

*Edexcel*  
*AS Level*  
*BS*  
*(Code: WEC13 01)*  
*Unit 01*  
*Managing people*



## APPROACHES TO STAFFING

In some businesses the owner is the only person working in the organisation. However, as a business grows there is usually a need to employ people to share the workload. Businesses can be defined according to the number of people they employ. For example, using the definition of size of a business in the EU and many other countries:

- Small businesses employ between 1 and 49 people
- Medium-sized businesses employ between 50 and 249 people
- Large businesses employ 250 people or more. Three of the biggest employers in the world are Indian Railways, China National Petroleum Corporation and Walmart in the USA. These organisations employ 1.5, 1.6 and 2.1 million people, respectively.

**Staff as an asset:** Employers who view their staff as assets will value their employees and have concern for their welfare. Staff will be valued because employers recognise that their efforts will help the business to perform more effectively. Such employers will therefore try to meet the needs of employees. This might involve providing:

- Acceptable remuneration
- Reasonable holidays, sick leave, maternity/paternity leave and pensions
- A safe and comfortable working environment
- Training, so that staff can develop skills and carry out work tasks successfully and safely
- Job security and opportunities to interact with colleagues
- Recognition and professional relationships
- Clear and effective leadership
- Chances for promotion
- Opportunities to solve problems, work in teams and be creative.

**Staff as a cost:** If employers view their staff as a cost, their focus is likely to be different. Like any other cost, they will try to minimise it wherever possible. This might involve:

- Paying just the legal national minimum wage
- Using a zero-hours contract
- Neglecting investment in training
- Using financial incentives to raise productivity
- Providing the minimum legal 'employee rights' in relation to sick leave, holiday pay and working conditions
- Having penalties for employees who are late, break rules, etc. and who incur costs for the business
- Using cheap and inferior recruitment methods.

This approach might lower employment costs, but it may also be a 'false economy'. This is because productivity might be lower due to poor motivation.

## FLEXIBLE WORKFORCE

**Multiskilling:** Multiskilling is a term used to describe the process of enhancing the skills of employees. It is argued that giving individuals the skills and responsibilities to deal with a greater variety of issues will allow a business to respond more quickly and effectively to problems.

**Part-time and temporary staff:** Part-time workers are defined in the Economic and Labour Market Review as people who normally work for not more than around 30 hours per week except where it is stated otherwise. Some people prefer to work part time because it suits their lifestyle. For example, many students take part-time jobs to help support themselves while at college. However, in some countries many of those people who are employed part time have claimed that they would prefer to have a full-time job. The use of part-time staff provides flexibility for businesses. Part-time staff can be employed during weekend peak hours in restaurants, for example.

**Zero-hour contracts:** In some countries, people are employed on zero-hour contracts. These are also known as Casual contracts and are usually offered for 'piece work' or 'on-call work'. Zero-hour contracts mean that:

- Workers are on call to work when the employer needs them
- Employers do not have to give them work
- Employees do not have to work when asked.

**Flexible hours and home working:** The workforce is more flexible if staff work flexible hours. However, there are different ways of arranging this. For example, staff might have to work a number of hours in a particular time period, say 1 week, but have the choice as to when they work during that week. Or they might work a reduced number of days, but longer hours each day. Some people might be asked to undertake shift work.

A **wide range** of people might be classified as home workers. They include farmers, shop owners, writers, musicians, telesales people, hotel owners and software designers. They may be full time or part time and may also be self-employed.

**Outsourcing:** Another way of introducing flexibility into an organisation is to use outsourcing. This involves getting other people or businesses to carry out tasks that were originally carried out by people employed by the business. Outsourcing allows a business to focus on its main capabilities and lets others carry out the surrounding work.

## THE ADVANTAGES AND DISADVANTAGES OF A FLEXIBLE WORKFORCE

There are a number of advantages of a flexible workforce for a business.

- A flexible workforce allows a business to expand and contract quickly in response to changes in demand for its products. In contrast, a workforce made up of permanent staff is difficult to shrink quickly because of the cost and because of the time it takes to fulfil legal requirements.
- Some specialist jobs need to be done but it would be wasteful to employ a permanent worker to do them. For example, most small businesses employ external accountants to manage their accounts. It is far cheaper to do this than to employ an accountant within the business because the amount of work needed is relatively small.
- In some cases, temporary staff or subcontractors are cheaper to employ than permanent staff. For example, a business may not offer certain benefits to certain staff, although it must be careful not to break the law. In some countries, if the temporary staff are treated as self-employed or subcontractors, the business may also be able to save on National Insurance contributions.

- Employers are responsible for training their permanent workers. By outsourcing work or employing temporary workers, businesses may be able to pass that cost onto subcontractors or whoever has paid for the training of a temporary worker.
- Employing workers who can job share or work flexible hours may allow a business to operate more efficiently.
- Peripheral workers may have less loyalty to the business where they work temporarily. They may be motivated mainly by financial gain.
- Some businesses have found that their outsourced work has been of poor quality, damaging their reputation with customers. The peripheral workers move on and do not have to take responsibility for the poor work, but the business may have lost customers as a result.
- Communication can be a problem. Peripheral workers are not necessarily available when the business would like to communicate with them, although IT and the mobile phone has partially solved this problem.
- Employing peripheral workers can be a costly process.
- Temporary staff can be excellent, well qualified and highly motivated. But equally, some temporary staff are simply workers who have found it difficult to hold down a permanent job. When employing temporary staff, there is no guarantee that they will perform their job as well as a permanent member of staff.
- Too many peripheral workers employed alongside core workers can cause demotivation among the core workers. Core workers may want to be part of a stable team to form relationships and fulfil some of their higher-order needs. Constant turnover of peripheral workers may lead to core workers feeling unsettled.

### **DISTINCTION BETWEEN DISMISSAL AND REDUNDANCY**

Most people leave a job because they are moving on to another job or because they are retiring. However, some people are forced out of work. They may be dismissed or made redundant.

**Dismissal:** Employees may be dismissed for a number of reasons. These may be for unfair reasons, such as joining a trade union. If an employment tribunal finds that a person has been dismissed unfairly, it has the power to restore the employee to their former position.

**Redundancy:** Another legal method of dismissing an employee is because of redundancy. This is where there is insufficient or no work for the employee to do. In some countries, employees are entitled to redundancy or severance payments by law. They also need to meet other criteria.

Workers are most likely to be made redundant during a recession or when a business is struggling due to external factors.

### **EMPLOYER/EMPLOYEE RELATIONSHIPS**

When someone gets a job a relationship begins between the employee and the employer. The quality of this relationship is important because it has an impact on the welfare of the employee and the performance of a business. If the relationship develops positively employees will be relatively happy in their work, motivated and productive.

- **Rates of pay.** Employers often attempt to restrain wage growth to help control their costs and remain competitive. In contrast, employees want higher wages to keep up with rises in the cost of living and hopefully raise their living standards.
- **The introduction of technology.** Employers are often keen to use new technology because it helps to increase efficiency in the business. However, employees may resist the introduction of technology.

• **Flexible working.** Employers prefer to employ a flexible workforce because it helps to manage production more effectively and keeps costs down. However, some of the methods used to develop more flexibility, such as zero-hours contracts, can be unpopular with employees.

• **Work conditions.** Employees may want better conditions or facilities from employers, such as the provision of care facilities for workers' children. However, employers may consider such things inappropriate or too expensive.

The relationship that exists between employers and employees can be shaped using two approaches. They are both often concerned with finding resolutions to the areas of conflict outlined above.

**Individual approach:** An increasing number of employers develop relationships with employees at an individual level. This means that terms of employment and disagreements are settled through negotiation between an individual employee and a representative of the employer. In a small business the employer representative is likely to be the owner. In a large business it could be a manager - perhaps from the human resources department.

This approach means that individuals will negotiate wages, holiday and other benefits, hours of work and other terms of employment, directly with the employer. If an employee has a work-related dispute, it also has to be raised and discussed with their employer.

**Collective bargaining:** The alternative to individual bargaining is **collective bargaining**. This involves determining wages, conditions of work and other terms of employment through a negotiation process between employers and employee representatives, such as trade union representatives. **Trade unions** represent the views of their members and try to negotiate in their interests.

A representative body, such as a trade union, however, would have more strength and influence to negotiate for its membership. Without such a bargaining process, employers and managers would be able to set wages and conditions without taking into account the interests of employees.

For collective bargaining to take place:

- Employees must be free to join representative bodies, such as trade unions
- Employers must recognise such bodies as the legal representatives of workers and agree to negotiate with them
- Such bodies must be independent of employers and the state
- Bodies should negotiate honestly in their members' interests
- Employers and employees should accept negotiated agreements without having to use the law to enforce them.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Agreements are transparent and legally enforceable</li> <li>• May be more cost effective to have just one set of negotiations</li> <li>• Rules and terms are more likely to be respected by both parties</li> <li>• Outcomes may be fairer because power between both sides is equalised</li> <li>• Unfair treatment of individual who are bullied or 'favourites' of their managers may be avoided</li> <li>• Employee representatives are democratically elected</li> </ul>	<ul style="list-style-type: none"> <li>• Negotiations can result in more bureaucracy and take longer</li> <li>• The views of individuals are not always reflected by unions</li> <li>• Negotiation costs can be high and are usually met by businesses</li> <li>• A failure to agree can have serious consequences, e.g. strike action</li> <li>• Owners may feel their freedom to manage is compromised</li> </ul>

▲ Table 1 The possible advantages and disadvantages of collective bargaining

Bargaining between employers and employee representatives has often led to conflict in the past. A failure to reach agreement may result in **industrial action**.

#### SUBJECT VOCABULARY

**collective bargaining** a method of determining conditions of work and terms of employment through negotiations between employers and employee representatives.  
**flexible workforce** a workforce that can respond, in quantity and type, to changes in market demand.  
**home workers** people who undertake their regular work from home.  
**industrial action** disruptive measures taken by workers to apply pressure on employers when disagreements cannot be resolved.  
**multiskilling** the process of increasing the skills of employees.  
**outsourcing** getting other people or businesses to undertake work that was originally done in-house.  
**trade unions** organisations of workers that exist to promote the interests of their members.  
**zero-hours contract** a contract that does not guarantee any particular number of hours' work.

## Chapter 15 – Recruitment, selection and training

### RECRUITMENT

When businesses hire new employees they need to attract and appoint the best people - those with the right skills and appropriate experience. This is called recruitment and selection. In a very small business recruitment might be undertaken informally - a chat between a business owner and someone who is searching for a job. In a large business, the human resources department is likely to be responsible for employing staff, following a lengthy, formal recruitment process, as explained below.

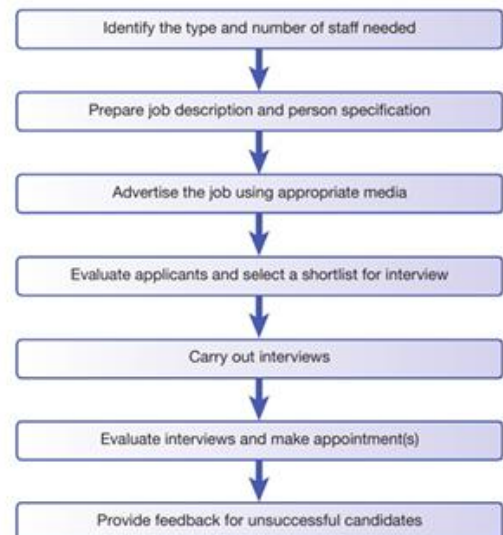
A business may need new staff because:

- The business is expanding and more labour is needed
- People are leaving and they need to be replaced
- Positions have become vacant due to promotion
- People are required for a given period to cover temporary staff absence, due to maternity or paternity leave, for example.

### STAGES IN THE RECRUITMENT AND SELECTION PROCESS

The recruitment process may be broken down into a number of stages, as shown in Figure 1.

- The first stage is to identify the number and type of staff that need to be recruited. The overall business plan will help provide this information.
- The right people are more likely to be selected if a **job description** and **person specification** are drawn up. These are explained on the next page.
- Advertising costs money, so businesses must place job advertisements in media where they are likely to attract sufficient interest from the 'right' sort of applicants.
- Job applications can be made on standard forms shared with applicants who respond to an advert. Some applicants might write letters and include a curriculum vitae (CV).
- Shortlisted applicants may then be invited for an interview. This is where interviewers can find out more about the applicants by asking questions. It also gives candidates the opportunity to provide more detailed information and ask questions about the job and the business. Interviewing is often best done by people who are experienced or have been trained in interviewing.
- After the interviews the interviewers must decide who to appoint. In many cases, interviewees are told the outcome of the interview by post at a later date. This gives the business more time to evaluate the performance of the candidates. A business might also check references before making a final decision.
- The recruitment process ends when a job offer has been made and accepted. It is also polite to provide feedback to the unsuccessful candidates.



▲ Figure 1 Stages in the recruitment process



## JOB DESCRIPTION

A job description states the title of a job and outlines the tasks, duties and responsibilities associated with that job. If a new job is created, a new job description may have to be prepared. If a business is replacing someone who is leaving, the job description may be the same.

## PERSON SPECIFICATION

A person specification provides details of the qualifications, experience, skills, attitudes and any other characteristics that would be expected of a person appointed to do a particular job. It is used to assess applicants when sorting through the applications.

<b>Job title</b>	Cabin crew member.
<b>Function</b>	Perform ground and air duties that the company may reasonably require. Ground duties apply to any area of work connected to aircraft operational requirements. Other duties, including boardroom functions and publicity, are voluntary. Cabin crew must also: <ul style="list-style-type: none"> <li>• be familiar and comply with company policy and procedures</li> <li>• provide a high standard of cabin service and perform their duties thoroughly and carefully at all times</li> <li>• not behave in any way that reflects badly upon the company or harms its reputation.</li> </ul>
<b>Pay and expenses</b>	Salary will be £17,000 per annum. Payment will be 1 month in arrears, paid directly into the employee's bank account. Expenses will be paid as set out in the current contract. If flights are cancelled, you will be entitled to a reporting allowance as set out in the current contract.
<b>Work time</b>	You are required to work 20 days in every 28-day period. Days and hours will vary according to the company's requirements. Details of rest periods and flight time limitations are set out in the staff manual.

▲ Figure 2 A job description for a cabin crew assistant for an airline

	Essential/Desirable
<b>Aptitudes/skills/abilities</b>	
Able to take a flexible approach to working conditions and a changing working environment	E
Self-motivated and enthusiastic	E
Ability to work on own initiative	D
Work effectively as part of a team	D
<b>Qualifications/knowledge and experience</b>	
4 GCSEs grade 4 or above	E
Able to use computer software	E
Good written and spoken communication skills	E
Able to solve problems effectively	E
Planning and organisational skills	D
Experience of working in a manufacturing environment	D

▲ Figure 3 A person specification for an administrative assistant in an engineering plant

## INTERNAL AND EXTERNAL RECRUITMENT

Internal recruitment is recruitment from within the business. An employee may be chosen to be offered a post. Or the business may advertise internally, asking employees to apply for the vacancy. Internal recruitment has a number of advantages compared to external recruitment.

- It is often cheaper because no adverts have to be placed and paid for at commercial rates.
- Internal recruits might already be familiar with the procedures and working environment of the business. They may, therefore, need less induction training and be more productive in their first year of employment.
- The qualities, abilities and potential of the candidates should be better known to the employer. It is often difficult to predict exactly how an external recruit will perform in a particular work environment.
- Regular internal recruiting can motivate staff. They might see a career progression with their employer. Even for those who are not seeking promotion, internal recruitment suggests that the employer is looking after existing staff.

**External recruitment** is when someone is appointed from outside the business. External recruitment has two main advantages over internal recruitment.

- The employer may want someone with new and different ideas to those already working in the business. Bringing in experience of working in different organisations can often be helpful in keeping a business competitive.

- External recruitment might attract a larger number of applicants than internal recruitment. The employer then has more choice of whom to appoint.

**Word of mouth:** A common method of hearing about a job is through word of mouth. This means a person hearing about a job from someone else, often someone who works in the place of employment.

**Direct application:** Many jobseekers send their details to employers for whom they would like to work just in case they have a vacancy. An employer might then use these to recruit if a vacancy arises.

**Advertising:** The employer may place advertisements in local or national newspapers, and specialist magazines and journals. The Internet is another medium for job advertisements. Advertisements may appear on a company website.

**Private employment agencies:** The business may employ a private employment agency to find candidates. Private employment agencies are probably best known for finding temporary workers (temps). However, many also specialise in finding permanent staff. At the top end of the range, private employment agencies tend to call themselves executive agencies.

**Headhunting:** For some posts, such as chief executive of a company, it may be possible to headhunt a candidate. This is where the agency draws up a list of people they think would be suitable for a job. Having cleared the list with the organisation making the appointment, the agency will approach those on the list and discuss the possibility of them taking the job.

**Jobcentres:** Businesses can advertise vacancies through jobcentres run by the government. Jobcentres are often used by the unemployed and vacancies tend to pay less than the average wage. So a cleaner's post is more likely to be advertised in a jobcentre than a chief executive's post. For a business, this is a relatively cheap way of advertising, but it is not suitable for many vacancies.

#### COSTS OF RECRUITMENT, SELECTION AND TRAINING

At each stage in the recruitment process shown in Figure 1, a business will incur costs. These costs can be significant and underline the importance of employing an effective recruitment process to attract and retain high-quality staff. According to a report carried out by Oxford Economics, the cost of replacing a single member of staff in the UK can be as much as £30,614.

**Recruitment and selection costs:** Costs are incurred throughout the whole recruitment and selection process.

- The human resources department will incur costs when identifying the number and type of staff required. For a single post the cost might be quite small.
- Some administrative costs will be incurred when checking and updating job descriptions and person specifications. These costs will be higher if the nature of the jobs have changed or if the jobs are newly created. Jobs will have to be advertised. If internal recruitment is being used, such costs will be quite low since internal communication systems will be used. However, if external recruitment is being used there will be a cost.
- Time will be spent handling and sorting applications. Some adverts can attract thousands of applications - particularly when unemployment is high. This cost can be minimised by designing a job advert that attracts a small number of perfectly suitable candidates and actively discourages unsuitable ones.
- The interviewing process can also be expensive for a business. It is likely to involve some highly paid senior staff. While these people are involved in the interview process, they are not undertaking their normal tasks; this can have a financial impact. Some businesses use two or even three rounds of interviews when selecting staff. Interviews can require candidates



- After the interviews have taken place the performance of interviewees will have to be evaluated. The more people involved in the interview process, the higher the cost.
- Sometimes the new person recruited will negotiate a higher salary or better benefits than the outgoing person they are replacing, again adding to the business's costs.

**Training costs:** Costs can be so high that businesses can be reluctant to invest heavily in training. Some training costs are essential and have to be met by a business. For example, employees often have to be trained in health and safety by law. Examples of training costs are outlined below.

- **Training courses and other resources.** Businesses will have to pay training providers if they use external training. Even internal training can be expensive if specialist training staff and equipment is needed.
- **Loss of output.** If workers are involved in off-the-job training they will not be producing anything. This will result in lower output levels. Even if workers are trained on the job, there may be a loss of output due to mistakes and slow work associated with the fact people are learning.

**Employees leaving.** Businesses are likely to get very frustrated if employees leave and join a rival company after they have invested in training them. Some businesses actually prefer to recruit workers that have already been trained by others to avoid such losses.

## TRAINING

Training is the process of increasing the knowledge and skills of workers so that they are better able to perform their jobs. The objectives of training differ from business to business but they include:

Making workers more productive by teaching them more effective ways of working

- Giving workers the skills they need to use new equipment or technology
- Educating workers in new methods of working, such as shifting from production line methods to cell methods
- Making workers more flexible so that they are able to do more than one job role
- Preparing workers to move into a different job role within the business, which could be a new job at a similar level or a promotion
- Improving standards of work in order to improve quality implementing health and safety at work policies increasing job satisfaction and motivation, because training should help workers feel more confident in what they are doing and they should gain self-esteem
- Assisting in recruiting and retaining high-quality staff, attracted by the quality of training offered.

## INDUCTION TRAINING

Many businesses put on training for people starting a job. This is known as **induction training**. It is designed to help new employees settle quickly into the business and their jobs. Exactly what is offered differs from business to business and job to job.

## ON-THE-JOB TRAINING

On-the-job training is training given in the workplace by the employer. There are many ways in which this could happen.

**Learning from other workers:** An employee might simply work next to another worker, watch that worker do a task and with their help repeat it.

**Mentoring:** This is where a more experienced employee is asked to provide advice and help to a less experienced worker. The less experienced worker can turn for help and advice to another more experienced worker at any time.

**Job rotation:** This is where a worker spends a period of time doing one job, then another period of time doing another job, and so on. Eventually they have received the broad experience needed to do a more specialist job.

**Traditional apprenticeships:** In the past, workers in traditional skilled trades, such as woodwork or engineering, would undertake training over, say, 3 to 5 years in an apprenticeship. This would involve a mix of training methods. When the business decided they had 'qualified' they would be employed as a full-time worker..

**Graduate training:** Medium- to large-sized businesses may offer graduate training programmes. They are typically designed to offer those with university degrees either professional training, such as in accountancy or law, or managerial training.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Output is being produced</li> <li>• Relevant because trainees learn by actually doing the job</li> <li>• Cheaper than other forms of training</li> <li>• Can be easy to organise</li> </ul>	<ul style="list-style-type: none"> <li>• Output may be lost if workers make mistakes</li> <li>• May be stressful for the worker – particularly if working with others</li> <li>• Trainers may get frustrated if they are 'unpaid' trainers</li> <li>• Could be a danger to others, e.g. surgeon or train driver</li> </ul>

▲ Table 1 Advantages and disadvantages of on-the-job training

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Output is not affected if mistakes are made</li> <li>• Workers' learning cannot be distracted by work</li> <li>• Training could take place outside work hours if necessary</li> <li>• Customers and others are not put at risk</li> </ul>	<ul style="list-style-type: none"> <li>• No output because employees do not contribute to work</li> <li>• Some off-the-job training is expensive if provided by specialists</li> <li>• Some aspects of work cannot be taught off the job</li> <li>• Trainees may feel that some of the training is not relevant to them</li> <li>• It may take time to organise</li> </ul>

▲ Table 2 Advantages and disadvantages of off-the-job training

## OFF-THE-JOB TRAINING

Off-the-job training is training which takes place away from the immediate workplace. It might take place at a company-owned training centre or at a college or university.

Off-the-job training can provide courses which a business internally would be unable to provide. But it can be expensive, particularly if the business is paying not just for the course but also a salary for the time the employee is attending the course.

## BENEFITS OF TRAINING

Although it is expensive, a number of stakeholders will benefit from training.

- **Managers.** Managers will benefit because workers may be better motivated and more satisfied. This makes them more co-operative and easier to work with. They will be better at doing their job. Workers may also be more flexible which will help managers in their organisation. Providing training may also improve the image of the business and make it easier to attract and retain high-quality staff.

- **Owners.** Businesses will benefit from training if productivity is higher. This means that costs will be lower and the business might gain a competitive edge in the market. This should improve the financial performance of the business, with higher profits and higher rewards for the owners.

- **Employees.** If workers have been trained they will be able to do their jobs more effectively. This should reduce anxieties about their work and provide more job satisfaction. Employees will feel valued if their employer is paying for their training. They may also feel better motivated, less stressed out and enjoy more job satisfaction.

- **Customers.** If training improves quality and skills, then customers will benefit from better quality products and improvements in customer service following training, such as a better outcome when making complaints.

### SUBJECT VOCABULARY

**curriculum vitae (CV)** a document that lists personal details, qualifications, work experience, referees and other information about the jobseeker.

**external recruitment** appointing workers from outside the business.

**induction training** training given to new employees when they first start a job.

**internal recruitment** appointing workers from inside the business.

**job description** a document that shows clearly the tasks, duties and responsibilities expected of a worker for a particular job.

**off-the-job training** training that takes place away from the work area.

**on-the-job training** training that takes place while doing the job.

**person specification** a personal profile of the type of person needed to do a particular job.

**training** a process that involves increasing the knowledge and skills of a worker to enable them to do their jobs more effectively.

## Chapter 16- Organizational design

### ORGANISATIONAL STRUCTURES

Each business has its own organisational structure or business structure. The structure is the way in which positions within the business are arranged. It is often known as the internal structure or formal organisation of the business.

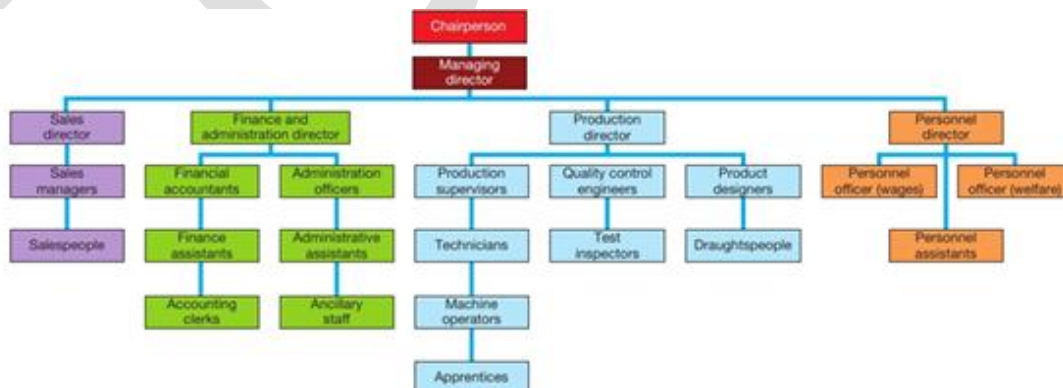
- The organisational structure of the business defines:
- The workforce roles of employees and their job titles the route through which decisions are made
- Who is responsible and who is accountable to whom, and for what activities
- The relationship between positions in a business
- how employees communicate with each other and how information is passed on.

Different businesses tend to have different objectives, relationships and ways in which decisions are made. So they may have different structures. But there may also be some similarities. For example, small businesses are likely to have simple structures. Larger businesses are often divided into departments with managers.

### HIERARCHY

Some businesses produce an organisational chart. These illustrate the structure of the business and the workforce roles of people employed in the business. Organisational charts show:

- How the business is split into divisions or departments
- The roles of employees and their job titles
- Who has responsibility
- To whom people are accountable
- Communication channels
- The relationships between different positions in the business.



▲ Figure 2 A formal organisational chart for Able Engineering

An organisation chart for Able Engineering, an engineering company, is shown in Figure 2. It is a traditional organisational chart and the person in charge, at the top of the hierarchy, is the chairperson, accountable to the shareholders. The hierarchical nature of the structure shows that employees have different levels of **authority** and **responsibility**.

### EMPLOYEE ROLES IN THE ORGANISATIONAL HIERARCHY

The positions in an organisation will have particular workloads and jobs allocated to them.

**Directors:** Directors are appointed to run the business on behalf of its owners. In smaller businesses, owners may also be directors. But in larger businesses owned by shareholders, for example, they may be different.

**Managers:** Managers are responsible for controlling or organising within the business. They often make day-to-day decisions about the running of the business. The sales manager,

**Team leaders:** Team leaders are members of a team whose role is to resolve issues between team members and co-ordinate team efforts so that the team works effectively. A team leader may be part of a permanent cell production team or a team set up for a particular job, such as investigating staff motivation. A team leader may also take responsibility for representing the views of a team to the next higher reporting level, for example, to report the conclusions of a market research team.

**Supervisors:** Supervisors monitor and regulate the work in their assigned or delegated area, for example stock supervisor or payroll supervisor. Supervisors may be given some of the roles of managers, but at a lower level. Their roles in this case may be to hire, discipline, promote, punish or reward.

**Professionals:** These are positions for staff with high levels of qualifications and experience. The job roles are likely to involve a degree of decision making and responsibility for ensuring that tasks are carried out effectively to a high standard.

**Operatives:** These are positions for skilled workers who are involved in the production process or service provision. They carry out the instructions of managers or supervisors. In their own area of activity they may have to ensure targets are met and tasks are carried out effectively. Examples of operatives in business might include staff in:

- Production, for example, assembling a car or manufacturing furniture
- Warehousing, for example, checking invoices against goods and ensuring effective deliveries
- IT, for example, giving technical support for machinery.

**General staff:** There are a variety of positions in business that are carried out by staff with non-specific skills. They follow instructions given by superiors to carry out particular tasks and are an essential part of the production process or service provision.

### CHAIN OF COMMAND

The hierarchy in a business is the levels of management in a business, from the lowest to the highest rank. It shows the chain of command within the organisation - the way authority is organised. Orders pass down the levels and information passes up.

### SPAN OF CONTROL

The number of people, or subordinates, a person directly controls in a business is called the span of control.

Management, argued that the span of control should be between three and six because:

There should be tight managerial control from the top of the business

There are physical and mental limitations to any single manager's ability to control people and activities.

The implications of wide and narrow spans of control are discussed in more detail below.

### AUTHORITY AND RESPONSIBILITY

Employees in the hierarchy will have responsibility and authority. However, as we mentioned earlier these terms do not mean the same thing. Responsibility involves being accountable or being required to justify an action.

### CENTRALISATION AND DECENTRALISATION

**Centralisation** and **decentralisation** refer to the extent to which authority is delegated in a business. If there was complete centralisation, subordinates would have no authority at all. Complete decentralisation would mean subordinates would have all the authority to take decisions. Some **delegation** may always be necessary in all firms because of the limits to the amount of work senior managers can carry out.

### TYPES OF ORGANISATIONAL STRUCTURE

Organisational structures can vary between different businesses. This is because different businesses have different needs and possibly have different views about the way staff should be organised and controlled. Organisational structures may be flat, tall or matrix. Examples are shown in Figure 4 on the next page.

**Tall structures:** Figure 4a shows a tall structure. Here there is a long chain of command, but a narrow span of control. In this chart there are five levels in the hierarchy.

**Flat structures:** A flat structure means there are fewer layers in the hierarchy. In Figure 4b the flat structure only has three layers in the hierarchy. The chain of command is short but the span of control is wide. This type of structure means that employees are free from strict, close control in the workplace. They have more freedom and responsibility.

**Matrix structures:** Matrix structures allow businesses to connect people with particular specialist skills, as shown in Figure 4c. They involve getting people together from different areas in the business to form a project team. Individuals within the team each have their own responsibility. Teams are not fixed, and can be made, altered or dissolved to suit the business need at the time.

### IMPLICATIONS OF DIFFERENT ORGANISATIONAL STRUCTURES

The different structures used by businesses to organise their workforces have advantages and disadvantages. The implications of each type are outlined below.

Advantages of centralisation	Advantages of decentralisation
<ul style="list-style-type: none"> <li>Senior management has more control of the business, e.g. budgets.</li> <li>Procedures, such as ordering and purchasing, can be standardised throughout the organisation, leading to economies of scale and lower costs.</li> <li>Senior managers can make decisions from the point of view of the business as a whole. Subordinates would tend to make decisions from the point of view of their department or section. This allows senior managers to maintain a balance between departments or sections. For example, if a company has only a limited amount of funds available to spend over the next few years, centralised management would be able to share the funds out between production, marketing, research and development, and fixed asset purchases in different departments, etc.</li> <li>Senior managers should be more experienced and skilful in making decisions. In theory, centralised decisions by senior people should be of better quality than decentralised decisions made by others less experienced.</li> <li>In times of crisis, a business may need strong leadership by a central group of senior managers.</li> <li>Communication may improve if there are fewer decision makers.</li> </ul>	<ul style="list-style-type: none"> <li>It empowers and motivates workers.</li> <li>It reduces the stress and burdens of senior management. It also frees time for managers to concentrate on more important tasks.</li> <li>It provides subordinates with greater job satisfaction by giving them more say in decision making, which affects their work.</li> <li>Subordinates may have a better knowledge of 'local' conditions affecting their area of work. This should allow them to make more informed, well-judged choices. For example, salespeople may have more detailed knowledge of their customers and be able to advise them on purchases.</li> <li>Delegation should allow greater flexibility and a quicker response to changes. If problems do not have to be referred to senior managers, decision making will be quicker. Since decisions are quicker, they are easier to change in the light of unforeseen circumstances which may arise.</li> <li>By allowing delegated authority, management at middle and junior levels are prepared to take over higher positions. They are given the experience of decision making when carrying out delegated tasks. Delegation is therefore important for management development.</li> </ul>

▲ Table 1 Advantages of centralisation and decentralisation



**Tall structures:** With tall structures the span of control can be small. This means that managers have more control over their subordinates. As a result employees can be more closely supervised. There is a clear management structure

**Flat structures:** With flat structures, communication is better because the chain of command is generally shorter. Communication can be quicker and there is less potential for messages to be distorted. Management costs are lower.

**Matrix structures:** Managers often argue that this is the best way of organising people. This is because it is based on the expertise and skills of employees and gives scope for people lower down the organisation to use their talents effectively.

#### SUBJECT VOCABULARY

authority the right to command and make decisions.  
 centralisation a type of business organisation where major decisions are made at the centre or core of the organisation and then passed down the chain of command.  
 chain of command the way authority and power is organised in an organisation.  
 decentralisation a type of business organisation where decision making is pushed down the chain of command and away from the centre of the organisation.  
 delayering removing layers of management from the hierarchy of an organisation.  
 delegation the passing of authority further down the managerial hierarchy.  
 empowerment giving official authority to employees to make decisions and control their own work activities.  
 formal organisation the internal structure of a business as shown by an organisational chart.  
 hierarchy the order or levels of responsibility in an organisation, from the lowest to the highest.  
 organisational chart a diagram that shows the different job roles in a business and how they relate to each other.  
 responsibility the duty to complete a task.  
 span of control the number of people a person is directly responsible for in a business.  
 subordinates people in the hierarchy who work under the control of a senior worker.

## Chapter 17 – Motivation in theory and practice

### THE IMPORTANCE OF MOTIVATION

Why is it important for a business to find out what satisfies the needs of its employees? It is argued that if an individual's needs are not satisfied, then that worker will not be **motivated** to work. Businesses have found that even if employees are satisfied with pay and conditions at work, they complain that their employer does not do a good job in motivating them.

**Taylor's approach:** How did Taylor discover what the 'best way' was of carrying out a task? Table 1 shows an illustration of Taylor's method. Taylor had a very simple view of what motivated people at work - money. He felt that workers should receive a 'fair day's pay for a fair day's work, and pay should be linked to output through piece rates. A worker who did not produce a 'fair day's work' would face a loss of earnings; exceeding the target would lead to a bonus.

Taylor's approach is similar in that it advises businesses to find the best way of doing something to add value to the business.

- Pick a dozen skilled workers.
- Observe them at work and note down the elements and sequences adopted in their tasks.
- Time each element with a stopwatch.
- Eliminate any factors that appear to add nothing to the completion of the task.
- Choose the quickest method discovered and fit them in their sequence.
- Teach the worker this sequence; do not allow any change from the set procedure.
- Include time for rest and the result will be the 'quickest and best' method for the task. Because it is the best way, all workers selected to perform the task must adopt it and meet the time allowed."
- Supervise workers to ensure that these methods are carried out during the working day.

**Problems with Taylor's approach:** There are a number of problems with Taylor's ideas. The notion of a 'quickest and best way' for all workers does not take into account individual differences. There is no guarantee that the 'best way' will suit everyone.



## MAYO'S THEORY OF HUMAN RELATIONS

**The Hawthorne studies:** Many of the ideas that are today known as the 'human relations school' grew out of experiments between 1927 and 1932 at the Hawthorne Plant of the Western Electric company in Chicago, USA. Initially these were based on 'scientific management' - the belief that workers' productivity was affected by work conditions, the skills of workers and financial incentives. Over the 5-year period, changes were made in incentive schemes, rest periods, hours of work, lighting and heating, and the effect on workers' productivity was measured. One example was a group of six women assembling telephone switches. It was found that whatever changes were made, including a return to the original conditions, output rose. This came to be known as the **Hawthorne effect**.

**Problems:** There are a number of criticisms of the human relations school.

- It assumes workers and management share the same goals. However, general agreement within a workplace may not always exist. For example, in the 1980s Rover tried to introduce a programme called 'Working with Pride'. It was an attempt to raise quality by gaining employee commitment.
- It is assumed that communication between workers and management will break down 'barriers'. It could be argued, however, that the knowledge of directors' salaries or redundancies may lead to even more 'barriers' and dissatisfaction.
- It is biased towards management. Workers are 'tricked' into being productive by managers. It may also be seen as a way of reducing trade union power.

## MASLOW'S HIERARCHY OF NEEDS

The first comprehensive attempt to classify needs was by Abraham Maslow in his book *Motivation and Personality*, published in 1954. **Maslow's hierarchy of needs** theory consists of two parts.

Figure 1 can also be used to show the relationship between the different classes. Maslow argued that needs at the bottom of the pyramid are basic needs. They are concerned with survival. These needs must be satisfied before a person can move to the next level. Once each level is satisfied, the needs at this level become less important. The exception is the top level of self-actualisation.



▲ Figure 1 Maslow's hierarchy of needs

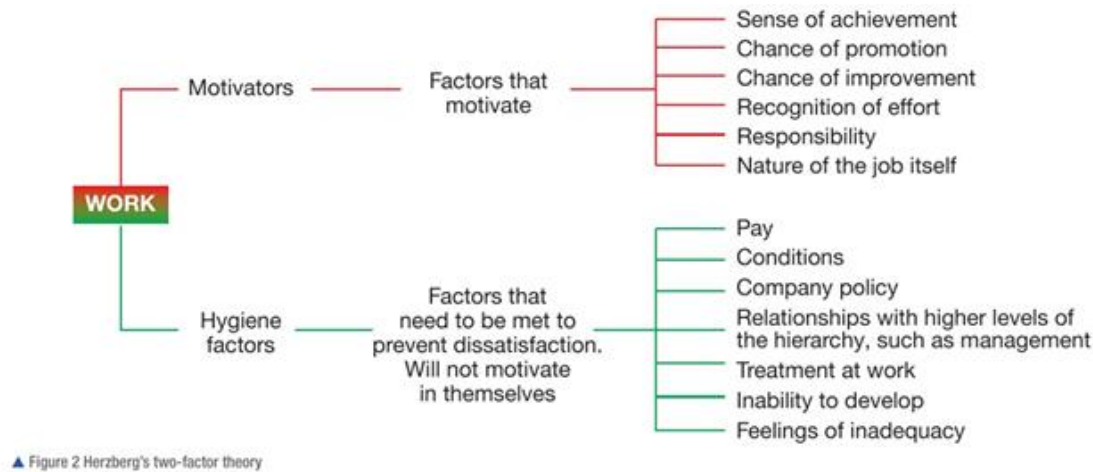
## HERZBERG'S TWO-FACTOR THEORY

In 1966, Fredrick Herzberg attempted to find out what motivated people at work. He asked a group of professional engineers and accountants to describe incidents in their jobs which gave them strong feelings of satisfaction or dissatisfaction. He then asked them to describe the causes in each case.

**Results:** Herzberg divided the causes into two categories or factors. These are shown in Figure 2.

- **Motivators.** **Motivators** are the factors that give workers job satisfaction, such as recognition for their effort. Increasing these motivators is needed to give job satisfaction. This, it could be argued, will make workers more productive.
- **Hygiene or maintenance factors.** Hygiene or maintenance factors are factors that can lead to workers being dissatisfied, such as pay or conditions. Improving hygiene factors should remove dissatisfaction. For example, better canteen facilities may make workers less dissatisfied about their environment. An improvement in hygiene factors alone is not likely to motivate an individual.

•Problems: Herzberg's theory does seem to have some merits. Improving pay or conditions, for example, may remove dissatisfaction at first. Often, however, these things become taken for granted. It is likely that better conditions will be asked for in following years. Evidence of this can be seen in wage claims, which aim to be above the rate of inflation in some businesses every year. Job enrichment may also be expensive for many



## FINANCIAL METHODS TO IMPROVE STAFF PERFORMANCE

**Piecework:** Piece rates are payments for each unit produced. They are an example of payment by results. For example, a fruit picker might be paid US\$1.00 per kilogram of strawberries picked or a tractor driver might be paid US\$3.50 per hectare of land ploughed. Piece rates were recommended by Frederick Taylor, founder of the scientific management school. He thought they were an ideal way to motivate workers. Workers who produced more were more highly paid. However, piece rates are only suitable for jobs where it is easy to identify the contribution of an individual worker. It would be difficult to design a piece rate system for, say, secretaries or managers. Piece rates have been criticised on health and safety grounds. They might encourage workers to take dangerous short cuts in a bid to reduce the amount of time taken for each item. Rushing production might also affect the quality of the product.

**Commission:** Commission is a payment system mainly used with white

**Profit sharing:** Some businesses have profit sharing schemes. In a company, profits would normally be distributed to shareholders. Profit sharing occurs when some of the profits made are distributed to workers as well as shareholders.

Profit sharing can motivate workers to achieve the objectives of the business. Shareholders want higher profits. So too do workers if they are to receive a share of them. Profit sharing therefore unites the goals of both owners and workers for extra money. Profit sharing can also be a way of showing staff that they are appreciated. In Maslow's hierarchy of needs, it may help satisfy the need for love and belonging.

**Performance-related pay:** Performance-related pay (PRP) is a pay system designed specifically to motivate staff. Introduced in the 1980s and 1990s, it is now used widely in a number of countries among white-collar workers, especially in the financial services industry, such as banking, and in the public sector.

**Bonus:** Some firms make bonus payments to workers. Bonuses are paid in addition to the basic wage or salary. They are usually paid if targets are met. For example, machine operators may be paid a bonus if they reach a weekly production target. Bonuses can also be paid to groups of workers. For example, a sales team may get a bonus if the whole team meets a sales target.

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### NON-FINANCIAL METHODS TO IMPROVE STAFF PERFORMANCE

Financial rewards have often been used in the past by firms in an attempt to motivate employees to improve productivity. However, increasingly businesses have realised that:

- The chance to earn more money may not be an effective motivator
- Financial incentive schemes are difficult to operate
- Individual reward schemes may no longer be
- Effective as production has become organised into group tasks
- Other factors may be more important in motivating employees.

If other factors are more important than pay in motivating workers, it is important for firms to identify them. Only then can a business make sure its workforce is motivated.

- **Delegation:** In some situations a manager may hand a more complex task to a subordinate. This is called **delegation**. The manager will still have responsibility, but authority is passed down the hierarchy. However, time can be saved if a subordinate completes the task.
- Only delegate when their workload is too high, otherwise, subordinates may feel the delegation is unfair.
- take time to explain the tasks carefully and be sure subordinates have the skills to complete them
- give subordinates complete authority to carry out the task and that colleagues are aware of the delegation
- do not interfere with delegated tasks
- provide the support and resources that are needed to carry out the delegated task.

**Consultation:** Staff often complain when changes are made and they are not consulted. For example, if a business introduced flexible working hours so that it could remain open 7 days a week without consulting staff, it is likely that the workforce would be displeased. If staff are consulted by employers when changes are proposed they are more likely to feel that their views are valued. This can improve motivation. **Consultation** has other advantages.

Changes are less likely to be resisted if staff are consulted. It is also possible that employees may have ideas of their own that could benefit the business.

**Empowerment:** Delegated decision making can be more successful if employees are empowered. **Empowerment** of employees involves a number of aspects.

- Recognising that employees are capable of doing more than they have in the past.
- Making employees feel trusted, so that they can carry out their jobs without constant checking.
- Giving employees control of decision making. . Giving employees self-confidence.
- Recognising employees' achievements.
- Developing a work environment where employees are motivated and interested in their work.

Many businesses now recognise the need to empower employees. There are a number of advantages of this for a business and for employees.

- Employees may feel more motivated. They feel trusted and feel that businesses recognise their talents. This should improve productivity and benefit the business in the long term, for example by reducing absenteeism.
- Employees may find less stress in their work as they have greater control over their working lives. This could reduce illness and absenteeism.
- Decisions may be made by those most suited to make them. Also, employees may feel less frustrated that senior staff who are less equipped to make decisions are making them.
- There may be greater employee skills and personal development.
- Businesses may be able to make their organisations more efficient and delegate decision making.
- Workers may feel less frustrated by more senior staff making decisions which they feel may be incorrect. However, empowerment is sometimes criticised as simply a means of cutting costs and removing layers from the business. Passing decision making down the hierarchy might allow a company to make managers redundant.
- Teamworking: The Swedish car firm Volvo is a well-known example of a company that has effectively introduced 'teamwork'. In both its plants at Kalmar and Uddevalla, it set up production in teams of eight to ten highly skilled workers. The teams decided between themselves how work was to be distributed and how to solve problems that arise.
- Productivity may be greater because of combined talents.
- People can specialise and draw on the skills and knowledge of others in the team.
- Increasingly businesses are finding that the abilities of teams are needed to solve difficult business problems.
- Responsibility is shared. People may be more prepared to take risks.
- Ideas may be created through group discussions. . It allows flexible working.

However, in practice teamwork does not always produce the desired results. Part of the problem may lie in the way teams are organised. Members may fail to work well together for several reasons, from lack of a sense of humour to conflicting goals. Studies of teams in the USA have shown a number of problems with teamwork.

- Too much emphasis on harmony. Teams probably work best when there is room for disagreement. Hiding differences sometimes leads to vague or bland recommendations.

- Too much emphasis on individualism. For example, teams may fail to deliver results if the emphasis of the company is placed on individualism.
- A feeling of powerlessness. To work well, teams must be able to influence decisions.
- The failure of senior management to work well together. This creates problems because team members may walk into meetings with different priorities.
- Unnecessary meetings. Teams should not try to do everything together. Too many meetings waste the team's time.
- Seeing teams as the solution for all problems. Some tasks are better accomplished by individuals, rather than groups.

**Flexible working:** Employing a flexible workforce has a number of benefits for a business. For example, it can cope with small changes in demand more easily and extend opening hours. However, flexible working may also help to motivate workers. This is most likely if staff can choose their hours of work, work from home or take lengthy periods of leave, for example. Flexible working is discussed in detail in Chapter 14.

**Job enrichment:** The idea of job enrichment came from Herzberg's two-factor theory. Job enrichment attempts to give employees greater responsibility by 'vertically' extending their role in the production process. An employee, for example, may be given responsibility for planning a task, quality control, work supervision, ordering materials and maintenance.

Job enrichment gives employees a 'challenge, which will develop their 'unused' skills and encourage them to be more productive. The aim is to make workers feel they have been rewarded for their contribution to the company. Employees will also be provided with varied tasks, which may possibly lead to future promotion. It is not, however, without problems. Workers who feel that they are unable to carry out the 'extra work', or who consider that they are forced into it, may not respond to incentives. In addition, it is unlikely that all workers will react the same to job enrichment.

**Job rotation:** Job rotation involves an employee changing jobs or tasks from time to time. This could mean, for example, a move to a different part of the

- Too much disagreement and argument. Tension can production line to carry out a different task. Alternatively, destroy team effectiveness.
- Poor preparation. It is important that team members prepare for meetings by focusing on the facts. Members should have a detailed knowledge of the issues at hand and all work with the same information.

an employee may be moved from the human resources to the marketing department where they have skills which are common to both. From an employee's point of view this should reduce boredom and enable a variety of skills and experience to be gained. An employer might also benefit from a more widely trained workforce.

**Job enlargement:** Job enlargement involves giving an employee more work to do of a similar nature. For example, instead of an employee putting wheels onto a bicycle he could be allowed to put the entire product together. It is argued that this variety prevents boredom with one repetitive task and encourages employees' satisfaction in their work, as they are completing the entire process.

#### SUBJECT VOCABULARY

**bonus** a payment in addition to the basic wage for reaching targets or in recognition for service.  
**commission** percentage payment on a sale made to the salesperson.  
**consultation** listening to the views of employees before making key decisions that affect them.  
**delegation** the passing of authority further down the managerial hierarchy.  
**empowerment** giving official authority to employees to make decisions and control their own work activities.  
**Hawthorne effect** the idea that workers are motivated by recognition given to them as a group.  
**hygiene or maintenance factors (Herzberg's)** things at work that result in dissatisfaction.  
**job enlargement** giving an employee more work to do of a similar nature; 'horizontally' extending their work role.  
**job enrichment** giving employees greater responsibility and recognition by 'vertically' extending their work role.  
**job rotation** the periodic changing of jobs or tasks.  
**Maslow's hierarchy of needs** the order of people's needs starting with basic human requirements.  
**motivated** the desire to take action to achieve a goal.  
**motivators (Herzberg's)** things at work that result in satisfaction.  
**payment by results** payment methods that reward workers for the quantity and quality of work they produce.  
**performance-related pay (PRP)** a payment system designed for non-manual workers where pay increases are given if performance targets are met.  
**piece rates** a payment system where employees are paid an agreed rate for every item produced.  
**profit sharing** where workers are given a share of the profits, usually as part of their pay.  
**scientific management** a theory that suggests there is a 'best way' to perform work tasks.  
**self-actualisation** a level in Maslow's hierarchy where people realise their full potential.  
**teamworking** organising people into working groups that have a common aim.



## Chapter 18 – Leadership

### THE DISTINCTION BETWEEN MANAGEMENT AND LEADERSHIP

Management has a number of functions. For example, managers, according to the management theorist Henri Fayol, should predict what will happen in the future, plan to achieve their objectives, organise resources, exercise command over staff lower down the hierarchy, co-ordinate day-to-day tasks and monitor how well objectives are being achieved. Peter Drucker, writing 40 years later, *The Practice of Management*, added to this list motivating and communicating with staff, and giving them training opportunities.

Some writers make no distinction between management and leadership in an organisation. Managers are leaders because of the roles they play. Others, however, suggest that leaders are not necessarily the same as managers.

- Leaders may perform the same functions as managers. But in addition, they may do some or all of the following.
- Leaders can be visionaries, understanding where an organisation is at today and seeing the direction in which an organisation has to change to survive and grow.
- Leaders tend to be good at carrying through the process of change. Because they understand the starting point and the end point, they can chart a route from one to the other. Where others may see only chaos and think the organisation is taking the wrong road, the leader has the ability to see through the details and small setbacks which are a part of any change.

Leaders are often excellent at motivating those around them, allowing them to perform at their best. They are particularly good at motivating others to change both themselves and the organisation. It could be argued that, in large businesses, leaders create strategies while managers are responsible for implementing them.

### THE CHARACTERISTICS OF LEADERS

One approach to finding out what makes good leaders is to identify the qualities, characteristics or traits that they should have (see Figure 1). A number of characteristics have been suggested.

- Effective leaders have a positive self-image, backed up with a genuine ability and realistic ambitions. This is shown in the confidence they have.
- Leaders need to be able to get to the 'core' of a problem and have the vision and commitment to suggest radical solutions.
- Studies of leaders in business suggest that they are experts in particular fields and well read in everything else. They tend to be 'out of the ordinary', intelligent and excellent communicators.
- Leaders are often creative and innovative. They tend to seek new solutions to problems, make sure that important things are done and try to improve standards.

Leaders often have the ability to sense change and can respond to it. This is dealt with later in this chapter.

### LEADERSHIP STYLES

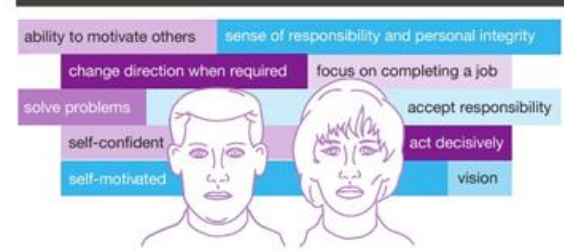
Successful businesses often have very good leaders. However, the style of leadership adopted by individual leaders may be very different. Some of the most common leadership styles are outlined below.

**Autocratic leadership:** An autocratic leadership style is one where the manager sets objectives, allocates tasks and insists that instructions are obeyed. Therefore the group become dependent on him or her. The result of this style



is that members of the group are often dissatisfied with the leader. This results in little teamwork, the need for high levels of supervision, and poor levels of motivation among employees.

**Paternalistic leadership:** Paternalistic leaders are similar to autocratic leaders. They make all the decisions and expect subordinates to obey these decisions. However, whereas an autocratic leader may be uninterested in the well-being of subordinates, a paternalistic leader places



▲ Figure 1 Leadership traits

**Democratic leadership:** A democratic leadership style encourages involvement in decision making. Democratic leadership styles can be persuasive or consultative.

**Persuasive.** This is where a leader has already made a decision, but takes the time to persuade others that it is a good idea. For example, the owner of a business may decide to employ outside staff for certain jobs and persuade existing staff that this may ease their workload.

**Consultative.** This is where a leader consults others about their views before making a decision. The decision will take into account these views. For example, the views of the marketing department about whether to launch a new range of products may be considered.

Democratic leadership styles need good communication skills. The leaders must be able to explain ideas clearly to employees and understand any feedback they receive.

It may mean, however, that decisions take a long time to be reached as lengthy consultation can take place.

It has been suggested that a democratic style of leadership can be more effective in business for a number of reasons.

- There has been increased public involvement in social and political life. Democratic management reflects this trend.
- Increasing income and educational standards means that people now expect greater freedom and a better quality of working life.
- Research suggests that this style is generally more effective. Managers are able to 'tap into' the ideas of people with knowledge and experience. This can lead to better decisions being made.
- People involved in the decision making process are likely to be more committed and motivated, to accept decisions reached with their help, to trust managers who make the decisions, and to volunteer new and creative ideas.

**Laissez-faire leadership:** A laissez-faire leadership style is more of a 'hands-off' approach to leadership. A laissez-faire leader provides others with the proper tools and resources needed, and then moves away.

## MOVING FROM ENTREPRENEUR TO LEADER

If an entrepreneur sets up a business and it becomes successful, the role of the entrepreneur is likely to change as the business expands. Running a sole trader business with two employees and a turnover of £250,000 is different from the challenge of running a large plc with 59,000 employees and a turnover of £3600 million. The change in role stems from the need to deal with growth. For example, there is likely to be a growth in the:

- number of employees
- number and size of financial transactions

- number and size of customers
- amount of regulation
- quantity of resources used
- level and range of communication needed.

The transition from entrepreneur to leader is likely to require a number of changes in the way the business is run. This usually means that entrepreneurs have to adapt and perform different functions.

**The need for formality:** Small businesses can be run on an informal basis. This means that communication takes place without the need for regular structured meetings, detailed documentation or official communication channels. They employ just a few employees and communication between them can be ongoing as they are likely to be working in close proximity to each other.

**The need for shared ownership:** When businesses grow they need capital to fund expansion. To obtain funding it is sometimes necessary to invite new owners to contribute capital. For very large corporations this usually means selling shares and operating as a plc. Entrepreneurs begin their business life as sole owners, but often end up having to share ownership with others. Ownership is likely to be shared with financial institutions, such as pension funds and insurance companies, as well as an army of very small investors.

**Greater responsibility to others:** An entrepreneur running a small business is only likely to have responsibility for a small number of employees. However, when a business grows into a corporation the number of people employed could be tens of thousands or more. The livelihoods of these people will often rest on responsibility. A leader may also have responsibility to the decisions made by the leader.

**The need for motivation and inspiration:** As the size of the business grows there is a need to focus more on the workforce. This is because there are a lot more people to manage. As entrepreneurs develop into leaders, there is a greater need for motivational skills. Some people are self-motivated but most people need encouragement and well-defined goals, which leaders have to provide. Workers are likely to look to the leader for support and inspiration. Leaders also have to develop the talents of others.

**The need for strategy and vision:** In a small business the owner is likely to be involved in production and other business functions, such as marketing, finance and administration. However, as the business expands, specialists undertake most of these tasks. The leader becomes more concerned with designing business strategies and providing a vision for the future direction of the company. However, there are exceptions to this.

## THE DIFFICULTIES IN DEVELOPING FROM AN ENTREPRENEUR TO A LEADER

When dealing with the changes required in the transition from entrepreneur to leader, inevitably there will be difficulties.

**Adapting the mindset:** Entrepreneurs usually have a desire for greater control over their life, career and destiny. They want more autonomy and to do things in their own way. However, a different mindset is needed when the business expands. Leaders have to relinquish some control and learn to delegate and focus on different things. They have to believe that specialists will do a better job in certain fields and that they cannot do everything themselves.

**Stress:** Running a business is stressful. The livelihood of entrepreneurs and their families are dependent upon the success of the business. There is the constant worry that the business 'won't provide' and what will happen if the business collapses? One major cause of stress is the worry that debtors will fail to pay what they owe. However, if the business grows it is likely that it is being successful.

**Sharing ownership and control:** Some entrepreneurs may struggle with a loss of control when the business expands. Inviting partners, business angels or shareholders to contribute capital means that business ownership is shared. It also means that future profits have to be shared. Some entrepreneurs may also find it difficult to share control and resent others influencing the shape and direction of a business that they set up from scratch.

**Trust:** As entrepreneurs develop as leaders, they may have problems trusting people. As the business grows there is a need to delegate and employ specialists. Some leaders find it difficult to delegate and may become suspicious of new senior staff. Where specialists are appointed, the leader may feel that the specialists know more than them. The leader may feel threatened and concerned that they are being kept in the dark or manipulated.

**Lack of leadership qualities:** As entrepreneurs take on more leadership duties there may be concern that they lack the necessary leadership skills and qualities. These might include management, communication, problem solving, decision making and organisational skills. It is true that entrepreneurs also need these skills to be successful. However, once the business grows, these skills have to be applied on a different scale. The problems are likely to be larger, decisions more important and communication more complex.

## OVERCOMING DIFFICULTIES

to business leader are substantial. It is easy to see why many business owners are happy to remain small traders, maybe preferring a lifestyle business. However, despite the difficulties outlined above, some people do make the transition successfully. They learn to adapt and overcome the difficulties. They might use a number of methods, including those listed below.

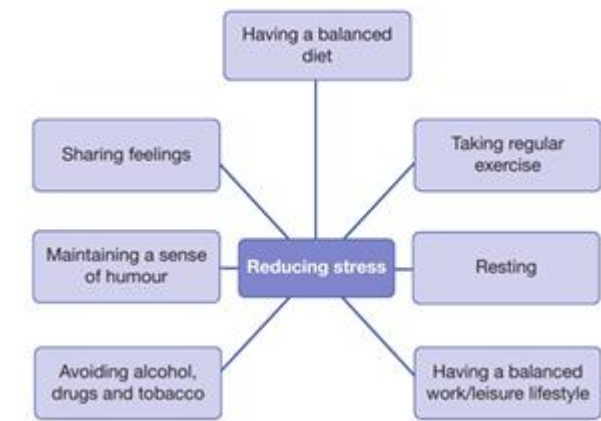
**Delegation and trust:** A successful business leader must be comfortable with delegation. The delegation of tasks to specialists and experts will improve the performance of the business. A good leader will surround themselves with talented, honest and trustworthy people. Leaders can reduce the risk in recruitment if they employ a thorough and effective recruitment process. The ability to delegate and trust will reduce stress.

**Earn respect:** Many of the difficulties outlined above can be overcome if a leader can earn respect from all stakeholders. People will be more trustworthy, effective and flexible if they are treated well.

**Maturity and experience:** Some people are born leaders. They find leadership natural and have the charisma and leadership qualities needed to be successful. However, others may develop into good leaders. Through maturity, experience, drive and learning from mistakes, they can overcome any difficulties they may encounter. The transition from entrepreneur to corporate leader may be a lengthy one.

**Education:** Some of the leadership skills can be learned by attending specialist courses. There are countless courses designed to help businesspeople improve management, negotiation, communication and decision-making skills. Additional languages can be taught, as can report writing and IT skills.

**Reduce stress:** Calm leaders are more likely to succeed than stressed leaders. Figure 3 summarises some of the measures that might be used to reduce stress.



▲ Figure 3 Ways of reducing stress

### SUBJECT VOCABULARY

**autocratic leadership** a leadership style where a manager makes all the decisions without consultation.  
**democratic leadership** a leadership style where managers allow others to participate in decision making.  
**laissez-faire leadership** a leadership style where employees are encouraged to make their own decisions, within certain limits.  
**paternalistic leadership** a leadership style where the leader makes decisions but takes into account the welfare of employees.

## Revision questions

### 1. 2023 May Question number 03 p1 (marks 20)

Evaluate the extent to which the changes to Unilever's organisational structure may improve business efficiency and employee motivation.

#### Extract D

About Unilever

Unilever was founded over a hundred years ago. It:

- owns 400 household brands
- sells products in 190 countries
- has over 148,000 employees
- achieved a sales turnover in 2021 of \$52bn

#### Changes to Unilever's organisational structure

Unilever announced plans to move away from its current matrix organisational structure which had been used for many years. It plans to move to a flatter organisational structure and re-organise the business into five distinct business groups:

- Beauty and Wellbeing
- Personal Care
- Home Care
- Food and Drinks
- Ice Cream

Each business group will be fully responsible and accountable for its strategy, growth, and profit. The Chief Executive Officer (CEO) of Unilever, stated, "Our new organisational structure has been developed and designed to improve the performance of our business."

The proposed new structure will result in thousands of jobs being lost in a hundred countries. There will be a 15% reduction in senior management roles but a 5% increase in the number of junior management roles. Changes will be subject to consultation with the employees. Unilever does not expect employees working on the factory production lines to be affected by the changes.

### 2. 2022 May/June question number 01(e) P1 (marks 10)

(e) Assess the benefits to a business, such as Vietjet Air, of offering performance-related pay to its employees.

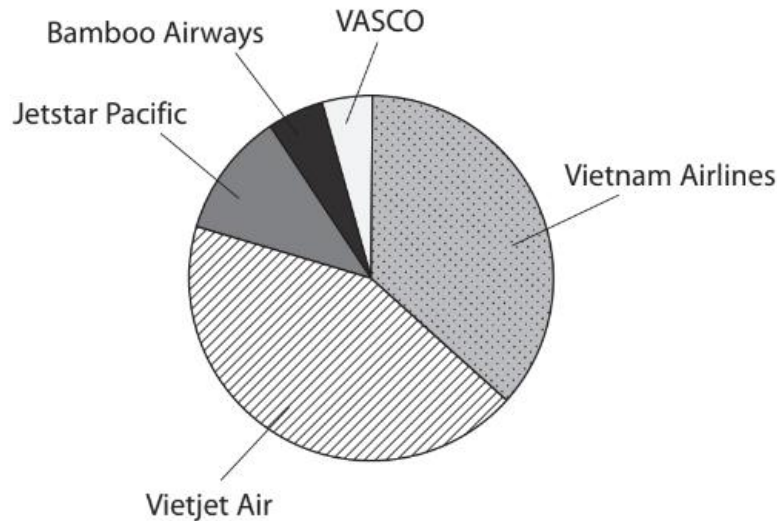
#### Extract A

#### The growth of the airline market in Vietnam

Vietnam is one of the world's fastest-growing economies and its airline market is expanding due to rising consumer incomes in Vietnam and increased tourism. New airline businesses such as Bamboo Airways are now competing for the growing number of passengers.

## Extract B

### Market share of domestic flights in Vietnam



## Extract C

### The founder of Vietjet Air

Nguyen Thi Phuong Thao made history by becoming the only woman to have formed a major airline business. The success of Vietjet Air has made her the first self-made female billionaire and she is known as a workaholic.

The main reason for the success of Vietjet Air is keeping costs low by seating more passengers on its planes. Its planes have 240 seats compared to competitors that have 180 seats on similar planes. On average, Vietjet Air's flights are 88% full.

However, Nguyen faces many challenges such as a competitive airline market, congested airports, and a shortage of pilots and engineers.

## Extract D

### Working for Vietjet Air

Vietjet Air offers its employees extensive training, free flights and competitive salaries to help attract employees from around the world.

Vietjet Air has a performance related pay scheme with bonuses available every six months. These bonuses are dependent on the personal performance of employees.

During 2019, Vietjet Air recruited 1,696 employees including 284 pilots.

### 3. 2022 May/June question number 03 P1 (marks 20)

Richard Branson is well known for his democratic leadership style.

Evaluate the extent to which a democratic leadership style is the most appropriate for a business such as the Virgin Group.

**Extract H****The Virgin Group**

The Virgin Group owns over 400 businesses and was founded by entrepreneur Richard Branson. Virgin Group businesses cover many sectors including travel, leisure, health, music, entertainment, media, financial services and space travel.

Not all the Virgin Group products have been a success. Virgin Cola was the most highly publicised product to fail. The drink was unable to compete with other dominant soft drinks businesses.

Virgin Pulse and Virgin Digital, that were formed to compete with Apple's iPod and iTunes, were also Virgin Group businesses that failed.

**Extract I****About Richard Branson**

Branson is well known for his democratic leadership style. He encourages his employees to apply their innovative ideas to the Virgin Group.

The Virgin Group businesses have flat organisational structures and are known for having a fun and friendly working environment. Branson encourages employees to give feedback and suggestions and believes in delegation of authority and teamwork.

**4. 2021 MAY / JUNE Question number 01 (d) p1 (marks 8)**

d). Discuss the benefits to a business such as Ferrero of motivating its employees.

**Extract A****The global chocolate market**

Chocolate is a multi-billion-dollar market and is expected to reach high levels of growth within the next few years. Rising incomes in many countries and the widespread availability of chocolate are leading to increased demand. However, uncertainty in the supply of cocoa, which is the main ingredient in chocolate, is likely to raise the cost of producing chocolate. This may be a major challenge for chocolate retailers.

There are suggestions in the media that there are health benefits from consuming chocolate, particularly dark chocolate that contains a larger proportion of cocoa. Analysts believe that as well as increased demand for dark chocolate, other areas of growth will be:

- festive chocolate
- seasonal chocolate
- organic chocolate
- fair-trade chocolate

The global chocolate market is segmented by type and sale frequency. Based on chocolate type, the market is classified as milk chocolate, dark chocolate, and white chocolate. The milk chocolate segment remains the largest selling chocolate. Based on sale frequency, the market is categorised as daily chocolate, premium chocolate and seasonal chocolate.



**Extract B****The top five global chocolate manufacturers (2018)**

<b>Company</b>	<b>Revenue 2018 (\$USbn)</b>
Mars Wrigley Confectionery (USA)	18.00
Ferrero Group (Italy)	12.40
Mondelēz International (USA)	11.80
Meiji Co Ltd (Japan)	9.70
Hershey Co (USA)	7.80

**Extract C****Working at Ferrero**

The Ferrero Group, a family run business, started in 1946 and today is one of the largest chocolate companies in the world. Employees are referred to as 'family'. All employees, from the day they start, are expected to involve themselves in all aspects of the business.

Employees receive a competitive wage. Ferrero provides employees with extensive training programmes including on-the-job training and management support. Ferrero shows its employees respect, helps them grow in their careers, asks them for suggestions and welcomes their feedback.

**5. 2021 MAY / JUNE Question number 02 p1 (d) (marks 8)**

(d) Discuss the benefits, for a business such as Kapgel, of using part-time and temporary employees.

**Extract D****In congested Istanbul, companies get goods to you fast**

There has been a rapid growth in the demand for shopping services in Istanbul, Turkey. These on-demand services are expanding because transportation can be slow. Businesses are making use of new technology, wages are rising and more people have access to smartphones.

Shopping services such as Kapgel and Getir offer innovative delivery solutions to meet the needs of their customers. Both firms have different approaches, but aim to meet people's immediate needs and develop customer loyalty by using technology to develop apps and deliver goods as quickly as possible.

Kapgel has designed an app to allow customers to shop from a wide number of stores and supermarkets. The customer creates a basket of goods on the app and a delivery person shops for these items and delivers directly to the customer. Deliveries are made within one hour for a delivery fee of 5 Turkish Lira (US \$0.85). Kapgel does not

keep any stock and uses part-time and temporary delivery people, rather than employing workers on a permanent and full-time basis.

Getir owns many warehouses around Istanbul to stock over 1,000 different products, including food items and small electrical goods. Customers select from the 1,000 items using an app on their smartphone. Getir employs over 350 people for this delivery business and have an average delivery time of 9 minutes and 6 seconds.

Unlike Kapgel's delivery fee, Getir adds a cost to each product. It has a minimum shopping total of 15 Turkish Lira (US \$2.55) before it will deliver an order.

#### **Extract E**

##### **BiSU Water Delivery**

In Turkey, most tap water is not drinkable. Delivery services in the past were slow and not well organised. On-demand delivery services such as BiSU have changed the water delivery market in Turkey.

Customers can now order water using an app on their smartphone. They can have it delivered quickly and at a time to suit them. BiSU has a large team of delivery drivers. The business was launched in 2015 and has expanded to many cities in Turkey, receiving over 100,000 orders a month from 38,000 users. Water prices depend on the brand requested and the region the water is delivered to.

#### **6. 2020 may question number 01 (e) p1 (marks 10)**

The farmers using the Farmhopping online service to sell produce must share the same social objectives as Farmhopping.

(e) Assess if there is a trade-off between social objectives and profit for these farmers.

#### **Extract A**

##### **Fresh food from small farms**

Farmhopping is an online retailing service, started by Rossi Mitova, which lets small farms in Bulgaria sell their products directly to customers. Rossi started the business when a local farmer, who was struggling with rising farming costs and competition from larger farms, asked her for help.

Farmhopping is now a successful business that employs 15 people and allows people to shop online for fresh food from more than 100 small farms across Bulgaria. The online service enables the farmers to get a fair price for their produce and reduces the need to sell to intermediaries such as wholesalers and supermarkets. Farmers pay a fee to Farmhopping for using the website.

To sell on the Farmhopping website, farmers must share the same social objectives as Farmhopping. Farmers must support environmentally friendly farming methods such as not using chemicals and pesticides, ensuring fair treatment of farm animals and respecting the landscape and wildlife. Food sold on the website must be fresh, natural and organic and packaged using recyclable materials.

In 2017, Rossi Mitova, was recognised as one of the top 100 women entrepreneurs and Forbes magazine included her in its social entrepreneurship awards.

**Extract B****About Rossi Mitova**

Rossi has always been inspired by challenging what she saw and taking action. When she was asked to help save the small farm in Bulgaria that was struggling to survive, it gave Rossi a perfect opportunity to combine her biggest passions, which were nature, food and business. Rossi worked hard to create the Farmhopping website and convince farmers to use her online service.

In an interview Rossi said "The most challenging parts of starting the business were learning to deal with the uncertainty and to be a good leader. I have worked hard at selecting the right team and motivating them while ensuring we are true to the social objectives of Farmhopping. I have made many mistakes on the way but learn from my mistakes. I always listen to the feedback from others and work hard on continually improving the business. The one thing I am most proud of is that I never give up despite the many setbacks and challenges I have faced in business".

**7. 2020 may question number 03 p1 (marks 20)**

Nestlé provides a flexible working environment.

Evaluate the extent to which a flexible workforce may benefit Nestlé.

**Extract D****About Nestlé**

Nestlé is the world's largest food and drinks company, founded in 1866 by Henri Nestlé.

Its global competitors include Unilever, Kraft Heinz, Danone and Mars.

In 2017 Nestlé:

- Had more than 2,000 brands in its portfolio
- Sold goods in 189 countries around the world
- Operated 413 factories in 85 countries
- Achieved sales of 90bn Swiss francs.

**Extract E****Flexible working at Nestlé**

Nestlé employs more than 328,000 workers in offices and factories around the world. Workers are key to the success of the business and Nestlé aim to promote a good culture and a healthy lifestyle inside and outside of work.

In many of the countries where it operates, Nestlé provide a flexible working environment. This means employees and managers can agree on when, where and how employees work, so they can better balance personal needs and business requirements.

For many people getting the balance between work and home is difficult and to help manage a good work-life balance, Nestlé has introduced several measures to support its workers.

These measures include:

- allowing people to work flexible hours instead of fixed start and finish times
- offering part-time, job-sharing and zero-hours contracts
- allowing people to work from home
- creating a dog-friendly office at some workplaces.