Types of Business Organisation

1. 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

2. Many companies are now classed as multinationals. Explain the advantages and disadvantages of operating as a multinational.

   Advantages
   An organisation may be given grants from governments to locate in that country and the grants will not require to be paid back improving their financial position
   Organisations will become larger which may result in them being safer from takeovers
   Can allow organisations to increase their sales which in turn should increase their overall profits
   Will allow organisations to take advantage of economies of scale and reduce unit costs of products
   Could allow organisations to employ cheaper staff which will result in greater profitability
   May help avoid legal restrictions in the organisation's own country which could allow them to sell/produce their products abroad
   Could allow for tax advantages which will increase profitability
   Will mean the organisation can avoid restrictions on imports into a country which will help overall sales

   Disadvantages
   Legislation may be different in other countries which may require the organisation to alter its product/service
   Legislation may exist on how a product/service is marketed and may result in some marketing techniques having to be changed
   Cultural differences will mean that organisations have to be sensitive to different countries cultures
   Different languages will exist and this may mean that organisations have to employ specialist linguists to work with the organisation

   Max 4 and 1
3 Discuss the effects of becoming part of a franchise.

- Using an established name/brand
- Reduces the risk of failure in the marketplace
- Franchiser will provide training
- Franchiser will advertise nationally
- Business idea is already successful
- Product innovation is shared
- Royalties are paid to the franchiser from profits
- Franchiser can demand exactly how a business operates
- Bad publicity can affect the whole franchise

(Invites the use of positive and negative comments but full marks can be gained by only positive or negative comments.)

Objectives/Growth

4 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 number of products sold or number of outlets – max 1

(No ID marks are awarded – a description of the method must be given.)
5 Explain how different methods of growth can lead to increased sales or profits.

Horizontal integration - firms producing the same products combine together. This allows for greater economies of scale which allows for lower unit costs and increased profits. By becoming larger they should become better known in the market and this should lead to brand loyalty and increased sales. They might dominate the market due to the greater size of the organisation and can then set prices and encourage customers to purchase from them through large promotional activities. By removing competitors they will increase sales.

Vertical integration - firms at different stages in the production process combine together. This can cut out middle men and allow the organisation to retain all profits made in the chain themselves. Backward vertical - when a firm combines with a supplier which ensures that there is constant and consistent supplies of raw materials at appropriate prices. Forward vertical - when a firm combines with a customer which ensures that sales are constant and can increase profits.

Conglomerate - when a firm combines with another firm in a completely different market. This means that profits can be made from a variety of markets and sales do not rely on just one industry.

Divestment
Demerger
Asset stripping
Internal growth

6 Describe the possible objectives of a private limited company.

Profit maximisation
Sales maximisation
Survival - to continue to be in business, especially important in a recession
Provision of a service
Growth - to have more outlets, staff and higher turnover
Socially responsible - to have a good image in the eyes of consumers or local communities
Stakeholders

7 Describe how 5 different stakeholders could influence the 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

8 Describe the different interests 5 stakeholders may have in an organisation.

Customers are interested in the best price for quality products
Employees are interested in job security
Managers are interested in future promotion prospects
Suppliers are interested in receiving payment for supplies
Banks are interested in the stability of the organisation
Local community are interested in the social responsibility of the organisation
Owners/shareholders are interested in the profits that the organisation makes
Government are interested in the firm complying with laws and paying taxes

Any National Government interest - max 1
Local and national governments - treat separately if different interests
If managers and employees given then managers interest must be managerial

Internal Influences/Corporate Culture

9 (i) Describe different methods organisations can use to develop a corporate culture.

Implementing the ideals and beliefs of the owner
By use of symbols or logos that customers recognise
Staff uniforms consistent throughout the organisation
Uniformity of layout of offices/branches
Use of a phrase or motto that can be recognised by customers/used in marketing
How staff interacts with customers
Merchandising of products linked to the organisation

(No ID marks are awarded, ie, the word 'merchandising' alone will not be credited with a mark. A description must be given to gain the mark.)
(ii) Explain the advantages to an organisation of having a strong corporate culture.

Improved customer satisfaction and loyalty as the consumers associate with that organisation due to brand/logos, etc.
Increased staff motivation as they can associate with the organisation.
Staff can move between branches/departments easier as they are aware of the practices and policies.
Staff will form an identity with the organisation which could result in reduced absences or lower staff turnover.
A single corporate identity is given to customers who will then associate with that organisation.
The organisation can be easily recognised anywhere in the world which will allow customers to feel comfortable with products/services wherever they are.

(When the command word 'explain' is used there must be a development to explain the reason. No marks are credited for merely identification.)

**External Influences**

10 (i) Explain the effects that 3 political factors could have on an organisation. (A different effect should be explained each time.)

Legislation - any appropriate law with an appropriate effect, ie, new laws on sale of alcohol have to be complied with or face a fine from the government. Taxation rates may change which will affect the profitability of an organisation. Level of NHS funding may affect the number of or the prices charged by private hospitals.
Government initiatives in education have meant that private-public partnerships have allowed companies to bid to build new schools.
Credit any relevant government policy with an appropriate explanation of the affect on the organisation, ie, giving loans to banks to help with credit crunch in 2009.

(ii) Describe 4 external factors (other than political) that could have an impact on an organisation.

Economic factors such as a recession interest rates inflation.
Social factors such as changes in trends and fashion changes in patterns of employment.
The introduction of new technology which is continually changing.
Competitive factors such as the prices charged by a similar organisation. Environmental factors such as the weather/flooding.
Decision Making

11 Describe how a manager could assess the effectiveness of a decision. (4)

Evaluate the decision with their staff to gain their views on the change and if it has been successful
Issue questionnaires to customers to evaluate their response
Have sales increased? If sales have increased then it could be assumed the decision was successful
Have profits risen?
Has the situation improved?
Has absenteeism reduced amongst staff?
Has staff morale improved?

12 Explain the factors that could affect the quality of a decision made by a manager. (4)

The ability and skill of the manager - if the manager has not had proper training or not skilled enough to make decisions then a poor decision may be made
The appropriate use of decision making models
The quality of the information used to make the decision
The level of risk taken
The managers own interests
The finance available to implement the decision
The time available to make the decision

13 Justify why strategic decisions are made by senior managers. (3)

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

14 (i) A manager decides to grant a worker’s request to have a week’s holiday. Identify and justify this type of decision. (2)

Operational decision
Is a decision made by a lower level manager
Has little or no risk
Is made on short term basis
(ii) Describe 2 other types of decisions and give an example of each.

Tactical decision is medium term/is made by middle level managers/has a slightly increased risk
Any appropriate example
Strategic decision is long term/made by senior managers/has a greater risk
Any appropriate example

(Consequentiality is possible from part a(i).)

15 Distinguish between a strategic decision and a tactical decision.

Strategic decision is long term whereas a tactical decision is medium term. Strategic decision is made by directors/senior managers but a tactical decision is made by heads of department or middle managers.
Strategic decisions carry high levels of financial risk whereas tactical decisions carry less of a financial risk.
Strategic decisions shape the main objectives of an organisation whereas the tactical decisions help to put the strategic decisions into place.

16 Explain internal problems that can exist when managers try to make effective decisions.

Finance may be restricted which might mean the organisation cannot afford to implement the best decision.
Staff may not agree with the decision and resist the change making it less effective.
The organisation may have policies in place that are restrictive and the decisions may need to be altered to suit policies.
The decision may be constrained by the lack of technology and mean that new technology needs to be purchased or decisions shelved.
Managers may not have the appropriate skills or initiative to make the best decisions and may be unable to cope with complex decisions or situations resulting in a poor decision being made.

17 Explain the role of a manager in effective decision making.

Plan the objectives of the organisation, this can be either long term or short term in order that the organisation has a vision/direction
Organise the staff and resources required to carry out the decision
Control staff who the decision affects/impacts in order to get the best work possible/meet targets
Command - inform the staff of decisions that have been made/consult with staff to improve the decision
Co-ordinate the activities and ensure timescales/targets met
Delegate decision making to junior staff to give them experience/empower them
Empowerment to make decisions will motivate staff and improve their performance
Risk taker
Communicate
Distinguish between a tactical decision and an operational decision. (3)

A tactical decision is made by middle managers whereas an operational decision can be made by anyone in the organisation normally lower level managers.

A tactical decision is a medium term decision whereas an operational decision is made daily or short term

A tactical decision carries a medium amount of financial risk but an operational decision carries virtually no financial risk

A tactical decision is made to help implement the strategic objectives whereas an operational decision is made to help the smooth running on a daily basis

Structures

Most organisations group their activities by function. Describe the advantages and disadvantages of functional grouping. (5)

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.

Discuss the advantages and disadvantages of customer grouping. (4)

Advantages

- Service and product is tailor-made to customer needs
- Promotions can be directed towards specific customer groups
- Customer loyalty is built up due to personal service
- Quick response to change

Disadvantages

- Is an expensive system, due to high staff costs
- New staff are required if new customer group is formed
- Duplication of resources
- Competition between departments (either advantage or disadvantage depending on explanation)

Max of 3 and 1
21 Describe the main features of a matrix structure.

Normally set up to carry out a specific project
Will consist of different specialists from functional areas
Each team will have a project leader
Can be motivational to the staff concerned
Is a good method of solving complex problems
Gives staff increased experience in different situations
Is a relatively costly structure if many different teams are required
Can be difficult to co-ordinate staff from different areas
Each staff can have two managers, the project manager and their own functional manager which can cause confusion and conflict

22 (i) Describe the main characteristics of an entrepreneurial structure.

One senior member of staff makes all the important decisions. (Accept a few or core members)
Decisions are therefore made quickly.
Staff are very rarely consulted on decision making.
Stifles staff initiative as they are not consulted.
Is mainly used in smaller organisations.
Employees know who they are accountable to.
May place over-reliance on key members of staff.

(ii) Distinguish between a centralised structure and a decentralised structure.

In a decentralised structure decision making is delegated to departments whereas in a centralised structure it is made by head office.
In a decentralised structure staff are more motivated due to empowerment whereas in a centralised structure staff can be de-motivated due to not being consulted.
In a decentralised structure senior directors have less responsibility whereas in a centralised structure senior directors carry all the burden of decision making. Decentralised is often seen as being used in a flatter structure whereas centralised tends to exist in hierarchical structure.
It is harder to promote a corporate image in a decentralised structure than in a centralised structure.
In a decentralised structure decisions can be made which only benefit one department but in a centralised structure decisions will be made to suit the whole organisation.
23 Compare the use of functional grouping with product grouping.

Staff with similar expertise work together in functional grouping but in product grouping staff are organised around a specific product or service and will have different areas of expertise. The organisation will have functional departments which service the whole organisation whereas in product grouping each functional area will be responsible for a specific product or service only.

In both methods departments can be more concerned with their own results than the organisation as a whole.

Also departments may compete against each other in both forms of grouping.

In product grouping it is easier to identify areas that are performing well whereas in functional grouping results tend to be for the organisation as a whole.

In product grouping each department is more responsive to change but in functional grouping the organisation can become very large and unresponsive.

In functional grouping staff will know exactly who to turn to but in product grouping this may not be the case.

In functional grouping the organisation will have a clear structure but in product grouping the structure may be less clear and line relationships less clear.

24 Describe factors that influence the formal structure of an organisation.

The size of the organisation, larger organisations tend to be more formal and smaller organisations tend to be less formal.

Technology used - the impact of modern technology can influence how organisations structure their activities, i.e. easier to communicate over larger distances.

Staff knowledge and skills, if staff are highly skilled a less formal structure can exist.

The market

Products they sell

Finance available