



Investigating Business

Christina Poulter





© Christina Poulter 1996

All rights reserved. No reproduction, copy or transmission of this publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted save with written permission or in accordance with the provisions of the Copyright, Designs and Patents Act 1988, or under the terms of any licence permitting limited copying issued by the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 9HE.

Any person who does any unauthorised act in relation to this publication may be liable to criminal prosecution and civil claims for damages.

First published 1996 by MACMILLAN PRESS LTD Houndmills, Basingstoke, Hampshire RG21 6XS and London Companies and representatives throughout the world

ISBN 0-333-66488-4

A catalogue record for this book is available from the British Library.

10 7 5 4 3 2 1 05 04 03 02 01 00 99 98 97 96

Typeset by Footnote Graphics, Warminster, Wilts

Printed in Great Britain by Butler and Tanner Ltd, Frome, Somerset To my mother and those who have been patient during the construction of this book, David, Richard, Cathryn and Matthew

About the author

Christina Poulter is an experienced teacher of business and related subjects. For six years she was Head of Business and Economics at St Edmund's School in Portsmouth. Prior to this she was a business studies lecturer at the Isle of Wight College of Arts and Technology. She is currently manager of the Prison Education Service at the Isle of Wight College.

Preface

A constantly changing world is motivated by the need for individuals to survive economically. In this context, trade or business is part of the central social structure. Any analysis of the business needs to move beyond the concept of the quest to purely maximise profit to a deeper understanding of businesses objectives and their operation in a wider social context. Businesses are part of society, and so are responsible for and accountable for their actions.

Businesses operate in a dynamic environment and are pushed into action by external forces beyond their control. Successful business students need to be able to absorb and apply the established theory to an ever-changing scene. They need to be aware of issues and be able to respond to events, using their skills and knowledge to analyse and evaluate business opportunities.

This book encourages students to be proactive. Each chapter covers the essential text whilst the Focus articles challenge, question and evaluate topical issues. Their role is to stimulate discussion and debate and initiate further research. An active response is required for the practical application and critical analysis tasks whilst the case studies challenge the students' ability to apply their skills and make informed decisions. Integrated case studies are set at intervals throughout the book which involve the student in the business process.

The use of IT as a tool for business is encouraged and facilitated throughout and can be effectively used to set coursework assignments in which the student's business skill is applied. It also encourages a cross-curricular approach.

CHRISTINA POULTER

Acknowledgements

The authors and publishers would like to thank the following for permission to reproduce copyright material:

The Associated Examining Board (AEB)
University of Cambridge Local
Examinations Syndicate
Transport 2000
Central Office of Information
Abbey National Plc
The Observer
PA News.

The author would also like to thank Geoff Wade at the Portsea Island Co-operative and Keith Haywood, Personnel Manager at the Isle of Wight College for their help.

Box 16.8 is reproduced by permission of the Controller of Her Majesty's Stationery Office and the Office for National Statistics.

Every effort has been made to trace all the copyright-holders, but if any have been inadvertently overlooked the publishers will be pleased to make the necessary arrangements at the first opportunity.

Contents

List of Boxes	xii
Preface	xvi
Acknowledgements	xvi
SECTION 1 BUSINESS ORGANISATION	1
1.1 Business Organisation Past and Present	5
Focus: The vanished empire	3
Preview	4
The entrepreneur	4
The basic economic problem	Ę
Production	5
Classification of production	(
The chain of distribution The structure of trade	,
Industrialisation: an historical perspective	,
How resources are allocated	(
The private sector	12
Shares	15
Review	19
Questions	20
Case study	20
1.2 Growth or Focus?	23
Focus: The 1980s rush for growth	23
Preview The price of growth	24
The price of growth	24
How to grow Why grow?	26 26
How to expand: external growth	27
The process of investing	31
Recent developments in investment	32
Investment problems for companies	35
The European factor	36
Review	36
Questions	37
Case study	37
1.3 The Public Sector	39
Focus: The changing face of the public sector	38
Preview	40
The modern public sector	41
Government departments	41
Public corporations The regulators	42
The regulators Local authorities	45 45
The business rate	46
	10

Current developments in privatisation	47
Review	48
Questions	49
Case study	51
1.4 Other Types of Organisation	53
Focus: Mutual status	53
Preview	54
Types of organisation	54
Cooperatives	54
Workers' or producer cooperatives	57
Franchising	57
Review	58
Questions	59
Case study	60
1.5 The Social Dimension	61
Focus: Bhopal laments whilst the West forgets	61
Preview	61
The costs and benefits of business The market	62
Barriers to competition	63
The failure of the market	69 72
Cost–benefit analysis	73
Social auditing	75 75
Review	75 75
Questions	77
Case study	78
Integrated case study for Section 1: the transport debate	81
Questions	87
SECTION 2 FINANCE AND BUSINESS	89
2.6 Budgeting and Costing	91
Focus: The bottom line	91
Preview	91
Finance and the business	92
The profit motive	92
Business sales	94
Measuring profit	94
Types of costs The breek even point	95
The break-even point Other costing classifications	96
Budgetary control	98
The budgetary process	99 99
Cash flow forecast	101
	101

	Review	100
	Questions	. 102
	Case study	103
	Case study	104
2.7	Financial Record-keeping	107
	Focus: Creative accounting	107
	Preview	108
	Financial control and decision-making	108
	The presentation and interpretation of accounts	109
	Trading and profit and loss account	109
	Appropriation account	111
	Balance sheet	111
	The double-entry system	113
	Valuation of assets	114
	Valuation of stock	116
	Review	118
	Questions	118
	Case study	118
	Sabo Stady	110
2.8	Financial Decision-Making	121
	Focus: Fools rush in where angels fear to tread	121
	Preview	122
	Business and the cost of money	122
	The company's funds	122
	The decisions	126
	The company's financial strategy	128
	Control of working capital	129
	Review	130
	Questions	130
	Case study	131
	3	
Inte	grated case study for Section 2: Gourmet Garlic	133
	Questions	136
6 00	TVOV - 1/18 VIDENIA	
SEC	TION 3 MARKETING THE BUSINESS	137
3.9	The Marketing Function	139
0.0	Focus: The campaign for the real male	139
	Preview	140
	The concept of marketing	140
	The marketing function	140
	Analysing the four Ps	141
	Controls over marketing	154
	Market research	154
	Review	154
	Questions	157
	Case study	157
		190

3.10 Statistical Analysis for Business	161
Focus: 'Lies, damn lies and statistics'	161
Preview	161
The role of statistics	162
Statistical analysis: an introduction	162
Statistical analysis in marketing	163
Government data	163
Objectives of business information-gathering	166
Presenting and analysing data	167
Review	172
Questions	174
Case study	174
Integrated case study for Section 3: The News	179
Tasks	181
SECTION 4 STRATEGIES FOR THE BUSINESS	183
4.11 Operations Management	185
Focus: Notes towards an industrial strategy	185
Preview	186
The production process	186
Types of production	187
Operations management	187
What to produce?	188
Where to produce?	193
How to produce?	197
When to produce?	198
Review	199
Questions	200
Case study	203
4.12 Business Strategy and Decision–Making	205
Focus: Strategic programming	205
Preview	205
Achieving the goals of the business	205
The strategy of the business	206
The decision-makers	207
The techniques of decision-making	210
Review	212
Questions	214
Case study	216
Integrated case study for Section 4: Locheye the new	217
Questions	219

SECTION 5 THE RESOURCES OF THE BUSINESS	221
5.13 Data Management	223
Focus: 'Don't let them get away with IT!'	223
Preview	223
The IT revolution	224
The personal computer	224
Analysing the systems of the business	225
Review	229
Questions	230
Case study	231
5.14 Human Resource Management	233
Focus: Whose team is it anyway?	233
Preview	234
What is human resource management?	234
Human resource management in practice	235
Communication systems	239
The value of the individual: the human resource at work	241
The training of staff	244
Europe and the workplace	246
The Social Chapter	247
Key employment documents	248
Review	249
Questions	250
Case study	254
Integrated case study for Section 5: Communico Construction	255
Questions	258
SECTION 6 THE BUSINESS AND THE WIDER WORLD	261
6.15 Government and the Economy	263
Focus: Castles in the air	263
Preview	264
Pressures on the business	264
The business environment	264
The basic economic problem	265
Government revenue and expenditure	266
The PSBR	266
Measuring income and expenditure	. 266
Aggregate demand and supply	268
The multiplier	270
The monetary system	270
Inflation and unemployment	274
Government economic objectives	275
Review	277
Questions	278
Case study	280

6.16	6 The World Stage	283 283
	Focus: Global warning Preview	284
	Trade and interdependence	284
	Free trade vs. protectionism	284
	The European dimension	286
	The role of the multinationals	291
	International trade	292
	Exchange rates	296
	Review	300
	Questions	301
	Case study	302
Inte	egrated case study for Section 6: The UK and the ERM	303
	Question	304
SEC	CTION 7 THE ENTERPRISE INITIATIVE: A MINI-COMPANY PROJECT	307
7 1 5	7 The Enterprise Initiative	309
7,17	Introduction	309
	The idea – 'the seed of enterprise'	309
	The test – research	309
	The form – business units	309
	Getting a name	310
	Registering a private limited company	310
	The process of incorporation	310
	Finance and pricing	312
	The business plan	312
	The mini-company project	313
	egrated case studies for the volume	317
1	Business opportunities in Europe	317
2	A reflection on exchange rates	320
3	Population and consumer spending (A)	323
4	Population and consumer spending (B) The bousing market	323 325
5 6	The housing market Pay differentials	326
7	'Shop till you drop'	327
Apı	pendices	331
1	Format of a business report	331
2	Designing a questionnaire	332
3	Statistical representation	333
Ind	ex	337

List of Boxes

1.1	The factors of production	6
1.2	Employment by sector, 1993	7
1.3	Employment in primary, secondary and tertiary sectors, 1841–1993	8
1.4	The planned economy	g
1.5	The market economy	11
1.6	Types of organisations in the mixed economy	11
1.7	The sole trader	12
1.8	The partnership	13
1.9	Profit distribution	16
1.10	Example: profit distribution	17
1.11	Shareholders, directors and owners	18
2.1	Types of internal economies of scale	27
2.2	Types of external economies of scale	27
2.3	The Rowntree take-over	29
2.4	New issues	30
2.5	The investment paper chase	32
2.6	TAURUS	33
2.7	The BP share issue	35
3.1	The UK public sector	42
3.2	Bus deregulation	44
3.3	Transitional relief	47
4.1	A Coop is a different type of organisation	54
4.2	Rochdale principles	55
4.3	Tower colliery	57
5.1	Price, supply and demand	64
5.2	As price falls, demand increases	64
5.3	Demand moves from D_1 to D_2 as extra income is available	65
5.4	Population fluctuation	65
5.5	Changes in the condition of demand	66
5.6	The level of elasticity or inelasticity	67
5.7	As price rises, quantity supplied increases as more firms move into	
	the market	67
5.8	Climatic factors and supply	68
5.9	Tax and demand	69
5.10	Subsidy and supply	69
5.11	Cartels and price	70
5.12	Monopolies and Mergers Commission	71
5.13	Advantages of operating as an MNC	72
5.14	Cost-benefit analysis of a major motorway link	74
6.1	Aims of a business	93
6.2	Gross profit	94
6.3	Facts about fixed costs	95
6.4	The break-even point	96
6.5	Break-even at the salon	96
6.6	Variance analysis	100
6.7	John Smith – Hair Design: cash flow forecast for Jan–Jun 1996	101
7.1	Stakeholders: who needs to know?	109

7.2	Bigger Burgers: trading account for the year ended	110
7.3	Bigger Burgers: trading and profit and loss account for the year	
	ended	110
7.4	Bigger Burgers plc: appropriation account for the year ended	111
7.5	Mega Burgers: balance sheet as at	112
7.6	Mega Burgers: trial balance as at	113
7.7	Mega Burgers: profit and loss account for the year ended	114
7.8	Straight-line depreciation	115
7.9	Diminishing-balance depreciation	115
8.1	Average rate of return	126
8.2	Payback	127
8.3	Present values of future income flows	128
9.1	The life cycle of a product	142
9.2	The product portfolio	143
9.3	Pricing strategy	143
9.4	The normal demand curve	144
9.5	Change in market conditions	144
9.6	Elasticity of demand	145
9.7	The effects of an indirect tax on demand	147
9.8	The process of tendering	148
9.9	Sponsorship on the box	151
9.10	Promotional soaps and sex	153
10.1	Marketing data	163
10.2	Government statistical sources	164
10.3	The information-gathering process in business	165
10.4	Getting the data	166
10.5	Output of 100 workers on piecework over 1 week	168
10.6	Arithmetic mean: grouped frequency distribution	168
10.7	Demand for product A by a cross-sample of 100 consumers over	
	a week	170
10.8	Measuring dispersion	171
11.1	The role of production and design	189
11.2	How marketing and production relate	189
11.3	Output, lead time and stock receipt	190
11.4	A stock card	190
11.5	JIT (Just In Time)	191
11.6	BS5750	192
11.7	Deciding on location	194
11.8	Product portfolio and marketing strategy	198
11.9	Patently obvious?	199
12.1	Elements in the strategic plan	206
12.2	SWOT analysis	206
12.3	Organisation structure of a plc	208
12.4	Making and implementing the decision	208
12.5	Making a decision: 1	209
12.6	Making a decision: 2	210
12.7	The decision tree: 1	211
12.8	The decision tree: 2	211

12.9	Typical decisions	212
13.1	Computerising the system?	225
13.2	Business application programs	226
13.3	A staff records database	227
13.4	Data Protection Act 1984	228
14.1	A limited company structure tree	235
14.2	Managers must be able to	236
14.3	Spans of control	237
14.4	Maslow's hierarchy of needs	237
14.5	Management theories in action	238
14.6	Vertical and horizontal communication flows	240
14.7	Close and distant communication links	241
14.8	The communication network	241
14.9	The job and the employee	244
14.10	Trade Union Reform and Employment Rights Act 1993	245
14.11	The Social Chapter	248
15.1	The pressures on the business – Controls	265
15.2	The allocation of national resources	265
15.3	A simple circular flow of income	267
15.4	The flow of income in the economy	267
15.5	Leakages and injections in the circular flow of income	268
15.6	National income and the deflationary gap	269
15. <i>7</i>	National income and the inflationary gap	269
15.8	The qualities of money	271
15.9	The Bank of England and the money supply	272
15.10	Controlling the money supply	273
15.11	M0 and £M3	274
15.12	Problems caused by inflation	275
15.13	Measuring national income	276
15.14	Monetarism v. Keynesianism	277
16.1	Post-war cooperation: GATT, IMF and World Bank	287
16.2	Decision-making in the EU	288
16.3	Mountains and surpluses	289
16.4	'Fortress Europe'	290
16.5	MNC facts of life	291
16.6	A simple trade account	292
16.7	Trade in goods, EU, 1990	293
16.8	Balance of payments	294
16.9	Inflationary pressures of a surplus	295
16.10	What is an exchange rate?	296
16.11	Exchange rates in the ERM	299
17.1	Certificate of Registration	311
17.2	Memorandum of Assocation	311
17.3	Articles of Association	312
17.4	Agenda	314
17.5	Minutes	315
17.6	Share certificate	315

Section 1 Business Organisation