Cambridge International A Level

Business

2023-2025 Syllabus

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SECTION 6

BUSINESS AND ITS ENVIRONMENT

Navigate to my YouTube channel for this chapter

6.1

TOPIC 6.1 | EXTERNAL INFLUENCES ON BUSINESS ACTIVITY

Syllabus Content

6.1.1 Political and legal
- the advantages and disadvantages of privatisation in a given situation
- the advantages and disadvantages of nationalisation in a given situation
- how a government might use the law to seek to control: employment practices, conditions of work (including health and safety), wage levels, marketing behaviour, competition, location decisions, particular goods and services
- the impact of changes in political and legal factors on business and business decisions

6.1.2 Economic
- how government might intervene to help businesses and encourage enterprise
- how government might intervene to constrain business activity
- how government might deal with market failure
- the key macroeconomic objectives of governments: low unemployment, low inflation, economic growth
- how macroeconomic objectives and performance of an economy can have an impact on business activity
- government policies used to achieve macroeconomic objectives: monetary, fiscal, supply-side and exchange rate policies
- the impact of changes in these government policies on business and business

6.1.3 Social and demographic
- the impact of and issues associated with corporate social responsibility (CSR), e.g. accounting practices, paying incentives for the award of contracts, social auditing
- why businesses need to consider the needs of the community including pressure groups
- demographic changes at a local, national and global level
- the impact of social and demographic change on business and business decisions

6.1.4 Technological
- the impact of technological change on business and business decisions

6.1.5 Competitors and suppliers
- the impact of competitors and suppliers on business and business decisions

6.1.6 International
- the importance of international trading links and their impact on business and business decisions
- how international trade agreements might have an impact on businesses
- the role of technology in international trade
- the advantages and disadvantages that a multinational might bring to a country
- relationships between multinationals and governments

6.1.7 Environmental
- how physical environmental issues might influence business behaviour
- how a business and its stakeholders may use an environmental audit
- the impact of the growing importance of sustainability on business and business decisions

UNIT 6.1.1 |External Influences

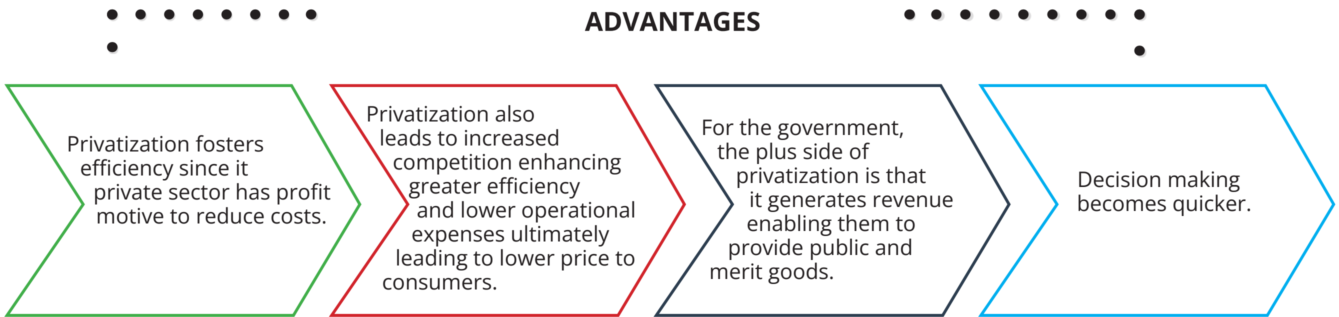
External factors are the factors that are out of the control of a business. Even though a business has no control over external influences, yet these can have a large impact on it. There are many external environment factors that affect business negatively and positively.

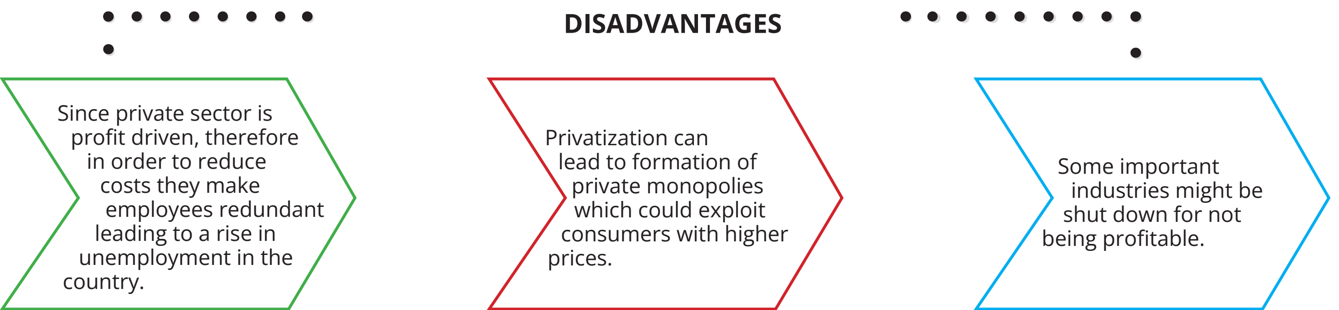
1. Political and Legal

Political factors and a volatile environment of a country impacts any business organization and can also introduce a risk factor causing losses or compromise over its profits. Political environment can change because of the policies and actions of the government at every level, federal to local level. It is very important for the business to plan for the potential changes in the policies and regulations of the government to maintain a stable business environment.

Privatization

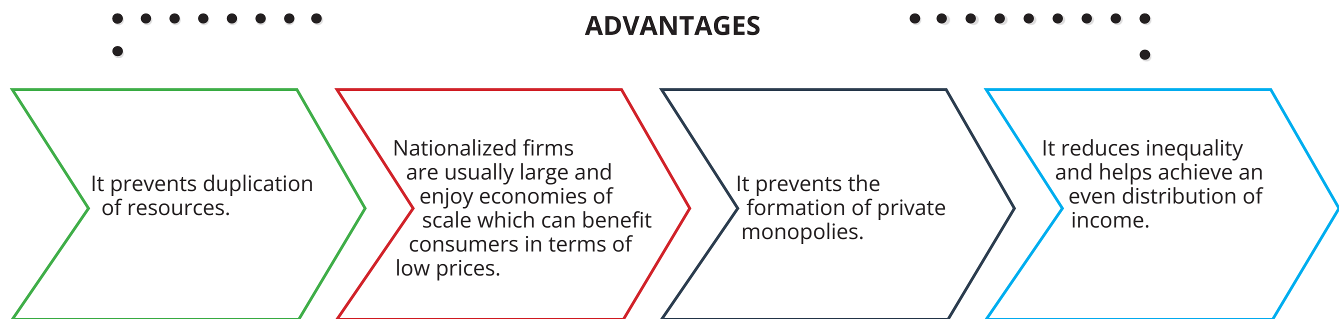
Definition | Privatization occurs when a government-owned business, operation, or property is owned by a private, non-government party. In short it means public sector businesses to become private sector businesses.

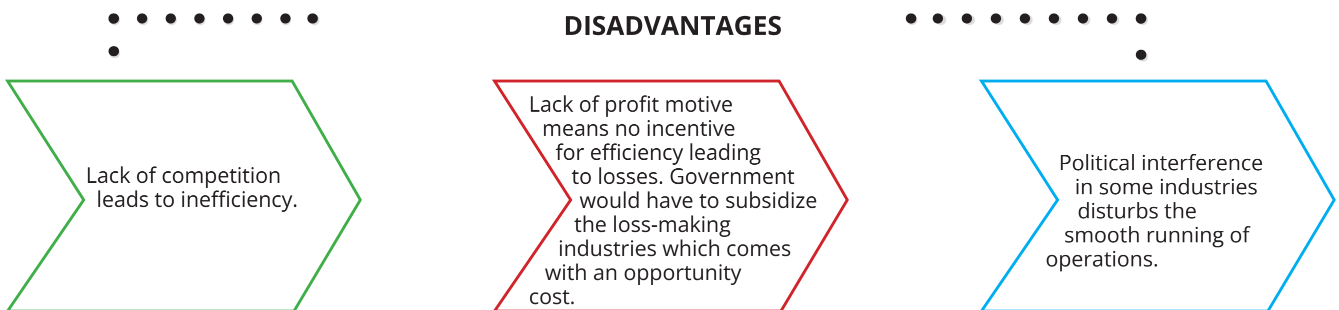




Nationalization

Definition | Nationalization is the process of taking privately-controlled companies, industries, or assets and putting them under the control of the government.





6.1

Government Regulations and Legal Constraints

A range of political decisions can help to determine the business environment. For example, many countries operate minimum wages which can result in businesses paying increased costs for labor. Additionally, businesses face a variety of laws which constrain many of their activities including the emission of noxious gases and contributions to employees' pensions. Moreover, governments control the business activities is many ways; both direct and indirect.

a) Employment Legislations

There are laws designed to prevent the exploitation of employees at work. These may include:

1. Health and Safety laws
2. Wage Protection Laws
3. Recruitment / Employment Contracts and Termination Laws
4. Laws to Control excessive Trade Union Actions

Health and Safety Laws

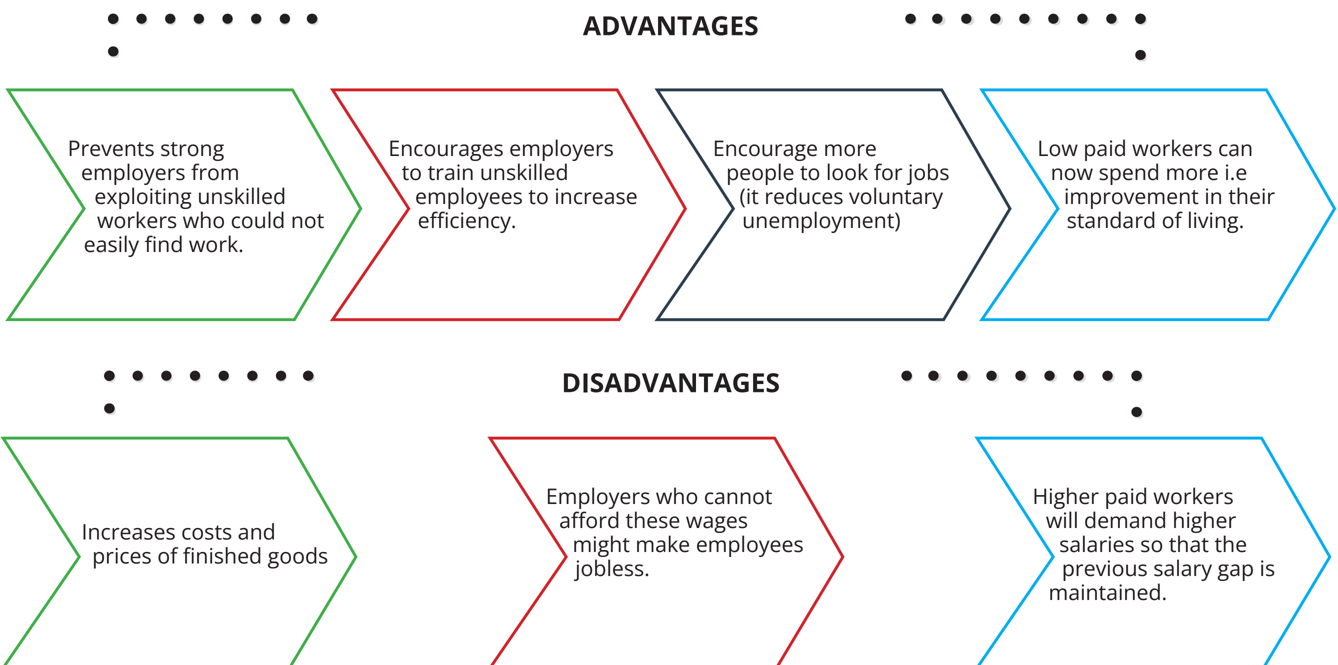
- The employee must be aware of how frequently wages are paid.
- The employee must be aware of what deductions will be made from his or her wage e.g. income tax, pension.
- Must be aware of the basic salary.
- The business has got the responsibility to the employ fair wages.
- The government usually set a minimum wage to protect workers from employers.

Wage Protection Laws

- Laws protect workers from dangerous machinery.
- The business must provide safety equipment and clothing eg overalls, safety shoes, helmet, gloves etc.
- The business should ensure that there is adequate ventilation (fresh air to the room) and lighting.
- Should provide hygienic conditions and washing facilities.
- Provide breaks in the work timetable.

Minimum Wage Laws

Definition | Minimum Wage Laws are regulations that require employers to pay their workers a minimum amount per hour. These laws are intended to help ensure that workers are paid a fair wage and to reduce poverty. The amount of the minimum wage is typically set by the government and may vary based on the type of work, the location, and other factors.



b) Marketing and Consumer Protection Laws

These laws designed to prevent the exploitation of consumers. These may include:

1. Laws preventing Misleading Advertisements.
2. Laws to Ensure the Accuracy of Claims by the Producer.
3. Pricing Laws

Consumer Protection Laws
In some countries government take legal action to protect the consumers from unfair business. Some of them are:

1. **Weight and Measures Act:** Goods sold should not be underweight. Standard weighting equipment should be used to measure goods.
2. **Trade Description Act:** Deliberately giving misleading impression about the product is illegal.
3. **Consumer Credit Act:** According to this act, consumers should be given a copy of the credit agreement and should be aware of the interest rates, length of loan while taking a loan.
4. **Sale of Goods Act:** It is illegal to sell products with serious flaws or problems and goods sold should conform to the description provided.

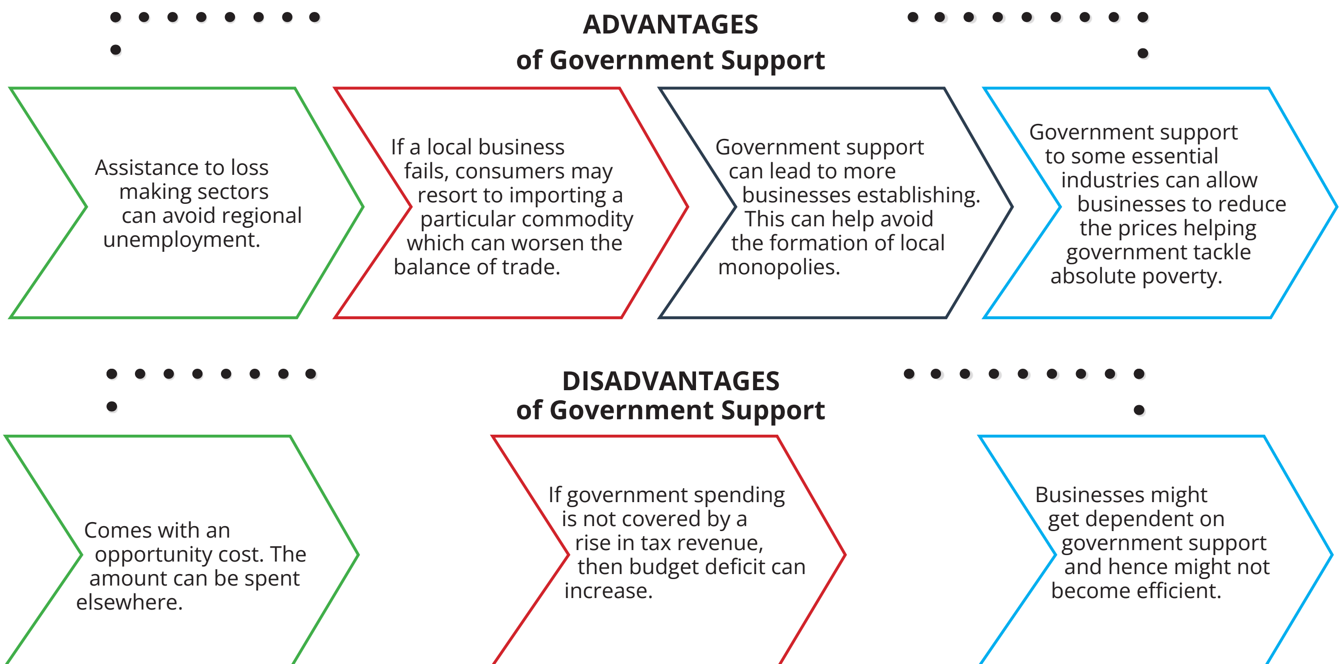
Exam Standpoint:
You do not need to learn these acts by name, but you should be able to analyze and evaluate how these laws affect businesses in your country.

UNIT 6.1.2 | Economic Influences

These include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and the extent to which a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

How govt might intervene to help businesses and encourage enterprise?

→ Government can take steps to reduce regulatory burden on entrepreneurs. This can be done by reducing the paper work and legal formalities.
→ Government can lower interest rates in order to incentivize businesses to grow and expand.
→ Providing tax reductions. This would lead to more retained profits for the business allowing them to expand.
→ Provide grants to small businesses for their financial assistance.
→ Providing subsidies to help loss making businesses, to protect employment.



How govt might intervene to constrain business activity?

Discussed in Political influences

How govt might deal with market failure?
Market failure happens when the price mechanism fails to allocate scarce resources efficiently or when the operation of market forces lead to a net social welfare loss due to under or over production of goods.

Market Failure 1 | External Costs

External Costs are the costs that the third party (people not directly involved in production or consumption) bear. Examples of external costs include the pollution resulting from the manufacturing.

How can government deal with it?
Taxes on goods that lead to external costs.

6.1

Market Failure 2 | Existence of Monopolies

A monopoly can be classified as a market failure because the market is meant to be maximizing welfare for society. The monopoly prices higher than a competitive market and restricts output, which is not maximizing welfare for consumers. It also doesn't maximize welfare for potential suppliers because they are unable to join the market as the barriers to entry are too high. The only welfare that is maximized is the welfare of the monopoly itself, and this is why it is classed as the market failing to allocate our scarce resources efficiently.

In short, prices should be lower and output higher for us to be allocating resources efficiently. Therefore, the free market has failed to do its job.

How can government deal with it?

1. Implement Marginal Cost Pricing
2. Reduce tariffs and open the borders for international trade
3. Nationalize the Monopoly
4. Implement Price Controls
5. Restrictions over mergers and takeovers

Market Failure 3 | Labour Training

Market failure in the area of labor training can occur when the benefits of training are not fully captured by the individual or firm that pays for the training. This can happen when the skills and knowledge acquired through training are not specific to the firm, or when they are not recognized by other potential employers.

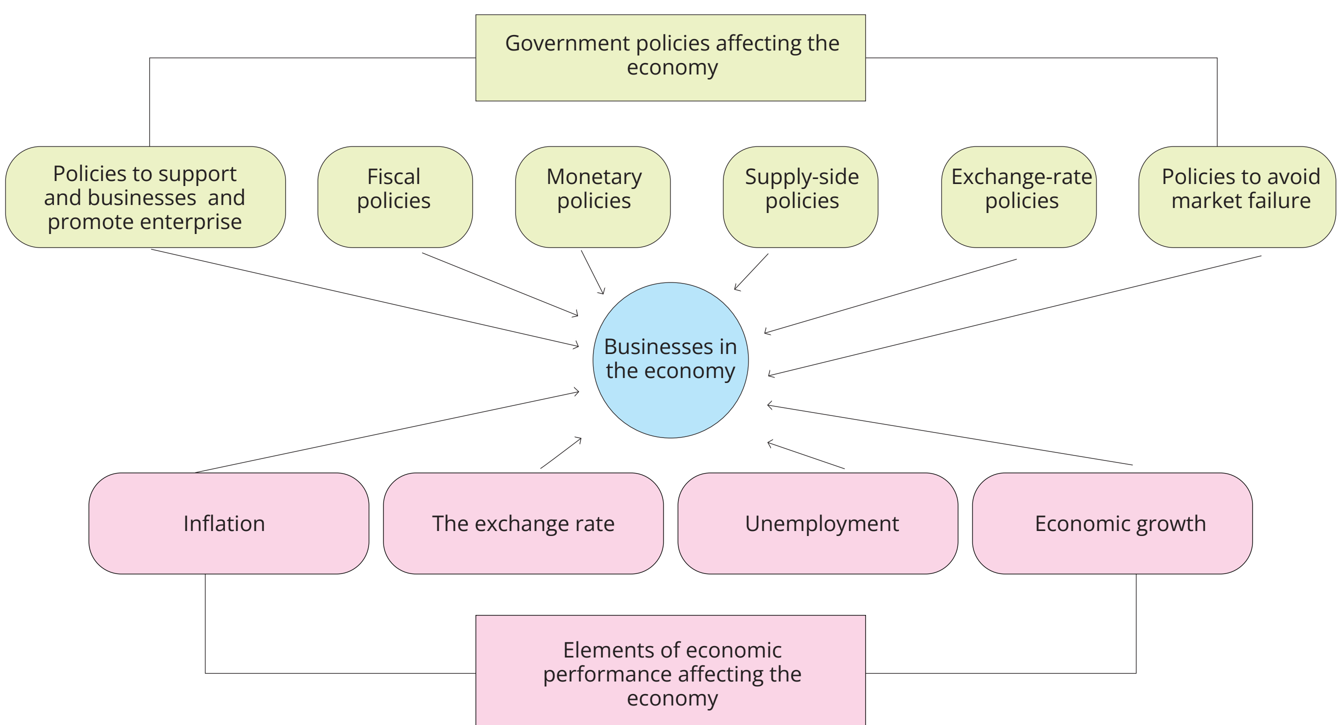
In these cases, the individual or firm may not be willing to pay the full cost of training, leading to an underinvestment in human capital. This can lead to a mismatch between the skills of the workforce and the needs of employers, resulting in higher unemployment or underemployment and lower productivity.

How can government deal with it?

1. There are a number of policy interventions that can be used to address market failures in the area of labor training, such as subsidies, tax credits, and education and training programs.
2. These interventions can help to promote the acquisition of skills and knowledge that are valuable in the labor market, leading to more efficient and effective allocation of human capital.

Evaluative Point | If a market failure is so extreme, then the best rationale for the government would be to directly take over that business / industry through Nationalization.

Government Macro Economic Objectives



6.2

TOPIC 6.2 | Business Strategy

Syllabus Content

6.2.1 Developing business strategy

- the meaning and purpose of business strategy
- the meaning and purpose of strategic management: analysis, choice and implementation
- approaches to develop business strategy, including:
  - → blue ocean strategy
  - → scenario planning
  - → SWOT analysis
  - → PEST analysis
  - → Porter's five forces
  - → core competence framework
  - → Ansoff matrix
  - → force field analysis
  - → decision trees

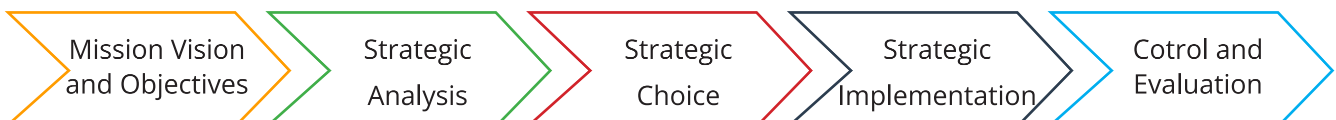
6.2.2 Corporate planning and implementation

- the meaning and importance of corporate planning
- the meaning of corporate culture and its impact on business decision-making
- the meaning and importance of transformational leadership
- the management and control of strategic change
- the meaning and importance of contingency planning and crisis management

UNIT 6.2.1 |Strategic Management

Definition | Strategic Management is the management of an organization's resources to achieve its goals and objectives. Strategic management involves setting objectives, analyzing the competitive environment, analyzing the internal organization, evaluating strategies, and ensuring that management rolls out the strategies across the organization.

Process of Strategic Management



Step	Explanation
Mission Vision and Objectives	→Clarifying organizations Vision (Short term and Long-Term Objectives) →Setting of goals **Importance:** →Keeps all internal stakeholders on the same page. →Helps organization keep their focus while generating strategies. **Eval:** Objectives should be in line with the 'SMART' criteria.
Strategic Analysis	→It involves gathering information and data relevant to accomplishing set goals. →Tells where business is now and how will business get affected by what's happening or what is going to happen. →Helps business understand what it can do to respond to changes in external environment. **Techniques** **1.** SWOT Analysis **2.** PEST Analysis **3.** Blue Ocean Strategy **4.** Scenario Planning **5.** Porter's 5 Forces **6.** Core Competencies **Eval:** Successful businesses do not only stick to one technique but rather carry out multiple analysis for assessing their external environment.
Strategic Choice	→It is the decision that determines the future strategy of a business. →Strategic Choice is taken on basis of the strategic analysis. **1.** Ansoff Matrix **2.** Force Field Analysis **3.** Decision Trees **4.** Investment Appraisal (Will be discussed in Section 10) **Eval:** There are certain variables which should be kept in mind while making strategic choice include: external environment, time constraints, the reliability of data and the financial feasibility.
Strategic Implementation	→A process that puts the strategies into action. →The success of the whole strategic management process rests on how effectively and efficiently the decision has been implemented. **Eval:** Successful strategy implementation can be challenging, and it requires strong leadership and management skills. Effective delegation, patience, emotional intelligence, thorough organizational abilities, and communication skills are crucial.
Evaluation and Control	The evaluation and control actions for the strategic management process include performance appraisal as well constant review of both internal and external issues. Where necessary, the management of the organization can implement corrective actions to ensure success of the SMP.

1. Blue Ocean Strategy

→W. Chan Kim & Renée Mauborgne coined the terms Red and Blue Oceans to denote the market universe.

→Red oceans are all the industries in existence today – the known market space, where industry boundaries are defined and companies try to outperform their rivals to grab a greater share of the existing market.

→Blue oceans denote all the industries not in existence today – the unknown market space, unexplored and untainted by competition.

Red Ocean Markets | Red Ocean Markets refer to existing market spaces that are crowded and highly competitive.

In a red ocean market, there will be

→Cut throat competition (meaning they will be highly competitive)
→Aggressive marketing (e.g competitive pricing)
→Existing technological resources
→the exploitation of existing demand
→Mainly small to medium size businesses

Blue Ocean Markets | Blue Ocean markets refer to untapped or underdeveloped market spaces that offer new growth opportunities for businesses.

In a blue ocean market, there will be:

→Mainly composed of large firms
→low level of competition
→medium size consumer base (depending on the market)
→Populated by more expensive or luxuries items

Four Components of Blue Ocean Strategy

The Four Action Framework is a key tool within the Blue Ocean Strategy framework. It helps businesses identify strategic opportunities for creating a "blue ocean" of uncontested market space. Here's a brief explanation of the Four Action Framework:

1. **Eliminate:** In this step, businesses identify factors in their industry that can be eliminated to reduce costs and eliminate sources of competitive disadvantage. By eliminating certain elements that are traditionally considered essential in the industry, companies can create a leaner and more cost-effective value proposition.
2. **Reduce:** Businesses determine which factors should be reduced well below industry standards. By reducing certain aspects that are overemphasized or unnecessary, companies can streamline their offerings and provide a more simplified and cost-effective solution to customers.
3. **Raise:** Companies identify factors that should be raised above industry standards to create superior value for customers. By identifying key areas where they can exceed customer expectations, businesses can deliver unique value propositions that differentiate them from competitors.
4. **Create:** In this final step, businesses identify new factors that can be created to offer innovative value to customers. By introducing new elements or combining existing ones in a novel way, companies can tap into unexplored market spaces and create a new value curve that attracts customers.

Red ocean strategy: focus on existing customers	**Blue ocean strategy:** focus on potential customers
Compete in existing markets	Create uncontested markets to enter
"Out-compete" the competition	Make the competition irrelevent
Exploit existing demand	Create and exploit new demand
High value to customer=high costs to business	High value to customer but low cost to business
Product differentiation or low cost	Product differentiation and low cost

Table from: Cambridge International AS & A level Business by Peter Stimpson 4th Edition

Applications of Blue Ocean Strategy

The blue ocean strategy is a business approach that involves creating a new market, rather than competing in an existing one. In the context of marketing, this can involve identifying and targeting unmet needs, creating a new market segment, or inventing a new product or service that meets the needs of a new group of customers. The goal is to create a "blue ocean" of uncontested market space, rather than fighting for a share of a "red ocean" of a crowded market.

The Blue Ocean Strategy is used in marketing in several ways:

1. **Creating new market segments:** By identifying and targeting new segments of customers, companies can create a new market space and differentiate themselves from competitors.
2. **Developing new products or services:** Companies can create new products or services that address the needs of a previously untapped market segment, or offer existing products or services in a new way.
3. **Redefining the value proposition:** Companies can re-think their value proposition and offer customers a unique and compelling value proposition that sets them apart from competitors.
4. **Changing the rules of the game:** Companies can create new industry standards or change the way products or services are delivered, creating a new market space in the process

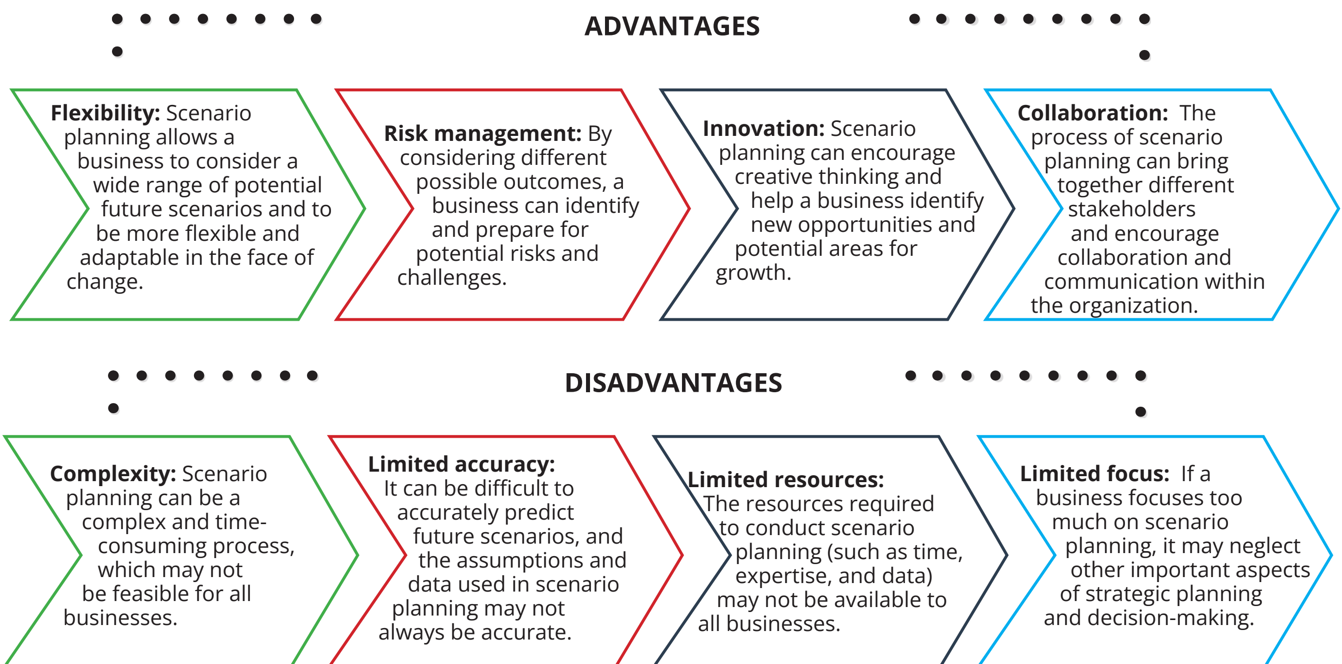
Evaluating Blue Ocean Strategy

Should the business adopt the Blue Ocean Strategy or not will depend on various factors such as:

1. **Feasibility:** Is it realistic for the business to create a new market or enter a blue ocean market? This will depend on factors such as the business resources, expertise, and capabilities, as well as the market conditions.
2. **Market demand:** Is there a sufficient level of demand for the product or service in the blue ocean market? If not, the business may struggle to achieve the desired level of growth.
3. **Competition:** Are there any existing or potential competitors in the blue ocean market? If so, the business will need to consider how it will differentiate itself and compete effectively.
4. **Value proposition:** Is the product or service being offered in the blue ocean market unique and valuable to customers? If not, it may be difficult for the business to attract and retain customers.
5. **Cost:** Will the cost of entering the blue ocean market and developing the product or service be justified by the potential returns? This will depend on factors such as the size of the market, the projected demand for the product or service, and the business's operating costs.

2. Scenario Planning

Scenario planning is a strategic planning method that involves developing and analyzing various possible future scenarios in order to better understand and prepare for the range of outcomes that a business might face.

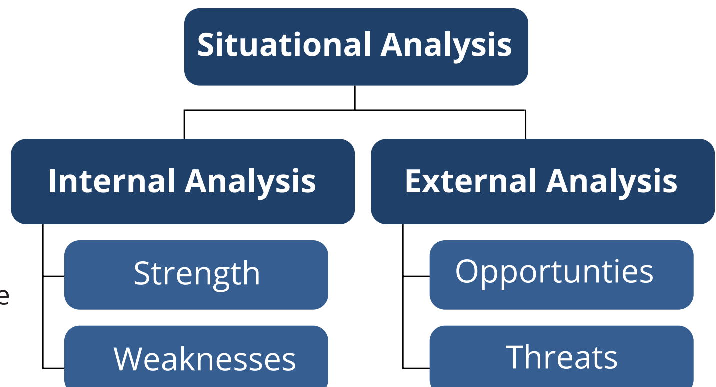


Evaluation for Scenario Planning

The usefulness and success of scenario planning process would depend on:

1. The time frame taken into consideration. This is because businesses operate in an ever-changing dynamic environment and require flexibility in their operations. Therefore, a time frame too far into the future or too close to the future wont yield accurate results.
2. How many scenarios should be made? If only one scenario is made, there wont be a fall back strategy with the business and therefore it would just lead to wastefulness of resources.
3. The skills of the manager / people who are carrying out scenario planning.
4. Is the data reliable?

Finally, Scenario planning should not be used in isolation, qualitative and quantitative factors need to be considered simultaneously such as PEST or a SWOT analysis. Such factors will ensure that the scenario planning is successful, and the business's resources are not wasted.



3. SWOT Analysis

SWOT analysis is a strategic planning tool that helps businesses identify their strengths, weaknesses, opportunities, and threats.

1 | STRENGTHS (Internal analysis)

→ Internal factors that are favorable for achieving your organization's objective.
→ It is something that adds value to your business and gives you a competitive edge.
→ Strengths can include tangible assets such as, capital, equipment. It can include intangible assets as well, such as established customer base, copyrighted material, patents, IT systems, specialist knowledge, credentials and other valuable assets.

Evaluative Point: Strengths must be from a perspective of your operating environment and should not be over-estimated. For example, 'guaranteed next day delivery;

2 | WEAKNESSES (Internal Analysis)

→ Internal factors that are unfavorable for achieving your organization's objective.
→ These are factors that dilute your offering and eliminate your competitive edge.

Evaluative Point: Factors identified as weaknesses can be remedied with suitable strategies. Therefore businesses should focus to convert their weaknesses into strengths. For this they need to ask themselves:

1. Where did we go wrong?
2. What can be improved or changed?
3. What are competitors doing different?

3 | OPPORTUNITIES (External Analysis)

→ External factors that are favorable for achieving your organization's objective.
→ Opportunities can arise from various reasons such as, technological change, chage in market trends, change in government policies, changes in demographics or changes in social patterns.

Evaluative Point: A successful business makes the most out of their opportunities and does not leave any opportunity missed. If a business does not take benefit of an opportunity there is a threat that competitors might do so.

4 | THREATS (External Analysis)

→ External factors that are unfavorable for achieving your organization's objective.
→ These factors are beyond the control of the business.
→ Threats may arise from competitor reducing prices, increase in cost of production, government regulations, economic recessions, changes in consumer behaviour or changes in technology.

Strengths	Weaknesses
• **Knowledge:** Our competitors are pushing boxes. But we know systems, networks, programming, and data management. • **Relationship selling:** We get to know our sudtomers, one by one. • **History:** We've been in our town forever. We have the loyalty of customers and vendors.	• **Price and volume:** The major stores pushing boxes can afford to sell for less. • Brand power: We can't match the competitor's full-page advertising in the Sunday paper. We don't have the national brand name.
Opportunities	**Threats**
• **Traning:** The major stores don't provide traning, but as systems become more complex, traning in greater demand. • **Service:** As our target market needs more service, our competitors are less likely than ever to provide it.	• **The larger price-oriented store:** When they advertise low prices in the newspaper, our customers think we are not giving them good value. • **The computer as appliance:** Volume buying of computers as products in boxes. People think they need our services less.

Evaluative Point: The greater the business is able to identify the potential threats, the more proactive it becomes. This helps them to better respond to such events.

7.1

TOPIC 7.1 | ORGANIZATIONAL STRUCTURE

Syllabus Content

7.1.1 The relationship between business objectives and organisational structure
- the purpose and attributes of an organisational structure such as flexibility, meeting the needs of the business, allowing for growth and development and encouraging intrapreneurship

7.1.2 Types of structure: functional, hierarchical (flat and narrow), matrix
- the advantages and disadvantages of the different types of structure
- why some organisations are structured by product and others by function or geographical area
- the reasons and ways structures change e.g. due to growth or delayering
- the features of a formal structure: levels of hierarchy, chain of command, span of control, responsibility, authority, delegation, accountability, centralised, decentralised

7.1.3 Delegation and accountability
- the relationship between delegation and accountability
- the processes of accountability in a business
- the impact of delegation on a business

7.1.4 Changes to organizational Strcture
- the conflicts between control and trust that might arise when delegating

7.1.5 Line and staff
- examples of and distinctions between line and staff functions and the conflicts between them

UNIT 7.1.1 |The relationship between business objectives and organisational structure

Definition| Organization structure refers to the way that a company organizes its employees and departments. It can take many different forms, depending on the size and nature of the business, as well as its goals and objectives. A company's business objectives are the specific goals it hopes to achieve in order to grow and succeed.

There are several types of organizational structures, including functional, divisional, matrix, flat, and horizontally- and vertically-aligned structures.

There is a strong relationship between organization structure and business objectives. The structure of a company can has a significant impact on its ability to achieve its business objectives. For example, if a company has a hierarchical structure with many levels of management, it may be more difficult for it to make quick decisions and respond to changes in the market. On the other hand, a flat organizational structure with fewer levels of management may be more agile and able to adapt to change more quickly.

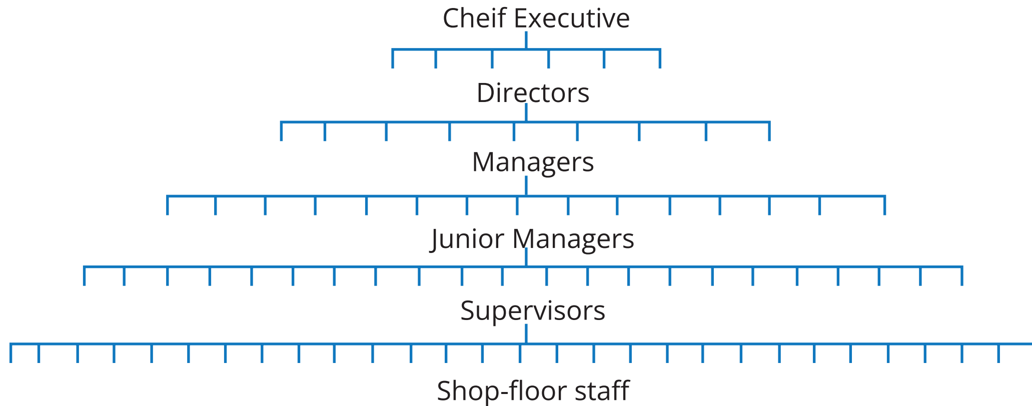
Additionally, the organization structure can impact how well a company is able to utilize its resources and achieve its goals. For example, if a company has a functional structure with employees organized by department, it may be more efficient at producing a particular product or service. However, this structure may not be as effective at fostering collaboration and innovation across departments.

Evaluative Point: In order to achieve its business objectives, it is important for a company to choose an organization structure that aligns with its goals and supports its operations and processes. The most appropriate structure for a given organization will depend on a variety of factors, such as the size and scope of the business, the industry in which it operates, and the strategies and goals of the organization.

UNIT 7.1.2 | Types of Organizational Structures

1. Hierarchical Structure

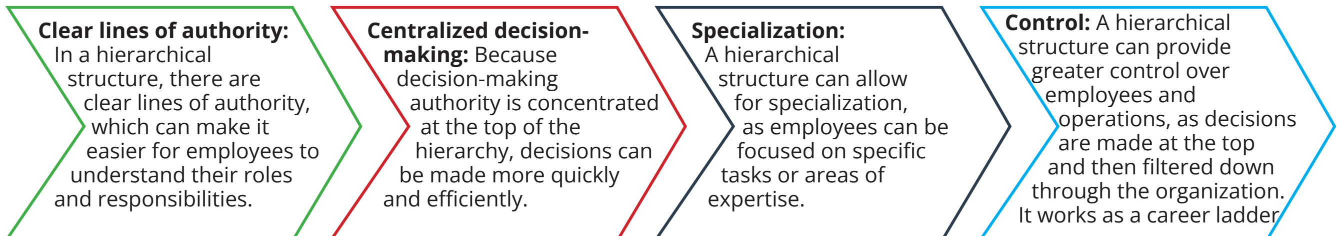
A hierarchical organization structure is a type of organizational structure in which an organization is arranged into a pyramid of levels, with a single person or group at the top and subordinate employees or groups below. In a hierarchical organization, each level of the hierarchy is responsible for a different set of tasks and has a different level of authority. This type of structure is commonly found in traditional, bureaucratic organizations and is designed to ensure that decisions are made efficiently and that there is a clear division of labor.



2. Functional Structure

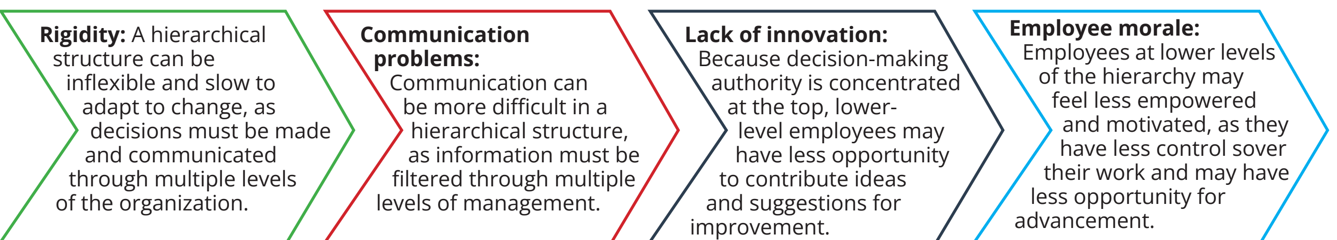
ADVANTAGES

of Hierarchical Structure

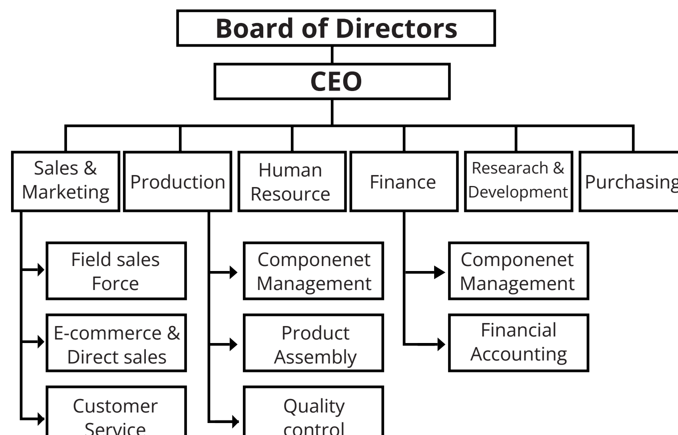


DISADVANTAGES

of Hierarchical Structure

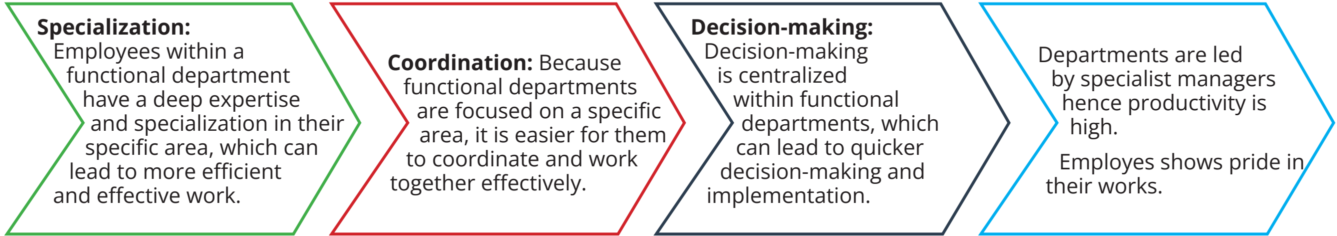


A functional organizational structure is a type of organizational structure in which an organization is divided into departments or functions based on the different tasks and responsibilities of the employees.

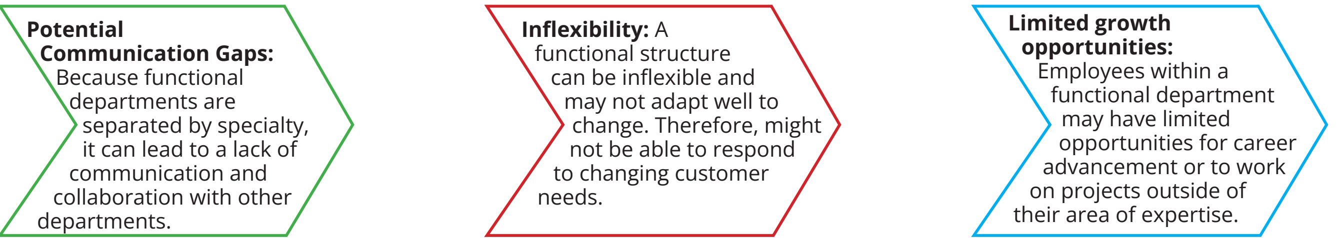


For example, a company might have a finance department, a sales department, a marketing department, and a human resources department. Each department is responsible for a specific aspect of the business and is typically headed by a manager or executive with expertise in that area.

ADVANTAGES of Functional Structure

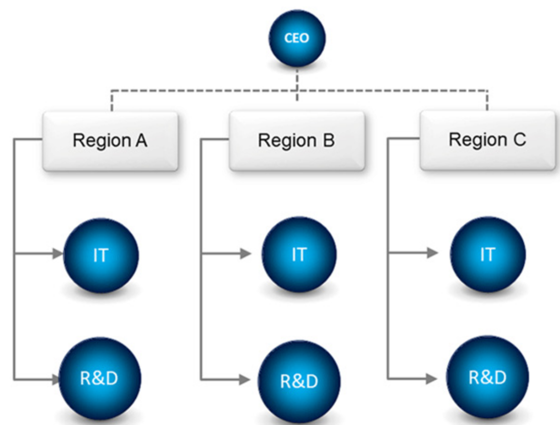


DISADVANTAGES of Functional Structure

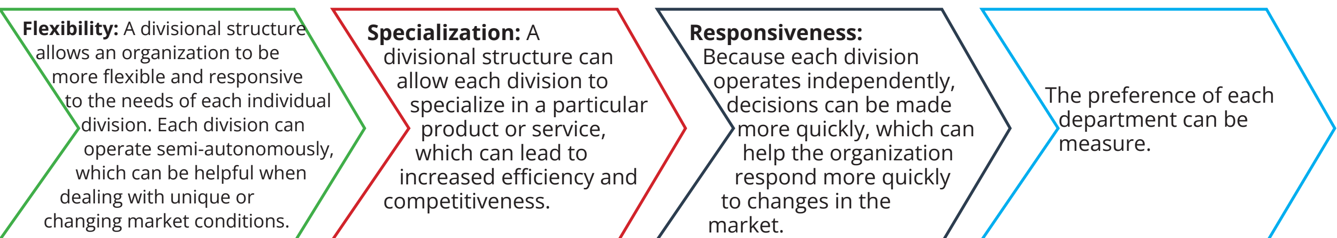


3. Divisional Structure (A Structure based on Geographical Area)

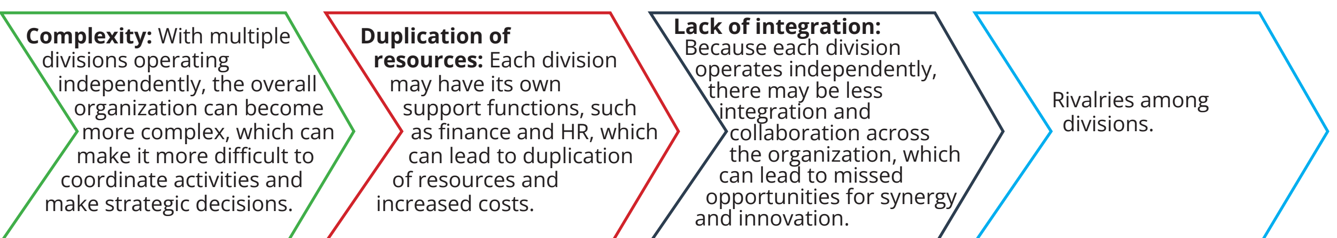
A divisional organizational structure is a type of structure in which an organization is divided into smaller units, or divisions, that are each responsible for a specific product or service. In a divisional organizational structure, the overall organization is typically divided into several divisions based on product line, geographic region, or customer type. Each division has its own management team and is responsible for its own operations, including marketing, sales, and production. The divisions may also have their own research and development, finance, and human resources departments.



Advantages of Divisional Structure



Advantages of Divisional Structure



Evaluative Point: The divisional structure is commonly used by large organizations that operate in multiple locations or markets, as it allows the organization to be more flexible and responsive to the needs of each individual division.

4. Matrix Structure

In a matrix organizational structure, the organization is structured in such a way that there are multiple reporting lines for employees. In other words, an employee may have more than one boss or supervisor. This type of organizational structure can be useful in organizations that have a need to coordinate work across different departments or functions, as it allows employees to have access to the resources and support of multiple departments while still having a clear line of management within their own department.

	Finance Dept	Production Dept	Marketing Dept	Human Resource	Research & Development
Project Team 1					
Project Team 2					
Project Team 3					

ADVANTAGES of Matrix Structure

Enhanced coordination and collaboration: The dual reporting structure in a matrix organization can facilitate communication and coordination among employees and functional areas.

Increased flexibility: A matrix structure allows an organization to respond more quickly to changing market conditions or customer needs by allowing employees to work on multiple projects or initiatives simultaneously.

Improved decision-making: The matrix structure allows for input from multiple functional areas, which can lead to more informed decision-making.

DISADVANTAGES of Matrix Structure

Increased complexity: The dual reporting structure can be confusing and may create conflicts of interest or competing priorities for employees.

Difficulty in establishing clear lines of authority: In a matrix structure, it may be difficult to determine who has the ultimate authority to make decisions, which can lead to confusion and delays.

Increased workload: Employees may be required to work on multiple projects or initiatives simultaneously, which can lead to increased workload and stress.

Evaluative Point: The matrix structure is commonly used in organizations that need to be flexible and responsive to the needs of multiple stakeholders, such as those in the consulting, engineering, or high-tech industries. It can be an effective way to manage complex projects that require a high level of coordination and collaboration across functional areas.

5. Centralized Structure

A centralized organization structure is one in which decision-making authority is concentrated at the top levels of the company, typically with the CEO or a small group of top executives. In a centralized organization, lower-level employees typically have less decision-making power and are expected to follow the decisions and policies set by upper management.

7.4 TOPIC 7.4 | HUMAN RESOURCE MANAGEMENT (HRM) STRATEGY

Syllabus Content

7.4.1 Approaches to human resource management (HRM)
- the difference between 'hard' and 'soft' HRM
- flexible working contracts: advantages and disadvantages of temporary contracts or flexible contracts including zero hours contracts, part-time, full-time, annualised hours, flexi-time, home working, shift working, job sharing, compressed working hours, the gig economy
- the measurement, causes and consequences of poor employee performance
- strategies for improving employee performance
- Management by Objectives (MBO) – implementation and usefulness
- the changing role of Information Technology (IT) and Artificial Intelligence (AI) in HRM

UNIT 7.4.1 | Human Resource Management (An Overview)

Human resource management (HRM) is the process of managing people within an organization, with the goal of maximizing the effectiveness of the organization and its employees. HRM includes a wide range of activities, including recruiting and hiring, training and development, performance management, and compensation and benefits.

Some specific responsibilities of HRM professionals may include:

→ Developing and implementing HR policies and procedures

→ Managing employee benefits and compensation programs

→ Conducting performance evaluations and managing performance improvement plans

→ Handling employee relations issues, such as workplace conflicts or harassment claims

→ Overseeing the hiring and onboarding process for new employees

→ Providing training and development opportunities for employees

→ Managing succession planning and career development programs

Evaluative Point: Effective HRM can help an organization attract and retain top talent, improve employee performance and productivity, and create a positive and supportive work culture. It can also help to ensure that an organization is in compliance with relevant laws and regulations related to employment.

Approaches to HRM

1. Hard HRM

Hard HRM refers to an approach to human resource management that focuses on aligning HR practices with the strategic goals of the organization. It is called "hard" HRM because it takes a more quantitative and business-oriented approach to HR, as opposed to a more people-oriented approach.

Focus of hard HRM
Performance management
Strategy in acheiving Organisational goals
Cost Control
Hiring, Movingvand Firing

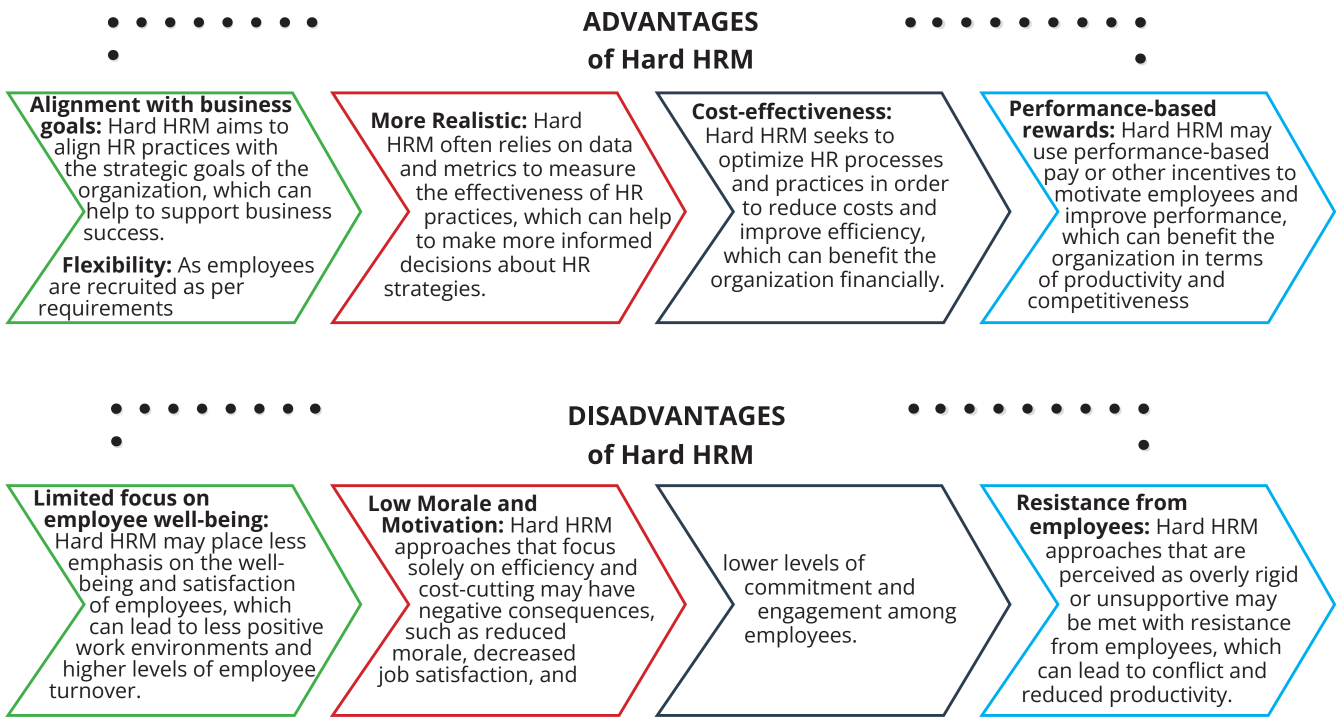
Characteristics of Hard HRM

→ **Emphasis on strategic alignment:** Hard HRM aims to align HR practices with the overall goals and objectives of the organization, in order to support business success.

→ **Use of quantitative data:** Hard HRM often relies on data and metrics to measure the effectiveness of HR practices and to make decisions about HR strategies.

→ **Focus on efficiency and cost-effectiveness:** Hard HRM seeks to optimize HR processes and practices in order to reduce costs and improve efficiency.

→ **Use of performance-based rewards:** Hard HRM may use performance-based pay or other incentives to motivate employees and improve performance.
→ **Limited focus on employee well-being:** Hard HRM may place less emphasis on the well-being and satisfaction of employees, compared to other HR approaches.



2. Soft HRM

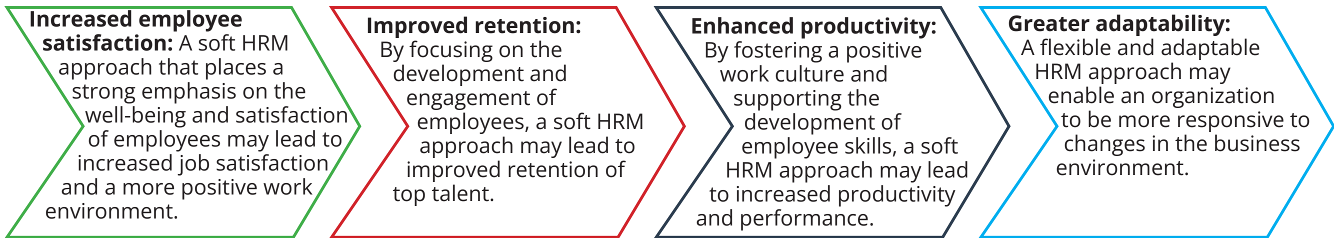
Soft HRM is a approach that emphasizes the importance of people in an organization and focuses on creating a positive work culture, building strong relationships with employees, and developing their skills and abilities. This approach is based on the idea that employees are a valuable resource and that their well-being and satisfaction are essential to the success of the organization.

Characteristics of Soft HRM

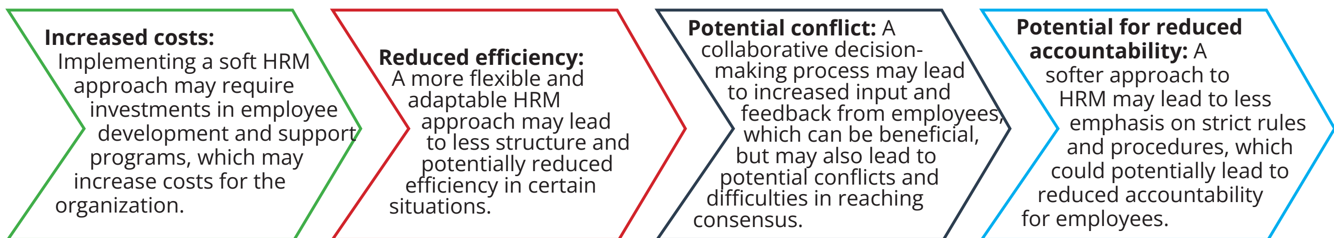
→ **Emphasis on people:** Soft HRM places a strong emphasis on the value of people in an organization and recognizes that employees are a valuable resource.
→ **Focus on well-being:** Soft HRM places a strong emphasis on the well-being and satisfaction of employees and may include initiatives such as flexible work arrangements and employee support programs.
→ **Strong relationships:** Soft HRM emphasizes the importance of building strong, positive relationships with employees and may involve efforts to foster communication and collaboration within the organization.
→ **Employee development:** Soft HRM places a strong emphasis on developing the skills and abilities of employees through training and development programs.
→ **Collaborative decision-making:** Soft HRM may involve a more collaborative and participative decision-making process, with a focus on involving employees in the decision-making process and obtaining their input and feedback.
→ **Flexibility:** Soft HRM often involves a more flexible and adaptable approach to managing people, with a focus on tailoring HR policies and practices to the needs of the organization and its employees.

Focus of soft HRM
Needs of employees
Employee Training
Development
Commitment
Participation

ADVANTAGES of Soft HRM



DISADVANTAGES of Soft HRM



Flexible Workforce and Contracts

A flexible workforce is a group of employees who are able to adapt to changing business needs and demands. This can involve working different hours, performing different tasks, or being available for temporary or part-time assignments. A flexible workforce can be an asset to a company because it allows the organization to respond quickly to changes in the business environment and to meet the needs of its customers. Companies may also use a flexible workforce to reduce labor costs by hiring temporary or part-time employees instead of full-time staff.

1. Part Time

→ Part-time workers are employees who work fewer hours than full-time workers.

→ Part-time work is typically defined as working less than 35 hours per week.

→ Part-time workers may be employed on a permanent or temporary basis, and their hours may be fixed or variable.

→ Part-time work can be a good option for people who are unable to commit to full-time work due to personal or family responsibilities, or for those who are seeking a more flexible work schedule.

→ Some part-time workers may be eligible for the same benefits as full-time workers, such as vacation time and health insurance, although this can vary depending on the employer and the specific terms of the employment agreement.

2. Full Time

→ Full-time workers are employees who work a standard number of hours per week, typically at least 35 hours.

→ Full-time work is often considered to be the norm in many countries, and full-time workers are generally eligible for a full range of benefits, such as vacation time, sick leave, and health insurance.

→ In some cases, full-time workers may also be eligible for retirement benefits and other perks.

→ Full-time work can provide stability and a regular income for employees, but it may also involve long hours and a significant time commitment.

→ Some people may prefer to work full-time in order to advance in their careers or to have a more predictable work schedule.

3. Flexitime

→ Flexitime workers are employees who have some flexibility in their work schedule. This may involve being able to start and end work at different times each day or being able to work a certain number of hours within a given time frame.

→ Flexitime arrangements can be beneficial to both employees and employers. Employees may appreciate the ability to have some control over their work schedule, which can improve work-life balance.

8.1

TOPIC 8.1 | MARKETING ANALYSIS

Syllabus Content

8.1.1 Elasticity

- the concept of elasticity of demand: price, income and promotional
- calculation of price, income and promotional elasticity of demand
- interpretation of elasticity results
- the impact of elasticity measures on business decisions
- the limitations of the concept of elasticity in its various forms

8.1.2 Product development

- the process of product development
- sources of new ideas for product development
- the importance of Research and Development (R&D)

8.1.3 Sales forecasting

- the need to forecast sales
- time series analysis: calculation and use of four period centred moving average method to forecast sales
- qualitative sales forecasting
- the impact of sales forecasting on business decisions

UNIT 8.1.1 |The Concept of Elasticity

Elasticity: It is the measure of the responsiveness of one variable to a change in another variable.

Different Demand Elasticities

Price elasticity of demand: This measures the percentage change in quantity demanded in response to a percentage change in price.

$$\textbf{Formula=} \frac{\text{\%age change in Quantity demanded}}{\text{\%age change in Price}}$$

The PED can take on a wide range of values, depending on the specific good or service being considered. Some common values of PED include:

→ Less than one, which means PED is inelastic.

→ Equal to one, which is unitary elastic.

→ Greater than one, which is elastic.

→ Zero (0), which is perfectly inelastic.

→ Infinite (∞), which is perfectly elastic.

Relevance of PED for Business

It is an important concept for businesses to understand because it can help them determine how changes in price will affect the demand for their products and, in turn, their revenue.

For example, if a business is considering increasing the price of its product, it would want to know whether the demand for the product is elastic or inelastic. If the demand is elastic, it means that a small change in price will result in a large change in the quantity demanded, and the business may see a decrease in its overall revenue as a result of the price increase. On the other hand, if the demand for the product is inelastic, it means that a change in price will have a smaller effect on the quantity demanded, and the business may see an increase in its revenue as a result of the price increase.

PED can also be used to help businesses make decisions about pricing strategies, such as whether to offer discounts or engage in price discrimination. It can also be used to help businesses understand how changes in the prices of their inputs, such as raw materials, will affect their costs and profitability.

Income elasticity of demand: This measures the percentage change in quantity demanded in response to a percentage change in income.

$$\textbf{Formula=} \frac{\text{\%age change in Quantity demanded}}{\text{\%age change in Income of Consumers}}$$

YED can take on a range of values, each of which has a different meaning in terms of the relationship between income and the demand for a particular good or service. **These values include:**

→ **Negative income elasticity of demand:** This occurs when an increase in income leads to a decrease in the demand for a good or service. This might be the case for goods that are considered inferior, or that are consumed less as people's income increases.

→ **Zero income elasticity of demand:** This occurs when an increase in income has no effect on the demand for a good or service. This might be the case for goods that are considered necessities, such as food and shelter.

→ **Positive income elasticity of demand (less than 1):** This occurs when an increase in income leads to an increase in the demand for a good or service, but the increase in demand is less than the increase in income. This might be the case for goods that are considered normal, or that are consumed more as people's income increases, but not at the same rate.

→ **Positive income elasticity of demand (greater than 1):** This occurs when an increase in income leads to a greater increase in the demand for a good or service. This might be the case for goods that are considered luxury items, or that are consumed more as people's income increases at a faster rate.

Relevance of YED for Business

It is an important concept for businesses to understand because it can help them anticipate how changes in income among their customers might affect the demand for their products.

For example, if a business is targeting customers with higher incomes, it would want to know whether the demand for its products is elastic or inelastic with respect to changes in income. If the demand is elastic, it means that a small change in income will result in a large change in the demand for the product, and the business may need to adjust its pricing or marketing strategies in response.

On the other hand, if the demand for the product is inelastic with respect to income, it means that a change in income will have a smaller effect on the demand for the product, and the business may be able to maintain its pricing or marketing strategies without significant changes.

YED can also be used to help businesses make decisions about targeting particular segments of the market. For example, if a business's products have a high YED, it may be more profitable to target customers with higher incomes, since they are more likely to increase their demand for the products as their income increases.

On the other hand, if a business's products have a low YED, it may be more profitable to target customers with lower incomes, since their demand for the products is less sensitive to changes in income.

Cross-price elasticity of demand: This measures the percentage change in the quantity demanded of one good in response to a percentage change in the price of another good.

$$\textbf{Formula=} \frac{\text{\%age change in Quantity demanded of your Produce}}{\text{\%age change in Price of another product}}$$

XED can take a range of values:

→ **Negative cross elasticity of demand:** This occurs when an increase in the price of the related good or service leads to a decrease in the demand for the good or service being considered. This might be the case for goods or services that are considered substitutes for one another, meaning that if the price of one goes up, people will switch to consuming the other instead.

→ **Zero cross elasticity of demand:** This occurs when a change in the price of the related good or service has no effect on the demand for the good or service being considered. This might be the case for goods or services that are not related to one another and are not considered substitutes.

→ **Positive cross elasticity of demand:** This occurs when an increase in the price of the related good or service leads to an increase in the demand for the good or service being considered, but the increase in demand is less than the increase in price. This might be the case for goods or services that are considered complements for one another, meaning that they are consumed together and an increase in the price of one may lead to an increase in the demand for the other.

Relevance of XED for Business

It is an important concept for businesses to understand because it can help them anticipate how changes in the prices of related goods or services might affect the demand for their products.

For example, if a business is considering increasing the price of its product, it would want to know whether the demand for the product is elastic or inelastic with respect to changes in the price of a related good or service.

If the XED is elastic, it means that a small change in the price of the related good or service will result in a large change in the demand for the product, and the business may need to adjust its pricing or marketing strategies in response.

On the other hand, if the XED is inelastic, it means that a change in the price of the related good or service will have a smaller effect on the demand for the product, and the business may be able to maintain its pricing or marketing strategies without significant changes.

XED can also be used to help businesses understand how changes in the prices of their inputs, such as raw materials, will affect their costs and profitability. For example, if a business's product has a high XED with respect to the price of a particular raw material, it means that an increase in the price of that raw material will lead to a larger decrease in the demand for the product. This can be useful information for the business to have when making decisions about how to respond to changes in the prices of its inputs.

Promotional Elasticity of Demand

Promotional elasticity of demand refers to the change in demand for a product or service in response to changes in promotional expenditure. It is a measure of how effective a company's promotional activities are at influencing customer demand for its products.

$$\textbf{Formula=} \frac{\text{\%age change in Quantity demanded}}{\text{\%age change in Promotional Expenditure}}$$

The value of promotional elasticity of demand can range from zero to infinity. Here are some possible values of promotional elasticity of demand and what they might mean:

- → **Zero:** If the promotional elasticity of demand is zero, then changes in promotional efforts do not have any effect on demand for the product. This may indicate that the product has a very loyal customer base that is not influenced by promotional efforts, or that the product is a necessity that is not sensitive to price or marketing.
- → **Between zero and one:** If the promotional elasticity of demand is between zero and one, then changes in promotional efforts have a relatively small effect on demand for the product. This may indicate that the product has some loyal customers, but is also sensitive to price and marketing.
- → **One:** If the promotional elasticity of demand is one, then a change in promotional efforts results in a proportionate change in demand for the product. This may indicate that the product has a strong relationship between promotional efforts and demand.
- → **Greater than one:** If the promotional elasticity of demand is greater than one, then a change in promotional efforts results in a larger change in demand for the product. This may indicate that the product is highly sensitive to promotional efforts and that the company's marketing efforts are very effective at influencing demand.

Relevance of AED for Business

Promotional elasticity of demand is an important consideration for businesses because it helps them understand the impact of their promotional efforts on customer demand for their products or services.

By understanding the promotional elasticity of demand, businesses can determine how much they should invest in promotional activities and how they can effectively target their promotional efforts to maximize their impact on demand.

For example, if a business has a product with a high promotional elasticity of demand, it may choose to invest more heavily in promotional activities in order to increase demand for the product.

On the other hand, if a business has a product with a low promotional elasticity of demand, it may choose to invest less in promotional activities and focus more on other factors that influence demand, such as price or product quality.

In addition to informing promotional strategies, understanding the promotional elasticity of demand can also be helpful for businesses in forecasting future demand for their products and in setting pricing strategies.

By understanding how changes in promotional efforts will impact demand, businesses can better predict how their products will perform in the market and make more informed decisions about pricing and other aspects of their marketing efforts.

Example Calculation | PED and AED — MJ 2018 P32 Q4

Appendix 2: Market data for walking boots in country A and DA's sales forecasts

Forecast demand for DA walking boot range in 2019 with promotional spending of $200 000	40 000 units
Forecast demand for DA walking boot range in 2019 with promotional spending of $300 000	50 000 units
Forecast demand for DA Explorer in 2019 at a price of $200	10 000 units
Forecast demand for DA Explorer in 2019 at a price of $180	11 300 units
Forecast annual growth of walking boots sales 2018–2021	1%
Walking boot sales in 2017 by volume	1.5m units
Walking boot sales in 2017 by value	$165m
Number of walking boots brands	30

Note: A unit is a pair of boots

(a) Refer to Appendix 2. Calculate:

(i) Promotional elasticity of demand for the DA range of walking boots if spending on promotion is increased from $200 000 to $300 000 [3]

(ii) Price elasticity of demand for the DA Explorer boot if price is reduced from $200 to $180. [3]

Solution:

(a) (i)

AdED = $\frac{\%\Delta Qd}{\%\Delta Ad}$ (1 mark if no relevant calculation)

%ΔQd = 25% (1 mark)

%ΔAd = 50% (1 mark)

AdED = 0.5 (3 marks)

25% and 50% can only be rewarded if it is clear what the numbers refer to.

(ii)

PED = $\frac{\%\Delta Qd}{\%\Delta P}$ (1 mark if no relevant calculation)

%ΔQd = 13% (1 mark)

%ΔP = –10% (1 mark)

PED = –1.3 or 1.3 (3 marks)

Example Calculation | YED — MJ 2020 P31 Q2

Demand for JGS services	
JGS has not increased its prices for three years. Over 95% of JGS customers are visitors from country K. Demand for JGS tours is increasing and Jan thinks that income levels i country K are an important factor. Average income in country K rose by 5% in 2019. Demand for JGS tours from residents of country K increased by 20% in the same period. Jan curretbly belives that there is still time to get more bookings for quarters 3 and 4 in 20202. He also knowa that increasing the effectiveness of the JGS internet presence is important.	20
Gorl has analysed sales figures for the last three years. table 1 shows his results. He has used the moving average method and has forecast the sentred moving average (trend) sales figure for Quarter 3 2021 of $86560.	25

9.1

TOPIC 9.1 | LOCATION AND SCALE

Syllabus Content

9.1.1 Location
- → the factors that determine location and relocation
- → the differences between local, national and international location decisions
- → the reasons for and impact of offshoring and reshoring
- → the impact of globalization on location and relocation decisions

9.1.2 Scale of operations
- → the factors that influence the scale of a business
- → causes and examples of internal and external economies and diseconomies of scale
- → the links between economies and diseconomies of scale and unit costs

UNIT 9.1.1 |Business Location

Definition | Business location refers to the physical location where a business is situated. It can be a storefront, office, warehouse, or other type of facility where the business operates. The location of a business can has a significant impact on its success, as it can affect factors such as access to customers, the availability of skilled labor, and the cost of doing business.

Relocation | Relocation of a business refers to the process of moving a business from its current location to a new one. This can involve moving the entire business, including all employees, equipment, and operations, to a new location. Businesses may choose to relocate for a variety of reasons, including the need for a larger facility, the desire to be closer to customers or suppliers, or the opportunity to take advantage of lower costs or a more favorable business environment in a different location.

Optimal Location of a Business | The optimal location for a business is the location that best meets the needs and goals of the business. Combination of both qualitative and quantitative activities.

Problems associated with non-optimal Locations

1. **Lack of customers:** If a business is located in an area with a low concentration of potential customers, it may struggle to generate sufficient sales and revenue.
2. **Poor access to transportation:** If a business is located in an area that is difficult to access by car, public transportation, or other modes of transportation, it may be inconvenient for customers and employees to reach, which can negatively impact business.
3. **Limited access to skilled labor:** If a business is located in an area with a shortage of qualified workers, it may be difficult to hire and retain the talent it needs to succeed.
4. **High costs of doing business:** If a business is located in an area with high costs for rent, utilities, and other expenses, it may struggle to remain profitable.
5. **High Fixed Costs of Site**
6. **No security**
7. **Lack of attractiveness**
8. **Located to far from supplier; hence high transport cost.**

Factors affecting Location decisions of a business

Quantitative Factors

1. **Capital Costs:** These include cost of purchasing a site, equipment and other capital expenditures involved. This factor concerns capital intensive businesses more.
2. **Labour Costs:** Wage rates in those areas need to be considered. This factor is especially important for labour intensive businesses.

3. **Transportation Cost:** Ideally business try to be as close as marketplace as possible in order to reduce transportation costs. This is because if plant and factory are far away the transportation costs will be higher.
4. **Infrastructure:** The quality and availability of transportation, telecommunications, and other infrastructure can be important factors in location decisions.
5. **Government Policies:** Tax rates in some states might be lower than others. In addition to that some states may offer subsidies and government grants.
6. **Investment Appraisal:** The NPV, Payback and ARR will also help make a comparative analysis between various locations.
7. **Rent cost**

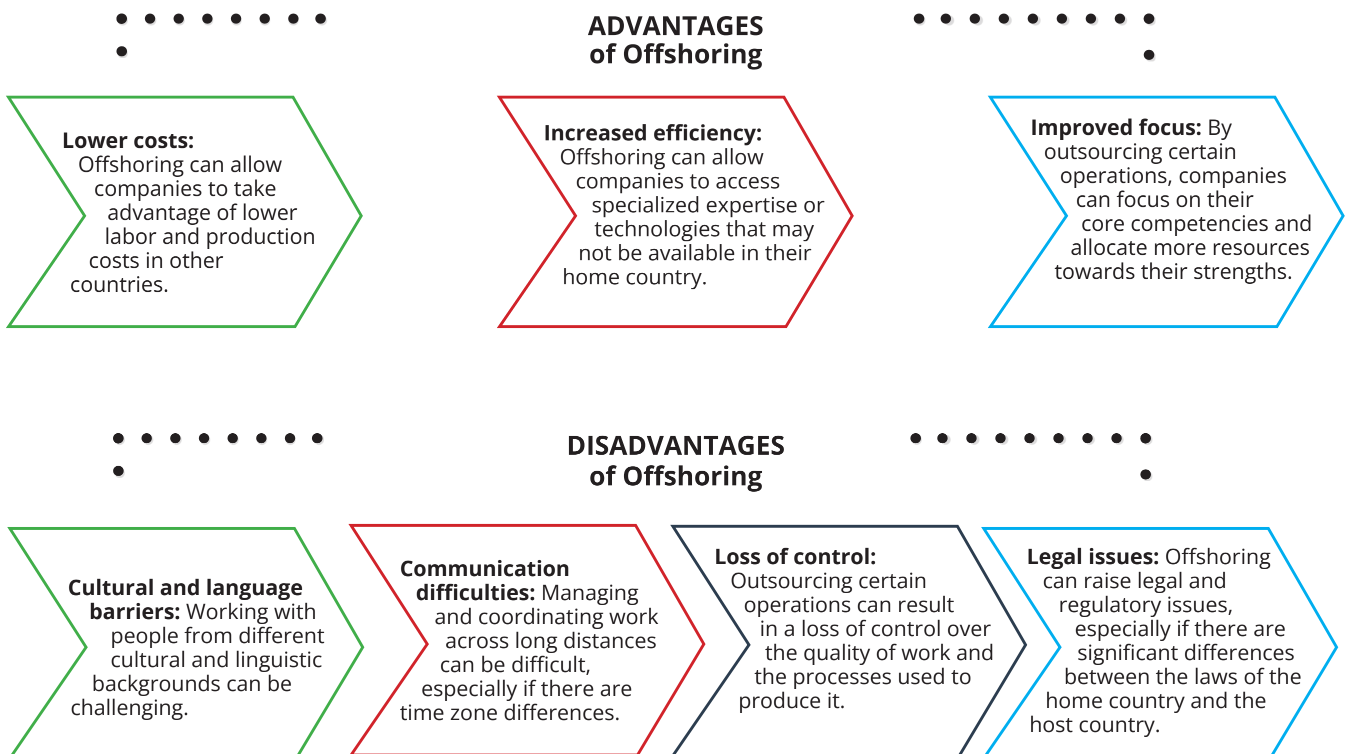
Investment appraisal techniques are discussed in detail in Sec 10.

Qualitative Factors

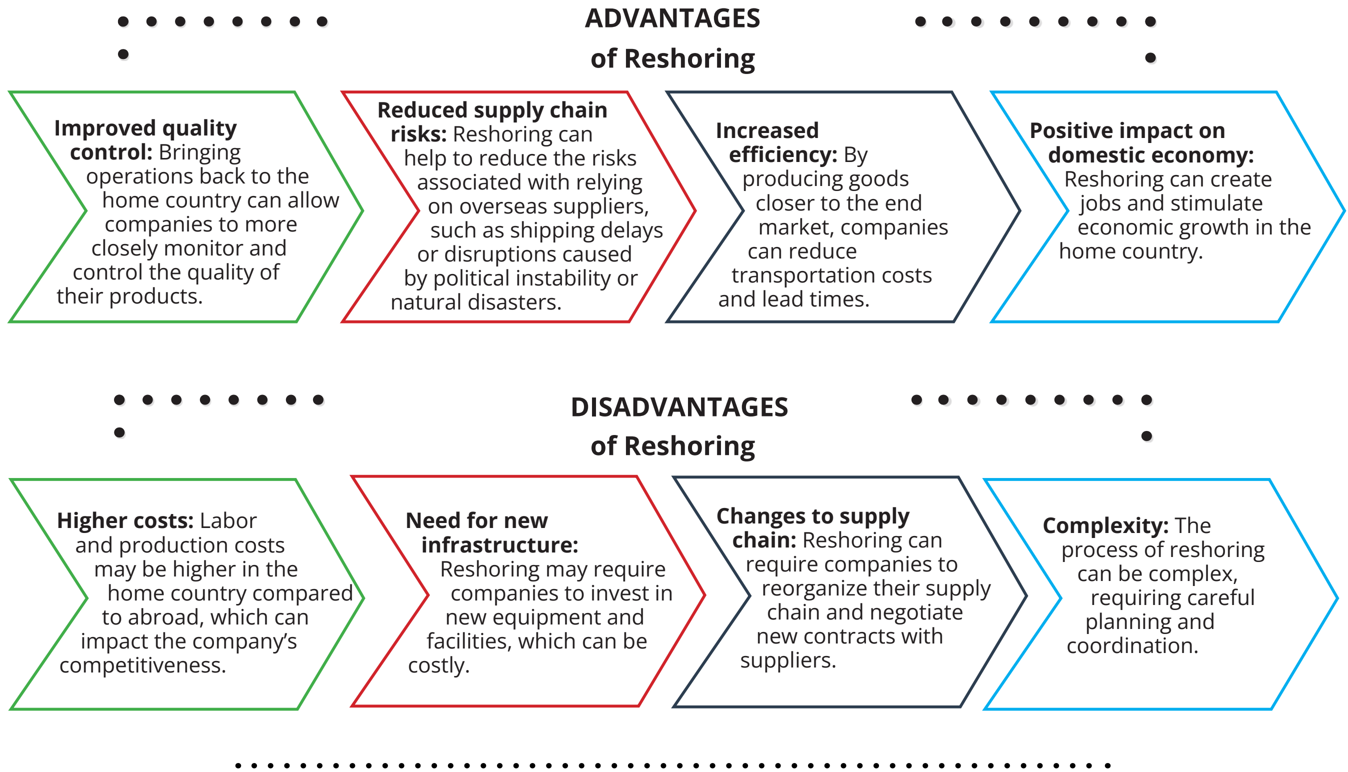
1. **Safety:** Crime rates and public safety also plays a role in location decisions.
2. **Government policies:** Companies may consider the policies and regulations of different countries when deciding where to locate their operations.
3. **Quality of life:** Companies may consider the quality of life in different locations for their employees and their families.
4. **Natural disasters:** Companies may consider the risk of natural disasters, such as earthquakes or hurricanes, when deciding where to locate their operations.
5. **Access to markets:** Companies may choose to locate near their customers or in locations that offer access to new markets.
6. **Access to raw materials:** Companies may consider the availability and cost of raw materials when deciding where to locate their operations.
7. **Skilled labor:** Companies may choose to locate in areas with a skilled and educated workforce.
8. **Subsides**

Offshoring and Reshoring

Offshoring | Offshoring refers to the practice of outsourcing or relocating business operations and functions to a location outside of the company's home country. This can include moving manufacturing, customer service, and IT support etc abroad. This is often done in order to take advantage of lower labor costs, tax breaks, and other benefits offered by the host country.



Reshoring | Reshoring, also known as "backshoring," refers to the practice of bringing business operations and functions back to the company's home country from a location abroad. This can be done for a variety of reasons, including rising labor costs in the host country, improving economic conditions in the home country, and a desire to improve quality control or reduce supply chain risks.



UNIT 9.1.2 |Scale of Operations

Definition | The scale of operations refers to the size and complexity of a business's operations. It can encompass a wide range of factors, including the number of employees, the amount of production or output, the size of the facility or facilities, and the level of investment in equipment and other resources.

Factors affecting the Scale of Operation

1. **Market demand:** The level of demand for a business's products or services can influence the scale of operations. A business that is experiencing high demand may need to increase its scale of operations in order to meet the demand, while a business with low demand may need to scale back its operations.
2. **Production costs:** The cost of producing goods or services can influence the scale of operations. A business that is able to produce goods or services at a lower cost may be able to operate at a larger scale and still be profitable, while a business with high production costs may need to limit its scale of operations in order to remain profitable.
3. **Available resources:** The availability of resources such as capital, equipment, and skilled labor can influence the scale of operations. A business that has access to these resources may be able to operate at a larger scale, while a business that lacks access to these resources may need to limit its scale of operations.
4. **Competition:** The level of competition in the market can influence the scale of operations. A business that is competing with many other businesses may need to operate at a larger scale in order to be competitive, while a business with little competition may be able to operate at a smaller scale.
5. **Government regulations:** Government regulations can influence the scale of operations by setting limits on the amount of production or the types of activities that are permitted.
6. **Owner's Objectives:** Some owners might not want to get in a hassle of running a large corporation.

Economies of Scale

Economies of scale refer to the cost advantages that a business can achieve by producing goods or services in large quantities. These cost advantages arise because as the scale of production increases, the average cost of each unit of production decreases.

Internal Economies of Scale

Internal economies of scale refer to the cost advantages that a business can achieve due to its own internal operations and structure. These economies of scale arise as a result of the business's own efforts to become more efficient and reduce its costs.

1. Purchasing Economies of Scale

Purchasing economies of scale refer to the cost advantages that a business can achieve through bulk purchasing of raw materials, supplies, and other goods and services. These economies of scale arise because as a business increases its scale of purchasing, it is often able to negotiate lower prices for the goods and services it needs. Some ways in which business can achieve purchasing economies of scale are:

1. **Bulk purchasing:** By purchasing large quantities of goods or raw materials at one time, a business can often negotiate a lower price with suppliers and get bulk-buying discounts.
2. **Long-term contracts:** A business can negotiate a long-term contract with a supplier, which can provide the business with a consistent price for the goods or services it needs over an extended period of time.

2. Financial Economies of Scale

Financial economies of scale refer to the benefits that a company can achieve by taking advantage of lower financing costs due to its size. Here are a few ways in which a business can achieve financial economies of scale:

1. **Access to capital:** Larger businesses may have an easier time accessing capital through traditional lending channels, such as banks, because they are seen as being more financially stable and less risky.
2. **Lower borrowing costs:** Larger businesses may be able to negotiate lower interest rates on loans because of their size and financial stability.
3. **Greater bargaining power:** A larger company may have more bargaining power when negotiating with suppliers and creditors, allowing it to secure more favorable terms.
4. **Greater financial flexibility:** A larger business may have more financial resources at its disposal, which can give it greater flexibility to take on new opportunities and investments.

3. Marketing Economies of Scale

Marketing economies of scale refer to the cost advantages that a business can achieve through efficient and effective marketing efforts. These economies of scale arise because as a business increases its scale of operations, it may be able to achieve cost savings in its marketing efforts by reaching a larger audience more efficiently. This can be done by using digital marketing channels or implementing a targeted marketing campaign,

4. Managerial Economies of Scale

Managerial economies of scale refer to the benefits that a company can achieve through the efficient management of its operations. Here are a few ways in which a business can achieve managerial economies of scale:

1. **Centralization of decision-making:** By centralizing decision-making authority, a company can streamline its operations and make more efficient use of resources.
2. **Specialization of management:** A company can benefit from having managers who are specialized in specific areas of the business, as they will have a deeper understanding of those areas and be able to make more informed decisions.

5. Technical Economies of Scale

These are cost advantages brought to the business through investing in technology. It can be achieved in many ways such as:

1. **Automation:** By automating certain tasks or processes, a company can reduce its labor costs and increase efficiency.
2. **Process improvements:** Using technology to streamline and optimize production processes can lead to cost savings and increased efficiency.
3. **Specialized equipment:** Investing in specialized equipment that is specifically designed for a particular task can increase efficiency and reduce costs.
4. **Data analysis:** Using technology to analyze data and make informed decisions about production and operations can lead to cost savings and increased efficiency.
5. **Supply chain optimization:** Technology can be used to optimize the supply chain, reducing costs and increasing efficiency by minimizing waste and streamlining the flow of materials.

Evaluative Point: Economies of scale can be an important factor in the competitiveness of a business, as they can help to reduce the cost of production and improve profitability. However, it is important to note that there are also diseconomies of scale, which are cost disadvantages that a business may face as it increases its scale of production. These can arise due to factors such as the difficulty of managing a larger organization or the need to invest in more expensive equipment.

External Economies of scale

External economies of scale occur when a whole industry grows larger and firms benefit from lower long-run average costs.

1. Ancillary Services

Ancillary services are support services provided to a primary business or industry. These services can include things like transportation, logistics, maintenance, and repair. Ancillary services can help to reduce the costs of other businesses by providing specialized services that allow those businesses to focus on their core competencies and outsource non-core functions.

For example, if a manufacturing company contracts with a transportation company to handle the shipping of its products, it can focus on producing high-quality products without having to invest in its own transportation fleet. This can help to reduce costs and increase efficiency for the manufacturing company.

2. Availability of Skilled Labour

Skilled labor can help to reduce costs for a business in a number of ways:

→ Increased efficiency.

→ Fewer errors

→ Improved quality

→ Greater flexibility

3. Joint Advertisement

Joint advertising, through collaboration between businesses, creates economies of scale by sharing advertising costs, leveraging collective buying power, reaching a wider audience, fostering creativity and innovation, and facilitating the sharing of knowledge and best practices. This collaborative approach maximizes resources, enhances the effectiveness of advertising campaigns, and offers a more cost-efficient and impactful way to promote products or services.

4. Joint Infrastructure

Joint infrastructure, as economies of scale, involves the sharing or collaborative development of physical assets or facilities among multiple entities. It offers cost-sharing opportunities, shared maintenance and operational expenses, economies in scale of operations, enhanced resource utilization, improved access to services or resources, and collaborative innovation. By pooling resources and optimizing infrastructure utilization, entities can achieve cost savings, operational efficiencies, and improved competitiveness.

Diseconomies of scale

Diseconomies of scale refer to the cost disadvantages that a business may face as it grows larger and increases its scale of operations. As a business grows larger, it may become more difficult to manage and coordinate the activities of a large number of employees, which can lead to inefficiencies and higher costs. This can result in an increase in per unit costs.

→ **Increased bureaucracy:** As a company grows, it may become more bureaucratic and hierarchical, which can lead to slower decision-making and lower productivity.

→ **Decreased flexibility:** A larger company may find it more difficult to change course or adapt to new situations, as it may have more rigid processes and structures in place.

→ **Higher costs:** As a company grows, it may face higher fixed costs, such as administrative expenses, which can lead to higher overall costs.

→ **Decreased innovation:** A larger company may struggle to be as innovative as smaller, more agile competitors, as it may be more risk-averse and have more established ways of doing things.

→ **Decreased customer service:** A larger company may find it more difficult to provide the same level of personalized customer service as a smaller company, leading to customer dissatisfaction.

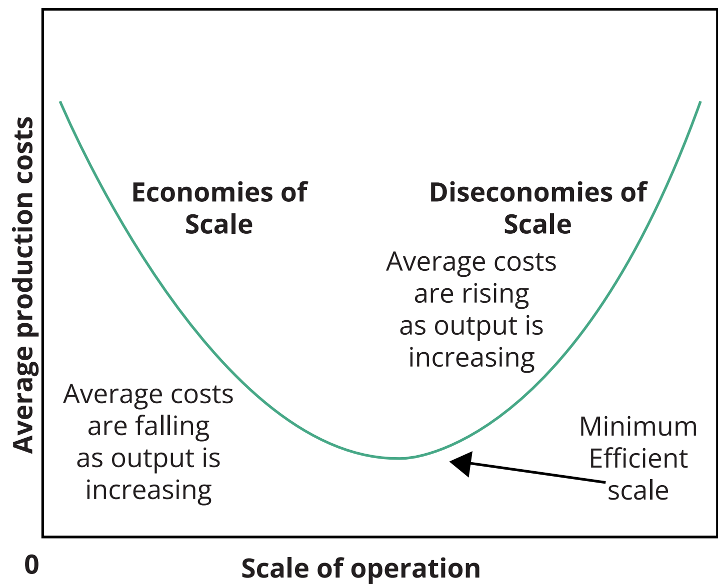
→ **Employs may feel demotivated** due to repetition of tasks.

How can business avoid Diseconomies of Scale?
Here are a few strategies that a business can use to avoid diseconomies of scale:

1. **Stay lean and agile:** By keeping its operations lean and agile, a business can avoid the bureaucracy and inefficiency that can come with growth.
1. **Encourage innovation:** By fostering a culture of innovation and encouraging employees to come up with new ideas, a business can stay ahead of the curve and avoid stagnation.
2. **Maintain a focus on customer service:** By prioritizing customer service and maintaining a focus on the needs of its customers, a business can avoid losing touch with its market.
3. **Keep overhead costs in check:** By managing its overhead costs carefully and keeping them as low as possible, a business can avoid the higher fixed costs that can come with growth.
4. **Consider downsizing:** If a business finds that it has become too large and is experiencing diseconomies of scale, it may need to consider downsizing in order to regain efficiency and competitiveness.
5. **Decentralization**

Meaning of Organizational Agility

Organizational agility refers to the ability of a company to quickly and effectively adapt to change. It involves having a flexible and responsive organizational structure, as well as the ability to quickly respond to shifts in the market or changes in customer needs.



The link between economies of scale, diseconomies of scale and per unit costs.

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10.1 TOPIC 10.1 | FINANCIAL STATEMENTS

Syllabus Content

10.1.1 Statement of profit or loss
- the meaning and purpose of the statement of profit or loss
- the contents of a statement of profit or loss: revenue, cost of sales, gross profit, expenses, profit from operations (operating profit), taxation, profit for the year, dividends, retained earnings
- amendment of a statement of profit or loss
- the impact on the statement of profit or loss a given change

10.1.2 Statement of financial position
- the meaning and purpose of statement of financial position
- the contents of a statement of financial position including non-current assets, current assets, current liabilities, net current assets, net assets, non-current liabilities, reserves and equity
- amendment of a statement of financial position
- the relationships between items in the statement of profit or loss and the statement of financial position

10.1.3 Inventory valuation
- the difficulties of valuing inventory
- the net realisable value method

10.1.4 Depreciation
- the role of depreciation in the accounts
- the impact of depreciation (straight-line method only) on the statement of financial position and the statement of profit or loss

Why Business Keeps Financial Records

Businesses keep financial records for several important reasons:

1. **Legal Compliance:** Businesses are required by law to maintain accurate and up-to-date financial records. Compliance with tax regulations, financial reporting standards, and other legal requirements is essential. Proper financial records help businesses fulfill their legal obligations and demonstrate transparency and accountability to regulatory authorities.
2. **Financial Management:** Financial records provide valuable information for managing the financial aspects of a business. They allow businesses to track income, expenses, assets, liabilities, and equity, enabling effective financial planning, budgeting, and decision-making. Financial records help identify trends, analyze profitability, assess cash flow, and evaluate the financial health of the business.
3. **Taxation and Audits:** Accurate financial records are necessary for determining tax liabilities and filing tax returns. Tax authorities may require businesses to submit financial records as part of audits or investigations. Maintaining proper financial records helps ensure compliance with tax regulations and facilitates a smooth and transparent tax reporting process.
4. **Financial Analysis and Performance Evaluation:** Financial records provide data for analyzing the financial performance of a business. Through financial ratios, trend analysis, and other analytical techniques, businesses can assess profitability, liquidity, solvency, and other key financial indicators. This analysis helps identify areas of strength and weakness, supports strategic decision-making, and enables performance evaluation.
5. **Investor and Creditor Relations:** Financial records are essential for building trust and credibility with investors, shareholders, lenders, and creditors. Investors and creditors often require access to financial statements and other financial records to assess the financial viability and stability of a business. Proper financial records demonstrate the business's financial position, performance, and prospects, facilitating investor and creditor relations.
6. **Business Planning and Forecasting:** Financial records serve as a foundation for business planning and forecasting. Historical financial data can inform revenue projections, expense forecasts, and

investment decisions. Financial records provide insights into past performance, enabling businesses to set realistic goals, develop effective strategies, and evaluate the financial feasibility of business initiatives.

7. **Internal Controls and Fraud Prevention:** Maintaining financial records helps establish and enforce internal controls within a business. Adequate record-keeping systems reduce the risk of fraud, errors, and misappropriation of assets. Financial records provide a trail of financial transactions, allowing businesses to detect discrepancies, identify irregularities, and implement measures to safeguard against financial fraud or misconduct.

UNIT 10.1.1 | Statement of Profit and Loss (Income Statement)

Profit and Loss (P&L) statement refers to a financial statement that summarizes the revenues, costs, and expenses incurred during a specified period, usually a quarter or fiscal year. These records provide information about a company's ability or inability to generate profit by increasing revenue, reducing costs, or both. P&L statements are often presented on a cash or accrual basis. Company managers and investors use P&L statements to analyze the financial health of a company.

XYZ Limited Statement of Profit and Loss For the Year Ended DD-MM-YYYY		
Revenue (Sales)	XXX	Trading Account
Less: Cost of Sales	(XXX)	
GROSS PROFIT	**XXX**	
Less: Administrative and Selling Expenses	(XXX)	Profit or Loss Section
OPERATING PROFIT	**XXX**	
Add: Finance Income (Interest Received) Less: Finance Cost (Interest Paid)	XXX (XXX)	
PROFIT BEFORE TAX	**XXX**	
Less: Corporate Taxes	(XXX)	
PROFIT AFTER TAX / PROFIT FOR THE YEAR	**XXX**	
Less: Dividends Paid	(XXX)	Appropriation Account
RETAINED EARNINGS / RETAINED PROFITS	**XXX**	

Main Features / Contents of Statement of Profit or Loss

Revenue	This is the first section on the income statement, and it gives you a summary of gross sales made by the company.
Cost of Sales	This is the total cost of sales or services, also referred to as the cost incurred to manufacture goods or services.
Gross Profit	Gross profit is defined as net sales minus the total cost of goods sold in your business.
Expenses	Expenses are the costs that the company has to pay in order to generate revenue. Some examples of common expenses are equipment depreciation, employee wages, and supplier payments.
Depreciation	Depreciation mainly shows the asset value used up by the business over a period of time.
Operating / Net Profit	Net profit can be defined as the amount of money you earn after deducting allowable business expenses. It is calculated by subtracting total expenses from total revenue. While net income is a company's earnings, gross profit can be defined as the money earned by a company after deducting the cost of goods sold.
Retained Profits	Retained earnings are the cumulative net earnings or profits of a company after accounting for dividend payments. As an important concept in accounting, the word "retained" captures the fact that because those earnings were not paid out to shareholders as dividends, they were instead retained by the company.

Exam Style Calculation | Making a forecasted Income Statement | ON 2018 P32 Q2a

10.1

The Finance Director forecasts that, compared to the income statement for the year ending 30 September 2018 , shown in Appendix A, the following changes would occure: 75

- revenue increased by 10%
- cot of sales increases by 55
- promotional expenses increase by $2m
- dividends increases to 40% of profit for the year

Appendix A Incomee statement for DLR 125

Year ending 30 September 2018 ($m)	
Revenue	80
Cost of sales	10
Gross profit	70
Expenses	53
Operating profit	17
Financial Expenses	5
Profit before tax	12
Corporation tax @ 15%	1.8
Profit for the year	10.2
Dividends	4
Retained earnings	6.2

130

135

a) Refer to Appendix A and lines 74–79. Produce a forecast Income Statement for the year ending 30 September 2019. Assume no other changes. [6] Solution

Dart Leisure Resorts Statement of Profit and Loss For the Year Ended 30-Sep-2019	
	$m
Revenue (Sales) (80 x 1.1)	88
Less: Cost of Sales (10 x 1.05)	(10.5)
GROSS PROFIT	**77.5**
Less: Administrative and Selling Expenses (53+2)	(55)
OPERATING PROFIT	**22.5**
Add: Finance Income (Interest Received) Less: Finance Cost (Interest Paid)	Nil (5)
PROFIT BEFORE TAX	**17.5**
Less: Corporate Taxes (15% of 17.5)	(2.625)
PROFIT AFTER TAX	**14.875**
Less: Dividends Paid (40% of 14.875)	(5.95)
RETAINED EARNINGS / RETAINED PROFITS	**8.925**

Table From: Cambridge International AS and A Level Business by Peter Stimpson 5th Edition

Evaluative Point

Combined with the cash flow statement, balance sheet, and annual report, income statements help company leaders, analysts, and investors understand the full picture of a business's operational results, so they can determine its value and efficiency and, ideally, predict its future trajectory. Financial analysis of an income statement can reveal that the costs of goods sold are falling, or that sales have been improving, while return on equity is rising. Income statements are also carefully reviewed when a business wants to cut spending or determine strategies for growth.

What are the uses of income Statement

1. **Assessing Profitability:** The primary use of an income statement is to assess the profitability of a business. By comparing revenues with expenses, the income statement provides a clear picture of whether a company has generated a net profit or incurred a net loss during the period. It helps stakeholders evaluate the financial performance and profitability of the business.
2. **Monitoring Revenue Trends:** The income statement helps track revenue trends over time. By analyzing revenue figures from different periods, businesses can identify patterns, growth rates, and changes in revenue sources. This information is valuable for making informed business decisions, setting sales targets, and assessing the effectiveness of marketing and pricing strategies.
3. **Identifying Cost Structure:** The income statement breaks down expenses into various categories, such as cost of goods sold, operating expenses, and non-operating expenses. This breakdown helps businesses understand their cost structure and identify areas of cost inefficiency. It enables management to evaluate cost-saving opportunities, improve cost management, and optimize resource allocation.
4. **Assessing Gross Margin and Operating Margin:** The income statement provides information on gross profit and operating profit margins. Gross margin is calculated by deducting the cost of goods sold from revenues, while operating margin is derived by subtracting operating expenses from gross profit. These margins help assess the efficiency and profitability of a company's core operations.
5. **Evaluating Financial Health:** The income statement contributes to assessing a company's financial health and sustainability. By examining net profit or loss, investors, lenders, and other stakeholders can evaluate the ability of the business to generate profits and cover expenses. It provides insights into the company's financial stability and its potential to generate cash flows.
6. **Comparing Performance:** Income statements are useful for comparing the financial performance of a business over different periods or against industry benchmarks. By comparing revenue, expenses, and profitability ratios, businesses can identify areas of improvement, gauge their performance relative to competitors, and make strategic decisions to enhance their competitive position.
7. **Supporting Decision-Making:** The income statement provides crucial financial information that supports decision-making at various levels within a business. Managers can use it to evaluate the financial implications of different alternatives, such as pricing decisions, product mix changes, or cost reduction initiatives. Investors and shareholders also rely on income statements to assess the profitability and growth potential of a company.

UNIT 10.1.2 | Statement of Financial Position (Balance Sheet)

The statement of financial position is another term for the balance sheet. The statement lists the assets, liabilities, and equity of an organization as of the report date. As such, it provides a snapshot of the financial condition of a business as of a specific date. It is one of the financial statements, and so is commonly presented alongside the income statement and statement of cash flows.

Balance Sheet		
	2022	**2023**
	Prior year	Current year
Assets		
Current assets:		
Cash	$210 873,00	$241 374,00
Account Receivable	$9 387,00	$8 893,00
perpaid expenses	$3 095,00	2 980,00
Inventory	$10 847,00	$12 122,00
Total current assets	$234 202,00	$265 369,00
Property& Equipment	$39 745,00	$37 890,00
Charity	$5 904,00	$5 000,00
Total Assets	**$279 851,00**	**$308 259,00**
Liabilities		
Current liabilities:		
Accounts payable	$6 667,00	$6 898,00
Accrued expenses	$1 984,00	$1 995,00
Unearned revenue	$1 678,00	$1 590,00
Total current liabilities	$10 329,00	$10 483,00
Long-term debt	$35 000,00	$35 000,00
Other long-term liabilities	$5 049,00	$6 788,00
Total Liabilities	**$50 378,00**	**$52 271,00**
Shareholder's Equity		
Investment capital	$170 000,00	$170 000,00
Retained earnings	$59 473,00	$85 988,00
Shareholder's Equity	**$229 473,00**	**$255 988,00**
Total Liabilities & Shareholder's Equity	**$279 851,00**	**$308 259,00**
Balance	$0,00	$0,00

Features / Contents of a Statement of Financial Position

Assets	Asset is a resource owned and controlled by the business that provides economic benefits. **Types of Assets** **Current Assets:** They are short term assets, which generate economic value in short term. They are converted to cash or consumed within 1 year. Examples include, stock in trade, trade receivables, cash in hand and cash in bank. **Non-Current Assets:** These are resources of the business with an expected life of more than 1 year such as property, plant and equipment. **Intangible Assets:** Intangible assets are economic resources that have no physical presence. They include patents, trademarks, copyrights, and goodwill.
Liabilities	Liabilities are the debts that a business owes to third-party creditors. **Types of Liabilities** **Non-Current Liabilities:** The non-current liabilities definition refers to any debts or other financial obligations that can be paid after a year. Examples include, debentures and long term bank loan. **Current Liabilities:** Current liabilities are a company's short-term financial obligations that are due within one year. Such as trade payables, accrued expenses and notes payable.
Equity	It represents the amount of money that would be returned to a company's shareholders if all of the assets were liquidated and all of the company's debt was paid off in the case of liquidation. **Share Capital:** The term "share capital" refers to the amount of money the owners of a company have invested in the business as represented by common and/or preferred shares. **Reserves:** These are the accumulated retained profits of the business.

Amendments to Statement of Financial Position

Cause of Amendment	Impact on the Statement of Financial Position
Sale of Inventories for cash for the same price as valued in the accounts	→ The value of inventories will decrease. → Cash Balance will increase. → Total Assets will remain the same since one asset has been converted to another.
Sale of Inventories for cash for a higher price than valued in the accounts.	→ Value of inventories will decrease. → Cash balance will increase. → Shareholder equity will increase by the value of profit recorded.
Depreciation of Equipment	→ Value of Non-Current Assets will decrease → Shareholder equity will fall since the company is now worth less than what it was before.
Revaluation of Assets or Recording of Intangible assets	→ Value of Non-Current Assets will increase. → Shareholders' equity will increase
Trade Payables asking for immediate payments.	→ Value of Trade payables will fall. → Cash will also decrease.
Occurrence of Bad Debt	→ Trade receivable value will decrease. → Shareholders' equity will also decrease.
Sale of additional shares.	→ Value of share capital will increase. → Shareholders equity will increase. → Cash will also increase