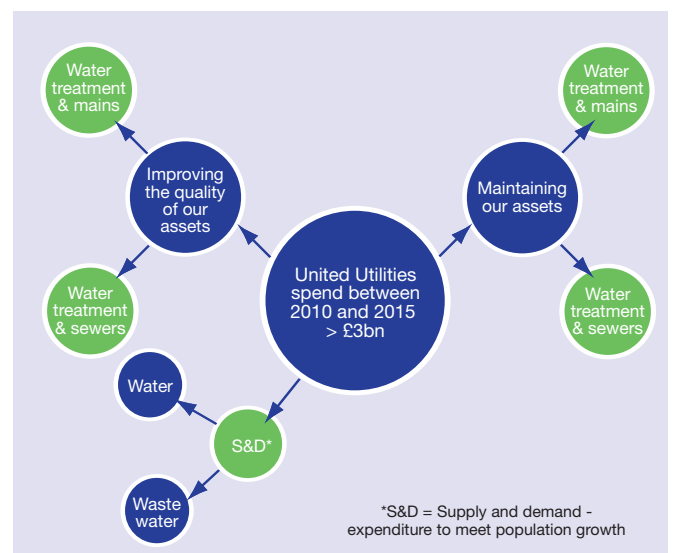
United Utilities has a licence to provide water and sewerage services to around seven million people in North West England. Ofwat, the economic regulator, is responsible for overseeing companies like United Utilities to ensure they meet their obligations to customers. These obligations include meeting standards of service and charging fair prices. United Utilities also has to meet strict environmental standards set by the Environment Agency which manages discharges to the environment. These relate to the water quality of rivers, shellfish and bathing waters along the North West coastline.

To deliver these services, United Utilities employs over 5,000 skilled employees, from apprentices to graduates, with diverse skills. These range from engineers, scientists and project managers to operational colleagues running the treatment works. Equally important are the frontline customer-facing employees and those staff in support functions such as finance, HR and IT.

United Utilities has to consider how its decisions affect its various stakeholder groups including customers, shareholders, local councils, MPs, the media and the wider community. United Utilities recognises its responsibility to the community in many ways,

including working with young people in schools from Year 9 upwards. United Utilities encourages the take up of Science, Technology, Engineering and Maths subjects in schools. It also emphasises the importance of learning about the environment.

In the period from 2010 to 2015 United Utilities will invest more than £3 billion to improve the water and wastewater infrastructure and the environment across the North West. As a commercially-operated business which provides a public service, United Utilities seeks to carry out all its projects in the most cost-effective way. It embraces cost-saving innovations without compromising the service to customers. A breakdown of where this money is spent is illustrated below.



This case study examines one major wastewater quality improvement investment made by United Utilities. This was for a bathing waters and shellfish waters project in Millom, a coastal area in Cumbria in North West England. It shows how important non-financial considerations, such as the impact on the environment, were in arriving at the best decision.

## Drivers for investment

Businesses invest for many reasons, such as:

- to grow an existing business. United Utilities expanded by building new assets such as storage tanks and water treatment works
- to replace and improve existing facilities. In United Utilities' case, this has involved upgrading or replacing sewers and water mains
- to meet legal or environmental requirements.

There were two main drivers for United Utilities to invest in the Millom project:

1. European legislation. The European Union sets out regulations known as directives. The Bathing Waters Directive sets the standards for water quality where people may want to swim or paddle. Similarly, the Shellfish Directive covers the quality of water where shellfish may be grown and harvested. Only shellfish that are cultivated in clean water can be sent to market.
2. Environmental factors relating to the quality of discharged water. The Millom project was designed to improve the quality of wastewater discharged back into the environment.

United Utilities identified a need to improve its management of water and waste water in the area around Millom and the Duddon Estuary. It aimed to combine engineering design with a consideration of environmental factors to generate the best solutions. This required working with a range of stakeholders to determine the best possible investment decision. Stakeholders are groups with an interest in a business decision.

The investment decision was ultimately based on a cost-benefit analysis. Cost-benefit analysis involves taking into account both financial factors and wider social issues (including environmental impact).

## External factors affecting investment appraisal

Any investment requires initial capital expenditure (capex). Appraising an investment project involves weighing up the likely future return on that investment (ROI) against the expenditure. Methods often used include calculating the Accounting Rate of Return and the Payback period:

- Accounting Rate of Return (ARR) is calculated as the average annual profit that is expected over the life of the investment project compared with the amount of capital invested. For example, if the investment in a project is £200,000 and the expected profit is £15,000 a year, then the ARR is 7.5%.

$$15,000/200,000 \times 100\% = 7.5\%$$

- Payback calculates the length of time needed to recover the money originally invested from the cash generated by the project. For example, if an investment of £200,000 is expected to lead to cash flows of £25,000 per year, then the payback period is eight years.

$$\pounds 200,000/\pounds 25,000 = 8 \text{ years}$$

However, United Utilities, when appraising any investments, needs not only to consider the financial return on the investment but also to assess the benefits to communities and the environment. These are called external benefits. For United Utilities, the private benefits consist of the revenues from domestic and business customers. The wider external benefits include the benefits to local communities, to nature lovers, to the environment (including bird and animal life), as well as cleaner water.

Capital investment projects incur costs that need to be quantified. Internal costs are easy to determine, a major one being the cost of borrowing money (for example, the interest on a loan). Added to this are the direct project costs – these include materials, labour etc. However, projects can have negative effects on the locality. To arrive at the best decision for all relevant stakeholders, any project that United Utilities engages in requires a careful assessment of both the commercial costs and revenues and the external costs and benefits. The bases for decision-making using cost-benefit analysis are summarised in the following formulae:

$$\begin{aligned} \text{Social benefits less social costs} &= \text{cost-benefit analysis} \\ \text{Social benefit} &= \text{internal (company) revenues} + \text{external benefits} \\ \text{Social costs} &= \text{internal costs} + \text{external costs} \end{aligned}$$

United Utilities is keenly aware of the social costs and benefits of its investments and always seeks to maximise the social benefits whilst minimising the social costs. Since 1990 United Utilities has invested more than £4,000 for every household in the North West. The benefits of these investments include:

- halving leaks from water networks
- improved compliance with bathing water standards from 30% to 90% across the North West
- improving water quality to the best that it has ever been.





As a project always has the potential for both positive and negative external effects, United Utilities seeks to quantify these to help select the best overall decision from its range of options. The following sections show the basis for such decisions relating to the Millom project. These include the costing criteria and how the options specifically met stakeholder needs.

## Investment for the Millom project

The original budget for the Millom project was set at £14.5m. However, this was before a full evaluation of the social costs was carried out. Having consulted with the Environment Agency, United Utilities aimed to identify the best possible solution for its shareholders, the environment, local communities and other stakeholders. The key considerations were:

1. the initial capital outlay of the project (capex)
2. the ongoing operating expenditure from running the project (opex)
3. the wider costs and benefits to the environment and other stakeholders.

All possible solutions when costed out were over the original budget. Therefore the partners in the plan engaged in a cost-benefit analysis to identify which of the three options put forward gave the best return against all factors.

The whole-life cost assessment of the solutions involved examining capital costs of construction (e.g. concrete structures, pumps and pipe work) as well as operating costs – e.g. power and chemicals for treatment. Although option 1 had a significantly lower initial capital outlay, originally United Utilities had discounted options 1 and 3 as the application of the technology was new to the company and the regulator, so more data was needed to accept the solution. This only left option 2, despite it being the most costly and potentially having a negative impact on the environment.

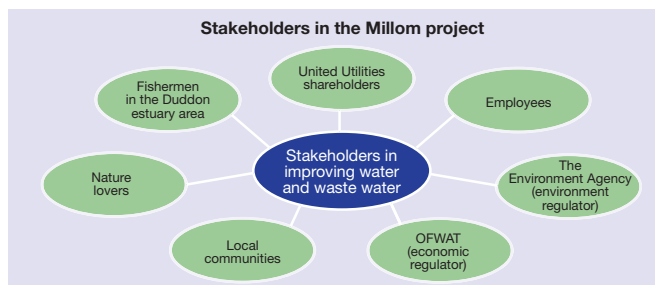
However, United Utilities found positive evidence from colleagues at Welsh Water to demonstrate how the ultraviolet treatment processes could be used effectively. It then worked closely with the Environment Agency to ensure the project minimised the negative external costs and maximised the external benefits. This resulted in United Utilities adopting option 1 as the most innovative, cost-effective and environmentally beneficial option that in some way satisfied all stakeholders. The key reasons were:

- It had the lowest capex and whole-life cost - the infrastructure for option 1 can be contained within the existing waterworks/treatment works site.
- Its carbon footprint and environmental impact was lowest - it minimises the use of concrete and construction waste.
- When storms and heavy rain occur the excess water is treated with ultraviolet disinfection and is discharged into the estuary. This eliminates strong odours that would have affected the local community and delivers benefits to the shellfish and bathing waters.

Option	Key elements	Whole-life cost	Benefits	Risks and issues
1. Small scale upgrade to the site and using ultraviolet rays in tubes to kill bacteria in wastewater to improve quality	Lowest capex, but higher opex	£18.5m	Uses least land and lowest initial capex	High power and other operating costs. Uses a technique in a new way for United Utilities and the Environment Agency in the North West
2. Create new large storage and pipe work requirements	Highest capex but relatively low opex	£22.8m	Confident that the solution would work and deliver the benefits	Over budget. Results in very large concrete structures that generate waste for disposal
3. Major site upgrade and using ultraviolet in tubes to kill off bacteria	Middle for capex and opex	£21.3m	Uses a little less land than option 2	Over budget. Uses a technique in a new way for UU and EA

## Working with stakeholders

In a public service industry like water, gas or electricity, it is essential to make investment decisions that respect the requirements of many different stakeholders. United Utilities sought to find a solution that met with commercial criteria, met budget and also minimised negative impacts on the community. By working closely with the Environment Agency, United Utilities was able to come up with a socially and environmentally acceptable solution.



In terms of satisfying stakeholders, United Utilities considered (and by selecting option 1) fulfilled the following key requirements:

1. Convinced its own shareholders that the decision was good in terms of financial criteria and maintaining the excellent reputation of the company.
2. Convinced the Environment Agency that wastewater would be treated to the required standards so that the EU directives could be met in this area of the North West.
3. Demonstrated to landowners that their land rights would be respected and that huge areas of land would not be taken away from them.
4. Provided fishermen and consumers of shellfish with good quality stocks and supplies.
5. Provided swimmers with bathing waters that are of a high standard.

The table below summarises the financial and environmental impacts considered as part of the investment appraisal in order to assess the overall impact of the three options. This clearly shows how option 1 provided the most effective balance of commercial and environmental factors.

Option	Capex (£m)	Whole-life cost (£m)	Carbon (tonnes) from construction	Carbon (tonnes per year) from operating the site
1. Minor changes to site + UV treatment	15.8	18.5	5127	273
2. Storing wastewater in concrete structures	24.0	22.8	8719	827
3. Major changes to site + UV treatment	22.0	21.3	6553	349

## Conclusion

United Utilities is a major partner in the economic life of the North West. It manages huge reservoirs such as Thirlmere and Haweswater in Cumbria and treats the wastewater from homes and businesses across the North West before disposing of it safely back to the environment. It is committed, through investments, to providing sustainable solutions to business and environmental challenges. The company recognises that quality management begins at the start of the water production process and continues right down to safe discharge of wastewater. United Utilities keeps its catchment land as clean and sustainable as possible.

In the Millom project, United Utilities was faced with a number of drivers requiring better water management to meet consumer needs, legislation and environmental demands. It responded by identifying three alternative options and then working with the Environment Agency to identify the solution which offered the best value for money and long term sustainability.

The use of cost-benefit analysis meant that the chosen solution minimised financial costs and limited the impact on the local landscape whilst giving acceptable benefits to shareholders, the local community and the environment.

1. Describe how stakeholders affect a business and its investments. (2 marks)
2. Explain the benefits of effective investment appraisal for the company and its stakeholders. (4 marks)
3. Compare the advantages and disadvantages of using a cost-benefit analysis of an investment rather than using ARR or Payback alone. (6 marks)
4. Evaluate how you might carry out an investment project of your choice (e.g. a new school building or the development of a local sports centre) to take into account a range of stakeholder interests. (8 marks)

Exam-style questions



### The benefits of budgeting

FINANCE



#### Introduction

Zurich Insurance Group is a leading global provider of insurance services. Zurich’s mission is to help customers understand and protect themselves from risk. The company employs 60,000 staff and serves customers in 170 countries around the world.

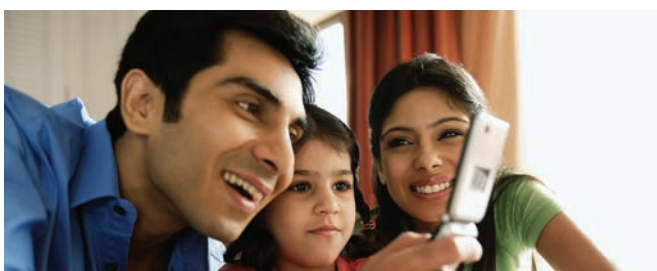
Zurich offers General Insurance and Life Insurance products, for example:

- General Insurance: car insurance, home buildings and contents insurance
- Life assurance: life insurance, investment and pension plans.

Zurich offers its products to retail customers (mainly individuals) and corporate customers (i.e. businesses).

Life is full of uncertainty. The building you work in could catch fire. Your computer could be stolen. You may have an accident. These are all risks with a small but real probability that they may occur. Insurance provides protection against that risk. In return for a fee (a premium) it provides a financial payment in the event of financial/personal loss.

So what makes Zurich one of the leading insurance companies? It starts with Zurich’s brand, reputation for quality customer service and solid financial strength. The insurance industry is tightly regulated, requiring strict standards and highly skilled finance professionals. Zurich, therefore, aims to attract the best graduates.



Zurich’s ethos is underpinned by its core values:

Integrity	<i>Openness, reliability and honesty</i>
Customer centricity	<i>Putting the customer first and at the centre of all operations</i>
Sustainable value creation	<i>Generating value for customers and shareholders on a secure, long-term basis</i>
Excellence	<i>Quality in management, operations and products</i>
Teamwork	<i>Pursuing strategy through sharing expertise and ideas</i>

A key component of Zurich’s values is corporate responsibility. Being a responsible company is fundamental to Zurich’s long-term sustainability. For example, Zurich Community Trust in the UK actively helps over 600 charities make a difference to the lives of thousands every year.

Insurance is an extremely competitive market. Customers will obtain quotes to find the best value either from Zurich directly or through a financial adviser. This case study shows how Zurich’s careful approach to budgeting is a contributory factor in gaining competitive advantage.

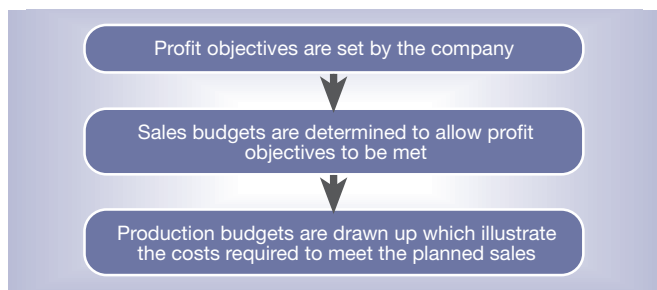
#### What is budgeting?

An organisation must earn enough revenue so that, after all costs have been subtracted, there is a profit remaining. One of the most useful financial tools is the budget. A budget is a business plan expressed in financial terms. Budgets can be drawn up for sales, costs or investment spending.

A budget will include a degree of prediction of performance which is usually based on past data e.g. sales.

It is important that it is a realistic financial plan that the business can fulfil. Managers at all levels will have their own budget plans, designed to co-ordinate with and contribute to the overall plan or master budget. Therefore, managers need to be involved in contributing information to the budget to which they will be committed.

Budgets should be stretching but achievable. They should enable companies to meet both short- and long-term financial and strategic objectives whilst providing motivational targets (potentially linked to bonus payments) for managers to promote the right behaviours. All budgets must be carefully monitored, reviewed and, if appropriate, re-assessed as internal factors (e.g. a major project costs significantly less or more than expected) and external factors (e.g. regulatory developments) change.



Zurich has three core business segments: General Insurance (e.g. car, home), Global Life (e.g. life assurance, pensions and investments) and Farmers (core North-American business). These segments are divided into regions, for example Europe, and then into business units, for example UK Life. Through discussion with various stakeholders, budgets are set for each business unit, with the combined budgets supporting Zurich's overall corporate aims.

For example, the table below shows the revenue and expense budgets for UK Life. The expenses budget is broken down by function. *(All figures are for illustration only.)*

## Benefits of budgeting

Budgets are a financial representation of an organisation's strategy. The process of budgeting requires managers to plan ahead, for example, to identify the resources required to meet targets. This is particularly important in the insurance industry due to the complex nature of the products offered. Insurance generally addresses medium- and long-term needs of customers. Decisions taken now are likely to have financial implications for many years to come.

For example, in the UK, Zurich offers a protection product which provides a payment in the event of the death of the policyholder to pay off an outstanding mortgage. Typically, this product offers protection for 15 to 25 years. Zurich guarantees a price to the policyholder for the whole term. If the outcome is different to that which was assumed when the price was set (e.g. fewer or more deaths occur or fewer or more policies are cancelled than expected), Zurich will either make a profit or a loss on that product. Due to the long-term nature of these products any profit will emerge over many years.



The budgeting process can be used for monitoring and control of financial performance. Results can be reviewed as frequently as necessary against budgets to identify good and poor performance areas. Managers need to investigate the difference or variance between budgeted and actual results. Where actual figures are worse than budgeted, these are called adverse variances. Adverse variances may suggest problems. Where budgets are not being met, action can be taken. Budget targets can be highly motivational and staff who meet or exceed budgeted targets may be rewarded with bonuses.

UK Life – Revenue and Expense budget (6 months to end June 2012)						
	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
<b>Revenue budget 2012 (£m)</b>	48	62	70	63	66	61
<b>Expenses budget 2012 (£m)</b>						
Sales	9	11	13	12	12	14
Propositions	6	7	8	7	8	9
Operations	14	19	21	19	20	22
Finance	4	5	6	5	5	6
IT	8	11	12	9	11	13
Control function	2	3	3	2	3	3
<b>Total</b>	43	56	63	54	59	67



## Challenges of effective budgeting

Suppose sales volume, prices and costs were all projected to rise annually by 10% (incremental budgeting). This would make budgeting easy, but it is highly unlikely. To increase sales may require price reductions and discounts. Successive rises in sales volume might bring economies of scale, but might need investment to expand production in order to meet that demand.

Effective budgeting is full of challenges. Whilst financial accounts relate to the past, budgets are about the future. All data is therefore planned rather than actual, probable rather than definite. Budgets are based on a number of assumptions. Some of these are explicit, such as what the cost of labour and raw materials will be or what market research results indicate about likely customer demand. Others are more implicit. A change in leadership in the sales team, a good relationship with a new supplier or changes in the organisation's external environment could all affect budget projections.

Zurich may face unanticipated changes in legal or financial regulations or a change in market dynamics brought about by economic factors or the actions of competitors. An insurer needs to predict the risks its insurance policies protect against, both short-term risks, such as floods and earthquakes and longer-term risks, such as mortality rates. Budgets also need to reflect the business' need to invest in specific projects or long-term improvements.

Budgets may also cause conflict between departments. For example, the allocation of additional budget to sales and marketing could result in operational areas receiving a reduced budget. Within Zurich, conflict between departments is resolved with the help of Business Partners. These work with the different departments to achieve an appropriate and fair division of the budget, in line with the business' and senior management's objectives.

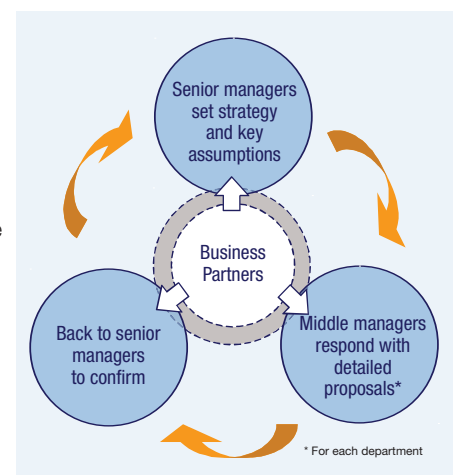
Analysing budgeting data may uncover opportunities that would otherwise have remained hidden. Therefore budgets must be set using the best information available but have flexibility in order to respond to the changing business environment.

## Setting and using budgets

Having established the core financial objectives, often referred to as key performance indicators, the strategies to achieve them can be set in one of two main ways. The budgeting process can be:

- 'top-down' - i.e. set by senior managers and directed downwards, often based on previous results
- 'bottom-up' - i.e. evolving upwards from middle managers, through the use of detailed analysis, for confirmation by senior management.

In practice, at Zurich there are elements of both approaches. Senior management undertakes the top-down 'ambition setting'. This gives the strategic context. Managers then consider historical data, prevailing trends and any new drivers in order to formulate proposed budgets.



Zurich Business Partners help to ensure 'joined-up budgeting' between areas of the business:







- Revenue centres generate income. They prepare sales budgets.
- Cost centres generate expenses. They prepare operating or production budgets.
- The profit budget draws together all the budgets for revenues and costs to meet overall financial objectives.

An alternative approach to incremental budgeting is zero-based budgeting. This means that each expenditure budget starts with a zero allocation each year. Managers must justify each element of the budget they propose. This has the advantage of making managers think proactively about what funds they need. It also avoids the tendency simply to add a percentage of the previous year's budget or assume that expenditure will remain the same. However, one major disadvantage of this approach is the increased demand on staff time, which is an expensive resource with an opportunity cost.

The first results against budget may show that the business is not exactly on target. The budget then becomes a 'dashboard' to assess all the factors and make the necessary changes to reach goals. Variance analysis is used to identify differences between budgeted and actual figures. This can be demonstrated using the illustrative expenditure budget for UK Life.

UK Life - Expense budget dashboard 2012 £m							
FUNCTION	YEAR TO DATE (end April)			FULL YEAR OUTLOOK			Trend
	Budget	Actual	% budget	Budget	Forecast	% budget	
Sales	45	48	107	137	134	98	↑
Propositions	28	33	118	82	100	122	↓
Operations	73	64	88	229	212	93	↔
Finance	20	19	95	60	55	92	↔
IT	40	45	112	123	134	109	↑
Control function	10	8	80	30	23	77	↔
<b>TOTAL</b>	<b>216</b>	<b>217</b>	<b>101</b>	<b>661</b>	<b>658</b>	<b>99</b>	↑

**KEY**

	Worse than a 10% adverse variance (i.e. >110% of an expense budget or <90% of a revenue budget)
	Less than 10% adverse variance
	Favourable variance
	Improving trend
	Stable trend
	Worsening trend

Results better than or on budget are 'green' and represent no immediate problem. They may be worth investigation to understand new practices or to exploit new opportunities. Results that are only mildly outside expectations are 'amber'. These may need attention particularly if there is a worsening trend. Finally, there are the adverse ('red') results. Red areas demand immediate investigation and remedial action to bring performance back to budget. All results should be investigated based on the level of risk each deviation poses to meeting the overall business goals, but priority should be given to red areas.

Zurich Business Partners assist managers in understanding and explaining current performance by identifying the root causes of any deviations from the budget. They also look forward – known as forecasting – to assess how those deviations will affect the performance compared to the budget over the remainder of the period and in the context of overall objectives.



A deviation may be explained by an unforeseen event; it may be the beginning of a major adverse trend that requires a counter-strategy. Analysing recent trends can act as an 'early warning' system and may indicate how the business' performance will evolve in the future.

**Conclusion**

The Zurich brand is associated with trust and reliability. Quality is at the heart of its customer appeal. However, it is also about innovation and being an industry leader, both in its operations and responding quickly to emerging risks and opportunities. This allows Zurich to deliver what matters when it matters.

The budgeting process is a source of competitive advantage. Effective budgeting requires careful research and realistic planning as well as collaboration. It can help to set high objectives or move the business into new territory. The level of 'stretch' or challenge in a budget will depend on an organisation's culture and ambition. Some businesses may be prepared to accept a higher risk profile for a better return. This in turn will depend on the influence of key stakeholders, such as shareholders.

To ensure the company has the capability to achieve its aims, Zurich employs graduates and finance professionals who are skilled in managing and interpreting budget dashboards.

1. Describe the main purpose of a budget. (2 marks)
2. Explain how an organisation's profit budget can help it meet overall financial objectives. (4 marks)
3. Using Zurich as an example, draw up a mind map to show the internal and external factors affecting the preparation of budgets. (6 marks)
4. To what extent is budgeting an effective tool for business management? (8 marks)

Exam-style questions





## Creating quality customer care

OPERATIONS



### Introduction

Zurich Insurance Group provides insurance and other financial services to both individuals and businesses. The group has more than 130 years experience and is one of the world's largest insurance groups. It has more than 60,000 employees and operates in over 170 countries. In the UK alone, Zurich has over two million live policies and each month its Life business handles 300,000 interactions with customers by telephone and mail, as well as a further 300,000 email and internet enquiries.

Zurich products and services include insurance for properties, accidents, cars and life. The aim of insurance is to help people and businesses protect themselves financially if something goes wrong. There can be major financial consequences if expensive assets like buildings and cars are damaged. People need assurance that they will not suffer if someone is unable to work, requires extensive treatment or care because of an accident or dies.

The policy holder has the reassurance that if something goes wrong, the consequences are managed and Zurich's insurance will, at least financially, help to put things right. In exchange for its customers paying money in regular premiums (over a specified period of time) Zurich promises that it will be there when it is needed.



In a service industry many companies offer broadly similar products. Quality is one way in which Zurich can differentiate its services from those of its competitors. It puts delivering quality customer service at the heart of everything it does.

Zurich's ambition is to be the best global insurer as measured by its customers, shareholders and employees. Zurich demonstrates its commitment to achieve its ambition through the Zurich Basics. This is its code of conduct for all employees based around five core values – Integrity, Customer Centricity, Excellence, Sustainable Value Creation and Teamwork.

This case study examines how Zurich brings quality to life in the care it provides for its customers every day.

### What is quality?

Quality can be described as 'fit for purpose'. Note that quality does not necessarily equate to 'luxury'. For example, if someone wants to hire an economical and easy-to-park car, then a model such as a Smart car would adequately meet the customer's need so would be fit for purpose. Providing anything of a higher standard would be an unnecessary cost. Quality is linked to what the customer needs and expects. If a product meets these needs and expectations, then it can be considered a quality product.

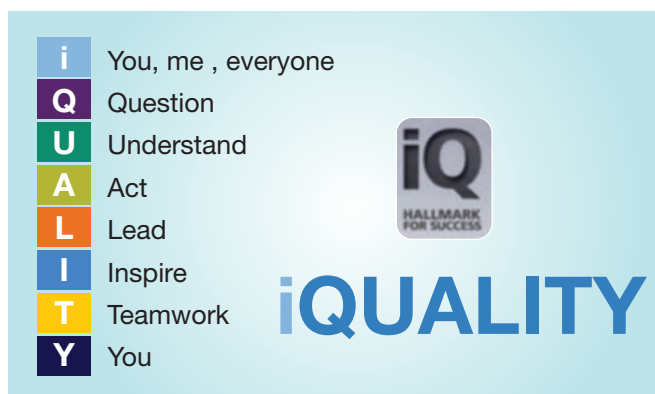
Quality is also linked to the target market of a business. The level of quality required to be fit for purpose is different depending on the types of customers a business deals with. For example, a customer willing to pay £50 per night for a hotel room will have lower expectations than a customer willing to pay £200 per night. However, in both cases, the customer will consider whether the quality of the room is fit for purpose based on the amount they have spent.

Quality is equally relevant to a service business as to a manufacturing one. Zurich must therefore establish what its customers need and expect. It must deliver on its promise to be there when its customers need assistance efficiently and courteously.

The ability to meet customer needs and expectations and deliver on its core promise determines how customers feel about the Zurich brand. To ensure that customers have a positive experience, Zurich focuses on:

- clearly identifying customer needs
- effective planning and processes
- putting in place the right resources (people and systems) for the job
- providing in-depth employee training to ensure that all staff are customer focused
- setting appropriate and achievable targets
- continuous measuring and monitoring of progress against these targets.

Zurich has developed a way of helping its employees to deliver quality consistently to customers and has called it iQUALITY. This acronym is designed to help define what quality looks like at Zurich. It reminds staff that quality is a key part of every interaction they have with customers.



Zurich recognises that quality is not a 'one-off' process. Its commitment to providing a world-class service requires that it continuously listens to its customers' changing needs and expectations. It puts in place the appropriate processes and people to meet these needs. Employees play a crucial role in delivering quality service. Zurich encourages its staff to:

- **see...***the benefits of getting things right, first time, every time*
- **hear...***what our customers want, keep our promises and deliver*
- **feel...***empowered and add value to the business and the customer experience*
- **think...***about how customers perceive Zurich.'*

## Managing quality

Quality can be managed in several ways. It can be measured at the end of a process to make sure that any sub-standard products do not reach customers.

This is known as quality control (QC). This procedure is most often used in product manufacturing. The process involves testing a sample of the product as it comes off the production line. Putting things right at the end of a process is often costly. In a manufacturing environment, extra items must be made to replace the faulty products. There will also be costs in terms of the staff time needed to put things right and other resources. For example, it may not be possible to recover or re-use the materials from faulty products.

In a service industry, a quality control approach is rarely enough to maintain standards. This is because many aspects of a service are only realised as they are delivered to customers. For example, an insurance company can only deal with a claim on a policy when the customer makes a claim.

This is why many businesses use other ways of managing quality. One approach is quality assurance (QA). Quality is not simply considered at the end of a process but at every stage. Processes or procedures can be measured against set standards or 'best practice' benchmarks within the industry.

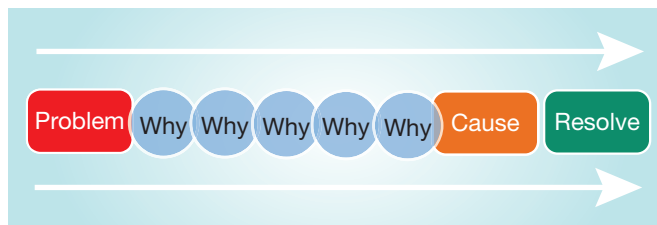
Total quality management (TQM) is an approach that seeks to ensure that all parts of a process are 'right first time'. The aim is for 'zero defects'. A TQM approach requires every employee to take responsibility for delivering quality. TQM looks at improving both the people and processes involved in the business through continuous improvement.

Zurich's approach to managing quality uses a combination of the methods above. Firstly, it uses iQUALITY to embody the principles of TQM, helping to bring this to life in the minds of its employees so they apply it to the customer care experience every day. Secondly, Zurich carries out regular quality sampling of the customer care it provides and the outputs it produces, e.g. letters and benefit statements. The amount of quality sampling carried out depends on the level of the employee's experience and the complexity of the task.



For example, work produced by a new recruit may initially be subject to QA whereas, for an experienced employee, quality sampling will normally be carried out as a percentage of the work they complete. If the quality sampling for the experienced employee identifies a trend of errors, the percentage of quality sampling may be increased.

In practice, it is difficult to remove errors completely from a business process. To drive continuous improvement, what an organisation can do is identify errors and put them right. Zurich uses a process known as 'root cause analysis'. This is a way to find out why something went wrong and to find ways to stop it from happening again. Zurich applies the 'five whys' approach to root cause analysis. Staff involved in quality management look at the 'trigger' that brings attention to the problem and then repeatedly ask 'why', probing deeper, until the true root cause is discovered. Once this is identified, Zurich can devise a suitable solution to stop it happening again and then monitor outcomes to make sure that the solution is addressing the problem.



For example, one issue facing Zurich was that it was receiving a number of similar complaints from customers about not receiving payments promptly when their savings policies matured (came to an end). The complaints were the 'trigger' in this case. Using the 'five whys' approach, Zurich found the root cause was that the manual process for issuing claim packs and sending payments for these policies was causing delays. Zurich changed the process so that packs are now sent out earlier and the payments are sent out automatically 10 days before a policy matures. This ensures customers receive payment promptly. There has since been a 78% fall in complaints related to this issue.

## Measuring quality

In order to measure quality, a business needs to establish key measures to track how well it is meeting standards. It could, for example, measure how many customers buy other products from the company (repeat business) or how fast it responds to customer queries (customer response rates). Zurich's UK Life business deals with over half a million calls, emails and letters a month. Just 0.3% of these are complaints. Zurich is quick to respond to any complaints or issues raised by its customers.



It is also important for a business to capture and regularly review the results of its quality management processes against its own or industry-set benchmark standards. This can help to identify problem areas and enable preventative steps to be taken to correct the problem or prevent it from getting worse. Unidentified problems may lead to inferior service which, in turn, could reduce customer satisfaction. Zurich uses a quality framework to regularly review the results of its quality measurements against benchmark standards.

A business may also use measures set by outside bodies such as the British Standards Institute (BSI) or against the performance of other businesses in its industry. As a provider of financial services, in the UK Zurich is regulated by the Financial Services Authority (FSA). This sets out rules and regulations covering all aspects of the business, including the concept of Treating Customers Fairly. Zurich's approach to customer centricity aims to go beyond the requirements and standards set out by the FSA and BSI.

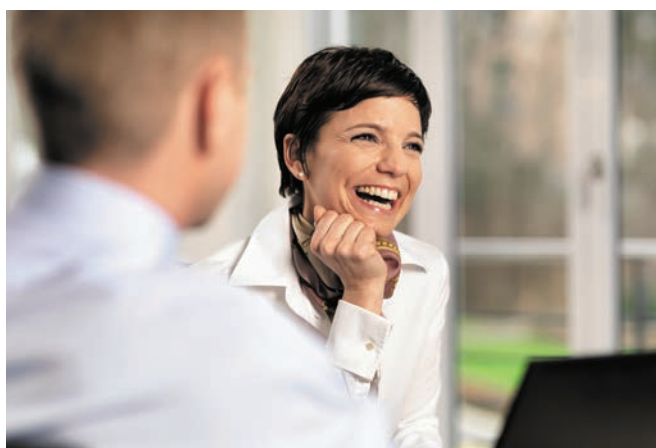
As a global business, Zurich aims to be the best insurer as measured by all its main stakeholder groups – its customers, its shareholders and its employees. For a customer-focused business, levels of customer satisfaction are one of the most important measures. Zurich aims to be in the top 25% of insurance providers for customer satisfaction. High customer satisfaction scores should be reflected in repeat business and growth in sales. Zurich conducts extensive market research with large numbers of customers. This helps managers to understand how far the company is meeting customer needs. Zurich also uses an independent measure called the TRI\*M index. This assesses how well different parts of the business are satisfying customer requirements.

As part of its customer impact scheme, Zurich asks customers to rate the company's performance. Most recent results show that most customers rate Zurich as good, very good or excellent in the three key areas aligned to its business objectives.



Developing and promoting products and services	74%
Giving clear information and good service at point of sale	94%
Maintaining effective relationships	82%

Another measure of how well a business is delivering on its promises are awards from within its own industry. Recent awards for Zurich include two Five Star Service Awards at the FT Financial Adviser Awards. This followed an intensive voting process involving 25,000 questionnaires – the biggest poll in the financial services industry. Zurich also received an Outstanding Achievement Award at the FT Adviser Online Service Awards 2011 in recognition of the way that it has maintained a level of excellence since the awards began five years ago.



## Benefits of managing quality

There are costs involved in setting up systems to manage and improve quality. It requires staff to spend time in training or in monitoring processes. It requires investment in quality measurement systems. The costs of running large-scale customer surveys are significant both in time and money. However, direct feedback is essential in order that a business understands what its customers think about its service and, importantly, what it can do next to increase their loyalty. A quality-conscious business recognises that these costs are a good investment and that the benefits of managing quality outweigh these costs.

Providing quality services delivers benefits to the business. It can gain savings from having more efficient staff and processes, higher productivity and fewer rework costs. Some benefits are harder to measure but also add value within the business, such as improved staff morale and motivation. These help to retain staff, build experience within the business and save on recruitment costs.

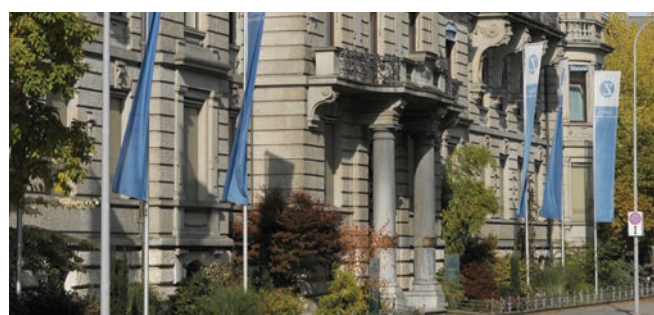
Good quality should also be reflected in the bottom line – in sales and profits. In many service industries, the quality of service is the key factor that helps a business to outperform its rivals. High levels of customer care create high levels of customer satisfaction which can give the business a competitive advantage.

In the Financial Services industry, products and prices can appear very similar to customers so customer care is the differentiating factor between providers. Customers that have a positive experience are much more likely to renew their policies, buy other products and services and recommend the company to others. Not managing quality could lead to disappointed customers who could easily choose to take their business elsewhere. Zurich's customer care sets it apart from others in the industry, maximising potential to retain its customers.

## Conclusion

A quality product or service is one that does what it is supposed to do – that is, meet customer requirements for its target market. For a business, therefore, quality is based on knowing what customers need and expect and meeting these demands.

A business that is serious about quality does more. Zurich aims not only to meet customer expectations, but also to exceed them. Zurich puts quality at the centre of how it does business. It actively manages and measures the quality of the service it provides to make sure its customers receive the best possible level of customer care.



1. Describe what is meant by 'quality'. (2 marks)
2. Explain why managing quality is important to a business. (4 marks)
3. Why do you think the iQUALITY and the 'five whys' approaches help to achieve quality customer service at Zurich? (6 marks)
4. Evaluate the different ways that quality can be managed. Which of these do you think is most important to Zurich? Give reasons for your answer. (8 marks)

Exam-style questions



# Remember

- you can view and download all case studies and associated resources from our website at:

**[www.thetimes100.co.uk](http://www.thetimes100.co.uk)**

See the example lesson resources pack on the following pages





## Training and development - Harrods

### Summary case study

'Harrods of London' is a British institution. It is probably the most well-known and respected retail store in the world. For 162 years, Harrods has built its unique reputation supported by its key brand values – British; Luxury; Innovation; Sensation; Service. Harrods employs approximately 5,000 people from 86 different nationalities who deal with up to 100,000 customers a day at peak times. Harrods needs employees who can face the challenges that its reputation and standards bring. It needs people who are looking for an exciting and rewarding long-term career with responsibility and prospects. Its challenge is to find (and retain) employees with the right mix of skills and abilities, who can be developed to become the managers of the future.

Training and development is vital to any business. Its purpose at Harrods is to better the performance of employees to enable Harrods to meet its business goals. For example, at Harrods the Sales Academy develops employees' sales skills, leading to increased sales when they return to the shop floor. Allowing employees to acquire new skills, expertise and qualifications supports employee progression which leads to increased motivation. This supports Harrods' retention strategies. Training is about gaining the skills needed for a job. These may be learned at the place of work (on-the-job) or away from work (off-the-job). On-the-job training tends to be more cost-effective and relevant. However, off-the-job training is usually carried out by professional trainers. It also occurs away from the distractions of work. Training tends to have very specific and measurable goals, such as operating an IT system or till, understanding a process or performing certain procedures (for example, cashing up).



Development is more about the individual – making him or her more efficient at a job or capable of facing different responsibilities and challenges. Development concentrates on the broader skills that are applicable to a wider variety of situations, such as thinking creatively, decision-making and managing people. In short, training is typically linked to a particular subject matter and is applicable to that subject only, while development is based on growing broader skills which can be used in many situations.

Harrods employees come from diverse backgrounds and different nationalities. They have differing levels of competency, education and experience. Harrods offers comprehensive Learning & Development opportunities. These opportunities are offered at a variety of levels to suit the needs of all Harrods employees. These range from workshops for Sales Associates and Warehouse Operatives to developmental programmes for senior managers. Amber is a Harrods Retail Manager who started as a Sales Associate at Harrods through an online application. Harrods Learning and Development ensured Amber acquired the skills she needed to carry out her role. Development at Harrods is linked to the company's Business Competencies. Learning is offered off-the-job in 'bite-size' sessions. These sessions give employees the chance to learn more effectively over a much shorter period, reducing time away from work and bringing a tightly focused approach to skills development. All the Business Competencies are supported by self-help guides which are run either on-or off-the-job and include activities such as observation and review, reading and 'one minute guides' offering top tips and tactics. The sales and service programmes include the 'Harrods Welcome'. This induction provides essential training for new employees.

## Training and development - Harrods

1. What is training?

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2. Describe how development differs from training.

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3. Explain the terms 'on-the-job' and 'off-the-job' training, giving examples from Harrods.

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4. Analyse why training and development are so important for organisations like Harrods.

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### Task

For each job role below, explain whether on-the-job or off-the-job training would be best (or a combination of both). Write a report of your recommendations, in each case justifying your decision and describing what the training would entail:

- A trainee hairdresser
- A council worker employed to keep the local parks tidy and safe
- A librarian
- A trainee doctor

### What have you learned?

*Flash cards* – create a set of flash cards for use when revising the topic of training and development. You should have a question on one side of the card and the answer on the other side of the card. Once completed, pair up with another student and use the flash cards to test each other.





## Training and development - Harrods



### Where does the lesson fit?

This session would fit in a Human Resources module to introduce the concepts of training and development. It could follow sessions on recruitment and selection and may be followed by learning about retention or motivation.

### Suggested resources & activities

Related to Harrods and Training and Development.

- Full Harrods case study
- Training and Development PowerPoint
- Staff Retention lesson resources
- Harrods crossword
- Harrods word search

### Suggested timings for the session

- |                |  |
|----------------|--|
| <b>10 mins</b> | Starter e.g. Harrods word search                                 |
| <b>5 mins</b>  | Use the Training and Development PowerPoint to discuss the topic |
| <b>5 mins</b>  | Read the case study  |
| <b>10 mins</b> | Questions  |
| <b>20 mins</b> | Task – training report for different job roles                   |
| <b>10 mins</b> | What have you learned?   |

### Answers to questions

#### 1. What is training?

Training involves acquiring new skills and knowledge in relation to a current role. It is concerned with the present and the needs of the job role.

#### 2. Describe how development differs from training.

Development differs from training because it relates to a person's potential to acquire wider capabilities. It is more concerned with the future and the needs of the employee.

#### 3. Explain the terms 'on-the-job' and 'off-the-job' training, giving examples from Harrods.

On-the-job training takes place in the work place. At Harrods this can take the form of observing other colleagues. Off-the-job training occurs away from the workplace. The bite-size workshops offered by Harrods are examples of off-the-job training.

#### 4. Analyse why training and development is so important for organisations like Harrods.

Training and development is important for Harrods because:

- It helps to meet business goals e.g. sales targets
- It increases motivation
- It helps Harrods to retain its staff
- It helps maintain its reputation for quality
- It employs workers from many different backgrounds with differing skills and qualifications.

### What have you learned?

Expected learning is likely to include:

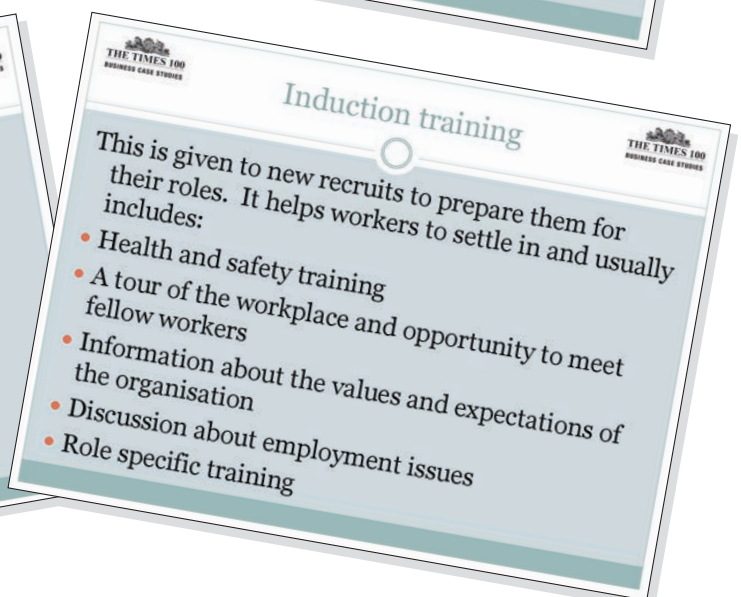
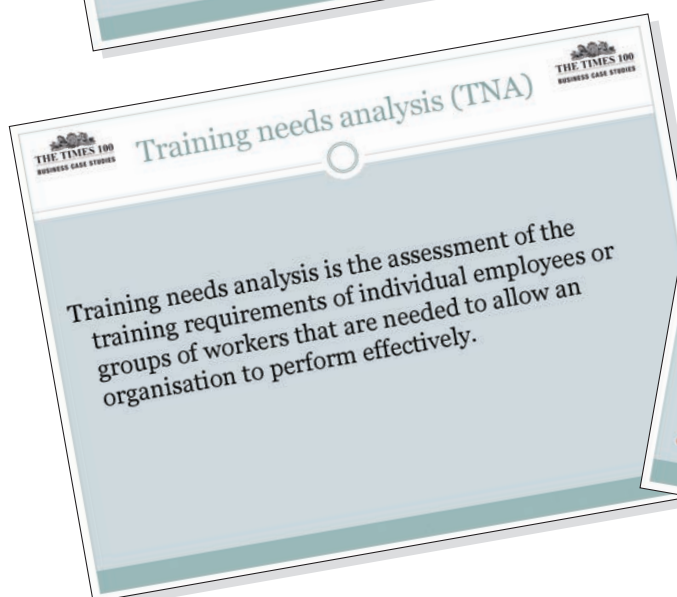
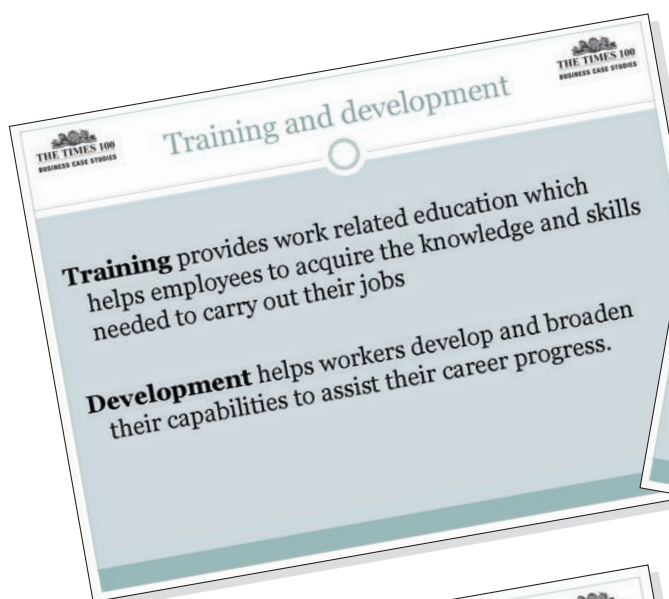
- Definitions of training and development
- The meaning of on and off-the-job training and induction training
- Advantages and disadvantages of both on and off-the-job training
- The importance of training and development for organisations





# Example PowerPoint slides

## Training and development - Harrods



## Training and development - Harrods



**On-the-job training**

This is carried out in the workplace and is related to an employee's specific job role.

The three main methods of on-the-job training are:

- Observation
- Coaching
- Mentoring

**On-the-job training**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>➢ Often cheaper than off-the-job training</li> <li>➢ Good transfer of learning</li> <li>➢ Workers may feel more comfortable training in familiar surroundings with people they know</li> <li>➢ Employees are still productive while training</li> <li>➢ Employers may have more control over the training</li> </ul>	<ul style="list-style-type: none"> <li>➢ Training is usually not provided by professional trainers but by co-workers who:               <ul style="list-style-type: none"> <li>❖ may be unskilled at providing training</li> <li>❖ may not be given enough time to carry out training effectively</li> <li>❖ may pass on bad habits</li> </ul> </li> </ul>

**Off-the-job training**

Off-the-job training is carried out away from the workplace.

Types of off-the-job training include:

- Day release courses at college
- Evening classes
- Events at specialist training firms

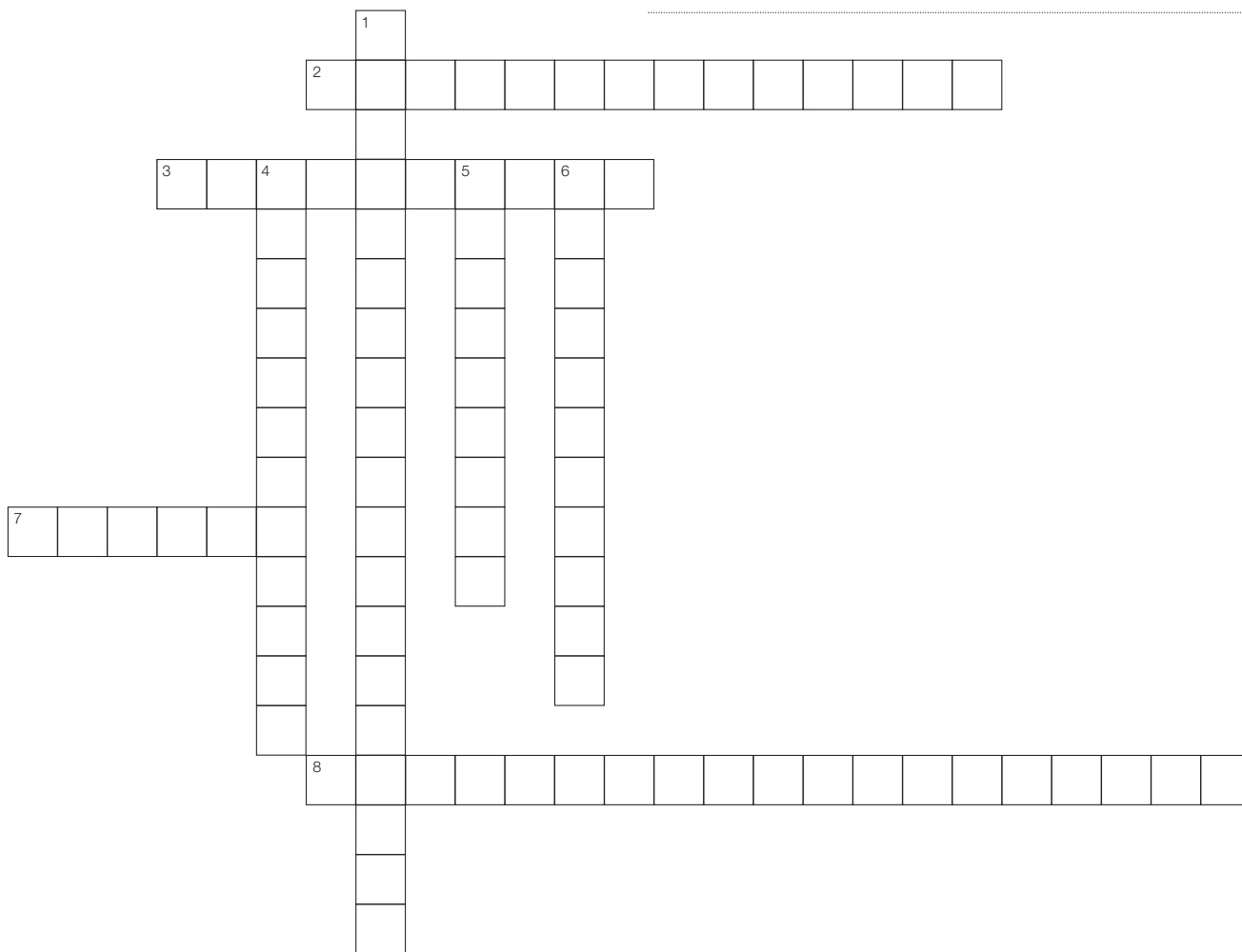
**Off-the-job training**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>➢ Professional trainers and specialist training facilities are used</li> <li>➢ <b>No distractions</b> from the workplace</li> <li>➢ Provides an opportunity for <b>networking</b></li> </ul>	<ul style="list-style-type: none"> <li>➢ Can be very <b>expensive</b> in terms of fees, transport, materials, accommodation and time out of work</li> <li>➢ <b>Transfer of learning</b> back to the workplace may not be high</li> <li>➢ Training may <b>lack relevance</b> to the trainee's job</li> </ul>



## Training and development - Harrods

Name: \_\_\_\_\_



### Across

- 2 Senior managers at Harrods have come from all walks of life and started out with various levels of .....
- 3 Harrods has built its unique..... supported by its key brand values.
- 7 Capability arising from practice and experience.
- 8 Strategies Harrods has put in place to keep its talented managers.

### Down

- 1 A range of activities provided by a retailer designed to meet the needs of customers.
- 4 Employee..... leads to increased motivation.
- 5 Process of being taught work-related knowledge and skills.
- 6 Training undertaken within the organisation whilst in the course of doing the job.

### Possible answers

Customer experience • On-the-job • Progression • Qualifications • Reputation • Retention strategies • Skills • Training

## Training and development - Harrods

Name: \_\_\_\_\_

Words can be found across, up, down and diagonally.

P A N V C J U P S N T P L - R J I R E K M A J  
 E J M K - G M O J F V S - - A N P V C L C H N  
 F V F - I C - L S M F K F R U C M F O J G K V  
 C V I F A A N A J O V M V N L A S J T F G H N  
 E F - A R R F G F F N C V E U U K J U T - K I  
 F O L U B E E E S I L M N K L H I K T C H T C  
 I N R M K E E T A R G E T S T G L T M C P C H  
 K B S G V R V B A B R J C L C V L V T V - C -  
 N O O T F P C A A I T A M G E E S U U L T P S  
 S A L U E R T M B V N J J H A U T N - O R R N  
 A K I B P O U E O F F - T H E - J O B I E N K  
 U O B O G G O L B T R A I N I N G I U L P K E  
 T F G F T R E C R U I T - F E M T F - B U F K  
 B R R S E E I M L R V V B H S A R S U B T I F  
 H K N O E S I A G A N C A R E E R P E S A L B  
 G S G U M S M T G R U H R T H C C K F O T V -  
 A U P J K I K R O V V J S C I P C H V T I N G  
 V L K A A O C F P H A S I N N O V A T I O N -  
 A V O L I N P I E R - A C P O V N B C E N I R  
 G M B H M K T S R P E L E J T V C F I S G S E

Career  
Motivation  
Retain  
Training

Career progression  
Recruit  
Skills  
Off-the-job

Innovation  
Reputation  
Targets



## Key glossary terms for Edition 17 case studies

For full glossary, go to The Times 100 website at [www.thetimes100.co.uk](http://www.thetimes100.co.uk)

**Above-the-line promotion:** Promotion through advertising: TV, radio, internet, press etc.

**Absenteeism:** Staff failing to attend their place of work.

**Acquisition:** Where one business takes over another, usually by obtaining over 50 per cent of the shares.

**Accountability:** Taking responsibility for decisions and justifying actions that have been taken.

**Accounting rate of return:** Also known as average rate of return. A simple financial ratio used to calculate as a percentage the average return generated from capital investment.

**Added value:** Any increase in the market value of a product. This usually incurs additional costs. From the point of view of the business, value is only added when the increase in market value is greater than the extra costs.

**Adverse variance:** When actual results are worse than expected results

**AIDA model:** An acronym used in marketing and advertising to describe the stages that may occur when a consumer engages with an advertisement.

**Aims:** Broad statement of purpose and direction for an organisation in the context of which specific objectives can be set.

**Ansoff's matrix:** Model developed by Igor Ansoff (b 1918) that highlights a firm's strategic options and likely risk in developing new products and entering new markets.

**Appraisal:** A process to assess the performance of an employee, often based on comparing outcomes with targets.

**Apprenticeship:** An agreement with a young employee where a firm provides on-the-job training in the skills for a particular job or trade.

**Assets:** Anything yielding value for a business over a given length of time.

Assets in a firm's accounts have a money value and may be fixed (e.g. buildings, machinery) or current (e.g. stock, debtors).

**Assumptions:** Propositions that are taken as being true for the purpose of an argument.

**Balance sheet:** Financial accounting statement that shows what a business owns (assets) and who has financed those items (liabilities). Logically the two totals balance.

**Below-the-line promotion:** Indirect sales promotion other than advertising e.g. price promotions and point-of-sales displays.

**Benchmark:** A standard against which performance and progress can be measured.

**Best practice:** The development of performance standards based on the most effective methods or procedures in the industry.

**Brand:** A name, design or symbol that gives a product, product range or company an identity that is distinct from competitors.

**Brand values:** Series of perceptions, thoughts and images created by a brand that influence customers and encourage them to choose it in preference to other brands.

**British Standards:** British Standards (BS) represent best practice and provide assurance that companies and products meet the relevant criteria for quality.

**Budget:** Financial plans

**Budgeting:** Process of setting financial plans showing month-by-month projections for costs, sales, profit, cash flow and other quantitative variables.

**Business ethics:** Moral principles and codes of conduct that firms may maintain and enforce.

**Business plan:** A report that explains the product, the marketing strategy and the financial projections in a business start-up.

**Business principles:** A company's beliefs and standards that guide how its staff should behave.

**Business unit:** A logical element or segment of a company (such as accounting, production, marketing) representing a specific business function.

**Business-to-business (B2B):** Transactions between business enterprises.

**Business-to-consumer (B2C):** Transactions between a business and consumers.

**Capital expenditure:** Use of a firm's resources to purchase fixed assets such as land, buildings, equipment and machinery.

**Cash flow:** The movements of cash into and out of a business in a given period of time.

**Centralised:** The concentration of decision-making and executive authority in top management and often within the organisation's head office.

**Chain of command:** The stages through which orders are passed down the levels in a organisational hierarchy eg directors, regional managers, branch managers, shop floor assistants.

**Chain of production:** The various stages involved in the production of a particular product.

**Coaching:** Providing training, feedback and support for staff to help them improve performance in their work role.

**Collective bargaining:** The process by which representatives of the workforce negotiate with an employer over pay, conditions and terms of work.

**Competencies:** The ability of an individual or a firm to perform a particular type of task to a given standard.

**Competitive advantage:** An ability to earn superior profits through lower costs or distinctive product quality that competitors cannot readily copy.

**Competitors:** Other producers offering similar goods or services in the same market.

**Consumer:** A person who buys and/or consumes a product. The consumer may not be the buyer e.g. person who has received a gift.

**Continuous improvement:** Culture and practice of initiating frequent small improvements in every business process; often known by Japanese term Kaizen.

**Co-operative:** Businesses owned and managed by the people who use its services (a consumer cooperative) and/or by the people who work there (a worker cooperative).

**Corporate (social) responsibility:** The wider responsibility of a company that extends beyond shareholders to include other stakeholders such as employees, suppliers and the community as well as the natural environment.

**Cost benefit analysis:** Used to assess whether the benefits of a project or course of action outweigh the costs (time, money, resources), including opportunity cost

**Costs:** The price of any activity in terms of the resources that it consumes.

**Culture:** Set of assumptions, beliefs and patterns of behaviour that are characteristic of an organisation or group of people.

**Customer:** An individual or organisation that buys a product.

**Customer service:** A range of activities provided by a retailer designed to meet the needs of customers.

**Decentralised:** Where a shift of authority has occurred from the organisational centre towards the operating units.

**Decision tree:** Decision making tool that uses a tree-like graph to plot decisions and their possible consequences, including chance event outcomes, resource costs etc.

**Demographics:** Population characteristics such as gender, age or income group that can be used to segment or target a market.

**Development:** Experience and training designed to extend the capabilities of an individual and to assist their career progress.

**Deviation:** Movement away from normal or expected events.

**Direct costs:** A price completely attributable to the production of goods or services. Usually related to materials, labor and expenses.

**Direct mail:** Targeted leaflets and publicity sent through the post.

**Discrimination:** Treatment of an individual or group differently from others.

**Dissatisfiers:** Sources of dissatisfaction within a workplace.

**Distribution:** The process of selling and delivering by which products reach their final consumer (eg manufacturer, wholesaler, retailer, consumer).

**Diversification:** When a firm extends its scope to include new products and/or new markets, often aiming to spread business risk.

**Diversity:** Activities offered by an organisation designed to include and develop people from different backgrounds, ethnic origins etc.

**Dividends:** A share of the company's profit paid to shareholders.

**Economies of scale:** Reductions in long-term average costs that arise from operating on an increasing scale.

**Economy:** A system of production and trading that adds value to economic resources.

**Efficiency:** The relationship between inputs and corresponding outputs.

**Emerging markets:** Expanding markets that are becoming increasingly important to firms that currently or potentially supply them.



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**Empowerment:** Receiving sufficient authority to exercise control and responsibility in the work environment.

**Engagement:** People becoming personally committed and involved with their work which may be part of a larger purpose.

**Enterprise:** The attitude and capabilities that can conceive, launch and sustain a business.

**Entrepreneur:** Person who carries the risk in investing ideas and money in a business enterprise.

**Environment:** The realities outside itself within which a business enterprise operates e.g. the economic situation or the arrival of new technologies.

**Equal opportunities:** Giving the same opportunities for employment or promotion regardless of gender, race, religion, disability or age. Legally required.

**Equity:** (a) capital owned by an individual or by a firm. The share capital of a company is called equity (b) fairness as distinct from equality.

**Ethics:** Moral principles guiding attitudes and decisions.

**External environment:** All the realities outside itself that affect an organisation e.g. law, the economy, technology, social change.

**Flat structure:** A management structure with relatively few levels of organisational hierarchy and correspondingly wide spans of control. Usually aims for better communications and faster reactions to change.

**Flexible working patterns:** Different patterns of working such as part-time, flexitime, homeworking or compressed hours.

**Focus group:** Representative group of people having in-depth discussion designed to investigate consumer behaviour and attitudes.

**GDP (Gross Domestic Product):** Gross Domestic Product, the total value of output produced within a country over a given period.

**Gearing:** The proportion of long term capital employed represented by loans i.e. non-current liabilities/capital employed X 100. Higher gearing carries higher risk.

**Global markets:** Markets for goods and services covering the whole world.

**Globalisation:** The increasing economic integration of the world

**Hierarchical structure:** Organisational structure arranged by levels of seniority with a chain of command down which decisions are passed.

**Hierarchy of needs:** Theory of motivation proposed by Abraham Maslow (1943) involving ascending levels of human need where only the fulfilment of each level in turn triggers the motivational force of the level above.

**Human resource management:** Deployment, training and development of people as a strategic resource within an organisation.

**Human resource strategy:** Longer term plan for obtaining the range of staff capabilities necessary to support an organisation's overall business strategy.

**Inclusion:** Removing barriers to participation and eliminating discrimination.

**Innovation:** Novel or breakthrough idea e.g. a new type of product or new manufacturing technique.

**Inorganic growth:** Where a firm grows by taking over or merging with other firms.

**Insights:** Clear and deep understanding e.g. of consumers

**Invention:** Devising new solutions to problems

**Investment appraisal:** Formal evaluation of the costs and projected returns attached to a project such as building a new facility or purchasing machinery.

**Investors in People:** A government-sponsored people management standard intended to improve business productivity.

**Job description:** A document setting out the key responsibilities and tasks involved in performing a particular job.

**Job rotation:** Where employees are moved around a cycle of different tasks in order to improve motivation and increase flexibility.

**Job satisfaction:** The sense of personal fulfilment gained by an employee through work.

**Just in time:** An approach to stock control meaning that all materials, work-in-progress and finished goods are scheduled to become available only when they are needed. The greatly reduces or even eliminates the need to carry stock and so cuts costs.

**Key performance indicators:** Any significant variable that can be used to monitor how well an organisation is fulfilling its objectives.

**Liabilities:** Amounts that a business owes to its creditors and amounts that a company - being a separate legal entity - 'owes' to its shareholders.

**Limited company:** A business that is incorporated meaning that it is a separate legal entity and enjoys limited liability (for debts and losses).

**Liquidity:** The extent to which assets are held as cash or can readily be converted into cash.

**Logistics:** The logical organisation of a cost-effective supply chain.

**Manufacturing:** The making of goods.

**Margin:** The proportion of a selling price that is profit. Measured as profit / selling price X 100.

**Market:** Any medium through which sellers and buyers can negotiate a sale.

**Market development:** Expanding the potential market of a business through attracting new users or new uses for products.

**Market dynamics:** The changing price signals that result from the continual changes in both supply and demand of any particular product or group of products.

**Market leader:** The business that has the largest share of the market, measured by sales (value or volume).

**Market penetration:** The depth of sales of a product in a particular market

**Market research:** The systematic process of collecting and analysing primary and secondary data about customers and their relationship with products and brands.

**Market segment:** A recognisable consumer group consisting of people with similar needs and characteristics.

**Market share:** The percentage of sales within a market that is held by one brand or company.

**Marketing mix:** The combination of product, price, promotion and distribution (place) used to generate profitable sales - often called the 4Ps.

**Marketing strategy:** Budgeted plan(s) to meet customer requirements through product, price, promotion and distribution.

**Matrix structure:** Organisational structure that uses more than one line of communication, often operated with employees working in teams.

**Mentoring:** The process by which an experienced and trusted employee gives advice and encouragement to another junior employee.

**Merger:** The combining of two or more companies through mutual agreement.

**Mission:** Energising overall purpose and direction for an organisation.

**Motivation:** Attracting a person to do something because he or she wants to do it.

**Networking:** The establishment of business contacts and links, with a view to benefiting from them in the future.

**Niche market:** A relatively small segment of a market with distinct consumer characteristics. Often targeted by small firms e.g. niche market for hand made chocolates.

**Noise:** Barrier or filter to communication between sender and receiver.

**Non-governmental organisation (NGO):** Non-profit making organisations that aim to influence opinion eg Greenpeace.

**Not-for-profit:** Organisations not aiming to make profits for shareholders.

**Objectives:** The specific goals that organisations or individuals seek to achieve.

**Off-the-job training:** Training undertaken away from the workplace, e.g. block release at college.

**On-the-job training:** Training undertaken within the organisation whilst in the course of doing the job.

**Operating expenditure:** All costs - direct and indirect - that arise from a firm's business operations. Does not include interest or tax expenses.

**Opportunity cost:** The value, in any decision, of the next best option ie the 'cost' of the opportunity foregone.

**Organic growth:** Growth in the size of a business through the expansion of its own sales (not through mergers or takeovers).

**Organisational structure:** The way in which authority and responsibility are arranged within an organisation.

**Outsourcing:** Where a firm contracts another firm to perform some part of its overall productive process.

**Partnership:** A business organisation jointly owned and managed by two or more people who have unlimited liability for debts or losses.

**Payback:** Way of evaluating an investment by calculating the likely time taken to 'pay back' the sum invested.

**Performance management:** Activities which ensure that the goals of an organisation, process or individual are consistently being met in an effective and efficient manner.

**Personal development plan:** A plan setting out ways in which individual employees will have their training and development needs met.

**PEST analysis:** Acronym prompting the major external factors affecting an organisation: Political, Economic, Social and Technological.



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**Place:** Distribution channel for products in reaching their target market.

**Portfolio:** A range of assets; a share portfolio includes shares in a range of different companies.

**PR (Public Relations):** Organisational communications with external stakeholder groups (eg customers, the community, the media) and also with the general public.

**Price:** The payment or compensation given by one party to another in return for goods or services.

**Primary research:** Collecting data for the first time to meet a specific objective.

**Primary sector:** Industries in the first stage in production including farming, fishing and the extraction of raw materials.

**Procurement:** The process of acquiring supplies of raw materials, parts, products or services.

**Product:** A thing produced by labour or effort or the result of an act or a process.

**Product development:** Designing new products or improving existing ones.

**Production:** The processing sequences that lead to the output of finished goods.

**Productivity:** Level of output relative to level of input; labour productivity typically measures output per person/hour.

**Profit:** The difference between the value of sales and corresponding costs.

**Profitability:** Extent to which sales revenue exceeds corresponding costs, expressed as a total value or proportional percentage.

**Project management:** The discipline of planning, organising, securing, managing, leading and controlling resources to achieve specific goals.

**Promotion:** Methods for boosting the sales of a product eg point-of-sales displays, special offers, competitions.

**Procurement:** The acquisition of goods or services.

**Qualitative research:** Research, typically directed at markets and consumers, concerned with qualities rather than quantities - feelings, perceptions, attitudes and opinions.

**Quality:** The extent to which a product meets a buyer's needs and wants. High quality can create delight in exceeding expectations.

**Quality assurance:** Systems that ensure that quality benchmarks are met.

**Quality control:** A process which reviews the quality of outputs; emphasises the testing of products to uncover defects.

**Quantitative research:** Research expressed in numerate terms e.g. rates of material wastage.

**Ratios:** A relationship between two numbers of the same kind.

**Recession:** Phase in the business cycle when output and business confidence are falling and unemployment is beginning to rise.

**Recruitment:** Process of identifying the need for new employee(s), defining the job(s), attracting candidates and selecting those most suitable.

**Regulator:** Person who maintains and enforces rules and approved procedures within an organisation or industry.

**Research and development (R&D):** Process of conceiving, developing and testing possible new products.

**Resources:** Inputs to the process of adding value.

**Retail:** Process of selling products to the final consumer.

**Retention:** Holding on to existing customers (usually much less costly than winning replacement customers).

**Revenue:** Money received; sales revenue is money received from sales.

**Risk:** The possibility of a negative event or outcome; in insurance risk is the chance of loss covered by a policy.

**Return on capital employed (ROCE):** Profit over a period (usually one year) relative to the long-term capital employed. Calculated as: operating profit / long-term capital employed X 100.

**Return on investment (ROI):** Profit over a period (usually one year) relative to the long-term capital employed. Calculated as: operating profit/long-term capital employed X 100.

**Sampling:** A small but representative quantity of a product that enables customers to consider a larger purchase.

**Satisfiers:** Motivating factors that enrich a person's job and may contribute to enhanced performance.

**Scientific management:** Also called Taylorism. A theory of management that analysed workflows to improve economic efficiency and labour productivity.

**Secondary research:** Obtaining data that has already been collected and typically made available through books, journals or websites.

**Secondary sector:** Industries engaged in processing and manufacturing: the second stage of physical production.

**Secondment:** Employee being posted to a different workplace inside or outside the organisation for a limited period.

**Selection:** The process of choosing which person to appoint from those that apply for a job vacancy.

**Self-actualisation:** Personal fulfilment arising from undertaking tasks that use somebody's full potential.

**Service level agreement:** Part of a contract for providing a service (eg catering) where the level of service is formally defined.

**Shareholders:** People (or companies) who own some part of a company's capital.

**Shares:** Equal parts into which a company's capital is divided.

**Skills:** Capability arising from practice, experience or training.

**SLEPT analysis:** Acronym for external factors affecting a business: Social, Legal, Economic, Political and Technological.

**SMART objectives:** Acronym for framework used in setting objectives - making them Specific, Measurable, Achievable, Relevant and Time-related.

**Social networking:** The building of social relations among people who share interests, activities, backgrounds or real-life connections.

**Sole trader:** Person who owns and manages a business and carries all the risk.

**Span of control:** The number of staff reporting to a manager.

**Sponsorship:** Where an organisation funds a sporting, community or cultural event in return for exposure of their name or brand.

**Staff turnover:** The rate at which an employer gains and loses employees.

**Stakeholders:** Persons or groups directly affected by the decisions or behaviour of an organisation.

**Standards:** Benchmarks or approved specifications that represent a given level of quality and performance.

**Stock exchange:** Regulated marketplace where shares are bought and sold.

**Strategy:** A plan for achieving key objectives.

**Subsidiary:** Business that is owned by another business.

**Succession planning:** Training and developing individuals to take over leadership roles when the existing holders retire or change jobs.

**Supply chain:** Sequence of linked transactions that carries a product from its origins as raw materials or components to its receipt by the final consumer.

**Sustainability:** The extent to which the supply chain, processes and products of a business do not compromise the environmental resources of future generations.

**Tactics:** Decisions driven by short-term objectives within a longer-term strategy.

**Talent management:** Anticipating the human capital (numbers and skills) required by an organisation and setting a plan to meet those needs

**Target:** Goals which the organisation seeks to achieve often within a given time-frame.

**Target audience:** The group of consumers that is targeted by an organisation's marketing communications.

**Tertiary sector:** Service industries e.g. transport, banking, insurance or hairdressing.

**Total quality management (TQM):** A management system for establishing a culture of quality that is shared by every employee.

**Training:** Process of being taught work-related knowledge and skills.

**Turnover:** Sales value over a given period. Also called sales revenue.

**Unique selling point:** A specific benefit of a product or service that competitors do not or cannot offer.

**Value chain:** The series of links that starts with raw materials (e.g. cocoa for chocolate) and ends with the consumer.

**Values:** What a company stands for.

**Variance/s:** The difference between what was forecast to happen (say, in a budget) and what actually happened.

**Vision:** A summary in words, setting out what an organisation is striving to achieve.

**Waste:** An unnecessary or wrong use of money, substances, time, energy, abilities.

**Work placement:** Where a student spends time in an employer's workplace carrying out duties or tasks as an employee of the company would.

**Workforce:** The group of people who work in a company, industry, country etc.

**Workforce planning:** Involves estimating future human resource requirements and ensuring the firm has right number of people, in the right place, with the right skills at the right time.

**Zero-based budgeting:** A method of budgeting in which all expenses must be justified for each new period.



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