

F1 - (BT) - Business and Technology - (2020/2021)

BPP - Workbook

(Association of Chartered Certified Accountants)

ACCA
BT

Business and Technology

Integrated Workbook

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Business and Technology

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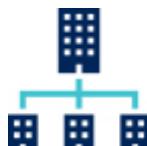
Integrated Workbook Icons



Advantage



Cash



Company



Cost



Definition



Disadvantage



Ethics



Exam Technique Point



Global



Group/Team

Business and Technology



Income



Key Point



Law



Negotiations/negotiate



People



Results



Risk



Systems

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Chapter 1

The business organisation



Outcome

By the end of this session you should be able to:

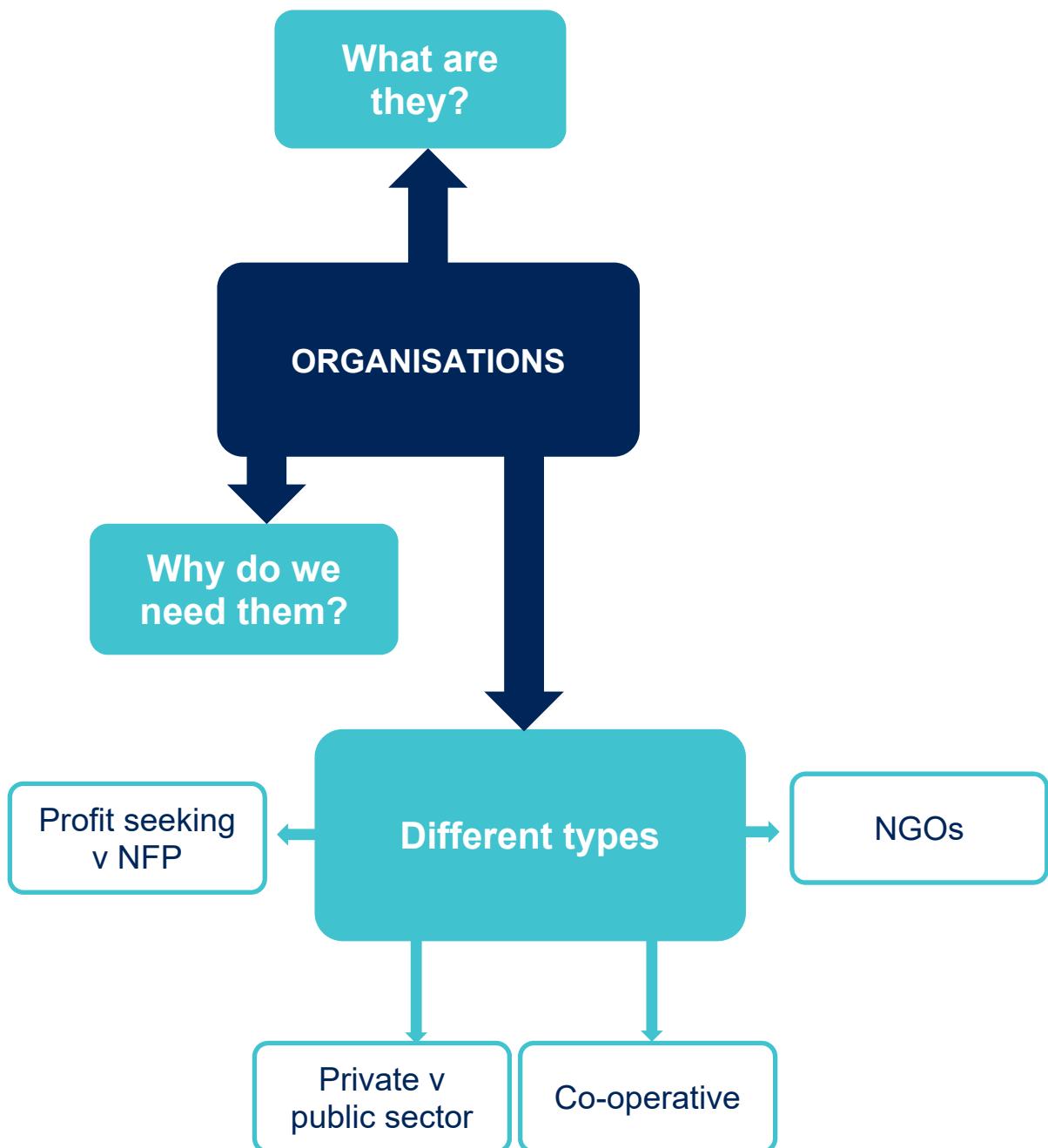
- define 'business organisations' and explain why they are formed
- describe common features of business organisations
- outline how business organisations differ
- list the industrial and commercial sectors in which business organisations operate
- identify the different types of business organisation: commercial, not-for-profit, public sector, non-governmental organisations, co-operatives

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 1 of your Study Text



Overview



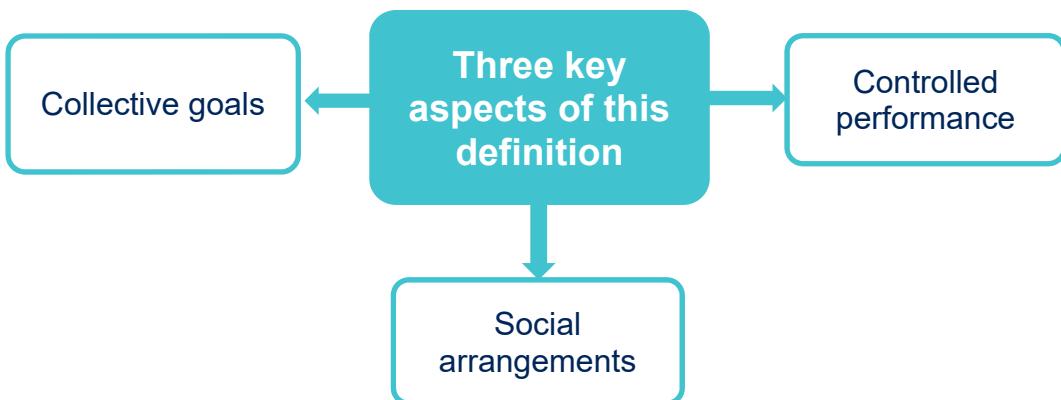
1

What is a business organisation?



Organisations are social arrangements for the controlled performance of collective goals.'

Buchanan and Huczynski



Notes



2

Why do we need organisations?



Notes

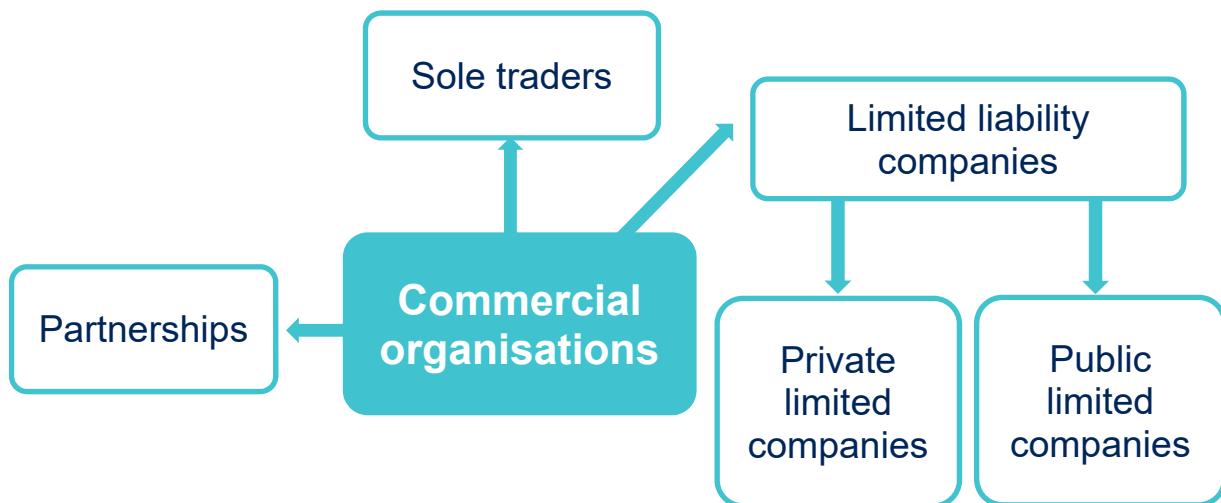


3

Different types of organisation

3.1 Commercial organisations

Different organisations have different goals. We can therefore classify them into several different categories.



Their main objective is often seen as maximising the wealth of their owners.

- Sole traders –
- Partnerships –
- Limited liability companies –

In the UK, there are two types of limited company:

- Private limited companies –
- Public limited companies –

Notes



3.2 Not for profit organisations



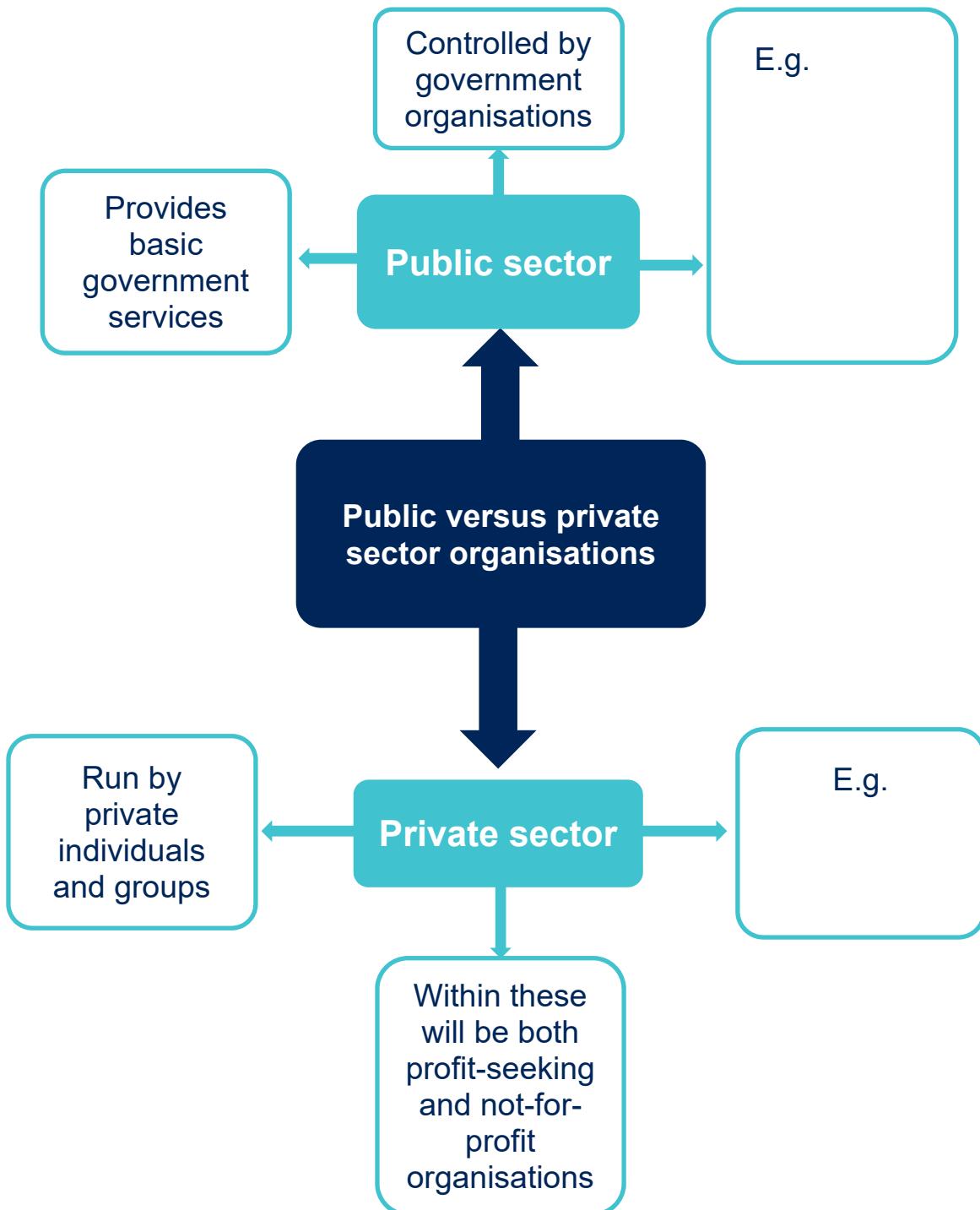
The objectives of different NFPs vary significantly.

- Hospitals –
- Councils –
- Government organisations –
- A charity –

Notes



3.3 Public versus private sector organisations



3.4 Non-governmental organisations (NGOs)

An NGO is one which does not have profit as its primary goal and is not directly linked to the national government.

NGOs often promote political, social or environmental change within the countries they operate.

NGOs include:

3.5 Co-operatives

Organisations that are owned and democratically controlled by their members – the people who buy their goods and services.

Each member usually gets a single vote on key decisions – unlike companies where shareholders get one vote for each share that they own.

They are organised solely to meet the needs of the member-owners, who usually share any profits.

Notes



Questions



Chapter 2

Business organisation and structure



Outcome

By the end of this session you should be able to:

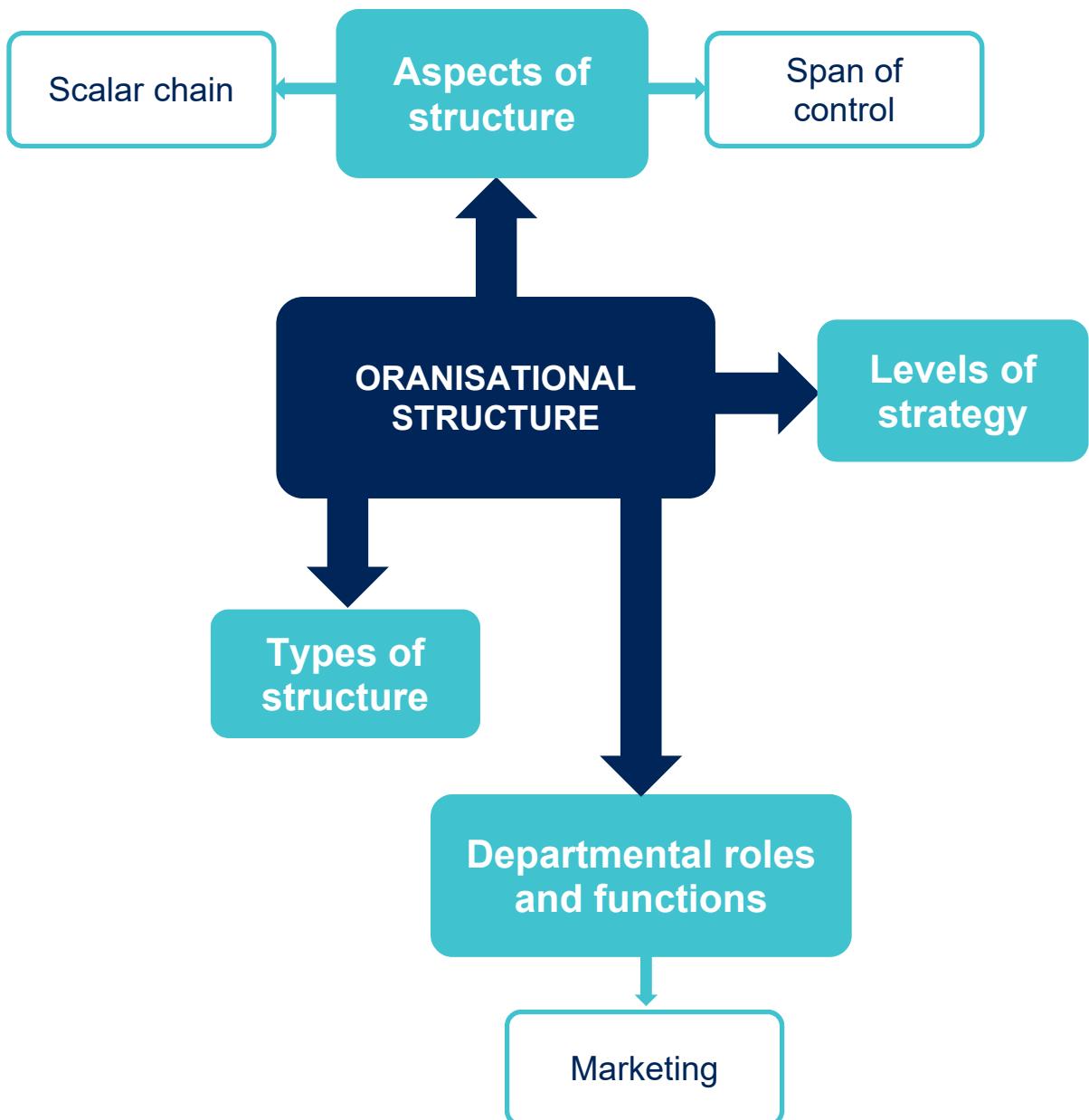
- describe the different ways in which formal organisations may be structured: entrepreneurial, matrix, functional, divisional (by geographical area, by product or by customer type), boundaryless (virtual, hollow or modular)
- explain basic organisational structure concepts: separation of ownership and control, separation of direction and management, span of control and scalar chain, tall and flat organisations, outsourcing and offshoring, shared service approach
- explain the characteristics of the strategic, tactical and operational levels in the organisation in the context of the Anthony hierarchy
- explain centralisation and decentralisation and list their advantages and disadvantages
- describe the roles and functions of the main departments in a business organisation: research and development, purchasing, production, direct service provision, marketing, administration and finance
- explain the role of marketing in an organisation: the definition of marketing, the marketing mix and the relationship of the marketing plan to the strategic plan

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 2 of your Study Text



Overview



1

Organisational structure

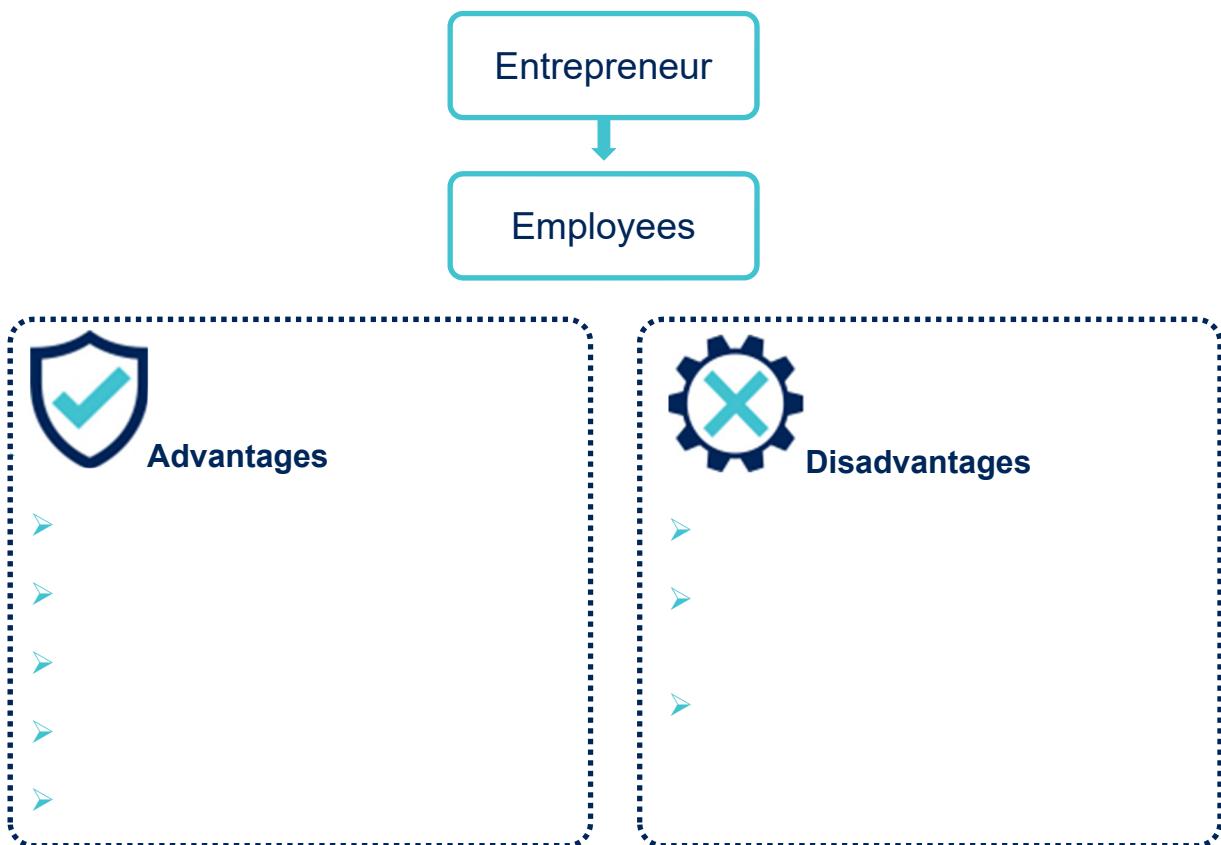
1.1 Organisational structure

Organisational structure is concerned with the way in which work is divided up and allocated. It outlines the roles and responsibilities of individuals and groups within the organisation.

There are several possible ways in which an organisation can be structured.

1.2 Entrepreneurial

This structure is built around the owner manager and is typical of small businesses in the early stages of development.



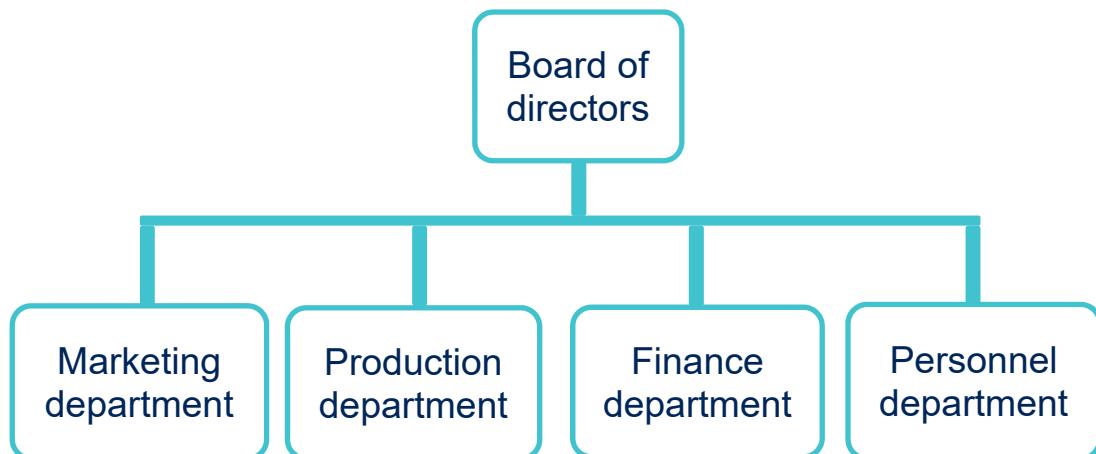
Notes



1.3 Functional/ departmental structure

Functional organisations group together employees that undertake similar tasks into departments.

This type of structure is often found in organisations that have outgrown the entrepreneurial structure.



Advantages

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Disadvantages

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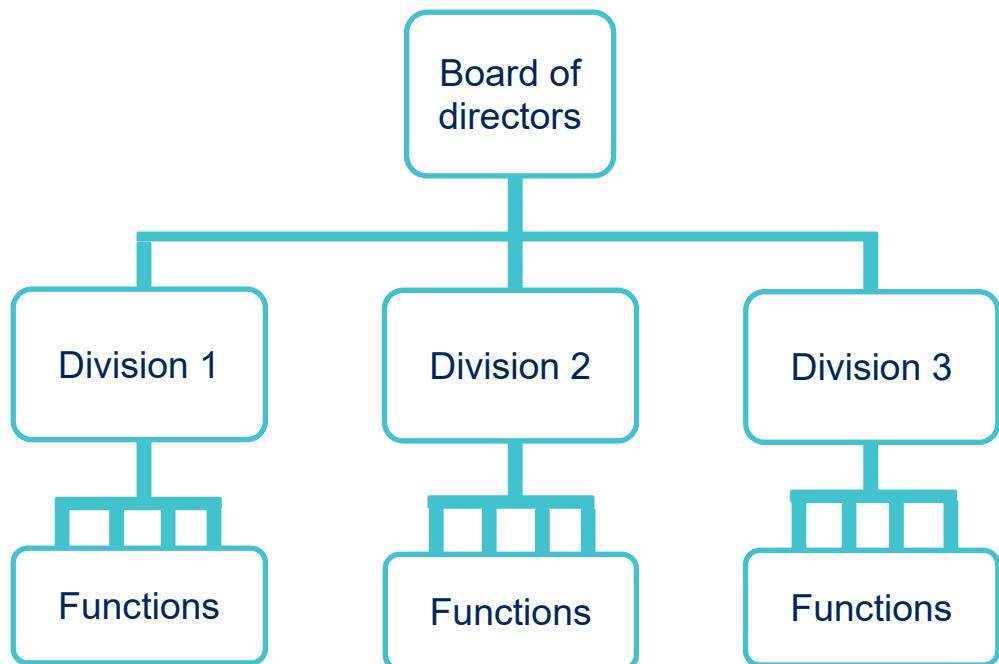
Notes



1.4 Divisional structure

An organisation is split into several divisions – each one autonomously overseeing a **product** (i.e. separate divisions for cars and motor bikes), a **geographical section** (i.e. separate divisions for US and Europe) or even by **customer** (i.e. separate divisions that look after corporate clients and private clients).

Each division is likely to have a functional structure, with all the departments it needs in order to operate in its particular market segment.



Advantages

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Disadvantages

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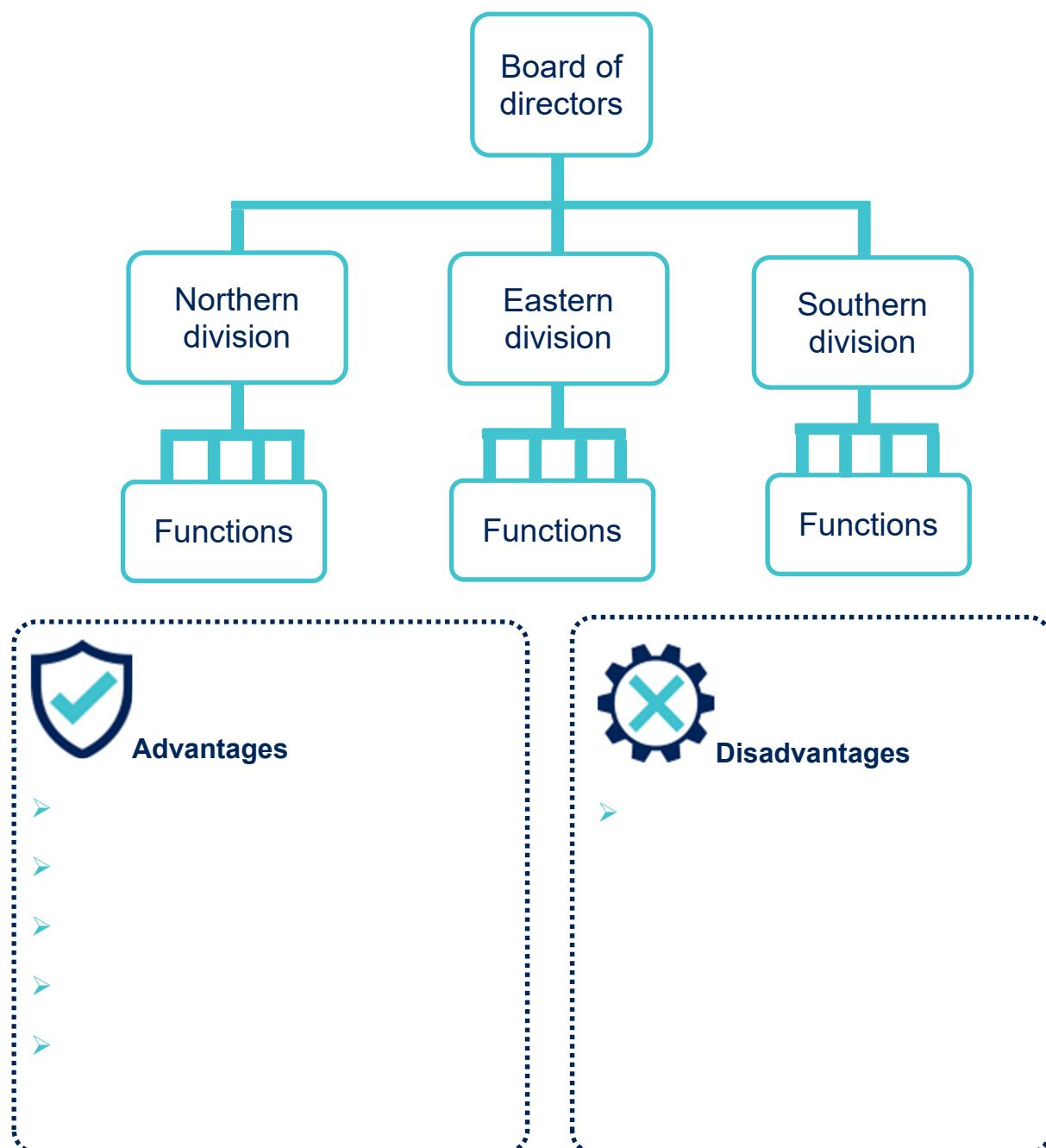
A **shared service approach** involves restructuring the provision of certain services within the organisation so that the service is centralised into one specific part of the organisation.

Notes



Divisions based on geographical areas

A company may be split into different divisions based on geographical areas. For example, there may be a division that looks after the organisation's Asian operations, one that covers Europe and another division for America.

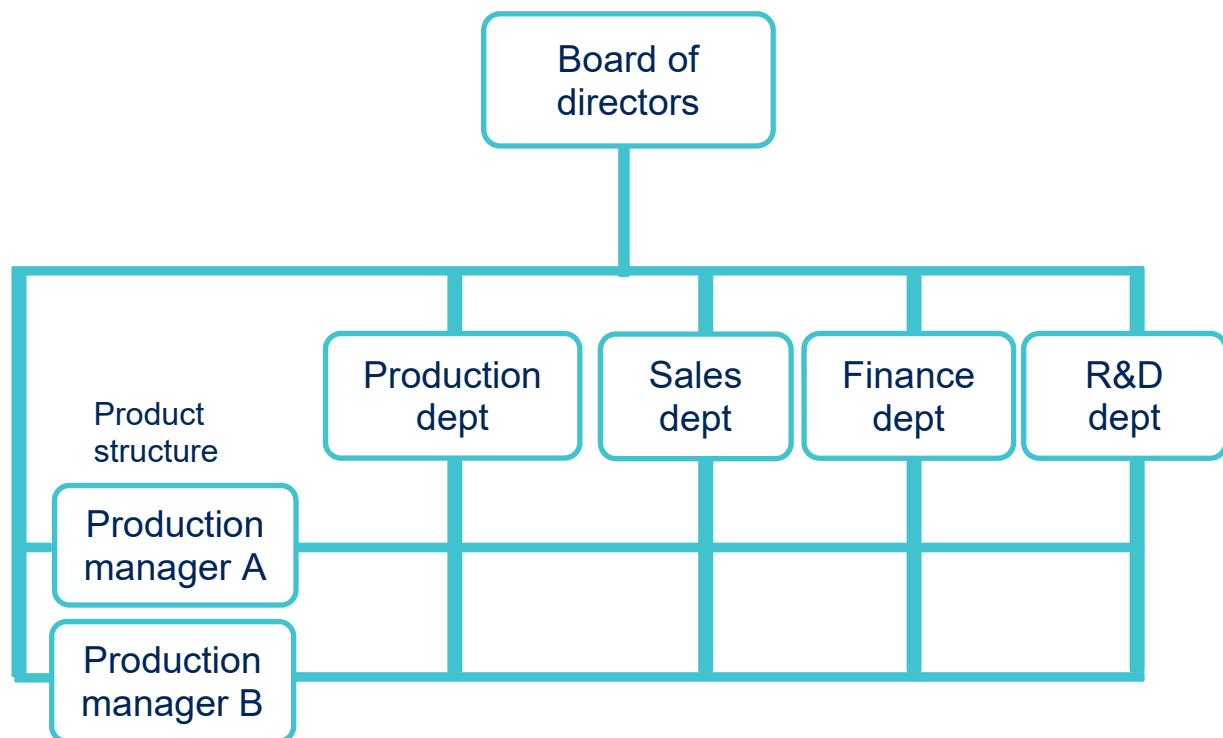


Notes



1.5 Matrix structure

Matrix structures are a combination of the functional and divisional structures.



Advantages

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Disadvantages

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-
-
-

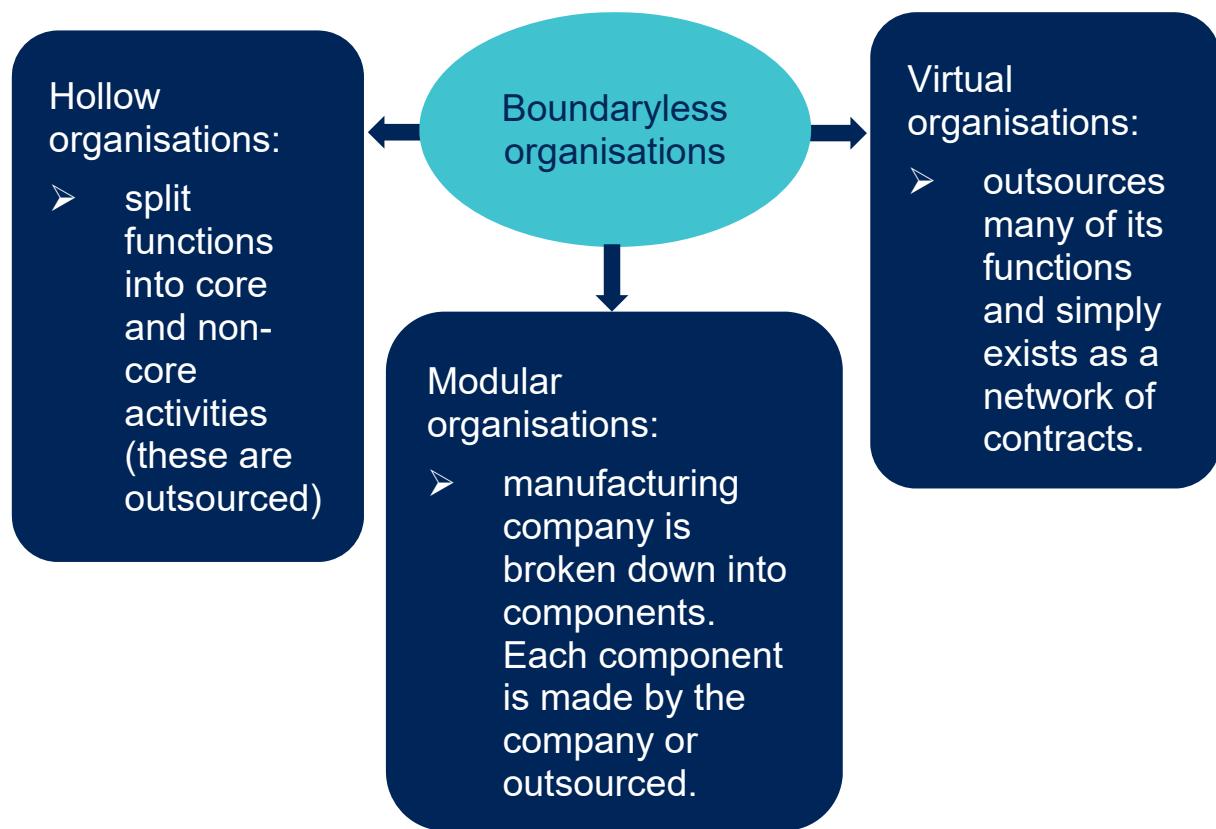
Notes



1.6 Boundaryless structure

Boundaryless organisations are essentially an unstructured design that is not constrained by having a chain of command or formal departments, with the focus instead being on flexibility.

There are a number of different types of boundaryless organisations that you need to be aware of.



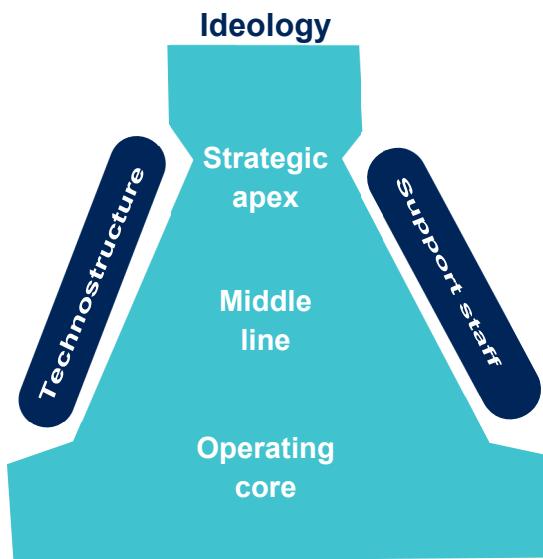
Notes



2 Mintzberg's organisational configurations

2.1 Mintzberg's configurations

Management theorist Henry Mintzberg argued that organisations are made up of five key 'building blocks'.



It is important that an organisation considers the relative balance of these parts in order to achieve its goals and remain competitive.

Mintzberg argued that any one of these building blocks could dominate within the organisation, leading to a variety of possible structures.

- The simple structure –
- Machine bureaucracy –
- Professional bureaucracy –
- Divisionalised –
- Adhocracy –
- Missionary –

Notes



3

Other basic organisational concepts

3.1 Key structural concepts



Scalar chain is the line of authority which can be traced up or down the chain of command from the most senior member of staff to the most junior. It relates to the number of levels of management within an organisation.



A manager's **span of control** is the number of people for whom he or she is directly responsible.

Factors that influence the span of control include:

- the nature of the work –
- the type of personnel –
- the location of personnel –



A **tall organisation** has many levels of management (a long scalar chain and a narrow span of control).



A **flat organisation** has few levels of management (a short scalar chain and a wide span of control).

Chapter 2

3.2 Offshoring



Offshoring is the relocation of corporate activities to a foreign country.

 Advantages of offshoring for a UK company relocating its activities overseas	 Disadvantages of offshoring for a UK company relocating its activities overseas
<ul style="list-style-type: none">➤ Cost savings.➤ Access to talented and motivated professionals.➤ Cheap, high quality technology makes the process more straightforward.➤ Ease of communication since English is often the common language.➤ Fast turnaround time.	<ul style="list-style-type: none">➤ Cultural, language and time differences.➤ Instability of offshore countries.➤ Cost savings not always realised.➤ Job losses in the UK.➤ Increased risk that confidential information is lost.➤ Exchange rate effects.

Notes



3.3 Centralisation and decentralisation

Another method of analysing structures is by reference to the level at which decisions are made.

- In a **centralised structure**, the upper levels of an organisation's hierarchy retain the authority and make decisions
- In a **decentralised structure**, the authority to take decisions is passed down to units and people at lower levels

The factors that will affect the amount of decentralisation are:

-
-
-
-

 Advantages of decentralisation	 Disadvantages of decentralisation
<ul style="list-style-type: none">➤ Senior management free to concentrate on strategy➤ Better local decisions due to local expertise➤ Better motivation due to increased training and career path➤ Quicker responses/flexibility, due to smaller chain of command	<ul style="list-style-type: none">➤ Loss of control by senior management➤ Dysfunctional decisions due to a lack of goal congruence➤ Poor decisions made by inexperienced managers➤ Training costs➤ Duplication of roles within the organisation➤ Extra costs in obtaining information

Notes



3.4 Levels of strategy

Within an organisation, each level of management will have different roles and responsibilities. This is especially the case when it comes to developing a strategy or plan for the future, for the organisation.

The **Anthony Triangle** is a model that can be used to illustrate the types of strategic planning that will be made at each level of the organisation's hierarchy.



Different levels of planning

- **Strategic planning** is undertaken by senior managers. It involves making long-term decisions for the entire organisation.
- **Tactical planning** is undertaken by middle management. It tends to look at plans for specific divisions or departments and specifies how to use resources.
- **Operational planning** is undertaken by junior managers and supervisors. It is short-term, detailed and practical.

Notes





Marketing

4.1 What is meant by marketing?

Marketing is defined by the Chartered Institute of Marketing as 'the management process that identifies, anticipates and supplies customer needs efficiently and profitably.'

The key emphasis is thus on customer needs:

- Identifying and anticipating needs – market research
- Supplying customer needs – product design and
- Efficiency – distribution
- Profitability – pricing decisions and promotion

Notes



4.2 The marketing mix



The traditional marketing mix (4Ps)

- P
- P
- P
- P



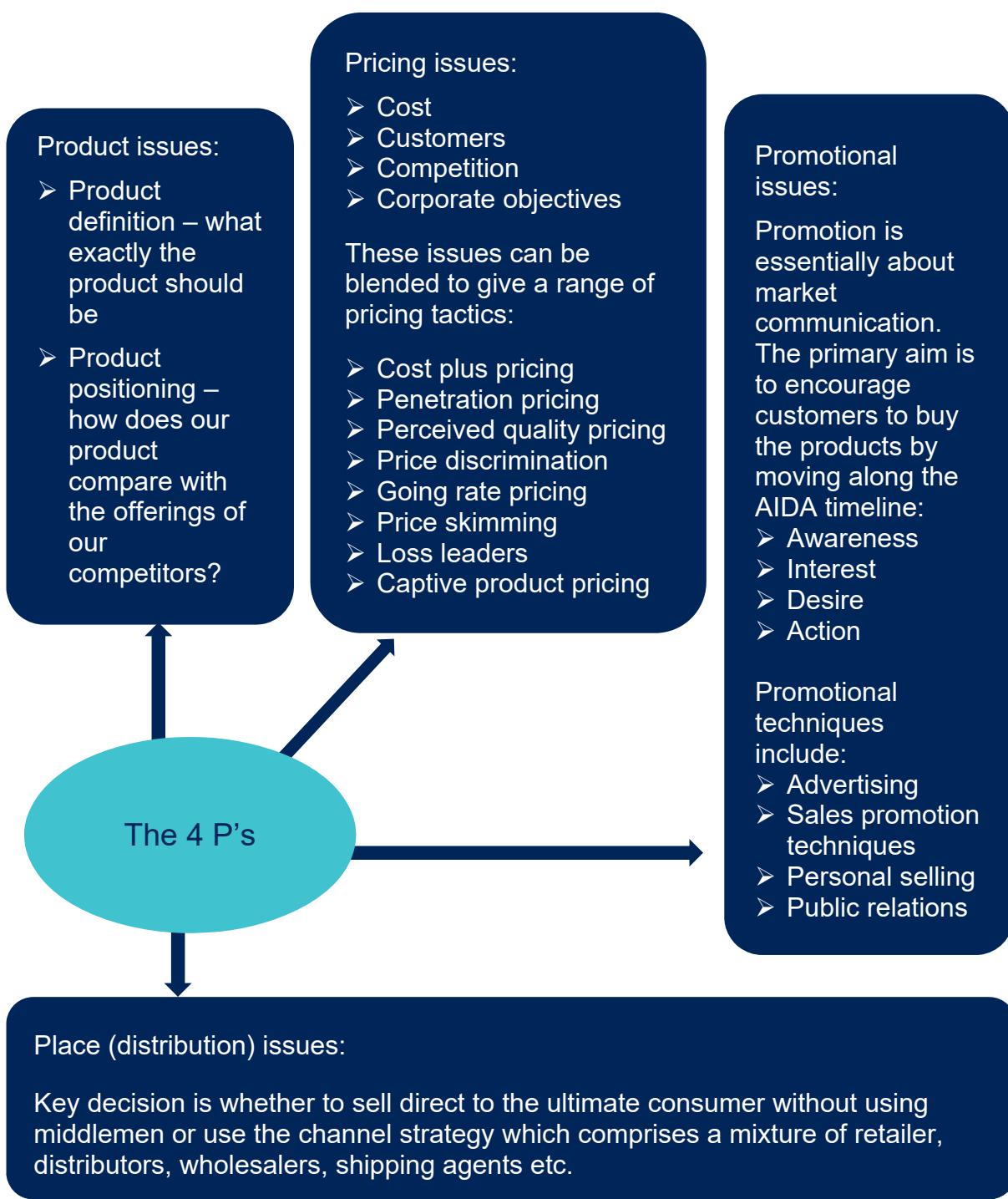
Additional 3Ps for the service industry

- P
- P
- P

Notes



Chapter 2



Notes



Questions



Notes



Chapter 3

Organisational culture in business



Outcome

By the end of this session you should be able to:

- define organisational structure
- describe the factors that shape the culture of the organisation
- explain the contribution made by writers on culture:
 - Schein – determinants of organisational culture
 - Handy – for cultural stereotypes
 - Hofstede – international perspectives on culture
- explain the informal organisation and its relationship with the formal organisation
- describe the impact of the informal organisation on the business

and answer questions relating to these areas.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 3 of your Study Text



Overview



1

Defining organisational culture

1.1 Definition

There are many definitions of corporate culture. These include:



‘The specific collection of values and norms that are shared by people and groups in an organisation and that control the way they interact with each other and with stakeholders outside the organisation.’

Hill and Jones

‘The way we do things around here.’

Handy

1.2 Components of culture

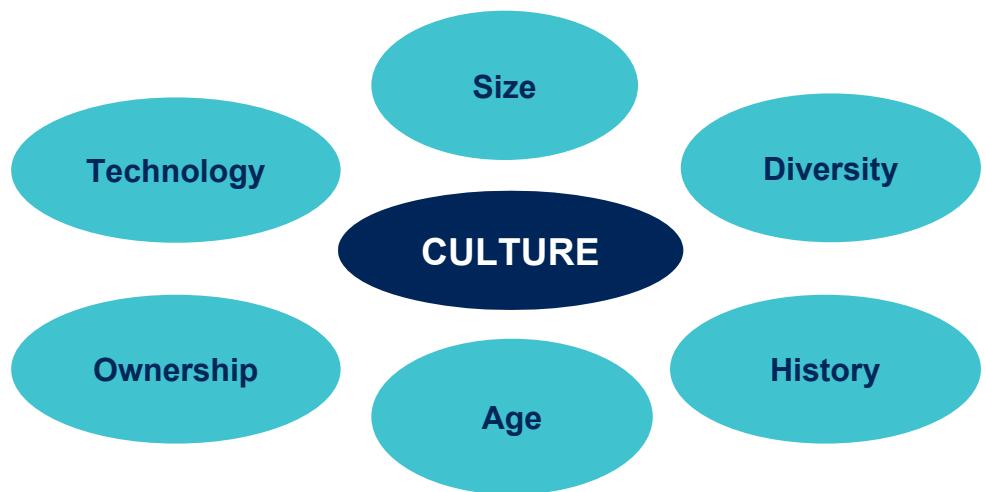
- A set of norms –
- Symbols or symbolic action –
- Shared values and beliefs –

Notes



Chapter 3

There are six major influences on the culture of an organisation.



Notes



2

Writers on culture

2.1 Schein

Schein argues that the first leaders of a company create its culture. Future leaders will only be selected if they support this organisational culture.

Schein further commented that if leaders are to lead, it is essential that they understand the culture of the organisation. In order to try and define culture, Schein described three levels:

1 Artefacts –

2 Espoused values –

3 Basic assumptions and values –

Notes



Chapter 3

2.2 Handy

Handy popularised four cultural types.

- 1 Power culture –
- 2 Role culture –
- 3 Task culture –
- 4 Person culture –

Notes



2.3 Hofstede

Hofstede looked for national differences between over 100,000 of IBM's employees in different parts of the world, in an attempt to find aspects of culture that might influence business behaviour.

He found four traits or 'cultural dimensions'.

1

Individualism (vs collectivism) – looks at the extent to which people are integrated into groups. Some cultures are more cohesive than others. High individualism indicates that staff expect to be assessed on their own achievements and performance.

2

Uncertainty avoidance (UA) index – deals with a society's tolerance for uncertainty and ambiguity. High UA cultures will not like to act outside their normal job descriptions or roles. They prefer to be directed by management and like formal rules.

3

Power distance (PD) index – the extent to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally. High PD cultures expect to answer to powerful managers and do not expect to have any democratic input into decisions that are made.

4

Masculinity (vs femininity) – a masculine culture is one where the distinction between the roles and values of the genders is large and the males focus on work, power and success whereas in feminine cultures the differences between the gender roles is much smaller.

More recently, two additional dimensions have been added to Hofstede's model.

1

Long-term orientation (vs short-term orientation) – societies with a long-term orientation focus on future rewards, with particular focus on saving, persistence and the ability to adapt to changing circumstances.

2

Indulgence (vs restraint) – indulgent societies allow relatively free gratification of basic and natural human drives related to enjoying life and having fun.

Notes



3

The informal organisation and its relationship with the formal organisation

3.1 The informal organisation



The informal organisation is the network of relationships that exist within an organisation. This network evolves over time and tends to arise through common interests and friendships between members of staff. These relationships are often across divisions. An informal organisation will be present to some degree within all formal organisations.

The advantages and disadvantages of informal organisation are:



Advantages

-
-
-



Disadvantages

-
-
-
-

The informal organisation can either enhance or hold back the business.

Notes



Questions



Chapter 4

Information technology and information systems in business



Outcome

By the end of this session you should be able to:

- explain how the type of information differs and the purposes for which it is applied at different levels of the organisation: strategic, tactical and operational
- list the attributes of good quality information
- identify an organisation's system requirements in relation to the objectives and policies of the organisation
- identify business uses of computers and IT software applications: spreadsheets, databases and accounting packages
- describe and compare the relative benefits and limitations of manual and automated financial systems that may be used in an organisation
- describe cloud computing as a capability in accountancy and how it creates benefits for the organisation
- explain how automation and artificial intelligence (AI) in accounting systems can affect the role and effectiveness of accountants
- describe how the application of big data and data analytics can improve the effectiveness of accountancy and audit
- outline the key features and applications of Blockchain technology and distributed ledgers in accountancy

Chapter 4

- define cyber security and identify the key risks to data that cyber-attacks bring
- identify and describe features for protecting the security of IT systems and software within business

and answer questions relating to these areas.



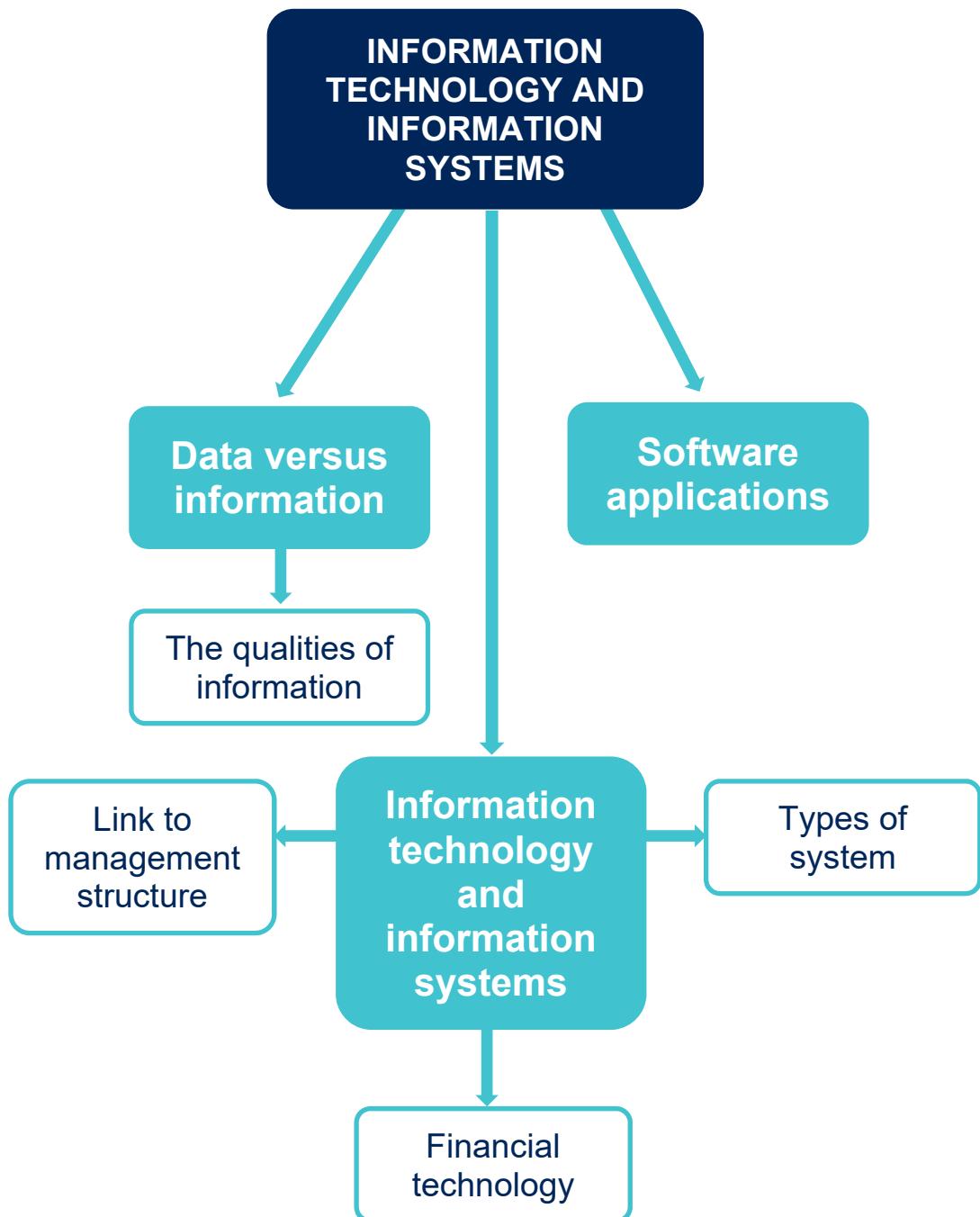
PER

One of the PER performance objectives (PO22) is to use commercial acumen to articulate business questions to resolve problems, exploit opportunities and identify and manipulate relevant data requirements; deeply analysing data by applying appropriate techniques. You draw clear conclusions and present your findings to enable relevant stakeholders to make sound business decisions. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 4 of your Study Text



Overview



1

Data and information

1.1 Data



Data consists of numbers, letters, symbols, raw facts, events and transactions, which have been recorded but not yet processed into a form that is suitable for making decisions.

1.2 Information



Information is data that has been processed in such a way that it has meaning to the person that receives it, who may then use it to improve the quality of their decision-making.

Information is vital to an organisation and is required both internally and externally. Management requires information to:

- provide records, both current and historical
- analyse what is happening in the business
- provide the basis for decision-making in the short- and long-term
- monitor the performance of the business by comparing actual results with plans and forecasts.

This information will be used by various third parties, including:

- the shareholders or owners –
- customers and suppliers –
- employees –
- government agencies –

Notes



2

Qualities of good information

2.1 Good information

'Good' information helps in the decision-making process, is useful to the recipient and can be relied upon.

To be 'good', information should have the following characteristics (which you can remember using the acronym ACCURATE).

- A
- C
- C
- U
- R
- A
- T
- E

Notes





Information technology and information systems

3.1 Information technology (IT)



Information technology describes any equipment concerned with the capture, storage, transmission or presentation of data.

Put simply, IT is the hardware infrastructure that runs the information systems. This will include

3.2 Information systems (IS)



Information systems refer to the management and provision of information to support the running of the organisation.

There are **five types of information system** that you need to be aware of for your exam, which we will examine in detail shortly.

Notes



Chapter 4

3.3 Types of information system

As outlined in Chapter 2, there are three levels of management – strategic, tactical and operational.

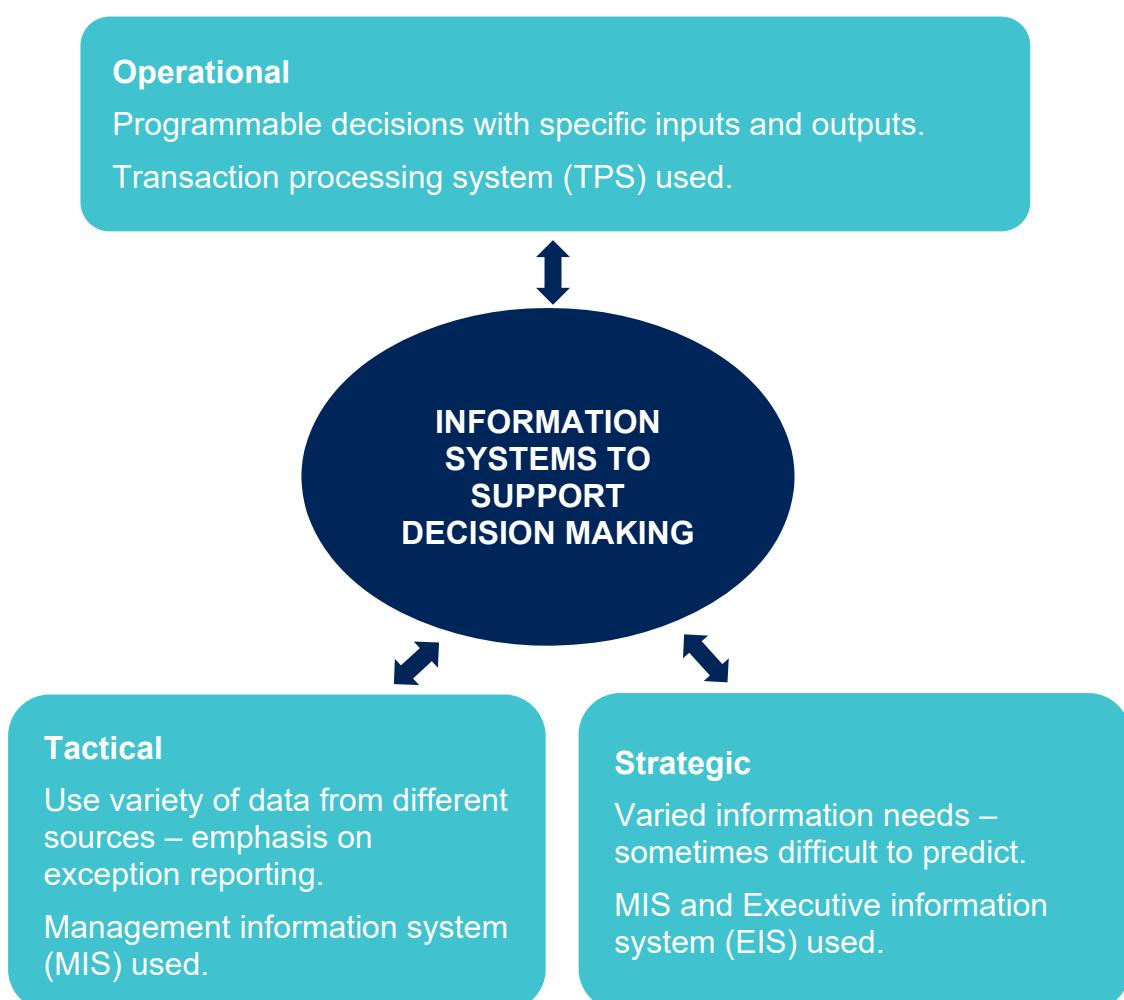
Each level creates different types of strategy within the organisation and therefore needs different types of information, as outlined by the following chart:

	TIME HORIZON	LEVEL OF DETAIL	SOURCE	DEGREE OF CERTAINTY	FREQUENCY
STRATEGIC	LONG-TERM	AGGREGATED/ SUMMARISED	MAINLY EXTERNAL	UNCERTAIN	INFREQUENT
TACTICAL					
OPERATIONAL	IMMEDIATE	HIGHLY DETAILED	INTERNAL	CERTAIN	FREQUENT

Notes



- The **strategic level of management** requires information from internal and external sources in order to plan the long-term strategies of the organisation. Internal information – both **quantitative and qualitative** – is usually supplied in a summarised form.
- The **tactical level of management** requires information and instructions from the strategic level of management, together with routine and regular quantitative information from the operational level of management. The information could be in summarised form, but detailed enough to allow tactical planning of resources and manpower.
- The **operational level of management** requires information and instructions from the tactical level of management. The operational level is primarily concerned with the day-to-day performance of tasks and most of the information is obtained from internal sources. The information must be detailed and precise.



Notes



3.4 Transaction processing system (TPS)



A **TPS** records all the daily transactions of the organisation and summarises them so they can be reported on a routine basis.

Transaction processing systems are used mainly by operational managers to make basic decisions.

3.5 Management information systems (MIS)



Management information systems convert data from TPS into information for tactical managers. This information will be designed to help them monitor performance, maintain co-ordination and provide background information about the organisation's operations.

3.6 Decision support systems (DSS)



A **DSS** is a computer system that helps decision-makers deal with semi- or unstructured decisions, where there is a high degree of uncertainty, or unknown factors that may affect the decision.

A DSS will be tailor-made to the requirements of the organisation.

3.7 Executive information systems (EIS)



EIS systems provide strategic managers with flexible access to information from the entire business, as well as relevant information from the external environment.

The EIS enables senior management to easily model the entire business by turning its data into useful, summarised reports. This information can then easily be distributed to key staff members.

3.8 Expert systems (ES)



Expert systems hold specialist (expert) knowledge and allow non-experts to interrogate the system for information, advice and recommend decisions.

Notes



4

Software applications

4.1 Introduction

For your exam, you need to be able to discuss three specific software applications.

Software applications are computer programmes that are designed to help users with certain tasks.

4.2 Spreadsheets

Spreadsheets are designed to analyse data and sort lists of items, not for long-term storage of raw data.



Advantages

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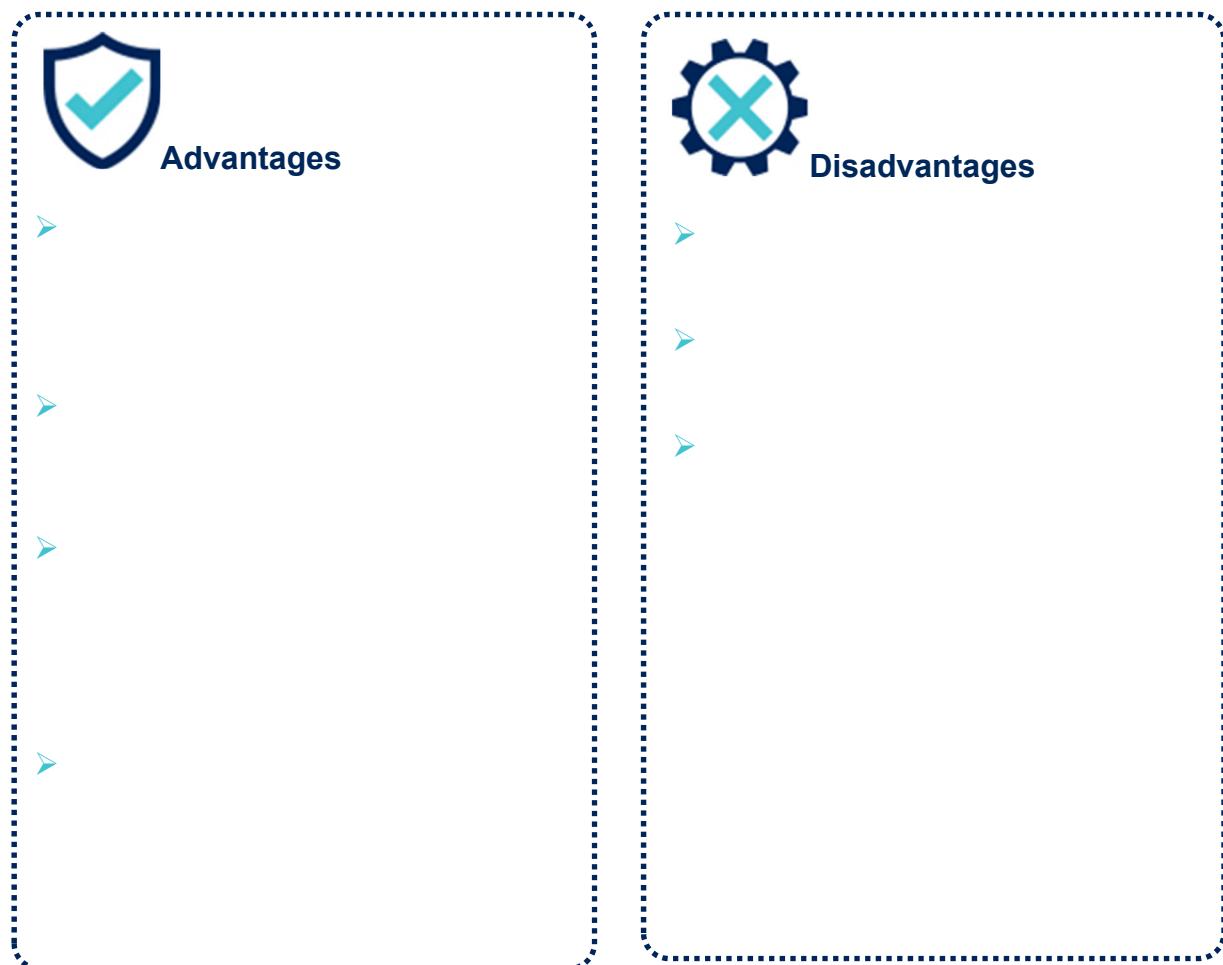


Disadvantages

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4.3 Databases

To store large amounts of raw data, it is best to use a database. This is especially true in circumstances where two or more users share the information.



Notes



4.4 Accountancy packages

Many businesses choose to utilise specialised software packages that record and process the individual transactions within the business, rather than relying on manual records.

These accountancy packages are often designed to automatically produce year-end accounts and management reports when requested.



Advantages

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Disadvantages

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Notes



5

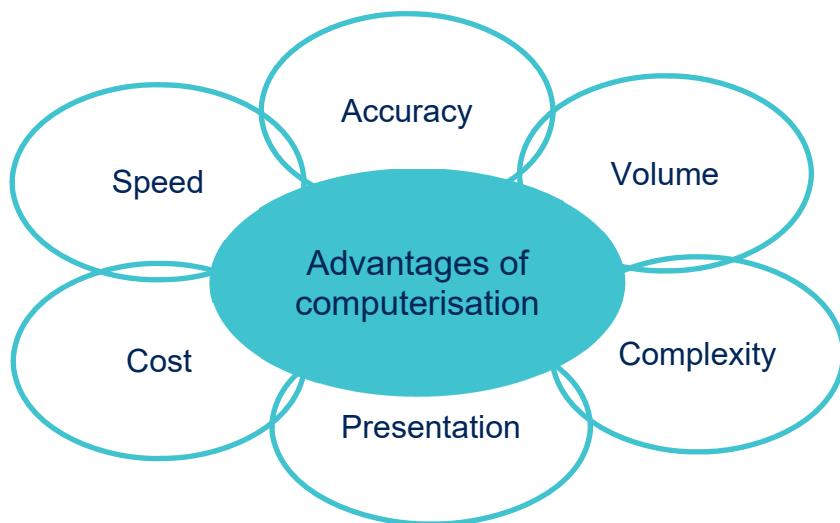
The advantages of computerisation

5.1 The advantages of computerisation

Most aspects of the economy, from the music industry to manufacturing, banking, retail and defence, are now totally dependent on modern information processing systems.

The value of computer systems in handling and processing business data cannot be underestimated.

Computers have revolutionised information systems for the following reasons:



Notes



6

Cloud computing

6.1 What is Cloud computing



Cloud computing is computing based on the internet. It avoids the need for software, applications, servers and services stored on physical computers. Instead, it stores these with cloud service providers who store these things on the internet and grant access to authorised users.

6.2 Cloud computing accounting software

Cloud computing accounting software is accounting software that is hosted on remote servers. Cloud based accounting software works in essentially the same way as all other cloud based software. Due to the information being stored in such a way that it is always accessible, users can log in and perform accounting practices on any computer on the planet with an Internet connection.

6.3 Benefits of cloud computing

Benefits of cloud computing to the organisation include:

- Storing and sharing data –
- On-demand self-service –
- Flexibility –
- Collaboration –
- More competitive –
- Easier scaling –
- Reduced maintenance –
- Back ups –

Chapter 4

- Disaster recovery –
- Better security –

Notes



7

Artificial intelligence (AI)

7.1 What is artificial intelligence?



Artificial intelligence is an area of computer science that emphasises the creation of intelligent machines that work and react like human beings.

Some of the activities that computers with artificial intelligence are designed for include voice recognition, planning, learning and problem solving

7.2 Machine learning

Most recent advances in AI have been achieved by applying machine learning to very large data sets.

Machine learning algorithms detect patterns and learn how to make predictions and recommendations by processing data and experiences, rather than by explicit programming instruction. The algorithms themselves then adapt to new data and experiences to improve their function over time.

7.3 Artificial intelligence and accountancy

Systems are increasingly producing outputs that far exceed the accuracy and consistency of those produced by humans.

In the **short to medium term**, AI brings many opportunities for accountants to improve their efficiency, provide more insight and deliver more value to businesses.

In the **longer term**, AI brings opportunities for much more radical change, as systems increasingly carry out decision-making tasks currently done by humans.

Examples include:

- using machine learning to code accounting entries and improve on the accuracy of rules-based approaches, enabling greater automation of processes
- improving fraud detection through more sophisticated, machine learning models of 'normal' activities and better prediction of fraudulent activities
- using machine learning-based predictive models to forecast revenues
- improving access to, and analysis of, unstructured data, such as contracts and emails.

Notes



8

Big data

8.1 What is big data?



Big data is a term for a collection of data which is so large that it becomes difficult to store and process using traditional databases and data processing applications.

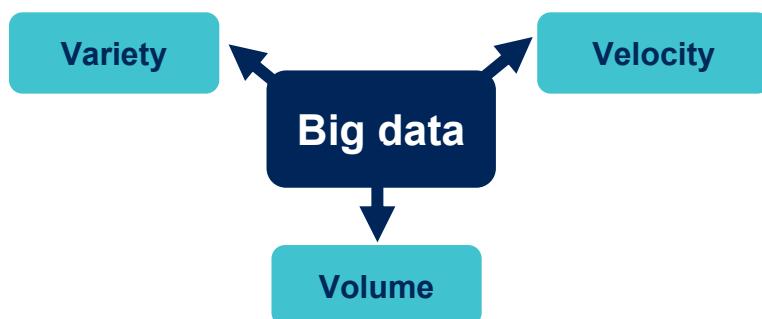
Big data often also includes more than simply financial information and can involve other organisational data (both internal and external) which is often unstructured.

Examples of data that inputs into big data systems can include:

- social network traffic
- web server logs
- streamed audio content
- banking transactions
- web page histories and content
- government documentation
- financial market data

8.2 The features of big data

According to Gartner, big data can be described using the '3Vs':



Another V which is sometimes added by organisations to the above list is:

- Veracity (truthfulness)

Notes



8.3 Benefits of big data

Big data has several stated benefits to the organisation, including:

- Driving innovation
- Gaining competitive advantage
- Improving productivity

8.4 Big data and analytics – improving the effectiveness of accountancy and audit

Management accounting	In management accounting, big data will contribute to the development of effective management control systems and budgeting processes.
Financial accounting	In financial accounting, big data will improve the quality and relevance of accounting information. This can enhance transparency and stakeholder decision making.
Reporting	In reporting, big data can assist with the creation and improvement of accounting standards. This will help to ensure that the accounting profession continues to provide useful information as the dynamic global economy evolves.

Turning our attention to **audit**, the profession recognises the impact that data analysis can have enhancing the quality and relevance of the audit. However, recent technology advancements in big data and analytics are providing an opportunity to adapt the way that audits are carried out.

The revolutionised audit will:

- expand beyond sample-based testing to include analysis of entire populations of audit-relevant data
- use intelligent analytics to deliver a higher quality of audit evidence
- provide more relevant business insights.

Big data and analytics are enabling auditors to better identify financial reporting, fraud and operational business risks and tailor their approach to deliver a more relevant audit.

Notes



9

Blockchain technology

9.1 What is blockchain technology?



A blockchain has been described as a decentralised, distributed and public digital ledger that is used to record transactions across many computers so that the record cannot be altered retroactively without the alteration of all subsequent blocks and the consensus of the network.

Alternatively, it has been defined by the Bank of England as a technology that allows people who do not know each other to trust a shared record of events.

Benefit of a blockchain

The main benefit of blockchain is security. In the digital era, cyber security is a key risk associated with the use of IT systems and the internet. This is because traditional systems have been 'closed', and so modifications to data have been carried out by just one party. If the system is hacked, there is little control over such modification to prevent it from happening.

A blockchain provides an effective control mechanism aimed at addressing such cyber security risks. It is a record keeping mechanism that is 'open' or public, as it is a form of distributed ledger; it has been described as a form of collective bookkeeping.

Notes



9.2 Key features of a blockchain

Key features of a blockchain are as follows:

- In a blockchain system, transactions recorded by a number of participants using a network which operates via the internet. The same records are maintained by a number of different parties.
- When a transaction takes place (for example, between a buyer and a seller) the details of that deal are recorded by everyone – the value, the time, the date and the details of those parties involved. All of the ledgers that make up the blockchain are updated in the same way, and it takes the agreement of all participants in the chain to update their ledgers for the transaction to be accepted.
- The process of verifying the transaction is carried out by computers; it is effectively the computers which make up the network that audit the transaction.
- When a new block is added to a blockchain, it is linked to the previous block using a cryptographic hash generated from the contents of the previous block. This ensures that the chain is never broken and that each block is permanently recorded. It is intentionally difficult to alter past transactions in the blockchain because all of the subsequent blocks must be altered first.

It is this control aspect of blockchain technology which addresses the main concern of cyber security.

If anyone should attempt to interfere with a transaction, it will be rejected by those network parties making up the blockchain whose role it is to verify the transaction. If just one party disagrees, the transaction will not be recorded.

9.3 The relevance of blockchain technology to accountants

Much of the accountancy profession is concerned with ascertaining or measuring rights and obligations over property, or planning how best to allocate financial resources. For accountants, using blockchain provides clarity over ownership of assets and existence of obligations and can dramatically improve efficiency.

Examples of how blockchain can enhance the accounting profession include:

- reducing the costs of maintaining and reconciling ledgers
- providing absolute certainty over the ownership and history of assets
- helping accountants gain clarity over available resources
- Freeing up resources to concentrate on planning and valuation, rather than record-keeping.

Notes



10

Cyber security

10.1 What is cyber security?



Cyber security is the protection of internet-connected systems, including hardware, software and data, from cyber attacks.



Cyber attack is a malicious and deliberate attempt by an individual or organisation to breach the information system of another individual or organisation. Usually, the attacker seeks some type of benefit from disrupting the victim's network.

10.2 Key risks to data of cyber attacks

If the data on an organisation's computer system is accessed without authorisation or damaged, lost or stolen, it can lead to disaster. A number of different methods are deployed by cybercriminals, for example:

Malware –

Phishing –

Denial of service attacks –

Man in the middle attacks –

Notes



Chapter 4

10.3 Protection of IT systems and software within a business

Potential threat	Solution
Natural disasters – e.g. fire, flood.	<p>Fire procedures – fire alarms, extinguishers, fire doors, staff training and insurance cover.</p> <p>Location e.g. not in a basement area prone to flooding.</p> <p>Physical environment e.g. air conditioning, dust controls.</p> <p>Back up procedures – data should be backed up on a regular basis to allow recovery.</p>
Malfunction – of computer hardware or software.	<p>Network design – to cope with periods of high volumes.</p> <p>Back up procedures (as above).</p>
Viruses – a small program that once introduced into the system spreads extensively. Can affect the whole computer system.	<p>Virus software, should be run and updated regularly to prevent corruption of the system by viruses.</p> <p>Formal security policy and procedures.</p> <p>Regular audits to check for unauthorised software.</p>
Hackers – deliberate access to systems by unauthorised persons.	<p>Firewall software – should provide protection from unauthorised access to the system from the Internet.</p> <p>Passwords and usernames – limit unauthorised access to the system.</p>
Electronic eavesdropping – e.g. users accessing private information not intended for them.	<p>Data encryption – data is scrambled prior to transmission and is recovered in a readable format once transmission is complete.</p> <p>Passwords and usernames (as above).</p>
Human errors – unintentional errors from using computers and networks.	Training – adequate staff training and operating procedures.

Notes



Questions



Chapter 5

Stakeholders in business organisations



Outcome

By the end of this session you should be able to:

- define stakeholders
- define internal, external and connected stakeholders and explain their impact on the organisation
- identify the main stakeholder groups and the objectives of each group
- explain how the different stakeholder groups interact and how their objectives may conflict with one another
- compare the power and influence of various stakeholder groups and how their needs should be accounted for, such as under the Mendelow framework

and answer questions relating to these areas.

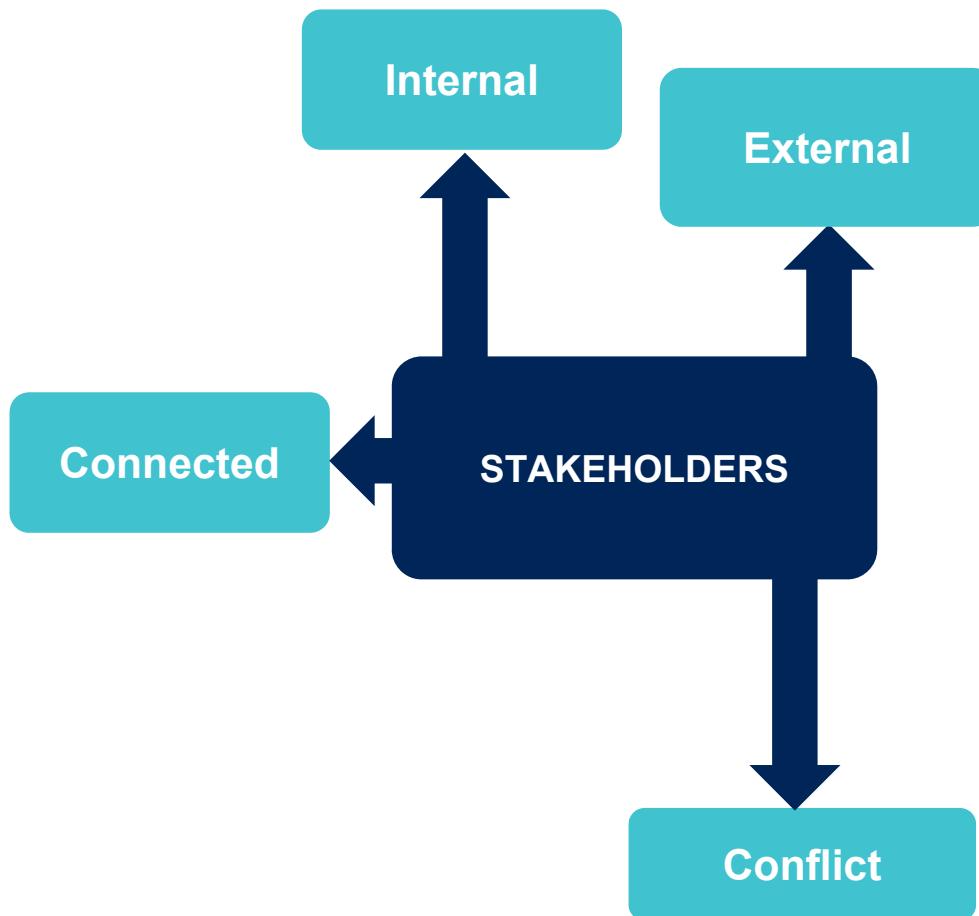


PER

One of the PER performance objectives (PO2) is to manage stakeholder expectations and needs, developing and maintaining productive business relationships. You listen to and engage stakeholders effectively and communicate the right information to them when they need it. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 5 of your Study Text

Key Overview



1

What are stakeholders?

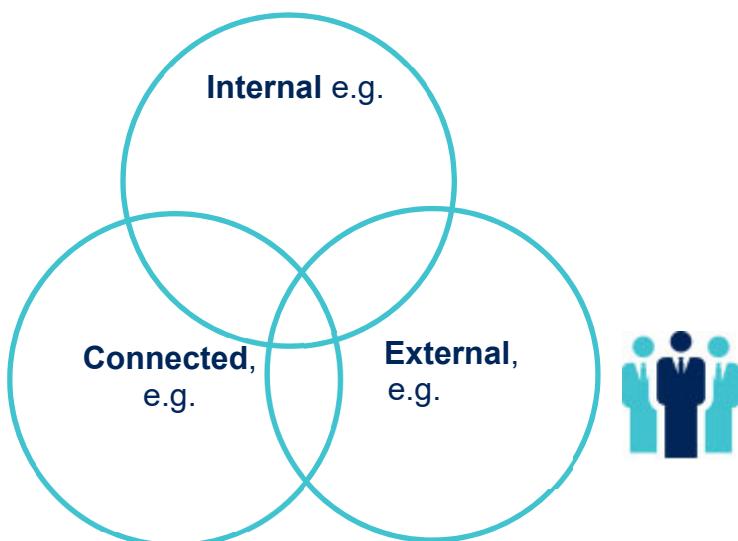
1.1 Definition



A **stakeholder** is an individual who has an interest in what the organisation does, or who affects, or can be affected by, the organisation's actions.

1.2 Types of stakeholder

There are **three categories** of stakeholder.



Notes



Chapter 5

1.3 Internal stakeholders

Need/expectation:

- Employees –
- Managers/directors –

1.4 Connected stakeholders

Need/expectation:

- Shareholders –
- Customers –
- Suppliers –
- Finance providers –

1.5 External stakeholders

Need/expectation:

- Community at large –
- Environmental pressure groups –
- Government –
- Trade unions –

Notes



1.6 Primary and secondary

This is a different method of categorising stakeholders, which is based on whether or not they have a contractual relationship with the organisation.

Primary stakeholders are those that have a contractual relationship, for instance employees, directors, shareholders – in fact any stakeholder who falls into the ‘connected’ or ‘internal’ categories.

Secondary stakeholders are parties that have an interest in the organisation, but have no contractual link, such as the public. Any stakeholders in the ‘external’ category would fall into this group.

Notes



2

Stakeholder conflict

2.1 Introduction

An organisation can have many different stakeholders, all with different needs. Inevitably, these needs of some stakeholders will come into conflict with the needs of others.

Some of the most common conflicts include:

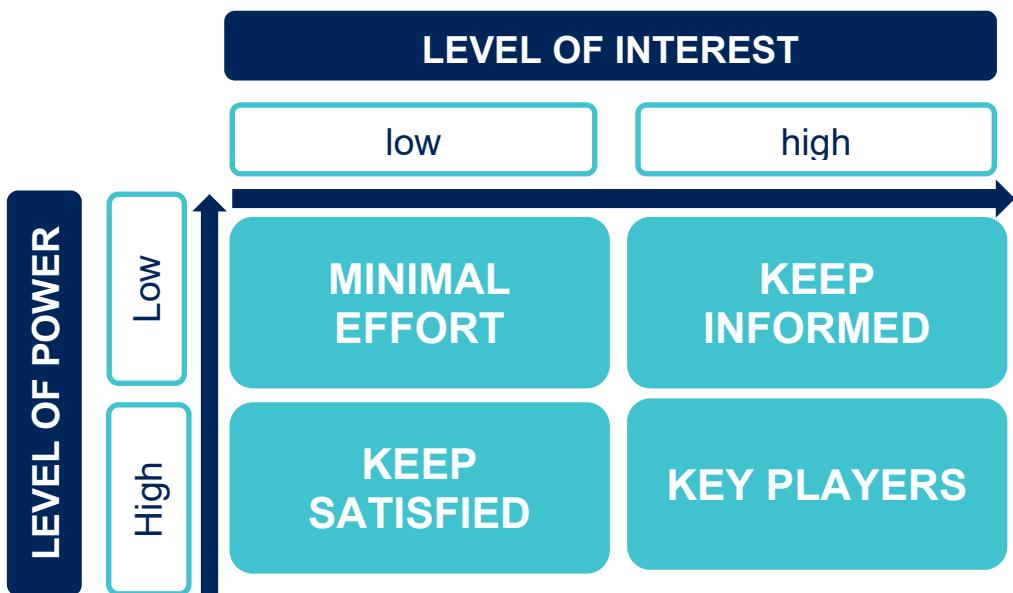
Stakeholders	Conflict
Employees versus managers	Jobs/wages versus bonus
Customers versus shareholders	Product quality/service levels versus profits/dividends
General public versus shareholders	Effect on the environment versus profit/dividends
Managers versus shareholders	Growth versus independence

Notes



2.2 Mendelow's power-interest matrix

If an organisation is having difficulty deciding who the dominant stakeholder is, they can use **Mendelow's power-interest matrix**.



It should be noted that, in reality, managers need to consider the needs of as many stakeholders as possible. This means that nearly every decision becomes a compromise.

Notes



Questions



Chapter 6

External analysis – political and legal factors



Outcome

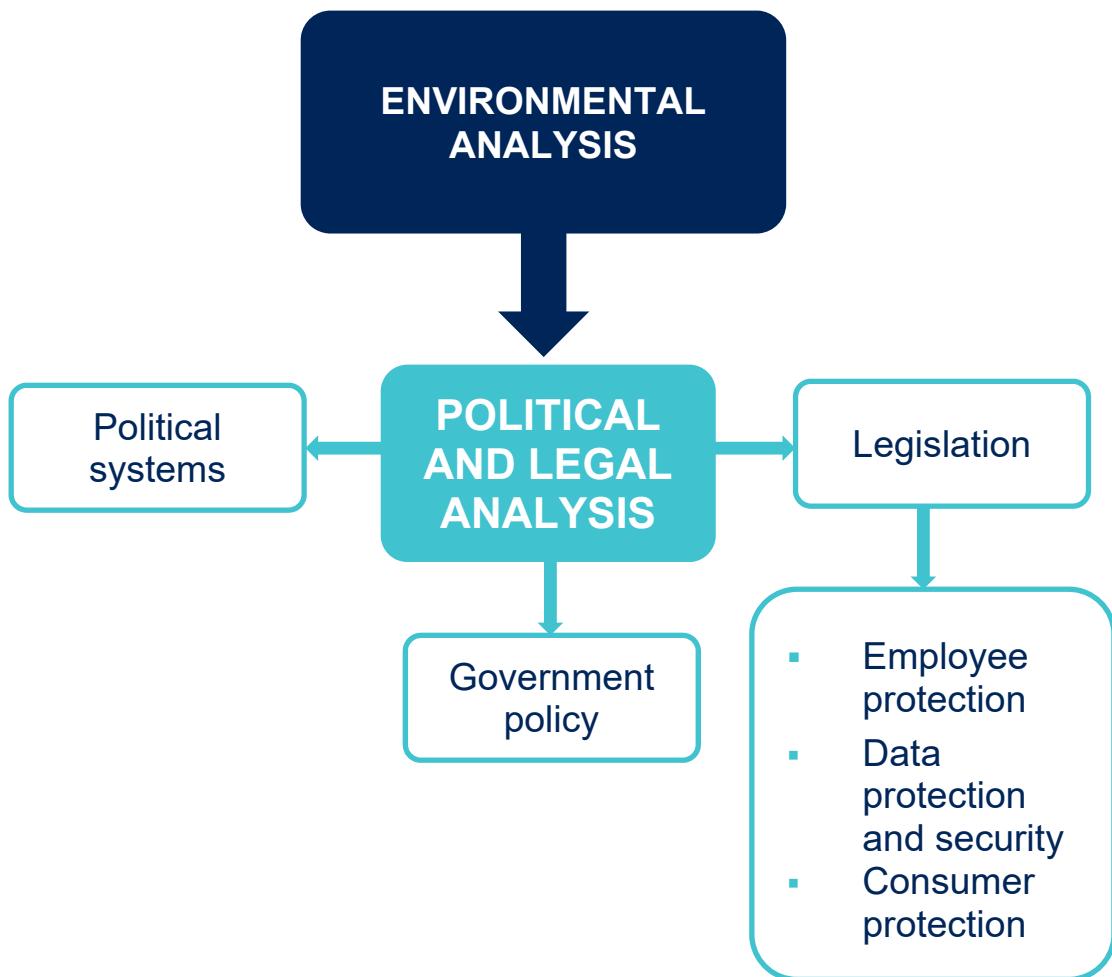
By the end of this session you should be able to:

- Explain how the political system and government policy affect the organisation
- describe the sources of legal authority, including supra-national bodies, national bodies and regional governments
- explain how the law protects the employee and the implications of employment legislation for the manager and the organisation
- Identify the principles of data protection and security
- explain how the law promotes and protects health and safety in the workplace
- recognise the responsibility of the individual and the organisation for compliance with laws on data protection, security and health and safety
- outline principles of consumer protection such as sale of goods and simple contract

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 6 of your Study Text

Key Overview

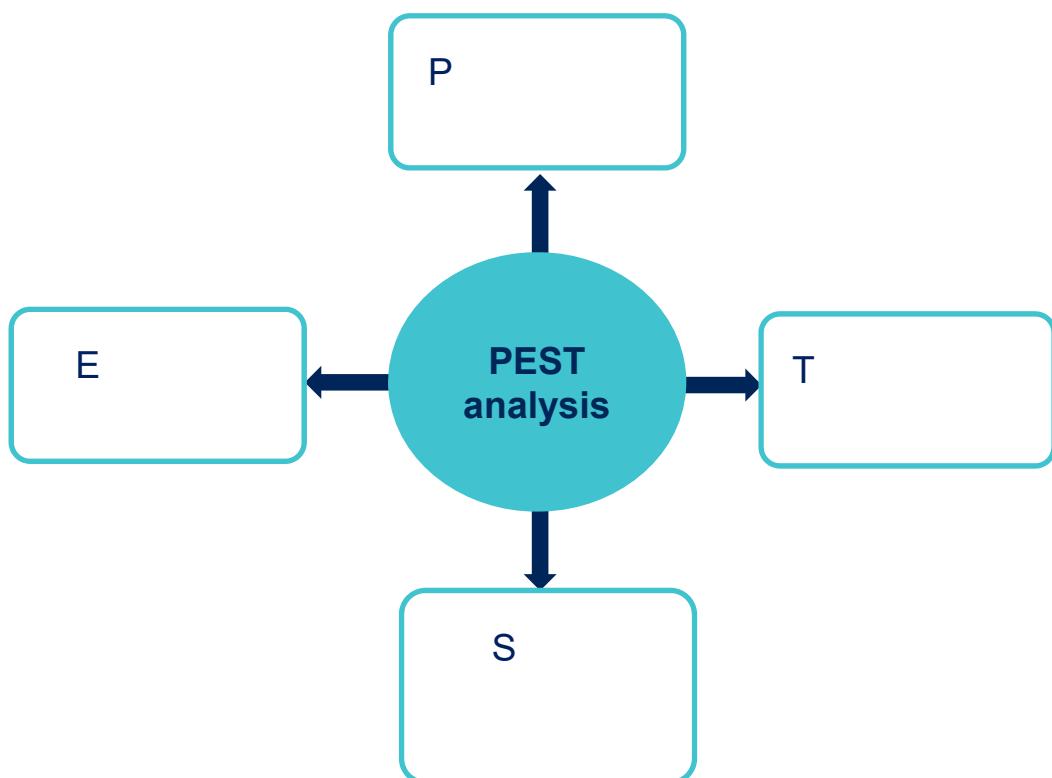


1 PEST analysis

1.1 PEST analysis

In order to fully understand an organisation, we need to fully examine the environment that it operates in.

This analysis should include the following factors:



The same categorisation of environmental factors is sometimes referred to as **PESTLE analysis** – political, economic, social, technical, legal and ecological/environmental.

Notes



2

Political systems and government policy

2.1 Political systems



A **political system** is:

- a set of institutions, political organisations and interest groups (such as lobby groups); and
- the relationship between them; and
- the rules and norms that govern their functions (such as constitutions and election law).

There are **three levels** of political systems that organisations have to take account of:

Global –

National –

Local –

Notes



2.2 Sources of legal authority

These include the following:

Supra-national

National

Regional

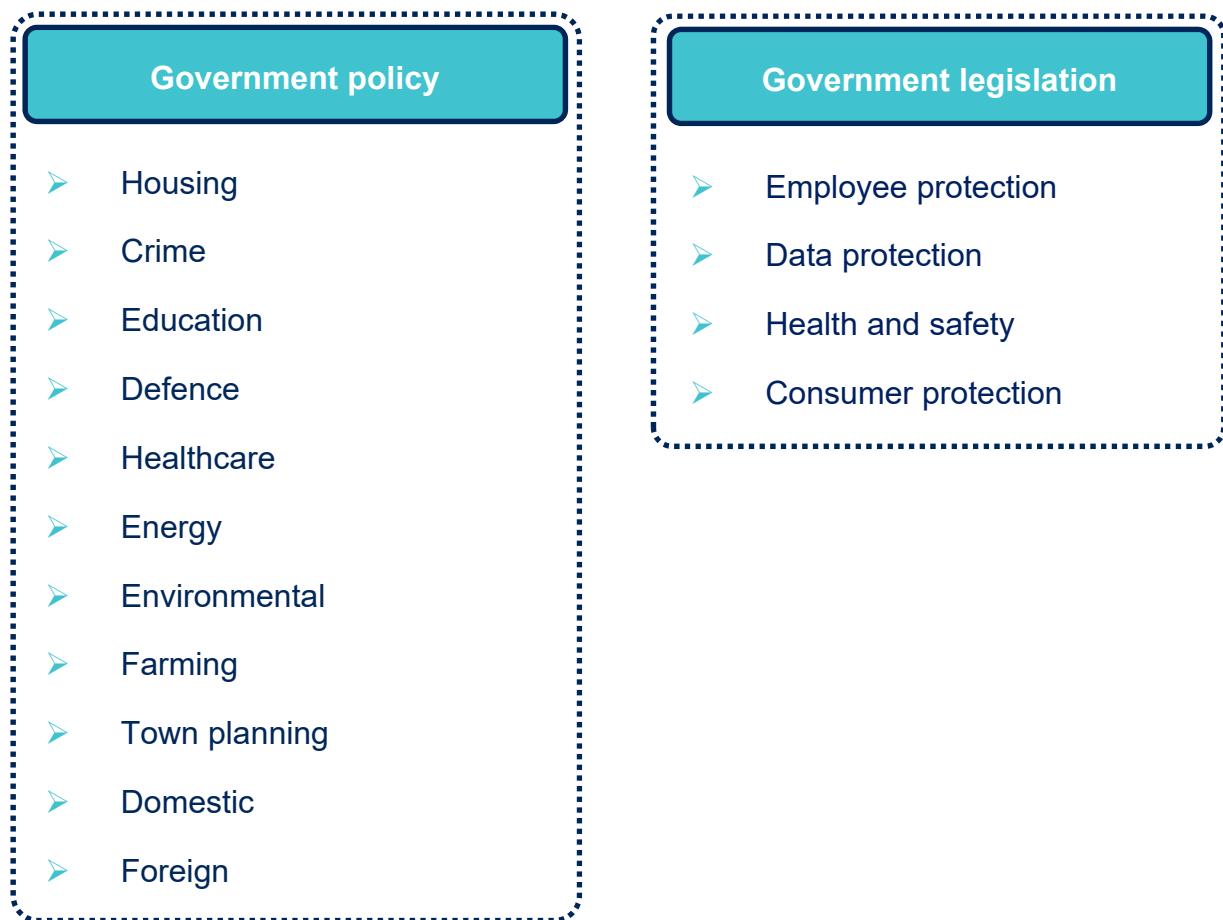
Notes



Chapter 6

2.3 How can the government affect the organisation?

Governments can affect organisations in two major ways.



Notes





Employee protection

3.1 Legislation

Within many countries, the national government have passed legislation which protects employees from unfair treatment by their employers, e.g. a minimum hourly wage rate, health and safety in the workplace, parents being allowed time off from work soon after their child is born, fair treatment in the event of employee dismissal.

3.2 Dismissal

Organisations usually dismiss workers by terminating their contract.

There are several types of dismissal:

- **Constructive dismissal** – employee resigns because their employer has breached the terms of their contract of employment

- **Unfair dismissal** – if an organisation is unable to prove that a dismissal was fair, they may be accused of unfair dismissal by the employee whose contract has been terminated.

- **Wrongful dismissal** – when the employer breaks the terms of an employee's contract during the dismissal. It is not the same as unfair dismissal.

Notes



Chapter 6

3.3 Redundancy

Redundancy is a form of dismissal which occurs when an employer needs to reduce the size of their workforce.

Legislation in this area gives several rights to the employee being made redundant, such as:

- the right to consultation
- the right to a fair notice period
- the right to redundancy pay
- the right for redundancy selection to be carried out fairly.

Notes



4

Data protection

4.1 Principles of data protection

As the business world becomes more complex, organisations are holding increasing amounts of data about individuals.

Data protection is concerned with protecting individuals against the misuse of this information. Everyone responsible for using personal data has to follow strict rules called 'data protection principles'.

The General Data Protection Regulation (GDPR) is an EU law introduced in 2018.

GDPR aim to make sure that information is:

- used fairly, lawfully and transparently
- used for specified, explicit purposes
- used in a way that is adequate, relevant and limited to what is necessary
- accurate and, where necessary, kept up to date
- kept for no longer than is necessary
- handled in a way that ensures appropriate security
- a data user is responsible for the security and protection of data against unauthorised access, alteration, destruction, disclosure and accidental loss
- personal data should not be transferred to another country outside the European Economic Area unless that country ensures an adequate level of protection

Chapter 6

The Data Protection Act 2018 supplements the GDPR and incorporates it into UK law.

There is strong legal protection for sensitive information, such as:

- race, ethnic background, religious beliefs
- political opinions
- trade union memberships
- genetics, biometrics (where used for identification), health
- sex life or orientation

The need for consent underpins the principles.

Individuals must opt-in whenever data is collected and there must be clear privacy notices. Consent must be able to be withdrawn at any time.

Notes





Data security

5.1 Risks



Data security is concerned with keeping data safe from various hazards that could destroy or compromise it.

These include:

Physical risks –

Counter measures to physical risks include adequate staff training, well documented procedures, back-up generators, off-site facilities/ off-site back-up copies of data files, computer equipment being located in a separate area.

Human risks –

Counter measures to human risks include adequate staff training, restricted access to software, CCTV, anti-virus and firewall software, passwords, data encryption.

Notes



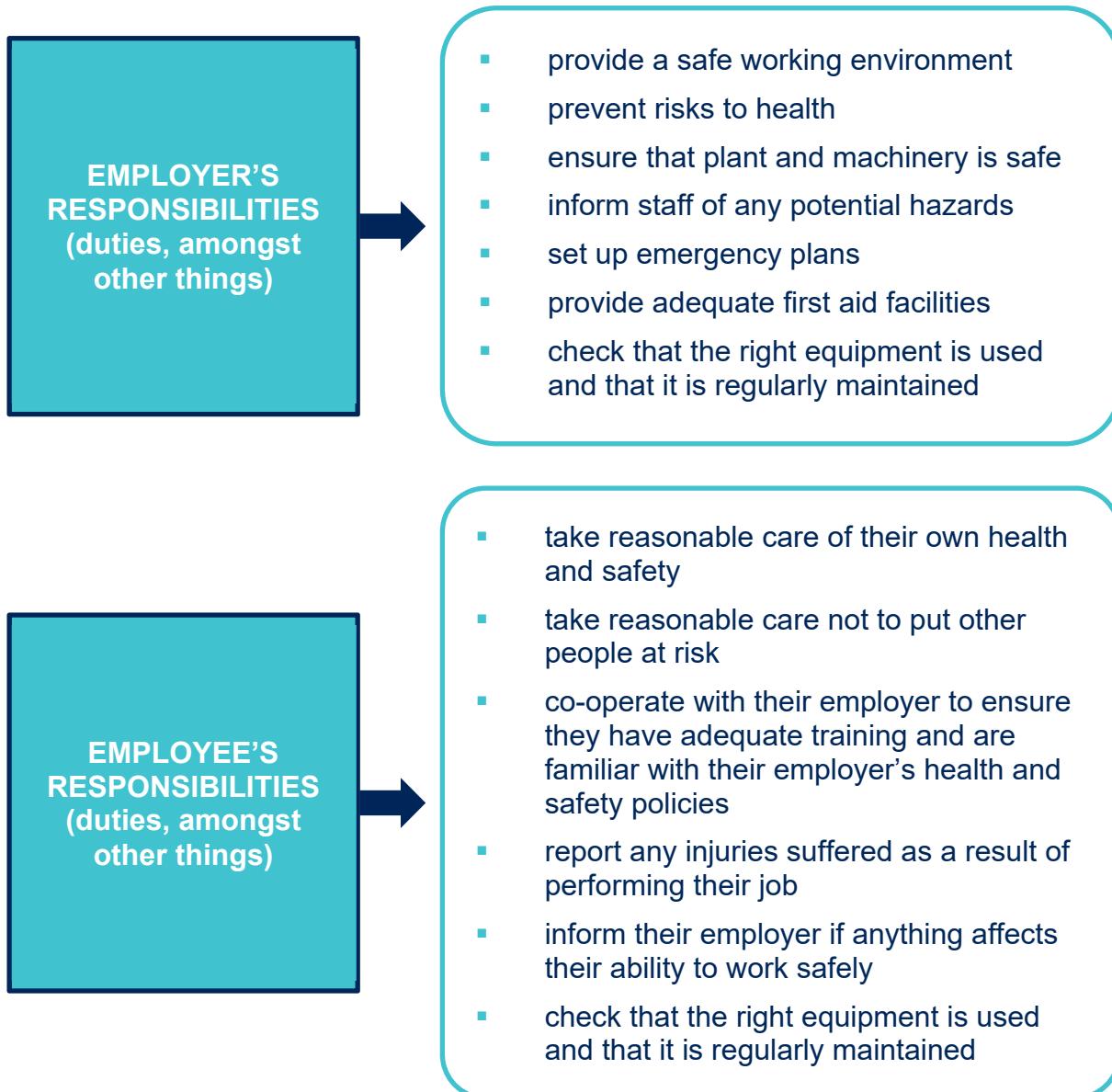
6 Healthy and safety in the workplace

6.1 Health and safety in the workplace

There are a number of potential hazards in any workplace.

Some examples include unsafe electrics, torn carpets, poor lighting, wet floors and top-heavy filing cabinets.

The law typically puts the responsibility for health and safety on **both** the employer and the employee.



Notes



Chapter 6

6.2 Breaches of health and safety

If employers fail to provide a safe and healthy working environment, they may be in breach of common law, enabling employees to make a civil claim against them.

In addition, they may be guilty of a criminal offence and be open to prosecution.

Notes



7

Consumer protection

7.1 Introduction



Many countries have legislation which attempts to protect consumers from falling victim to unscrupulous or unethical businesses.

7.2 Sale of goods

In the UK, there is a Consumer Rights Act (2015). This has many features, but there are several key principles built into the Act. These include:

- The seller must have legal title to, or ownership of, the item they are selling
- The goods sold must be of satisfactory quality and fit for their intended purpose
- When a buyer makes a purchase based on the description of an item, the goods must correspond with this description
- When digital content (e.g. online films, games, e-books) is faulty, consumers are given a clear right to repair or replacement.

In addition, this legislation also extends to the provision of services – not just goods.

This requires services provided to be:

- Carried out with reasonable skill and care
- Completed within a reasonable length of time
- Completed at a reasonable price

Notes

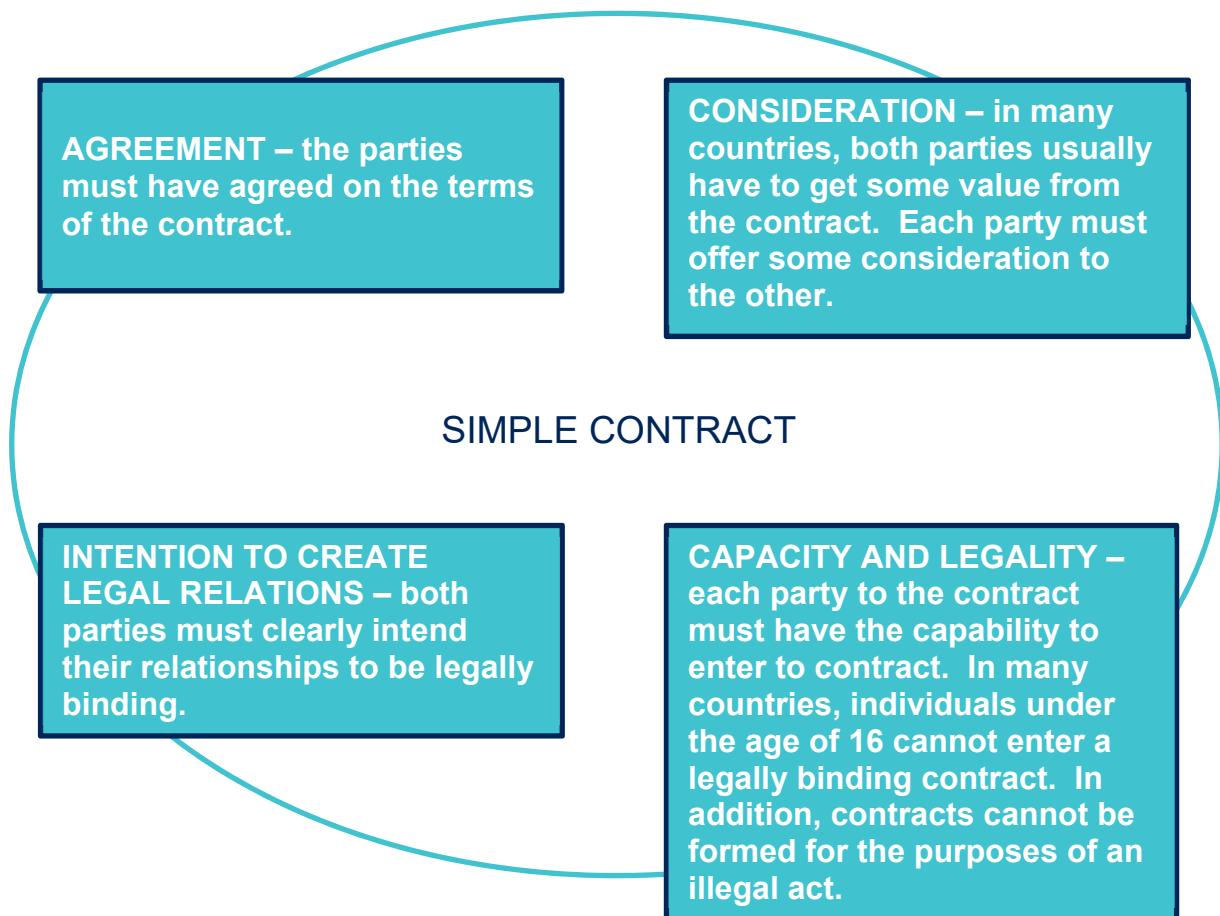


7.3 Simple contracts



Generally, a contract is a legally enforceable agreement between two or more parties. Such a contract is known as 'simple' if it is not required to be in any particular form.

Simple contract must have the following features in order to be valid:



Notes



Questions



Notes



Chapter 7

External analysis – economic factors



Outcome

By the end of this session you should be able to:

Define the concept of demand and supply for goods and services

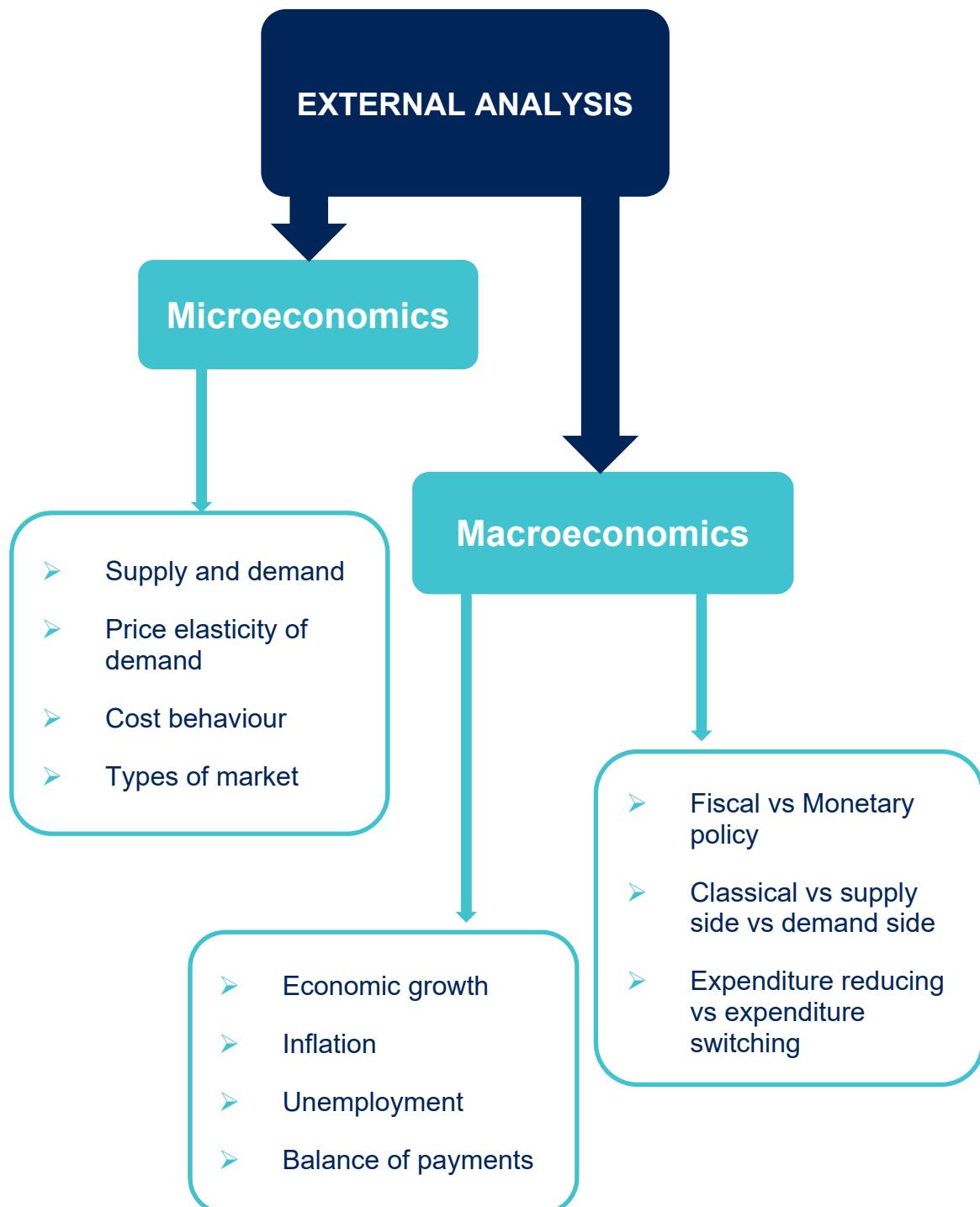
- explain elasticity of demand and the impact of substitute and complementary products
- explain the economic behaviour of costs in the short and long term
- define perfect competition, oligopoly, monopolistic competition and monopoly
- define macro-economic policy and explain its objectives
- explain main determinants of the level of economic business activity and how variations in the level of business affect individuals, households and businesses
- explain the impact of economic issues on the individual, the household and businesses: inflation, stagnation, unemployment, international payments disequilibrium
- describe the main types of economic policy that may be implemented by government and supra-national bodies to maximise economic welfare
- recognise the impact of fiscal and monetary policy measures on the individual, the household and businesses

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 7 of your Study Text



Overview





Microeconomics

1.1 Introduction

Part of an organisation's external PEST analysis will involve assessing the economic factors which will affect its industry. The key issue is to identify potential opportunities and threats.



Economics can be defined in various ways, including:

- 'the study of how society allocates scarce resources which have alternative uses, between competing ends'
- 'the study of wealth creation'.

It is useful to distinguish between two aspects of economics:

Microeconomics –

Macroeconomics –

Notes



2 Demand

2.1 Individual and market demand

Individual demand represents the amount that a consumer is willing and able to purchase at a given price – i.e. **effective** demand. Market demand shows the total amount of effective demand from all the consumers in a market – it is an **aggregate**.

2.2 Substitution effect and income effect

For most goods, the lower the price, the higher will be its demand. This is the result of two processes:

- There is a **substitution effect**. This is where a consumer buys more of one good and less of another because of the relative price changes. Thus if two goods are substitutes, a fall in price of the first will lead consumers to switch some demand to the lower-priced good.
- There is an **income effect**. This is where a change in the price of a good affects the purchasing power of the consumers' income (a change in their real income). If the price of a good falls, the consumer experiences a rise in their real income and, as a result, tends to buy more of all normal goods and services.

Notes



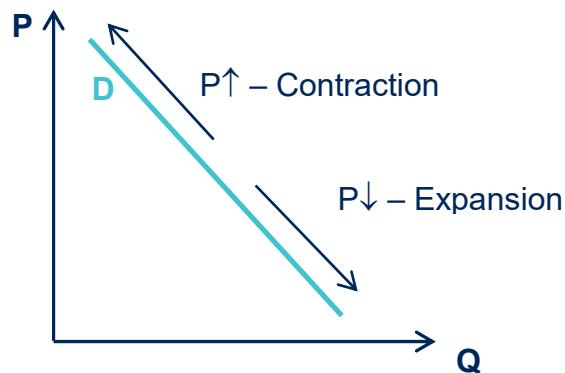
2.3 Factors affecting demand for a good:

- the price of the good
- prices of other goods
- income
- taste/fashion
- other factors

2.4 Changes in the factors affecting demand

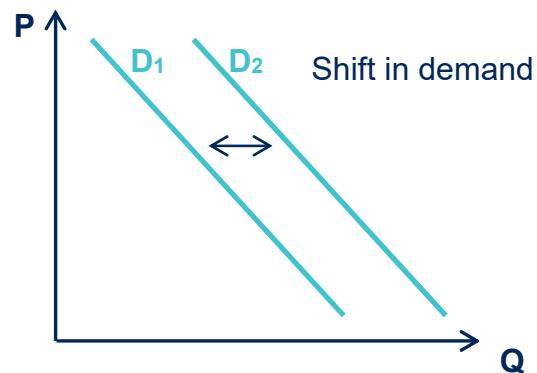
Changes in price

Leads to movements **along** the curve



Changes in the conditions of demand

Leads to movements of the curve



Notes



3

Elasticity of demand

3.1 Price elasticity of demand (PED)

PED explains the responsiveness of demand to changes in price.

$$\text{PED} = \frac{\% \text{ change in demand}}{\% \text{ change in price}}$$

- Usually negative – assume this in questions unless otherwise indicated
- >1 is 'elastic'. A price drop should increase revenue.
- <1 is 'inelastic'. A price increase should increase revenue.

Notes



3.2 Factors affecting PED

- Substitutes
- Necessity or habit
- Time frames
- Loyalty/brand strength
- Proportion of income
- Definition of the market

Notes



4 Supply

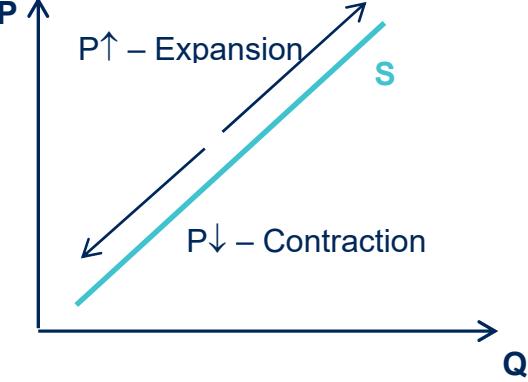
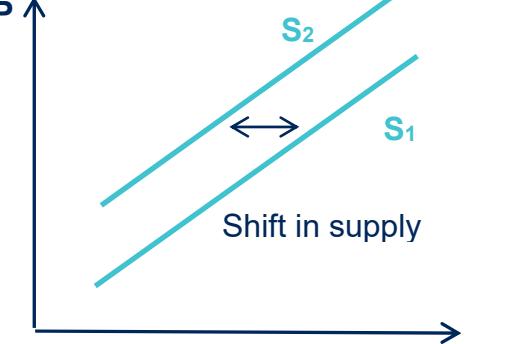
4.1 Supply

Supply is the amount that producers are willing and able to produce at a given price.

4.2 Factors affecting supply for a good

- Price
- Prices of other goods
- Cost changes
- Success of harvests

4.3 Changes in the factors affecting supply

Changes in price	Changes in the conditions of supply
Leads to movements along the curve	Leads to movements of the curve
	

Notes

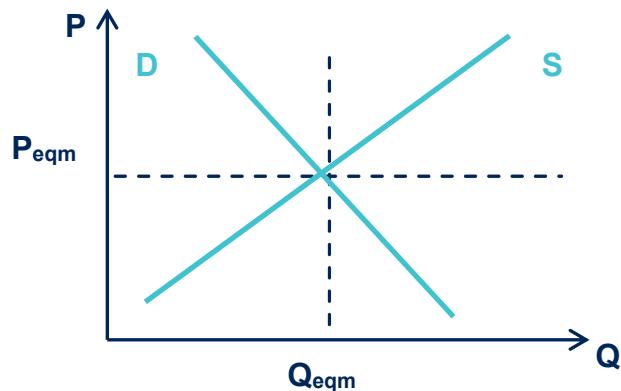


5

The price mechanism

5.1 Equilibrium

- Equilibrium price set by the interaction of supply and demand



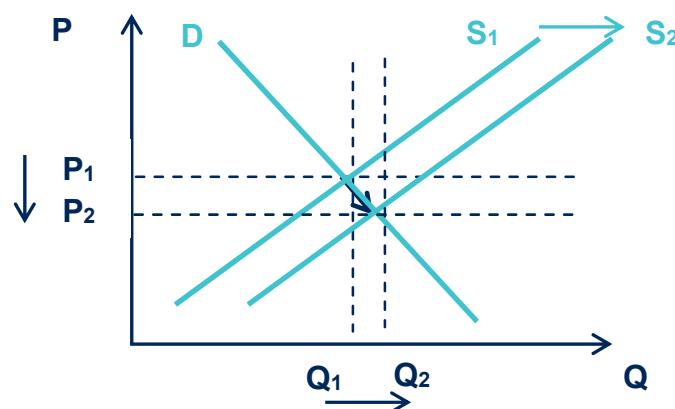
Price higher than equilibrium	Price lower than equilibrium
Excess supply – producers drop prices to clear surplus	Excess demand – shortages force prices up

Notes



5.2 Shifts in supply/demand

- Changes in supply/demand result in new equilibrium price
- In exam questions consider whether it is the supply curve or the demand curve that is moving and in which direction/
- Example – a good tea harvest will result in lower prices



Notes

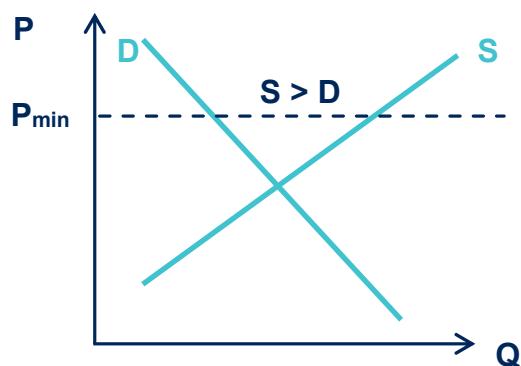


6

Interference with market prices

6.1 A Government sets minimum prices

- Typically to protect suppliers/producers
- Can also include fighting poverty by setting a minimum wage



Government-imposed minimum prices can cause:

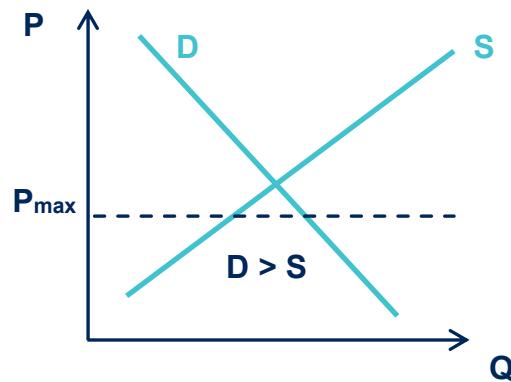
- Surplus
- Waste of resources
- Misallocation of resources

Notes



6.2 A Government sets maximum prices

- Typically to protect consumers and/or control inflation



Government-imposed maximum prices can cause:

- Shortages
- Arbitrary allocation of resources
- Misallocation of resources

Notes



6.3 The economic behaviour of costs

The relationship between selling process and the quantity supplied or demanded is not the only relationship explored by microeconomics. It also examines how costs tend to vary over time.



Short term cost behaviour – in the short term, micro economists believe that costs follow the law of diminishing returns.

As equal quantities of one variable factor of input (such as labour or materials) are added to a fixed factor, output initially increases by a greater proportion, increasing returns and causing the average cost per unit to fall.

However, beyond a certain point, the addition to output will begin to decrease and the average cost per unit will start to rise again.

The short-run average total cost curve (SRATC) tends to therefore be 'U' shaped.



Long term cost behaviour – in the long term, all costs tend to be variable in nature. This is because it is now possible to vary the quantities of any factors that were fixed in the short term.

Eventually, however, as the business expands, it will tend to become less efficient controlling costs due to poor management and pressure on supplies. This effect is sometimes referred to as **diseconomies of scale** and results in the average cost of production increasing.

This gives rise to a long-run average total cost curve (LRATC) which is broadly similar to the SRATC.

Notes



6.4 Types of market

- A **perfect market** exists when the following criteria are met:
 - Large numbers of customers and suppliers – none of whom have the power to dominate the market.
 - The products or services sold by all suppliers are identical (homogenous).
 - There is perfect information – all customers and suppliers have complete information on the prices that goods and services are being sold at elsewhere in the market.
 - No barriers to entry to, or exit from, the market – that is, competitors can easily enter and exit the market.

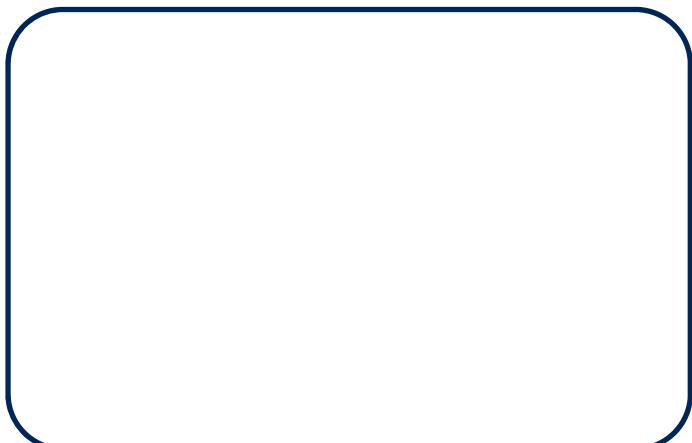
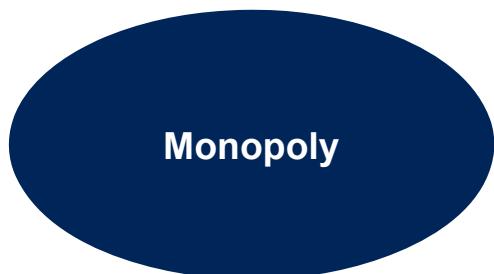
This is seen as being the ‘ideal’ market position. If any of the factors above do not hold true, the market is described as **imperfect**. In the real world, most markets are imperfect.

Notes



6.5 Forms of imperfect market

Each of these forms depend on how organisations compete within the market.



Notes



7

Macroeconomics

7.1 Introduction

While some economists advocate a free market (one without government interference), in reality most governments intervene through various macroeconomic policies in an attempt to improve the performance of the economy.

7.2 Policy objectives:

Typically, governments will have four macroeconomic policy objectives:

- **Economic growth**
- **Inflation**
- **Unemployment**
- **Balance of payments**

7.3 Economic growth

 Why we want growth	 Counter argument
<ul style="list-style-type: none">➤ More goods produced for people to buy.➤ People earn more so can afford these extra goods.➤ Lower unemployment.➤ The above should result in an improved standard of living for citizens.	

Notes



7.4 Inflation

 Why we want low inflation	 Counter argument
<ul style="list-style-type: none"> ➤ Inflation causes uncertainty and stifles investment. ➤ The poor and those on fixed incomes suffer. ➤ Inflation discourages savings ➤ In extreme cases the function of money may break down. ➤ Inflation distorts the working of the price mechanism 	

7.5 Unemployment

 Why we want low unemployment	 Counter argument
<ul style="list-style-type: none"> ➤ The Government has to pay out benefits rather than collect taxes. ➤ Unemployment has been linked to rising crime, poor health and the breakdown of the family. ➤ Unemployment can damage peoples' self-esteem. ➤ The long-term unemployed may become deskilled/unemployable. ➤ Unemployment is a wasted resource. 	

7.6 Managing the balance of trade

 Why we want to avoid a long term deficit	 Why we want to avoid a long term surplus
<ul style="list-style-type: none">➤ It will have to borrow money to fund the deficit, resulting in extra interest payments.➤ The alternative is to sell assets.➤ There will be pressure on the country's currency to depreciate	

Notes



8

Aggregate supply and demand

8.1 Aggregate Demand (AD)

While the level of activity within a particular industry will depend on specific PEST issues, the overall level of activity in an economy (and therefore its growth) can be predicted by reference to several key factors.

- AD = total demand for goods and services in the economy
- $AD = C + I + G + (X - M)$

Key symbols

- C = Consumption: goods produced and sold to consumers
- I = Investment: production of, or expenditure on, non-consumption goods. Carried out by firms.
- G = Government expenditure
- X = Exports
- M = Imports

AD is inversely related to prices since a price fall would raise everyone's real wealth and thus tend to raise spending.

AD may shift if any one component (e.g. investment or exports) changes.

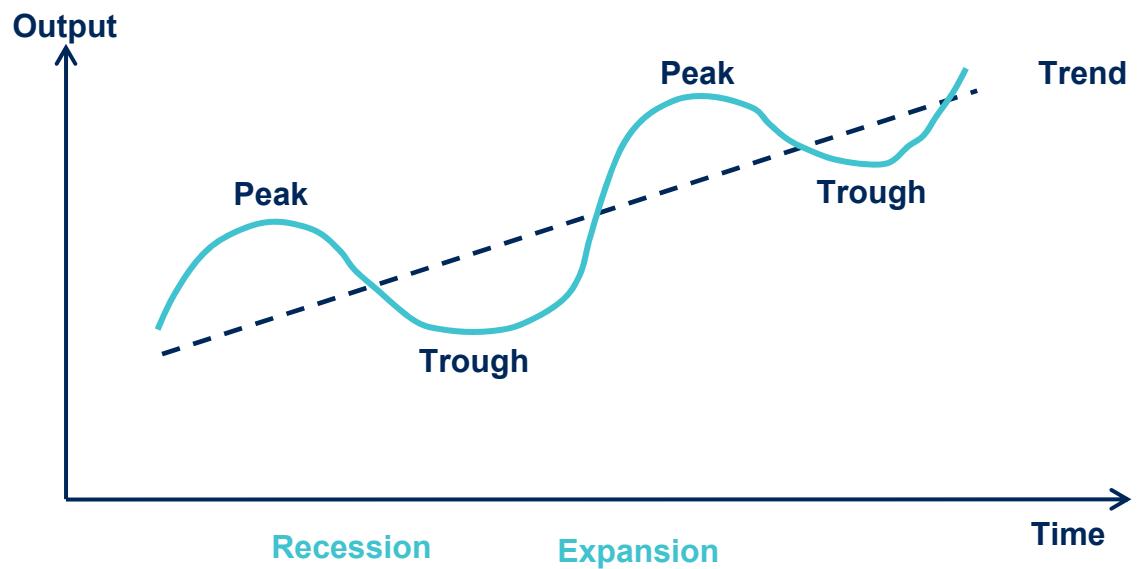
Thus the AD curve slopes down from left to right but may shift.

Notes



8.2 Trade cycles

Some economists argue that another objective of governments should be to smooth out trade cycles to avoid 'boom and bust' years.



Notes



9

Fiscal and monetary policy options

9.1 Introduction



Governments have two main ways of affecting the economy.

Fiscal policy –

Monetary policy –

In particular, monetary policy involves changing of interest rates or varying of the amount of money that banks need to keep in reserve.

9.2 Fiscal policy options

The two key elements that government must plan for each year are:

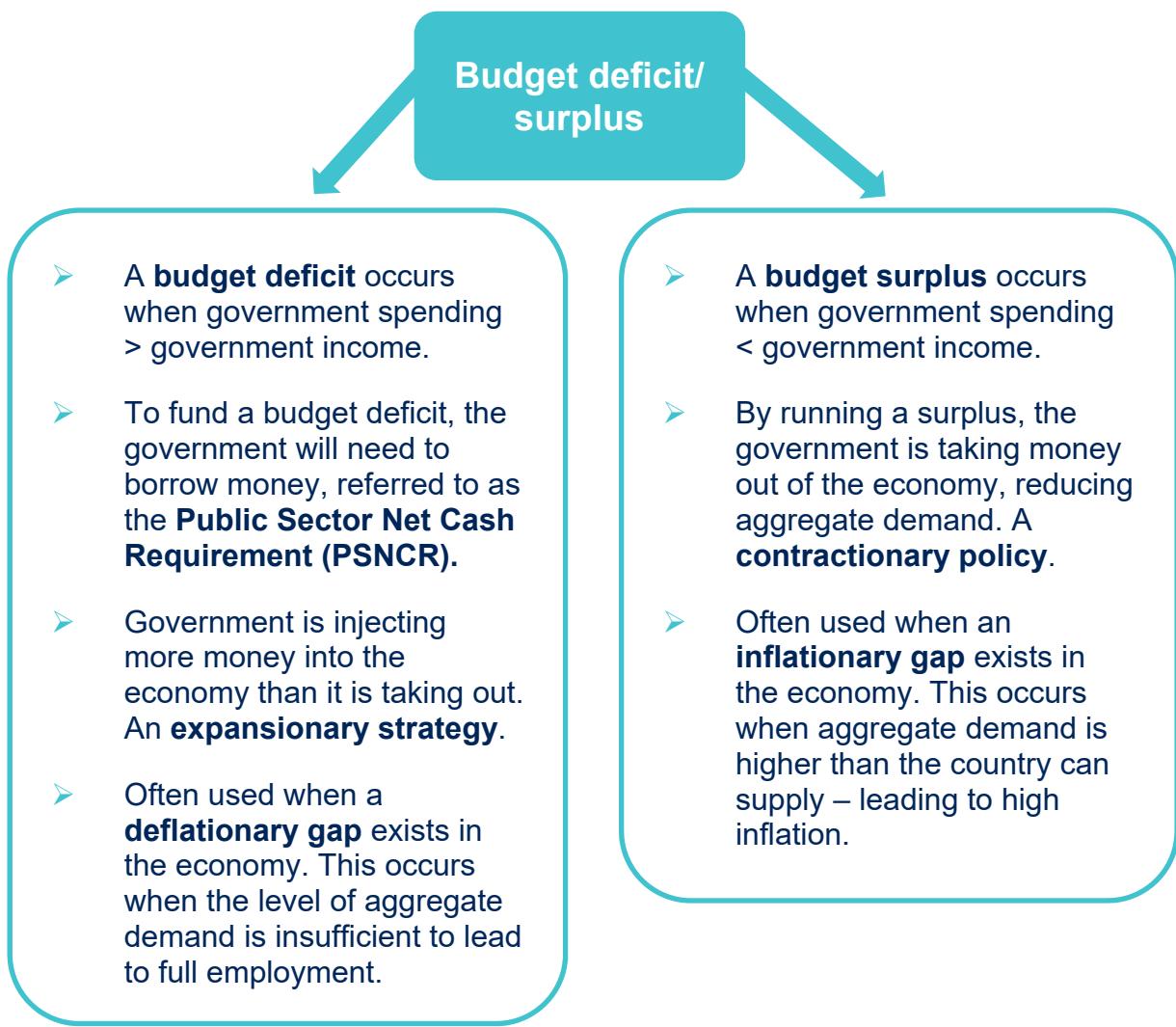
➤ **Income –**

➤ **Expenditure –**

In the medium- to long-term, most governments would prefer to run a **balanced budget**. This occurs when government income and expenditure are exactly matched.

Notes





Notes



9.3 Monetary policy

- Monetary policy refers to the management of the **money supply**, via
 -
 -
 -
- Monetary policy can be expansionary or contractionary
 - Expansionary – e.g.
 - Contractionary – e.g.
- Open market operations refer to a Government buying/selling bonds

Notes



9.4 Quantitative easing



Quantitative easing is a relatively unconventional monetary policy that involves a country's central bank buying financial assets (such as government and corporate bonds) using money that it was generated electronically.

Put more simply....the central bank has essentially printed itself new money that it can spend (although in practice it is unusual for the money to actually be printed).

This has the effect of increasing the amount of cash in the economy, hopefully increasing aggregate demand. However, it can cause increased inflation and weaken a country's exchange rate – which both come with their own problems.

9.5 Economics theories

Several economists have proposed different theories about the best ways for governments to look after the economies of their countries. Different governments may follow different theories.

Classical theory

- Suggests government does nothing.

Keynesian view (demand side)

- Argued that governments need to manipulate the level of aggregate demand within the economy
- Practically, this means governments should borrow money and inject it into the economy (run a budget deficit) when economic growth needs stimulating.

Notes



Monetarist view (supply side)

- Monetarists returned to the classical view that there was only one equilibrium point in the economy.
- The role of government is therefore to remove imperfections allowing the economy to naturally find its ideal equilibrium.

Notes



9.6 Unemployment



Type	Comments/policies
------	-------------------

Cyclical

- Due to insufficient aggregate demand ('demand deficient')

Frictional

- People moving from one job to another

Structural/technological

- Due to structural changes in industries (e.g. steel production)

Seasonal

- Due to seasonal nature of industries

Real wage

- Wages are (artificially) too high

Notes



9.7 Inflation

Type	Comments/policies
Demand pull (too much money chasing too few goods)	<ul style="list-style-type: none"> ➤ Due to excessive aggregate demand (Keynes) ➤ Due to excessive growth in the money supply (Monetarists) ➤ Reduce aggregate demand by raising interest rates, increasing tax and cutting government spending. ➤ Monetarists would argue you need to slow the growth in money supply by increasing interest rates.
Cost push	<ul style="list-style-type: none"> ➤ Cost of factors of production increases ➤ Firms want a target margin so put up prices. ➤ Strengthening currency can reduce imported inflation.
Expectations effect	<ul style="list-style-type: none"> ➤ Anticipated levels of inflation are built into wage negotiations and pricing decisions ➤ Can create inflationary spiral. ➤ Prices and incomes policies may help.
Imported inflation	<ul style="list-style-type: none"> ➤ If national currency weakens, cost of imports rise, leads to domestic inflation ➤ Can be reduced by policies to strengthen the national currency.
Monetary inflation	<ul style="list-style-type: none"> ➤ Increasing money supply increases purchasing power of the economy, boosting demand for goods and services. If occurs faster than expansion in supply, inflation can arise ➤ Monetarists argue should be controlled through increased interest rates, which will reduce the growth in money supply.

Notes



Questions



Notes



Chapter 8

External analysis – social, environmental and technological factors



By the end of this session you should be able to:

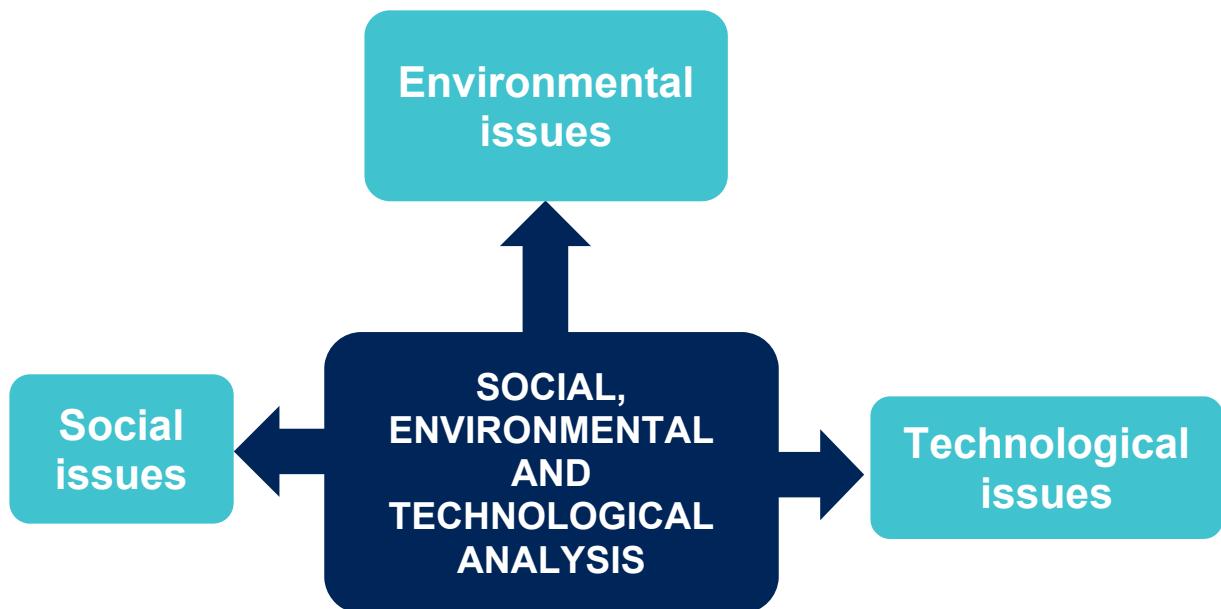
- explain the medium and long-term effects of social and demographic trends on business outcomes and the economy
- describe the impact of changes in social structure, values, attitudes and tastes on the organisation
- identify and explain the measures that governments take in response to the medium and long-term impact of demographic change
- explain the effects of technological change on organisation structure and strategy: downsizing, delayering, outsourcing
- describe the impact of information technology and information systems development on business processes
- list ways in which the business can affect or be affected by its physical environment
- describe ways in which businesses can operate more efficiently and effectively to limit damage to the environment
- identify the benefits of economic sustainability to a range of stakeholders

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 8 of your Study Text



Overview



1

Social and demographic factors

1.1 Demographic trends



The word **demographics** refers to the composition of the population in any given area – whether a country or an area within a country.

There are a number of demographic issues that businesses will need to monitor, including:

-
-
-
-
-
-
-

Notes



1.2 Social trends

This examines how society changes over time. There are a number of key ways in which this change occurs, including:

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-
-
-

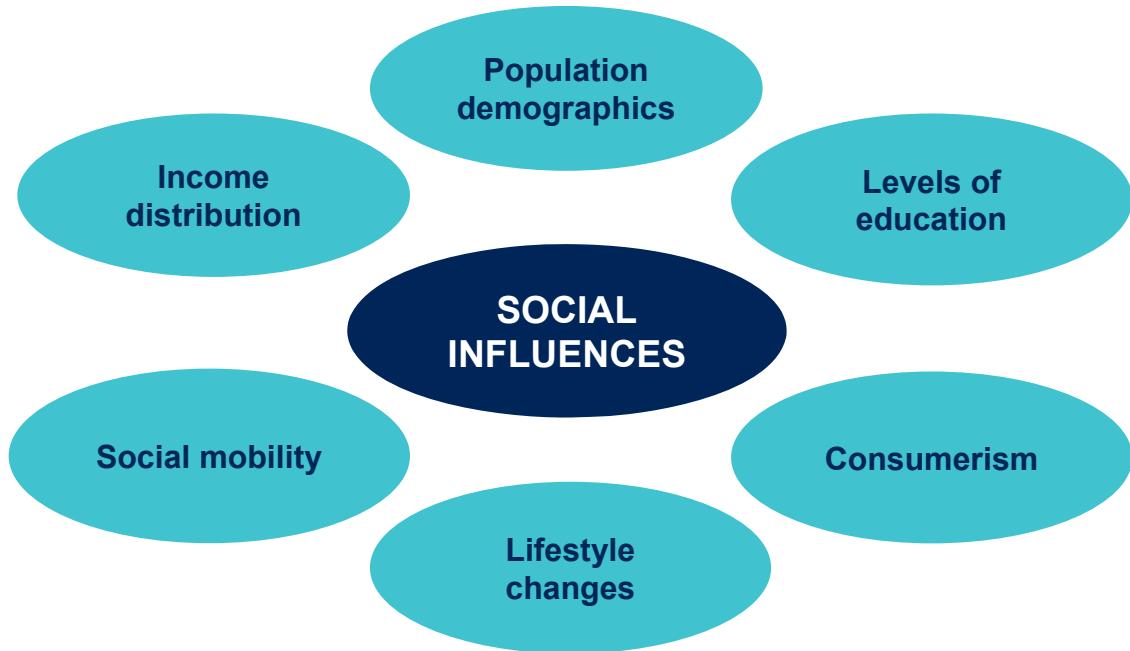
Notes



External analysis – social, environmental and technological factors

1.3 Social influences

According to **Johnson and Scholes** the social influences that should be monitored include the following:



Notes



1.4 Government policy

For many firms the impact of social and demographic change is primarily through government responses to trends. E.g:

-
-
-
-

Notes



2

Environmental factors

2.1 How can a business affect or be affected by its physical environment?

Before a company can decide how to look after its environment, it needs to understand the possible impacts a business and its environment may have on each other.

Some suggestions of these include:

Business effects upon the environment

- Pollution, such as production of rubbish or harmful emissions
- Wastage and resources, such as food, water or other raw materials
- Destruction of natural habitats
- Loss of plant and animal species

Environmental effects upon the business

- Changing climate may affect a number of businesses
- Lack of resources will increase the cost of raw materials
- Loss of sales – if a business has a poor environmental record, customers may no longer wish to trade with it
- Legislation – polluting companies may trigger legislation by governments. The additional compliance costs and fines may reduce profits.

Notes



2.2 Sustainability

Nowadays, businesses should look to be environmentally sustainable.



Notes



3

Technological factors

3.1 Introduction

Technological changes can affect a firm in many different ways, such as:

- Organisational structures –
- Product developments –
- Production changes –
- Marketing –

3.2 Impact on organisational structure

These changes have resulted in downsizing and delayering in firms.



Downsizing is a term used for reducing the number of employees in an organisation without necessarily reducing the work or the output.



Delayering is often linked to downsizing. It is the process of removing layers of management. This is usually to change the organisation from one with a rigid hierarchical framework with numerous layers of supervisory grades into a 'flatter' organisation with minimal layers of management.

Notes



3.3 Outsourcing



Outsourcing means contracting out aspects of the work of the organisation, previously done in-house, to specialist providers.

There are four key types of outsourcing. The four types are illustrated below in terms of outsourcing information technology (IT) services:

- **Total** – where the third-party supplier provides most or all of the organisation's IT systems and services
- **Ad-hoc** – when the organisation needs IT support for a short period and hires in external support as needed on a temporary basis
- **Partial** – where some IT functions are outsourced, such as maintenance or support, but others are kept in-house
- **Project management** – similar to ad-hoc, this occurs when the creation and/or implementation of a specific IT system are outsourced to a third party supplier



Advantages

-
-
-
-



Disadvantages

-
-
-
-

Notes



Questions



Chapter 9

Competitive factors



Outcome

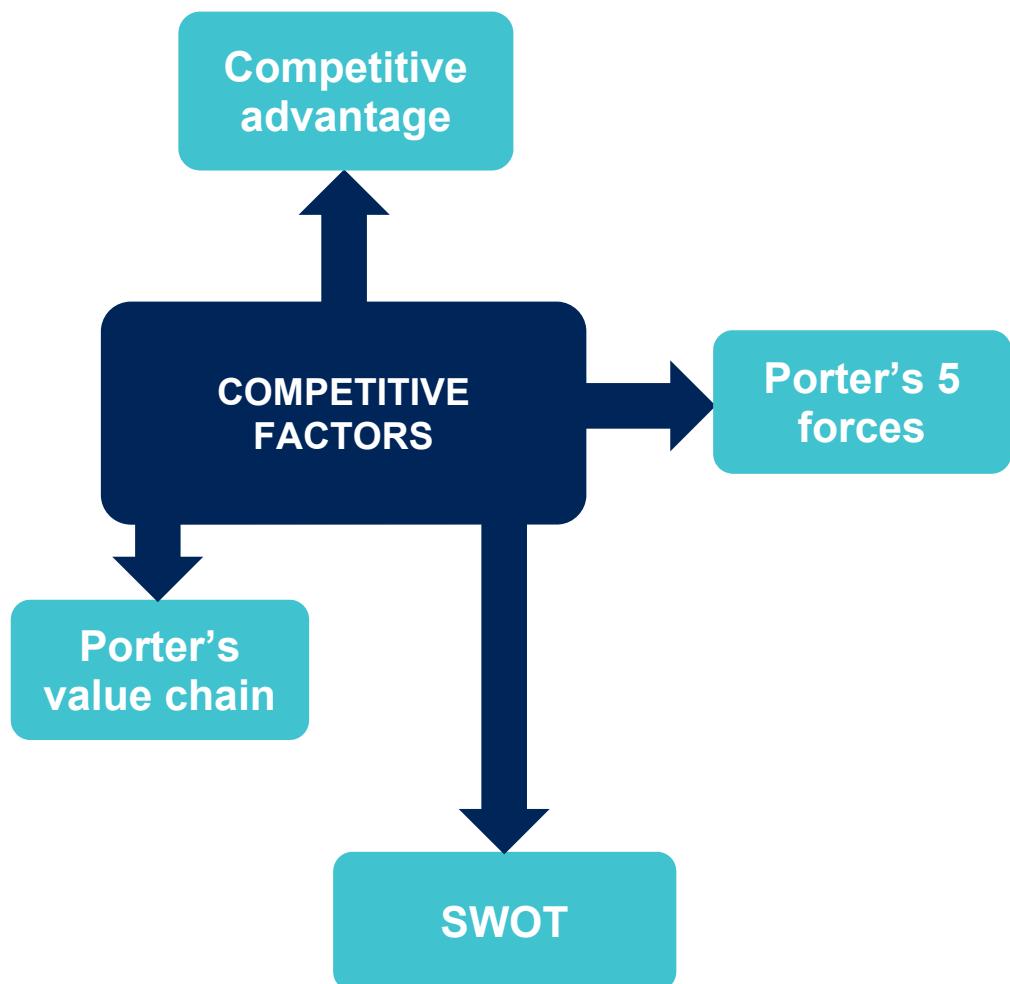
By the end of this session you should be able to:

- identify a business's strengths, weaknesses, opportunities and threats (SWOT) in a market and the main sources of competitive advantage
- identify the main elements within Porter's value chain and explain the meaning of a value network
- describe the activities of an organisation that affect its competitiveness:
 - purchasing
 - production
 - marketing
 - service
- explain the factors of forces that influence the level of competitiveness in an industry or sector using Porter's five forces model

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 9 of your Study Text

Key Overview



1

Competitive advantage

1.1 Definition



Part of a firm's external analysis will involve assessing the degree and sources of competition within the industry. The key issue here is whether the firm has a sustainable **competitive advantage**.

This will be analysed in three steps:

- the main competitive forces in an industry
- the different ways a firm can achieve a competitive advantage
- how different activities and departments within the firm contribute to its competitiveness.

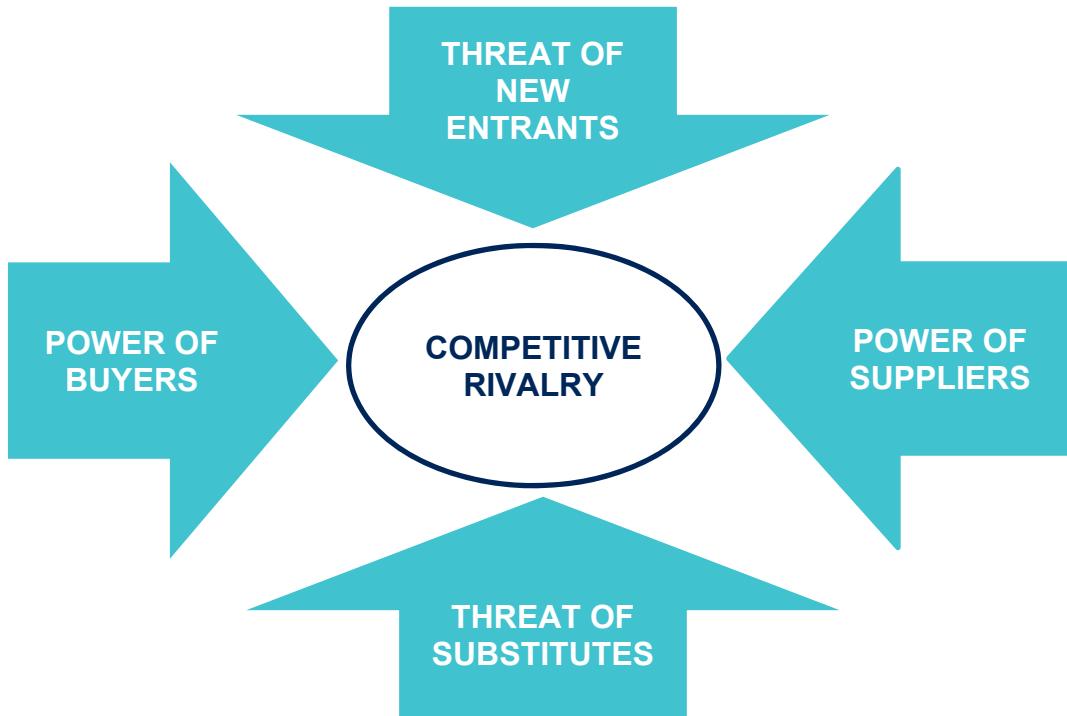
Notes



2

Porter's five forces analysis

2.1 Porter's five forces model



- Competitive rivalry –
- Threat of new entrants –
- Threat of substitutes –
- Power of buyers –
- Power of suppliers –

Notes



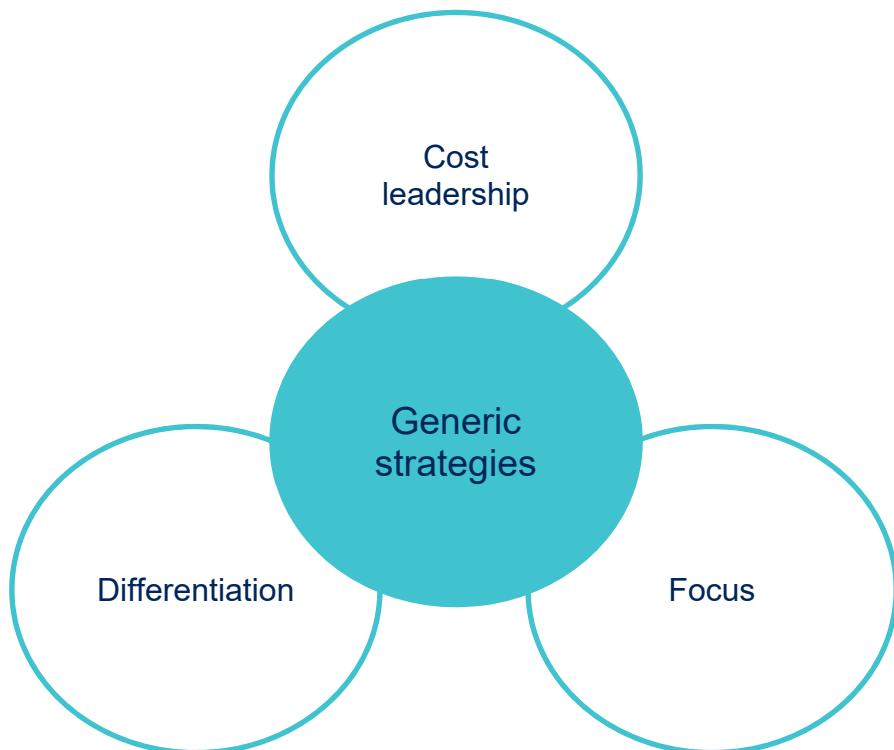
3 Generic strategies

3.1 Introduction

This model, developed by Porter, examines the different ways that an organisation can achieve a competitive advantage in its market.

Porter argued that businesses could adopt one of three strategies to gain competitive advantage. Each business can adopt the strategy that best fits their individual circumstances.

3.2 Generic strategies



Notes



➤ **Cost leadership –**

➤ **Differentiation –**

➤ **Focus –**

Conclusion

Porter argued that businesses needed to adopt one of the above three approaches or they would be 'stuck in the middle', which would make it difficult for them to compete successfully.

Notes

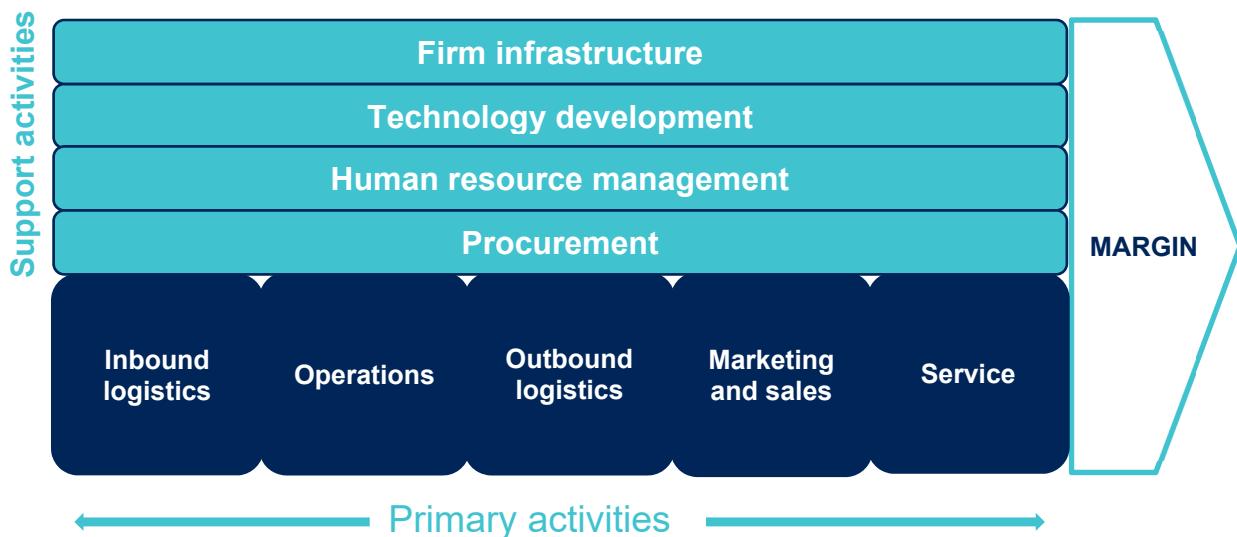


4 Porter's value chain

4.1 Porter's value chain

Porter developed his value chain to determine whether and how a firm's activities contribute towards its competitive advantage.

The approach involves breaking the firm down into five 'primary' and four 'support' activities, and then looking at each to see if they give a cost advantage or quality advantage.



Usefulness:

-
-
-

Notes



5

Corporate appraisal (SWOT)

5.1 SWOT

Corporate appraisal (SWOT) provides the framework to summarise the key outputs from the external and internal analysis.

The strengths and weaknesses normally result from the organisation's internal factors, and the opportunities and threats relate to the external environment.

The tools and techniques used to provide the SWOT analysis will be covered in the next few chapters.



Strengths:

Weaknesses:

Opportunities:

Threats:

Once identified, management can consider:

- matching strengths to opportunities may highlight new areas for organisational development

or

- methods of removing weaknesses or dealing with the threats the organisation faces

Notes



Questions



Chapter 10

Professional ethics in accounting and business



Outcome

By the end of this session you should be able to:

- define business ethics and explain the importance of ethics to the organisation and to the individual
- describe and demonstrate the following principles from the IFAC code of ethics, using examples
 - integrity
 - objectivity
 - professional competence
 - confidentiality
 - professional behaviour
- describe organisational values which promote ethical behaviour using examples
 - openness
 - trust
 - honesty
 - respect
 - empowerment
 - accountability
- explain the concept of acting in the public interest

Chapter 10

- recognise the purpose of international and organisational codes of ethics and codes of conduct, IFAC, ACCA etc
- describe how professional bodies and regulators promote ethical awareness and prevent or punish illegal or unethical behaviour
- identify the factors that distinguish a profession from other types of occupation
- explain the role of the accountant in promoting ethical behaviour
- recognise when, and to whom, illegal or unethical conduct by anyone within or connected to the organisation should be reported
- define corporate code of ethics
- describe the typical contents of a corporate code of ethics
- explain the benefits of a corporate code of ethics to the organisation and its employees
- describe situations where ethical conflicts can arise
- identify the main threats to ethical behaviour
- outline situations whether ethical dilemmas may be faced
- list the main safeguards against ethical threats and dilemmas

and answer questions relating to these areas.

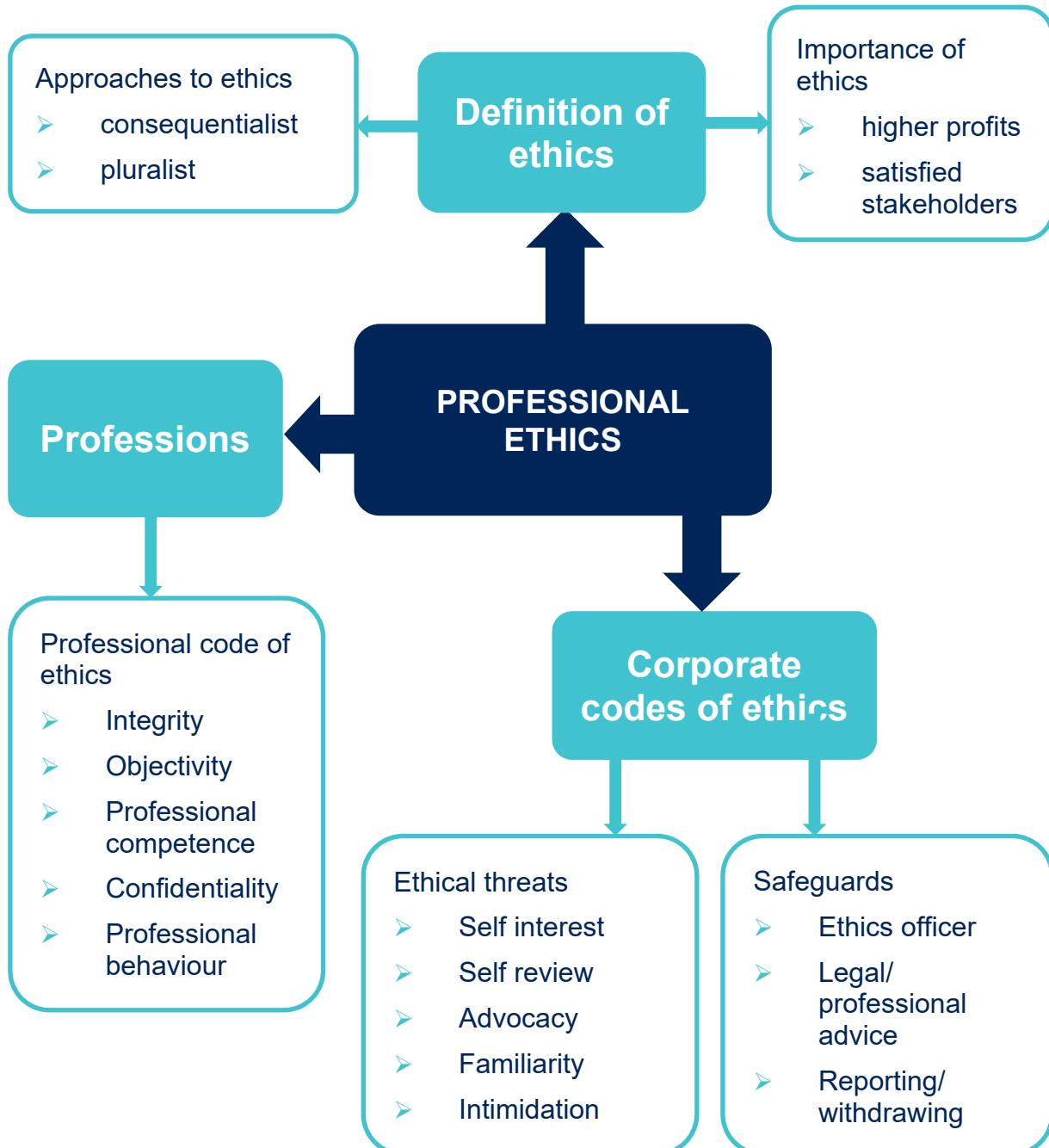


One of the PER performance objectives (PO1) is to understand that the fundamental principles of ethical behaviour mean you should always act in the wider public interest. You need to take into account all relevant information and use professional judgement, your personal values and scepticism to evaluate data and make decisions. You should identify right from wrong and escalate anything of concern. You also need to make sure that your skills, knowledge and behaviour are up-to-date and allow you to be effective in your role. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 10 of your Study Text



Overview



1

Business ethics and their importance

1.1 Introduction



Ethics is the system of moral principles that examines the concept of right and wrong.

Business ethics is the application of ethical values to business behaviour.

An ethical dilemma involves a situation where a decision-maker has to decide what is the 'right' or 'wrong' thing to do.

Examples of ethical dilemmas can be found throughout all aspects of business operations.

Accounting issues:

- Creative accounting to boost or suppress reported profits
- Directors' pay arrangements
- Insider trading

Production issues:

- Should the company produce certain products at all? E.g. guns, tobacco
- Should the company test its products on animals?

Sales and marketing issues:

- Price-fixing and anti-competitive behaviour may be overt and illegal or may be more subtle
- Is it ethical to target advertising at children? E.g. fast food or for expensive toys

Personnel (HRM) issues:

- Employees should not be favoured or discriminated against on the basis of gender, race, religion, age, disability etc.
- The contract of employment must offer a fair balance of power between employee and employer.

Notes



Chapter 10

1.2 Approaches to ethics

There are several possible approaches to making ethical decisions.

Consequentialist	Pluralist
<p>E.g. if an individual needs to feed their family, stealing may be seen as morally acceptable if there is no other way of obtaining food.</p> <p>This approach can be broken down into two further perspectives:</p> <p>Egoism – the action is morally correct as long as the outcome is favourable for the individual making the decision.</p> <p>Utilitarian – the action is considered to be morally correct if the outcome is favourable for the greatest number of people or ‘the greater good’</p>	<p>E.g. a mining company may wish to open a new mine in order to access mineral deposits and earn its shareholders a large profit. However, local residents may be unhappy due to pollution caused by the mine. A pluralist approach would be to open the mine but ensure that enough money is spent to minimise the damage to the local environment.</p>
Relativism	Absolutism
<p>This means that whether something can be classed as ‘ethical’ or not depends on the circumstances.</p> <p>What if someone stole bread to feed their starving family? Relativists may argue that different people will view this differently.</p>	<p>E.g. an absolutist would regard the taking of a human life as entirely unacceptable, regardless of the context; whether it was murder or in self-defence would be irrelevant.</p>

Notes



1.3 Why business ethics are important



Benefits to individuals

- Consumer and employee expectations have evolved over recent years
- Consumers may choose to purchase ethical items, even if they are not the cheapest
- Employees will not blindly accept orders to act in a manner that they personally believe to be unethical

Benefits to organisation

- Good ethics should be seen as a driver of profitability rather than a burden on business
- An ethical framework is part of good corporate governance and suggests a well-run business
- Investors are reassured about the company's approach to risk management
- Employees will be motivated in the knowledge that they operate in an environment of good ethical corporate behaviour

Notes



2

Professional ethics

2.1 What is a profession?



A **profession**, as opposed to other types of occupation, is characterised by the following factors:

- the mastering of specialised skills during a period of training
- governance by a professional organisation
- compliance with an ethical code
- acting in the public interest
- a process of certification before being allowed to practice

2.2 Professional code of ethics

Both the International Federation of Accountants (IFAC) and the ACCA have developed codes of ethics for their members.

The ACCA Code is based on the IFAC code and takes a similar conceptual framework approach, listing an identical set of Fundamental Ethical Principles that must be followed.

Principle	Description
Integrity	
Objectivity	
Professional competence and due care	
Confidentiality	
Professional behaviour	

Notes



3

Corporate codes of ethics

3.1 Corporate codes of ethics

Most companies, especially if they are large, have approached the concept of business ethics by creating a set of internal policies and instructing employees to follow them.

These policies can either be broad generalisations (a corporate ethics statement) or can be specific rules (a corporate ethics code).

There are six values that organisations can apply in order to create a culture that makes it easy for employees to follow their code of ethics. They can be easily remembered using the acronym HOTTER.

Honesty –

Openness –

Transparency –

Trust –

Empowerment –

Respect –

Notes



4

Ethical threats and dilemmas

4.1 Ethical threats

The IFAC Code sets out the approach that accountants should take to ethical issues:



Safeguards are steps that the accountant can take to eliminate the threat, or reduce it to an acceptable level.

If no safeguards are available, the accountant should

- Eliminate the interest or activities causing the threat
- If this is not possible, decline or discontinue the engagement.

Notes



Chapter 10

There are several **key threats** to ethical behaviour that accountants should attempt to avoid. These include:

Threat	Definition	Example
Self-interest		
Self-review		
Familiarity		
Advocacy		
Intimidation		

Notes



4.2 Safeguards

The IFAC Code identifies two categories of general safeguards that may be used to eliminate or reduce the threats to independence.

Safeguards created by the profession, legislation or regulation:

- Education and training
- Continuing Professional Development requirements
- Corporate governance regulations
- Professional standards
- Monitoring of professional work including disciplinary proceedings
- External reviews.

Safeguards within the work environment:

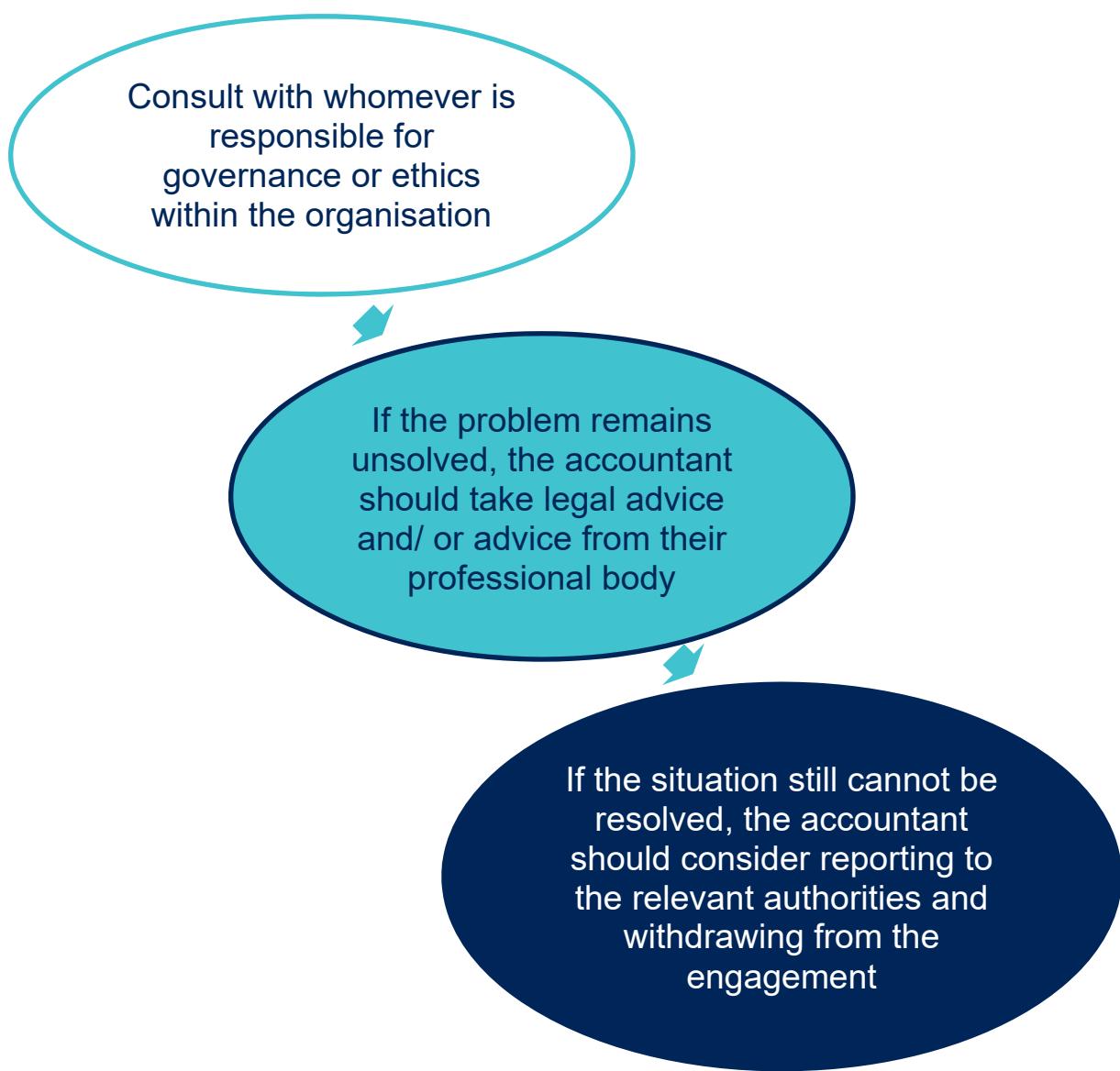
- Review procedures
- Consultations with independent third parties
- Rotation of senior staff
- Discussions with those charged with governance.
- Disclosing fees and services to those charged with governance.

Notes



4.3 Dealing with unethical or illegal conduct

If an accountant uncovers unethical or illegal conduct within the organisation they work for, there is a series of steps that they should take to deal with the issue.



Ethical issues are rarely clear-cut in the real world. There may not be only one correct approach to take. In the exam, make sure you read ethics scenarios and the options you are given carefully. Make sure you don't suggest a course of action that would breach ethical principles.

Notes



Questions



Chapter 11

Governance and social responsibility in business



Outcome

By the end of this session you should be able to:

- explain the concept of separation between ownership and control
- explain the agency concept in relation to corporate governance
- define corporate governance and social responsibility and explain their importance in contemporary organisations
- explain the responsibility of organisations to maintain appropriate standards of corporate governance and corporate social responsibility
- briefly explain the main recommendations of best practice in effective corporate governance: executive and non-executive directors, remuneration committees and public oversight
- explain how organisations take account of their social responsibility objectives through analysis of the needs of internal, connected and external stakeholders
- identify the social and environmental responsibilities of business organisations to internal, connected and external stakeholders
- explain the purpose of committees
- explain the types of committees used by business organisations
- list the advantages and disadvantages of committees
- explain the roles of the Chair and Secretary in a committee

and answer questions relating to these areas.

Chapter 11



PER

One of the PER performance objectives (PO4) is to contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 11 of your Study Text



Overview





Separation of ownership and control

1.1 The principal agent problem

- In some, usually small, companies the owners also manage the business.
- However, in larger companies shareholders usually delegate control to professional managers – the board of directors – to **run the company on their behalf**.
- This **separation of ownership and control** leads to a potential conflict of interests between directors and shareholders.
- This conflict is an example of the '**agency problem**'. The principals (the shareholders) have to find ways of ensuring that their agents (the managers) act in their interests.

1.2 Possible areas of conflict

- 'Fat cat' salaries and benefits
- Mergers and acquisitions
- Short-termism
- Attempts to resolve this conflict can take a number of forms:
- Corporate governance (see below)
- A review of the remuneration and bonus schemes given to directors.

Notes



2

Corporate governance

2.1 Corporate governance



Corporate governance is defined as 'the systems by which companies and other organisations are directed and controlled'.

The main objectives are as follows:

- to **control** the managers/directors by increasing the amount of reporting and disclosure
- to increase level of **confidence and transparency** in company activities for all investors (existing and potential) and thus promote growth in the company
- to increase **disclosure** to all stakeholders
- to ensure that the company is run in a **legal and ethical manner**
- to build in control at the top that will '**cascade**' down the organisation.

Notes



2.2 Types of directors

Those who are involved in the day-to-day running of the company are known as **executive directors**.



Non-executive directors (NEDs) are not employees of the company and have no managerial responsibilities, meaning that they do not participate in the day-to-day running of the organisation.

However, NEDs do attend board meetings and therefore have a say in the strategic decision making of the company.

2.3 Roles of NEDs

NEDs have several key roles in the organisation. According to the Higgs report (2003), these include:

- **Strategy** –
- **Performance** –
- **Risk** –
- **People** –

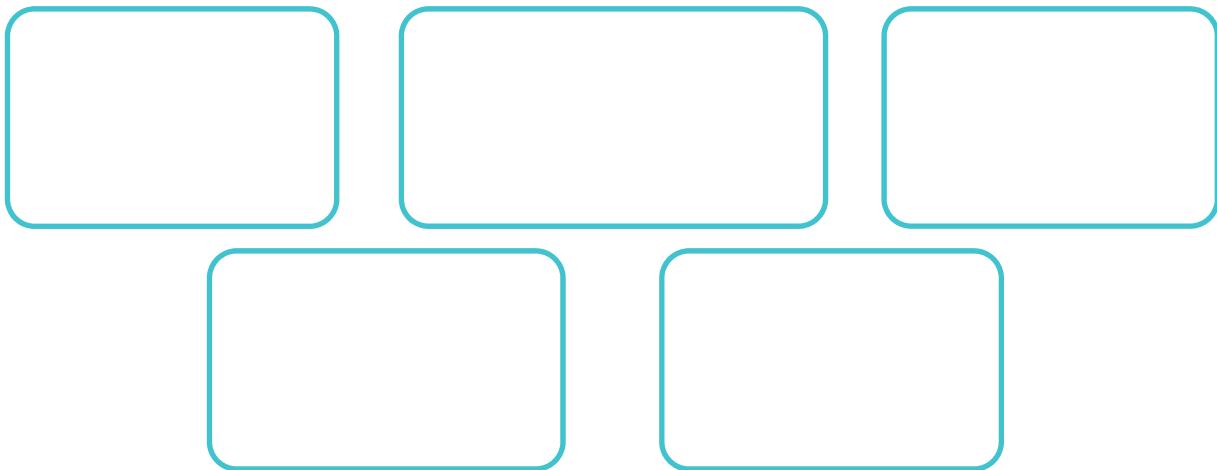
Notes



2.4 Independence

NEDs should be independent as far as possible, in order to ensure that their oversight role can be carried out as effectively and responsibly as possible.

NEDs must not:



If any of these apply to a NED, their independence will be seriously compromised.

2.5 Other recommendations

- At least half the board should be independent NEDs (excluding the Chairman of the Board, which is often also a NED). A smaller company should have at least two independent NEDs.
- One of the independent NEDs should be appointed to be the 'senior independent director'. They are available to be contacted by shareholders who wish to raise matters outside the normal executive channels of communication.
- Executive directors and NEDs would typically be required to stand for re-election by shareholders every three years. NEDs who have been with the company for over nine years must stand for re-election on an annual basis.

Notes



2.6 Remuneration committees



A **remuneration committee** is a committee made up of non-executive directors which is responsible for deciding on the pay and incentives offered to executive directors.

The board of a listed company should establish a remuneration committee of at least three (or two in the case of smaller companies) independent NEDs.

The whole of Board of Directors should be responsible for deciding the level of remuneration for NEDs.

2.7 Audit committee



An **audit committee** consists of independent NEDs who are responsible for monitoring and reviewing the company's internal financial controls and the integrity of the financial statements.

The audit committee acts as an interface between the full board of directors and both the internal and external auditors.

Responsibilities of audit committees include:

- Reviewing accounting policies and financial statements as a whole to ensure they are appropriate and balanced
- Reviewing systems of internal controls and risk management within the organisation
- Agreeing the work agenda for the internal audit department, as well as reviewing the results of internal audit work
- Making recommendations to the board, for them to put to the shareholders, relating to the appointment and removal of the external auditors as well as their remuneration and terms of engagement
- Liaising with the external auditors, in particular relating to the review and monitoring of the external auditor's independence and objectivity as well as the effectiveness of the audit process

Notes



2.8 Nomination committee



A **nomination committee** is formed in order to ensure that the composition of the board is balanced. It monitors the process for appointment of directors to the board of directors as well as making recommendations for appointments to the board.

2.9 Public oversight

The public is a legitimate stakeholder in a large company. This means that the public has a 'right to know' how such a company is being governed as well as a right to be involved in the governance process.

The most obvious means of public oversight of corporate governance is via the publication by companies of their Annual Report and financial statements. While companies are required by law to send a copy of this information to every shareholder, many companies will also post a copy on their website.

In addition, most companies are required to submit their annual financial statements to a regulatory body (Companies House in the UK) so that any interested parties can review them.

Some countries and/or industries have set up **public oversight boards**. These organisations monitor whether organisations are complying with relevant rules and regulations and take action against those that fail to meet the required standards.

2.10 Benefits of corporate governance to the organisation



Advantages include:

- business success –
- investor confidence –
- minimisation of wastage –
- listing requirements –

Notes



3

Corporate social responsibility

3.1 Corporate social responsibility



Corporate social responsibility (CSR) refers to the idea that a company should be sensitive to the needs and wants of all its stakeholders rather than just the shareholders.

It refers to an organisation's obligation to maximise its positive impacts upon stakeholders while minimising the negative impacts.

3.2 Stakeholder needs analysis

This involves an organisation undertaking research to determine:

- Who its key stakeholders are, and:
- What their needs are.

A typical list is not what should be created here. Each company must sit down with a blank sheet of paper and identify the stakeholders of **their** business.

There is no better way of understanding stakeholder needs than asking them directly. Possible methods include questionnaires, focus groups and direct interviews.

3.3 The importance of CSR



Advantages include:

- attractive to customers –
- attractive to potential employees –
- it can save the business money –
- it reduces the risk of the organisation –



Drawbacks include:

- loss of business value –
- maximisation of profits can be seen as socially responsible –
- increased cost of raw materials –
- having to turn away business –
- increased management time –

Notes



3.4 Sustainability



Sustainable development is a concept which suggests that organisations should use resources in such a way that they do not compromise the needs of future generations.

Corporate social responsibility is closely linked to sustainable development. Both emphasise environmental preservation, recycling and renewal programs.

Sustainable development refers primarily to issues of environmental impact and economic justice, while corporate social responsibility encompasses broader concerns such as the company's charitable contributions and role in the community.

Notes



4

Committees

4.1 Definition



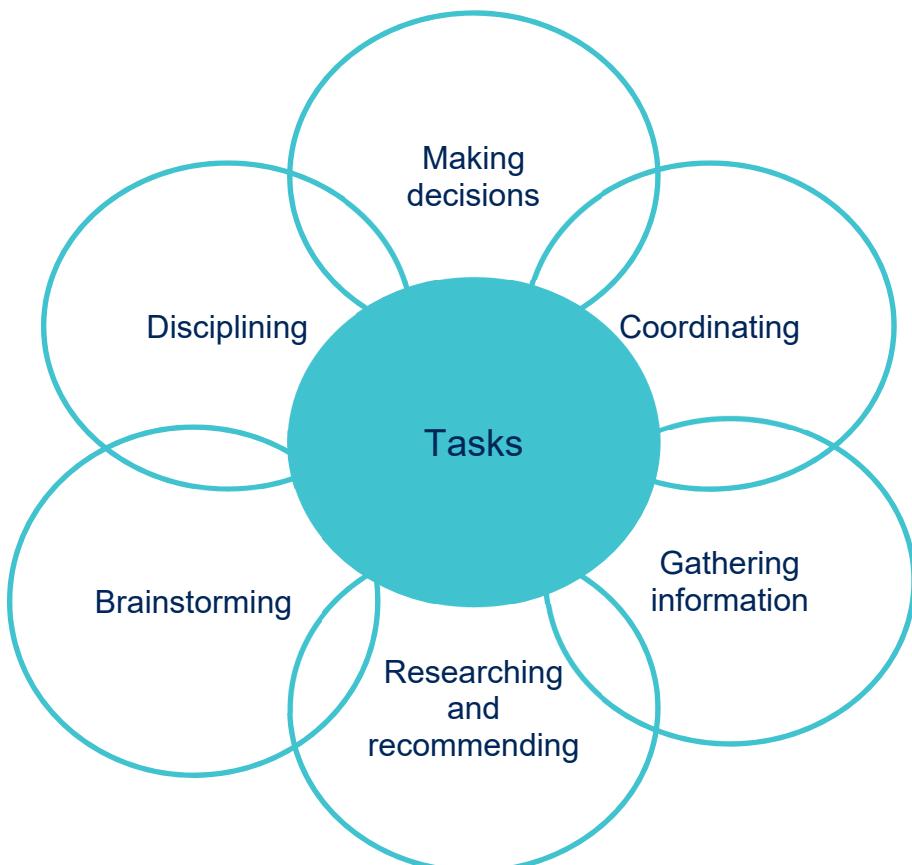
A **committee** is a group of people who are appointed to administer, discuss or make reports concerning a subject.

We have already considered a number of committees that are required as part of corporate governance.

How are these committees, and indeed committees in general, run?

4.2 The purposes of committees

Purposes of committees include:

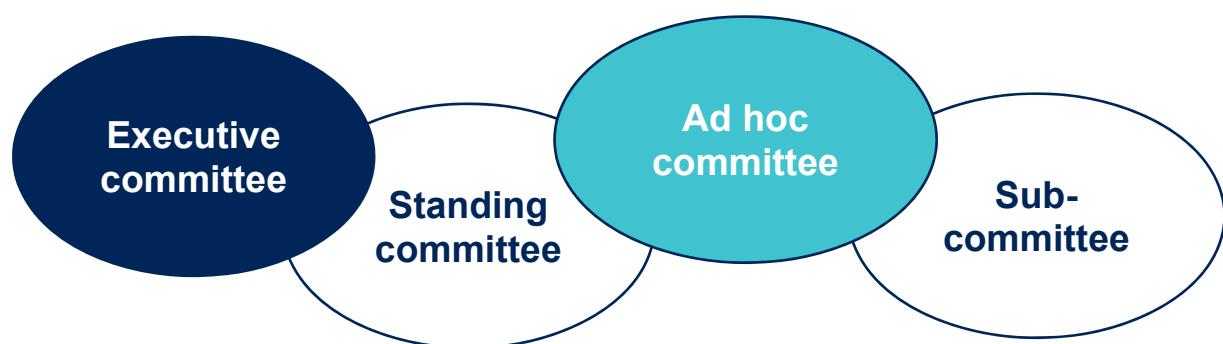


Notes



4.3 Types of committees used by business organisations

There are several specific types of committee that you need to know about for your exam.



Notes



4.4 Advantages and disadvantages of committees



Advantages

- Bring together individuals with necessary skills or knowledge for successful implementation of a given task
- Tend to slow the decision making process down, meaning that hasty, poorly considered decisions are less likely
- Decisions are more likely to be accepted by the organisation as they have been made by a committee with representatives from many departments
- More people are involved in the decision making process, leading to increased motivation



Disadvantages

- Tend to be slow at making decisions. Could miss out on valuable opportunities and perhaps increase costs
- collective responsibility means that no individual is likely to be held accountable for poor performance of the committee, reducing motivation of members
- Members of the committee may wish to further the objectives of their own departments, leading to conflict within the committee

Notes



4.5 Key roles in the committee

There are likely to be two key roles that are essential for the proper functioning of a committee.

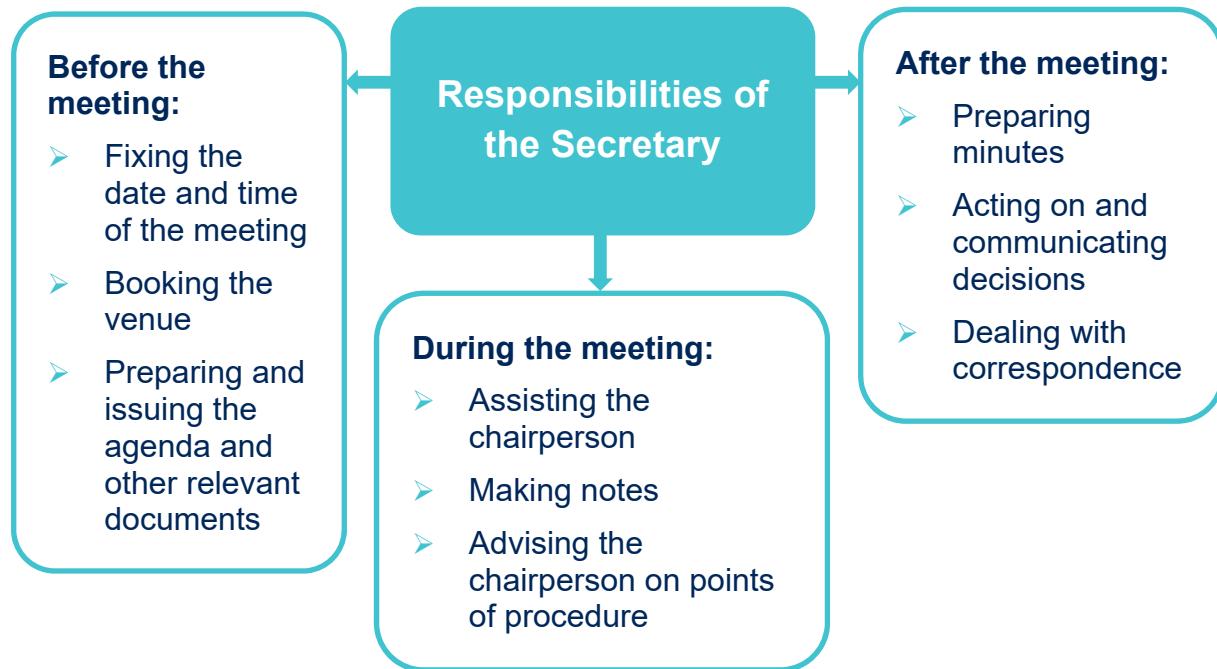
The Chair is a crucial role that involves guiding the proceedings at committee meetings.



Notes



The Secretary undertakes all the administration relating to the committee and supports the Chair in ensuring the smooth running of the committee.



Notes



Questions



Chapter 12

Law and regulation governing accounting



Outcome

By the end of this session you should be able to:

- explain basic legal requirements in relation to retaining and submitting proper records and preparing and auditing financial reports
- explain the broad consequences of failing to comply with the legal requirements for maintaining and filing accounting records
- explain how the international accountancy profession regulates itself through the establishment of reporting standards and their monitoring

and answer questions relating to these areas.



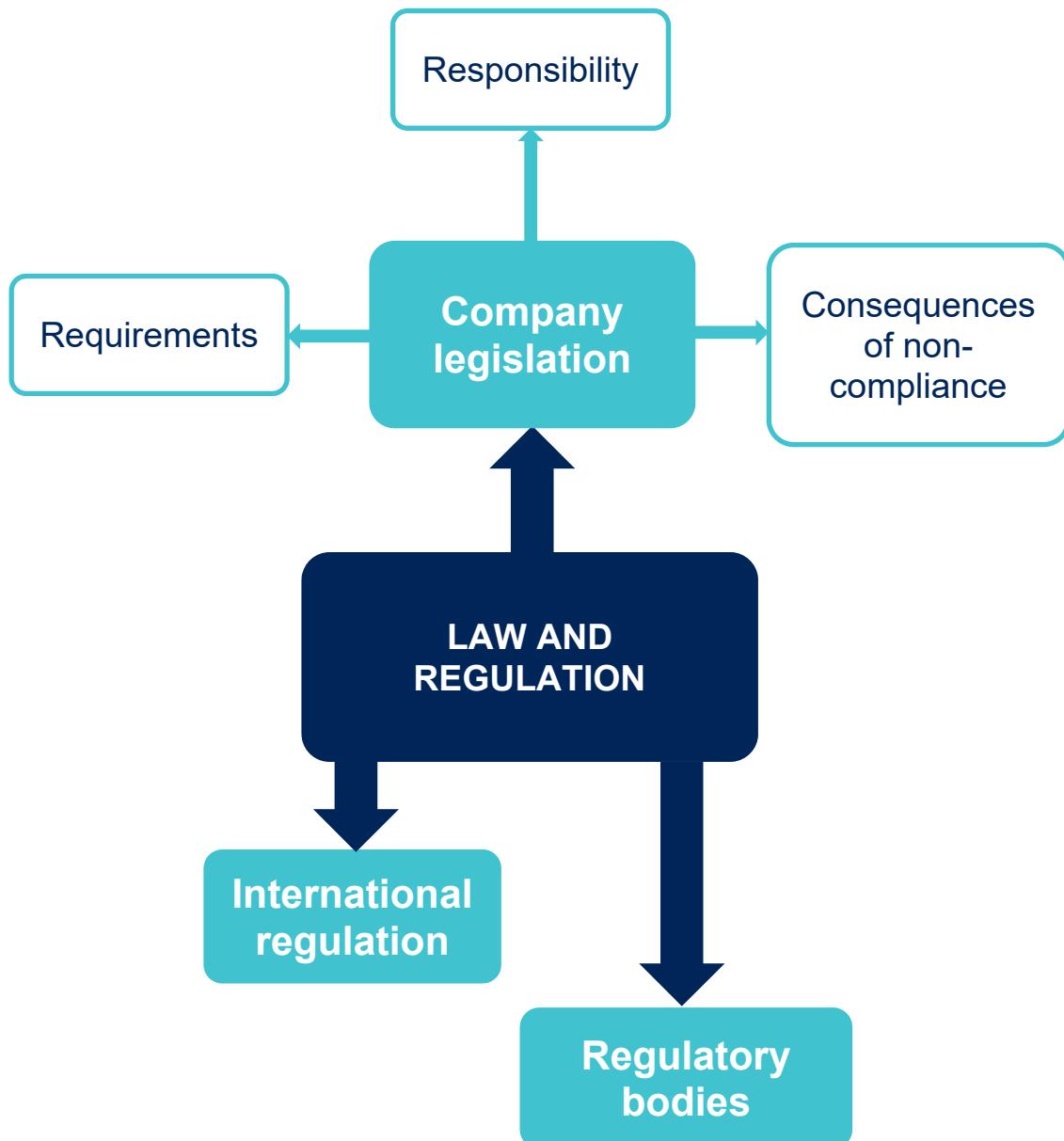
PER

One of the PER performance objectives (PO4) is to contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 12 of your Study Text



Overview



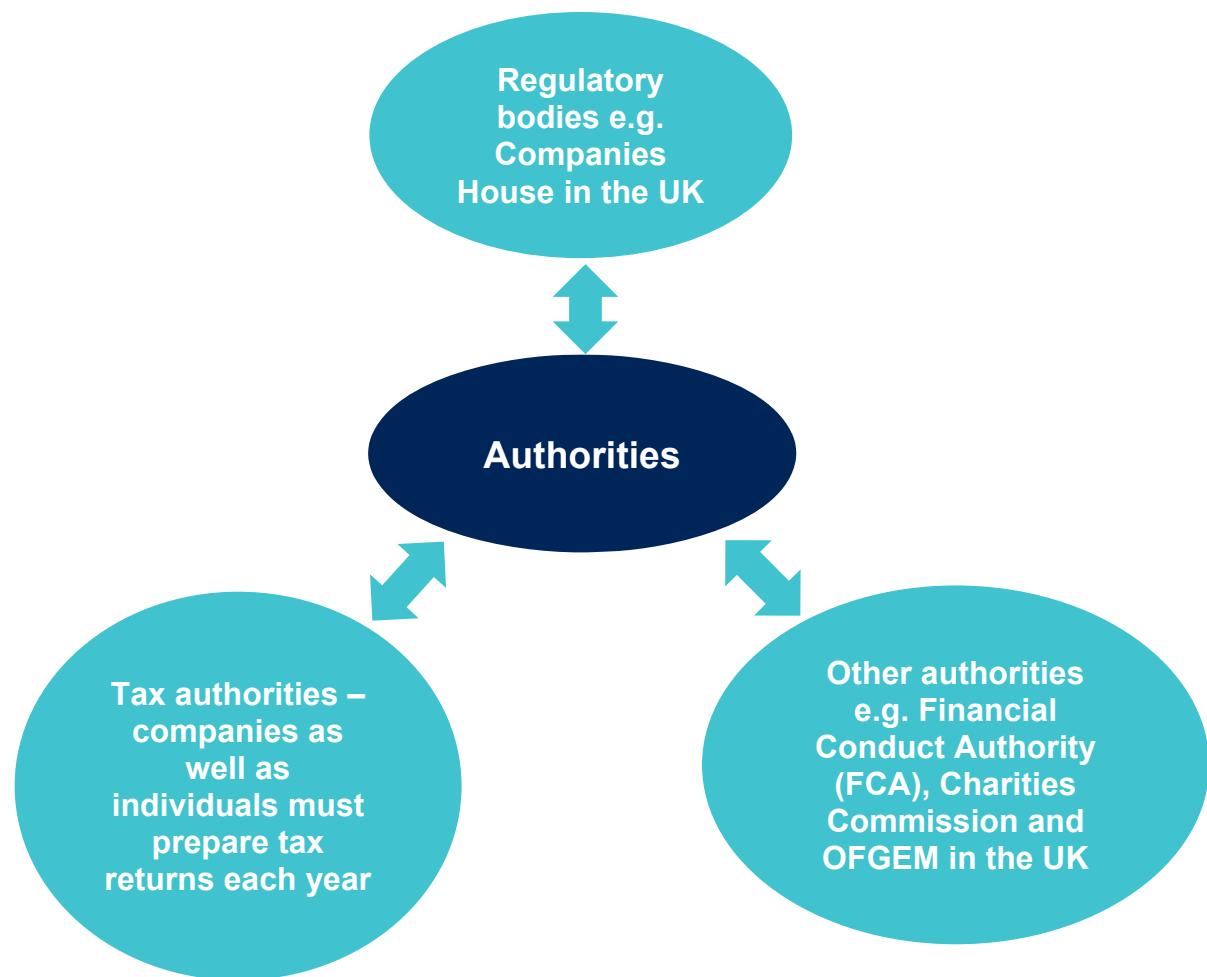
1 Authorities to whom companies are accountable

1.1 Introduction



Many countries have enacted legislation controlling the retention and submission of proper accounting records and financial statements. This predominantly applies to companies, as governments attempt to ensure that they are accountable for their actions.

There are usually several bodies that companies find themselves accountable to.



In order to satisfy the relevant authorities, most organisations have to retain their accounting records for a minimum period (usually seven years) in case the authorities wish to verify information at a future date.

Notes



2

Legislation governing financial statements

2.1 Introduction

For companies, legislation covers not only the need to prepare financial statements, but also how they should be prepared – including issues such as frequency and format.

The legislation varies between countries, but in the UK it is known as the Companies Act 2006 (CA 2006).

2.2 Typical requirements for financial statements

The CA2006 in the UK requires that financial statements are produced that give a **true and fair view** of the position and performance of the company.

The term ‘true and fair’ is not defined in company law, but normally means that the financial statements:

- follow all appropriate accounting standards
- contain information of sufficient quantity to satisfy the reasonable expectations of the users
- follow generally-accepted practice
- should not contain any material misstatement.

Companies are also required to maintain proper accounting records which are sufficient to show and explain the transactions.

2.3 Responsibility for financial records

Under company legislation, directors are responsible for producing financial statements that give a true and fair view.

If the Finance Director does not have the skills to prepare the financial statements, an external accounting firm may be asked to provide assistance.

Notes



3

Consequences of compliance failure

3.1 Consequences of compliance failure

- Failure to keep proper accounting records or to prepare regular financial statements that give a true and fair view are both criminal offences.
- Directors can be fined for failure to comply.
- Should the company be listed, it may have its shares suspended by the stock exchange.
- There may be further problems with the tax authorities if records are found to be inaccurate. The company may be guilty of tax evasion, which is illegal.
- If the poor accounting records mean that the financial statements do not show a true and fair view, the company's auditors may give a qualified audit report which can damage the company's reputation.

Notes





International regulation of the accountancy profession

4.1 Introduction



Despite the need for companies to follow the requirements of the Companies Act (or equivalent) and the tax authorities of the country in which they operate, the accountancy profession is keen to be 'self-regulating'. This means that the profession would prefer to issue its own regulations and deal with problems itself, rather than relying on legislation.

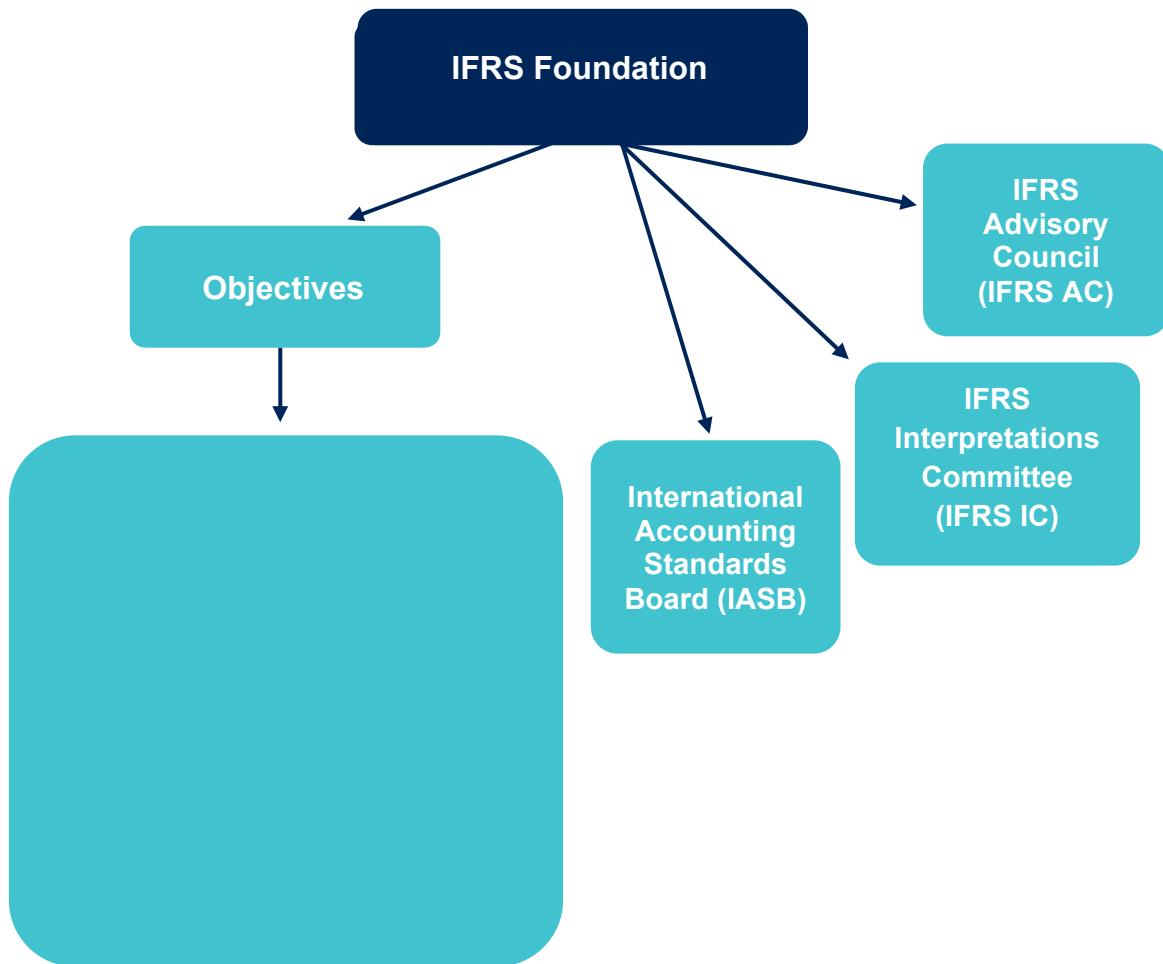
This has led to companies not only having to follow the requirements of their country's company legislation, but also of various standard-setting bodies which were linked to their country's accountancy profession.

Notes



4.2 The role of the IFRS Foundation

The International Financial Reporting Standards Foundation (IFRS) was formed to try and harmonise accounting standards in different countries.



Notes



Chapter 12

4.3 The role of the IASB

The IASB is an independent standard-setting body which is based in London. It has 14 members from nine countries.

The IASB's aims are:

- to develop a single set of high quality, understandable and enforceable global accounting standards; and
- to co-operate with national accounting standard-setters to achieve convergence in accounting standards around the world.

Standards produced by the IASC, the forerunner to the IASB, are called International Accounting Standards (IASs). Standards produced by the IASB are called International Financial Reporting Standards (IFRSs). Collectively, these are international accounting standards.

4.4 Regulation within the UK

Accounting standards in the UK are written by the Audit, Reporting and Governance Authority (ARGA).

ARGA plays crucial roles, as regulator, in the oversight and development of corporate governance standards in the UK, such as the UK Corporate Governance Code and standards for the accounting industry.

The regulator is supported by various committees which advise them on matters relating to codes, standard-setting, strategic issues and matters relating to conduct activities to promote high-quality corporate reporting. This will include monitoring, oversight, investigative and disciplinary functions.

Notes



Questions



Chapter 13

Accounting and finance functions within business



Outcome

By the end of this session you should be able to:

- identify and describe the main financial accounting functions in business: recording financial information, codifying and processing financial information and preparing financial statements
- explain the various business purposes for which the following financial information is required:
 - the statement of profit or loss
 - the statement of cash flows
 - the statement of financial position
 - sustainability and integrated reports
- explain the contribution of the accounting function to the formulation, implementation and control of the organisation's policies, procedures and performance
- identify and describe the main management accounting and performance management functions in business:
 - recording and analysing costs and revenues
 - providing management accounting information for decision-making
 - planning and preparing budgets and exercising budgetary control

Chapter 13

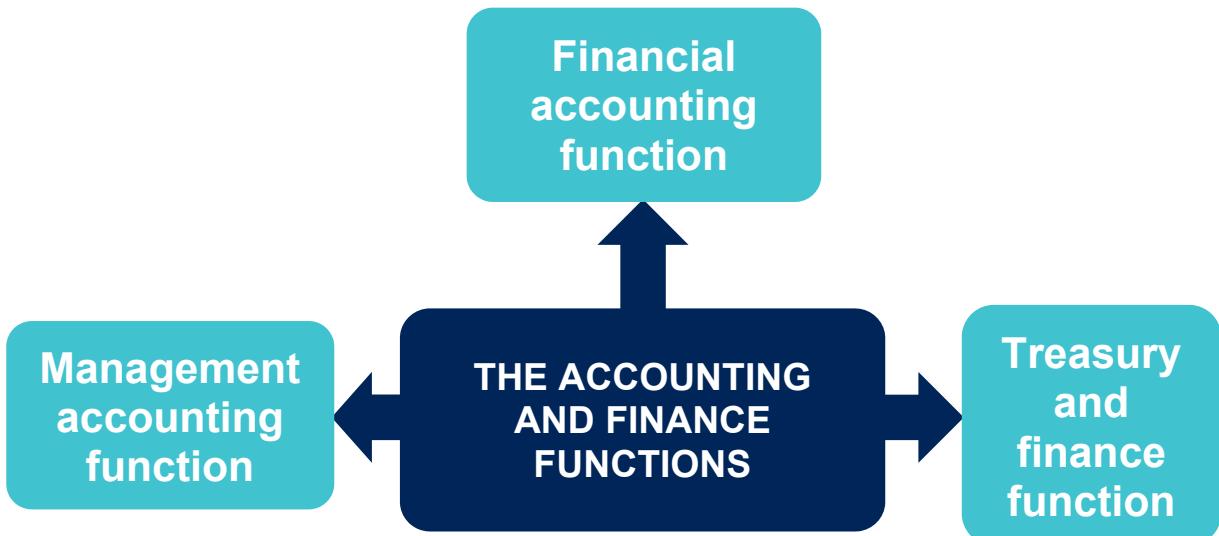
- describe the main purposes of the following types of management accounting reports:
 - cost schedules
 - budgets
 - variance reports
- identify and describe the main finance and treasury functions:
 - calculating and mitigating business tax liabilities
 - evaluating and obtaining finance
 - managing working capital
 - treasury and risk management

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 13 of your Study Text



Overview



1

The accounting function

1.1 Definition



Accounting is the systematic recording, reporting and analysis of financial transactions within a business.



For the purposes of this exam, you need to be aware of three key functions within the accounts department.

- the financial accounting function
- the management accounting function and
- the treasury function

Notes



2

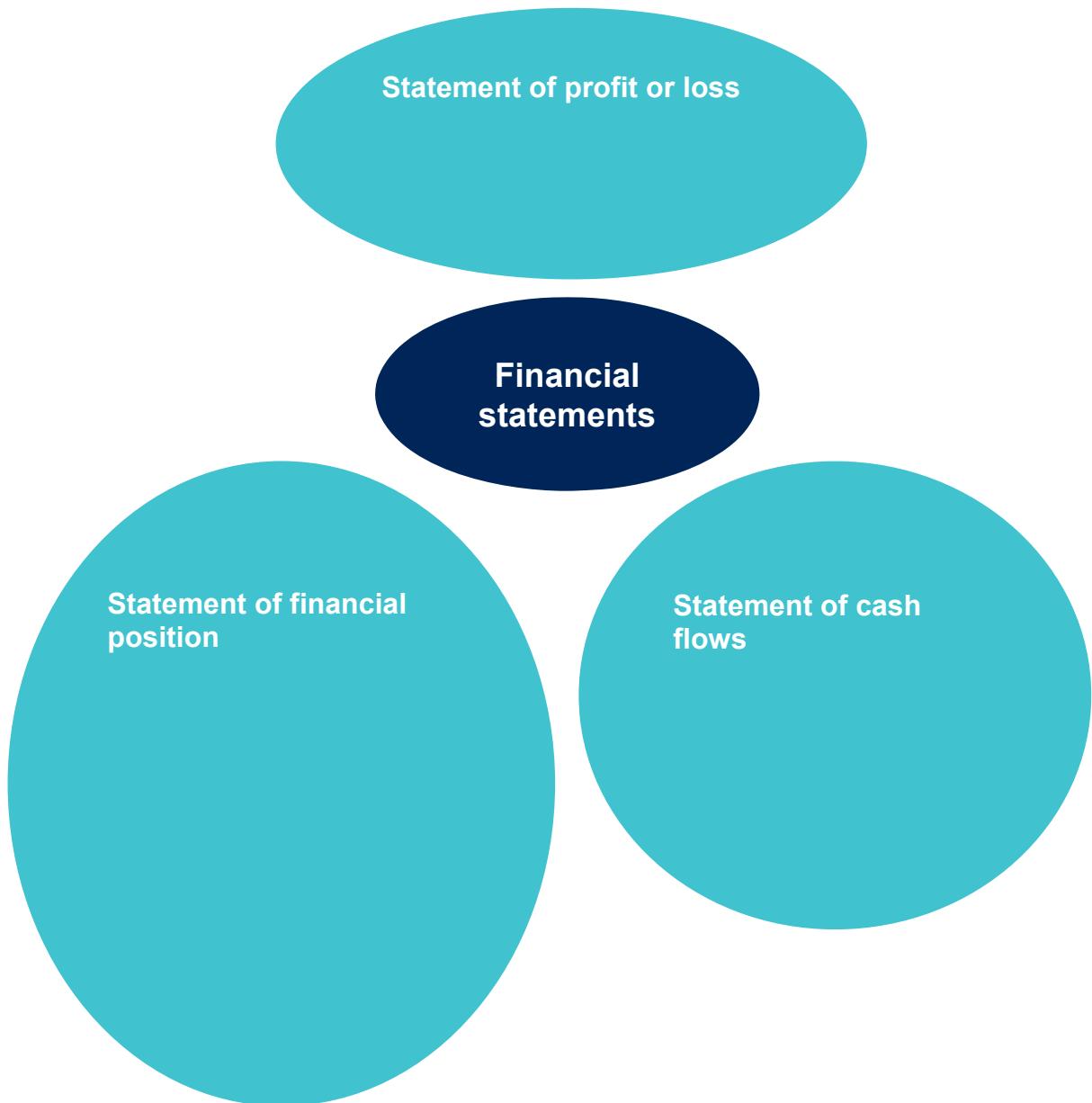
The financial accounting function

2.1 Financial accounting



Financial accounting is concerned with the production of annual financial statements in accordance with the relevant accounting standards and legislation.

There are three main financial statements produced by most businesses each year. These are:



Chapter 13

The normal sequence of steps in the accounting function is:



Notes



2.2 Integrated reporting

Many companies adopt an integrated reporting approach which means that their financial statements cover the organisation's financial performance and position (using the three primary financial statements mentioned earlier), but also report on any other relevant information that would be of interest to the users.

E.g.

-
-
-

Notes



3

Management accounting

3.1 Management accounting



Management accounting is carried out to assist management in discharging their duties to plan, direct and control the operations of the business. It is concerned with the process of measuring, analysing, interpreting and communicating information to management in a form which is easy for them to understand.

While there are no legally required formats for management accounts, there are several key management reports that are common to many businesses.

Three of the most common are:

- **cost schedules**
- **budgets**
- **variance reports**

Notes



3.2 Cost schedules



A cost schedule lists the various expenses involved in manufacturing units of a product. This is often shown as a list of the costs incurred when making a unit of each type of product we make. This may be called a **standard cost card**.

	\$
Direct materials	X
Direct labour	X
Variable overheads	X
Fixed overheads	X
	—
Total (absorption) cost	X
	—

Notes



3.3 Budgets

Once the costs per unit have been identified, it should be possible to produce a **budget**.



This shows the total planned revenues and costs for our business for the coming period.

Budgets are useful for several reasons. A useful memory jogger is the acronym CRUMPET.

- C
- R
- U
- M
- P
- E
- T

Notes



3.4 Variance reports



A **variance report** compares the budget to the actual results achieved for the budget period and identifies any significant differences, or variances, between the two.

Notes



3.5 Financial v Management accounting

	Financial accounting	Management accounting
Users	External	Internal
Purpose	Record historical financial performance and position	Assist management in planning and controlling the business to make effective decisions
Law	Required by statute (CA 06)	No legal requirements
Format/style	Must follow accounting standards and company law	Management discretion
Scope	Historical, covers business as a whole, usually gives minimum required information	Flexible, includes historical, current and future information which can focus on specific parts of the business
Information	Mostly financial	Financial and non-financial Key Performance Indicators (KPIs) (e.g. number of customers per hour)

Notes



4

The functions of the treasury

4.1 The function of the treasury



Treasury management is the corporate handling of all financial matters, the generation of external and internal funds for business, the management of currencies and cash flows, and the complex strategies, policies and procedures of corporate finance.

The key roles of the treasury and finance functions include:

Working capital management	The treasury section will monitor the organisation's cash balance and working capital to ensure that it never runs out of money.
Cash management	Preparation of cash budgets and arrangement of overdrafts where necessary.
Financing	The treasury section will monitor the organisation's investments and borrowings to ensure the gain as much investment income as possible and incur as little interest expense as possible.
Foreign currency	The treasury section will monitor foreign exchange rates and try to manage the organisation's affairs so that it minimises losses due to changes in foreign exchange rates.
Tax	The treasury section will try to manage the organisation's affairs to legally avoid as much tax as possible.

Working capital is the capital available for conducting the day-to-day operations of an organisation, calculated as the excess of current assets over current liabilities.

Chapter 13

Thus:

Inventory	X
Trade receivables	X
Cash	X
	—
Total current assets	X
Less: Trade payables	(X)
	—
Working capital balance	X
	—

The treasury and finance function is responsible for deciding on an appropriate level of investment in working capital for the business.

Notes



4.2 Evaluating and obtaining finance

The organisation may need additional funding to allow it to grow and invest in new projects. It therefore may need to raise finance from external sources.

There are two main types of external finance.

Debt	Equity
<p>This involves borrowing cash from a third party and promising to repay them at a later date. Normally the company will also have to pay interest on the amount borrowed.</p> <p>Advantages:</p>	<p>This involves selling a stake in the business in order to raise cash.</p> <p>Advantages:</p>

The treasury and finance function will weigh up which source of finance best suits the circumstances of the business.

Notes



4.3 Determining business tax liabilities

One of the roles of the finance and treasury function is to calculate the business tax liability for the organisation and mitigate, or reduce, that liability as far as possible within the law.



Tax avoidance is the legal use of the rules of the tax regime to one's own advantage, in order to reduce the amount of tax payable by means that are within the law.



Tax evasion is the use of illegal means to reduce one's tax liability, for example deliberately misrepresenting the true state of your affairs to the tax authorities.

Notes



Questions



Chapter 14

Financial systems and procedures



Outcome

By the end of this session you should be able to:

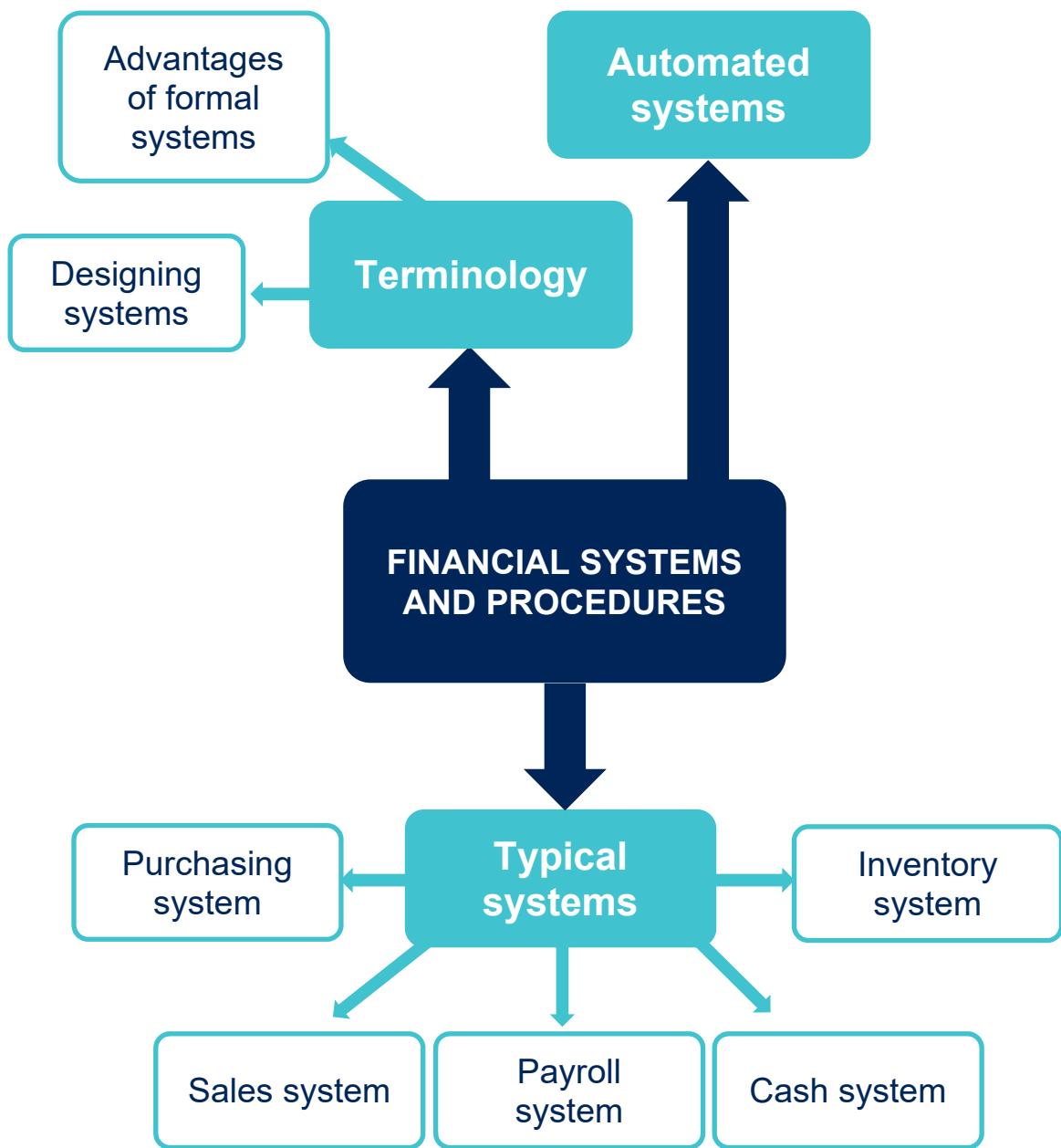
- identify an organisation's system requirements in relation to the objectives and policies of the organisation
- describe the main financial systems used within an organisation:
 - purchases and sales invoicing
 - payroll
 - credit control
 - cash and working capital management
- explain why it is important to adhere to policies and procedures for handling clients' money
- identify weaknesses, potential for error and inefficiencies in accounting systems
- recommend improvements to accounting systems to prevent error and fraud and to improve overall efficiency
- explain why appropriate controls are necessary in relation to business and IT systems and procedures

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 14 of your Study Text



Overview



1

Overview of systems



1.1 Advantages of formal systems

There are several advantages to having formal, documented systems that staff must follow within the organisation.

These include:

-
-
-
-
-
-
-

Notes





1.2 Designing financial systems

Each system is made up of a series of procedures. The system designer will need to first consider the objectives of the system, the required outputs, and the likely inputs.

We will consider several key financial systems that operate within most organisations.

- **Purchasing system**
- **Sales system**
- **Payroll system**
- **Cash system**
- **Inventory system**

Notes

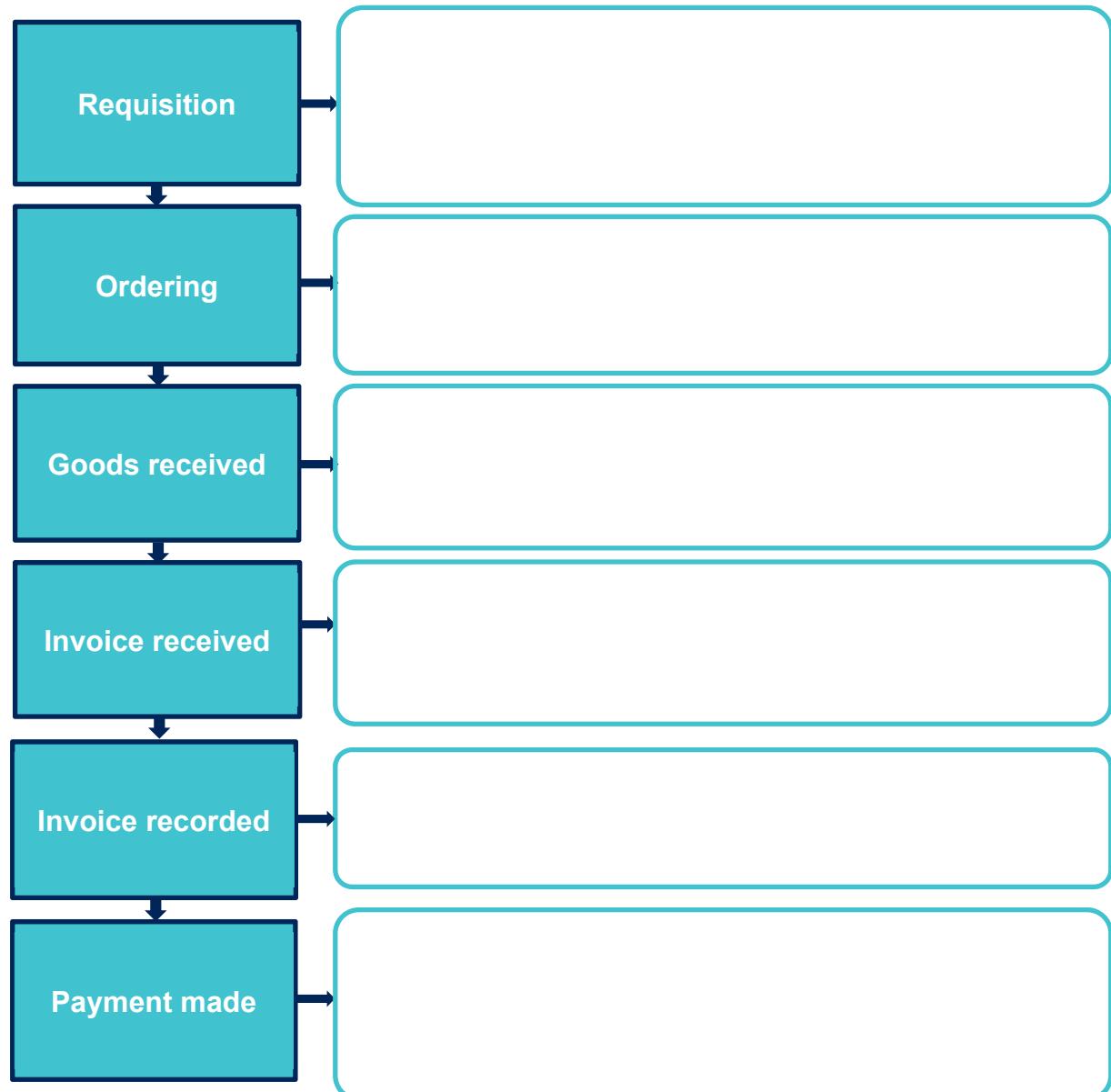


2

The purchasing system

2.1 Stages in the purchasing system

The main stages in the purchasing cycle and the issues to be considered are as follows:



Notes

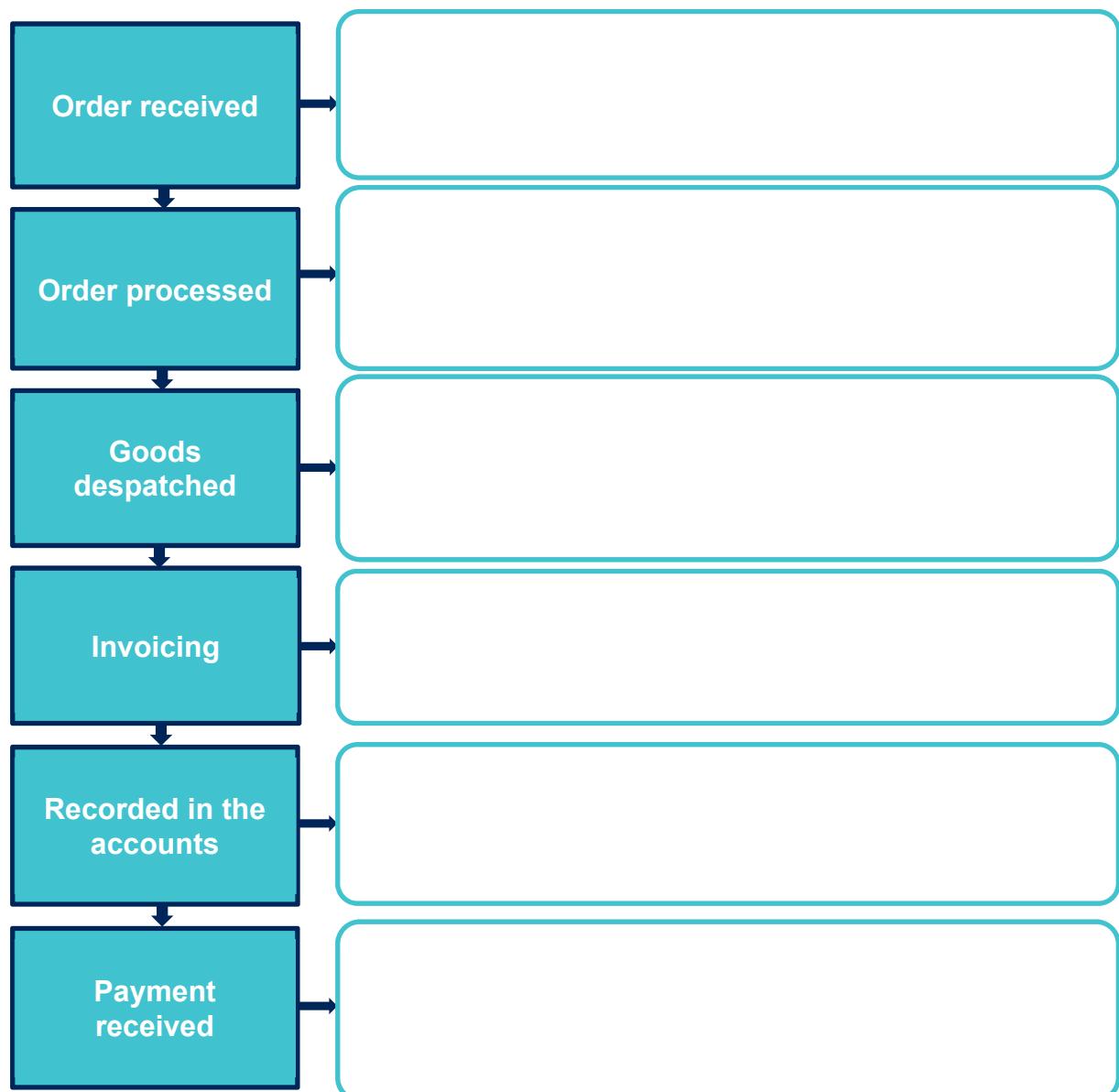


3

The sales system

3.1 Stages in the sales system

The main stages in the sales cycle and the issues to be considered are as follows:



Notes

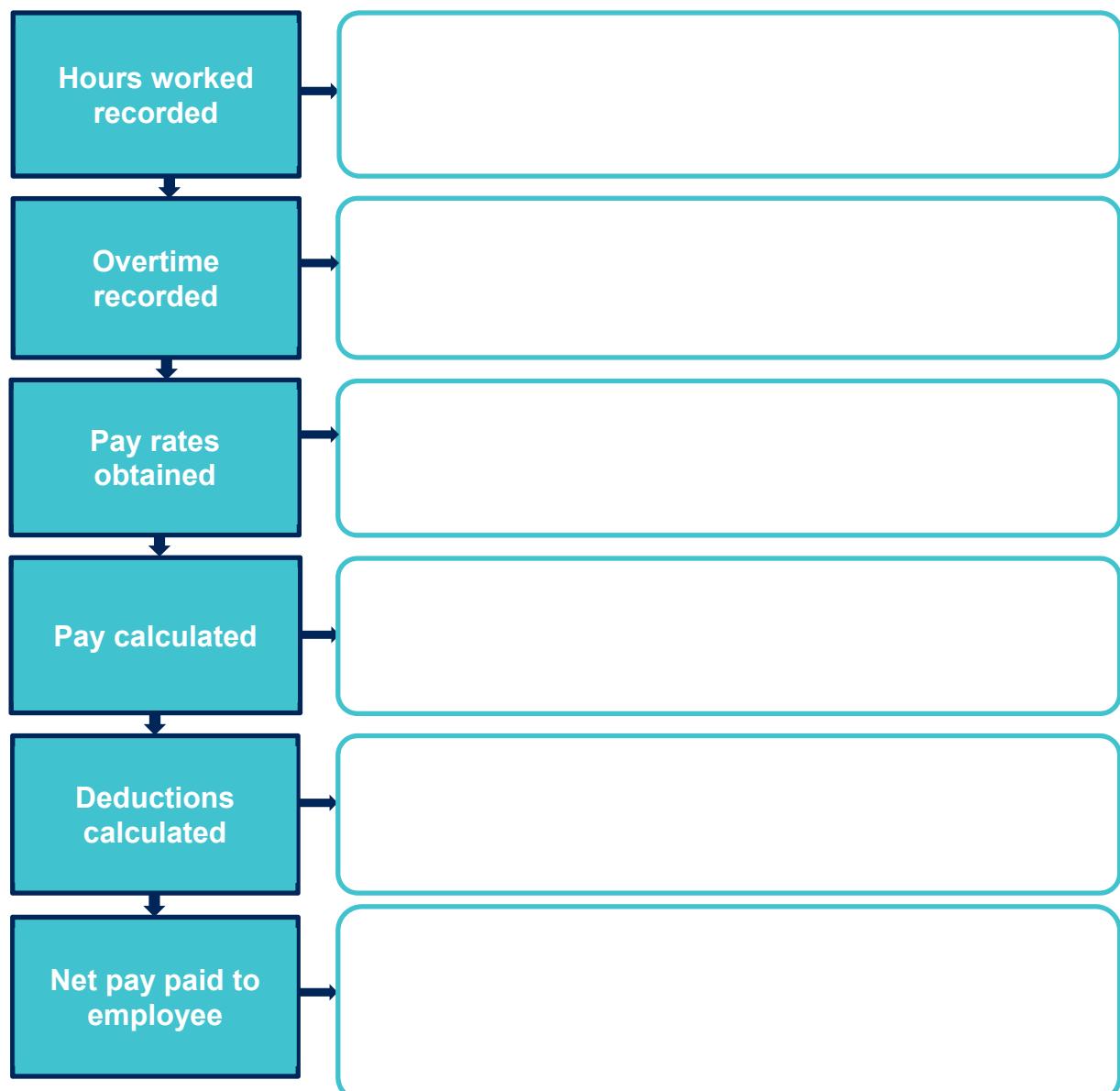


4

The payroll system

4.1 Stages in the payroll system

The main stages in the payroll cycle and the issues to be considered are as follows:



Notes

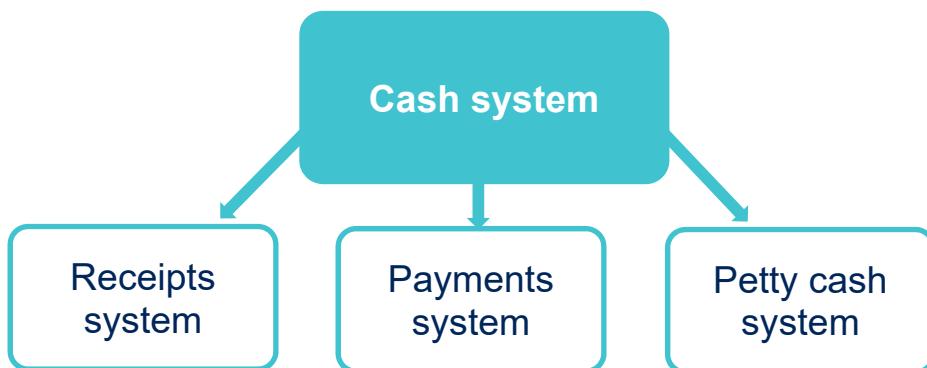


5

The cash system

5.1 Stages in the cash system

When we refer to the cash system, we are sometimes referring to the banking system, and payments into and from the bank account. We also need to consider the petty cash system.



The receipts system

- Cheques are received from credit customers. These are recorded in the cash book and in the customer's personal account. The cashier then pays the cheques into the business bank account.
- Controls must be in place to ensure the cheque cannot be misappropriated before it is paid into the bank.
- Some customers may pay money directly into the business bank account. The cashier should go through the bank statement carefully, enter details into the cash book, and ensure details are passed to the sales ledger section to deduct the amount from the customer's balance.

The payments system

- Companies pay their suppliers.
- A cheque requisition is prepared for each payment. This form details why a cheque is required. A cheque will be prepared and the invoices paid will be submitted to a senior manager for approval and to have the cheque signed.
- If the company pays its suppliers through direct bank transfer, each transfer should be approved by a senior manager before it is set up.

The petty cash system

- Companies will need to keep some cash on hand to pay for small expenses such as postage stamps, biscuits, taxi fares etc.
- A cheque will be made out to cash, to generate the initial cash for the system.
- As staff claim against the petty cash system, they complete vouchers stating what the payment is for, and attach a receipt to prove the amount.
- At regular intervals, a further cheque is made out to cash to replenish the petty cash which has been spent. The supervisor will inspect the receipts and vouchers at this point.

Notes

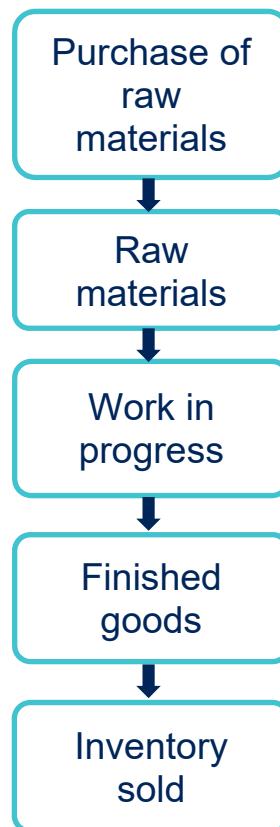


6

The inventory system

6.1 Stages in the inventory system

The main stages in the inventory cycle and the issues to be considered are as follows:



The production manager will decide on the required inventory purchases bearing in mind the items to be produced and the inventory balance on hand.

In some (automated) systems, raw materials will be ordered automatically when the balance falls to a certain level.

At the end of the year, all inventory will be counted and valued so that the statement of financial position can be produced.

Notes



7

The purpose of organisational control

7.1 The purpose of organisational control

Control within the organisation has several purposes:

Purpose	Why this is important
Safeguard company's assets	
Efficiency	
Prevent fraud	
Prevent errors	



This ties in with corporate governance. The directors are required to introduce a good system of controls to safeguard the company's assets and protect the shareholders' investments.

Notes



Chapter 14

7.2 Why controls in systems are important

System	Purpose	Key areas
Purchasing	Safeguard company's assets	
	Efficiency	
	Prevent fraud	
	Prevent errors	
Sales	Safeguard company's assets	
	Efficiency	
	Prevent fraud	
	Prevent errors	
Wages	Safeguard company's assets	
	Efficiency	
	Prevent fraud	

Cash	Safeguard company's assets	
	Efficiency	
	Prevent fraud	
	Prevent errors	
Inventory	Safeguard company's assets	
	Efficiency	
	Prevent fraud	
	Prevent errors	

Notes



8 Automated systems

8.1 Introduction

Automated systems show the following features:

Uniform processing of transactions	Every transaction will be performed in exactly the same way.
Lack of segregation of functions	One person in the company, the IT manager, has a lot of power as he/ she can access all the data within their company.
Potential for data to be corrupted easily	An inexpert operator could accidentally corrupt data. Computer files can become corrupted on their own. Alternatively, users may input data incorrectly.
Potential for increased management supervision	Management can monitor the activities of subordinates easily. Exception reports can be used to highlight unusual transactions.

Notes



8.2 A comparison of manual and automated systems

 Advantages of manual systems	 Disadvantages of manual systems
<ul style="list-style-type: none"> ➤ Low capital cost ➤ no computer experience required ➤ easy to correct errors (e.g. whitening fluid) ➤ Ledgers are portable ➤ Can review transactions for logical sense while entering/performing calculations 	<ul style="list-style-type: none"> ➤ Slower at performing calculations ➤ More likely to make calculation errors ➤ Analysis of information is more time-consuming ➤ Less easy to audit
 Advantages of automated systems	 Disadvantages of automated systems
<ul style="list-style-type: none"> ➤ Quicker ➤ Can perform more complex calculations ➤ Fewer errors ➤ More security (passwords) ➤ Easier to sort and analyse data 	<ul style="list-style-type: none"> ➤ Capital cost ➤ Training cost ➤ Less easy to correct errors ➤ Systems can crash

Notes



Questions



Chapter 15

The relationship between accounting and other business functions



Outcome

By the end of this session you should be able to:

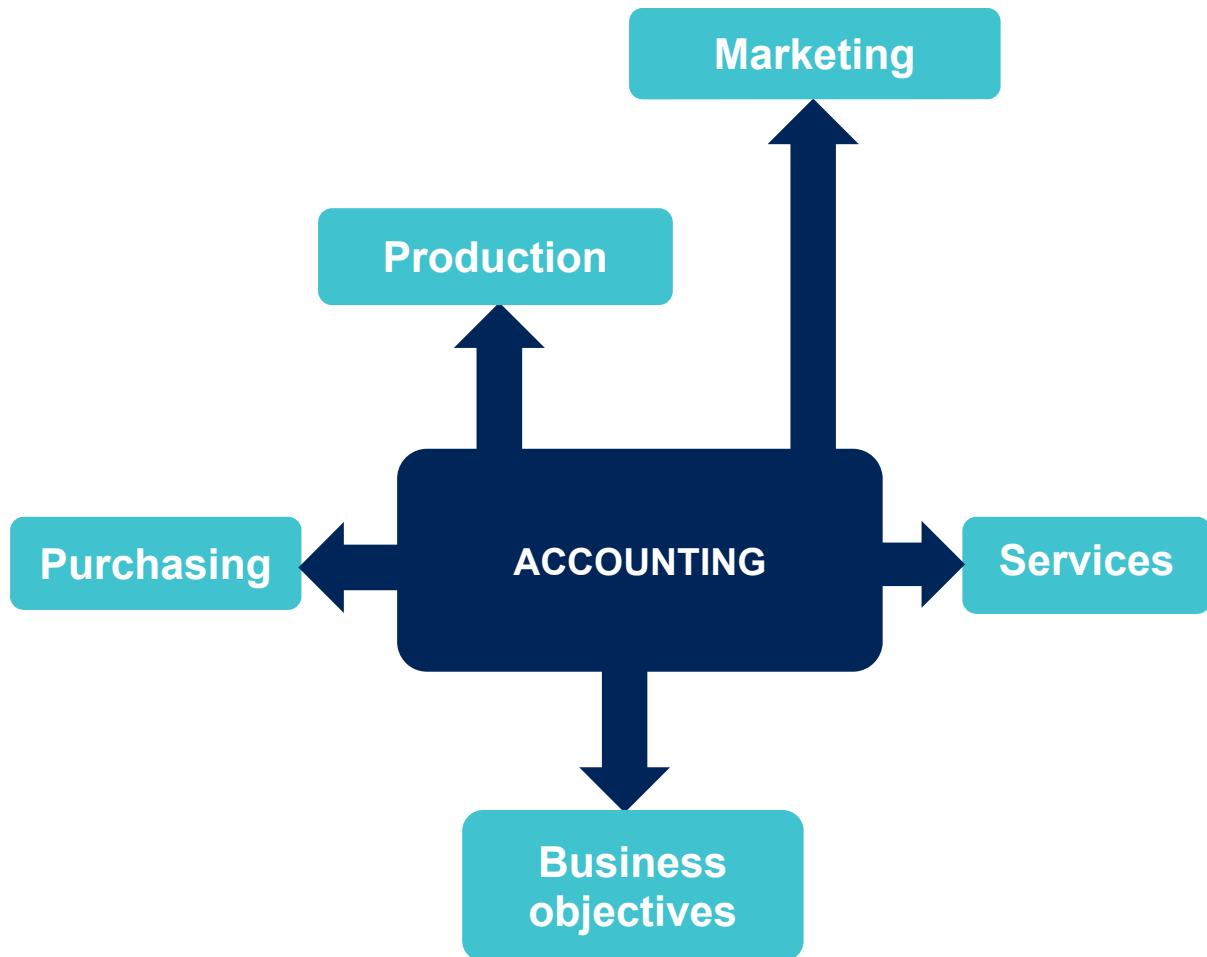
- explain the relationship between accounting and other key functions within the business such as procurement, production and marketing
- explain financial considerations in production and production planning
- identify the financial issues associated with marketing
- identify the financial costs and benefits of effective service provision

and answer questions relating to these areas.

The underpinning detail for this Chapter in your Integrated Workbook can be found in Chapter 15 of your Study Text



Overview





Introduction

In the last chapter, we looked at the various financial systems that operate within most organisations. We will now go on to examine how these systems interact with the organisation's accounting function.

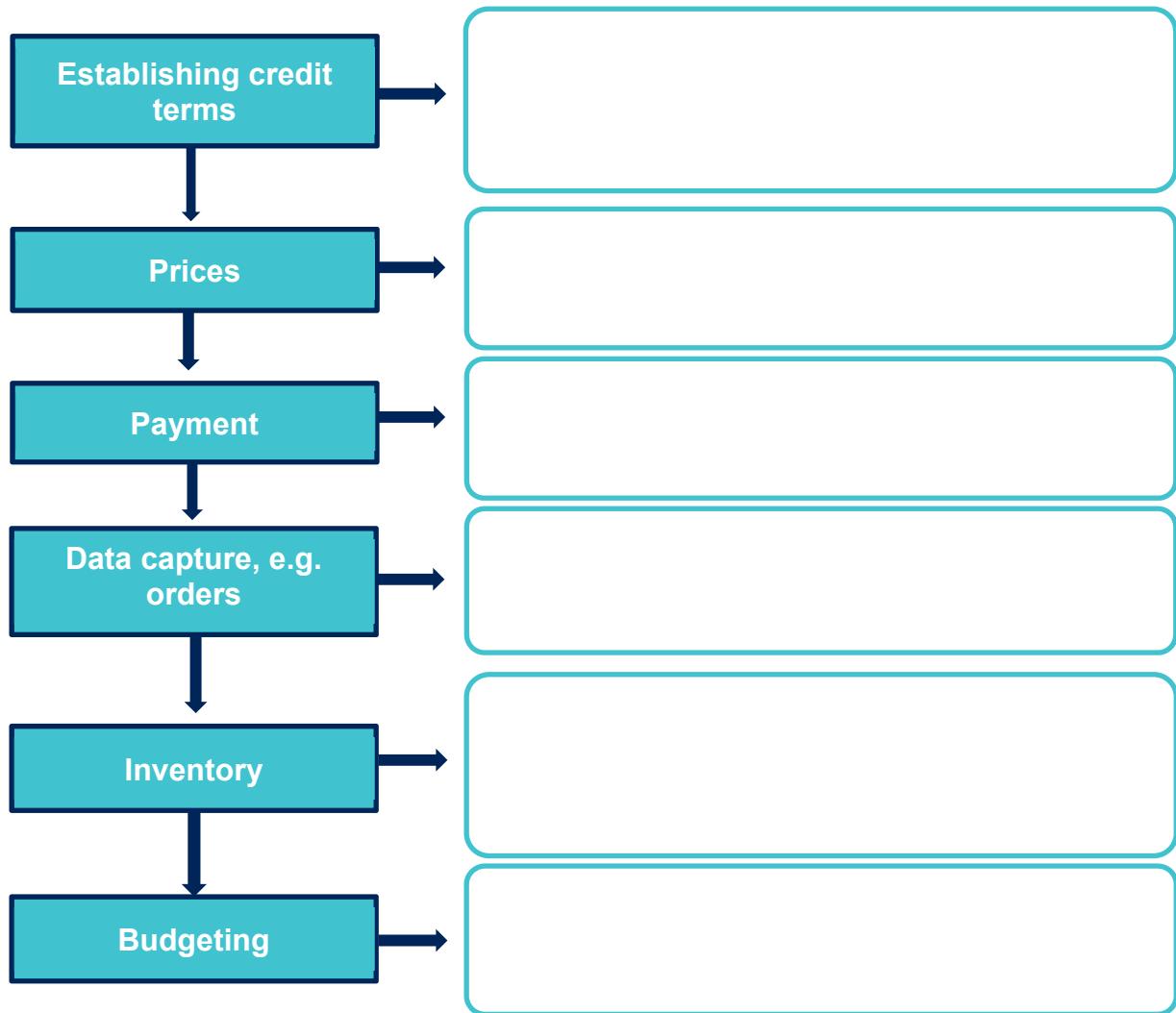
Notes



2

Purchasing (procurement)

The purchasing/buying function is responsible for placing and following up orders. It co-ordinates with the accounting department as follows:



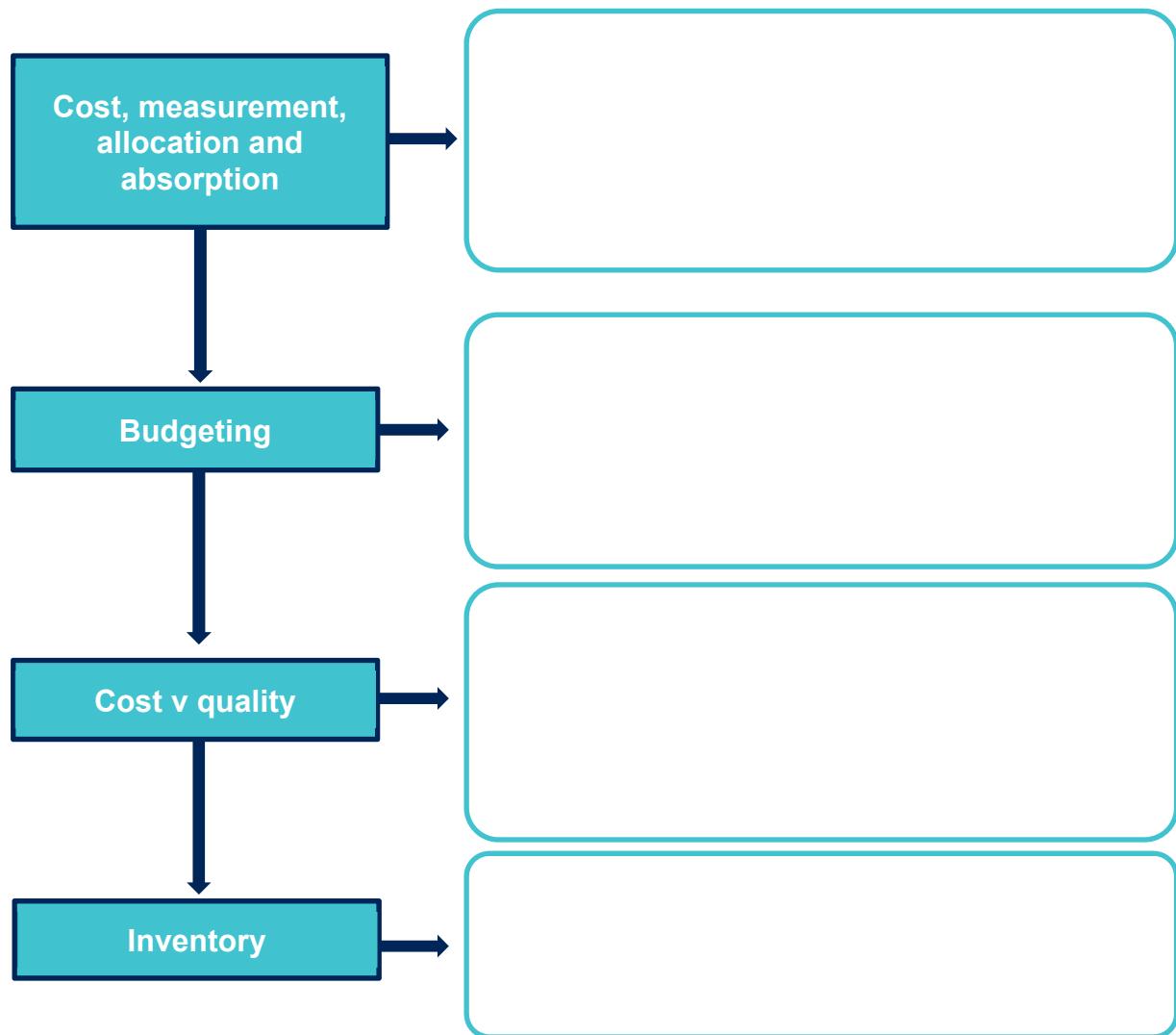
Notes



3

Production

The production department plans and oversees the production of goods. It co-ordinates with the accounting department as follows:

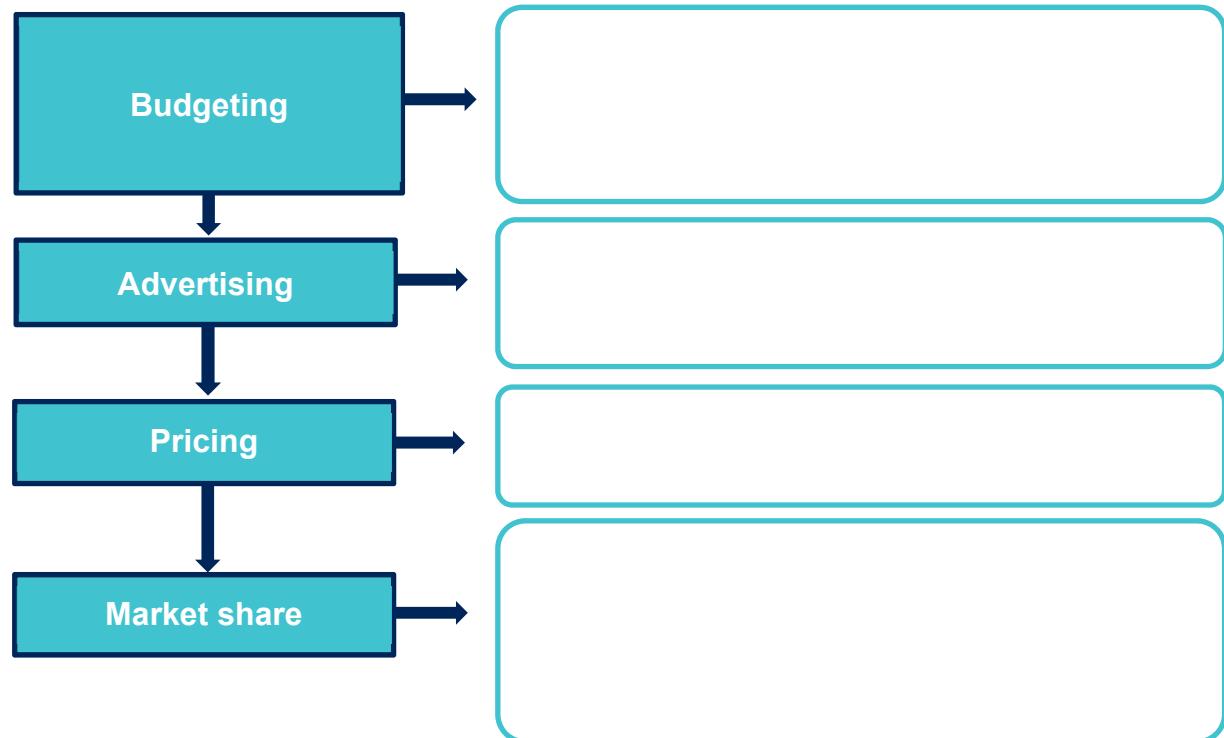


Notes



4 Marketing

The marketing department co-ordinates with the accounting department as follows:



Notes





Service provision

5.1 The nature of services

Companies very often provide services to customer, at the same time as the sale or afterwards.

5.2 The features of services

- **Intangibility** – Services are activities undertaken by the organisation on behalf of its customers and therefore cannot be packaged for the customer to take away with them.
- **Inseparability** – services are often created by the organisation at the same time as they are consumed by the customer e.g. a taxi driver will create the service they offer as they are carrying a passenger to their desired destination. The service cannot therefore be easily distinguished from the person or organisation providing the service.
- **Perishability** – services cannot be stored for later.
- **Variability** – each service is unique and cannot usually be repeated in exactly the same way, making offering a standardised service to customers very difficult.

Notes



5.3 The relationship between service provision and accountancy

There are several issues about which the service departments may need the input of the accounting department.

Charge- out rates	This is the hourly rate which the company charges clients. It should be higher than salary, as it should include a share of overheads, e.g. training and any profit the company wishes to make. However if the charge-out rate is too high customers will not use the service. Many accounting firms base charge-out rates for their staff on roughly three times that person's salary.
Estimating costs	Problems arise in determining the amount of overhead to be included in the charge-out rate. Also, if the service takes longer to provide than expected, the company may not be able to pass on the extra cost.
Problems measuring benefits	Market conditions may mean that the charge-out rate contains a very low profit element. The company may question whether it is worth carrying out these services. The problem is that the benefits are intangible and not easy to measure, but nevertheless real. A company with effective service provision has happier customers, and happy customers are more likely to buy from the company in future, therefore leading to lower selling costs. But it is very difficult to measure these benefits.

Notes



Questions



Notes



Chapter 16

Audit and financial control



Outcome

By the end of this session you should be able to:

- identify and describe the main audit and assurance roles in business
 - internal
 - external audit
- explain the main functions of the internal auditor and the external auditor and how they differ
- explain basic legal requirements in relation to preparing and auditing financial statements
- explain internal control and internal check
- explain the importance of internal financial controls in an organisation
- describe the responsibilities of management for internal financial control
- describe the features of effective internal financial control procedures in an organisation, including authorisation
- identify and describe the types of information technology and information systems used by the business for internal control
- identify and describe features for protecting the security of IT systems and software within business
- describe general and application controls in business

and answer questions relating to these areas.

Chapter 16



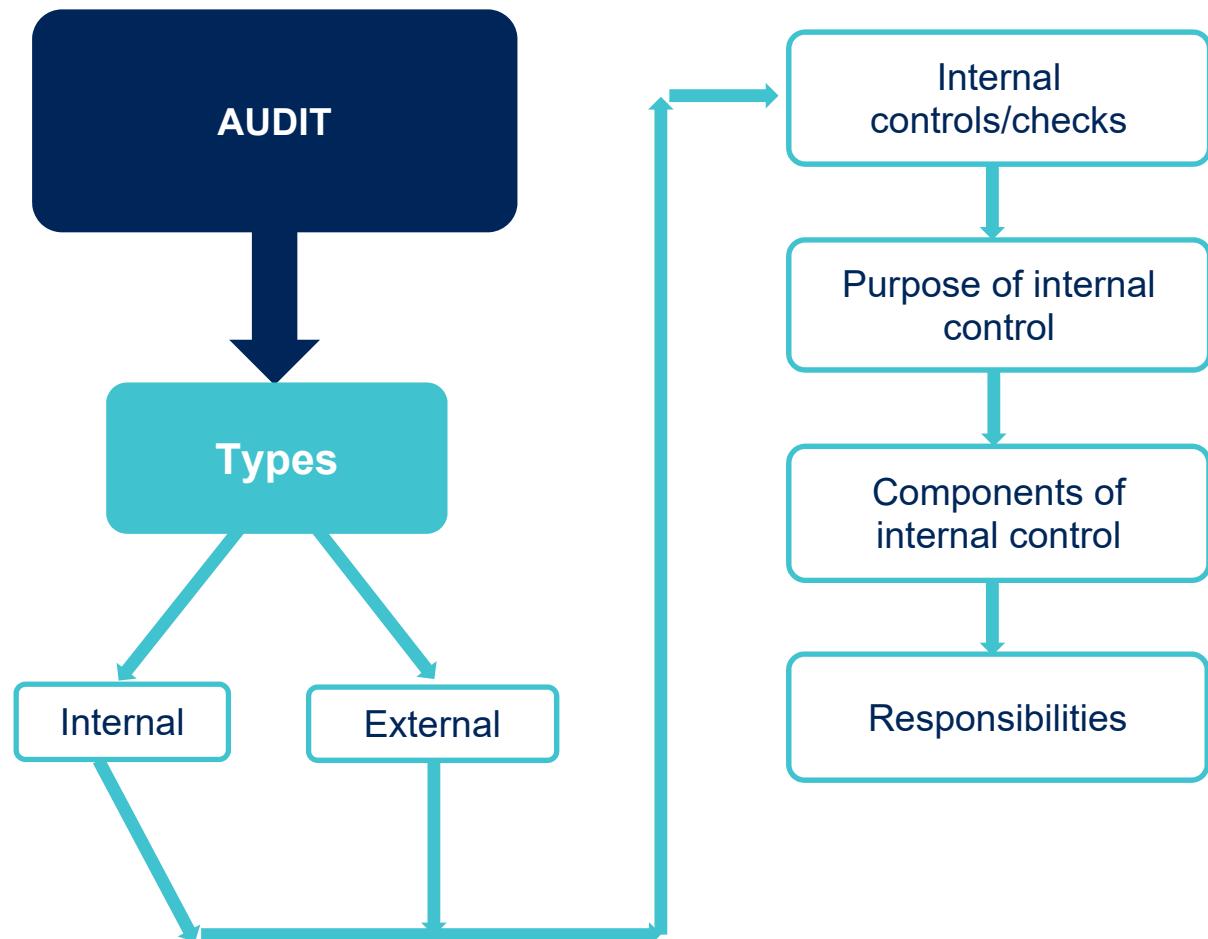
PER

One of the PER performance objectives (PO4) is to contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 16 of your Study Text



Overview



1

The meaning of internal control and internal check

1.1 Introduction



Internal control is the process designed and effected by management to provide reasonable assurance about the achievement of the entity's objectives with regard to:

- reliability of financial reporting
- effectiveness and efficiency of operations, and
- compliance with applicable laws and regulations



Internal check is an element of internal control, concerned with ensuring that no single task is executed from start to finish by only one single person. Each individual's work is subject to an independent check by another person in the course of that person's duties.

Notes



2

The purpose of internal control

2.1 The purpose of internal control

The purpose of internal control is implied by the definition given earlier, to help management achieve the entity's objectives, especially in terms of ensuring:

- the orderly and efficient conduct of the business
- the safeguarding of assets
- the prevention and detection of fraud and error
- the accuracy and completeness of the accounting records, and
- the timely preparation of reliable financial information.

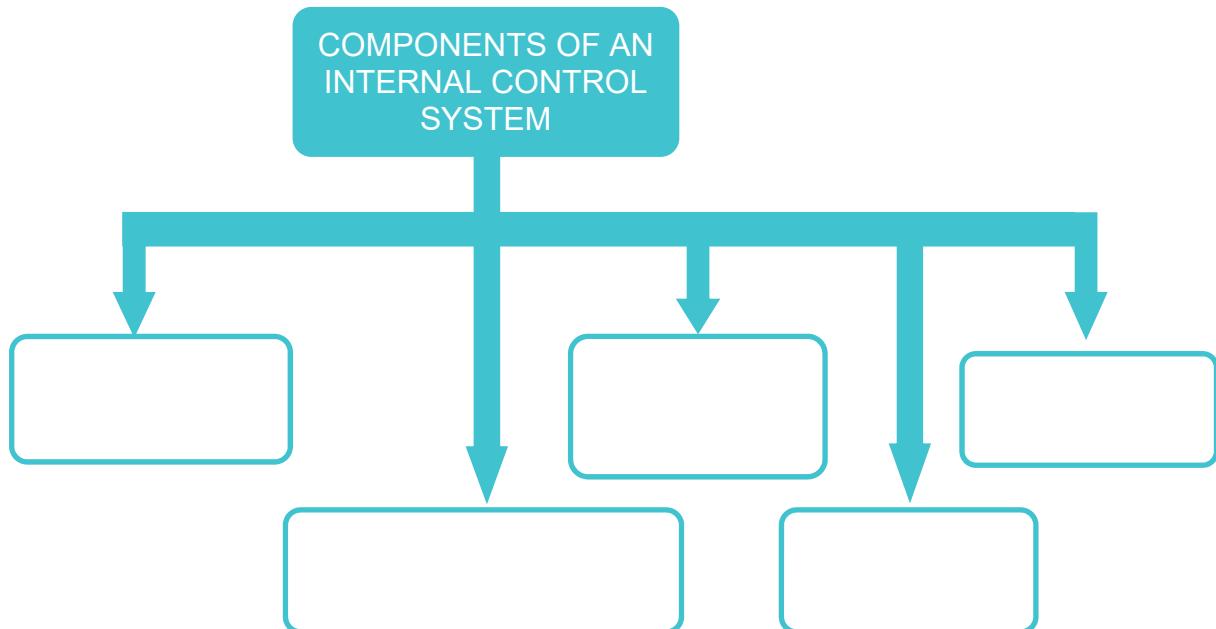
Notes



3

The components of internal control

3.1 The components of internal control



The **control environment** is the overall attitude of management regarding internal controls and their importance. It encompasses management's philosophy e.g. a commitment to integrity and ethical values, a formal organisation structure and proper training of staff.



The **risk assessment process** is an entity's process for identifying and responding to business risk.



The **information system** relevant to financial reporting objectives consists of the procedures and records established to process the transactions that the entity carries out, and to maintain accountability for the related assets, liabilities and equity balances.



Control activities are manual or computerised procedures that help an organisation to achieve its objectives and mitigate the business risks it faces.

Notes



Chapter 16

Different books identify different categories of control activities. One possibility is:

Authorisation

Involves members of staff having to obtain approval from managers or other key members of staff for various transactions. These could include expense claim forms, purchases or cash transfers.

Comparison

Involves looking at analysis and reports in order to identify management or control issues from past performance.

Computer controls

Tend to be of two separate types – general and application controls (see later). Both are designed to ensure that computer systems operate as intended.

Arithmetic controls

These check for minor errors or frauds that would not otherwise have been detected. Figures can be recalculated to check accuracy.

Maintaining a trial balance and control accounts

This will often enable the organisation to easily see if errors or frauds have occurred by way of a simple review.

Accounts reconciliation

Receivable and payables ledger reconciliations and bank reconciliations are useful tools in identifying errors and frauds and can be performed regularly.

Physical controls

These are often overlooked, but they are just as important as administrative or accounting procedures. E.g. there is no point in having an efficient inventory tracking system if there is inadequate security to prevent theft of high value items.

Segregation of duties

This splits any given transaction into three elements: authorisation, recording and maintaining custody of assets. This is a potentially effective means of preventing fraud because it will require collusion between at least two staff members.

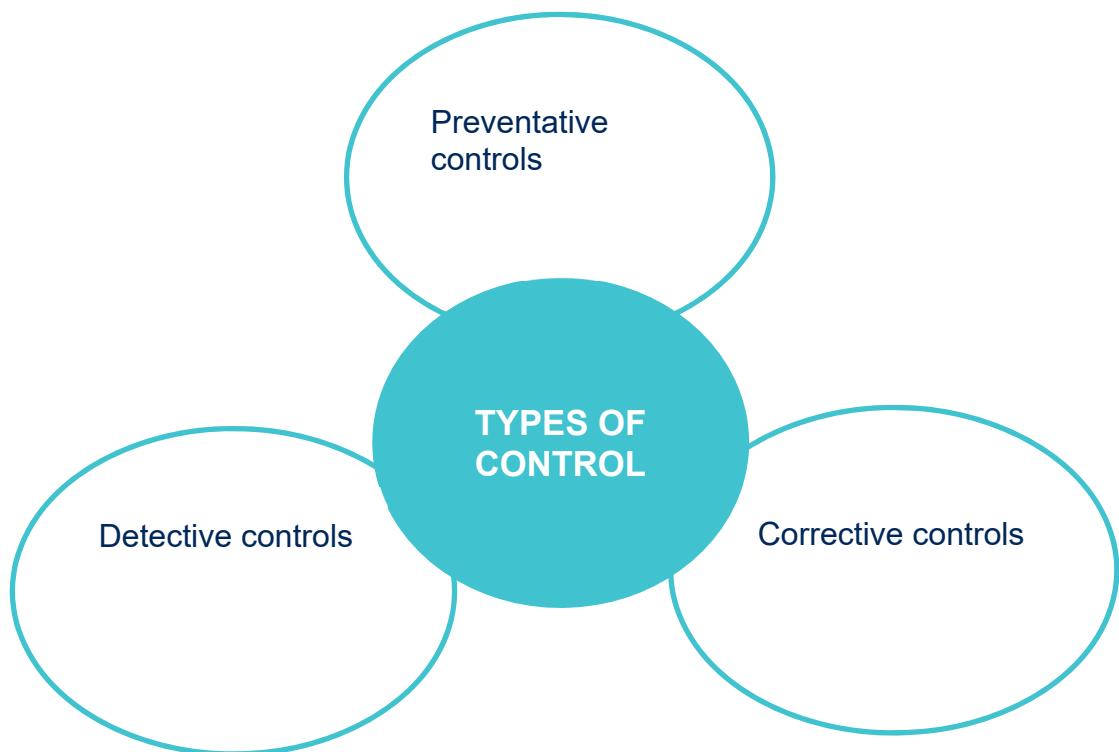


Monitoring of controls is a process to assess the quality of internal control performance over time. It involves assessing the design and operation of controls on a timely basis and taking necessary corrective actions.

Notes



3.2 Alternative analysis of internal controls



Notes





Information technology and internal control

4.1 The use of IT in internal controls

For many businesses, the use of IT can be a valuable tool when setting internal controls in two main areas.

Financial controls –

This could include ensuring the security of financial data, such as through the use of passwords and authorisation, but it could also allow organisations to make sure that financial procedures are followed.

e.g. many businesses have IT based sales ledger facilities. The system could be set to prevent staff making sales to customers who have already reached their credit limit.

Operational controls –

e.g. a manufacturing business may have automated systems that check each unit and reject any that are defective.

Notes



4.2 The protection of IT systems and software within business



Computer controls fall into two categories: general controls and application controls.



General controls

These are policies and procedures that relate to many applications and support the effective function of application controls by helping to ensure the continued proper operation of information systems.

Examples of general controls include:

- Physical controls –
- Hardware and software configuration –
- Logical access –
- Disaster recovery –
- Output controls –
- Technical support –

Notes





Application controls

These controls are fully automated and tend to be designed to ensure that the data input into the system is complete and accurate.

These controls will vary from system to system, but are often designed to ensure:

- completeness –
- authorisation –
- identification –
- validity –
- forensic checks –

Notes



5

Management responsibility

5.1 Responsibility

It is the director's (and senior management's) responsibility to establish proper internal control arrangements within their company.

This responsibility may derive from statutory requirements or from general corporate governance arrangements.

Notes



6

Internal auditing and external auditing

6.1 Differences between internal and external audit



The external audit focuses on the accounts, providing the shareholders with an independent opinion on whether the financial statements are true and fair and properly prepared.



Internal audit is much broader in scope, covering any aspect of the company's operations. Internal audit may use similar techniques to external audit, but the objectives are different.

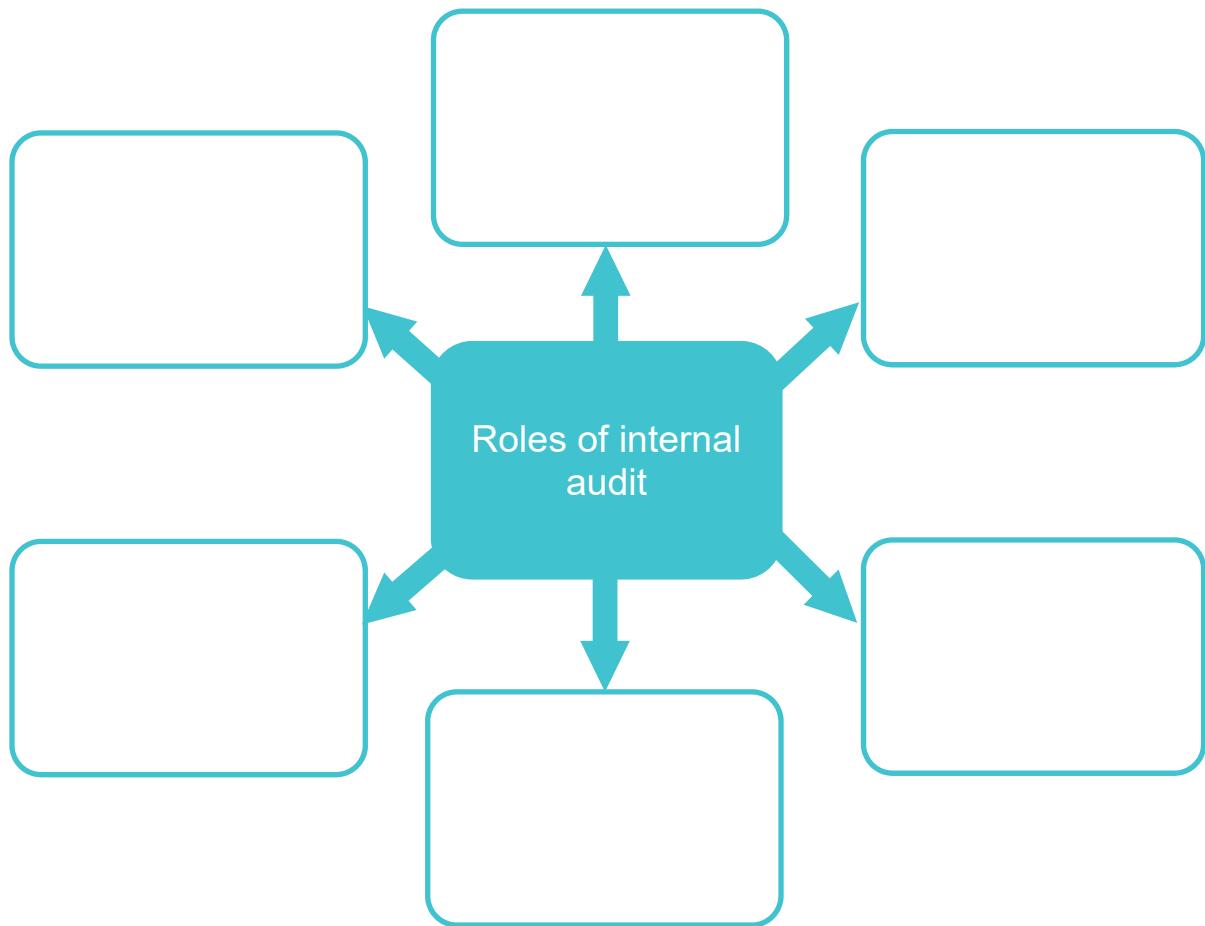
	External audit	Internal audit
Required by	Company law	Board of Directors/Audit Committee
Appointed by	Shareholders or Board of Directors	Board of Directors/Audit Committee
Reports to	Shareholders	Board of Directors/Audit Committee
Reports on	<p>Whether the financial statements are</p> <ul style="list-style-type: none"> ➤ True and fair ➤ Properly prepared. <p>Whether the directors' report is consistent with the financial statements</p>	Adequacy of internal controls etc.
Scope of assignment	Unlimited, to fulfil statutory obligations	Prescribed by management

Notes



6.2 Roles of internal audit

The activities of internal audit generally involve the following roles:



Notes



6.3 Limitations of internal audit

Internal auditors have an unavoidable independence problem. They are employed by the management of the company and yet are expected to give an objective opinion on matters for which management are responsible.

Internal audit will only succeed if it is properly staffed and resourced.

If internal auditors identify fraud, they may be unwilling to disclose it for fear of repercussions.

These limitations can be reduced if an **audit committee**:

- sets the work agenda for internal reports
- receives internal audit reports
- is able to ensure the internal audit is properly resourced
- has a 'voice' at main board level.

Notes



6.4 The purposes of external audit

International Standards on Auditing (ISAs) state that the overall objectives of the external auditor are:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.

6.5 Advantages and disadvantages of an external audit



Advantages

-
-
-
-
-



Disadvantages

-
-

Notes



7

Internal control and audit

7.1 Why internal control interests the external auditor

Auditors need to gain an understanding of the systems and controls.

This enables the auditor to:

-
-

Reliance on internal controls will reduce the amount of **substantive testing** of transactions and resultant balances in the ledger accounts required.



Substantive tests are tests of accuracy and they are used to establish facts.

At an early stage in their work the auditors will have to decide the extent to which they believe they can place reliance on the internal controls of the enterprise.

Notes



7.2 Why internal control interests the internal auditor

A key objective of the internal auditor is to review the organisation's system of internal control and to provide assurance that the corporate governance requirements are being met.

Like external auditors, internal auditors have to make decisions on the extent of reliance on controls to manage risks and therefore the level of testing to be carried out.

Notes



Questions



Notes



Chapter 17

Fraud, fraudulent behaviour, and their prevention in business



Outcome

By the end of this session you should be able to:

- explain the circumstances under which fraud is likely to arise
- identify different types of fraud in the organisation
- explain the implications of fraud for the organisation
- explain the role and duties of individual managers in the fraud detection and prevention process
- define the term money laundering
- give examples of recognised offences under typical money laundering regulation
- identify methods for detecting and preventing money laundering
- explain how suspicions of money laundering should be reported to the appropriate authorities

and answer questions relating to these areas.

Chapter 17



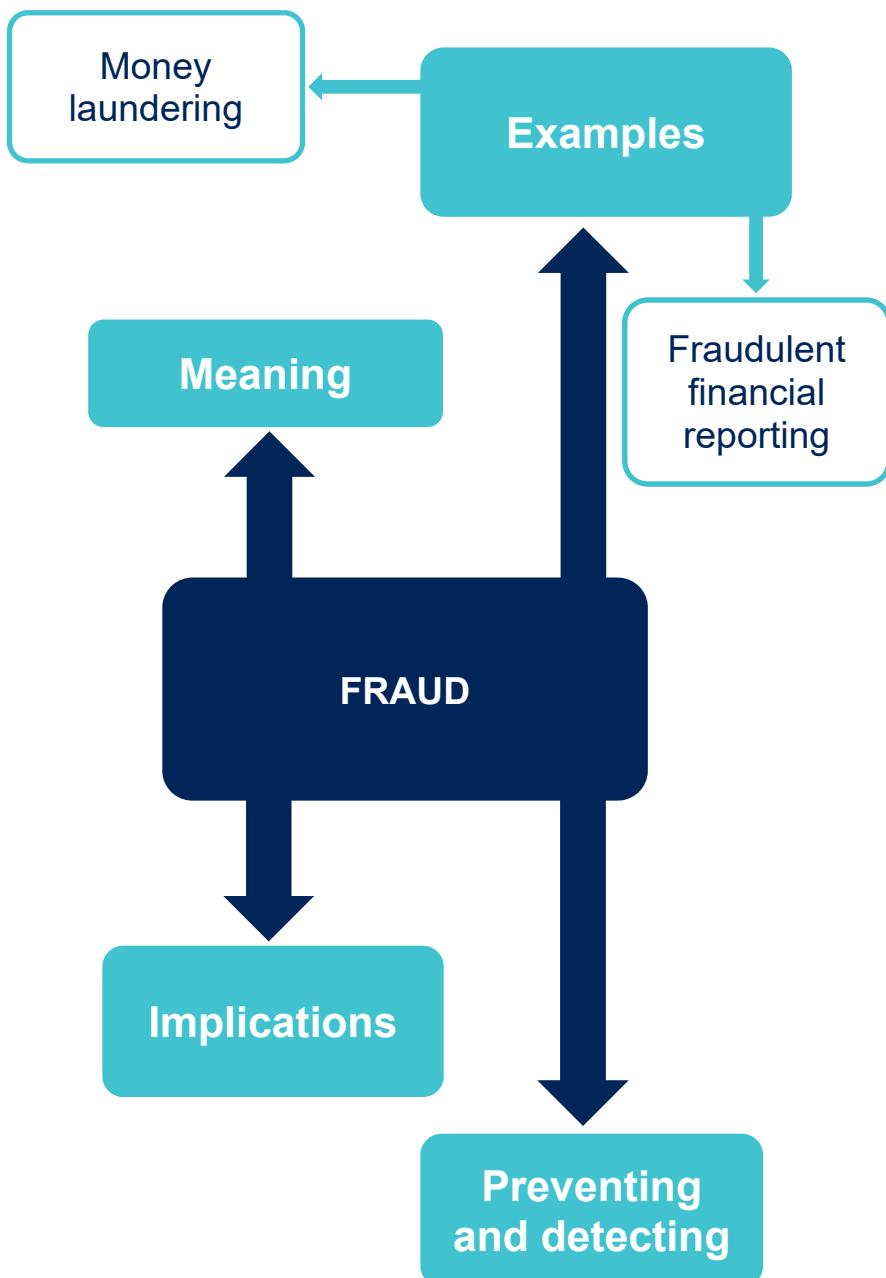
PER

One of the PER performance objectives (PO4) is to contribute to effective governance in your area. You evaluate, monitor and implement risk management procedures, complying with the spirit and the letter of policies, laws and regulations. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 17 of your Study Text



Overview



1

The meaning of fraud

1.1 Definition



Fraud is an intentional act involving the use of deception to obtain an unjust or illegal advantage – essentially ‘theft by deception’. Fraud can be punishable by a fine or imprisonment.

- **Error** –
- **Irregularity** –
- **Misstatement** –

Notes



2

The prerequisites of fraud

2.1 Prerequisites



All three are usually required – for example an honest employee is unlikely to commit fraud even if they are given the opportunity and motive.

Factors that might indicate an increased risk of fraud and error include (amongst others):

- management domination by one person, or a small group of people
- unnecessarily complex corporate structure
- poor staff morale
- personnel who do not take leave/holidays
- lavish lifestyles of employees
- inadequate segregation of duties
- lack of monitoring of control systems
- payments for services disproportionate to effort

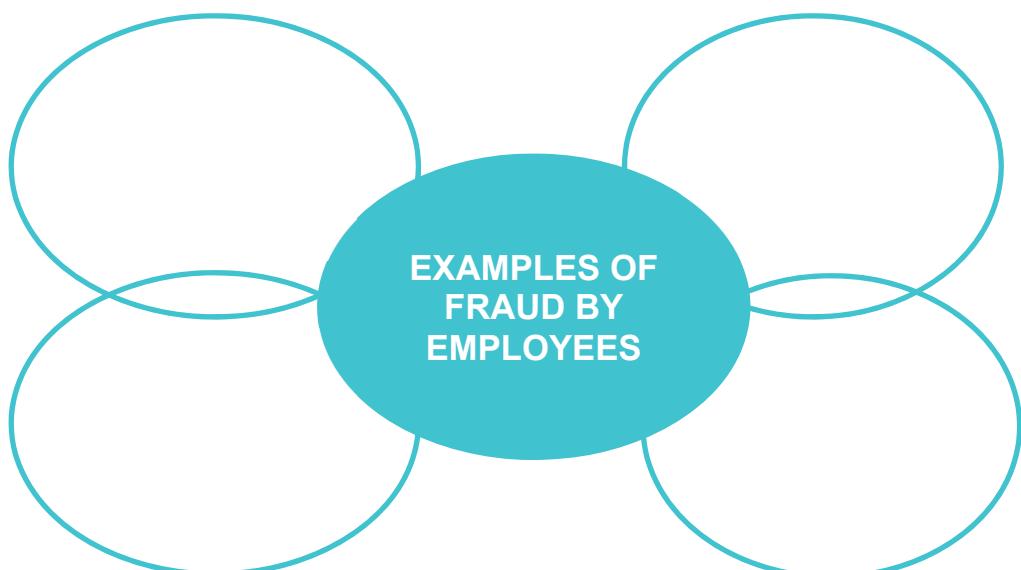
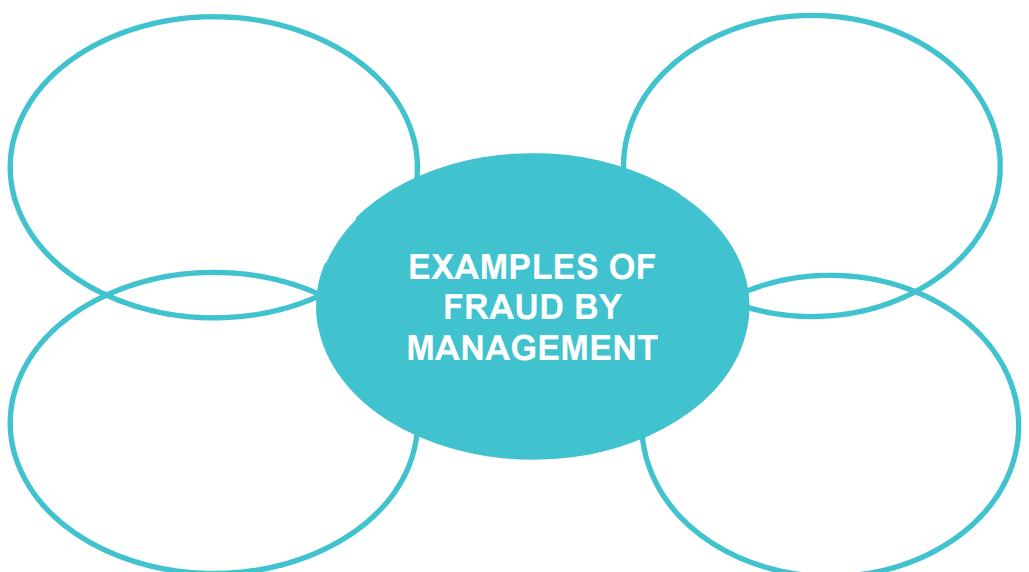
If management have established a strong system of internal control then the potential for fraud is greatly reduced.

Notes



3 Examples of fraud

3.1 Examples





Notes



4

Fraudulent financial reporting

4.1 Fraudulent financial reporting



Fraudulent financial reporting involves intentional misstatements in financial statements in order to deceive financial statement users.

Notes



5

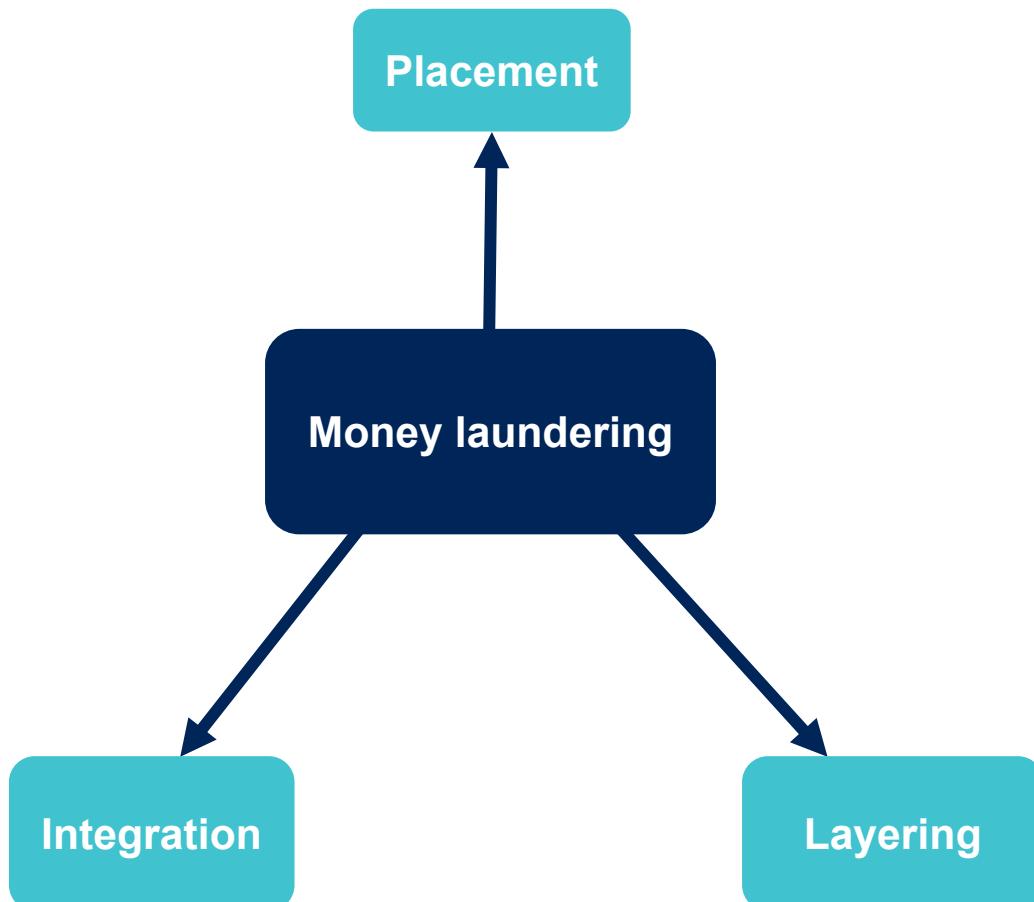
Money laundering

5.1 Definition



Money laundering is the exchange of 'dirty' money and assets that have been criminally obtained for 'clean' money and assets that have no clear link to criminal activity.

Money laundering itself normally follows three distinct phases:



Typical money laundering legislation recognises three main offences relating to money laundering.

- **Laundering –**
- **Failure to report –**
- **Tipping off –**

Notes





5.2 Controls and procedures required by law

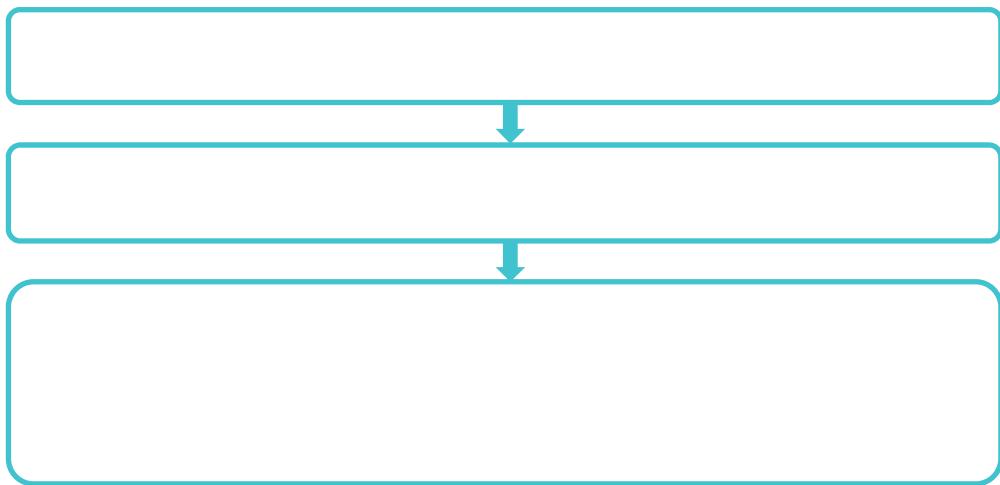
In many countries, relevant companies (usually those who deal with large volumes of cash or high value items, such as banks) are required by law to put in place controls and procedures to identify money laundering transactions.

The controls and procedures required by law will often include:

- Identification of large or unusual transactions
- Scrutinising of unusual patterns of transactions
- Taking steps to ensure all customers are identified
- Creation of the role of Money Laundering Reporting Officer (MLRO)

5.3 Defined reporting process

It is also important that a business has a defined reporting process for any suspected money laundering. This will normally involve:



Notes





The possible implications of fraud to the company

6.1 Implications

There is a spectrum of implications of fraud, from the immaterial to the critical, including:

-
-
-
-
-

Notes





7 Measures to prevent and detect fraud

7.1 Measures to prevent and detect fraud

The principal strategy of any organisation to prevent and detect fraud is to establish an effective internal control system.

The first step of any fraud prevention system is therefore to ensure that each of the components of internal control are set up and working properly.

You should recall that internal control comprises five components: the control environment, the risk assessment process, the information system, control activities and monitoring of controls.

Notes

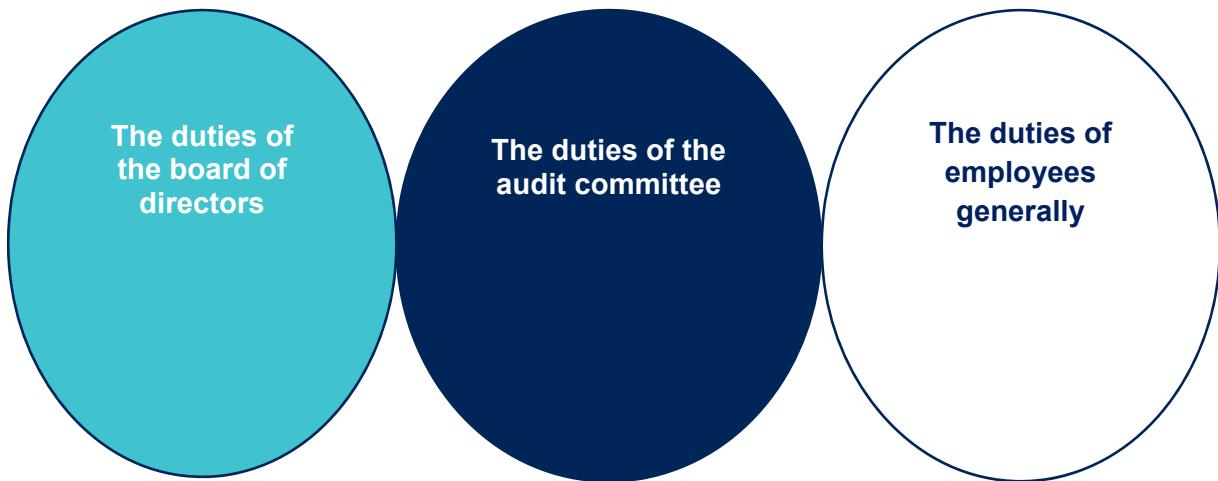


8

The duties of management in preventing and detecting fraud

8.1 The duties of management

The duties of management can be split between:



Notes



Questions



Chapter 18

Leadership, management and supervision



Outcome

By the end of this session you should be able to:

- define leadership, management and supervision and explain the distinction between these terms
- explain the nature of management:
 - scientific/classical theories of management – Fayol, Taylor
 - the human relations school – Mayo
 - the functions of a manager – Mintzberg, Drucker
- explain the areas of managerial authority and responsibility
- explain the situational, functional and contingency approaches to leadership, with reference to the theories of Adair, Fiedler, Bennis, Kotter and Heifetz
- describe leadership styles and contexts using the models of Ashridge and Blake and Mouton

and answer questions relating to these areas.

Chapter 18



PER

One of the PER performance objectives (PO5) is to manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 18 of your Study Text



Overview





What do leadership, management and supervision mean?



1.1 Leadership



Leadership is an interpersonal influence directed towards the achievement of a goal or goals

1.2 Management



Management is the effective ^{use} and co-ordination of business resources in order to achieve key objectives with maximum efficiency.

Note that a manager is not necessarily a leader. A manager will only be a leader if he/she is able to influence people to achieve the goals of the organisation without relying on the use of formal authority.

1.3 Supervision



A supervisor is a person given responsibility for planning and controlling the work of a group of employees.

Supervisors are the lowest level of management and act as an interface between management and the workforce.

Notes



2

Managerial authority and responsibility

2.1 Authority



Authority is the right to give orders and the power to exact obedience.

Fayol

2.2 Responsibility



Responsibility is the liability if a person to be called to account for his/her actions. Note that responsibility cannot be delegated to others.

2.3 Power

Try not to get confused between authority and power. Authority is the right to do something, while power is the ability to do something.

French and Raven identified five sources of power:

- Reward power –
- Coercive power –
- Referent power –
- Expert power –
- Legitimate power –

Other sources of power may include:

- Resource power – based on control over key resources
- Negative power – the ability to use disruptive behaviour and attitudes to prevent things from happening

Notes



3

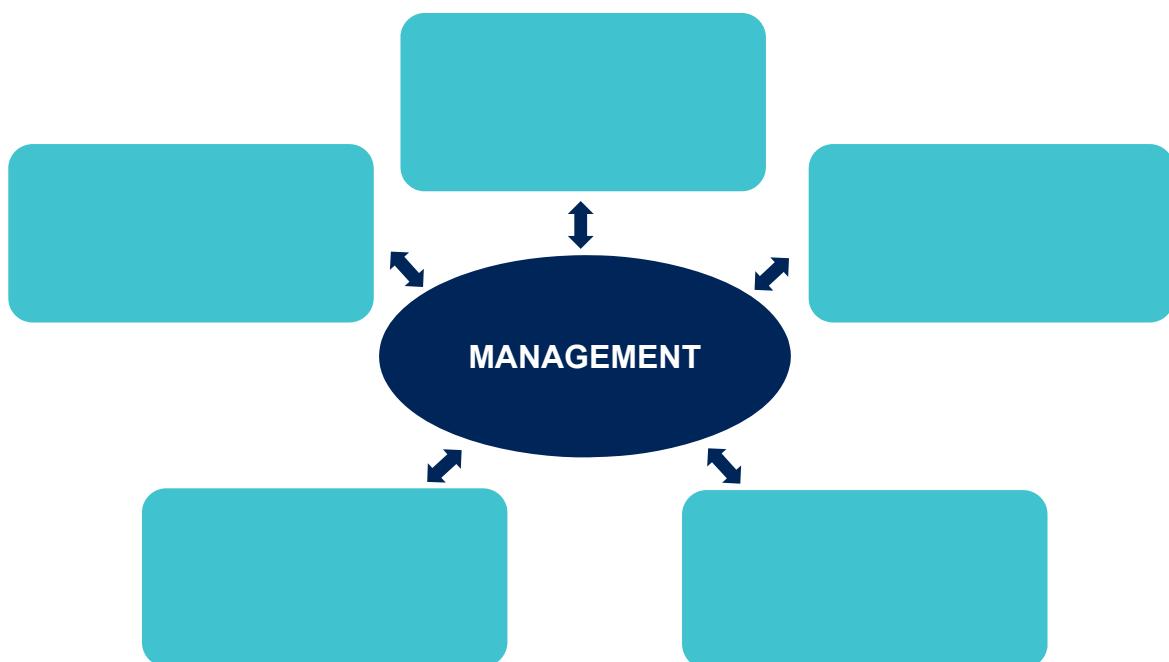
Theories of management

3.1 Classical theories of management

The classical school of management theories were developed during the Industrial Revolution of the mid-to-late 1800s and early 1900s. They are largely concerned with improving efficiency and productivity.

3.2 Fayol – the five functions of management

Fayol suggested that management of all organisations could be split into five broad areas:



Notes



3.3 Taylor – Scientific management

Taylor believed the objective of management is to secure the maximum prosperity for both employer and employee:

To accomplish this, Taylor's scientific management consisted of four key principles:

- Tasks should be analysed in detail to determine the most efficient methods to use.
- Staff member should be scientifically managed. Only the most suitable people should be chosen, trained and developed for each job.
- Managers should make all key decisions and provide detailed instructions to workers to ensure that work was carried out in the most efficient way.
- Work was to be divided between managers and workers, with close co-operation between both groups to maximise efficiency.

Notes



3.4 Criticisms of the classical models



Whilst there are still areas where these classical theories are still relevant, most modern theorists would argue that a more progressive approach is needed where:

- it is recognised that there is not always a 'best' way of doing a particular job
- managers realise that employees can have valuable insights into a job and can make important suggestions for improvements, and
- many workers are motivated by factors other than financial rewards.

Notes



3.5 The human relations school



This model was developed by **Elton Mayo**.

Mayo argued that:

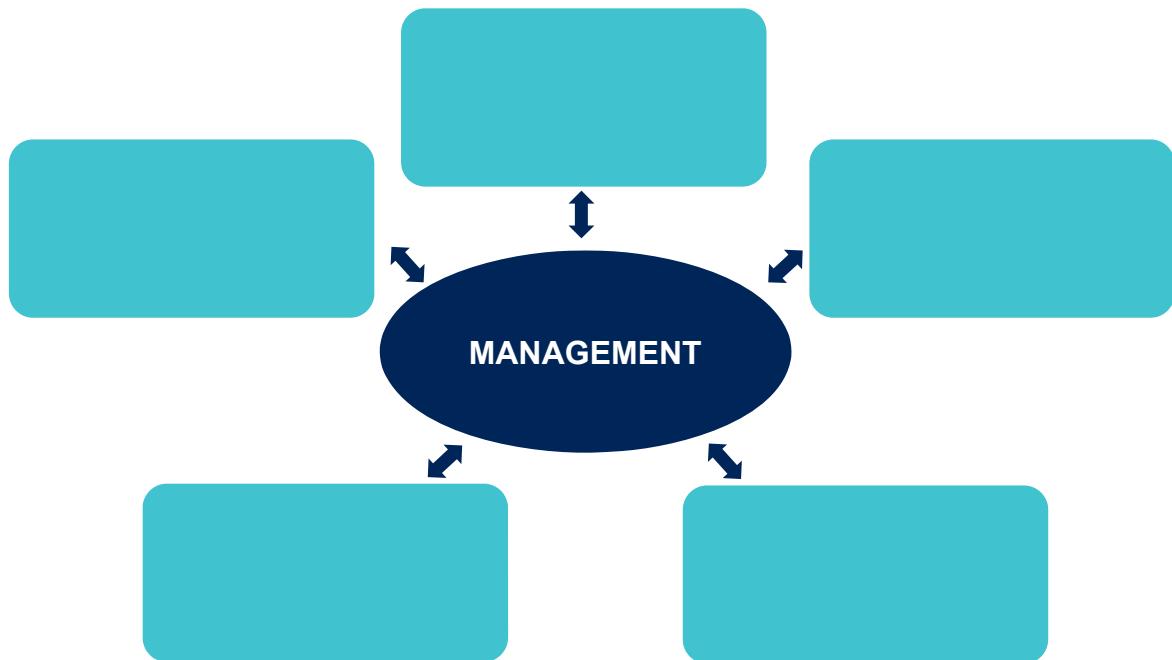
- employee behaviour depends primarily on group relations and management-worker communication, rather than working practices or physical conditions
- wage levels were not the dominant motivating factor for most workers
- ultimately, worker attitudes, group relationships and leadership style were the key factors that determined productivity

Notes



3.6 Modern writers

Peter Drucker argued that all managers perform five basic functions. Drucker's main focus was economic performance through setting objectives and controlling performance.



Notes



3.7 Mintzberg – the ten skills of the manager

Mintzberg identified ten skills that managers need if they are to maximise their effectiveness.

Interpersonal	Informational	Decisional

Notes





Leadership

4.1 Introduction

There are three main groups of leadership theories: trait theories, style theories and contingency theories.

4.2 Trait theories

These argue that good leaders have certain natural attributes to allow them to lead (such as cheerful personality, or fairness). Leaders are therefore born, not made.

4.3 Style theories

These argue that certain leadership approaches or 'styles' can be learnt and used by a manager, depending on the situation.

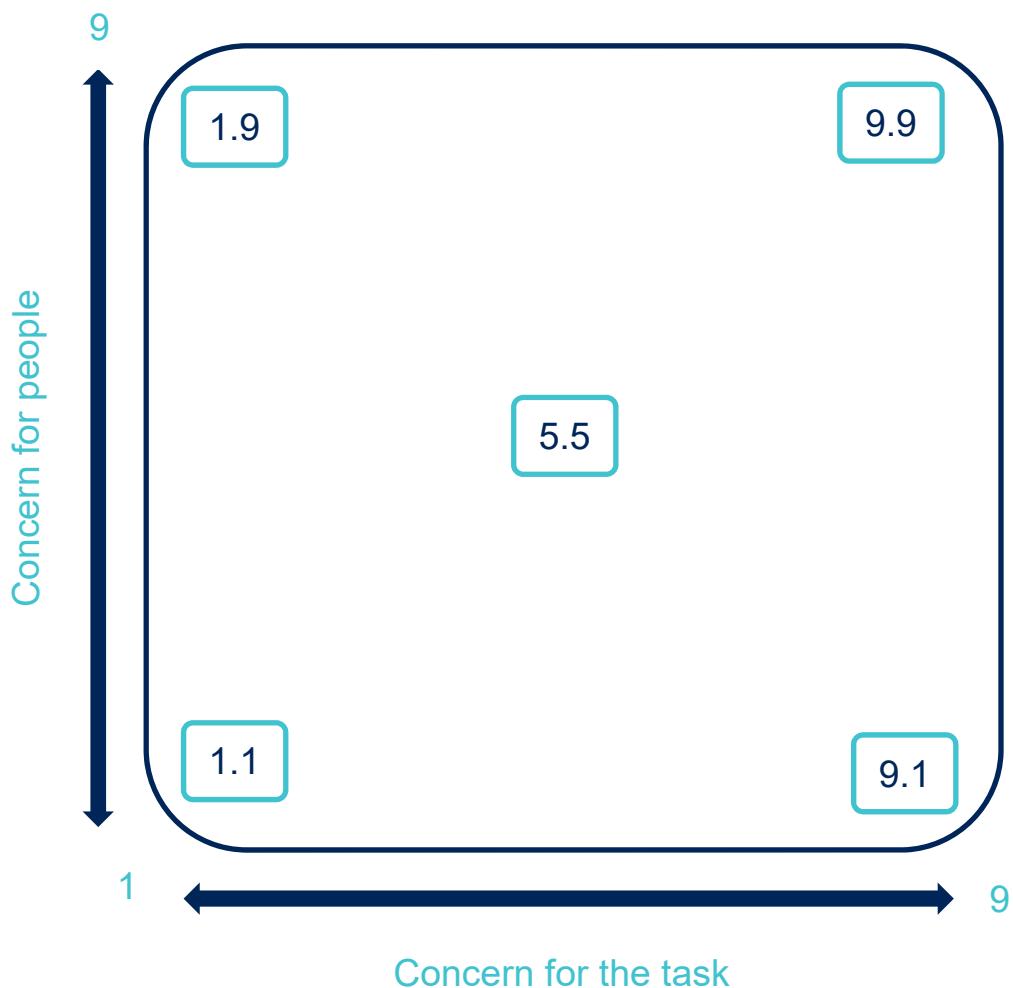
There are two main style theories you need to be aware of.

Notes



Blake and Mouton – the managerial grid

Blake and Mouton designed the managerial grid, which charts people-orientated versus task-oriented styles.



- 9.9
- 9.1
- 1.9
- 5.5
- 1.1



Advantages

- the grid shows areas where management faults can be identified and can then provide basis for training and managerial development
- as an appraisal and management development tool to inform managers that attention to both task and people is possible and desirable
- managers can determine how they are viewed by their subordinates.



Disadvantages

- the grid assumes that leadership style can be categorised into the two dimensions and that results can be plotted on the grid
- the position of team management is accepted as the best form of leadership. This may not be practical or advisable. The concern for the task may be more important than the concern for people, and vice versa and will depend on the situation.

Notes



Ashridge management college

The research at **Ashridge Management College** distinguished four main management styles.

- **Tells (autocratic)** – the manager makes all the decisions and issues instructions which are to be obeyed without question.
- **Sells (persuasive)** – the manager still makes all the decisions, but believes that team members must be motivated to accept them in order to carry them out properly.
- **Consults (participative)** – the manager confers with the team and takes their views into account, although still retains the final say.
- **Joins (democratic)** – the leader and the team members make the decision together on the basis of consensus.

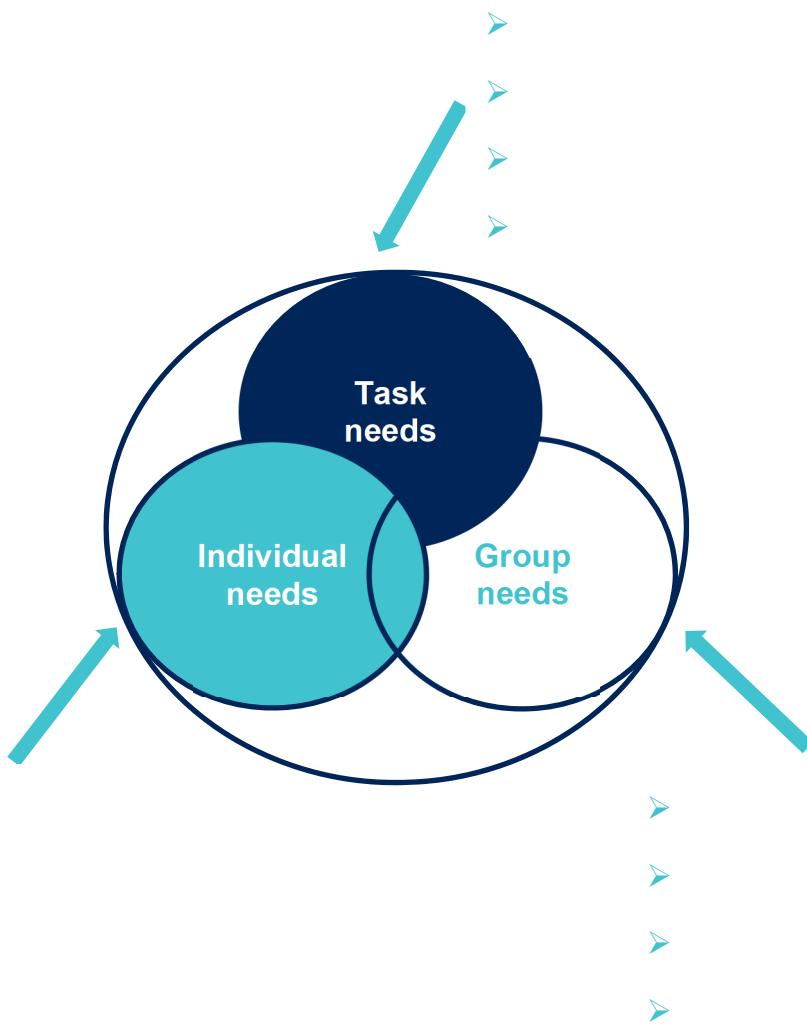
Notes



4.4 Contingency theories

These suggest there is no correct style. Instead, successful leadership involves adapting to the particular circumstances in which the leader finds themselves.

Adair – Action-centred leadership



Notes



Fiedler – contingency theory

Fiedler identified two distinct styles of leadership:

- **psychologically distant managers (PDMs)**
- **psychologically close managers (PCMs)**

Fiedler suggested that the most effective style of leadership would be determined by the situation, which would be influenced by three factors:

- leader/member relations – the nature of the relationship between the leader and the group
- task structure – the extent to which the task is structured
- leader position power – the degree of formal authority/responsibility allocated to the position

Notes



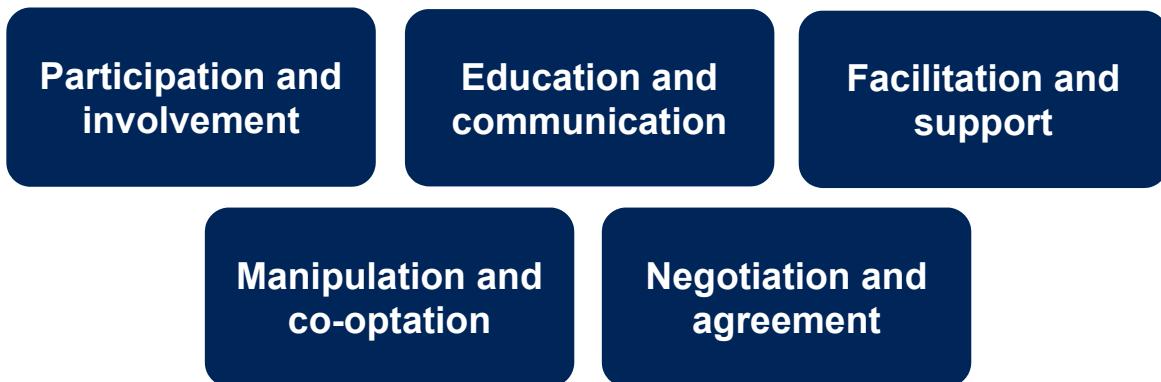
Bennis – transformational leadership

Bennis argued that there were two types of leaders:

- **transactional leaders** – see the relationship with their followers in terms of a trade: they give followers the rewards they want in exchange for a service, loyalty and compliance.
- **transformational leaders** – see their role as inspiring and motivating others to work at levels beyond mere compliance. Only transformational leadership is said to be able to change team/organisational cultures and move them in a new direction.

Kotter – managing change

Kotter set out the following change approaches to deal with resistance:



Heifetz – leadership to motivate

Heifetz argues that the main role of managers is to help people to face reality and mobilise them to make changes where necessary. A true leader does not necessarily have all the answers – instead they encourage people to tackle tough challenges themselves.

In addition, Heifetz suggested that anyone within an organisation may provide some degree of leadership in certain circumstances. This means that leaders may sometimes simply emerge, rather than being formally appointed.

Notes



Questions



Chapter 19

Recruitment and selection of employees



Outcome

By the end of this session you should be able to:

- explain the importance of effective recruitment and selection to the organisation
- describe the recruitment and selection process and explain the stages in this process
- describe the roles of those involved in the recruitment and selection processes
- describe the methods through which organisations seek to meet their recruitment needs
- explain the advantages and disadvantages of different recruitment and selection methods
- explain the purposes of a diversity policy within the human resources plan
- explain the purpose and benefits of an equal opportunities policy within human resource planning
- explain the practical steps that an organisation may take to ensure the effectiveness of its diversity and equal opportunities policy

and answer questions relating to these areas.

Chapter 19



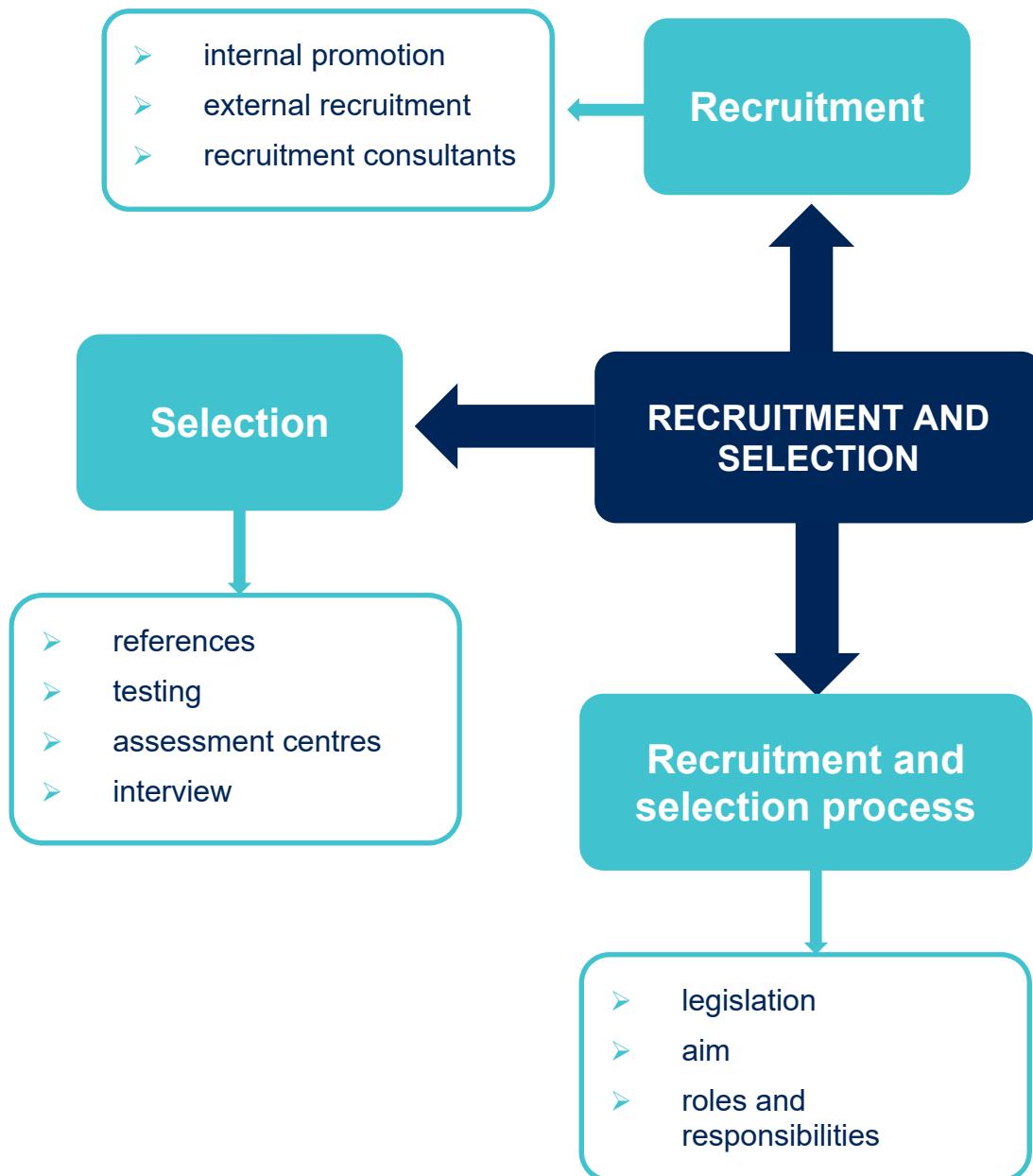
PER

One of the PER performance objectives (PO5) is to manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 19 of your Study Text



Overview



1

Recruitment and selection

1.1 Introduction



Recruitment involves attracting a range of suitable candidates for a given role within the organisation.



Selection processes are aimed at choosing the most suitable candidate for the specified position.

1.2 The importance of recruitment and selection

The consequences of poor recruitment and selection can include:

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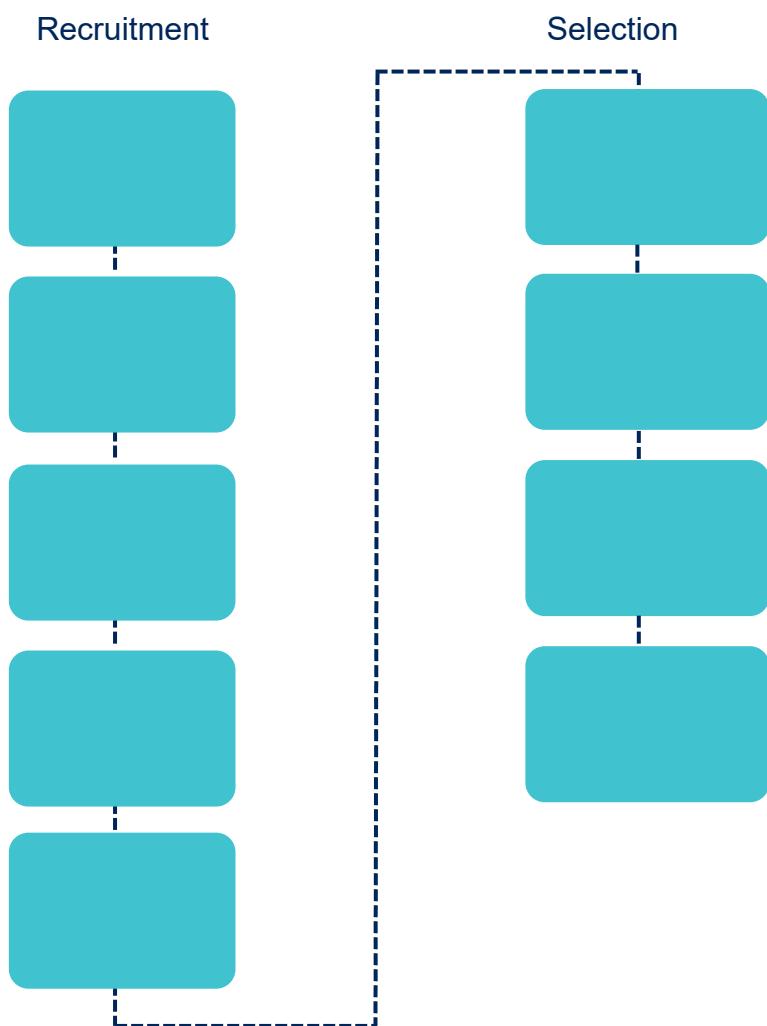
Notes



2

The recruitment and selection process

2.1 Recruitment and selection



Notes



2.2 Person specification

Once management have a job description, they can attempt to define the key attributes and qualities that the jobholder should ideally have.

Alec Rodgers recommended that the following categories should be covered in a person specification.

- **Special aptitudes**
- **Circumstances**
- **Interests**
- **Physical make-up**
- **Disposition**
- **Attainments**
- **General intelligence**

Notes



2.3 Attracting candidates

This stage involves persuading relevant candidates to apply for the role the organisation wishes to fill.

The advantages of internal and external recruitment include:



Internal

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External

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BUT

Notes



2.4 Advertising

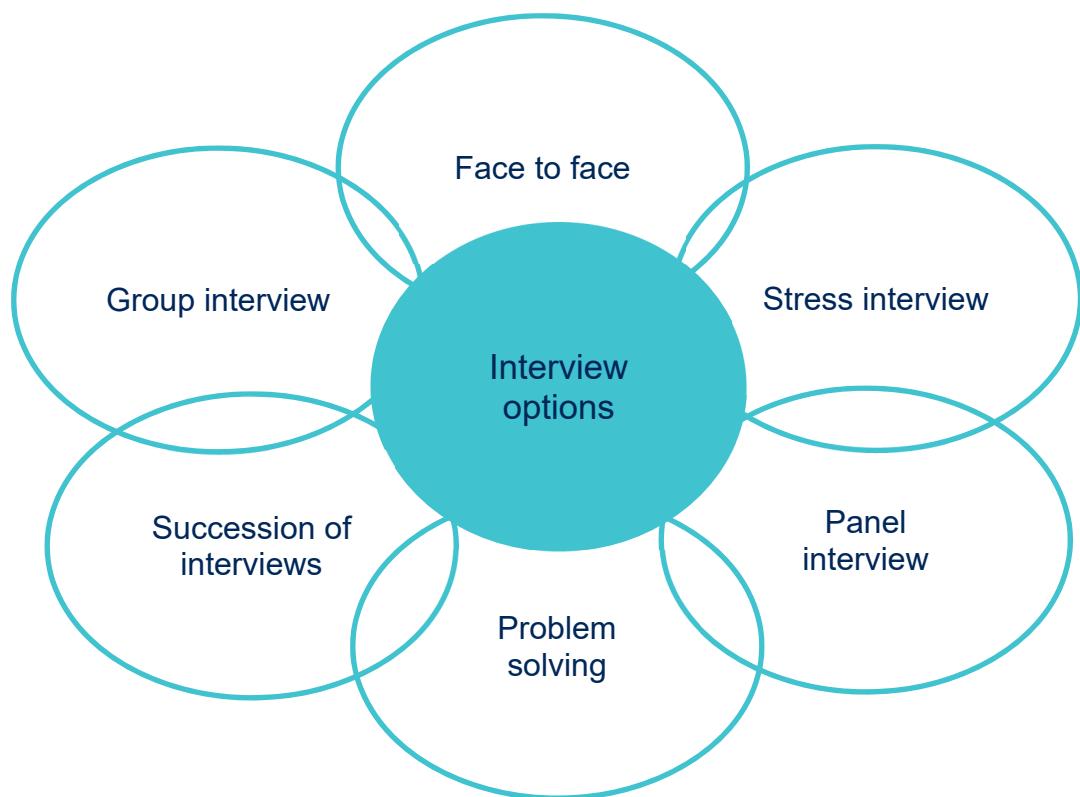
The objective of recruitment advertising is to attract the interest of suitable candidates in the vacancy that the organisation wishes to fill.

There is no correct advertising medium for a business to use. The medium chosen will typically depend on several factors, including:

- the type of organisation
- the type of job being advertised
- the readership and circulation of the medium
- the cost of the advertising
- the frequency and duration of the advertisements

2.5 Selection interviews

There are various types of interview that an organisation may use, including:



Interviews have several key advantages and disadvantages as a way of selecting candidates.



Advantages

- places candidate at ease
- highly interactive
- opportunities to use non-verbal communication
- opportunities to assess appearance, interpersonal and communication skills
- opportunities to evaluate rapport between the candidate and the potential colleague/bosses



Disadvantages

- too brief to get to know candidates
- interview is an artificial situation
- halo effect from initial impression
- qualitative factors such as motivation, honesty or integrity are difficult to assess
- subjectivity and bias

Notes



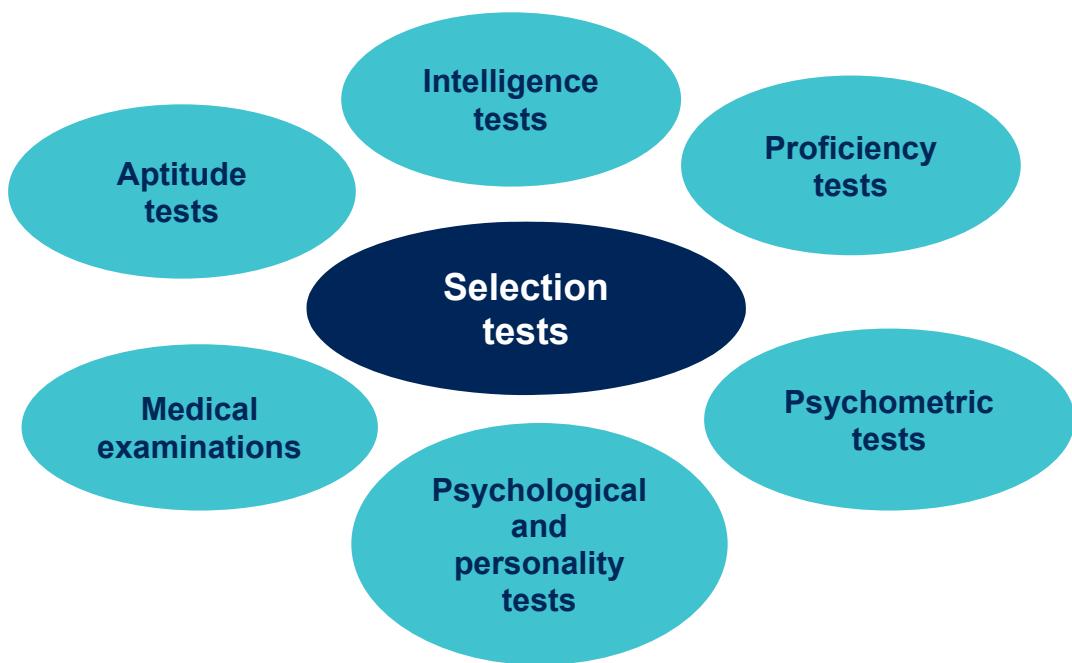
2.6 Selection testing

Testing can be undertaken either before or after the interview has taken place.

Two basic types of test are:

- **Proficiency and attainment** – these are used to examine the applicant's competencies, skills and abilities in areas that will be required in the job
- **Psychometric** – these are more general and test psychological factors, such as aptitude, intelligence and personality

There are a range of specific tests that you need to be aware of, including:



Notes



2.7 Assessment centres

Assessment centres involve candidates being observed and evaluated by trained assessors as they are given a selection of pre-programmed exercises or trials.

These exercises may include group discussions, presentations, questionnaires, simulations, games, speeches, self-appraisal, role play exercises, written tests and peer rating.

2.8 References

The purpose of references is to confirm facts about the candidate and increase the degree of confidence felt about information they provided during the selection process.

References should contain two types of information:

- Straightforward, factual information, confirming the nature of the applicant's previous job, period of employment, pay and circumstances of leaving.
- Opinions about the applicant's personality and other attributes, though these are open to bias and should therefore be treated with caution.

References, while useful, have to be viewed with caution. Allowances must be made for:

- prejudice (favourable or unfavourable)
- charity (withholding detrimental remarks)
- fear of being actionable for libel (although references are privileged, as long as they are factually correct and devoid of malice).

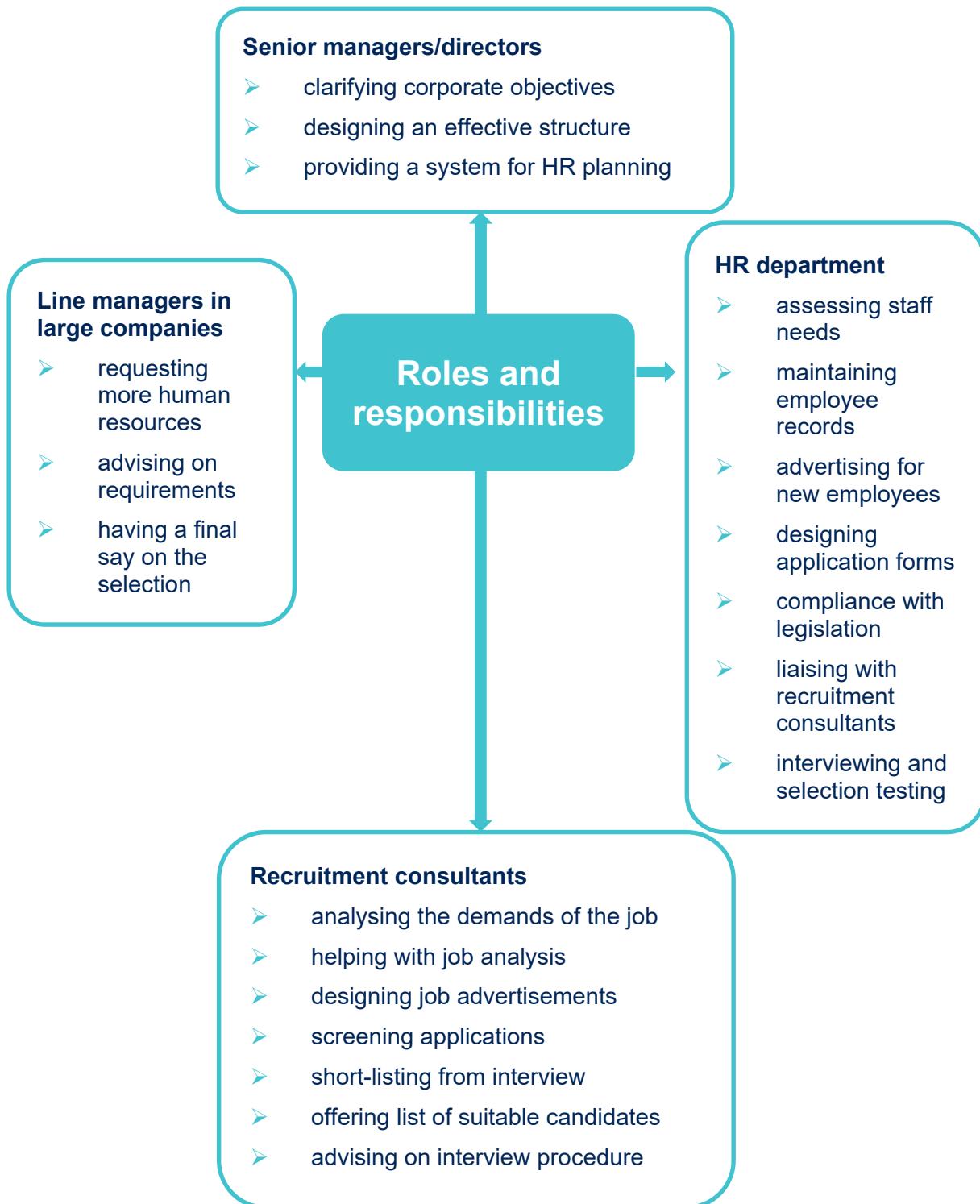
Notes



3

Responsibility for recruitment and selection

3.1 Who is involved in recruitment and selection?



Notes



4

Equal opportunities

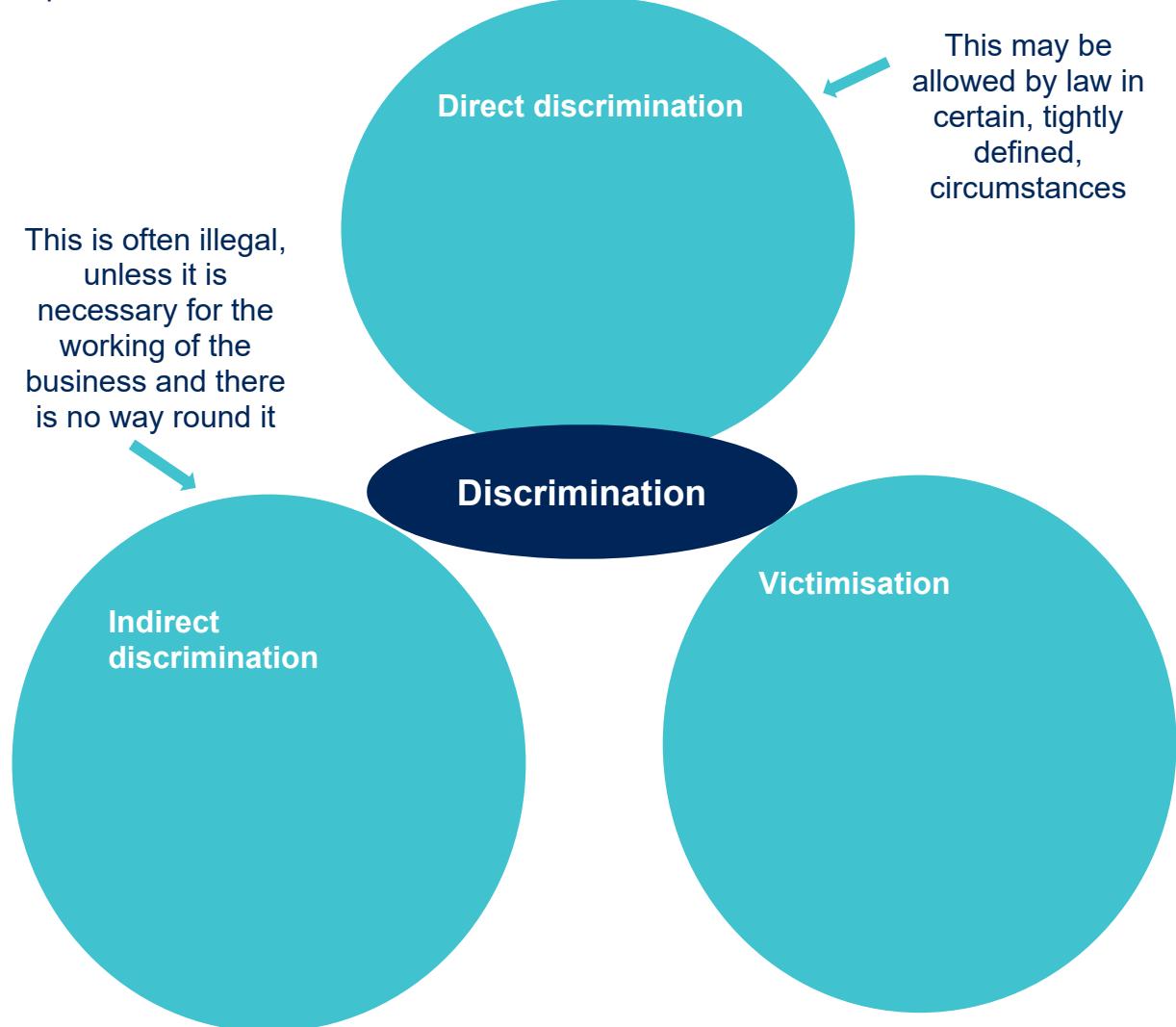
4.1 Introduction



Equal opportunities refers to the belief that there should be an equal chance for all workers to apply and be selected for jobs, to be trained and promoted in employment and to have employment terminated fairly.

4.2 Types of discrimination

There are three types of discrimination that an equal opportunities policy will attempt to prevent.



Notes



4.3 The legal position



Employment legislation varies significantly from country to country, but typically prevents discrimination in various areas, including

- selection of candidates to interview or employ
- provision of promotion, training or other benefits
- working conditions
- dismissal, or other disadvantages

Notes





Diversity

5.1 Diversity and equal opportunities

Diversity and equal opportunities are related ideas, though they are distinct from each other. Diversity involves valuing all individuals for their differences and variety.

The main differences between diversity and equal opportunities are:

Diversity	Equal opportunities
voluntary	government initiated
productivity driven	legally driven
qualitative	quantitative
opportunity-focused	problem-focused
inclusive	targeted
proactive	reactive

Notes



5.2 The benefits of a diverse workforce

One of the goals of diversity is having a workforce that is 'representative' of the composition of the organisation's operational environment (the external community).

Benefits should include:



Advantages

- increased competitive advantage
- maximisation of the organisation's HR potential
- increased creativity and innovation
- broader range of skills present within the organisation
- better customer relations and service to diverse customers
- ability to recruit the best talent from the entire labour pool
- improved working relations in an atmosphere of inclusion

Notes



Questions



Notes



Chapter 20

Individual, group and team behaviour



Outcome

By the end of this session you should be able to:

- describe the main characteristics of individual and group behaviour
- outline the contributions of individuals and teams to organisational success
- identify individual and team approaches to work
- explain the differences between a group and a team
- define the purposes of a team
- define the role of the manager in building the team and developing individuals within the team
 - Belbin's team roles theory
 - Tuckman's theory of team development
- list the characteristics of effective and ineffective teams
- describe tools and techniques that can be used to build the team and improve team effectiveness

and answer questions relating to these areas.

Chapter 20



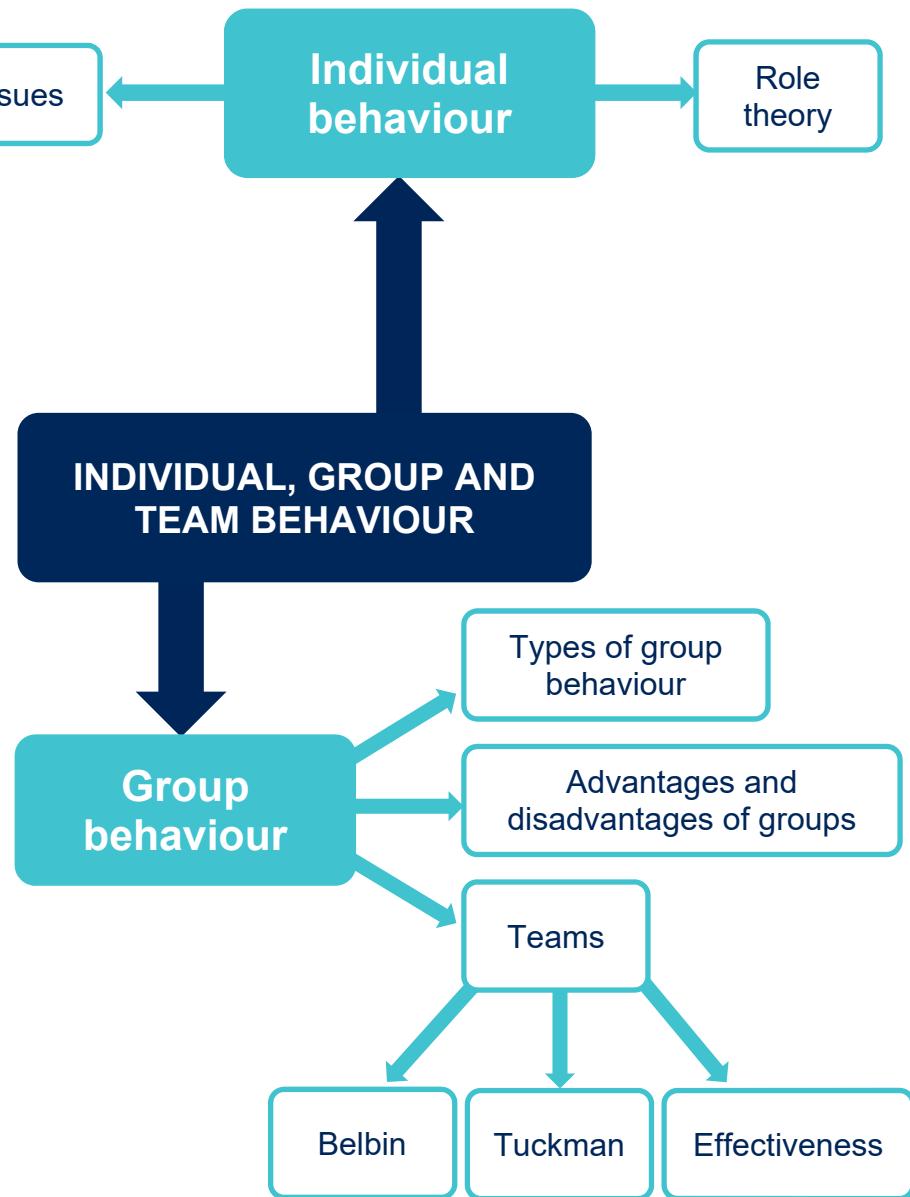
PER

One of the PER performance objectives (PO5) is to manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 20 of your Study Text



Overview



1 Individuals

1.1 Characteristics of individual behaviour

Typical issues that affect individual behaviour and performance at work include:

Motivation level –

Perception –

Attitudes –

Personality –

Notes



1.2 Role theory



A **role** is the pattern of behaviour expected by someone who occupies a particular position.

There are **several key terms** relating to role theory that you should be aware of.

Role behaviour



Role set



Role signs



Role theory also identifies several problems that these expected patterns of behaviour may cause.

Role ambiguity



Role conflict



Role incompatibility



Notes



2 Groups

2.1 Characteristics



A **group** is any collection of individuals who perceive themselves to be a group.

They have the following characteristics:

-
-
-

There then to be to main types of group:

- **Informal groups** –
- **Formal groups** –

Notes



2.2 Group behaviour

When dealing with other individuals within a group, people can adopt different types of behaviour.

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-
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2.3 Benefits of groups



There are a number of benefits from team working.

- **Increased productivity** – working as part of a group can result in a better overall result than could be achieved if each person worked independently.
- **Synergy** – Synergy describes the phenomenon in which the combined activity of separate entities has a greater effect than the sum of the activities of each entity working alone – often described as a way of making **$2 + 2 = 5$** .
- **Improved focus and responsibility** – each member can be given the responsibility for specific tasks, avoiding overloading one person with too much responsibility which may result in a loss of focus.
- **Improved problem solving** – having a group made up of members with different abilities will mean a higher likelihood of having the appropriate knowledge and skills to solve problems.
- **Greater creativity** – the idea that two (or more) heads are better than one. Group discussions can generate and evaluate ideas better than individuals working alone.
- **Increased satisfaction** – working as part of a group can bring social benefits and a sense of belonging to its members. In addition the group will offer support to its members and provide a facility for individual training and development needs.
- **Increased motivation** – members will work hard for the other members of the group. They will feel a collective responsibility and will not want to let the other members down.
- **Improved information flows** – there will be more effective communication through participation in group discussions.

Notes



2.4 Problems with groups



Unfortunately groups can also have negative as well as positive effects:

- **Conformity.**
- **The Abilene paradox.**
- **'Risky shift' or group polarisation.**
- **Groupthink.**

Notes



3 Teams

3.1 Introduction



A **team** is more than a group. A team can be described as any group of people who must significantly relate with each other in order to accomplish shared objectives.

Teams usually:

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A team is therefore a formal group. It will have its own culture, leader and will be geared towards achieving a particular objective.

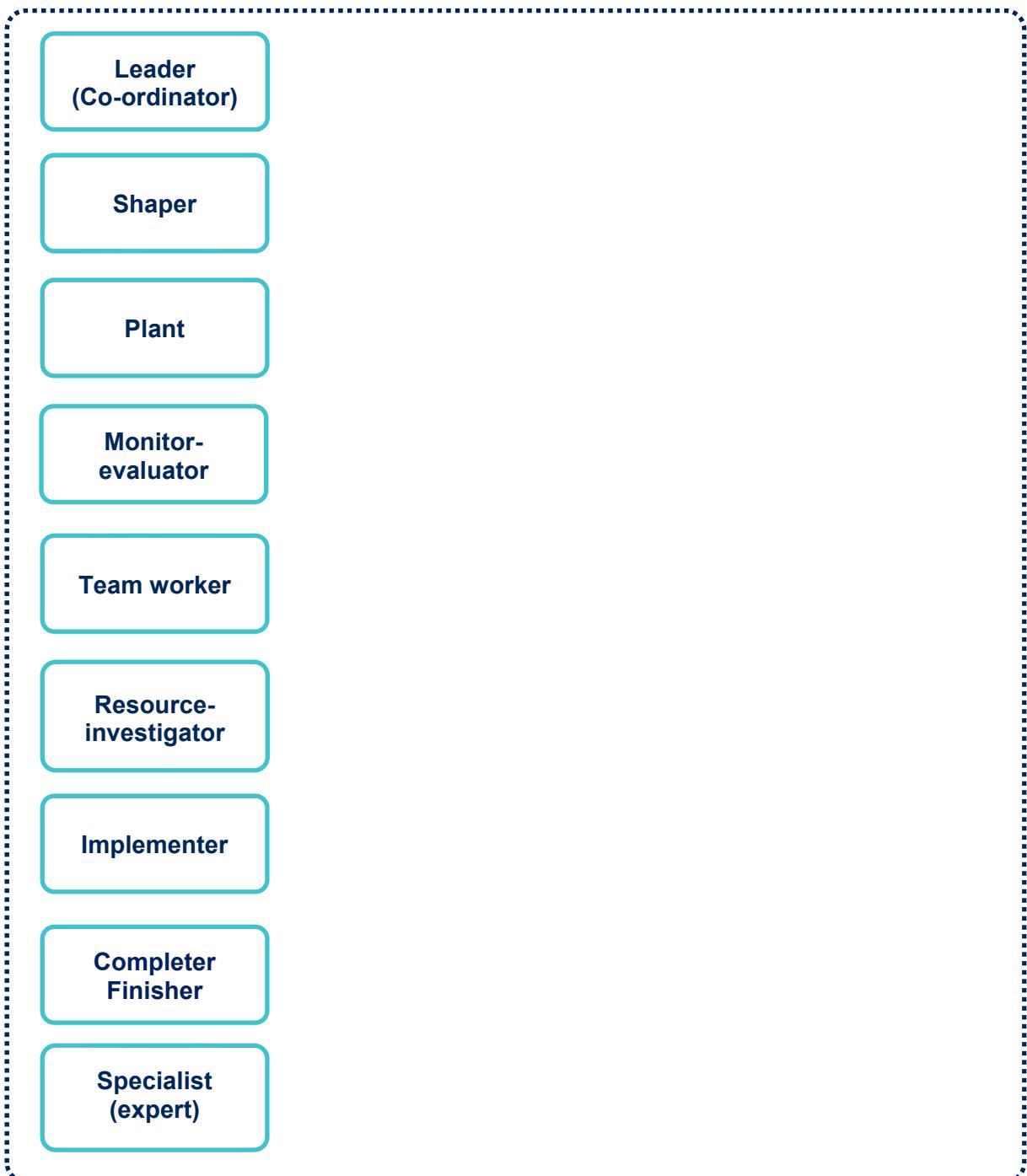
Notes



3.2 Belbin's team roles theory



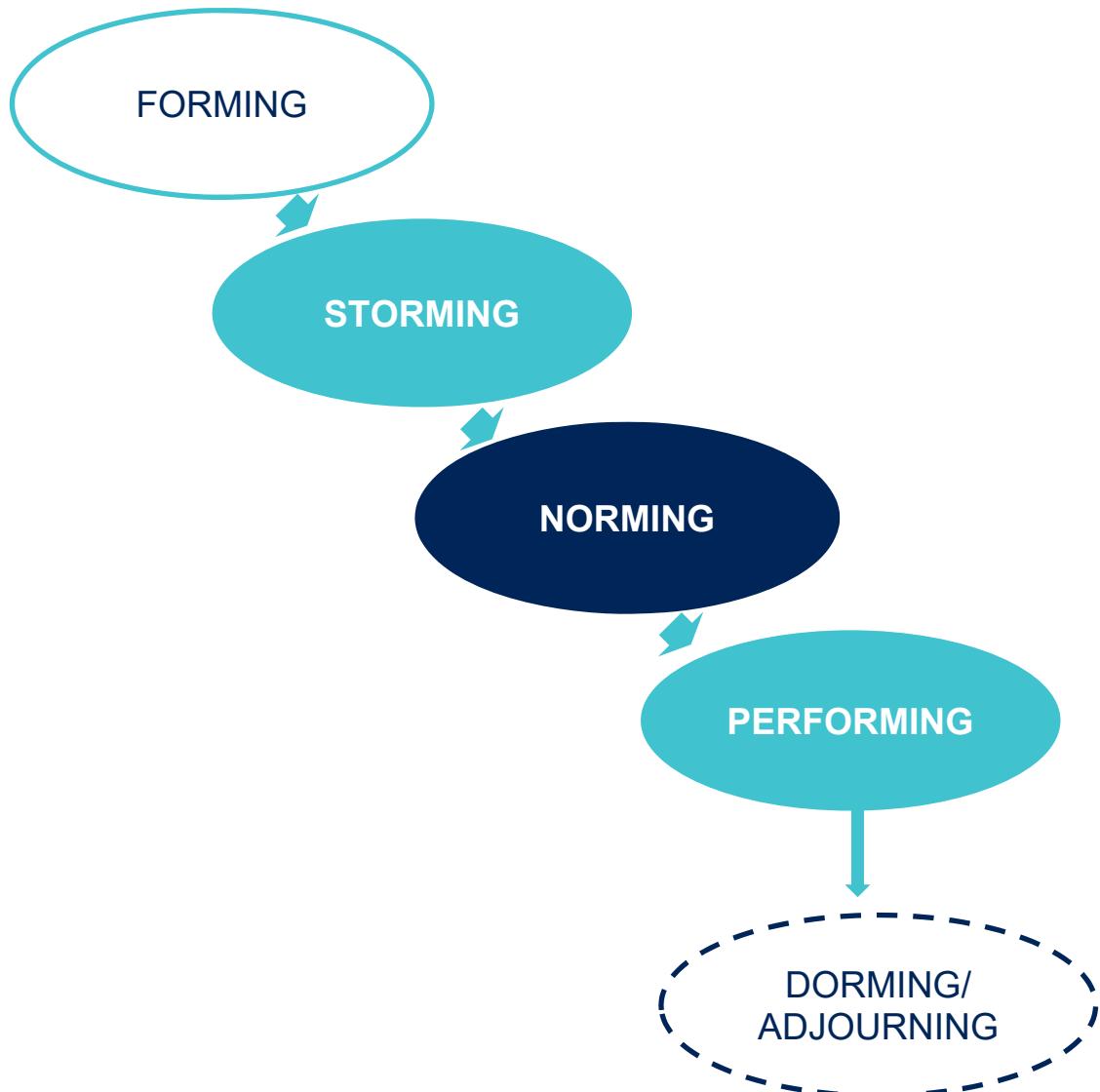
Belbin suggested that, in order for a team to operate effectively, it needed a balance of nine different roles.



Notes



3.3 Tuckman's stages of group development



Notes



3.4 Team effectiveness

Peters and Waterman define the five key aspects of successful teams as

- The team should be relatively **small** – inevitably each member will want to represent the interests of their department, meaning that larger teams will be slower and harder to manage.
- The team should have a **limited duration**, existing only to achieve a particular task.
- Membership should be **voluntary** – a team member who does not want to be part of the group is unlikely to be a fully participating member.
- **Communication should be informal and unstructured** – there should be little documentation and no status barriers.
- The team should be **action-oriented**, meaning that the team should create a plan for action and decide what needs doing to accomplish their goals.

3.5 Building the team and improving effectiveness

Team building exercises are designed to develop group members and their ability to work together.

They promote:

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-
-

3.6 Measuring team effectiveness

There are many possible ways of measuring team effectiveness, including:

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-
-

Notes



OT Questions



Chapter 21

Motivating individuals and groups



Outcome

By the end of this session you should be able to:

- define motivation and explain its importance to the organisation, teams and individuals
- explain content and process theories of motivation: Maslow, Herzberg, McGregor and Vroom
- explain and identify types of intrinsic and extrinsic reward
- explain how reward systems can be designed and implemented to motivate teams and individuals

and answer questions relating to these areas.



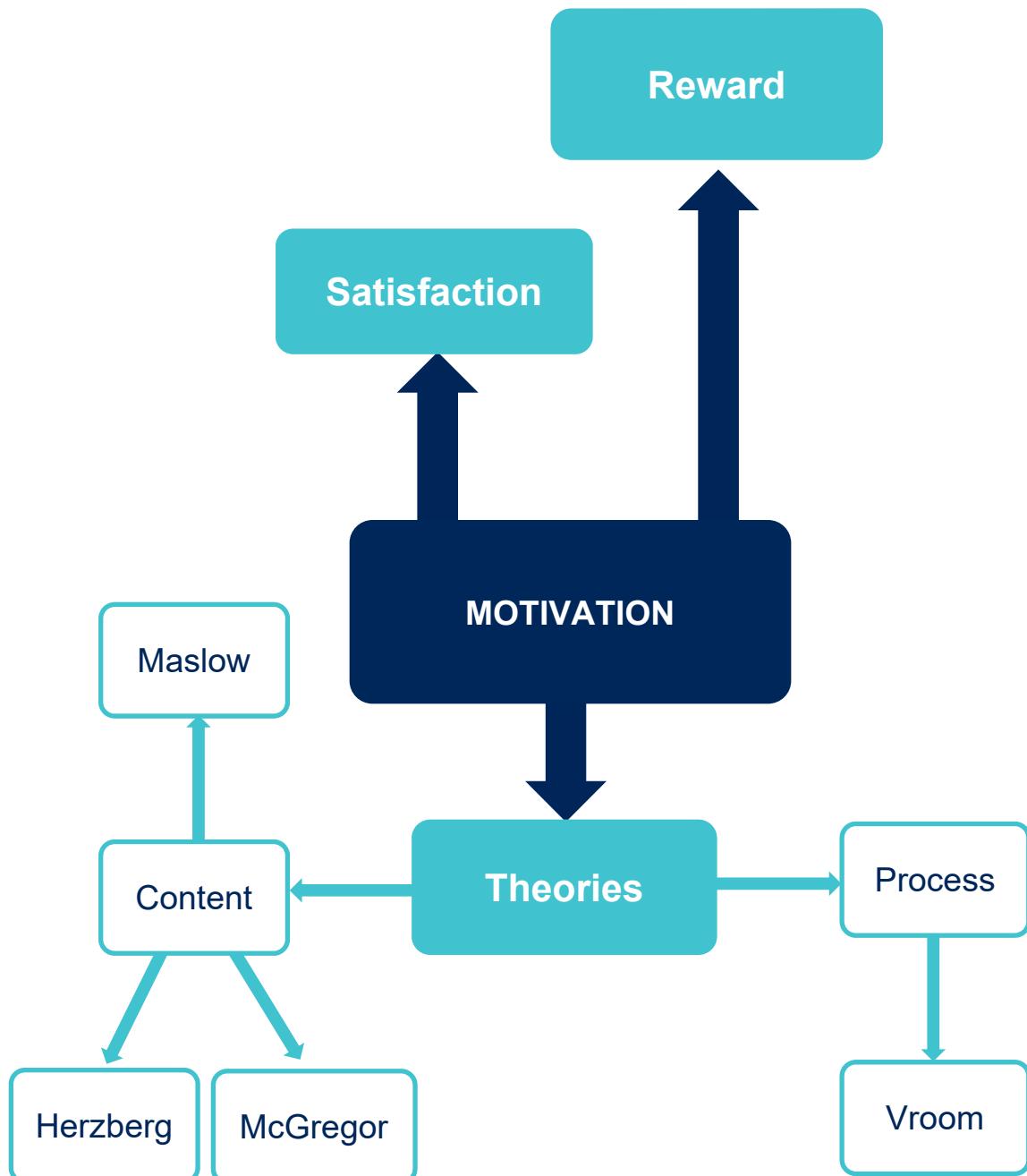
PER

One of the PER performance objectives (PO5) is to manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 21 of your Study Text



Overview



1

What is motivation?

1.1 Definition



In an organisation, **motivation** refers to the willingness of individuals to perform certain tasks or actions. It is the incentive or reason for them behaving in a particular way.

Notes



2

Motivation theories

2.1 Motivation theories

Motivation theories fall into two main groups.

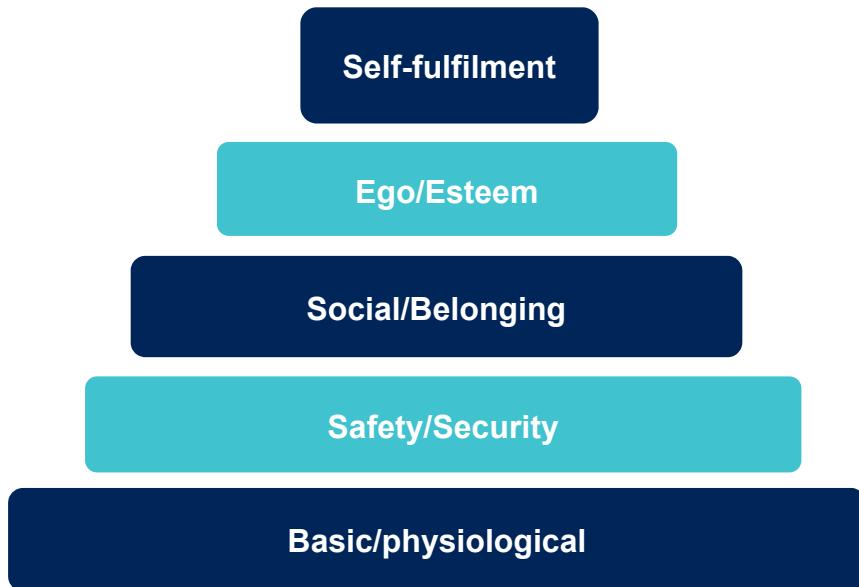
Content theories	Process theories
<p>Ask the question 'what' are the things that motivate people? They are also referred to as 'need theories' and assume that human beings have a set of needs or desired outcomes which can be satisfied through work.</p> <p>Content theories assume that everyone responds to motivating factors in the same way and that there is one best way to motivate everybody.</p>	<p>Ask the question 'how' are people motivated? They attempt to explain how individuals start, sustain and direct behaviour and assume that individuals are able to select their own goals and means of achieving those goals through a process of calculation.</p> <p>Process theories change the emphasis from needs to the goals and processes by which workers are motivated.</p>

Notes



2.2 Content theories

Maslow's hierarchy of needs



Criticisms of Maslow's hierarchy

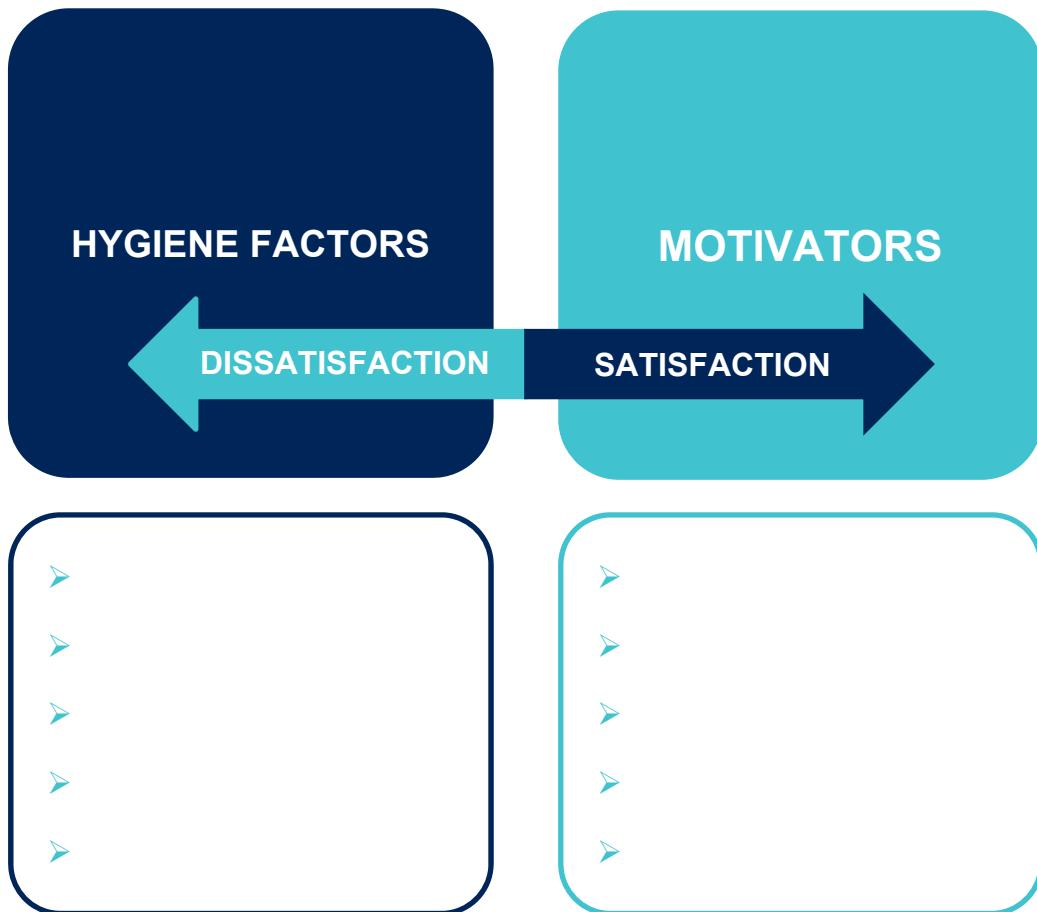
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Notes



Herzberg's two-factor theory

This model examined two sets of factors that can be used to help get the best out of workers.



Notes



You will notice that the main motivators are to do with the value and satisfaction gained from the job itself and are largely non-financial in nature. Herzberg argued that the potential to boost employee motivation caused by increases to pay were extremely limited.

Instead, Herzberg suggested **three types of job design** that could be an effective tool for motivating employees.

- **Job enrichment (vertical job enlargement) –**
- **Job enlargement (horizontal job enlargement) –**

- **Job rotation –**

Notes



Chapter 21

McGregor's Theory X and Y

- **Theory X** – people dislike work and responsibility and will try to avoid both. They therefore need to be coerced.
- **Theory Y** – employees enjoy their work, they are self-motivated and willing to work hard to meet both personal and organisational goals. Employees have real potential and the role of management is to help to release it.

Notes



2.3 Process theories

Vroom's expectancy theory

Vroom believed that people will only be motivated to do tasks if they are confident that the tasks will help them to reach their goals.

Vroom's theory can be stated as a formula:

Force	=	Valence x expectancy
where		
force	=	
valence	=	
expectancy	=	

Notes





Rewards and incentives

3.1 Rewards



A **reward** is something given, to an individual or group, in recognition of their services, efforts or achievements.

- **Intrinsic rewards –**

- **Extrinsic rewards –**

Notes



3.2 Reward systems

Reward systems should be **carefully designed** in order to ensure that they:

- are fair and consistent for all employees
- are sufficient to attract and retain staff
- maintain and improve levels of employee performance
- reward progression and promotion
- comply with legislation and regulation (i.e. minimum wage laws)
- control salary costs

There are three **main types of incentive scheme**:

Performance related pay (PRP)

Piecework –

Management by objectives (MBO) –

Points system –

Commission –

Bonus schemes –

Profit sharing –

Notes



Questions



Notes



Chapter 22

Learning and training at work



Outcome

By the end of this session you should be able to:

- explain the importance of learning and development in the workplace
- describe the learning process: Honey and Mumford, Kolb
- describe the role of the human resources department and individual managers in the learning process
- describe the training and development process: identifying needs, setting objectives, programme design, delivery and validation
- explain the terms 'training', 'development' and 'education' and the characteristics of each
- list the benefits of effective training and development in the workplace

and answer questions relating to these areas.

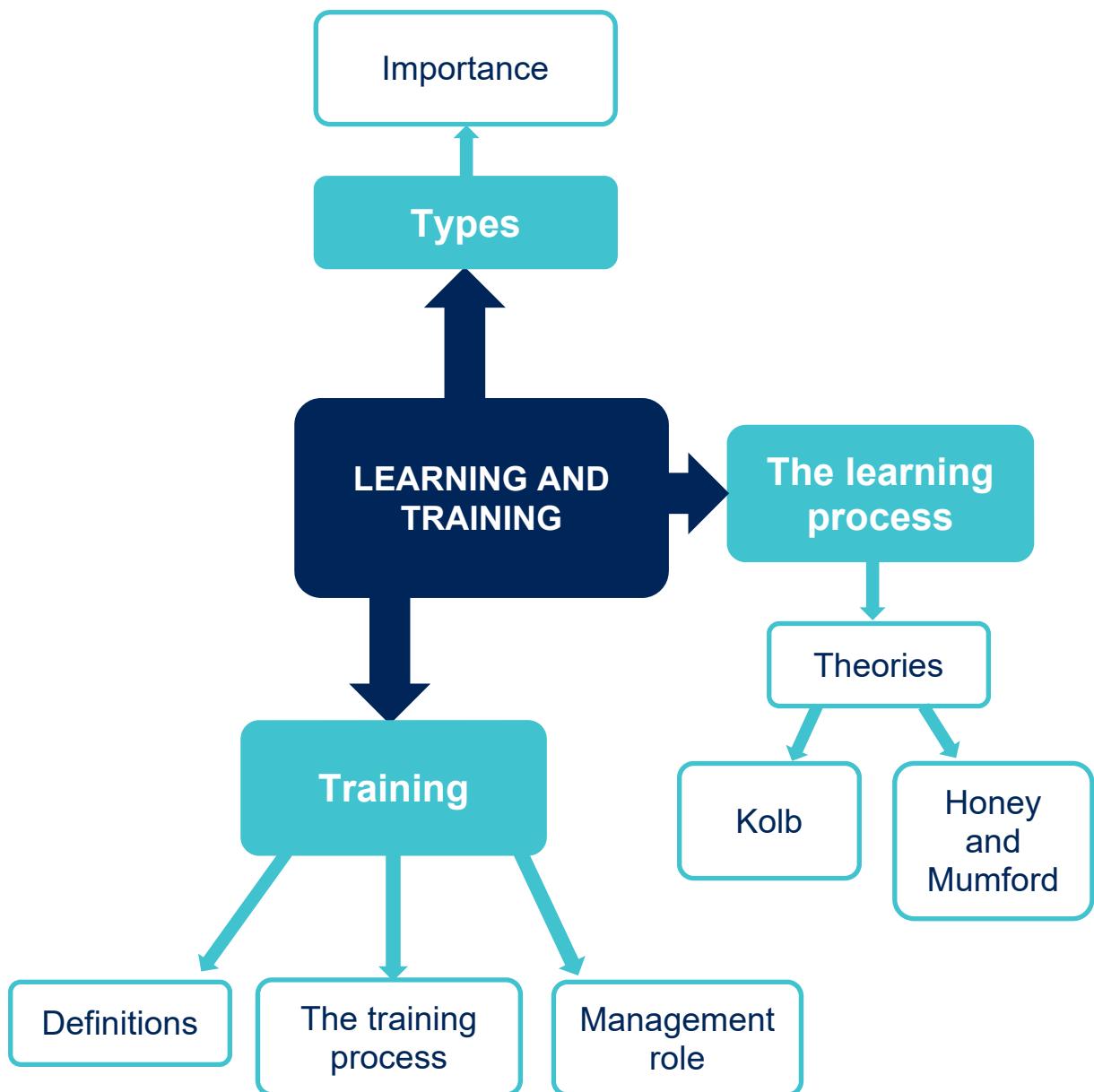


PER

One of the PER performance objectives (PO5) is to manage yourself and your resources effectively and responsibly. You contribute to the leadership and management of your organisation – delivering what's needed by stakeholders and the business. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 22 of your Study Text

Key Overview



1 Learning

1.1 Definition



Learning can be defined as 'the process of acquiring knowledge through experience, which leads to changes in behaviour'. It includes acquiring new skills, knowledge or attitudes, or a combination of all three.

There are three types of learning:

-
-
-

Notes



1.2 The importance of learning in the workplace

Work-based learning has a number of key advantages:



Advantages

- It can lead to increased competence, understanding, self-esteem and morale – leading to improved productivity.
- It may improve the level of creativity and innovation of workers in the organisation, giving an advantage over competitors.
- People who enjoy learning are more likely to be flexible in times of constant change.

If workers are not given learning opportunities, there is a risk that they will feel undervalued and will lose motivation.

Notes



2

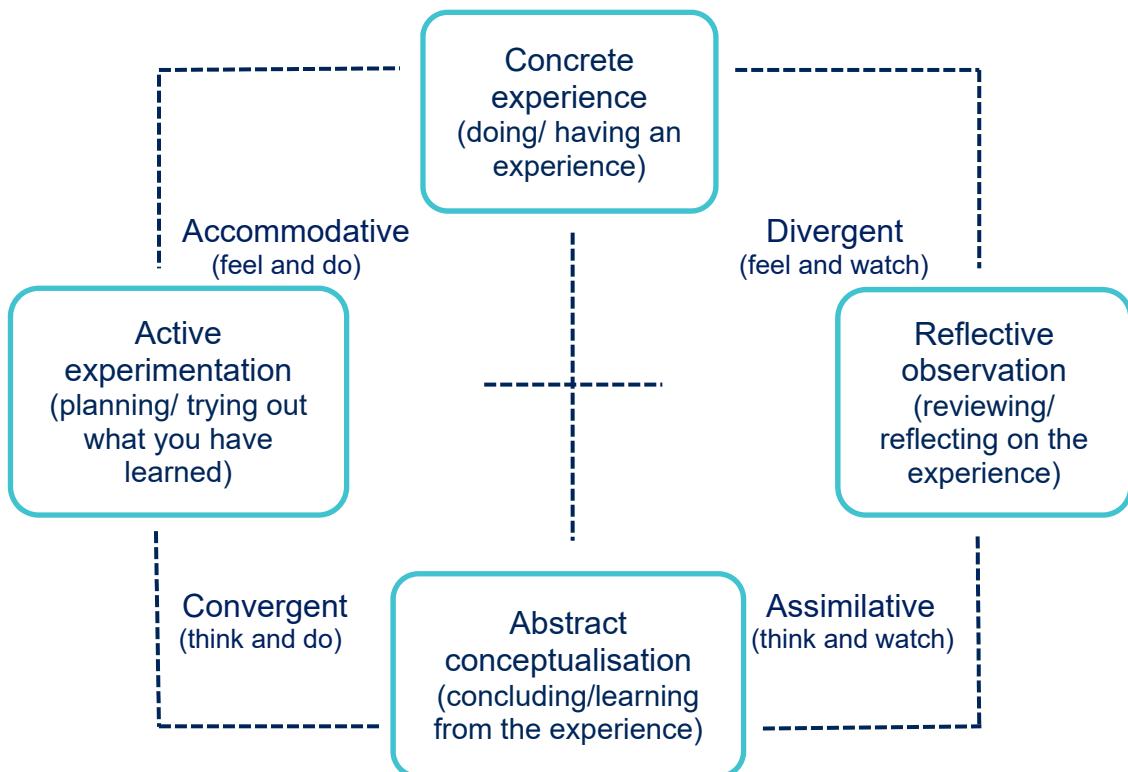
The learning process

2.1 Introduction

It is important to understand how people learn new things, as this will allow an organisation to create suitable training programmes for its employees.

2.2 Kolb: experiential learning cycle

Kolb's experiential learning theory works on two levels: a four-stage cycle of learning and four separate learning styles.

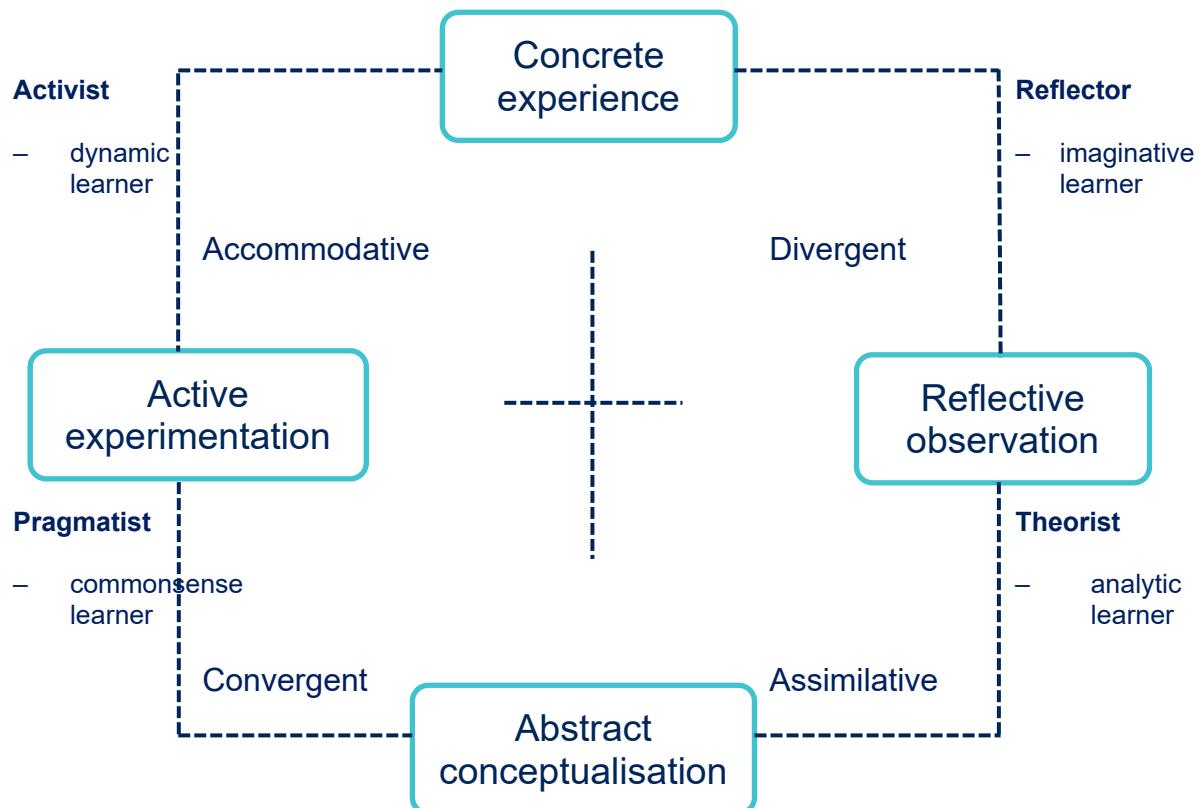


Notes



2.3 Honey and Mumford: learning styles

Honey and Mumford built on Kolb's earlier work and came up with four alternative classifications of learning styles.



Notes



2.4 Implications of the learning models

Most individuals exhibit a clear preference for one style of learning and may struggle to switch between them.

People who have a clear learning style preference will tend to learn more effectively if learning is geared to their preference. For instance, according to **Kolb**:

- people who prefer the '**assimilating**' learning style will not be comfortable being thrown in at the deep end without notes and instructions.
- people who prefer to use an '**accommodating**' learning style are likely to become frustrated if they are forced to read lots of instructions and rules, and are unable to get hands-on experiences as soon as possible.

A feature of **Honey and Mumford's** model is that it provides suggestions about the best ways for individuals to learn. The most effective learning methods are different for each learning style.

➤ **Activists** –

➤ **Theorists** –

➤ **Reflectors** –

➤ **Pragmatists** –

Notes



3

What are training, development and education?

3.1 Definitions



Training is 'the planned and systematic modification of behaviour through learning events, programmes and instruction which enable individuals to achieve the level of knowledge, skills and competence to carry out their work effectively'.



Development is 'the growth or realisation of a person's ability and potential through conscious or unconscious learning and educational experiences'.



Education is defined as 'the activities which aim at developing the knowledge skills, moral values and understanding required in all aspects of life rather than a knowledge skill related to only a limited field of activity'.

Notes



4

The training and development process

4.1 The benefits of training and development

Organisations should view training and development of staff as an investment.

Benefits include:



Benefits to individuals

- Improved skills and (dependent on type of training) qualifications
- Increased confidence and job satisfaction

Benefits to organisation

- Increased motivation of employees, leading to higher productivity
- Increased competence and confidence, meaning higher quality and fewer mistakes
- Skilled workforce, leading to more innovation and a better customer experience
- Low staff turnover, saving the organisation time and money

Notes



4.2 Training and development as a step-by-step process

Identification of training needs:

Formal training needs analysis (TNA)

Performance appraisal

Observation

Organisational strategy

Setting objectives for training:

This stage considers what the proposed training programme is intended to accomplish and the impact it is supposed to have on staff.

Programme design and delivery:

This can include formal training courses, mentoring, coaching, computer-based learning, self-managed learning, lectures, discussions business games, case studies and role play.

Evaluation and validation of the training programme:

It has been suggested that there are **five levels** at which **evaluation** can take place.

- Reactions of the trainees to the training
- Learning – new knowledge and skills required or changes in attitude
- Job behaviour – the extent to which training is being applied on the job
- Organisation – ways in which the functions of the organisation has changed
- Ultimate value – how the organisation as a whole has benefited

Whatever evaluation method is used, it should be done before, during and after the event.

Notes



Questions



Notes



Chapter 23

Review and appraisal of individual performance



Outcome

By the end of this session you should be able to:

- explain the importance of performance assessment
- explain how organisations assess the performance of human resources
- define performance appraisal and describe its purposes
- describe the performance appraisal process
- explain the benefits of effective appraisal
- identify the barriers to effective appraisal and how these may be overcome
- explain how the effectiveness of performance appraisal may be evaluated

and answer questions relating to these areas.



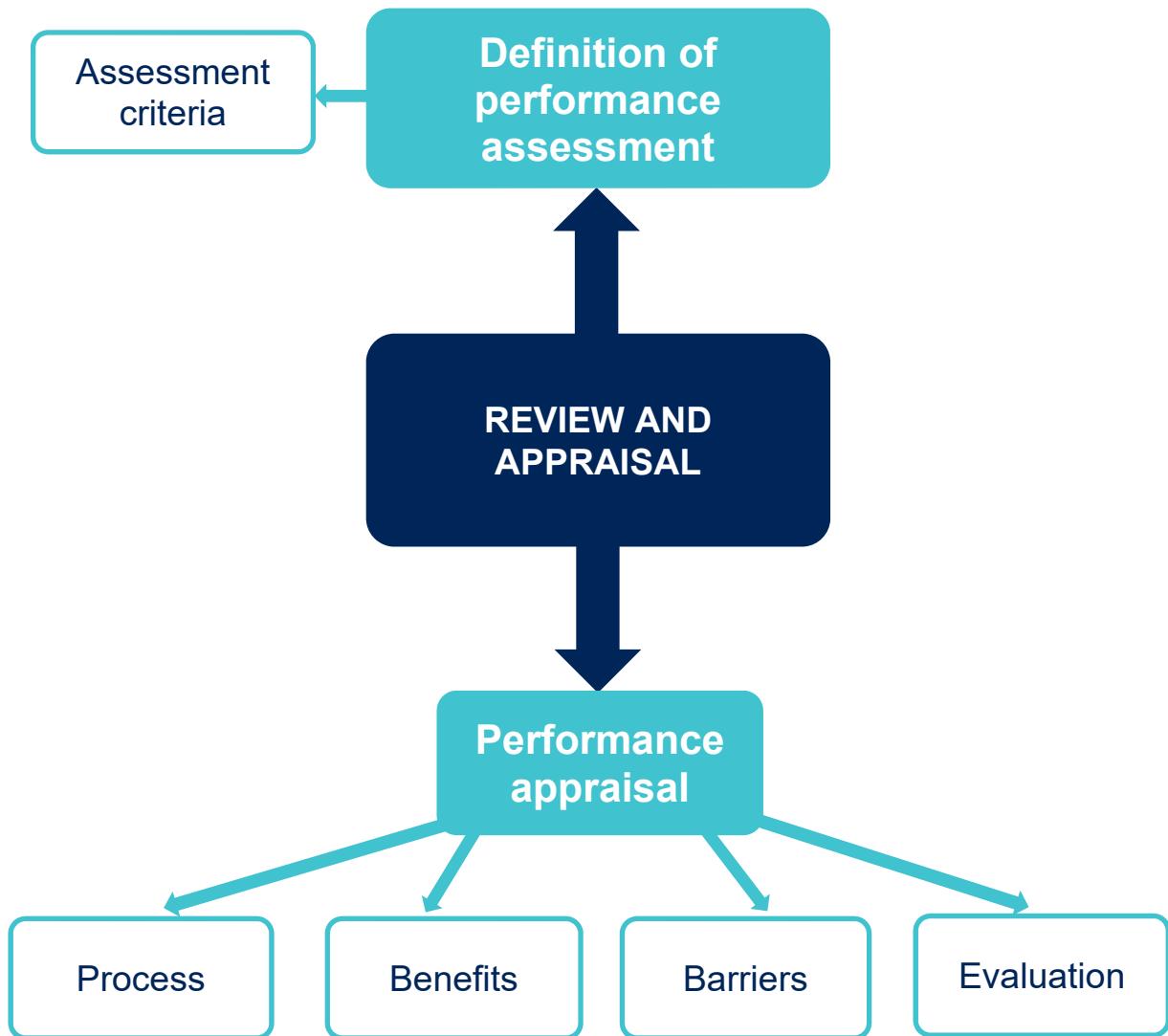
PER

One of the PER performance objectives (PO2) is to manage stakeholder expectations and needs, developing and maintaining productive business relationships. You listen to and engage stakeholders effectively and communicate the right information to them when they need it. Working through this chapter should help you understand how to demonstrate that objective.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 23 of your Study Text



Overview



1

Performance assessment

1.1 What is performance assessment?



Performance assessment is the 'regular and systematic review of performance and the assessment of potential with the aim of producing action programmes to develop both work and individuals'.

Assessment criteria may include the following:

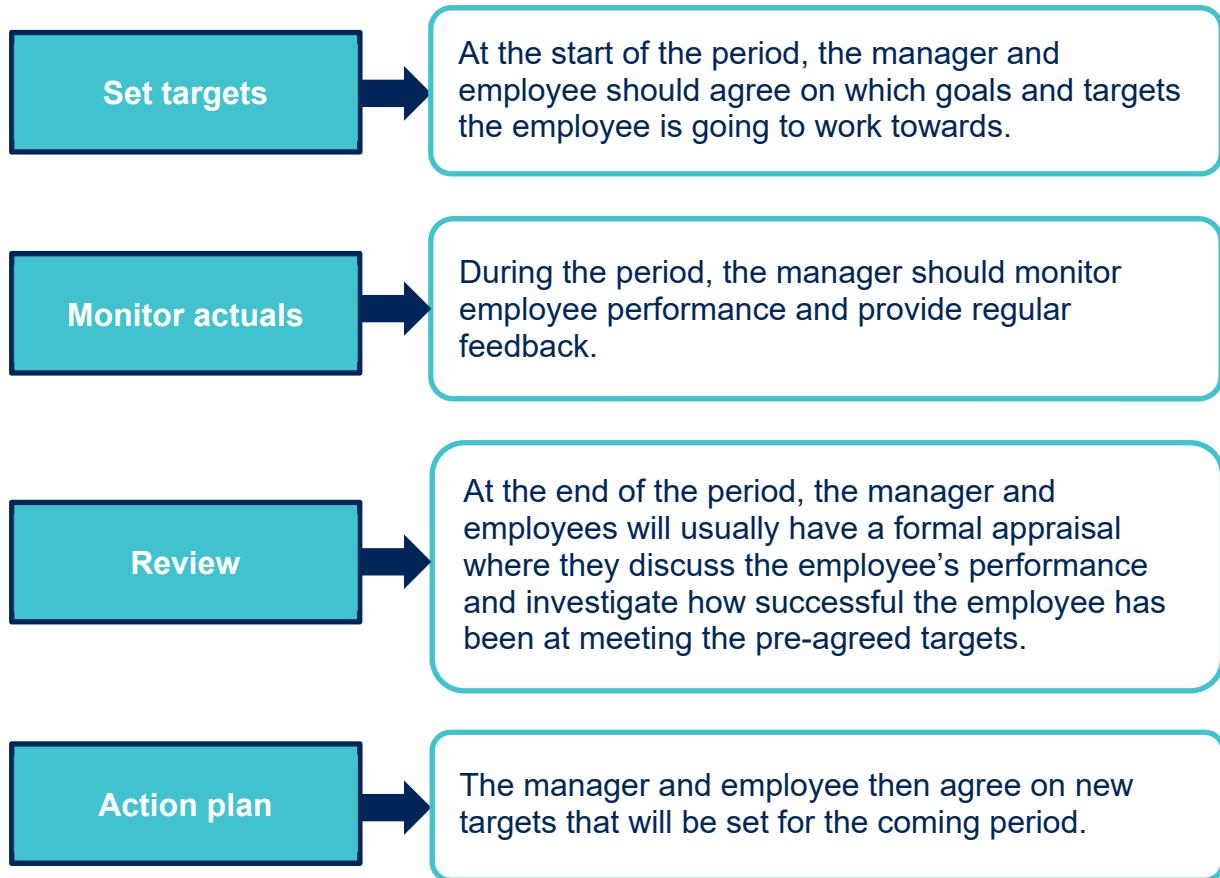
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Notes



1.2 The process of performance assessment

Organisations follow four main steps when assessing performance of employees:



Notes



2

Performance appraisal

2.1 The purposes of appraisals



Appraisal is normally a formal process by which the progress, performance, results and sometimes personality of an employee are reviewed and assessed by his or her immediate supervisor.

The purposes include:



Objectives for individuals

- Providing a basis for remuneration for the coming period
- Ensuring that work of particular merit is recognised
- Providing a forum for the employee to voice concerns about work areas
- Establishment of what is expected of the individual in the coming period and how the employee will be assessed
- Identification of training and development needs

Objectives for organisation

- monitoring of human resource selection processes against results
- identification of the best candidates for promotion etc.
- identification of problems with the job that had not been previously realised
- helping to formulate the training plan
- helping to formulate a human resources plan e.g. are staff over-worked?
- improvement of communication between managers and subordinates

Notes



2.2 Barriers to effective staff appraisal

Lockett suggested that there are six main barriers to effective appraisals.

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Notes



2.3 Overcoming the barriers to effective appraisals

Best practice for appraisals is given by the 4 Fs:

- Firm –
- Factual –
- Fair –
- Frequent –

Notes



2.4 Evaluating the effectiveness of performance appraisal

Lockett argued that the appraisal process should be monitored to ensure its:

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Notes



2.5 Staff turnover

The causes of staff leaving fall into three categories:

- Discharge –
- Unavoidable –
- Avoidable –

Notes



Questions



Notes



Chapter 24

Personal effectiveness at work



Outcome

By the end of this session you should be able to:

- explain the importance of effective time management
- describe the barriers to effective time management and how they may be overcome
- describe the role of information technology in improving personal effectiveness
- identify the main ways in which people and teams can be ineffective at work
- explain how individual or team ineffectiveness can affect organisational performance
- describe the features of a competence framework
- explain how a competence framework underpins professional development needs
- explain how personal and continuous professional development can increase personal effectiveness at work
- explain the purpose and benefits of coaching, mentoring and counselling in promoting employee effectiveness
- describe how a personal development plan should be formulated, implemented, monitored and reviewed by the individual
- identify situations where conflict at work can arise
- describe how conflict can affect personal and organisational performance
- explain how conflict can be avoided
- identify ways in which conflict can be resolved or deferred

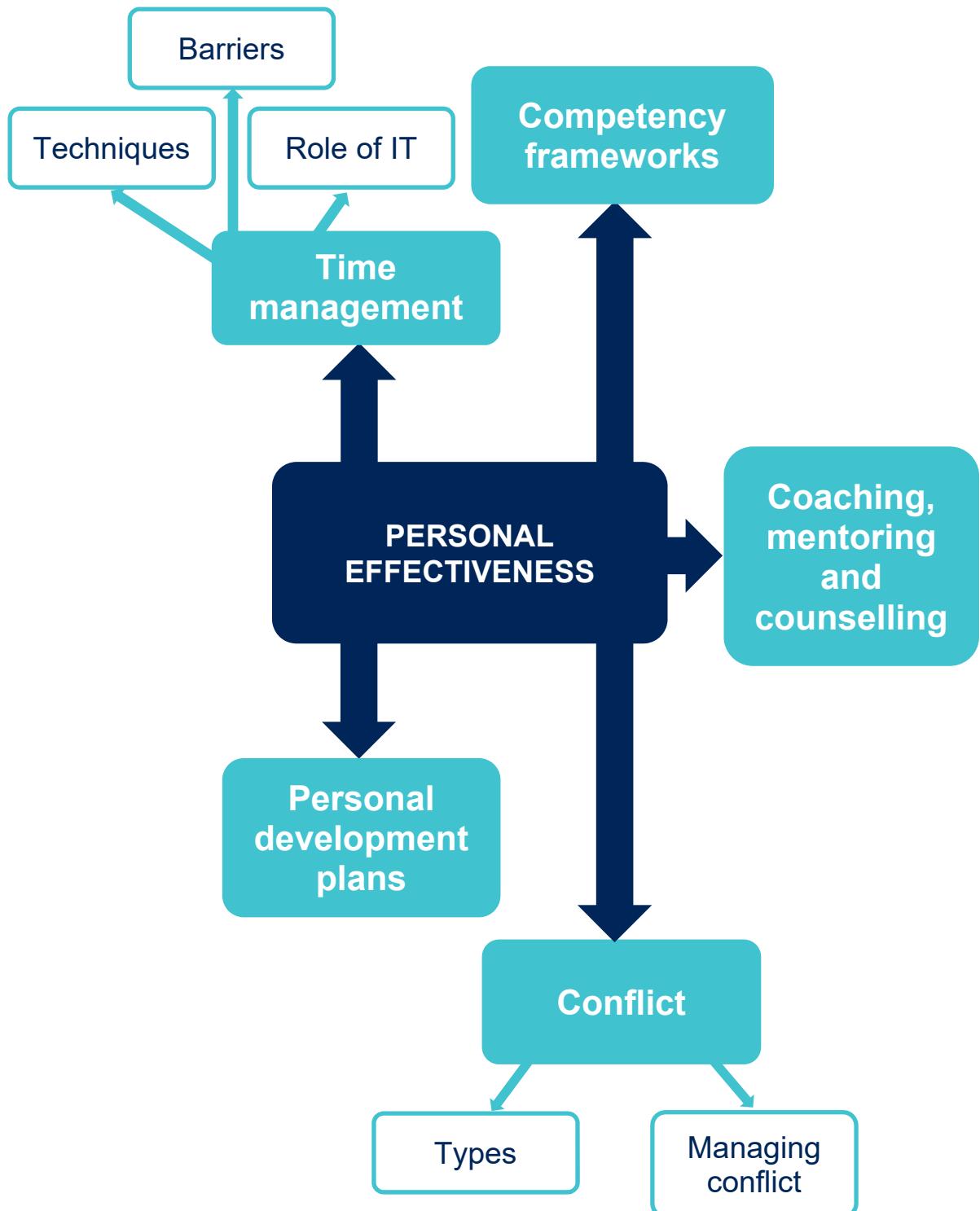
and answer questions relating to these areas.

Chapter 24

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 24 of your Study Text

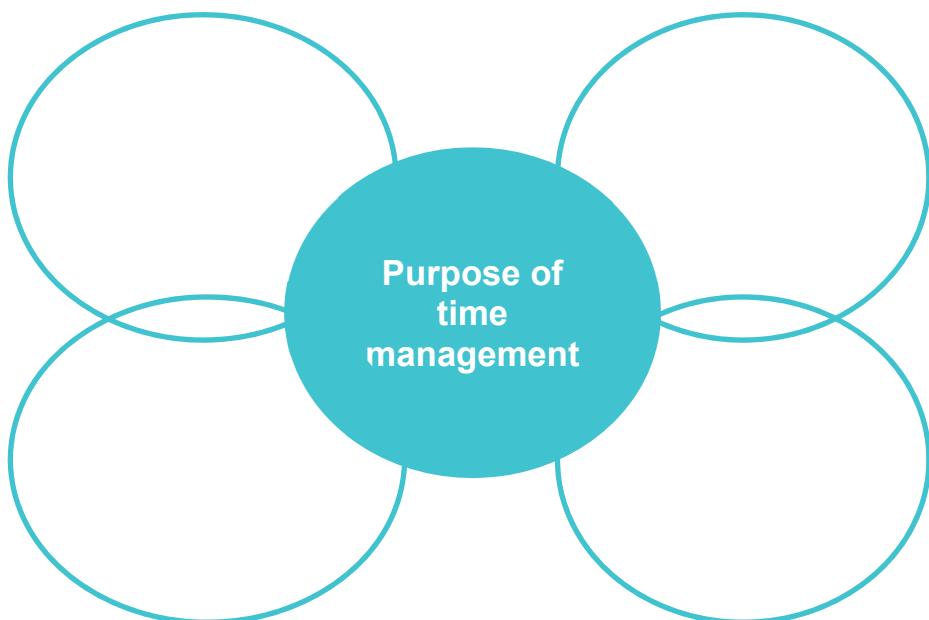


Overview



1 Time management

1.1 What is time management?



Notes



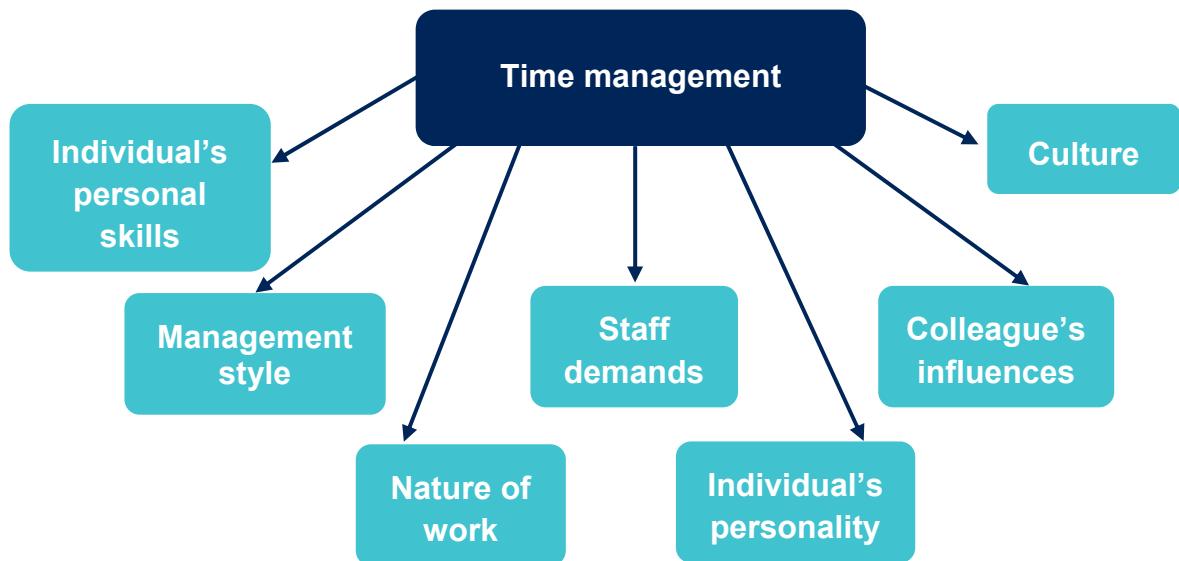
1.2 Time management techniques



Notes



1.3 Barriers to effective time management



Notes



Barriers to effective time management may be internal or external

Internal

Discipline
Procrastination
Lack of motivation

External

Workload issues
Available resources

Overcome the internal barriers

- Be assertive – identify your time wasters and resolve to deal with them, learn to say NO, delegate
- Identify and make use of your personal biorhythms, or 'up' time and 'down' time
- Conquer procrastination – find out what causes you to put off doing something and remedy it
- Promise yourself a reward

Overcome the external barriers

- Do the right thing right – doing the right thing is effectiveness; doing things right is efficiency
- Eliminate the urgent – urgent tasks with short-term consequences often get done to the detriment of the important tasks – those with long-term, goal-related implications
- Break big jobs into little steps
- Use negotiation to improve the use of time

Notes



1.4 The role of information technology in improving personal effectiveness

There are a wide range of different IT tools that individuals and businesses may use, including:

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Notes



2

Competency frameworks

2.1 Introduction



Competency frameworks attempt to identify all the competencies that are required by anyone taking on a particular role within the organisation.

A list of **key competencies** is produced which can be used as a benchmark to either ensure that the correct individual is chosen for the role or as a way of checking that an existing member of staff has all the up to date skills needed for their role.

Most competency frameworks cover the following categories:

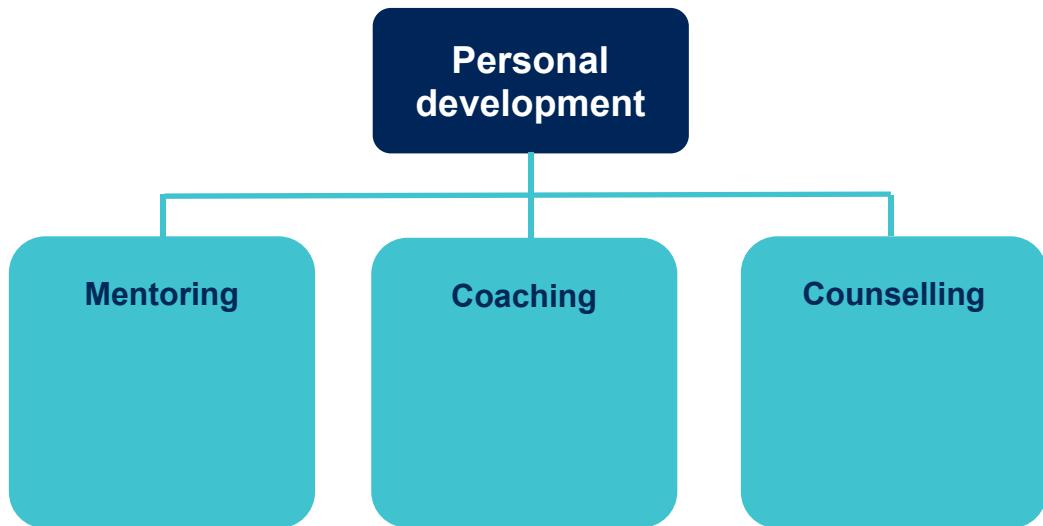
- communication skills
- people management
- team skills
- customer service skills
- results-orientation
- problem-solving skills
- Selecting and managing subcontractors.
- Recommending termination where necessary.

Notes



3 Coaching, mentoring and counselling

3.1 Differences between mentoring, coaching and counselling



Notes



4

Personal development plans

4.1 Training and development

Development is more general than training, is more forward looking and orientated towards the individual, and is concerned with enabling the individual to fulfil his/ her potential.

Training

- Immediately practical
- Connected to job performance

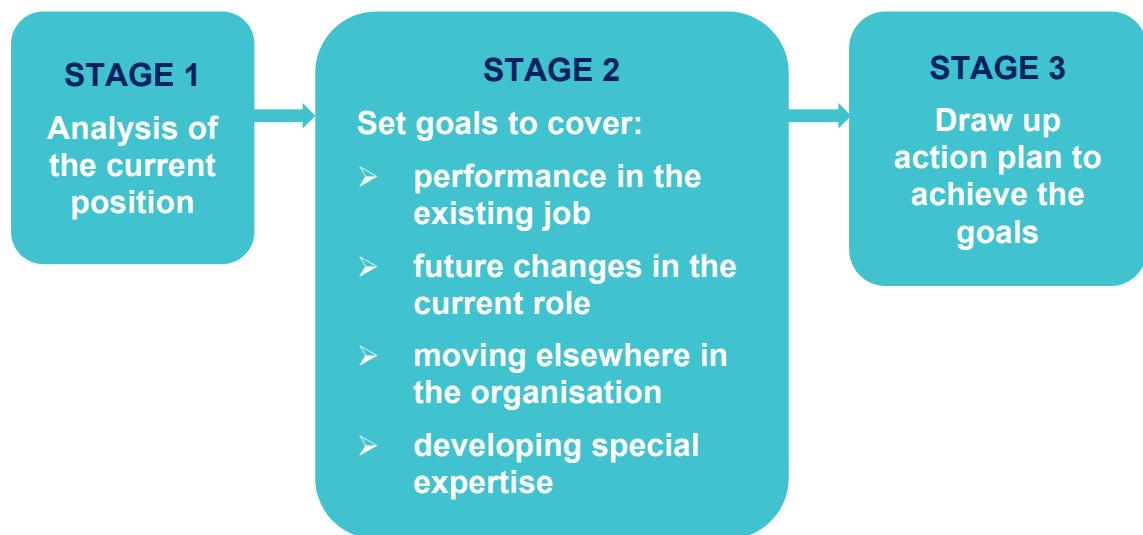
Development

- No immediate practical application
- Over time it enables a person to deal with wider problems

Notes



4.2 Preparing a personal development plan



Notes



Goals should have the characteristic of **SMART** objectives:

- S
- M
- A
- R
- T

Notes



4.3 The importance of continuous monitoring and feedback

- Feedback should be clear and frequent and this can only be achieved if there is continuous monitoring of the task.
- Feedback can also have a motivating effect by providing recognition of work done which in turn provides the incentive to sustain and improve performance levels.
- Recognition, praise and encouragement create a feeling of confidence, competence, development and progress that enhance the motivation to learn.

Notes



5

Conflict

5.1 What is conflict?



Conflict is defined as any personal divergence of interests between groups and individuals

5.2 Types of conflict

There are two main types of conflict:

Vertical



Horizontal



5.3 How to avoid conflict

- Good communication
- Rules and procedures
- Avoiding a blame culture
- Ensuring a fair allocation of resources

Notes



5.4 Conflict management strategies

- Denial
- Suppression
- Reduction/negotiation
- Resolution

Notes



5.5 Consequences of ineffectiveness at work

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This can have **significant effects on the organisation itself**, such as:

- loss of reputation and customers, due to poor quality products and services
- poor productivity and motivation
- lack of information from staff about key issues, making it harder to make key business decisions and solve problems

Notes



Questions



Chapter 25

Communicating in business



Outcome

By the end of this session you should be able to:

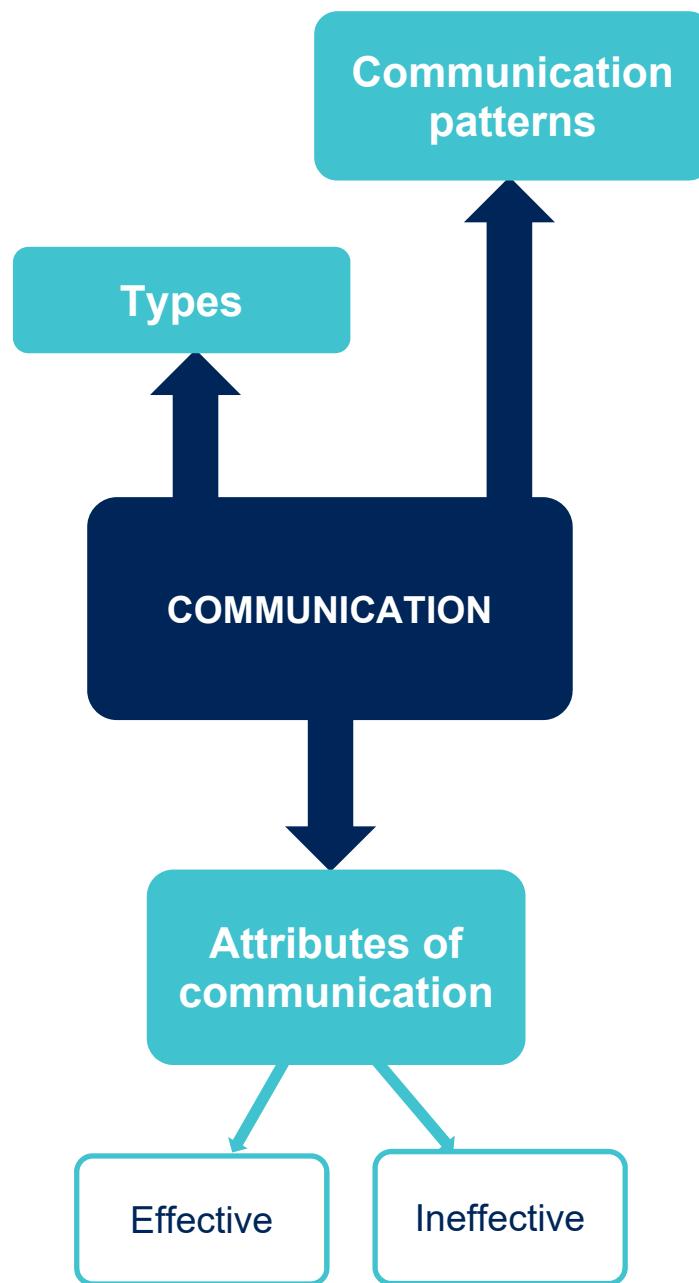
- define communications
- identify methods of communication used in the organisation and how they are used
- explain a simple communication model: sender, message, receiver, feedback, noise
- explain formal and informal communication and their importance in the workplace
- identify the consequences of ineffective communication
- describe the attributes of effective communication
- describe the barriers to effective communication and identify practical steps that can be taken to overcome them
- describe the main methods and patterns of communication

and answer questions relating to these areas.

The underpinning detail for this chapter in your Integrated Workbook can be found in Chapter 25 of your Study Text



Overview



1

What is communication?

1.1 Communication



Communication is the two-way interchange of information, ideas, facts and emotions by one or more persons. It establishes relationships and allows for direction and co-ordination of tasks.

In an organisation, communication takes many forms, including:

- giving or receiving information and instructions
- exchanging ideas
- announcing plans and strategies
- laying down rules or procedures
- comparing actual results against a plan
- manuals, organisation charts and job descriptions.

Notes

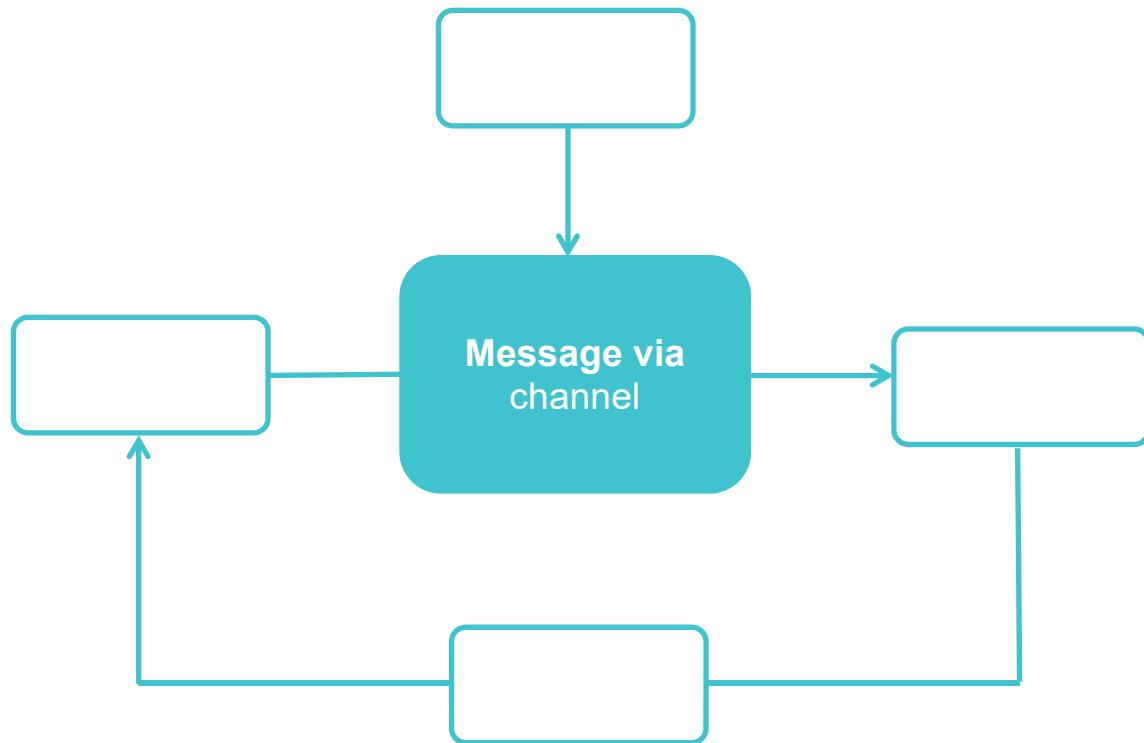


2

The communication process

2.1 The process

The process of communication involves the following elements:



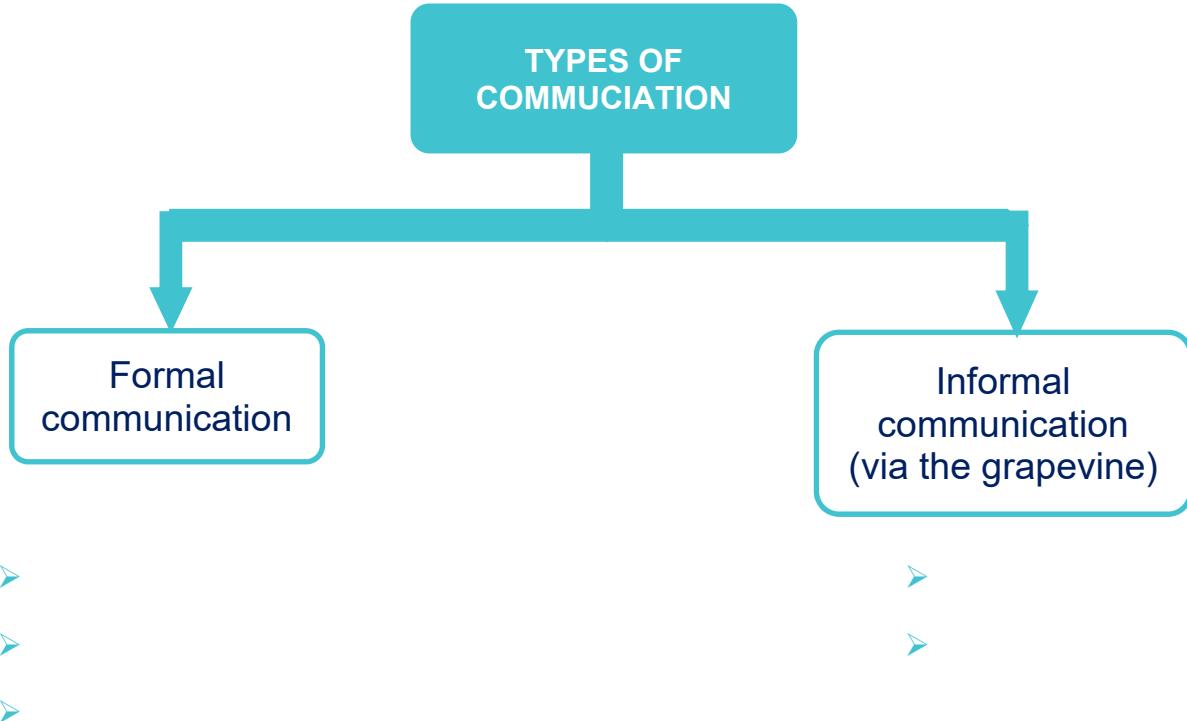
Notes



3

Types of communication

3.1 Types of communication



Notes



4

Effective and ineffective communication

4.1 The attributes of effective communication

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Notes



4.2 Barriers to effective communication

Despite the need for effective communication, there are a number of barriers and breakdowns that can occur, causing problems within the organisation.

A barrier to communication is anything that stops information from:

- getting to its intended recipient(s)
- being understood by the recipient(s) and/or
- being acted on in the manner intended.

Typical communication barriers include:

Status differences between receiver and sender can mean that more junior members of staff can be reluctant to pass information upwards for fear of criticism.

Language differences or the use of technical or professional jargon can prevent understanding of communications.

Conflict between individuals within the organisation may lead to communication being limited or withdrawn between them.

Overload – if too much information is communicated at once, the receiver may become overwhelmed and fail to understand what is expected of them.

Distance between communicators can be a problem. Typically, individuals will respond more promptly to those near-by!

Personal differences between the receiver and sender, such as age, education or priorities may mean that they interpret the information in different ways, causing confusion.

4.3 Consequences of ineffective communication

Lack of downward communication is likely to result in:

- poor awareness of corporate objectives at lower management levels
- poor understanding of working instructions and responsibilities
- poor morale of junior managers because they are not consulted about changes which affect them or their working conditions.

Chapter 25

Lack of upward communication, including feedback, has the following undesirable consequences for management:

- early warning of troubled areas is not received
- benefit of creative ability in subordinates is lost
- participation of subordinates is limited
- need for change is not appreciated because management is isolated from the operation areas
- control becomes difficult
- introduction of change is difficult.

Lack of lateral communication often leads to:

- divisions in management teams
- lack of co-ordination
- rivalry between sections and departments
- lack of advice and involvement by staff specialist

Notes



4.4 Overcoming barriers to communication

Practical ways of dealing with these problems include:

- agree and confirm priorities and deadlines for the receipt of information
- spend sufficient time ensuring that the information is sent to all the right people
- keep communication as simple as possible, avoiding jargon
- confirm that the information sent has been received and understood
- avoid inconsistent verbal/non-verbal communication, as this tends to confuse the receivers

Notes



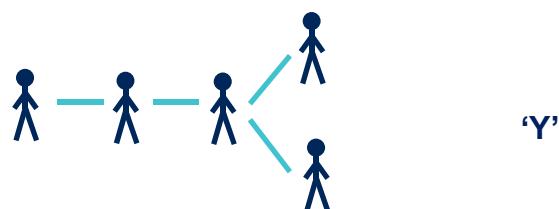
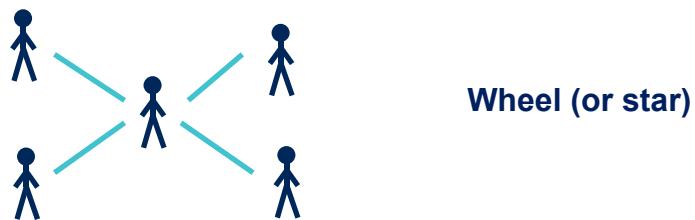
5 Communication patterns

5.1 Patterns

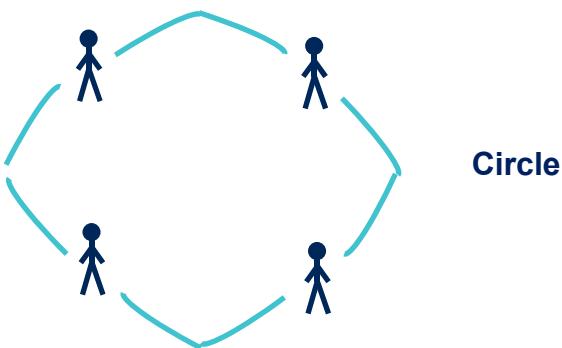
A communication pattern illustrates how individuals communicate with each other within a group or organisation.

Leavitt identified five major patterns of communication: wheel (or star), circle, all-channel, chain and 'Y'.

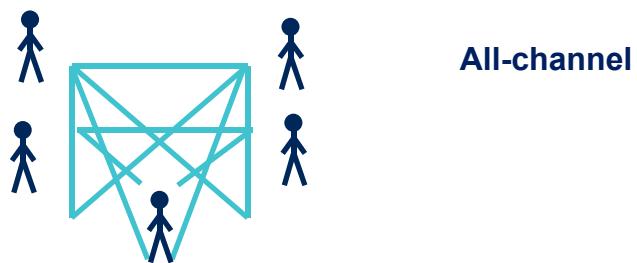
Centralised networks



Decentralised networks



Circle



All-channel

Notes



Chapter 25

These five groups can be grouped together into two main types:

- Centralised networks –
- Decentralised networks –

Leavitt's main conclusions were that:

- The wheel is always the fastest way to reach a conclusion, making it ideal for problem-solving. The circle is the slowest.
- For complex problems, the all-channel is the most likely to reach the best decision.
- The level of satisfaction for individuals was highest in the circle, fairly high in the all-channel and relatively low in the other, centralised networks. The centralised networks saw high job satisfaction for the central figure, with the remaining members feeling isolated.

Notes



OT Questions



Notes

