**HIGHER BUSINESS MANAGEMENT**
**PAST PAPER QUESTIONS – UNDERSTANDING BUSINESS**

**TYPES OF ORGANISATION**
1. Explain the advantages of franchising for a franchiser. 
2. Explain 3 reasons why an organisation would become a private limited company.

**ENTREPRENEURSHIP**
3. Describe the role of an entrepreneur in a business.

**OBJECTIVES**
4. Discuss the objectives of a plc compared to those of a public sector organisation.
5. Describe 2 strategic objectives of a public sector organisation.

**METHODS OF GROWTH**
6. Describe 3 different methods of growth.
7. Explain the reasons why a competitor might wish to take over a firm which is not making a great deal of profit.
8. Describe the advantages and disadvantages of outsourcing.
9. Discuss the ways in which divestment and demerger can assist the growth of an organisation.

**STAKEHOLDERS**
10. Describe how 4 different stakeholders of a local council could influence the council’s future plans.
11. Describe how 5 different stakeholders could influence an organisation.

**NATURE OF DECISIONS**
12. Justify why strategic decisions are made by senior managers.
13. Lees’ Board of Directors has identified growth as a strategic objective. Explain internal factors which could be taken into account prior to an organisation setting strategic objectives.
14. Describe 3 tactical decisions that could lead to growth.
15. Managers try to make effective decisions. Describe internal constraints that can make decision making difficult.
16. Distinguish between a strategic and tactical decision and give an example of each.

**BUSINESS AS A DYNAMIC ACTIVITY (PESTEC)**
17. Discuss what makes one pressure group more effective than another.
18. Explain internal factors which could be taken into account prior to an organisation setting strategic objectives.
19. Identify and explain 3 economic factors that can affect the profitability of a business.
20. Explain how external factors may affect an organisation.
INTERNAL ORGANISATION

21 Most organisations group their activities by function. Describe the advantages and disadvantages of functional grouping.

22 Discuss the effects of outsourcing on an organisation.

23 Discuss the effects of widening the span of control.

24 Organisations often use an entrepreneurial structure. Explain the advantages and disadvantages of an entrepreneurial structure.

25 Many organisations group their activities by function. Discuss other methods an organisation could use to group their activities.

26 Distinguish between delayering and downsizing.

27 Many organisations choose to delayer. Explain the benefits of delayering to an organisation.

28 Organisations group their activities in a number of different ways.

Distinguish between the following 3 types of organisational groupings:
Product/Service Grouping
Customer Grouping
Technological Grouping.

29 Describe the benefits to an organisation of having a strong corporate culture.
Solutions

**TYPES OF ORGANISATION**

1. Explain the advantages of franchising for a franchiser.
   • Can increase market share without investing further capital
   • Is paid a percentage of profits or sales or a royalty
   • Can control the way the business is run.

2. Explain 3 reasons why an organisation would become a private limited company.
   • Has limited liability to shareholders/owners which would reduce the risk of personal loss to the shareholders
   • Becomes larger organisation and should attract finance easier
   • Allows for economies of scale
   • Less risk of liquidation
   • Control is still not lost to complete outsiders
   • Experience and skills can be gained from shareholders

**ENTREPRENEURSHIP**

3. Describe the role of an entrepreneur in a business.
   • **Develops** a business idea.
   • Combines the factors of production (land, labour, capital and enterprise).
   • Take the risk of losing their initial investment if the business idea fails.
   • Use their initiative to make decisions on finance, hiring staff, etc.
   • Delegates responsibility to managers or staff.
   • Decide the strategic and tactical objectives of the organisation.

**OBJECTIVES**

4. Discuss the objectives of a plc compared to those of a public sector organisation.
   **Objectives of a Plc**
   To maximise profits
   To improve image
   To improve social responsibility
   To increase market share
   To grow
   **Public Sector Organisation**
   Maximisation of profits not so important although they may be required to operate within a budget
   To provide a service

5. Describe 2 strategic objectives of a public sector organisation.
   • To provide an efficient service.
   • To make effective use of funds.
   • To improve society.
   • To serve the public interest.
   • To stick to agreed budgets.

**METHODS OF GROWTH**

6. Describe 3 different methods of growth.
   • Vertical Integration – organisations at a different stage in the same industry combine together.
   • Horizontal Integration – organisations at the same stage of production combine together.
   • Backward Vertical Integration – when a business takes over a supplier.
   • Forward Vertical Integration – when a business takes over a customer.
   • Diversification – organisations in completely different industries combine together.
   • De-integration/demerger – organisations cut back and concentrate on only their core activities.
   • Divestment – sell off assets or subsidiary companies to raise finance for growth.
   • Organic growth – organisations increase the

7. Explain the reasons why a competitor might wish to take over a firm which is not making a great deal of profit.
   To gain their assets (premises)
   To gain a brand name
   To turn it into a profitable firm
   To obtain their customers
   To remove the competitor from the market (they may take steps in the future to improve)

8. Describe the advantages and disadvantages of outsourcing.
   **Advantages:**
   Specialist firm will be able to do the work better than the organisation itself
   Reduces cost of employing staff for non-core activities
   Allows firm to concentrate on the core activity
   The organisation pays for what it needs, when it needs it
   Organisations to whom they have outsourced may have specialist equipment, specialist firm may produce goods at lower cost.
   **Disadvantages:**
   Confidentiality issues
   May be more expensive
   Job completed may not be of a suitable standard/less control
   Firm may take a long time to complete the job
   May involve redundancies (which lowers morale, is costly…)
   Communication problems between the 2 firms may hinder the work
   Split loyalties
Discuss the ways in which divestment and demerger can assist the growth of an organisation.

CAN ALL BE POSITIVE

- Divestment allows an organisation to sell off minor areas of their business and concentrate on the core activities of the organisation.
- The areas sold off are often the less profitable areas.
- This increases funds available for growth in the core activities.
- The actual funds from the sale can be used to expand the core activities.
- De-merger allows an organisation to split into two separate organisations to raise cash for investment.
- The organisation can then concentrate on its core activities.
- Cost cutting should make it more efficient and therefore able to expand.

STAKEHOLDERS

Describe how 4 different stakeholders of a local council could influence the council’s future plans.

- Local Business Owners – could raise concerns regarding investment in the area and suggest areas for improvement/development.
- Community/Council Tax Payers – petition local council over matters they are unhappy with to prevent similar problems in the future. Meet with their councillors to bring up topics that they are unhappy with.
- Council Employees – provide a good service through working efficiently, no absences, put forward good suggestions for improvement of services, go on strike.
- Council Managers – at regular meetings can discuss staffing levels, suggest areas of investment, areas needing improved to provide a better service, ensure objectives are met.
- National Government – take action if council overspends, legislation, eg, recent recycling laws could force local council to take action in certain areas.
- Elected Councillors – decide on policy and strategic objectives of the council, make decisions whether to accept or reject suggestions, set level of council tax, decide on areas for improvement/investment.
- Suppliers – offer better discounts, quality materials at good prices.

Local community/Council taxpayers/Customer = same

4 different influences

Do not accept Investors

Describe how 5 different stakeholders could influence an organisation.

- Manager – makes decisions on future plans of the organisation
- Worker – can produce a quality product or service by working hard
- Shareholder/Owners – purchase more shares
- Customer – buy the product or service
- Local Community – petition the organisation to make a change to environmental policies
- Government – alter legislation
- Banks – approves a loan
- Suppliers – alter the price of supplies

Justify why strategic decisions are made by senior managers.

- They are long term and only senior managers would make decisions
- They have far reaching or lengthy consequences
- They shape the objectives/direction of the organisation
- They have a high financial risk
- Require a knowledge of the whole organisation and its policies (SQA 2009)

Lees’ Board of Directors has identified growth as a strategic objective. Explain internal factors which could be taken into account prior to an organisation setting strategic objectives.

- Size of the organisation, smaller firms strategic objectives will be of a smaller nature than multi-national companies.
- Company Policy eg social and ethical responsibility.
- Shareholders points of view.
- Whether a private or public sector organisation.
- Internal financial situation.
- Technological factors. (SQA 2008)

Describe 3 tactical decisions that could lead to growth.

- Open new branches.
- Offer internet shopping.
- Target new market segments.
- Launch a new range of products.
- Vertical integration.
- Horizontal integration. (SQA 2008)

Managers try to make effective decisions. Describe internal constraints that can make decision making difficult.

Financial constraints may mean that the organisation cannot choose the best solution to a problem.
Company policy may restrict the decisions made or options available.
Staff can resist change and attempt to sabotage decisions if they disagree with them.
Lack of technology can mean that decisions taken may fail.
Managers may have limited ideas.
May be unable to handle stressful/complex situations.
Lack of opportunity to consult may mean that decisions are poor. Managers may be indecisive and make poor decisions. Overpowering Managing Directors may overturn or veto decisions being made. Time constraint. (SQA 2007)

16 **Distinguish between a strategic and tactical decision and give an example of each.**

Strategic decision made by senior management. Is longer term. Sets main aims and objectives of an organisation. Eg, move into a new market segment, open retail outlets in other countries.

Tactical decisions are made by middle managers. Assist in the achievement of strategic objectives. Are shorter term. Eg, products to be developed for new market, suitable locations for retail outlets. (SQA 2007)

**BUSINESS AS A DYNAMIC ACTIVITY (PESTEC)**

17 **Discuss what makes one pressure group more effective than another.**

- has a large amount of public sympathy, eg if the issue is important to the public such as an environmental or ethical issue
- receives sufficient press coverage
- has sufficient finance
- is well organised
- is able to lobby politicians effectively
- is persistent.
- holding events

18 **Explain internal factors which could be taken into account prior to an organisation setting strategic objectives.**

- Size of the organisation, smaller firms strategic objectives will be of a smaller nature than multi-national companies.
- Company Policy eg social and ethical responsibility.
- Shareholders points of view.
- Whether a private or public sector organisation.
- Internal financial situation.
- Technological factors.

19 **Identify and explain 3 economic factors that can affect the profitability of a business.**

- Inflation – increased prices or cost.
- Exchange rates – value of one currency compared to another.
- Interest rates – cost of taking out a loan.
- Recession – a slow down in the economy/fall in demand.
- Boom period – an upturn in the economy/increase in demand.
- Unemployment – fewer people working.

20 **Explain how external factors may affect an organisation.**

- Political – legislation and regulations will affect an organisation in that they need to comply with the laws of the country they operate in.
- Economic – factors such as inflation, recession/boom periods, interest rates will affect organisations in a number of ways.
- Social – changes in trends and fashions mean that organisations must continually carry out market research to see what products will sell or new products are desired.
- Technological – as technology changes organisations must keep up-to-date and this will involve a large financial cost.
- Environmental – organisations now need to attempt to be socially responsible and environmentally friendly both to comply with legislation and satisfy consumer groups.
- Competitive – organisations must continually monitor their competitors prices and alter theirs accordingly.

**INTERNAL ORGANISATION**

21 **Most organisations group their activities by function. Describe the advantages and disadvantages of functional grouping.**

**Advantages**
- Allows for specialisation in each functional area
- There is a clear structure to the organisation
- Clear lines of authority exist
- Staff can seek support from colleagues if required
- No duplication of resources

**Disadvantages**
- Organisational aims can be lost due to departments pursuing their own aims
- Can be unresponsive to change in the market
- Can produce large and unwieldy organisations

Max of 4 for advantage or disadvantage. (SQA 2009)

22 **Discuss the effects of outsourcing on an organisation.**

- Specialists can be used to do the work
- Reduces staff costs in the area that has been outsourced
- Outsourced companies will have specialist equipment
• The service can be provided cheaper – needs development
• The service can be more expensive – needs development
• The service needs only to be paid for when required
• Organisations can concentrate on core activities
• Organisations can lose control over outsourced work
• Sensitive information may need to be passed to the organisation
• Communication needs to be very clear or mistakes can arise

23 Discuss the effects of widening the span of control.
• Will also mean more empowerment is possible – can give for both employee and management (1 mark each)
• Allows for delegation to staff as they should be reasonably skilled
• Managers time to deal with staff problems will be at a premium
• Can place managers under stress
• Can mean workers rarely have time to meet with their line manager to discuss ideas
• Subordinates may resent having to make all the decisions
• Managers will have less time for planning
• Can result in poor decisions – both employee and organisation (1 mark each)
• Managers are in charge of more staff
• Can be motivational to managers as can be seen as greater power

24 Organisations often use an entrepreneurial structure. Explain the advantages and disadvantages of an entrepreneurial structure.

Advantages
• Decisions are made by experienced managers of the organisation.
• Decisions are made quickly as managers do not consult staff.
• Staff know who they are accountable to.

Disadvantages
• Is difficult to use in larger businesses.
• Top managers carry a heavy workload/burden.
• Does not allow for initiative from staff.
• Demotivated staff as they are not included in decision making.

Max 3 for advantages or disadvantages
6 Distinguish between delayering and downsizing.
• Delayering involves removing a whole level of management to flatten an organisation’s structure.
• Downsizing involves closing specific areas of the organisation to cut costs.
• Purpose.
• Span of control.
• Communication.
• Efficiency.
• Cost.
• Competitiveness.
• Empowerment. (SQA 2008)

7 Many organisations choose to delayer. Explain the benefits of delayering to an organisation.
Saves money on expensive managerial salaries or employee wages.
Leads to better communication due to less layers for information to pass through.
Employees are more motivated as they are empowered to make decisions.
Can respond quicker to market changes.
May improve productivity.
Decision making is faster due to fewer layers. (SQA 2008)

8 Organisations group their activities in a number of different ways.
Distinguish between the following 3 types of organisational groupings:
a Product/Service Grouping
b Customer Grouping
c Technological Grouping.

Product/Service Grouping
Products or services are grouped together in divisions or departments within a different product range.
This allows for each separate division to be more responsive to customers requirements and trends in its area.
Specialism can be developed in each division.
It is easier to identify parts of the organisation that are under performing.
Duplication of resources and personnel across each division.
Can cause competition within each division of the one organisation.

Customer Grouping
The organisation is grouped around different customer types.
This allows each division to offer a unique service to each segment or customer type.
Builds up strong customer loyalty due to the personal service given to each type of customer.
There are high staff costs.
Duplication of functional departments exists.

Technological Grouping
Manufacturing companies can group their business around the technological or production process that exists.
Specialism can occur within each process.
Can reduce wastage and costs.
Only an option for very large organisations who have different products with similar production processes.
Describe the benefits to an organisation of having a strong corporate culture.

- Employees feel part of the organisation.
- Is motivational to staff.
- Improves employee relationships.
- Increases employee loyalty.
- Gives customers a sense of quality/efficiency.
- May attract new workers.
- Improves the business image.