IGCSE Business Studies Revision

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Chapter 1: The purpose of business activity

A need is a good or service, which is essential for living.

A want is a good or service which people would like to have, but which is not essential for living, people's wants are unlimited

Unlimited wants + Limited Resources Scarcity (The Economic Problem)

Factors of production are the resources which are needed to produces goods or services. There are four main types of factors of production and all of them are limited in supply:

Land – The term is used to cover all the natural resources.

Labour – The term refers to the efforts of the workforce used as input into the business.

Capital – This term associates with all the finance, machinery and all equipment needed.

Enterprise – This term means the skill and risk taking ability of the person who brings the other resources or factors of production together to produce a good or service, e.g. Entrepreneurs.

Opportunity Cost – It is the next best alternative given up by choosing another item.

Division of labour – This is when the production process is split up into different tasks and each worker performs one of the tasks only. It is also known as specialization.

Businesses combine factors of production to make products which satisfy people's wants.

Business objectives are the aims or targets that a business works towards.

The five most common objectives are:

1) To make a profit (sales revenue – cost of goods sold)
2) To increase added value (the difference between selling price & the cost of buying in those materials)
3) To expand the business (growth)
4) To achieve business survival
5) To provide a service to the community.

A conflict of business objectives is when different groups of people have certain points of view which are against the business that has been set up. These people believe that needs are not being satisfied, as the business objectives are not valid and beneficial for anyone.

A stakeholder is any person or group that is directly interested in the performance and activities of a business, e.g., owners, directors, workers, managers, consumers, government,, local community,

Chapter 2: Types of business activity

The primary sector of industry extracts and use the natural resources for the Earth.

The secondary sector of industry manufactures the goods using the raw materials provided by the primary sector.

The tertiary sector of industry provides services to consumers and the other sectors of industry.

The three sectors are usually compared by 2 things:

- **The number of workers in each sector**
- **The value of the output of goods and services**

Deindustrialization is the process in which there is decline in the importance of the secondary manufacturing sector of industry in a company.

A free market economy is the type of economy where there isn't any government control over the factors of production. It is also known as the market economy.

A monopoly is a business which controls all of the market for a particular product.

A command economy is the type of economy where there isn't a private sector since all resources are owned by the state.

A mixed economy is the type of economy which contains both a public (state) and private sector.

Privatization is the process in which national industries are sold out by the government to different individuals in the private sector.

Capital is the money invested into a business by its owners.

There are many groups who find it useful to compare the sizes of businesses:-

Investors – Before deciding which business they would like to invest into

Governments – Often there are different tax rates for small and large businesses.

Competitors – They are interested to know where they stand in competition and importance with other firms.

Workers – To have some idea of how many people they might be working with.

Banks – To see how important a loan to a business is compared to its overall size.

Business size is measured in three ways: - by number of employees
- by value of output and sales
- by capital employed

Profit- It is the surplus that a business makes after total costs have been subtracted from the sales revenue.

Internal growth is when business expands its existing operations.

External growth is when a business takes over or merges with another business. It is also called integration.

A merger is when two business agree to join their business together and make one big firm.

A takeover (acquisition) is when one firms buys out the right or ownes of another business.

Horizontal integration is when one firm merges with another which same sector of industry and as well as the same stage of production.

Vertical integration is when one firm merges with another which is in the same sector of industry but at a different stage of production. It can be both forwards and backwards.

Conglomerate integration is when one firm merges or takes over a firm with completely different industry. It is also known as diversification.

A business remains small depending on:

1) **The type of industry it operates in**
2) **The market size**
3) **The owner's objectives**

Chapter 3: Forms of business organisations

There are five main forms of business organisations in the private sector:

1) Sole traders
2) Partnerships
3) Private Limited Companies (PLCs)
4) Public Limited Companies (Ltd.)
5) Co-operatives

Limited liability- This is the term given to the owners of a company (shareholders). They cannot be held responsible for the debts of a company they own. Their liability is limited to the investment they made in buying the shares.

Partnership Agreement – It is a written and legal agreement between business partners. It is not essential for partners to have such an agreement, though, its always recommended.

Soletraders- It is the most common form of business organisation. It is a business owned and operated by just 1 person only.

Partnerships – A partnership is a group or association between 2 and 20 people who agree to own and run a business together.

Unincorporated business – It is a business which does not have a separate existing legal identity., e.g. soletraders and partnerships are unincorporated businesses.

Shareholders – They are the owners of a limited company. They buy shares which represent part of ownership of a company.

Prospectus – A detailed document issued by the directors of a company when they are converting it to public limited company status. It is an invitation to all the general public to buy shares in the newly formed plc.

Annual General Meeting (AGM) – It is a legal requirement for all companies. All shareholders may attend the event. They vote on who they want on the board of directors for the coming year.

Dividends – They are payments made to shareholders from the profits of a company, after it has paid corporation tax. They can also be thought to be the returns to the shareholders for investing in the company.

There are 2 other organisations in the private sector:

1) Close Corporations
2) Joint Ventures

Franchise – A business upon the use of the brand names, promotional logos and trading methods of an existing, successful business. The franchise buys the license to operate this business from the franchisor.

There are two main types of business organisations in the public sector:

1) Public Corporations
2) Municipal Enterprises

Advantages of a sole trader	Disadvantages of a sole trader
There are a few legal regulations to worry about when the business is set up.	They have no one to discuss their business matters with as they are the sole owner of the business
The sole-trader is his/her own business's boss	They do not have limited liability.
They have the freedom to choose their own holidays , hours of work, prices to be charged and also who to employ.	Not enough capital can be accumulated in order to expand or grow.
They are easily able to keep close contact with their customers which helps to improve and progress on business relationships and as well as respond quickly to their needs and demands.	
They are able to keep all profits	
They do not have to give information about the business to anyone else – other than the Tax Office	

Advantages of a partnership	Disadvantages of a partnership
More capital can now be invested into the business from other partner's savings as well.	Partners may disagree on business decisions and consulting all partners consumes a lot of time.
The responsibilities of running the business can now be shared.	They do not have limited liability.
The partners are now all motivated to work hard because they are all going to benefit from the profits made.	If one of the partners is inefficient or actually dishonest, then the other partners could suffer by losing money in the business.

Advantages of a Private Limited Company	Disadvantages of a Private Limited Company
Shares can be sold to be a large number of people. It could sold only to friends and relatives .	The process of setting up a private limited company is long. Articles of association is the document which contains the rules under which the company will be managed. Memorandum of association contains information about the directors and company objectives as well as its registered offices.
All shareholders have limited liability.	The shares in a private limited company cannot be sold or transferred to anyone else.
The people who started the company are able to keep control of it as long as they do not sell too many shares to other people.	The accounts are less secret in comparison to sole traders and partnerships. The company cannot offer its shares to the general public either.

Advantages of a Public Limited Company	Disadvantages of a Public Limited Company
It is an incorporated business and is a separate legal unit. Its accounts are kept separately from those of the owners and there is still continuity because of this even if one of the shareholders die.	The legal formalities of forming such a company are quite complicated and time consuming.
All shareholders have limited liability.	There are many more regulations and controls over public limited companies in order to try to protect the interests of the shareholders.
There is now an opportunity to raise a large sum of capital to invest into the business. There is no limit to the number of shareholders that a public limited company can have.	Some public limited companies grow so large that they become difficult to control and manage. Therefore, then there is real danger that although the business might become rich by selling shares, they may even lose control over it when it ‘goes public’.

Chapter 4: Government influences on business activity

Inflation is the increase in the average price level of goods and services over time.

Unemployment occurs when people who are willing and able to work cannot find a job.

Economic growth happens when the GDP (Gross Domestic Product) increases – more goods and services are produced in the previous year.

Balance of payments records the difference between a country's exports and imports .

Real income – It is the value of income which falls when prices rise faster than money income.

GDP – The value of the output of goods and services in one year's time.

- •Slump - expected to find heavy unemployment, a low level of demand and capital utilization. Profits will be low as will business confidence.
- •Growth - the upswing of the trade cycle is characterized by expanding production , the replacement of old machinery, rising consumers' expenditure and increasing profits
- •Recession is the downswing of the trade cycle . This is where falling consumption, decreasing profits and expectations and rising stocks of unsold goods will be characterized in this stage.
- •Boom - Expectations are high , profits are high and prices will be rising rapidly .Investment will also be high but labor will be short supply

Exports are goods and services sold from one country to another.

Imports are goods and services bought in from one country to another.

Exchange rate is the currency of one country in terms of all other countries.

Exchange rate depreciation is when the currency of one country falls in terms of another.

Fiscal policy is the change in tax rates by the government or public sector spending.

Direct taxes are the type of taxes which re paid directly from people's incomes, e.g. income tax or profits tax.

Indirect taxes are the taxes added on to prices of goods and taxpayers pay tax as they purchase the goods, e.g. VAT (Value-Added Tax)

Import tariff is the tax on an imported product.

Import quota is the physical limit to the quantity of a product that can be imported into a country.

Monetary policy is the change in interest rates by the government or central bank.

Exchange rate appreciation is when there is a rise in the value of a currency in comparison to other currencies.

Supply side policies are policies used by governments to improve the efficient supply of goods and services in their country.

Ethical decision Is a decision taken by a manager because of the moral code observed in that firm, e.g., improving working conditions in factories, stopping the urge of illegal activities etc.

Industrial tribunal is a legal meeting which considers workers' complaints.

Contract of employment is a legal agreement between an employer and an employee listing the rights/duties and responsibilities of workers.

Planning permission is the right for a government to allow where (location) a business or factory is allowed to be set up.

Development area is the region where a business recieves financial support and other incentives to estabilish there. High unemployment is often a problem with these sort of areas which also has strong government support as well.

Chapter 5: Other external influences on business

A constraint on a business is something that limits or controls its actions or decisions.

External constraints are those over which a business has no direct control.

Social responsibility is when a business takes decisions that may benefit stakeholders other than shareholders, e.g. a decision to reduce pollution of the local environment by using the latest and least ‘dirty’ production equipment.

Pressure groups are formed by people who share a common interest and who will take action to try to change government policy or business decisions.

Cost-benefit analysis is a valuation by the government agency of all external and private costs resulting from a business decision.

External costs are the costs paid by the rest of the society, other than the business, as a result of a business decision.

External benefits are the gains to the rest of the society, other than the business, resulting from a business decision.

Private costs are the costs of a business decision actually paid for by the business.

Private benefits are the financial gains made by the business as result of a business decision.

Social costs is the addition of the private and external costs of business decision.

Social benefits are the addition of the private and external benefits of a business decision.

New products encourage consumers to buy more often	It is expensive to research and develop new products because they are not guaranteed to succeed. Small firms may not be able to afford the expenses of the investment needed.
If a business is first to market with a new idea for a product, it will have a competitive advantage over it competitors.	Businesses that do not develop new products tend to lose sales and market share. They may go out of business, causing employees to lose their jobs.
New high tech production leads to higher efficiency and productivity, hence lowering average costs, making the business competitive	New production methods with robots and computers are expensive. Small firms, in particular, may have to continue to use 'traditional' methods.
Fewer workers will be needed on the production line, there will be fewer to recruit and manage, hence saving costs	Workers will need retraining. This may be expensive and workers may be reluctant to learn new skills. They may have fear of losing their jobs or not being able to operate the new production methods could lead to a fall in motivation.
New production methods will lead to quick adaptation of methods very quickly to make a wide range of similar products and this gives businesses more flexibility to meet consumer needs	Depending too much on IT and E-commerce may take away direct personal contact with customers, though many consumers still prefer this approach.
E-commerce	

Chapter 6: Business Costs and Revenue

Fixed costs are cost which do not vary with the number of items sold or produced in the short term. They have to be paid whether the business is making any sales or not. These are also known as 'overhead costs'.

Variable costs are costs which vary with the number of items sold or produced. They are often called 'direct costs' because they can be directly identified or related to a particular product.

Total costs are fixed costs + variable costs added together.

Break-even charts are graphs of how costs and revenues change with sales. They show the level of sales the business has to produce in order to break-even (the exact production level of units where they are making neither a profit or a loss).

The revenue of a business is the income it makes over a period of time from the sales of goods or services.

Total Revenue = Quantity sold X Price of 1 unit

The break-even point is where the total revenue is equal to the total costs. Therefore, the business does not make a profit or a loss.

On the graph: The X-axis always shows the figures of the units of production

The Y-axis always shows the figures for the costs and revenue (Fixed Cost, Variable Cost, Total Cost and Revenue Cost).

Anything under the Break-even point (B.E.P) is the area for loss incurring to the business. Anything above the B.E.P is the area for profit incurring to the business.

Sales Revenue – *Total* Costs = Profit

The contribution of a product is the selling price less the variable costs.

The break-even level of production can be calculated as follows:

Break-even level of production = Total fixed costs / Contribution per unit

Direct costs are those that can be directly related or identified with a particular product or department.

Marginal costs are cost that incur to a business for producing one more unit of output than the set target.

Indirect costs are those which can be directly identified or related to a particular product. They are often termed overheads or overhead costs.

The average cost per unit can be calculated by the total costs divided by the total number of sales (output of production)

Economies of scale are the factors which lead to a reduction in average costs as a business increases in size.

The six types of economies of scale are:

1) **Technical economies**
2) **Marketing economies**
3) **Managerial economies**
4) **Financial economies**
5) **Purchasing economies**
6) **Risk-bearing economies**

Diseconomies of scale are the factors which lead to an increase in average costs ass a business grows beyond a certain size.

1) **Low morale**
2) **Poor communication**

Forecasts are predictions for the future, for example, likely future changes in the size of the market.

A trend is an underlying movement or direction of data over time, for example, the trend of sales data may be increasing.

A line of best fit is drawn through a series of points, foe example, sales data, which best shows the trend of that data. It can be used to forecasts results in the future.

Budgets are plans for the future containing numerical or financial targets.

Advantages of Break-even charts	Disadvantages of Break-even charts
Managers are able to read off from the graph the expected profit or loss to be made at any level of output of production.	Break-even charts are constructed assuming that all goods are sold – the graph is not able to show the possibility that stocks may build up if not all goods are sold.
The impact of profit or loss of certain business decision can also be shown by redrawing the graph. The new situation according to the market can be shown on another break-even chart.	Fixed costs only remain constant if the scale of production does not change, which may change as a factory might expand over time and figures of scale of production may vary.
It gives a good idea of how many sales can made realistically to check whether they are at-least breaking even. It provides them to analyse their current situation with the graph's figures	Break-even charts only look at the break-even level of production, but there are many other aspects of the operations of a business which need to be analyzed by managers, for example how to reduce wastage or how to increase sales.
The break-even chart helps to calculate the safety-margin, which is the amount by which sales exceeds the break-even point. It tells us how much they can still reduce sales until they reach break-even. The formula for the safety	The simple charts used in this section have assumed that the costs and revenues can be drawn with straight lines. The actual costs and revenues do not exactly condemn to go up in linear, straightforward patterns.

Chapter 7: Business Accounting

Accounts are the financial records of a firm's transactions.

Accountants are the professionally qualified people who have responsibility for keeping accurate accounts and for producing the final accounts.

Final accounts are produced at the end of the financial year and give details of the profit or loss made over the year and the worth of the business.

Methods of making payment:

1) Cash – The traditional method of payment which is still widely used for small amounts.
2) Cheque – Cheques are not money they are instructions to a bank to transfer a specified sum in the form of a bank balance to a named person.
3) Credit Card – This allows the consumer to obtain goods and services now but to pay for them in the future.
4) Debit Card – These are used in the same way as credit cards but, instead of 'credit' bill being accumulated on the cardholder's card account, the money is simply transferred directly from the cardholder's bank account to that of seller.

The trading account shows how the gross profit of a business calculated.

The cost of goods sold is the cost of producing or buying in the goods actually sold by the business during a time period.

The sales revenue is the income to a business during a period of time from the sale of goods and services.

A gross profit is made when sales revenue id greater than the cost of goods sold.

Net profit is the profit made by a business after all costs have been deducted from sales revenue. It can be calculated by subtracting overhead costs from gross profit.

The profit and loss account shows how the net profit of a business and the retained profit of a company are calculated.

Depreciation is the fall in the value of a fixed asset over time.

An appropriation account is that part of the profit and loss account which shows how the profit after tax is distributed- either as dividends or kept in the company as retained profits.

Retained profit is the net profit reinvested back into a company, after deducting tax and payments to owners, such as dividends.

The balance sheet shows the value of a business's assets and liabilities at a particular time.

Assets are those items of value which are owned by the business. They may be fixed or current which is long-term or short-term. Liabilities are items owned by the business for which they are still a financial burden on them.

Total Assets - Total Liabilities = Shareholder's Funds (Owner's wealth)

Current Assets – Current Liabilities = Working Capital

Net Assets = Fixed Assets + Working Capital

Capital employed = Shareholders' Funds + Long-term liabilities

Capital Employed = Net Assets

Liquidity is the ability of a business to pay back its short-term debts

Chapter 8: Cash Flow Planning

- The cash flow of a business is the cash inflows and outflows over a period of time
- Cash inflows are the sums of money received by a business during a period of time.
- Cash outflows are the sums of money paid out by a business during a period of time.
- A cash flow cycle shows the stages between for paying out cash for labour, materials, etc and receiving cash from the sale of goods.
- Profit is the surplus after total costs have been subtracted from sales revenue.
- When businesses runs out of cash, it is known as insolvency.
- A cash flow forecast is an estimate of the future cash inflows and outflows of a business, usually on a month by month basis. This will then show the expected cash balance at the end of each month.
- Opening cash (or bank) balance is the amount of cash held by a business at the start of the month.
- Net cash flow is the difference, each month, between inflows and outflows.
- Closing cash (or bank) balance is the amount of cash held by the business at the end of each month. This becomes next month's opening cash balance.

How can be cash problems be solved?

1) Arrange a bank to borrow money over the time when the business has negative cash flow.
2) Reduce or delay some of your expenses
3) Increase your forecasted cash income is some way, for example a part-time job.
4) Delay paying for some of your expenses until cash is available, i.e. ask for credit on your purchases.

Chapter 9: Financing business activity

- **Starting up a business**
- **Expanding an existing business**
- **A business in difficulties**

Start-up capital is the finance needed by a new business to pay for the essential fixed and current assets before it can begin trading.

Capital expenditure is money spent on fixed assets which will last for more than one year.

Revenue expenditure is money spent on day-to-day expenses which do not involve the purchase of a long-term asset, for example wages or rent.

Internal finance is the money obtained from the business within itself.

The most common examples are:

1) **Retained profits**
2) **Sale of existing assets**
3) **Running down stocks to raise cash**
4) **Owner's savings**

External finance is the money obtained from individuals or institutions outside of the business. The most common forms of external finance are as follows:

1) **Issue of shares**
2) **Bank loans**
3) **Selling debentures**
4) **Factoring debts**
5) **Grants and subsidies from outside agencies (such as the government)**

Short-term finance provides the working capital needed by the businesses for day-to-day operations. Examples include:

1) **Overdrafts**
2) **Trade Credit**
3) **Factoring of debts**

Medium-term finance is the finance available between three to ten years. It is usually used needed to purchase machinery and vehicles, which often have useful lives for this period. The three most common examples of medium-term finance are:

1) **Bank loans**
2) **Hire Purchase**
3) **Leasing**

Long-term finance is available for more than 10 years. Usually taken to buy long-term assets:

1) **Issue of shares**
2) **Long-term loans or debt finance**
3) **Debentures**

Chapter 10: Organisational Structure

Organisational structure refers to the levels of management and division of responsibilities within an organisation.

A job description outlines the responsibilities and duties to be carried out by someone employed to do a specific job.

Delegation means giving a subordinate the authority to perform particular tasks. It is very important to remember that it is the authority to being able to perform a task – it is not the final responsibility.

Chain of command is the structure in an organisation which allows instructions to be passed down from senior levels of management to lower levels of management.

The span of control is the number of subordinates working directly under a manager.

Line managers have direct authority over subordinates in their department. They are able to take decisions in their departmental area.

Staff managers are specialist advisers who provide support to line managers and to the board of directors.

A decentralized management structure means that many decisions are not taken at the centre of the business but are delegated to a lower level of management.

A centralized management structure means that most decisions are taken at the centre, or higher levels of management.

Different forms of decentralisation:

1) Functional decentralisation – Specialist department making delegated decision-making.
2) Regional decentralisation – Decentralisation over regions and nations
3) Federal decentralisation – Authority divided between the different production lines of the business.
4) Decentralisation by project teams – Decentralisation using projects.

Advantages of an organisation chart	Advantages of short chains of command
The chart shows how everybody is linked together in the organisation.	Communication is quicker and more accurate within the organisation.
Every individual can see their own position in the organisation.	Top managers are less remote from the lower level of the hierarchy.
It shows the relationship between different departments.	Spans of control will be wider. This will mean that each manager will be responsible for more delegates.
Everyone is in a department which gives them a sense if belonging.	There will be less direct control of each worker due to the reason above and they will feel more trusted. They will be able to take more decisions by themselves. They may obtain more job satisfaction.

Advantages of delegation for the manager	Advantages of delegation for the subordinate
Managers cannot do all the jobs themselves. By delegating they are able to find more time to do the jobs that he considers should be left to him.	The work becomes more interesting and more rewarding.
Managers are less likely to make mistakes if some of the tasks are being performed by their subordinates (those to whom the tasks are being delegated).	The employees feels more important and believes that trust is being put into them to perform a job well.
Managers can easily measure the success of their staff by this method. They can see how well their subordinates have performed by being the tasks delegated to them.	Delegation helps to train workers and they can then make progress in the organisation. It gives them career opportunities.

Chapter 11: Managing a business

Effective managers:

Tasks:

1) Plan for the future
2) Organise and delegate
3) Co-ordinate departments
4) Command and guide others
5) Control and assess the work of departments

Qualities:

1) Intelligence
2) Self-confidence
3) Determination
4) Initiative
5) Good communication skills
6) Enthusiasm

Strategic decisions are very important decisions which can affect the overall success of the business.

Tactical decisions are decisions which are taken more frequently and which are less important in comparison to strategic decisions.

Operational decisions are day-to-day decisions which will be taken by a lower level of manager.

Chapter 12: Communication in Business

- Communication is the transferring of a message from the sender to the receiver, who understands the message.
- The message is the information or instructions being passed by the sender to the receiver.
- The transmitter or sender of the message is the person starting off the process by sending the message.
- Medium of the communication is the method used to send a message, for example, a letter is a method of written communication and a meeting is a method of verbal communication.
- The receiver is the person who receives the message.
- Feedback is the reply from the receiver which shows whether the message has arrived, been understood and, if necessary, acted upon.
- One-way communication involves a message which does not call for or require a response.
- Two-way communication is when the receiver gives a response to the message and there is a discussion about it.
- Internal communication is when messages are sent between people working in the same organisation.
- External communication is when messages are sent between one organisation and another organisation or outside individual.
- Communication nets are the ways in which members of a group communicate with each other. The three types are:

1) Chain network
2) Wheel network
3) Connected network

The four barriers to communication are:

1) Problems with the sender
2) Problems with the message
3) Problems with the receiver
4) Problems with the feedback

Advantages of verbal communication	Disadvantages of verbal communication
Information can be given out quickly. Higher efficiency.	In a big meeting, there is no way to confirm whether everyone is listening or has understood the message that was put across by the speaker.
There is opportunity for immediate feedback and two-way communication	It can take longer to use verbal methods when feedback occurs than to use a form of communication
The message is often reinforced by seeing the speaker.	When an accurate and permanent record of the message is needed, such as a warning to a worker, a verbal method is inappropriate.

Advantages of written communication	Disadvantages of written communication
There is ‘hard’ evidence of the message which can be referred to in the future.	Direct feedback is not always possible, unless electronic communication is used. With written messages, the two-way communication process is much more difficult
It is essential for certain messages involving complicated details which might be understood if, for example, a telephone message were given.	It not so easy to check that the message has been received and acted upon as with verbal messages.
A written message can be copied and sent to many people. This could be more efficient than telephoning all of those people to give the same message verbally.	The language used can be difficult for some receivers to understand. If the written message is too long it may be confusing and lose the interest of the reader.
Electronic communication is a quick and cheap way to reach a large number of people.	There is no opportunity for body language to be used to reinforce the message.

Advantages of visual communication	Disadvantages of visual communication
These methods can present information in an appealing and attractive way. People are often more prepared to look at films or posters than to read letters or notices because of the interesting way they communicate messages.	There is no feedback and the sender of the message may need to use other forms of communication to check that the message has been conveyed properly and understood. For example, training videos are often followed by a written test for the new staff to check their understanding.
They can be used to make a written message clearer by adding a chart or diagram to illustrate the point being made.	Charts and graphs are difficult for some people to interpret. The overall message might be understood if the receiver is unsure of how to read values of a graph or how to interpret a technical diagram.

Chapter 13: Motivation at work

- Motivation is the reason why employees want to work hard and work effectively for the business.
- Well motivated workers -> High productivity -> Increased output -> Higher profits
- Unhappy workers -> Do not work very effectively -> Low output -> No profits

Motivation theories

Taylor (1911) – Money is the main motivator

Maslow (1954) – Hierarchy of needs

Herzberg (1959) – 'Hygiene' and 'motivators'

McGregor (1960) – Theory X and Theory Y

A wage is payment for work, usually paid weekly.

A salary is payment for work, usually paid monthly.

A commission is a payment relating to the number of sales made.

Profit sharing is a system where by a proportion of the company's profits is paid out to employees.

A bonus is an additional amount of payment above basic pay as a reward for good work.

Performance-related pay is pay which is related to the effectiveness of the employee.

An appraisal is a method of assessing the effectiveness of an employee.

Fringe benefits are non-financial rewards given to employees.

Job satisfaction is the good feeling that employees get which has been derived from doing a good job in the firm.

Job rotation involves swapping round and doing each specific task for only a limited time and then changing round again.

Job enlargement is where extra tasks of a similar level of work are added to a worker's job description.

Job enrichment involves looking at jobs and adding tasks that require more skill and/or responsibility.

Leadership styles are the different approaches to dealing with people when in a position of authority – autocratic, laissez-faire or democratic.

Autocratic leadership is where the managers expects to be in charge of the business and to have their orders followed. They keep themselves separate from the rest of the employees.

Laissez-faire leadership is French for 'leave to do'. This type of leadership tends to make the broad objectives of the business known to employees, but then they are left to make their own decisions and organize their work.

Democratic leadership is the type of leadership where the other employees get involved in the decision-making process. Information about future plans will be openly discussed before the final decision will be made, often by the leader.

A formal group is a group designated to carry out specific tasks within a business.

An informal group is a group of people who form independently of any official groups within the business and who have similar interests or something else in common.

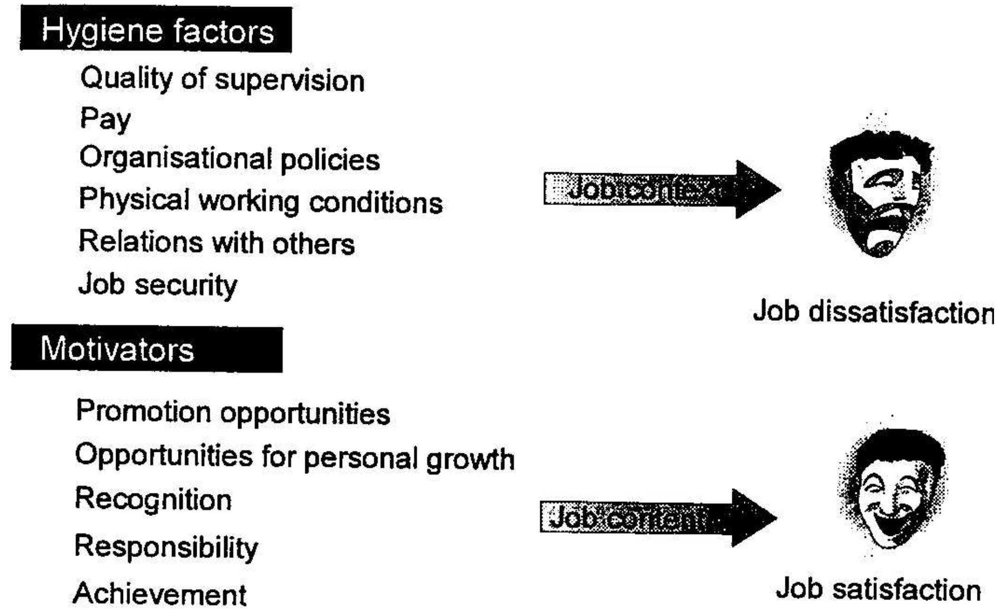
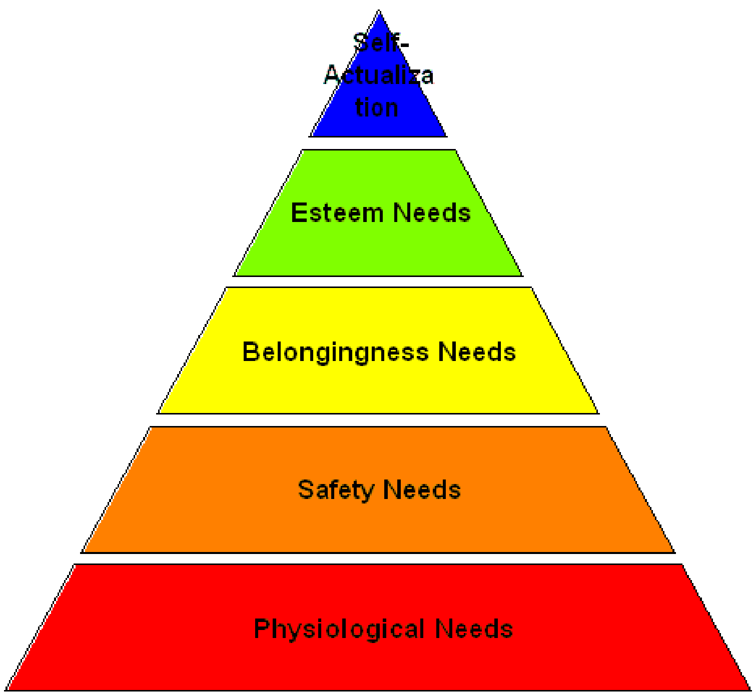


Figure 4-1: Herzberg's Two Factor Theory



Chapter 14: Recruitment, training and human resources

- The responsibilities of the Human Resources (HR) department includes:

1) Recruitment and selection
2) Wages and salaries
3) Industrial relations
4) Training programmes
5) Health and safety
6) Redundancy (retrenchment) and dismissal

A job analysis identifies and records the responsibilities and tasks relating to a job.

A job description outlines the responsibilities and duties to be carried out by someone employed to do a specific job.

A job specification is a document which outlines the requirements, qualifications, expertise, physical characteristics, etc. for a specified job.

Internal recruitment is when a vacancy is filled by someone who is an existing employee of the business.

External recruitment is when a vacancy is filled by someone who is not an existing employee and will be new to the business.

Induction training is an introduction given to a new employee, explaining the firm's activities, customs and procedures and introducing them to fellow workers.

On-the-job training occurs by watching a more experienced worker doing the job.

Off-the-job training happens when the people are being trained away from the work-place, usually by specialist trainers.