

**SAMPLE
CHAPTER**

MANAGEMENT AND ADMINISTRATION

**Tess Bayley
Saundra Middleton
Sean Vertigan**

CORE

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Guide to the book

The following features can be found in this book.

Learning outcomes

Core knowledge outcomes that you must understand and learn. These are presented at the start of every chapter.

Practice point

Helpful tips and guidelines to help develop professional skills during your industry placement.

Key terms

Definitions to help you understand important terms.

Case study

Placing knowledge into a fictionalised, real-life context. Useful to introduce problem-solving and dilemmas.

Reflect

Tasks and questions providing an opportunity to reflect on the knowledge learned.

Project practice

Short scenarios and focused activities that reflect one or more of the tasks that you will need to undertake during completion of the employer-set project. These support the development of the four core skills required.

Test yourself

A knowledge consolidation feature containing short questions and tasks to aid understanding and guide you to think about a topic in detail.

Assessment practice

Core content containing knowledge-based practice questions at the end of each chapter.

Research

Research-based activities – either stretch and challenge activities, enabling you to go beyond the course, or industry placement-based activities, encouraging you to discover more about your placement.

1 Business context

In this chapter we will be looking at the contexts in which different types of organisations operate.

To be successful, managers have to be able to operate with the constraints and the complexities that are present in the internal and external environments of the organisation. They need to know what forces are present within the environment as a whole that may enable or constrain what the organisation aims to achieve.

The environment in which organisations and managers have to operate can be either external to the organisation and outside its control or internal where the manager is responsible for pursuing specific goals.

Management is conducted within organisations and organisations operate within their environment. Individual managers have to apply a body of knowledge, skills and expertise in a way demanded by the particular organisation in which they are working, that is internal operations. But the manager also has to work in ways demanded by the particular environment in which the organisation's activities are being conducted, that is external context. In this chapter we will explore the types of organisation's and the environments in which they operate.

Learning outcomes

- 1 Types of organisations and the environments in which they operate
- 2 How size, purpose and sector have an impact on organisations
- 3 The economic, social and environmental impacts of organisations
- 4 Legal entity types that organisations can form
- 5 Organisational objectives and strategies for achieving them
- 6 The different forms of governance that operate in organisations
- 7 The main legislative and regulatory frameworks that apply to organisations
- 8 Different types of internal and external stakeholders and customers
- 9 Impacts of current and emerging digital technologies
- 10 Organisational culture and values
- 11 The different methods and channels through which organisations communicate

1.1 Types of organisations and the environments in which they operate

A **business** is defined as an organisation or enterprising operation engaged in commercial, industrial or professional activities. Not all organisations are businesses, however. A business is a type of organisation, a group of people that is formed for a given purpose and which then establishes and conducts its activities in pursuit of this purpose. Businesses can be either for-profit or non-profit organisations.

Managers and administrators are employed by the owners and directors of organisations to run them on their behalf. There are many different types of business that you might come across as a customer or employee or that you hear about in the news. They may be small and local or large and international.

A new business that sets up in your town or area is a local business. However, in time, it might set up outlets in other parts of the UK so that it becomes a national business. It may also start to sell its products or services overseas and so become an international business.

Case study

Costa Coffee was founded by brothers Sergio and Bruno Costa in Fenchurch Street, London in 1971. Ten years later, with a shop and roasting facilities in Vauxhall, South London, the brothers had gained a wide reputation for their coffee. By 1995 they had 41 shops turning over £55m each year.

Source: Costa Coffee takes the cream as Britons wake up to coffee | Financial Times (www.ft.com/content/46aa29d2-49f3-11e8-8ee8-cae73aab7ccb)

The company was bought for about £20m by the conglomerate Whitbread, which is best known for brewing beer. By 2018 Costa Coffee had 2,400 outlets in Britain and 1,400 in more than 30 countries, making it the world's second-biggest coffee shop in terms of outlets. In the summer of the same year, Whitbread sold the business to Coca-Cola, the world's biggest beverage maker, in a deal worth £3.9bn.

- ▶ Find three countries outside the UK where Costa Coffee has outlets.
- ▶ Which other businesses are the major rivals to Costa Coffee in the UK? Have they ever been sold to other businesses like Costa Coffee has?
- ▶ Why do you think Costa Coffee has been so successful?

The types of organisations commonly set up across the UK and the differences between each type

Profit and not-for-profit

Most managers of businesses are expected to make a **profit**. This requires achieving a surplus of income over expenditure (see Section 4.4), that is, more money coming in than going out. But in other organisations this is not so important, if these are managed on a **not-for-profit** basis. Organisations can be of different legal types, as we will see in Section 1.4, and they may be classed in three groups.

First, if organisations are owned and managed by private individuals operating to make a profit. This is called the **private sector**.

Second, organisations may be owned or managed by the government for the benefit of the public. When they are, this is called the **public sector**.

Third, organisations may be owned and managed by either private individuals or the government and aim to provide a service on a free and voluntary basis. This is called the **voluntary or third sector**.

Voluntary/third sector

This is made up of non-profit-making organisations that are set up, organised and staffed mostly by unpaid volunteers working for a specific social purpose. It is independent from local and national government and is distinct from the private sector. It is called the third sector so as to distinguish the organisations from the public and private sectors.

Key terms

Profit: the difference between the total costs and total revenue of a business.

Private sector: the part of the economy owned by individuals and groups of individuals.

Public sector: the part of the economy where production is organised by the state or government.

Voluntary or third sector: the part of the economy that consists of non-profit organisations.

The private sector

This sector is made up of businesses and organisations that are owned by individuals or groups of individuals. It is the part of the economy that is managed by individuals

and companies for profit and is not controlled or run on behalf of the central or local government. Since the late 1980s, the private sector has owned and run the majority of the businesses in the UK, so it is the sector in which you are most likely to find employment.

There are around six million private sector businesses in the UK, employing more than 27 million people between them in 2020.

Source: Business population estimates for the UK and regions 2020: statistical release (HTML) – GOV.UK (www.gov.uk)

The private sector includes organisations and individuals that provide goods and services, and their primary aim is to make a profit. Profits are distributed to owners and shareholders as well as reinvested. Five of the largest private sector UK businesses that you will know are Barclays, BT, Sainsbury's, Tesco and Vodafone.

Reflect

While making a profit is their main aim, many private sector organisations endeavour to act in a socially responsible way through providing good conditions of employment, being a good citizen in the local community and supporting a clean environment by not wasting resources.

Can you think of any ways in which organisations you know of do this?

Research

As there is no single database in the UK that deals with every active business, a number of registers are consulted to produce estimates. A register of business population estimates was started in 2010 and is produced by the Department for Business, Energy and Industrial Strategy (BEIS). Before this, data was recorded as statistics on small to medium enterprises (SMEs).

Source: www.gov.uk/government/statistics/business-population-estimates-2020/business-population-estimates-for-the-uk-and-regions-2020-statistical-release-html

Visit the website below and open the latest business population estimates for the UK and regions 2020.

www.gov.uk/government/statistics/business-population-estimates-2020

Find the chart that shows the number of private sector businesses by English region and UK country in 2020. What is the number of private sector businesses in your region?

Almost any business can be a private sector organisation. Examples of private individuals operating a business on their own include shopkeepers, electricians, plumbers, restaurant owners and hairdressers. They are known as **sole proprietors**. Private individuals may work together in groups known as **partnerships**, such as dentists, accountants, lawyers and opticians. Large private businesses may increase their financial funds by becoming companies and offering shares to people they privately know or to the general public. The range of legal entity types that organisations can form is explained in Section 1.4. Private sector organisations determine their own pay structures and these can be competitive and offer large incentives. The private sector rewards creativity and innovation. This can provide scope for personal development. The private sector promotes a competitive working environment where job roles and pay are flexible.

As private sector organisations are set up by individuals, they may be both owner and manager, in a single person operation. The term **employees** refers to the number of people working within the business under a contract of employment in return for a wage or salary. A business can be counted as having no employees if all the business is conducted by people classed as being working proprietors. They are often considered to be **self-employed**. Both full-time and part-time workers are counted, and both are counted as employees.

Research

Visit the 'Nature of business: Standard Industrial Classification (SIC) codes' page on the Companies House website shown below to find the range of different codes A to U that identify enterprises according to the Standard Industrial Classification 2007. These figures are estimated from surveys.

<https://resources.companieshouse.gov.uk/sic/>

Then identify the code for these three enterprises from the Warwick Institute for Employment Research website:

<https://cascotweb.warwick.ac.uk/#/classification/sic2007>

- ▶ Public sector: primary school
- ▶ Private sector: the construction of a primary school
- ▶ Voluntary sector: charitable child care

The public sector

This sector involves organisations and businesses that are owned, funded and accountable to the government. This may be the local or central government. These organisations operate on the principle of providing a service for the population and local communities and on a not-for-profit basis. The UK government owns public sector businesses either as a whole or as a part-ownership. Examples are the National Health Service (NHS), the British Broadcasting Corporation (BBC), the Bank of England and the armed forces (Royal Airforce, British Army and Royal Navy). Since the late 1980s, the public sector has decreased in size as government organisations have been transformed into private businesses in a process known as **privatisation**. There were around 5.68 million people employed in the public sector in June 2021.

Source: Public sector employment, UK – Office for National Statistics (ons.gov.uk)

The three most common employment areas in the public sector in the UK are:

- ▶ Healthcare: doctors, nurses, paramedics and administrative staff
- ▶ Education: teachers, teaching assistants and school librarians
- ▶ Social care: carers, social workers and probation officers.

Reflect

In which sector(s) have you undertaken any work experience in the past?

In which sector(s) will you undertake your work placement for this course?

In which sector(s) will you most likely find employment in the future?

The differences between the structures of central and local government are explained later in this section but it is largely managed as not-for-profit. The public sector combined with the voluntary or third sector of non-profit organisations totalled just over 100,000 organisations in 2020.

According to figures from the Office for National Statistics, there were more women than men employed in the public sector in 2018. The figures also show the types of jobs to be found in the public sector.

Source: www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/articles/whoworksinthepublicsector/2019-06-04

Reflect

Who do you know who works in each of the three sectors?

Do they work in large or small organisations?

Who owns and manages the organisation?

Research

Look at the list of organisations. Sort them into categories according to which sector (private, public or voluntary/third) each of them belongs to.

- ▶ Open University
- ▶ The NHS
- ▶ Liverpool FC (football club)
- ▶ E.ON Energy UK
- ▶ Mind
- ▶ Yorkshire Water
- ▶ Co-op
- ▶ Center Parcs UK
- ▶ Competition and Markets Authority (CMA)
- ▶ The National Lottery Community Fund



Figure 1.1 Co-op

Test yourself

- 1 Describe the difference between the public sector and the private sector.
- 2 Explain two potential benefits that are associated with working within private sector organisations.

Not-for-profit

Not all businesses are set up to make a profit. Many organisations are set up for quite different purposes, such as providing a public service or helping people. Their activities are not for the financial benefit of any private individual or the managing board of directors. The organisation needs to make enough money to cover its costs and any extra amount is reinvested into the business. This sector is also known as the **third sector** or **civil society**.

An example of a type of not-for-profit organisation is a **charity**. This is a business whose aim is to raise money for good causes, or to help people, animals or the environment. A charity is an organisation that is registered with the **Charity Commission** and operates exclusively for charitable purposes. Charities are funded mainly by donations and may be eligible for certain types of grants.

Another type of not-for-profit organisation is a **social enterprise**, whose main aim is to help society rather than maximise profits for their owners. They make their money by selling products like a for-profit business, but they use their profits to benefit society.

Key terms

Charity: an organisation set up for the public benefit. It does not make profits.

Charity Commission: a government body that registers and regulates charities in England and Wales and ensures that people can support charities with confidence.

Social enterprise: an organisation that aims to maximise profits in order to provide social value, rather than to distribute them to shareholders. Therefore, it is a bridge between non-profit organisations and commercial businesses.

Voluntary

This refers to organisations whose primary purpose is to create social impact rather than profit. It is part of the not-for-profit sector and independent from local and national government or the public sector.

Charities are the largest single category within the voluntary sector, with over 200,000 in the UK. They focus on solving issues, rather than making profits. They may undertake one or more of the following tasks:

- ▶ advancing education
- ▶ supporting religious causes

- ▶ relieving poverty, disability or distress
- ▶ doing other charitable work that benefits the community, such as removing rubbish from a canal, arranging a coffee morning for the elderly in a local hall to reduce social isolation or putting on a local summer fair to promote community cohesion.

Think tanks and research institutes are organisations in the voluntary sector that work to gather information on issues that concern them and produce reports on their findings. They aim to influence people, other organisations, and the government and seek donations and grants to help them in the process. Examples include the Institute for Fiscal Studies (IFS), Chatham House (Royal Institute of International Affairs) and Health Data Research UK (HDR UK).

Measuring the size of the voluntary sector is difficult but it is estimated by the National Council for Voluntary Organisations that there are over 165,000 charities in the UK. Most are quite small and 80 per cent have an annual income of less than £100,000 and almost 50 per cent have less than £10,000.

Source: Britain's biggest charities: key features (ncvo.org.uk)

Research

Go to the website of three of the following longstanding charities and find the latest information on their income. Has there been much of a change in income?

- ▶ Save the Children International
- ▶ The National Trust
- ▶ Oxfam
- ▶ British Heart Foundation
- ▶ The British Red Cross Society
- ▶ Wellcome Trust



Figure 1.2 Oxfam

Social enterprise

This refers to an organisation that has the primary goal of improving some part of society and that operates using a commercial structure. A **social enterprise** aims to generate profits and use them to advance its focus on environmental, social and economic well-being. However, it could also be a not-for-profit organisation. The main feature is that the organisation is selling a good or service to consumers at a price, in contrast to a charity or voluntary organisation that provides grants, awards or free services to people for their benefit. Helping the community is often the central focus, such as a credit union that offers its members high savings rates and a low rate of interest when borrowing. Other examples are a community centre providing cheap meals or a housing cooperative providing homes at affordable rent.

According to market trends published by DCMS and BEIS in 2017, nearly 9 per cent of the UK small business population are social enterprises. There are an estimated 471,000 UK social enterprises overall. This is made up of 99,000 social enterprises with employees and 371,000 social enterprises with no employees, that is they are led by single individuals. Many are in areas such as health and education, though companies in any sector can be run as a social enterprise.

Key term

Non-governmental organisations (NGOs): organisations that are separate from government and are not commercial or profit-making.

An example of a non-profit charitable social enterprise is Greenwich Leisure Limited. This operates under the brand name Better and runs over 270 sport and leisure centres in the UK, of which 140 have swimming pool facilities. They also operate over 150 public libraries. In total, they work directly with 50 local councils, public agencies and sporting organisations. They started in the London borough of Greenwich in 1993 when

the local council needed a new way to run its leisure centres because of public expenditure cuts.

Research

Visit the Greenwich Leisure Limited website: gll.org. Find out how many millions of pounds they reinvest into the local community annually.

Find out some of the awards and accreditations that GLL has received for its social enterprise.

According to the Leisure Database Company, in 2013 there were 2,750 gyms in the public sector, with a membership of 3.2m, and 3,269 in the private sector, with a membership of 4.5m. Do you think the public sector poses a threat to the private sector? Consider examples in your local area.

Some social enterprises are known as **non-governmental organisations (NGOs)** as they are formed independently of the government to pursue humanitarian goals. NGOs can also be pressure groups that seek to influence the government. The Grameen Bank originated in Bangladesh in 1976 to make small loans to poorer people or people without a bank account. Its founder Muhammad Yunus, a winner of the Nobel Peace prize, has been the inspiration behind many social enterprises.

Reflect

Social enterprises are more likely to be located in deprived areas as identified by the Index of Multiple Deprivation (IMD). Why do you think this is the case and what do you think is the impact?

Philanthropy

Some businesses donate their profits to causes they wish to promote in a form of charity. Their private profits are aimed at influencing the public good. There are many well-known personalities from business and entertainment who take part in philanthropic activities and make charitable donations. There are also some that become involved in social enterprise.

The characteristics of different organisation types and the reasons for setting up each organisation type (profit, not-for-profit, social enterprise, philanthropy)

Characteristics of private sector organisations – for profit

Private sector organisations are characterised by the freedom they have to set up and pursue objectives for their own reasons. Three main objectives are:

- 1 **To generate a profit.** This is at the core of private sector organisations. There are different definitions of profit (see Section 4.1) but it arises when an organisation's revenue is greater than its total costs.
- 2 **To grow.** One way of observing the growth in an organisation is to measure whether its profits are increasing. A private sector organisation would be considered to be failing whether its profits were not growing, or worse if it was making a loss, as happens when sales revenue is less than total costs.
- 3 **To survive.** The issue of survival becomes important when an organisation is under threat, for reasons such as the global financial recession of

2008 and during the early days of the coronavirus pandemic in 2020/21.

To achieve these core objectives private sector organisations operate in these circumstances:

- a They are free to choose what to produce, where, how much and for whom. Also when to produce as they can choose to close down and go out of business.
- b They operate in economic terms in the 'marketplace'. This is not a specific location but anywhere there is buying and/or selling of goods and services.
- c They may produce and sell their goods and services in rivalry with two or more organisations in an economic environment of competition.
- d They compete to increase the number of customers, largely on price but also by advertising their goods and services, improving them, or creating new ones.

Characteristics of public sector organisations – service and not for profit

Public sector organisations are set up by the central or local government for three main reasons. These are explained in Table 1.1.

▼ Table 1.1 The reasons for setting up a public sector organisation

Reason for setting up a public sector organisation	Explanation/examples
To provide goods and services for the benefit of the community, such as health, education and emergency services.	During the COVID-19 pandemic, there was a major roll-out of vaccinations: the central and local government authorities coordinated this with private sector businesses.
To help overcome a market failure (providing what the private sector organisations fail to produce for market).	<p>This may happen because a private organisation has inadequate information on the price, quality and future needs of goods and services. Or they may be unable to coordinate resources and make a sufficient profit. It could be that a private sector organisation has a monopoly and is acting against the public interest.</p> <p>At different times in the twentieth and twenty-first centuries, the government has owned and controlled railway tracks but at other times has placed them in private ownership and control. This is a process known as privatisation.</p>
To achieve environmental goals that the private sector alone cannot bring about.	<p>At the COP26 conference in November 2021, it was widely accepted that private sector organisations could not bring about the necessary transition in combatting climate change. Rather the government is expected to take the lead and not rely on 'market forces', that is the private sector operating without direction.</p> <p>In the UK, the Environment Agency (EA) was established in 1996 to protect and improve the environment. It is an executive non-departmental public body sponsored by the government Department for Environment, Food and Rural Affairs. The EA collaborates with two other public bodies, namely the Flood Forecasting Centre (FFC) and the Meteorological Office (Met Office). The FFC provides daily bulletins about the risks of floods. It works closely with the Met Office which provides the weather forecast.</p>

Characteristics of voluntary sector organisations – social enterprise and philanthropy

There are three main reasons for setting up a voluntary organisation:

- 1 To provide for needs that the private sector is unable and unwilling to meet as it is not considered profitable to do so.
- 2 To provide goods or services that the public sector has neglected, is not able to afford or simply does not cover.
- 3 To address a problem or meet a need within a local community or an issue within society at large in a way that is less formal and structured than in the public and private sectors.

The voluntary sector is also known as a third space, sitting between the public and private sectors. However, the boundaries between them are often blurred. There are, however, three main characteristics of the voluntary sector.

Non-governmental

Even though they often work with or alongside government agencies and may receive government funding, voluntary organisations are run independently from the government.

Non-profit

Voluntary organisations do not seek to make profit a main objective. They get their income from two main sources: donations from individuals and grants and contracts from government bodies. Around half of this state funding comes from local authorities and the rest from central government and the NHS. If voluntary organisations generate a surplus they will reinvest this into funding their activities, rather than distributing profits to private owners and to help avoid seeking to borrow from public funds.

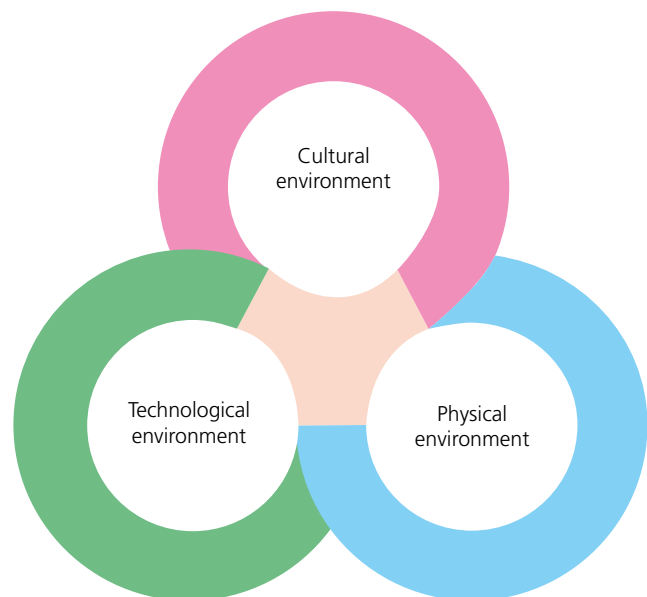
Values-driven

Voluntary organisations are committed to a set of values that are expressed by their people through their actions and behaviour. These values create a bond between paid staff and volunteers and with donors and supporters.

How the work environment differs in different organisation types, and the impacts and benefits of different work environments for individuals

When looking to become a manager or administrator, you will probably first consider what the work environment will be like in whichever sector you wish to join. The **work environment**, that is, the place in which employees conduct their work, can be quite different in private, public and voluntary organisations. If you are managing in any of these different sectors, you will need to judge how the work environment impacts the performance of the people that you manage. Their performance, often measured as a rate of productivity, may be influenced by the physical environment where they work, or the culture of the organisation or the technology that is available for use. These are **internal environmental factors**: the influences on work performance from within the organisation.

Consider how stimulating you find walking into the working environment of your school or college. Alternatively, how do you feel entering a hospital, a supermarket, a bank, a mobile phone shop, a charity shop, or a church? In his book *The Employee Experience Advantage*, Jacob Morgan identifies how each of these organisations, in different sectors, has different physical, cultural and technological characteristics.



▲ Figure 1.3 The three environments that create every employee experience

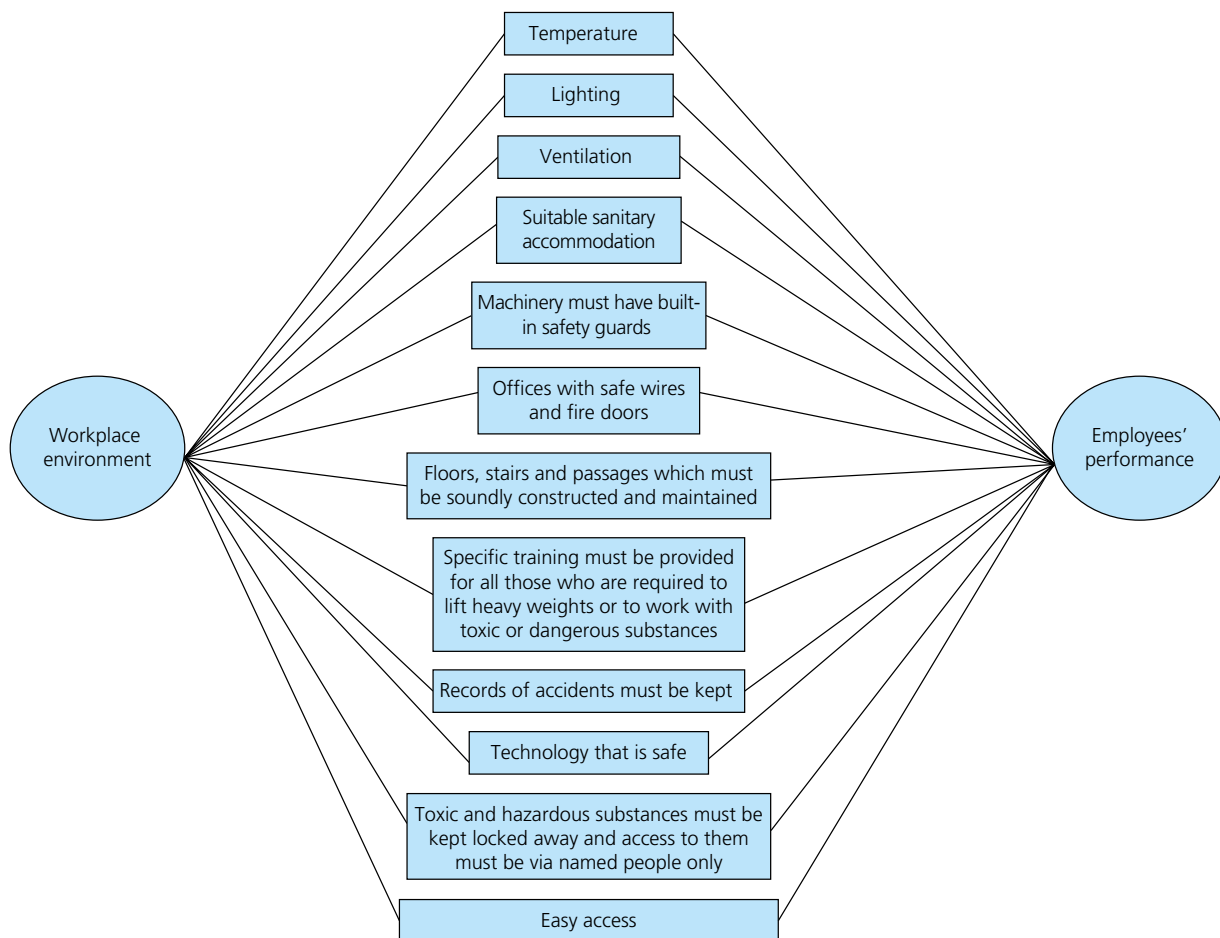
Source: <https://thefutureorganization.com/the-three-environments-that-create-every-employee-experience>

These factors are interrelated and affect the overall performance of all employees, including managers and administrators. Organisational culture and values will be explored in Section 1.10.

As a general rule, however, the culture of customer service in a voluntary organisation is to go much more than the 'extra mile' for the customers or users of the service. Customer service in a public sector organisation often tries to reach out particularly to diverse and minority groups. Meanwhile, in contrast, in the private sector, there is a culture of inviting feedback and adapting things to improve profits. The impact of current and emerging digital technologies will be reviewed in Section 1.9. In the private sector technology is often used to drive new ways of doing business, whereas in the public sector there is more reluctance to replace roles with robots. Meanwhile, in the voluntary sector there is a willingness to use social media in campaigning to generate funds and bring about change. However, we will look first at the physical aspects of the work environment.

Richard Pettinger has presented 12 features that a manager must organise for the work environment to be healthy, safe and comfortable so that employees are able to perform well. These are also internal environmental factors.

- 1 Temperature
- 2 Lighting
- 3 Ventilation
- 4 Suitable sanitary accommodation
- 5 Machinery must have built-in safety guards
- 6 Offices with safe wires and fire doors
- 7 Floors, stairs and passages which must be soundly constructed and maintained
- 8 Specific training must be provided for all those who are required to lift heavy weights or to work with toxic or dangerous substances
- 9 Records of accidents must be kept
- 10 Technology that is safe
- 11 Toxic and hazardous substances must be kept locked away and access to them must be via named people only
- 12 Easy access



▲ Figure 1.4 The quality of working environment

Source: Compiled from Richard Pettinger (2007) *An Introduction to Management 4th edn*, London, Palgrave p.231

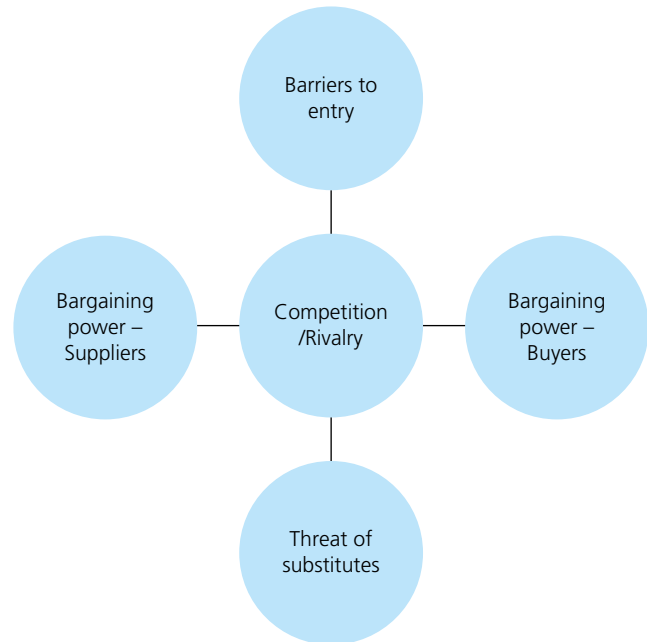
The range of environments in which different organisations operate and how these environments may affect the organisation's operation

External factors, forces and events are those that are outside an organisation and have the potential to influence or affect it. These pressures are summarised as the Political, Economic, Social, Technological, Legal and Environmental (PESTLE) constraints which are part of the wider overall operating environment (see Section 6.1). These external influences may be stable and change only slowly, or they may be dynamic and changing fast. The factors may be small in number and simple, or they may be numerous and intense, making the environment complex. For example, in the economic environment of a recession the organisation may be threatened due to a drop in demand for its goods and services. Workers may be unwilling to move between towns and cities or across different regions of the UK, and this might create a shortage of labour for some organisations. An individual manager must decide how to respond to these external pressures.

Analysing the environment means surveying factors external to the organisation to detect signs of any change that is likely to make an impact on operations. These changes are often examined under the headings of Political, Economic, Social, or Technological. Together they form what is often called a **PEST analysis**. To these are often added Legal and Environmental factors, forming the full acronym **PESTLE**. These will be discussed further in Sections 1.4, 2.3 and 6.1. This is a useful starting point for trying to scrutinise the wider **external environmental factors** that affect an organisation. Managers need to examine the level of influence that each factor may have on their aims, but also on other **stakeholders** such as partners, customers and also rivals.

Stakeholders are individuals, groups or organisations with an interest in, or who are affected by, what the organisation does. These might be shareholders, employees, customers, suppliers, competitors, trade unions, employer associations, local and national communities and governments. An organisation should be managed with the interests of all stakeholders in mind. See Section 1.8 for more details.

Organisations in the private sector largely operate in a competitive environment and when making decisions managers need to understand their rivals. To assist managers with this, in 1979 Michael Porter developed a theoretical model identifying five forces that should be considered. This is now known as the five forces model or Porter model.



▲ Figure 1.5 The Porter (or five forces) model

These forces are:

- ▶ **The threat to enter the industry.** What are the barriers devised by existing companies that new entrants need to overcome if they are to compete successfully?
- ▶ **Threat of substitutes:** What alternative products and services may customers choose?
- ▶ **Bargaining power of buyers:** Do they have the ability to force down prices and reduce profitability?
- ▶ **Bargaining power of suppliers:** Do they have the ability to raise prices at the expense of customers?
- ▶ **Competition and rivalry:** The four forces combine to affect the amount of rivalry between an organisation and its rivals.

This model provides a useful set of conditions around which an investigation can reveal how attractive it is to enter, leave or stay in an industry. It is a simple tool that gives an industry-wide focus and can be applied by a manager to their business situation to better understand the environment in which their organisation competes. Some examples are provided in Table 1.2.

▼ Table 1.2 Examples of external environmental forces

External environmental forces to be considered	Explanation	Examples
For entrants	Barriers to entry are obstacles that are designed to block potential entrants from moving into the industry.	<ul style="list-style-type: none"> Intensive branding, e.g. the familiar brands of sports clothing. Adopting premium prices which a newcomer could not replicate, e.g. the known and reliable service of an established hotel against the unknown service of a new entrant. Offering a lower price plan deal that a newcomer does not have the cost advantages to be able to match, e.g. a mobile phone company or a leisure centre. Some barriers to entry are legal, e.g. patents, the government zoning of areas for building.
For substitutes	<p>If there are direct substitutes for the output of an industry then consumers have the option of buying an alternative good or service. How closely the substitute replicates the function of the original determines the level of threat posed.</p> <p>Substitutes constrain the ability of a business to increase its prices because if it does then customers may seek cheaper alternatives.</p>	<ul style="list-style-type: none"> Consuming news is a very good example of threats from substitutes. It can be accessed through many different media channels, from newspapers, television, radio and the internet.
For buyers	These are customers who seek lower prices or higher quality to increase their profitability. Their power to force prices down will be strong if they buy in bulk from a supplier, as they have an influence over a large part of the supplier's output. Also if the buyers can easily switch to substitute products they can put pressure on the suppliers to lower their prices.	<ul style="list-style-type: none"> Supermarkets are bulk buyers of branded goods from manufacturers, and they can substitute this supply with their own brands as an alternative if the price and quality set by the supplying manufacturer are not to their satisfaction.
For suppliers	These aim for higher prices so as to increase their revenue and profits. Their power to influence prices and quality will be higher when there are only a few of them supplying to customers who as a result have a limited range from which to choose. If the product supplied is distinctive so that customers are reluctant to switch, then the supplier will have increased bargaining power. This is especially so if the cost of switching is high.	<ul style="list-style-type: none"> Spotify supplies music from the catalogues of recording labels such as Sony, Warner and Universal. These labels influence what is available for Spotify to supply to customers.
Competition and intensity of rivalry	Strong competition occurs when there are many competitors or the market is growing too slowly to accommodate the rivalry. The competition may also be intense if products are so similar that customers can easily switch between suppliers.	<ul style="list-style-type: none"> The above forces may combine to generate strong competition. The market for mobile phones has seen intense competition where once-dominant producers such as Nokia find they lose their market share to new rivals.

The five forces model is useful in gaining an understanding of the competitive environment, but it is a limited snapshot at any one time and lacks the dynamism that reflects a fast-changing environment. More importantly, central to the model is competition between organisations, but this leaves

out collaboration, alliances and partnerships. These are characteristics to be found in the public and voluntary sectors. By their very nature, public-private partnerships aim at cooperation: the voluntary sector is about volunteering the opposite to competition.

Test yourself

- 3 Name **three** external forces identified by Michael Porter that affect private sector businesses.
- 4 What are the main external threats to a chain of coffee shops like Costa?

Reflect

Do we need a model that theorises five or more forces of collaboration?

The range of factors that impact organisations

As mentioned previously, a key managerial task and skill is to be able to operate effectively within a changing environment. The aim is to achieve degrees of permanence, order and stability, despite these changes. The following factors will impact organisations and need to be accommodated. Some are external and difficult to manage, while others are internal and require management skill and expertise.

Time zones

The business day of London's financial services overlaps with those of other global financial markets and this gives it a competitive advantage. In arranging an eight-hour work day of 9am to 5pm, a manager in London organising a team across different countries would need to take note that at 9am GMT, it is 5pm in Singapore and Hong Kong and 6pm in Tokyo. During the UK winter at 9am it is 7pm in Sydney, and so on. Arranging meetings online to discuss policy and any issues requires mutually convenient times.

Language barriers

Public sector organisations, such as your local council, magistrates' court or hospital, are required to translate details about their services into the languages of their many users. Interpreters can be provided to address a lack of fluency in English. Without intervention the impact of a language barrier can be very damaging to users. People may be reluctant to undertake volunteering if English is their second language. The charity the British Deaf Association campaigned successfully for legal recognition of British Sign Language (BSL), and the British Sign Language Bill came into force on 28 June 2022, and to create public

policy mechanisms to remove the barriers for BSL users.

Private sector businesses have found that language barriers can have a significant impact on the relationship or resonance a customer has with their brand and the amount customers spend. Companies have found that the number of items bought by clients and the overall value of a sale are connected to being served in their native language. Therefore, specialist companies have developed online sales platforms that are regionally specific in many different languages.

Language barriers can also arise when speaking the same language. The different methods and channels of communication through which organisations communicate are discussed in Section 1.11.

Currency rates

If you want to trade with another country they will want to pay you in their currency but you will want pounds sterling. The exchange rate is the value of a currency measured in how much foreign currency it can buy. This rate varies. As an example, let's look at the exchange rate of the Japanese yen to the pound. The year 2000 opened with the rate of Y165 to the pound, then by the summer of 2007 one could buy Y250 for a pound. At the start of 2012 the rate had dropped to Y120. In 2015 the highest rate was Y190 to one pound. The opening rate for 2022 was Y155. This variation will have an impact for a business trying to do business with Japanese businesses, for instance importing Japanese electronics or a Japanese university buying English language services from a British university.

Budget

The budget is a financial plan that forms part of the process of managing the organisation. It aims to provide an accurate picture of where resources are being used, the speed and frequency of this and the basis for making future judgements on the levels of finance required to meet particular targets (in terms of volume, quality and time). In public sector organisations, resources are allocated on an annual basis to undertake different activities. At the end of the 12 months, the last budget is closed and a new one put in place. Any resources that have not been spent over the period are lost and taken back to the providers. The impact of this is that there is no incentive to conserve resources for a future period. There is every incentive to spend the resources, and sometimes on activities that may not be useful. In short, the impact of the

budget is to use up resources in a financial year rather than carry them over between years.

In private sector organisations, budgets may be set in a historic or zero-based form. In the historic case, last year's budget becomes the starting point for the current allocation of resources. It assumes that everything was correct and adequate in the previous period. This will create a negative impact if it proves not to be the case. In zero-based budgeting (ZBB), a fresh approach is adopted and careful scrutiny is made of current and future activities. This requires that managers justify every item anew within any budgetary period. This may give an organisation a sense of permanent revolution.

Capital refers to the assets (financial or physical items) through which business is done, or the cash that makes it possible. All organisations need capital to start up and stay in business for the medium to long term. Working capital is the day-to-day money needed to pay the bills for an organisation to remain operating. If there is not enough working capital, there will be a problem paying bills and the business may become bankrupt. Some organisations see a danger in investing large amounts of capital into costly land space, offices, warehouses and equipment. So they slim down on capital in the form of fixed assets, preferring to conduct their activities over the internet rather than physical stores or branches (for example, shopping and banking online).

Staff management

This is conducted through different styles discussed in Section 2.5, such as directive, authoritative, participative, pacesetting and delegative. These styles influence the working relationship, the quality of working life and the work environment. Both a hands-on and a hands-off management style aim, in different ways, to establish what staff need to do why, when, where and how often. Mutual respect, honesty and integrity need to be established. In the absence of these principles of staff management, problems may occur.

Internal processes of an organisation

This refers to the transformation of an input into an output. For example, silicon goes into the making of semiconductors which are then used in numerous everyday appliances from cars, to washing machines, to PlayStation games. Silicon here is the input and the washing machine and other appliances are the outputs.

It is expected that in turning inputs into outputs the organisation creates or adds value. But if internal processes are not audited, and then monitored, the impact might be for the organisation to lose direction and decline in performance. For example, at the end of 2020, the fast fashion retailer Boohoo was criticised in an independent report for internal processes that were 'well below the standard which would be expected of a company of its size and status'.

Source: 'Auditors can cut free but Boohoo needs a credible successor to PwC'
– Kate Burgess, FT, 19 October 2020. www.ft.com/content/9db3e973-fe39-4f6e-bcce-3ae2b2393328

There were also allegations made of low pay and poor working conditions. The share price and value of the company declined.

The local and national political environment and how this incorporates laws and regulations applicable to the trading location

Deciding if, or when, to set up a private sector business or a voluntary organisation might be influenced by the local and national political environment. There may be different laws relating to trading within one location compared to another, for instance around consumer and/or environmental protection, and rules around competition and employment (see 1.7). This section outlines the key features of the UK local and national political environment.

In January 2020, the UK left the European economic and political union (that is the European Union or EU); 27 countries remain. After 47 years of being in the EU, there follows a period of transition where organisations adjust to interacting and trading with former partners according to new laws and regulations. Managers need to respond to the changes coming from what is a macro-political level. The UK government aims for the commercial advantages when trading with the EU will be exchanged for new opportunities with other countries, as the national domestic economy changes to new international markets.

In contrast, in May 2021, 13 mayors were directly elected across England. They represent either seven combined local authorities such as Greater Manchester or larger cities such as Liverpool or London. A business manager in these localities might begin to consider how the appointment of a new mayor could lead to changes in local development plans.

The national political environment

In the UK the Westminster government holds centralised executive power, though there are also devolved governments in the nations of Scotland, Wales and Northern Ireland. They determine policy in many areas, including healthcare, education and transport.

In a general election, the leader of the winning party becomes prime minister and appoints a cabinet of ministers to head the different government departments of health, education, defence etc. Starting up a business soon after an election may bring a period of uncertainty as incoming ministers (heads of departments) seek to shape the department in a new direction. Some managerial adjustments may be required to follow the new direction.

At a national level, England is subdivided into nine regions, the South East, London and the North West being the three largest. When it was a member state of the EU, the UK used to be eligible for financial support from EU structural funds. These were administered across the nine regions of England plus Scotland, Wales and Northern Ireland. Both private and public sector bodies were invited by the government to bid for money from these funds and money was allocated according to deprivation levels. This money was available for training schemes and other projects aimed at getting people into work. It could be used to support SMEs, deliver skills training, invest in critical transport and digital infrastructure, and boost inclusive growth across the country. The last funds programme for the UK ran from 2014 to 2020.

One political initiative adopted to address inequality in funding between regions was the Northern

Powerhouse Partnership (NPP), launched in September 2016 with the aim of creating an interconnected network of economic hubs. Led by private sector capital and growth, it also aimed at providing public sector goods. It was envisaged that business from around the globe might be attracted to the planned improved productivity. Building on this and aimed at tackling long-entrenched regional inequalities, an agenda for 'levelling up' has been proposed by the UK government. This sets out to redirect power from the national government to the metro mayors at the regional level. As well as targeting spending in poorer areas outside London and the South East, there are 12 medium-term missions. An example of success might be that managers are sufficiently incentivised to make the decision to locate a business in these regions.

The local political environment

Funds for a business start-up can come from the local authority, that is the council. Businesses also pay a tax to the local council. So it is important for a manager to know how councils are organised across the UK. Financial help from the council could secure a business start-up in a local authority or alternatively the level of business rates could drive it away.

There are two types of local authorities in England:

- ▶ **Two-tier areas, where authorities share local government functions.** These areas have county councils and district councils.
- ▶ **Single-tier areas, where one authority carries out all local government functions.**

Various English local authorities, including those in Liverpool and Watford, have transferred leadership powers to executive mayors.

Project practice

Proplastics Ltd is a business that makes a wide range of items out of plastic for young children. These include toys and educational games. At present the firm is based in a converted warehouse on a small site in the centre of Birmingham. A combination of factors (inadequate floor space, rising rents and local traffic congestion) prompted management to consider relocating to a new business unit with an office and manufacturing space in the North East of England.

What further information about this proposed location will be required by the managers of the following departments?

- a Marketing
- b Production
- c Human resources

Your research should involve each manager conducting a SWOT (Strengths, Weaknesses, Opportunities and Threats – see 1.44 and 6.1) analysis for the new location in the North East of England.

You need to produce a presentation to be given to the board of directors. The information for the three managers should be summarised on separate slides.

The board will make a decision about whether to relocate on the basis of the information in your presentation. You should therefore provide as much detail, both quantitative and qualitative, as possible.

Assessment practice

- 1 What does the following statement describe?
'A concise explanation of why an organisation exists, its overall goal, the products or services offered to target audiences within its culture, value and ethics.'
- 2 An office manager is looking at ways to embed more environmentally sustainable work practices within the office environment.
Describe **two** changes to work practices that are available to the office manager that would help support this activity.
- 3 The executive board of a charity discuss becoming a community interest company (CIC).
Explain **two** potential benefits of adopting this legal type of structure.
- 4 A service company aims to improve its marketing strategy by using the 7 Ps.
On which **three** aspects should it concentrate?
- 5 The management board of a company has become aware of a significant decline in revenue and is concerned that they will not be able to cover their outgoing costs. They decide not to advise the Board of Directors, and hope the situation gets better. The management board schedules a review of the situation in a month's time.
Explain the potential consequences of the management board taking these actions.
- 6 All businesses have a legal requirement to protect the personal data of individuals who use their services.
Which regulatory body is responsible for ensuring compliance with this legal requirement?
- 7 Explain how the shareholders of an organisation influence its operations.
- 8 The IT department of a small company have presented a plan to the Board of Directors to introduce the use of 5G into all of the company's operations.
State **two** benefits of making this switch.
- 9 A consulting group has identified a weak culture in an organisation and recommended a culture change. Explain **two** changes that could be implemented.
- 10 State **two** formal digital communication channels that would be appropriate to use to provide a project update to an internal team.

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t: 01235 827827

e: education@hachette.co.uk

w: hoddereducation.co.uk

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