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BUSINESS TRAINING

Recommended teaching methods for practical lessons

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Recommended for the students of the 5th course on the branches of knowledge “Economics and Entrepreneurship”, “Specific categories”, specialties “Enterprise Economics”, “Management of Innovative Activities”.

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Introduction

Practical training guidelines for the study course “Business Training” was prepared in accordance with educational and vocational training program for masters in specialties “Enterprise Economics” and “Management of Innovative Activities”.

The subject of the discipline is functioning and effective management of economic agents in a market economy.

Interdisciplinary connections: “Enterprise Economics”, “Management”, “Fundamentals of Marketing”, “Enterprise Activity Planning”, “Statistics”, “Enterprise Finance”, “Economic Analysis” and so on.

The purpose of the discipline “Business Training” is to form theoretical knowledge and practical skills in the field of economics and entrepreneurship, as well as business management.

The main tasks of the discipline are presenting theoretical and methodological, social and economic aspects of the current problems; forming of practical skills and abilities as to the effective enterprise management; forming of professional capabilities as to the economic and managerial problem solving.

Learning outcomes (competencies).

Learning objectives.

ZK 1. Ability to adapt and act in a new situation.

ZK 2. The ability to identify, pose and solve problems.

ZK 3. Ability to motivate people and move towards a common goal.

ZK 4. Ability to communicate with representatives of other professional groups at different levels (with experts from other fields of knowledge/types of economic activity).

SK 1. Ability to develop and implement a strategy for the development of business structures.

SK 3. Ability to effectively manage the activities of economic entities in the field of entrepreneurship.

SK 4. Ability to solve problematic issues and make management decisions in professional activities

SK 5. The ability to initiate and implement innovative projects in entrepreneurial activity.

In accordance with the educational and professional programme the students should

Know the essence and the role of entrepreneurship in the economic development, in the social problems solving and the talents realization; the reasons of risk emergence in business and methods of its reduction; supply and demand factors; the essence, indicators and principles of effective advertisement realization; the place and role of strategic analysis in the management system; the main methodological approaches to the strategic analysis; the main idea of business modelling; the modern methods of intangible personnel motivation. Students will be able to classify the factors of competitiveness business activity; ground the main concept of enterprise activity; compare the entrepreneurship sector in different countries to the Ukrainian experience; model the economic agents activity in the market economy; develop business plan of a project, organization; constitute strategic plans and perform strategic analysis of the environment; provide the psychological estimation of the personnel.

Theme 1. Entrepreneurial activities organization

1. The essence and importance of entrepreneurship.
1. The main principles of entrepreneurial activity.
2. Types of entrepreneurship.
3. Franchising.
4. Enterprise creation.
5. Business financing.
6. Innovative entrepreneurship.

1. Business activity

The success of any _____ activity depends on certain factors. To be successful, firms must _____ products that _____ want to buy.

The firms must satisfy these _____ but they depend on what people already have. Wants may be _____ like food, a CD player or a sports car. or _____ such as health care or entertainment. Peoples' wants are _____. Consumers constantly aim for a _____ quality of life. They are prepared to pay for better housing, better health care, and _____ goods such as cars and exotic holidays.

Wordbank

unlimited; better; supply; business; services; luxury; wants; consumers; goods

2. The Role of the Entrepreneur

Read the following case study and then answer the questions that follow:

George Mitchell – Entrepreneur

George Mitchell decided to leave his job as a supervisor with a national, well-known bedding manufacturer. Although he enjoyed his job with the organisation, he had always had a desire to run his own business. The opportunity came when the company decided it would have to restructure to cut costs. The workforce was offered voluntary redundancy packages.

George had been with the company since he left school at 17 (almost 20 years ago). He would therefore qualify for a good redundancy package. He had been making his own home-crafted furniture for years and the furniture was in high demand from friends and neighbours. He had built up a good reputation in his area for producing high-

quality furniture of unusual designs. He was very creative and had an eye for good shape and design. He attended evening classes at the local college and had almost completed a part-time degree course in Art and Design. He had some new ideas of his own which he wanted to market. With his background in organisation, a small but loyal customer base and his financial remuneration, George decided it was time to branch out on his own. He knew it would be a big step, but he also knew he would obtain help from different agencies.

1. Why can George be described as an ‘entrepreneur’?
2. What risks will George be required to take as an entrepreneur?
3. What will George’s roles in the business be at the beginning?
4. What factors of production will George need to combine to ensure success?
5. If the business is very successful, how might George’s roles change?

3. Types of Business Organisation

Read the following case study and then answer the questions that follow:

EAS-IT Ltd

Edward, Alex and Susan went into business two years ago. They had all graduated from college together with good Business Studies qualifications. They had often talked about running their own business whilst at college, and had felt confident enough to open up an agency together offering information technology support to local businesses. The trio had toyed with the idea of forming a partnership, but decided it was to their advantage to form a private limited company. They considered the limited liability aspect of the organisation important in case the company ran into financial difficulties. They each bought shares to the value of £5000. The newly-formed company was called ‘EAS-IT Ltd’.

EAS-IT Ltd advertised in business magazines, a local newspaper and sent out a large mailing to local businesses to inform them of the new services they were offering. The business did very well.

Lately, due to cutbacks in many of its client companies, the business has been struggling. The partners knew something would have to be done quite soon to prevent the business failing. Edward and Susan wanted to spend more money on advertising the business by sending out special promotion leaflets to companies and putting larger adverts in the local paper. Alex said that they could not afford this. Alex suggested they consider diversifying into other areas. He had read about the increase in call centre businesses in Scotland. The company, however would need additional capital to finance the new venture

1. EAS-IT Ltd was a ‘limited company’. What does this mean?

2. What is given as the main advantage for EAS-IT becoming a private limited company?
3. What would be the extent of the liability of the shareholders in EAS-IT?
4. State **three** reasons why a small business might go bankrupt.
5. There are two different types of limited companies. EAS-IT Ltd is a private limited company. What is the name given to the other type?
6. What is meant by diversifying?
7. How might the business raise the additional capital needed?

Theme 2. Demand and supply investigation

1. The essence of the supply and peculiarities of its formation.
2. Characterization of price and non-price supply factors.
3. The elasticity of supply.
4. The essence of the demand and peculiarities of its formation.
5. Characterization of price and non-price demand factors.
6. The elasticity of demand.

Activity 1. Comment on the demand curve.

Look carefully at Figure 2.1:

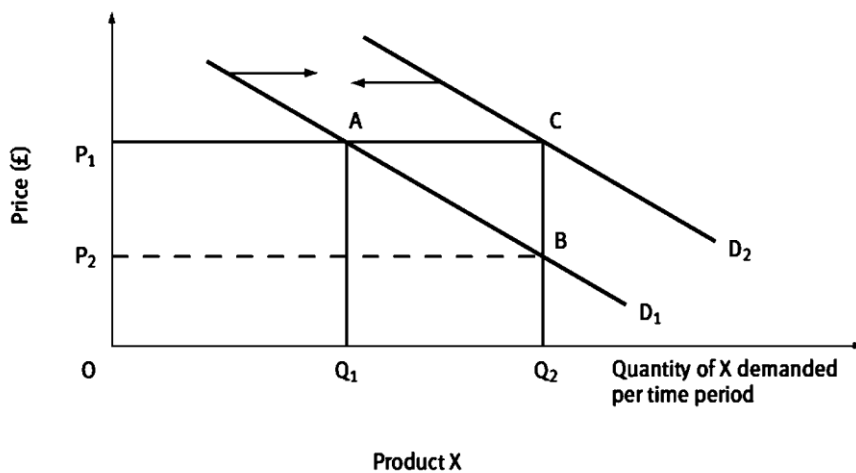


Figure 2.1. Demand curve

We start at price P₁ with quantity Q₁ of product X demanded on demand curve D₁.

Activity 2.

Select 'True' or 'False' for each of the following statements.

- (a) A move from point A to B represents an expansion of demand. True_False
- (b) A move from point A to C represents an increase of demand. True_False
- (c) A move from point C to A represents an increase of demand. True_False
- (d) A move from point B to A represents a decrease of demand. True_False

Activity 3.

2 This question checks your understanding of the variables in the ‘conditions of demand’ which can shift the demand curve to the right (increase) or to the left (decrease).

For an *increase in demand*, insert letter I. For a *decrease in demand*, insert letter D.

- Rise in real income (for a normal good)
- Fall in price of a substitute in consumption
- Fall in price of a complement in consumption
- Change of tastes in favour of the product
- Fall in real income (for a normal good)
- Rise in price of a substitute in consumption
- Rise in price of a complement in consumption
- Change of tastes against the product

Activity 4.

This question checks your understanding of *normal goods* and *inferior goods* and of *substitutes in consumption* and *complements in consumption*, all of which often appear in discussions about demand.

- (a) The demand for a normal good will always increase as real incomes rise and decrease as real incomes fall. True_False
- (b) An inferior good is often a cheap but poor quality substitute for some other good. True_False
- (c) A complement in consumption refers to a product that is a rival to another product. True_False
- (d) The demand for an inferior good may increase at first as real incomes rise but may decrease as real incomes rise beyond a certain level. True_False
- (e) A substitute in consumption refers to a product that is consumed jointly with another product.

Case Study 1

Death of the CD!

In August 2003, EMI announced the agreement of the Rolling Stones to offer all the band’s post-1971 recordings through digital downloads for the first time. EMI had already announced a deal in April 2003 to offer most of its back catalogue through 10 online music retailers in Europe, though the Rolling Stones had at that time been one of the few groups (together with the Beatles) to refuse that approach. Many see this move by EMI as part of a

strategy by music companies to combat the growing threat of illegal music downloads, with EMI claiming that the (legal) downloads it is now offering take up only half the disc space of a typical MP3 file and are of better quality.

To some observers, all this is further proof of the end of the CD. Yet new figures in August 2003 from the British Phonographic Industry (BPI), the UK music trade body, showed that CD album sales had exceeded 228 million units over the past 12 months, a 3% rise on the previous year. Much of this increase in album sales has been linked to heavy and sustained discounting of prices, with the average price of an album in the UK falling to .9.79 in 2003, the cheapest ever. Extensive mark-down in prices of albums by supermarkets have forced music shops to hold almost permanent sales and to keep extending their 'limited offers'. Further evidence of price reductions being the driving force behind album sales is contained in the fact that over the past 12 months revenue from album sales actually fell by 2% despite the volume rising by 3%.

Another factor driving album sales would seem to have been a more attractive set of new releases. The BPI noted that 'cheap retail prices combined with strong new titles are sustaining the UK album market at a high level'. Even piracy is seen by some commentators as increasing album sales, with many people illegally copying certain tracks as 'samplers' but then going on to buy albums containing those tracks. Record companies also point to the higher disposable income of the twenty- and thirty-'somethings' who are the main purchasers of albums.

On the downside, the BPI points to continuing problems for the singles CD market, which slumped by 26% in both volume and value in the year to August 2003. In fact demand for singles has halved over the past five years and singles now make up only 6.5% of the total sales value of the music industry. One of the problems is the now relatively high average price of singles (.4) compared to albums (.9.79). Also more piracy is taking place amongst teenagers, the main buyers of singles, who then download the single without subsequently purchasing it.

1 In the market for albums, what evidence is there for a 'movement along' the demand curve?

2 Can you find any evidence for a 'shift' in the demand curve for albums? Identify the variables in the 'conditions of demand' that might be involved here.

3 What is happening to the demand curve for singles?

4 Do you agree with the suggestion that the CD has 'no future'? Explain your reasoning.

Activity 5 will help you check your understanding of movements along and shifts in a supply curve.

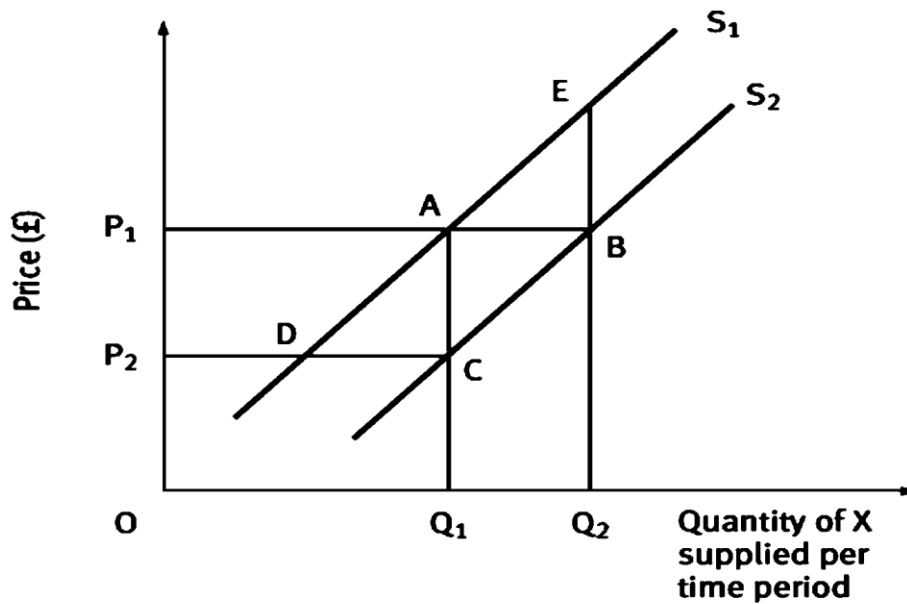


Figure 2.2. Supply curve

Match the *number* of each term on the left with the correct *letter* for its movement in Figure 14 on the right.

Terminology Movement

- | | |
|---------------------------------|------------|
| (i) Expansion in supply of X | (a) A to B |
| (ii) Contraction in supply of X | (b) C to D |
| (iii) Increase in supply of X | (c) A to E |
| (iv) Decrease in supply of X | (d) A to D |

Activity 6.

If product X in Figure 2.2 is *petrol* then the move from A to B could be caused by which *two* of the following:

- (i) Existing oil fields running dry
- (ii) New oil fields being discovered
- (iii) An effective blockade of oil terminals
- (iv) New technology reducing the costs of ‘cracking’ oil into petroleum products

If product X in Figure 2.2 is again *petrol*, then the move from B to E could be caused by which *two* of the following:

- (i) A fall in tax on petrol
- (ii) A rise in tax on petrol
- (iii) OPEC (Oil Producing and Exporting Countries) raising quotas for each member country
- (iv) OPEC cutting quotas for each member country

Activity 7.

Match the *letter* of each description on the left with the *number* for its correct term on the right.

Description

- (a) Sometimes called a ‘complement in production’ with the production process for one product automatically resulting in more output of the other product (i.e. the by-product).
- (b) Where the factors of production (land, labour, capital) could be used to produce either product.
- (c) Has the effect of shifting the supply curve upwards and to the left (decrease in supply) by a constant amount (i.e. a parallel shift).
- (d) Has the effect of shifting the supply curve upwards and to the left (decrease in supply) by a nonconstant amount (i.e. a non-parallel shift).
- (e) More can now be supplied at any given price or the same quantity can now be supplied at a lower price (increase in supply).

Terms

- (i) Fall in costs of production
- (ii) Imposing or raising a lump-sum tax
- (iii) Substitute in production
- (iv) Imposing or raising a percentage tax (e.g. VAT)
- (v) Jointly supplied product

Case Study 2

Dyson relocates production to South East Asia

In August 2003 Dyson announced that it was moving production of its washing machines from the UK to Malaysia, which followed its earlier decision in 2002 to shift production of its revolutionary dual cyclone bagless vacuum cleaner to Malaysia with the loss of over 800 jobs at the Dyson factory in Malmesbury, Wiltshire, which had produced some 8,000 vacuum cleaners per day.

Dyson is keen to point out that since the day the first Dyson dual cyclone vacuum cleaner went on sale in 1993, the company has been operating in a price-cutting market in which its competitors have been able to pass on to their customers the lower costs from manufacturing outside the UK. In contrast, Dyson has faced the further problems of rises in UK labour costs, land prices, taxation and other overhead costs whilst still trying to substantially increase its investment in new technology. For example, direct labour costs in Britain had doubled over the past ten years, partly because of the need to pay high wages in an area around Swindon with almost zero unemployment.

Dyson claims that the sums no longer add up and it faces going out of business if it continues manufacturing its products in the UK. As of September 2002 all vacuum cleaner production was shifted to Malaysia. The company argues that its production costs will benefit from the much lower wages in Malaysia, equivalent to .1.50 per hour as compared to the

minimum wage in 2003 of .4.50 per hour in the UK. Indeed the company estimates that lower wages will reduce its unit production costs by around 30%. Further cost savings will also come from now having most of its component suppliers nearby (South East Asian component suppliers having progressively replaced those from the UK) and from now being much closer to emerging new markets in Japan, Australia and the Far East. In addition, the Malaysian government has offered various ‘subsidies’ in the form of grants for setting up the Dyson factories there, lower taxes and other benefits.

Whilst lamenting the loss of UK jobs, the consolation to Dyson in moving his vacuum cleaner manufacturing to Malaysia is that it will now generate enough cash to maintain the company’s commitment to reinvesting up to 20% of turnover in research and development (R&D). Dyson believes that it is the technological advantages secured by R&D that will keep the company alive and ensure that 1,150 other jobs in Malmesbury are safe, more than 300 of which involve engineers, scientists, designers and testers – the brains that ensure Dyson products remain a step ahead of the rest.

Dyson claims to have exported the brawn, keeping the higher-level value-added parts at home, since Dyson’s comparative advantage lies in researching and designing new products to ensure the company stays two steps ahead of its rivals, most of whom manufacture in the Far East. Indeed he claims that to have followed the rest of British industry, which invests an average of only 2% of turnover, would have been to neglect Dyson’s engineering and technological heritage and to follow in the footsteps of Britain’s car, television and other domestic appliances.

Early indications of the profitability to Dyson of switching its vacuum cleaner manufacturing to Malaysia have been encouraging. It has reported profits for 2003 of .40m on vacuum cleaners, compared to .18m in 2002, with sales revenue of .275m in 2003 compared to .235m in 2002. Overseas sales had grown dramatically to 40% of turnover, with Dyson now selling to the US direct from Malaysia. R&D spending in 2003 was .18m, an increase of 50% on 2002.

1 In the market for vacuum cleaners, how will moving to Malaysia help to shift Dyson’s supply curve to the right (*increase*)?

2 If Dyson had not moved to Malaysia, why does it believe that staying in the UK would have meant that its supply curve would have shifted to the left (*decrease*)?

3 What is the basis for Dyson’s argument that shifting production to Malaysia is in the best interests of British workers?

Case Study 3

The impact of competition

Businesses compete with each other for customers. Read the following case study about how pineapple producers in Africa, South America and Asia, who are in **direct competition**, compete with each other to sell pineapples to buyers in the European Union.

Competition in world pineapple markets At one time Africa was the main supplier of pineapple to Europe. In the 1980s, the ‘Smooth Cayenne’ variety, grown in Africa, dominated

sales to Europe. However, in the 1990s the large multinational US firm Del Monte launched a new variety of pineapple: the 'Sweet' or 'Extra Sweet'. This variety grows more quickly and is less prone to discolouration than the Cayenne. Huge plantations were set up in Costa Rica and other South American countries. Because the South American pineapples could be produced more cheaply, they were able to undercut Smooth Cayenne prices. The massive influx of these mass-produced pineapples to Europe had a devastating effect on small and medium-sized African producers. In 2007 pineapple sales by Côte d'Ivoire in West Africa was one third of the level of the 1990s. Although the arrival of the Sweet pineapple created more choice for consumers, the impact of the competition was to make Smooth Cayenne pineapples less competitive and has led to a drop in sales for their growers.

Questions

1 How has the development of the 'Sweet' and 'Extra Sweet' pineapple affected customer choice and the sales of:

- a African producers; and
- b South American producers?

2 Who are the winners and who are the losers from this increase competition?

Case Study 4

Transport and elasticities of demand

In late 2003 fuel protests began to be heard again as the Chancellor raised the tax on petrol by 1.28 pence per litre (6 pence per gallon). Motorists and organisations such as the AA and RAC point to the fact that over 80% of the price paid at the pump now goes to the Treasury in tax, a dramatic rise on the much smaller 44% of the petrol price which went to the Treasury as recently as 1980.

Evidence from the developed economies suggests that for every 10% increase in real fuel prices, the demand for fuel will fall by around 6%. This consumer response to higher fuel prices may take several years to fully work through. The demand for car ownership and for travel (and therefore the derived demand for fuel) is also closely related to the level of household income. Again, studies suggest that for every 10% increase in real income the demand for fuel eventually increases by around 12% within two years of the rise in real income.

Of course, the demand for fuel does not only depend on its own price and the level of real household income, but also on other factors. For example, whereas the real cost of motoring per kilometre travelled (fuel costs, car purchase, repairs, road tax etc.)

has barely changed over the past 20 years (e.g. more efficient engines result in more kilometres per litre of petrol), the real costs of rail and bus per kilometre travelled have risen by more than 30% and 35% respectively over the same 20-year period.

Clearly this change in *relative* costs has given a boost to demand for car ownership and travel, and therefore to the demand for fuel.

Many people argue that fuel taxes should rise even higher than they are now, since the private motorist imposes costs on society that he or she does not actually pay for.

Extra motorists bring about congestion on our roads and increased journey times, increase the need for more road building with the inevitable loss of countryside, result in more carbon dioxide (CO₂) and other toxic gas emissions which damage the ozone layer and lead to global warming. In other words, many believe that the *private costs* of the motorist do not fully reflect the *social costs* imposed by the motorist.

Higher taxes on fuel will, as we have seen, raise the price of motoring and discourage road travel. For example, it has been estimated that a 10% increase in the price of fuel will lead to an extra 1% of rail passengers on rail services and an extra 0.5% of bus passengers on bus services.

Of course, demand for some products may actually *decrease* as fuel prices rise. With less car usage there may be a decrease in demand for garage-related services and products.

The *net* effect of a rise in fuel prices will depend on the sign and size of all these elasticities, namely own-price, income and cross-elasticities of demand.

1 Can you calculate any own-price, income and cross-elasticities of demand from the information given in the case study?

2 Why do some people believe that fuel taxes and fuel prices are too low?

3 Can you suggest why governments might be wary of making the motorist pay the full private and social costs of any journey?

Theme 3. Benchmarking: nature, principles, sources

1. The essence, peculiarities and principles of benchmarking.
2. Benchmarking development stages.
3. Types of benchmarking and their general characteristics.
4. Models of benchmarking. Phases of benchmarking.
5. Strategic directions of the information and analytical work.
6. The opportunities of benchmarking applications.

Case Study 1

Crisis at Parmalat

In little more than a fortnight in December 2003, the Italian dairy conglomerate became engulfed in Europe's biggest financial fraud as some €10bn to €13bn were found to have disappeared from its accounts. Deloitte, Parmalat's chief auditor, did not do its own checks on some big bank accounts at one of the Italian dairy group's subsidiaries that turned out to be fakes.

As a result, in December 2003, a major scandal broke after the disclosure that Bonlat, a Parmalat subsidiary in the Cayman Islands, did not have accounts worth almost €4bn (.2.8bn) at Bank of America (B of A). Eventually this 'lost' money was found to be three times greater.

Bonlat's auditor is Grant Thornton and B of A told it in January 2004 that a document purportedly showing accounts with cash and securities worth e3.95bn was fake. The document was used by Grant Thornton as part of its work on Bonlat's 2002 accounts, which were then consolidated into Parmalat group's 2002 financial statements.

Deloitte, one of the big four global accounting firms, did not make independent checks on the authenticity of Bonlat's supposed accounts with B of A, according to people close to Parmalat and familiar with the investigations into the company. These people said Deloitte believed it was entitled to rely on Grant Thornton's work on Bonlat, rather than do its own checks, and such an arrangement was permitted by Italian law and regulators. They also said that the division of work between Deloitte, as chief auditor, and Grant Thornton, as auditor to Parmalat's subsidiaries, was agreed with the company and notified to Consob, Italy's chief financial regulator. Deloitte strongly denies any wrongdoing. It denies acting negligently or being complicit in the alleged massive fraud at Parmalat, according to people close to Parmalat and familiar with the investigations. These people said that Deloitte believed it had been misled by Parmalat. Deloitte's relationship with Grant Thornton, a medium-sized accounting firm, appears to have become strained during the second

half of 2003. Deloitte raised concerns about Parmalat's 2003 interim results because of issues initially raised by Deloitte, rather than Grant Thornton, according to people close to Parmalat.

In October 2003, Deloitte declined to authenticate the value of Bonlat's mutual fund in Cayman. It also refused to approve a gain on a derivatives contract held by the fund. Deloitte's concerns about Parmalat's accounts focused on its financial companies such as Bonlat. It qualified the accounts of Parmalat Soparfi, a Luxembourg subsidiary, in 1999, 2000 and 2001. Parmalat personnel systematically created assets and records to accompany them, which were non-existent, according to people close to the company. Deloitte said it did not know if the e3.95bn of cash and securities supposedly held by Bonlat was fictional or had been placed somewhere other than B of A. Deloitte was increasingly reliant on Grant Thornton for verification of Parmalat's consolidated assets. In 1999, Grant Thornton certified 22% of Parmalat's assets, but it rose to 49% in 2002. But Deloitte had to verify at least 51% of Parmalat's assets because of its role as chief auditor.

These high-profile company collapses, together with shareholder concerns as to the often 'excessive' remuneration packages of company directors in poorly performing companies, have resulted in changes in the rules of corporate governance in recent years. These have involved changes in both internal and external practices, as for example in the companies' dealings with auditors and accountants. Box 4.2 reviews some recent changes and proposals for change in the UK and elsewhere.

- 1 What were the causes of the collapse of Parmalat?
- 2 Why have some blamed the auditors for the collapse, as well as dishonesty at Parmalat itself?
- 3 What lessons might be learned from this case study?

Case Study 2

Town bought by power company

In 2002 America's largest power generator found a unique way to avoid legal challenges from a town it has polluted – buy it, lock, stock and barrel, for \$20m (.13.7m). American Electric Power (AEP), which also runs the UK's coal-fired. Ferrybridge power station, is buying Cheshire, Ohio, which found itself under brown and blue clouds from AEP's coal-burning General James M. Gavin plant that looms over the town.

All 221 residents will leave after accepting a deal that gives 90 homeowners cheques for three times the assessed value of their homes, about \$150,000 each, totalling \$13.5m. Those renting homes in the town will each get \$25,000. And in true American style the three lawyers hired by residents to negotiate the deal will share \$5.6m between them. AEP gets 200 acres of property, several businesses and 90 homes to use as temporary housing for plant employees.

More importantly, it gets non-disclosure agreements that prevent residents disclosing the terms of the deal and signed pledges that townsfolk will never sue the power company for property damage or health problems. No one yet has sued AEP for the asthma attacks, grime, headaches, burning eyes, sore throats and lips, mouth blisters or white-coloured burns on lips, tongues and insides of mouths caused by sulphur dioxide and sulphuric acid emissions.

These emissions worsened in 2001 after the installation of a new \$195m emissions control system meant to cut nitrogen oxide emissions. That is when the blue plumes arrived – because the new technology did not work very well and a blue acid haze fell on Cheshire, usually on hot, humid days when exhaust fumes from the 830 ft smokestacks fell down into the town rather than going up into the sky.

The Environmental Protection Agency (EPA) of the US had accused AEP two years earlier of violating the Clean Air Act and threatened to force the plant to stop burning cheaper high-sulphuric coal. The EPA and environmental groups ranging from the Sierra Club to the Edison Electric Institute all now seem happy with this new deal, which is thought to be the first takeover offer for a whole town. The EPA has even backed off from plans to force the burning of more expensive coal at the 2,600-megawatt General James M. Gavin plant by AEP, the nation's largest utility with annual revenues of \$61bn.

But some of the townsfolk seem to have regrets. Helen Preston, the town's oldest resident, who still lives in the house where she was born, reportedly thinks her fellow residents sold out too cheaply by accepting the first offer. Others acknowledged that legal action might have taken a decade and there might not have been another chance to get away from the health hazards falling from the skies from the Gavin plant.

1 How does the idea of negative externalities apply to this case study?

2 Consider the advantages and disadvantages of this approach to solving the problem.

Theme 4. Modern methods of personnel motivation

1. The essence and characteristics of modern personnel motivation.
2. Modern methods of intangible personnel motivation.
3. Foreign experience of intangible personnel motivation.
4. Intangible personnel motivation in domestic enterprises.
5. Review of the basic mistakes of intangible personnel motivation.

Activity 1. True_False questions

1 The National Minimum Wage can lead to higher wages and employment in monopsonistic markets.

True_False

2 A given rise in wages will usually reduce employment by less the easier it is to substitute labour by other factors of production.

True_False

3 A trade union has more bargaining power the larger the ratio between the management costs of disagreeing and management costs of agreeing to union terms.

True_False

4 If unions have little bargaining power they are more likely to secure higher wages with no loss of employment.

True_False

5 The average cost of labour curve will lie above the marginal cost of labour curve under monopsony.

True_False

6 The more inelastic the supply of labour for an occupation, the greater the proportion of the wage that is likely to be transfer earnings.

True_False

7 The National Minimum Wage (NMW) in the UK only applies to those over 21 years.

True_False

8 EU Directives usually establish minimum labour market conditions which member states must implement unless they have an agreed 'opt-out' clause.

True_False

9 In the UK the *Equal Pay Act* makes it illegal for employers to pay women less than men.

True_False

10 A rise in marginal physical productivity or in the value of any goods and services produced will tend to raise the marginal revenue product of labour.

Case Study 1. Pop idols

Madonna is not quite the box-office hit today that she has been in the past. Her 2003 album *American Life* was a relative disappointment, despite notching up 3.5 million sales. This figure was only half that achieved in 2000 by Madonna with her *Music* album.

Nevertheless, Madonna is seeking a payout of .36m from Time Warner in 2004 to add to her annual royalty income on record sales, past and present, estimated to be over .18m in 2003 alone. The one-off .36m payment relates to the value placed on her own recording label, *Maverick*. This was created in 1992 with her manager, Freddy DeMann. Time Warner bought out Madonna with a contract that also guaranteed financial support for *Maverick* until 2004. In fact *Maverick* has been one of the more successful of the so-called 'vanity labels', having released records from stars such as Alanis Morissette and Prodigy. Nevertheless, Time Warner have only offered some .11m as final settlement for *Maverick*, some .25m short of Madonna's own valuation. Nor is this the only disagreement with Time Warner. Madonna is threatening to sue Time Warner for the dramatic fall in value of the .25 million of options in Time Warner shares granted to her in 1999. She blames the disastrous Time Warner—America On-Line merger in 2001 for so reducing the paper value of these options that they have become virtually worthless. Some reports suggest that Madonna is threatening to sue Time Warner for misleading her as to the likely future value of these stock options.

1 With Figure 7.2 in mind, use demand—supply analysis to suggest how the huge annual earnings of Madonna and similar pop idols might be explained.

2 Explain why the stock-option deal of 1999 with Time Warner failed to yield Madonna the future income she expected.

3. What immaterial motivators can you outline?

Case Study 2. Concerns over the NMW

For six years it was the dog that didn't bark, but business concern about the government's minimum wage is slowly mounting, thanks to an unlikely alliance of hairdressers, hoteliers and fish-friers. The national hourly rate for adults over 21 was increased in October 2003 from .4.20 to .4.50, the fourth upward adjustment since the measure was proposed by the incoming Labour government in 1997. Gordon Brown, the chancellor, won applause at the Labour Party's conference by predicting it would soon rise to over .5. Until now, the steadily rising rate has caused nothing like the backlash among employers that was predicted by its early opponents. Most economic studies have also shown little, if any, negative impact on job creation. But the smooth ride enjoyed by the government may be coming to an end as a growing number of smaller employers and industries in poorer parts of the country begin to voice opposition to further increases. Stephen Alambritis, of the Federation of Small Business, says his members are worried that any economic downturn could worsen the problem and would like to see more consideration of regional economic variations. 'The government have been lucky; because of the strength of the economy no one is really against the idea of a minimum wage any more,' he said. 'However, the problem is that the level is creeping up to a point that certain regions and sectors are beginning to find it very difficult.'

One such industry is hairdressing, traditionally one of the lowest-paid occupations in the country. Thousands of low-paid employees have benefited, but smaller salons fear they cannot continue to meet wage increases. Ray Seymour, general secretary of the National Hairdressers' Federation, said a particular worry is the Low Pay Commission's proposal to extend the slightly

lower minimum wage for 18–21-year-olds to trainees *under* the age of 18. ‘The trouble with fighting this is it’s very hard to single out the minimum wage as directly causing problems,’ he said. ‘It’s the totality of new costs on employers like the Working Time Directive that really add up.’

Others warn that the increases are encouraging some businesses to break the law. ‘It’s becoming very common among smaller hoteliers to keep employees off the books,’ said Roland Haywood, chairman of the Blackpool Private Hotels

Association. He estimates that the black market wage rate in the town’s hotels – where a room can cost as little as .10 per night – is actually around .3.50 per hour.

Despite this, few trade bodies argue for an end to the minimum wage entirely – they just worry where the increases are leading. David Audley, vice president of the National Federation of Fish Friers, said: ‘we don’t have any problem with it in principle, but the government needs to be careful about increasing it beyond the rate of inflation, otherwise most self-employed fish friers will end up paying themselves less than their staff.’

Research by the Organisation for Economic Co-operation and Development, the rich-country think-tank, suggests that workers in their teenage years and early twenties have seen their job prospects suffer when the minimum wage has been set too high. The clearest example of this was Spain, where employment was hit when the adult rate was extended to 16-year-olds.

- 1 What are the main concerns raised in the case study?
- 2 How does this case study relate to labour motivation?

Theme 5. Effective advertising: indicators, principles of realization

1. Theoretical principles of advertising.
2. Types of advertising. Means of advertising dissemination.
3. Basic requirements to advertisements.
4. The essence and main characteristics of effective advertising.
5. The concept of advertising slogan.
6. The rules of effective advertisement creation.

Activity 1.

Effective advertising may result in which of the following?

- (a) A steeper, less elastic demand curve
- (b) A flatter, more elastic demand curve
- (c) A unit elastic demand curve
- (d) A perfectly elastic demand curve

Case Study 1

‘Mecca Cola’ was launched in late 2002 with the slogan ‘Think Muslim, drink Muslim’ as a substitute for Coca-Cola and Pepsi Cola. It sold over 2 million bottles in France alone within two months of its launch.

1. Comment on the effectiveness of that advertisement.

Case Study 2

Prunella Scales, who played Sybil in *Fawlty Towers*, has emerged as the most successful celebrity to appear in a British advertising campaign. Hamish Pringle, director general of the *Institute of Practitioners in Advertising*, claimed in his 2004 book *Celebrity Sells* that the advertising campaign of Prunella Scales for Tesco helped boost sales by an estimated .2.2bn between 1998 and 2003. Jamie Oliver was second best, boosting Sainsbury’s sales by .1.12bn over only 18 months.

1. Comment on the effectiveness of that advertisement.

Case Study 3

Miscommunication in Advertising

In an oft-told story of advertising miscommunication, a 1950s cigarette brand was advertised in the UK with cinema ads. The ads featured an actor alone on London Bridge at night, mock heroically lighting up a Strand cigarette to the accompanying strapline, ‘You’re never alone with a Strand’. The brand failed to sell and it transpired that cinema audiences felt that the user was a lonely soul who couldn’t find friends. To ad agency types familiar with Hollywood movie heroes such as Humphrey Bogart, it seemed inconceivable that cigarette smoking could be seen as anything but the act of a streetwise tough guy whose heroic destiny was to be alone. The audience decoded a different meaning from the one the agency had planned to encode into the message.

The reason for the miscommunication was not known: it may have been the actor was unconvincing as a hero, or the clothes, the set or the props – all may have undermined the intended effect. Today such a mistake would be unlikely to happen. Most major advertising campaigns are carefully pre-tested on trial audiences before launch.

The story reveals the subtlety and indeterminacy of meaning in advertising communication. It also illustrates the truism that the people who make advertisements are different to the audiences at whom they are aimed.

1. Comment on the main reasons leading to miscommunication in advertising.

Case Study 4

Whassup with Weak Advertising Appeals?

Anheuser-Busch has used various creative approaches to promote their Budweiser beer brand, for instance ads that emphasized the brewing process and highlighted the intrinsic quality of the beer (‘King of Beers’). They have also drawn on its American provenance to

position the brand in an heroic light. More recent campaigns have shifted the positioning somewhat to broaden the appeal. One campaign placed the beer as a minor set prop in a narrative form that appeared to be more like a movie clip than a TV ad. One execution had a set of apparently Afro-American friends going about their domestic business and greeting each other with an increasingly loud cry of ‘Whassup?!’.

The characters are in a variety of situations familiar in TV domestic dramas or situation comedies: watching TV, working at a computer, bringing shopping home (a bag of Budweiser), talking to a lover on the telephone. The brand was implicated in the plot as the choice of working professionals of any ethnic origin but with an authenticity coming from their use of street slang, street clothes and love of TV sport. The ads hinted that the brand itself had the same authenticity as the characters (‘Budweiser. True’).

‘Whassup’ became a popular catchword attracting much media comment and coverage, extending the audience for the brand. A website was set up to exploit the popularity of the advertising and to allow people to download ads and screensavers. While beer ads generally seek out an audience of 18–50-year-old males, the creative appeal of these particular ads clearly included but reached beyond beer drinkers.

They showed an awareness that a brand is a social construction in the sense that it has a cultural meaning which is not confined to its target audience, but is informed by the ideas and associations brought to the brand by non-consuming social groups.

1. Comment on the effectiveness of that advertisement.

Case Study 5

Diesel Ads Exploit Polysemy

The Diesel brand has a long tradition of polysemic advertising, and it tends to show the same ads all over the world. Its website, www.diesel.com has, at the time of writing in early April 2009, no mention of clothing but a series of short movies, some featuring Pete the meat puppet. The movies are entertaining in an off-the-wall, genre-subversive way.

The Diesel spring 2009 men’s print campaign² continues the edgy, polysemic style begun in the 1990s which made use of both polysemy and intertextuality to try to draw the consumer into a deeper engagement, and at the same time to signal the quirky, witty, but irreverent values of the brand. One ad (in the 1990s series) featured an enigmatic scene of bodybuilders wearing white sailor caps and bathing briefs. The scene included scientific equipment and puzzled spectators viewing from behind a red rope, as if they were at an exhibition or performance.

The only direct reference to the brand was a brand name logo in small type in the corner. Such ads are visually intriguing because they challenge our preconceptions about images and visual context. The viewer wants to make connections between the images: humans actively try to make sense of data, even where there is little to be made. Perception is subject to a Gestalt impulse whereby humans try to complete visual cues to form a coherent whole.

In polysemic ads that mix visual cues drawn from unconnected discourses, this impulse draws us into the ad as we try to make the visual cues into a story we understand.

A long series of similar Diesel print ads used bizarre visual intertextual references drawing on cultural texts as diverse as museum attendance, public health advertising, educational announcements, British seaside beauty contests, soccer reports, shoot-'em-up movies and news reportage of war zones. Short, inappropriate passages of copy were imprinted on the posters to make the scene even more puzzling.

The effect was to provide an entertaining visual puzzle which consumers could try to figure out. Of course, there was no definitive answer to the meaning of these ads. The creative people at the agency were just having fun in the interests of the brand, playing with cultural meaning. Underlying the apparently incoherent images was a clear advertising strategy. Viewers were expected to infer that the Diesel brand, like the ads, challenged convention in a quirky, youthful and irreverent yet cool way.

1. Comment on the effectiveness of that advertisement.

Theme 6. Strategic analysis of the environmental and business objectives determination

1. The theoretical basis of the organization strategy formation.
2. Mission and goals determination.
3. Diagnostics of the environment.
4. Strategic alternatives reviewing.
5. The essence, importance and purpose of strategic analysis.
6. Stages and methods of strategic analysis.

Task 1. Analyse the situation according to the PEST Analysis Template.

PEST analysis (political, economic, social, technological) assesses a market, including competitors, from the standpoint of a particular proposition or a business.

PEST analysis describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro-environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

PEST Analysis Template

Situation being analysed:

<p>criteria examples ecological/environmental current legislation future legislation international legislation regulatory bodies and processes government policies government term and change trading policies funding, grants and initiatives home market pressure- groups international pressure- groups wars and conflicts</p>	<p>political</p>	<p>economic</p>	<p>criteria examples home economy economy trends overseas economies general taxation taxation specific to product/services seasonality issues market/trade cycles specific industry factors market routes trends distribution trends customer/end-user drivers interest/ exchange rates international trade and monetary issues</p>
<p>criteria examples lifestyle trends demographics consumer attitudes and opinions media views law changes affecting social factors brand, company, technology image consumer buying patterns fashion and role models major events and influences buying access and trends ethnic/religious factors advertising and publicity ethical issues</p>	<p>social</p>	<p>technological</p>	<p>criteria examples competing technology development research funding associated/dependent technologies replacement technology/solutions maturity of technology manufacturing maturity and capacity information and communications consumer buying mechanisms/technology technology legislation innovation potential technology access, licencing, patents intellectual property issues global communications</p>

Activity 2. Analyse the situation according to the SWOT Analysis Template.

Business being analysed:

This SWOT example is for a new business opportunity. Many criteria can apply to more than one quadrant. Identify criteria appropriate to your own SWOT situation.

<p>criteria examples Advantages of proposition? Capabilities? Competitive advantages? USP's (unique selling points)? Resources, Assets, People? Experience, knowledge, data? Financial reserves, likely returns? Marketing - reach, distribution, awareness? Innovative aspects? Location? Price, value, quality? Qualifications, certifications? Processes, systems, IT, communications? Cultural, attitudinal, behavioural? Management, succession? Philosophy and values?</p>	<p>strengths</p>	<p>weaknesses</p>	<p>criteria examples Disadvantages of proposition? Gaps in capabilities? Lack of competitive strength? Reputation, presence and reach? Financials? Own known vulnerabilities? Timescales, deadlines and pressures? Cashflow, start-up cash-drain? Effects on core activities, distraction? Reliability of data, plan predictability? Qualifications, certifications? Morale, commitment, leadership? Processes and systems, etc? Management, succession?</p>
<p>criteria examples Market developments? Competitors' vulnerabilities? Industry or lifestyle trends? Technology development, innovation? Global influences? New markets, vertical, horizontal? Niche target markets? Export, import? New USP's? Business and product development? Information and research? Partnerships, agencies, distribution? Volumes, production, economies? Seasonal, weather, fashion influences?</p>	<p>opportunities</p>	<p>threats</p>	<p>criteria examples Political effects? Legislative effects? Environmental effects? IT developments? Competitor intentions - various? Market demand? New technologies, services, ideas? Vital contracts and partners? Sustaining internal capabilities? Obstacles faced? Insurmountable weaknesses? Loss of key staff? Sustainable financial backing? Economy - home, abroad? Seasonality, weather effects?</p>

Activity 3.

A 'penetration pricing strategy' is most likely to be used in which stage of the product life cycle?

- (a) Maturity
- (b) Decline
- (c) Introduction
- (d) Growth
- (e) Stagnation

Activity 4

A 'price skimming' strategy is sometimes used in the introduction stage of the product life cycle because:

- (a) charging low prices helps to gain market share
- (b) charging low prices when demand is elastic raises revenue
- (c) charging high prices when demand is unit elastic raises revenue
- (d) charging high prices when demand is elastic raises revenue
- (e) charging high prices when demand is inelastic increases revenue.

Activity 5

Introduction

Goal setting is about using motivation to attain something. Setting a goal can be anything from planning to lose weight, to earning a college degree, or to being more productive in the workplace. In order for an employer to achieve more productivity from their employees, they need to set goals and use motivation to get them there. The goal of the employer can be achieved by motivating employees with the promise of rewards. These rewards may be temporary or permanent. For example, the employer may give away a prize, or they may reward an employee with a raise. At the supervisory level, a team leader may set goals the same way and use similar motivation methods. Even if a manager cannot promise a pay raise, he or she could offer to buy a subordinate team member lunch, for example, as a reward for achieving a goal they have set forth. Without goal setting, no progress would be achieved, and without motivation, there would be no reason to reach a goal.

Case

In an industrial manufacturing facility, on the job injuries have been on the rise for a while. This disturbing trend has caused a rise in worker's compensation claims and loss of manpower, as well as extensive damage to equipment and facilities. The management at the facility is very unhappy and knows that something needs to be changed. The employees earn a decent wage, are provided a superior health care plan, and are not overworked because they meet the production standards. Additionally, the employees are almost never required to work overtime. If the employees have what they want from their job, then what would give them motivation to work more safely? Management does not want to resort to administrative action in fear of losing employees and receiving a bad reputation. Instead, they have asked all first line supervisors to implement a safety rewards program. Since the employees receive a

respectable wage and up to a three percent rise every year, management has decided that each department, including the supervisors, will receive a company paid lunch and one day off for every month that they are accident free. Additionally, they have also agreed on a yearly safety prize for each individual employee if the company completes one year of being accident free. For the first line supervisors, they will also receive a yearly cash bonus if their department is accident and injury free for one year. Management hopes that by motivating the team and each individual with a reward, they will promote a safe environment for themselves and their employees. They are also hoping that offering a cash bonus to supervisors for maintaining a safe department will be more motivating to encourage safety to their subordinates through leadership.

1. Analyse the application of the following theories
 - Goal Mechanisms and Conditions Theory
 - SMART Theory
 - Management by Objectives (MBO) Theory

Theme 7. Effective leadership and management

1. The nature of leadership and its components.
2. The peculiarities of leaders' typology and leadership styles.
3. The concept of leadership effectiveness.
4. Modern approaches to leadership effectiveness.
5. Forms of leadership influence: leadership and power.
6. Distinction between "governance" and "leadership".

Activity 1. Create your own Pyramid of Success (John Wooden's Pyramid of Success as the example). Give your arguments.

"Success is peace of mind which is a direct result of self-satisfaction in knowing you did your best to become the best that you are capable of becoming."

Activity 2. Which of the following statements best sums up the role of the human resource manager in personnel activities?

- (a) The human resource manager is the sole person who should be involved in all personnel activities.
- (b) Both the human resource manager and line manager are likely to be involved in differing ways in a range of personnel activities.
- (c) The line manager always acts alone in all organisations in dealing with human resource management activities.
- (d) The human resource manager is only concerned with personnel activities at a tactical level.

Activity 3. Which of the following statements would be true of the human resource management approach to managing people at work?

- (a) It tackles issues in a piecemeal way.
- (b) It relies on traditional forms of communication.
- (c) There is not much involvement of the workforce in decision making.
- (d) It is strategic.

Case Study 1.

HRM and the Royal Bank of Scotland

The RBS has been undergoing major changes in recent years, partly as a result of growth via merger and acquisitions (e.g. merged with the National Westminster Bank in 1999, and partly as a result of developments within the financial services sector in which it operates. The mission statement of the RBS includes: ‘to provide financial services of the highest quality’; as with other organisations RBS must then develop objectives and strategies in an attempt to provide more focus and guidance for employees in seeking to achieve the company’s mission. The role of the HRM department will be to support the process of sharing an understanding about what needs to be achieved, and then managing and developing people in a way which will facilitate the achievement of these objectives. For example, in common with other companies in the financial services sector, the RBS is seeking to change from a culture that rewards performance using a ‘slow’ incremental pay system, into one that more closely relates pay to personal performance and achievement. The HRM department is therefore introducing new performance appraisal systems and incentive schemes in an attempt to help the company achieve its long-term strategic objectives. By introducing more beneficial bonus and profit-sharing schemes, whereby pay is more closely related to individual and corporate performance, employees will arguably become more motivated to contribute to the achievement of the overall goals of the RBS.

A further internal factor that has influenced the HRM function at RBS is the merger with National Westminster Group. This merger was, of course, seen as being of potential benefit to many employees by creating new opportunities and offering enhanced career prospects in the new, larger business. It was recognised in 1999 that the merger would also place greater emphasis on the HRM function of the company and may even involve an expansion of the existing department and its operations. It was seen as necessary to review the current HRM practices of the new and enlarged business and consider revising them in order to bring them into line with the objectives of the RBS. As well as increasing the activity of the HRM department in areas such as recruitment, selection, training and development, this expansion would inevitably also require the clear communication of the RBS’s culture, values and strategy across a wider and more disparate cohort of employees. It was recognised to be essential that the HRM functions of both businesses be closely integrated so that there would be a well-defined, common goal for the new, expanded business.

Due to increasing levels of competition within the financial services industry, all organisations in this sector are striving to improve productivity. It is argued that one way of achieving this improvement is to manage human resources more effectively. The HRM

department of the RBS could seek to achieve this by various means; for example, by empowering employees (i.e. allowing workers to make job-related decisions, thereby increasing staff involvement), by encouraging teamwork (in order to improve quality and efficiency) and introducing clear and consistently applied communication and assessment mechanisms (to enhance staff performance and increase awareness).

By introducing these initiatives into the workforce, it may be possible for the RBS to encourage employee involvement, thereby maximising the contribution made by employees. The direct effect of involvement in the organisation is expected to be an increase in the individual employee's commitment to the workplace or the job (one of the four important categories under the Harvard model). This commitment will hopefully be reflected in increased productivity, lower labour turnover and reduced absenteeism. For the RBS this empowerment of employees may also call for new skills on the part of both the managers and employees and it will be the role of the HRM function to try to successfully implement these changes. The HRM department will be involved in designing policies and procedures to encourage employee involvement in line with the overall strategic plan of the RBS. For example, managers may need training in the techniques of participative management if they have been used to a control management style, and employees may require confidence-building sessions and training in decision making. This departure from a control culture which focuses upon close supervision can also have an impact on organisational structures; for example, the tall hierarchies with numerous reporting levels, traditionally associated with companies like the RBS, may need to be replaced by the more modern, flatter structures which better facilitate empowerment.

A further component of the external environment that HRM specialists within the RBS need to consider involves the workforce and the changes that are occurring within it. For example, the British labour force has increased by 1.6 million people over the past decade (i.e. from 27.8 to 29.4 million), with an estimated 1.3 million of this increase being women, so that by 2006 women will represent 46% of the entire British labour force. These statistics arguably highlight the importance to the HRM department of the RBS of effectively utilising programmes for managing diversity among its workforce, whereby women and other minority employees receive support, recognition and the same opportunities as non-minority workers.

The increasing proportion of women in the workforce may be attributed in part to socio-economic influences such as the social acceptability of women in employment and the growing availability of part-time work. These factors may oblige the RBS to adopt more open approaches to recruitment and to consider the necessity of providing more extensive training. It will be the role of the HRM department to proactively implement strategies to successfully manage diversity amongst the workforce. This may involve addressing stereotypes to ensure that a job does not become 'sex-typed' (i.e. deemed appropriate only for one gender) and developing gender-neutral job titles to encourage both male and female applicants.

The HRM department of the RBS might be requested to undertake a thorough analysis of the internal environment in order for the organisation to retain its competitive edge. These internal influences may include: the company's strategy, objectives and values; the leadership styles and goals of top management; the organisational structure, size and culture; and the nature of the business.

1 Outline the strategic implications of this case study for the HRM function within an organisation.

2 Can you identify policies which might support the four outcomes identified in the Harvard model, namely commitment, competence, congruence and cost efficiencies?

Case Study 2.

Management and Motivation in the Benefits Agency

The Benefits Agency is responsible for delivering a range of UK state benefits to the public. Most Agency staff work in a network of local offices that are organised into district management units. The 159 districts are organised into 13 area units. Each area director is accountable to the Agency's top management team.

The Benefits Agency used to form part of the Department of Social Security (DSS), the largest organisation in the UK Civil Service. Traditionally, the Civil Service provided a secure place to work. Staff usually joined straight from school and were expected to follow precisely defined rules in order to ensure equality of treatment to all citizens. The work was routine, and the Service valued conformist behaviour; innovation was discouraged. The career path was predictable, jobs were secure, and a pension was guaranteed on retirement. The management structure was hierarchical; any unusual problem was referred up to the next level for decision.

In the early 1990s government policy brought radical change; the Benefits Agency would become a separate organisation within the Civil Service. It would conduct the same functions on behalf of government but would be managed differently.

A chief executive was appointed in 1991 on a three-year contract (which in itself sent out signals about the previous jobs for life culture). He defined a new vision: 'To provide the right money to the right person at the right time and the right place.' To deliver this more customer-centred service he gave district managers more control over their budget, thereby reducing control by senior managers at HQ. Management in some areas ignored the new freedoms and continued to manage in the old, hierarchical way.

One of the areas interpreted the freedom as giving authority to make very wide changes. The Security services in the UK.' District managers in this area were encouraged to give more management board of this area defined their vision as: 'To be the leading provider of Social decision-making power to staff dealing with the public, and staff were encouraged to be innovative in their approach. A critical factor in achieving this vision was to have the right number of skilled and motivated staff.

Behaviour that had been valued was now a barrier to promotion. Staff who had hoped to gain promotion by playing the rules now found they had little chance. Some became disillusioned but continued to deliver – at a reduced level of productivity. Some could not adapt and left. Others applied their efforts to a new goal – that of resisting change.

Another group enthusiastically embraced the new culture where innovation, creativity and risk taking were valued. Districts introduced the 'one-stop' approach, so that one member of staff (rather than several) could deal with all the benefits that a person claimed. This led to the creation of multi-function teams, and to big changes in the way staff worked. Staff responded

enthusiastically to these changes, even though pay awards were still strictly controlled and promotion opportunities had become fewer.

The mid-1990s brought further changes. A new chief executive was appointed in 1995. In line with the government's policy of controlling public expenditure, the Agency's budget was reduced drastically in 1996. At the same time the National Audit Office, the body responsible for auditing public organisations, criticised the inaccuracy of benefit payments and the scope the system offered for fraud.

The new chief executive amended the Agency's vision to 'pay the right money to the right person at the right time every time'. The top management team became uneasy about the increased freedom of the area directors. Examples of a return to the older structure began to appear, such as the introduction of centrally controlled checking teams and increases in the number of mandatory management checks. Staff in the region reacted with dismay, and management again had the problem of how to create a skilled and motivated staff.

In 1998 another chief executive was appointed. The move towards tighter central control continued but lessons had been learnt. The Agency's senior management recognised that many improvements in service delivery had come from ideas generated by committed individuals with flair and imagination. There was no desire to lose this by going back to the strong command and control approach – but there had to be a balance between innovation and accountability. The Agency continued to encourage motivation but introduced a process to evaluate each idea against business objectives.

On 16 March 2000 the prime minister announced far-reaching reforms to the way the government provides services to people looking for work and claiming benefits. A new Agency, Jobcentre Plus, would be created to combine the Employment Service and those parts of the Benefits Agency dealing with people of working age. This agency will deliver a single, work-focused, integrated service to employers and benefit claimants – helping people into work and helping employers fill their vacancies.

Although the agency is new, the people working in it will transfer from the existing agencies.

This means bringing together management and staff of two separate agencies. People who have been used to different cultures, values, personnel policies, pay and promotion structures and management styles will now be working together to create the new organisation. The need to establish common values has been identified by the chief executive of the new agency.

Both the Benefits Agency and the Employment Service have such values which they have introduced successfully over recent years. But Jobcentre Plus is a new organisation, with different objectives, and we need to build a new set of values to reflect its priorities and interests, and the aspirations of its staff and partners.

This is probably the biggest change that staff in both agencies have encountered. The problem for managers in trying to motivate staff in this changing climate is immense. Staff are uncertain of the future – will the nature of the work change, will new skills be required, will there be job losses, will the staff from one agency be more valued than the other, are all the previous values worth nothing?

- 1 What attracted staff to work in the Benefits Agency before these changes when it used to form part of the DSS?
- 2 How are they likely to have reacted to the changes introduced in 1991?
- 3 What rewards did management of the Benefits Agency use when it was operating as part of the Department of Social Security?
- 4 How were these different after the change in approach?
- 5 How did staff react to the changes?
- 6 Why might staff feel demotivated when told about the creation of the new agency, Jobcentre Plus?
- 7 Make recommendations to the managers in terms of motivating staff within this changing climate.
- 8 Are any theories of motivation relevant to this situation?

Theme 8. Effective management: an innovative approach

- 1.Improving the efficiency of the organization performance on the basis of innovation.
- 2.Innovative approaches to the personnel management.
- 3.Risks of innovative structures activities.
- 4.Situational approaches to the effective leadership.
- 5.Approaches to the innovation enterprise management.

Activity 1. True_False questions

- 1 A group which cannot agree a consensus as to the goals it should pursue is called a 'coalition'.
True_False
- 2 Firms may seek to maximise sales revenue because the salaries and status of managers may be more closely related to turnover than to profit performance.
True_False
- 3 Firms may follow a constrained sales-revenue-maximising approach because managers recognise that they must achieve at least a minimum level of profit to keep shareholders content.
True_False
- 4 The stakeholders of a firm are those who hold equity in the firm.
True_False
- 5 When total revenue exactly matches total costs (both variable and fixed), then break-even output has been reached.
True_False
- 6 Output is likely to be lower and price higher for the profit-maximising firm than would be the case for the sales-revenue-maximising firm.
True_False

7 Marginal revenue equals marginal cost is the condition required for the level of output which maximises sales revenue.

True_False

8 Total revenue is a maximum and total cost a minimum for the profit-maximising level of output.

True_False

9 In times of recession a 'coalition' is likely to be formed based around the objective of the firm remaining solvent.

True_False

10 A benefit of pursuing 'growth' as the firm's main objective is that it may help reduce risk, for example by allowing more product and market diversification.

True_False

Case Study 1.

In 2003 Gandlake Computer Services, which develops business software in Newbury, Berkshire, changed to a private limited company (Ltd) after trading as a partnership since 1971. It became a limited company after managing director John Gandley decided that it would help to grow the business. Gandley argued that although the partnership was doing well and had a strong cash flow, because, as a partnership, it was not publishing accounts at Companies House, that aspect of the business was invisible to its clients. His preference was for the market to see that Gandlake was very solvent and profitable and had good reserves of working capital so that people could compare it with its competitors. This visibility as to its competitive edge would then be used as a strong selling point in marketing the company. He added: 'I also wanted to become a limited company because, as the business grew and we got bigger clients and bigger contracts, our lawyers advised us that it would be wise to move from having unlimited status to limited liability. Another reason was that all our clients were either limited companies, plcs or big government departments and they didn't really understand the concept of partnerships. It was always a potential obstacle to doing business that had to be overcome'. In Gandley's view, making the switch was time-consuming but straightforward. 'There was a lot of paperwork. It took about six months of preparation with lawyers and accountants. We also had to have the whole operation valued by external company valuers to put a market price on the enterprise'.

Gandley estimated that the whole process cost between .100,000 and .120,000, but he expects to recover this in his first year through tax savings and business expansion. John Lisby, regional director of the business adviser Numerica, said that every sole trader or partnership should now be seriously looking into the option of becoming a limited company because the tax position for the latter was so much more beneficial. He explained that owners of small businesses that make a profit of less than .300,000 could benefit in two ways – from lower corporation tax rates and lower National Insurance payments. 'As a sole trader you are liable for tax on all the profits that you make, whether or not you actually take them out of the business. So even if you decide to retain the profits in the business, you'll still be liable for corporation tax of up to 40% on them. If, however, you are a limited company, then any profit

you retain in the business will be taxed only up to a maximum of 19%.’ Lisby said owners of limited companies also benefited if they decided to take some profits out of the business because they had the option of getting it in the form of a dividend instead of a salary. Dividends carry a lower tax rate and also do not require payment of National Insurance.

1 Identify the advantages to Gandlake of changing from a partnership to a private limited company.

2 What might be the disadvantages of such a move?

3 What can you say about innovative approach in the company management?

Case Study 2.

Japanese companies struggle in Mexico

Panasonic, the Japanese consumer electronics manufacturer, has erected a series of assembly plants in Tijuana, Mexico that employ nearly 3,000 people and turn out between 10,000 and 11,000 television sets every day. However, the recent removal of attractive tariff exemptions that had previously led to Panasonic locating its factories in Mexico will cost the company over .2m each year. Nevertheless Japanese companies intend to stay in Mexico. Its low wage costs – less than half those of cities only 30 minutes drive away in California – yet broadly comparable productivity figures make it an attractive location for manufacturing.

1 What are the implications of situations like this for multinational firm activities?

2 What impacts might you expect in the advanced industrialised economies?

Theme 9. Business model: the essence, components, tools for development

1. The essence and importance of business modelling.

2. Forming of enterprise business models.

3. Evaluation of business models efficiency.

4. Business processes of the company.

5. Components of a business model at the enterprise.

6. Tools for the development of business models.

Activity 1. True_False questions

1 The ‘Small Firms Loan Guarantee Scheme’ is an example of a government measure aiming to give small firms easier access to equity and loan capital.

True_False

2 Small firms may seek to grow larger to achieve diseconomies of scale.

True_False

3 ‘Large’ firms with over 250 employees make up less than 1% of all businesses in the UK but contribute around 40% of total employment and total turnover.

True_False

4 Sole traders are the most common type of small firm in the UK.

True_False

5 BP acquiring a chain of garage outlets is an example of backward vertical integration.

True_False

6 Interbrew of Belgium, owners of the Stella Artois brand, purchasing another brewery, AmBev of Brazil in 2004, is an example of horizontal integration.

True_False

7 If a firm is 'productively efficient' it will set price equal to marginal cost.

True_False

8 The value discrepancy hypothesis suggests that demerging is more likely than merging.

True_False

9 If the valuation ratio is high for a company then it will be an attractive takeover target.

True_False

10 If a firm is 'allocatively efficient' then it will charge consumers exactly what it costs to produce the last unit of output.

True_False

Case Study 1

Every single shareholder in a PLC, whether an individual with one share or an institutional investor with tens of thousands of shares, can attend the Annual General Meeting (AGM). It is the opportunity for the owners of the company to challenge those directing the company. In 2003 the government introduced a ruling compelling a vote by shareholders at each AGM on executive remuneration packages proposed by PLCs for their senior executives.

Although these votes are, as yet, only 'advisory', it may be that they have begun to influence company policies on executive remuneration. For example, a new pay deal was arranged for Jean-Pierre Garnier, the chief executive officer (CEO) of GlaxoSmithKline (GSK) in December 2003 after the original deal was humiliatingly defeated at the AGM six months previously. That remuneration package had offered as much as .22m over two years for Mr Garnier should he choose to leave GSK during that two-year period. He would receive this .22m even if the company's share price continued to fall. Institutional shareholders were outraged and voted against the remuneration package, seeing it as 'reward for failure'.

A much warmer welcome has been given by these shareholders to what they see as a more rigorous and more profit-related *revised* remuneration package submitted six months later in December 2003. This established a 'low' basic salary of .1m per year, with profit-related incentivised payments for 'success'. For example, if the share price rises from the current .12.60 to .15 and the company's earnings-per-share growth exceeds current forecasts of 4.9%, then Mr Garnier would receive 50% of his potential share options worth around .1.1m. This figure would double to .2.2m if the full 100% of share options were received, but this would only happen if GSK earnings per share rose by 5% *on top of the retail price index*.

Should the same share price rise to .15 be achieved, but with total shareholder return at least half as good as the average for its competitor group (the 15 largest pharmaceutical companies), then Mr Garnier receives a further bonus of .2.1m.

Other potential bonuses bring the estimated total remuneration package to just under .6m per annum for his new one-year (rather than two-year) contract.

1. Why have some analysts seen the events in the case study as marking a new beginning in shareholder power?
2. What implications do you think the revised remuneration package might have for GSK's business objectives?
3. What instruments of business model developing have you defined?

Theme 10. Management psychology: the essence, modern approaches

1. The essence and peculiarities of management psychology as a science and practice.
2. Psychological approaches to work motivation.
3. Psychological aspects of management.
4. The term "manipulation" in management.
5. Psychology of conflicts and their solutions.
6. The technology of conflict management.
7. Business ethics.

Case Study 1

It is often suggested that firm behaviour which seeks to be more than usually ethical or to give considerable weight to environmental concerns must do so at the expense of profit. However, many firms are now seeing ethical and environmentally responsible behaviour as being in their own self-interest. Indeed, attempts are now being made to incorporate ethical_environmental considerations into formal stock exchange indices in the UK and other financial markets. A new FTSE 4 Good Index was launched in July 2001, using social and ethical criteria to rank corporate performance. All companies in three sectors were excluded, namely tobacco, weapons and nuclear power (representing 10% of all FTSE companies). Of the remaining companies, three criteria were applied for ranking purposes: environment, human rights and social issues. If a company 'fails' in any one of these criteria, it is again excluded. Of the 757 companies in the FTSE All Share Index, only 288 companies have actually made it into the index.

The FTSE itself has produced figures showing that if this new FTSE 4 Good Index had existed over the previous five years, it would actively have outperformed the more conventional stock exchange indices. The same has been found to be true for the Dow Jones Sustainability Group Index in the US. This is a similar ethical index introduced in the US in 1999. When backdated to 1993 it was found to have outperformed the Dow Jones Global Index by 46%.

1. Can you think of reasons why ethical-environmental considerations might actually increase, rather than reduce, business profitability?
2. What psychological aspects of management can you find?

Case Study 2

Brand value and social responsibility

In December 2003 the annual report of the Co-operative Bank into ethical purchasing included the results of a survey of 1,000 consumers. This survey sought to assess the extent of ethical boycotting of various products (goods and services) and its impact on the industries involved. The results suggested that over the previous 12 months the cost in the UK of consumers switching brands for ethical-environmental reasons was over .2.6 bn in lost business.

As many as 52% of consumers surveyed claimed to have boycotted at least one product during that period, and over 66% claimed that they would never return to a product once it had been associated with unethical-environmentally damaging practices.

There is also extensive evidence to support those who claim that *positive* associations with ethical-environmental initiatives are good for business. For example, the total sales of ethical-environmental products rose by 44% from .4.8bn to .6.9 bn between 1999 and 2002 according to the Co-op Bank annual report. Indeed the market share of such products was estimated as rising by 30% over the same period.

Food, household appliances, cosmetics and tourism were among the purchases most frequently influenced by ethical-environmental concerns. Around .1.8bn was spent in the UK in 2003 on Fairtrade and organic products. A further .1.5bn was spent in the UK in 2003 on 'green' household products, including environment-friendly cleaning products and energy-efficient appliances, with .200m on cosmetics that were not tested on animals and .110m on 'responsible' tourism. A Mori poll in 2002 revealed that 92% of people believed 'multinational companies should meet the highest human health, animal welfare and environmental standards' *wherever they are operating*.

Apart from commercial pressures, legal pressures on business are moving in this direction. The UK government included proposals for a Companies Bill in the 2003 Queen's Speech, which will require businesses to produce environmental and social reviews of their actions on an annual basis.

1. What incentives does this study give to businesses considering becoming more ethically-environmentally 'friendly'?
2. Can you think of any considerations which might caution a business against becoming too preoccupied with such an approach?

Case Study 3

Co-op Bank, ethics and profits

In 2001 the Co-op Bank sought to put a value on the costs and benefits of its ethical stance over the past year. It argued that its support for ethical policies in areas such as renewable

energy and the arms trade gave it an extra profit of .16m in 2000 (around 16% of all pre-tax profits) even after taking into account the extra .2.5m of net costs incurred.

The list below itemises some of the cost outlays and cost savings related to its ethical policies in 2000, identified in the Bank's fourth annual 'Partnership Report'.

Ethics tally

Extra costs (.000s)

Income lost through turning down unacceptable business 1,696

Ethical audit 144

Staff salaries and overheads 370

Best practice, e.g. environmentally safe air conditioning 792

Community investment 2,520

Electricity from renewable sources 41

Replacing PVC in plastic cards 15

Recycling 6

Environmentally sound paper 52

Cost savings (.000s)

Energy saved 112

Waste reduction 7

Re-use of furniture 7

Lower paper use 2,901

Net cost (before profit from extra business) .2,587,000

On the revenue side, the bank stresses the benefit from having ethics as an important element of the bank's brand image. Its marketing and finance specialists have estimated that ethical values can be linked to substantial revenue growth responsible for between 15% and 18% of the .96m pre-tax profit declared in 2000. Mori (the poll experts) conducted research for the Co-op Bank and concluded that over 25% of its current account customers cited ethics or the environment as the main reason for banking with the Co-op.

1. What implications might this study have for corporate business objectives?

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