

Topic 4.1

Organisational structures

All businesses have organisational structures. This means that all the employees are given a role in the business and that these fit together to help the organisation to achieve its aims. Some people have senior roles and are responsible for many people; others are more junior. The structure sets out the relationships between people in the business. We shall see that different businesses use different organisational structures and that a business's organisational structure may change over time.

By the end of this topic, you should know:

- why businesses have organisational structures
- the different job roles and responsibilities within an organisation
- the internal organisational structures a business may use
- why businesses use different organisation structures
- how organisational structures affect the way a business is managed and communication within it
- the advantages and disadvantages of centralisation and decentralisation.

Why businesses have organisational structures

Businesses have to organise themselves to be able to carry out their activities effectively. It is important that everyone in the organisation knows:

- what their duties are
- the person or people that they have to report to
- the other employees in the organisation for whom they are responsible.

An **organisational structure** sets this out so that everyone in the business knows this information. Without this internal structure, a business would be very chaotic and not very productive.

Key term

An **organisational structure** is the way a business arranges itself to carry out its activities.

Job roles and responsibilities within organisational structures

All businesses have an internal organisational structure. The organisational structure shows the roles played by each employee in the business and who reports to whom within the business. The roles and working relationships in a business are shown in an **organisational chart** (see Figure 4.1).



Figure 4.1 An organisational chart

In Figure 4.1, it can be seen that:

- shop-floor workers are responsible to and report to team leaders, who are their **line managers**
- in turn, the team leaders report to managers, with each manager being responsible for a group of team leaders (in this case, there are four)
- managers report to individual directors who report to the chief executive or managing director
- the chief executive officer (CEO) or managing director has ultimate **authority** (or power) within the business.

Organisational charts show how each individual employee fits into the business. They show each employee's line manager and the people for whom managers and others are responsible (see Table 4.1).

Job role	Responsibilities
Directors	<ul style="list-style-type: none"> ● Establish the business's overall goals ● Set long-term plans and targets for the business
Managers	<ul style="list-style-type: none"> ● Work to achieve the short- and long-term targets set by the directors ● May be responsible for a function within the business, for example, marketing or finance ● Use employees and other resources in the best possible ways
Team leaders (or supervisors)	<ul style="list-style-type: none"> ● Help managers to achieve their targets by reporting any problems and passing on instructions ● Take simple decisions, such as allocating jobs among different employees
Shop-floor workers or operatives	Carry out the business's basic duties or activities. These could be working on a production line, serving customers in a shop or basic office duties

Table 4.1 Different job roles within a business

Key term

An **organisational chart** is a plan showing the roles of, and relationships between, all the employees in a business.

Key terms

A **line manager** is an employee's immediate superior or boss.

Authority is the power to control others and to make decisions.

Features of organisational structures

There are a number of features of internal organisational structures that can be altered to suit the business's particular circumstances.

Spans of control and levels of hierarchy

The **span of control** is the number of employees managed directly by a manager. This means that the manager is the immediate boss or line manager of these employees. In Figure 4.2, Manager A has a span of control of four and Team Leader 4 has a span of control of five.

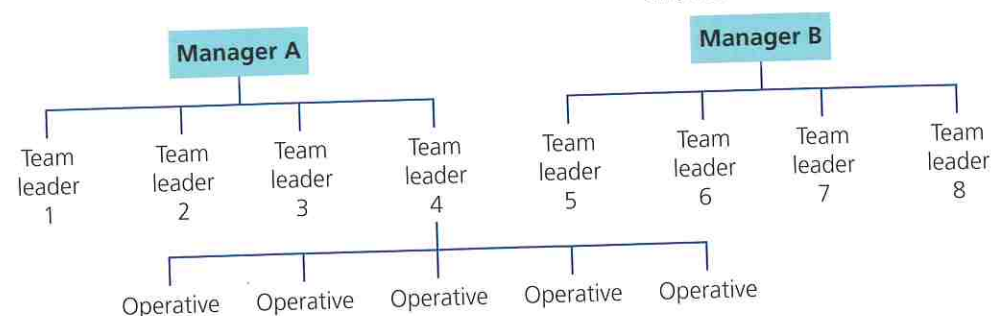


Figure 4.2 Different spans of control

A director, manager or team leader should not have a span of control that is too wide. If this happens, he or she will find it difficult to manage the employees properly as there will be insufficient time to spare for each employee. Experts recommend that the maximum span of control for a manager should be no more than six, though this is commonly exceeded in many businesses.

Levels of hierarchy are the layers of authority in a business. The business in Figure 4.1 has five levels of hierarchy. This means that the employees at the bottom of the organisational structure have four layers of authority above them.

Chains of command

A **chain of command** is the line of authority within a business along which communication passes. Thus, directors might decide on a target for the business and issue instructions to managers about achieving this target. In turn, instructions will be passed down to team leaders and eventually to shop-floor workers on actions to take to meet this target. Similarly, each level of hierarchy within the organisation will report to the level above on the progress made in achieving the target. This shows how communication can flow up and down the chain of command.



Managers have different responsibilities to shop-floor employees. They are normally responsible for using employees and other resources to achieve the business's targets.

Key terms

The **span of control** is the number of employees managed directly by another employee.

Levels of hierarchy are the layers of authority within a business.



Managers can struggle if they have a wide span of control. Some experts do not recommend a span of control of more than six people.

Key term

The **chain of command** is the line of authority within a business along which communication passes.

Delaying

When a business **delays**, it removes of one or more levels of hierarchy from its organisational structure. This is most commonly done to reduce the organisation's costs. In 2016, Rolls-Royce plc, a manufacturer of engines for planes and ships, announced it was delaying its organisational structure as part of a plan to reduce its costs by £200 million a year. Many businesses have used delaying to reduce the number of managers they employ.

Delaying does have consequences beyond reducing costs:

- Junior employees might have to take on some of the duties previously carried out by employees who were their line managers.
- Some senior employees may have very wide spans of control when a level of hierarchy is removed.

Key term

Delaying is the removal of one or more levels of hierarchy from a business's organisational structure.

Business insight

Delaying at Boots UK

The chemist shops owned by Boots are in most towns and cities across the UK. They sell health and beauty products, as well as dispensing medicines. In 2016, the company announced plans to cut up to 350 jobs in the UK to reduce costs, especially in its larger stores. The job losses involve the removal of a layer of management in the stores – the jobs lost are those of assistant managers in the stores. These job losses

are part of a move to simplify the organisational structure within the chemist's stores.

This move follows a decision by the company to remove 700 office-based jobs just seven months earlier. Boots was recently bought by an American company which is seeking to improve its profits.

Explain one advantage and one disadvantage to Boots from its decision to delay its organisational structure in its larger stores.

[6 marks]

Delegation

Delegation is the passing down of authority to more junior employees. In very small businesses, the entrepreneur would probably take all necessary decisions. However, as a business grows, this becomes impossible. There are too many decisions to be made and some might be very specialist, for example, on creating software for the business's IT system. Delegation gives authority to junior employees to take decisions in a specific area. For example, a store manager in a supermarket might delegate authority to more junior employees to order supplies of vegetables or fish when necessary.

Key term

Delegation is the passing down of authority to more junior employees.

Using organisational structures

Not all businesses use the same organisational structure. Some businesses may opt to use 'tall' organisational structures, while others use 'flat' structures.



Some businesses such as John Lewis involve employees heavily in decision-making.

Tall and flat organisational structures

The senior managers in a business can choose the structure for their organisation (see Figure 4.3). The managers might decide to:

- use a wide span of control. This means that each director, manager or team leader/supervisor will have a large number of people reporting directly to them. If the organisation has a wide span of control, it is likely to have fewer levels of hierarchy, and the organisation's structure can be described as 'flat'.
- use a narrow span of control. In this case, the business gives each director, manager or team leader a small number of employees for whom they are responsible. It may be necessary, therefore, for such a business to have more layers of hierarchy. This type of organisational structure is called 'tall', for obvious reasons.

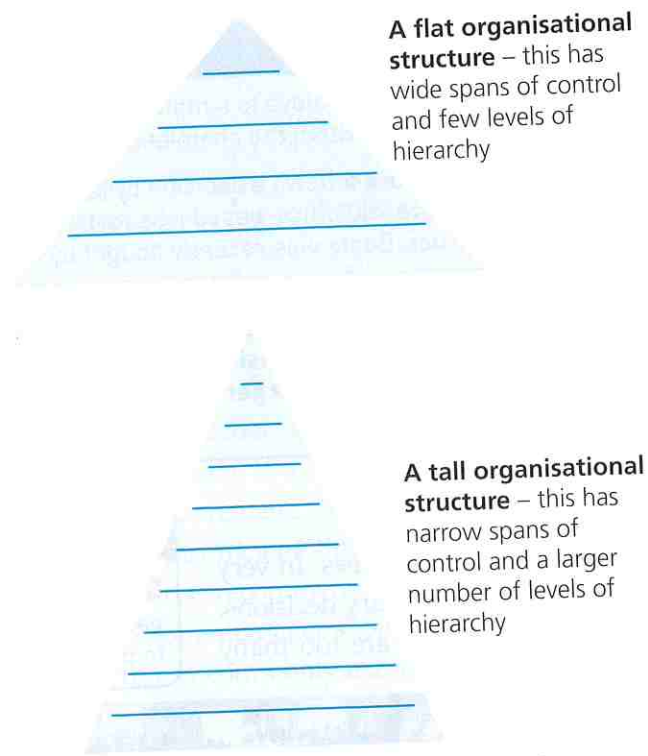


Figure 4.3 Flat and tall organisational structures

Management styles and organisational structures

The managers of a business can use different approaches to manage their employees. Some give little freedom to junior employees to take decisions at work and control them closely. This means that most important decisions are taken by senior employees.

On the other hand, some businesses take a completely different approach to managing staff. Employees are given greater freedom within their job roles to take decisions and to organise their work. Line managers, therefore, give up some control over their team.

Study tip

Try not to forget that a span of control refers to the number of employees who are directly managed by a more senior employee. This means that these employees are on the next level of hierarchy down and report to this particular manager.

Business insight

Martin's coffee shops

Martin Fisher's business has grown steadily. He started by running one coffee shop in London. This coffee shop had four employees – as do most of the business's shops. Martin has opened 11 more around the city, giving a total of 12 shops. When he only had three coffee shops, he managed them all himself. He took the major decisions and his employees followed

his instructions. However, the business is now so large that he has had to appoint branch managers for each of the coffee shops and a senior manager to be responsible for half of the branch managers. Martin is the line manager for the other branches. He has found that he is less involved in day-to-day issues in his coffee shops.

Analyse the effect of the growth of the business on Martin's span of control. (6 marks)

We have seen that organisations can have two different types of structures: flat and tall. The type of structure used has implications for the management style that is used in the business:

- **Delegation.** As we saw earlier, a flat structure means that managers and team leaders have to work with wide spans of control. This means that they have to be responsible for a relatively large number of junior employees. As a result of this heavy workload, those responsible for managing people have to give them more independence in their working lives. This means that junior employees are able to take more decisions on their own and are not controlled so closely by their line managers. Passing down authority to more junior employees in this way is called delegation.
- **Authority.** Using a tall organisational structure means that most line managers have narrow spans of control and are able to monitor the work of their juniors very closely. This means that juniors have little independence or authority at work. Senior managers have the authority to control decisions that are made in the business, and little freedom is given to junior employees on how to organise themselves at work.

A tall organisational structure is usually associated with a management style where little use is made of delegation and managers take most decisions. In contrast, a flat organisational structure encourages a management style which relies on delegation, giving more authority to junior employees.

Using the appropriate organisational structure

There are a number of factors which might influence a decision by managers on whether to use a tall or a flat organisational structure:

- **The skills of the workforce.** Skilled workers are more able to take decisions on their own and need less supervision from managers. Thus, if a workforce is highly skilled, managers may choose a wider span of control and a flat organisational structure. This approach may be used in a hospital where many employees are highly skilled.
- **The management style used in the business.** We saw earlier that organisational structures have implications for the management style that is used. Managers that like to retain control over employees will be more likely to use a tall organisational structure. This gives a smaller span

of control, making close supervision easier. Those managers who do not wish to control employees closely will delegate and use a flatter organisational structure.

- **The business's competitive environment.** A business in a competitive environment may wish to keep its costs to a minimum and to have the best possible performance from its workforce. This may lead to the use of a flat organisational structure. This type of structure requires fewer managers, helping to reduce wage costs. Flat structures can also motivate workforces as junior employees are given more authority and possibly more interesting jobs.



Many people who work in the UK's legal system (solicitors and barristers, for example) are highly skilled and require little management.

Organisational structure and communication

There are numerous ways in which individuals and groups within organisations **communicate** with one another. These include:

- meetings, such as a meeting of a company's board of directors to agree its long-term plans
- video-conferencing in which video links are used, for example, to allow a business's employees in different locations to talk to and see one another
- telephone conversations, for example, an employee might use this method to place an order with a supplier
- emails are increasingly used for many communication purposes, for instance advising customers of special offers that are available
- business intranets – a form of internal internet – to communicate within the organisation and with suppliers
- other forms of written communications, such as letters, which are still widely used.

There are three types of communication that take place within a business:

- downward communication from senior employees to more junior ones
- upward communication from junior employees to their line managers and other more senior employees
- horizontal communication, which takes place between employees at the same level in the organisation, for example, a discussion between managers.



Figure 4.4 Different types of communication

Key term

Communication is the exchange of information between two or more people.

Flat organisational structures can have the following effects on communication:

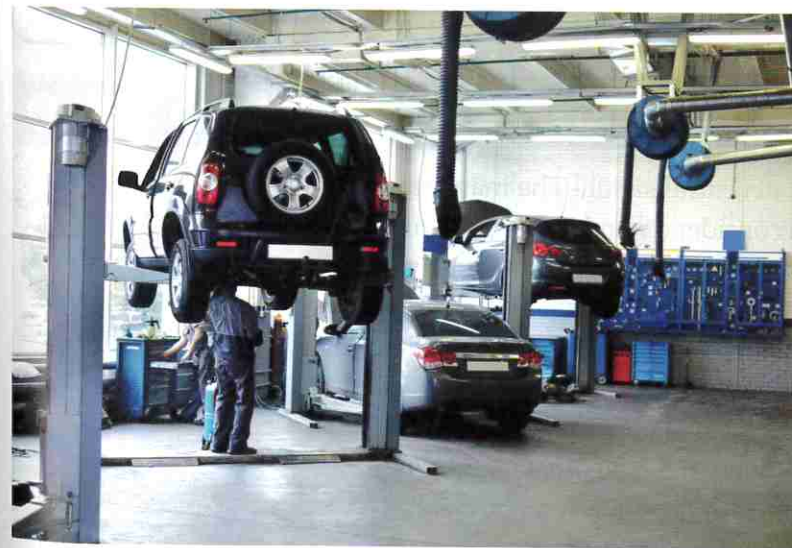
- Downward and upward communication may become easier as there are fewer levels of hierarchy for messages to pass through.
- However, wider spans of control may mean that line managers are responsible for large numbers of people. This may result in more emails and fewer meetings. The quality of communication may suffer as a result.
- Giving employees greater authority within a flat organisational structure can encourage upward communication as they are more likely to exchange information with line managers.
- Horizontal communication may become more difficult as there are more people on each of the levels of hierarchy.

Tall organisational structures may have the following effects on communications:

- Organisations with many levels of hierarchy often experience problems in passing information through these levels. Messages can become garbled or may not be passed on.
- Tall organisational structures operate with smaller spans of control. This can lead to good communication between line managers and subordinates as the manager is directly responsible for relatively few employees.

Centralisation and decentralisation

Many businesses in the UK have become larger over recent years. Larger businesses normally have more employees, more sales and possibly operate in more locations. These changes might make it difficult for a small number of senior managers to take all the decisions needed to keep the business running smoothly. Senior managers might decide to decentralise the organisation because the business is getting larger or for other reasons, such as improving the effectiveness of the workforce. **Decentralisation** is illustrated in Figure 4.5.



Small businesses like this are less likely to decentralise than larger ones.

Key term

Decentralisation allows employees working in all areas of the business to take decisions.



Figure 4.5 Decentralisation

Decentralisation means that employees working in branches, departments or factories across the business are given more authority to take decisions at work. For example, a manufacturer with a number of factories might allow the managers in each factory to take decisions about hiring new employees, which products to manufacture on a particular day and how to look after the needs of certain customers.

Decentralisation can lead to some major changes in a business. Some employees may have to move to work in another part of the business. For example, decentralisation might mean that managers who understand finance must work in each of the business's branches or divisions, rather than together at the business's head office. This can mean that those employees with financial skills move to a different part of the UK.

Advantages of decentralisation

- Decentralisation can reduce the pressure on the senior managers in a business. This can let them concentrate on the key issues, such as raising finance and negotiating with customers.
- It can motivate employees throughout the business if they are given the authority to take decisions. This may mean that the employees become better at their jobs and that the whole business performs better as a result.
- Decentralisation may also lead to better decisions. For example, a retailer with many shops in different parts of the UK may benefit from employees taking decisions that are correct for their area. So, if some products are selling well in a certain area, local employees would know to order more from suppliers.
- It can also allow faster decision-making. Employees do not have to consult with senior managers and can take decisions immediately. This might benefit a business by, for example, allowing it to buy supplies at a bargain price.

Challenges of decentralisation

Businesses need to plan for the introduction of decentralisation. The managers of a business thinking of decentralising should consider a number of important issues if the change is to be a success:

- All the business's employees must understand its aims or goals. This will help ensure that they take decisions in the best interests of the whole business and not just their branch, factory or shop.
- Training may be needed. If employees are asked to take on new duties such as negotiating with suppliers, they may not have the skills they need. The business may have to invest in the necessary training, which can be costly.
- Good communication is very important. Senior managers must be aware of key decisions taken in all parts of the business and must be able to send messages to all employees in the business.

Study tip

Try not to confuse decentralisation and delegation – many students do. Delegation means giving authority to junior employees. Decentralisation means senior managers passing authority out to branches, shops, offices or other divisions of the business.

Business insight

La Redoute

La Redoute is a French-owned company that sells fashion clothing online and through mail-order catalogues. It has 10 million customers and operates in 26 countries including the UK. The company has recently opened its first store in the UK in Liverpool. This may be followed by stores elsewhere.

Explain one reason why La Redoute may decide to decentralise if it opens a large number of stores.

(4 marks)



A La Redoute stockroom. This primarily web-based company may have to decentralise if it decides to open a large number of stores.

Businesses often decide not to decentralise. There are reasons why they may choose to remain **centralised** instead. For example, it may be that the business's employees do not have the right skills to make a decentralisation policy successful. Alternatively, the business may not be able to afford to pay for training. In addition, if the senior managers believe that they will not be overworked if the business remains centralised, they may choose to retain control over the important decisions in the business.

Key term

Centralisation occurs when a small number of senior managers in a business take all the important decisions.

Summary

Businesses have to organise their employees to make the most effective use of them. Key parts of a business's structure are spans of control and levels of hierarchy. A business with a wide span of control is likely to have a flat organisational structure. One with a narrow span of control will probably have more

levels of hierarchy and a tall structure. It is common for a growing business to decentralise, though not all choose to do so. Decentralisation can offer a business a number of advantages, but it also poses challenges for managers.

Quick questions

- 1 What is an 'organisational structure'? (2 marks)
- 2 A business has four levels of hierarchy: a CEO, 4 directors, 16 managers and 64 team leaders. Which of the following is the CEO's span of control?
(a) 84
(b) 20
(c) 4
(d) 5 (1 mark)
- 3 Explain the difference between a narrow and a wide span of control. (4 marks)
- 4 Explain the difference between a tall and a flat organisational structure. (4 marks)
- 5 A business has moved from a tall to a flat organisational structure. Which of the following statements will be **true**?
(a) Its typical span of control will be wider.
(b) Its typical span of control will be narrower.
(c) It will have more levels of hierarchy.
(d) It will have more employees. (1 mark)

- 6 Explain **one** reason why a business with a tall organisational structure might have a narrower span of control. (3 marks)
- 7 Explain why the use of delegation is more likely within a flat organisational structure. (3 marks)

- 8 Explain the difference between centralisation and decentralisation. (4 marks)
- 9 State **two** benefits of decentralisation. (2 marks)
- 10 State **two** challenges that might be faced by a business that is decentralising. (2 marks)

Case study

Apple's organisational structure

Apple sells a range of technology products (laptops, watches and mobile phones, for example) in markets throughout the world. It is famous for developing many successful new products.

Since Tim Cook became the leader or CEO of Apple in 2011, his span of control has increased significantly. When first appointed as CEO, Tim Cook had a span of control of nine. By 2016, this was 17, according to information on Apple's website. The CEOs of many other major companies have wide spans of control. Recent research suggests the average CEO's span of control has risen from about five in the 1980s to ten.

Apple is more decentralised nowadays, an approach favoured by Tim Cook. He has decentralised to make the best use of the company's skilled and creative employees. Apple's employee numbers have doubled from around 60,000 at the start of 2012 to approximately 120,000 in 2015.

In 2016, Apple announced profits of £14.15 billion over just three months' trading – the highest profit figure for three months ever achieved by a company!

- 1 State **two** ways in which Tim Cook might communicate with the people for whom he is directly responsible. (2 marks)
- 2 Explain **one** benefit that Apple might gain from operating a flat organisational structure. (4 marks)
- 3 Analyse why Tim Cook may have decided to make the company more decentralised. (6 marks)
- 4 Recommend whether Tim Cook should reduce his span of control. Give reasons for your advice. (9 marks)

Topic 4.2

Recruitment and selection of employees

Nearly all businesses have employees, and they can play a vital part in the success of a business. It is important that businesses operate an effective recruitment and selection process. This will enable them to recruit the best employees.

By the end of this topic, you should know:

- why businesses need to recruit employees
- the main methods of recruitment
- the main stages in the recruitment and selection process
- the benefits to a business from having an effective recruitment and selection process
- the different types of employment, such as full- and part-time employment, and the difference between them
- what a contract of employment is.

Why businesses need to recruit employees

Businesses need to recruit employees in a range of circumstances.

Starting a new business

A new business will need to recruit employees if its owners cannot carry out all the necessary tasks and duties themselves. An entrepreneur may not have the skills needed to carry out specialist roles. For example, the owner of a new café may need to recruit two types of employees:

- a chef to cook the customers' meals if the entrepreneur is not a skilled cook
- waiters or waitresses to serve customers because the owner has other duties such as buying food and drinks and completing paperwork.

Expanding a business

If a business is expanding, it may need to recruit employees for two main reasons:

- **Increasing production.** The business may be increasing production of its existing goods and services, possibly to sell them in new markets. The business will need more employees similar to those already employed. For example, in 2016, the supermarket Aldi announced it was opening 80 additional stores in the UK and would be recruiting 5,000 new employees.
- **Diversification.** Some businesses decide to produce different goods and services, sometimes selling them in new markets. This is called **diversification**. As a result, they need to recruit employees with the knowledge and skills required to produce these goods or services. Rolls-Royce plc, a manufacturer of engines for ships and aircraft, is to design cruise ships for a Norwegian business. The company may have to recruit marine designers to allow it to enter this market successfully.

Key term

Diversification occurs when a business starts selling new products in new markets.

Business insight

Equinox Fitness clubs

Equinox operates a chain of health and fitness clubs. It has 80 clubs in the USA, UK and Canada, and almost doubled in size during 2015, from 7,000 to 13,000 employees. It expected to expand rapidly in 2016.

The company is using the latest technology, based on its website, to help it to recruit new employees.

Explain why Equinox might have used technology on its website to help it to recruit employees. (4 marks)



When employees leave

Most businesses have employees who leave their jobs at some stage during a year. Employees may leave because:

- they have been offered another job; this could be a promotion or perhaps have a higher rate of pay
- they are retiring or stopping working for reasons such as caring for children.

The importance of recruiting the right people and keeping them

Recruiting the right people is important for all businesses. The 'right' people will have the necessary skills to do the job successfully and be willing to work hard. If the wrong people are recruited, a business may lose customers who are unhappy at receiving poor quality service or goods. The business may also have to spend time and money recruiting other people.

Once a business has recruited the right employees, it usually tries to keep them. High rates of **retention** mean that only a small proportion of a business's workforce leaves over a time period, normally one year. Low rates of retention help to reduce businesses' expenditure on recruiting and training new employees.

How businesses recruit and select employees

Recruitment and **selection** are normally the responsibility of a business's human resource (HR) department and its human resource managers. However, businesses may use specialist employment agencies to help to recruit and select their employees. This is common with small businesses and those that are seeking highly specialist employees.

There are two major ways to recruit employees: internally from inside the business, or externally from outside. A new business will have to recruit externally at first as it does not have any existing employees; established businesses can choose between the use of internal and external recruitment.

Internal recruitment

Firms often recruit internally by promoting their existing employees to a more senior role or by transferring employees to a different job at a similar level in the business. A business might recruit internally by putting notices up in the workplace inviting suitable employees to apply for the position. A senior employee might recommend someone for a post – this is known as a personal recommendation. In slightly larger businesses, posts may be advertised on the business's internal website or in the newsletter circulated to all employees. In very small businesses, the owner may simply tell employees that there is a job vacancy.

Internal recruitment offers a number of benefits to businesses:

- Candidates will have experience of the business and will be familiar with its methods of working.
- Candidates will know many of the people with whom they will be working.
- Internal recruitment provides employees with the chance of promotion, which may help to motivate them.
- Internal recruitment is cheaper as it avoids the need for expensive external advertising.

On the other hand, it is common for firms to have to pay for training when promoting or transferring employees, as they might not have the right skills for the new job. A business can only choose from a limited number of employees when recruiting internally, and the skills and experience of this group may not be exactly what the business is looking for.

Key terms

Retention is the proportion of a business's workforce who remain with the business over a period of time, usually one year.

Recruitment is the process of finding and appointing new employees.

Selection is choosing the right employees from among those who have applied for a job.

Internal recruitment takes place when a job vacancy is filled from within the existing workforce.

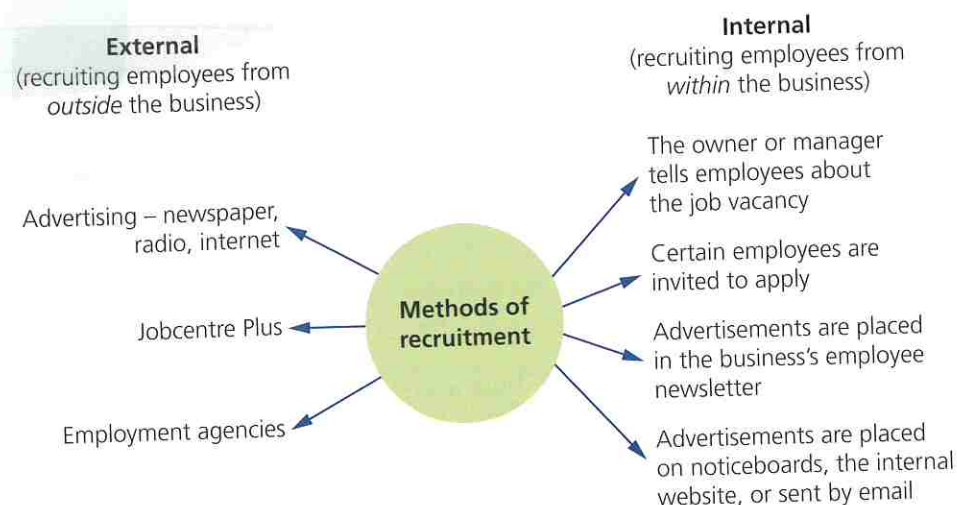


Figure 4.6 Methods of internal and external recruitment

External recruitment

External recruitment means that a business looks to hire employees who do not already work for the business. This type of recruitment is frequently used when a business is expanding or moving into new markets or supplying new products.

This type of recruitment is normally done by using one of the following methods:

- **Advertising.** This is a common technique. Businesses advertise externally in newspapers and magazines, or on the internet or radio, and invite interested people to apply by a certain date.
- **Jobcentre Plus.** These centres are located throughout the country. Their role is to bring together businesses looking for workers and suitably skilled people. They are run by the government's Department for Work and Pensions.
- **Employment agencies.** These are privately owned businesses that help businesses to recruit employees. Employment agencies provide employers with details of suitable applicants for posts they may have vacant and might help to choose the most suitable employee. They are paid fees for these services.

Key term

External recruitment is filling a job vacancy from any suitable person not already employed by the business.

Business insight

Weavers Academy job advertisement

This advertisement appeared in the *Times Educational Supplement*, a weekly newspaper sold throughout the UK. It is well known for carrying advertisements for teaching positions in the UK.

'Head of ICT and Business, Northamptonshire

The rapidly growing demand for places at Weavers Academy presents us with this opportunity to increase our staffing in a number of different subjects. We are seeking to appoint enthusiastic and inspirational lead

teachers which would equally suit experienced professionals or those early in their career.

The successful candidate will join a collaborative and committed staff team that have a vision to strive for success through focusing on learning. Outcomes for 2016 have significantly improved and we have a growing reputation in the local area as a caring school with high expectations of learning, behaviour and attendance. The academy is part of the growing multi-academy trust "CET" and is well supported by leaders in education across the country.

A job description and application form can be found on our website:

<http://www.weaversacademy.org.uk/contact-us/vacancies>

Please send your completed application form and covering letter to our HR Manager,

Mrs S Cirelli at Weavers Academy, Brickhill Road, Wellingborough, NN8 3JH.

Applications by email are welcomed and should be sent to:

HRManager@weaversacademy.org.uk.

Source: *Times Educational Supplement*: www.tes.com

Analyse the reasons why this school's managers may have decided on external recruitment to fill this job vacancy. (6 marks)

Recruiting employees externally offers a number of advantages to a business:

- Managers will have a wider choice of candidates and this can result in applications from higher-quality candidates, especially if the job is advertised nationally.
- Businesses sometimes recruit external candidates in the hope that they will bring fresh ideas and enthusiasm into the business.
- External recruitment provides new employees who have the right skills immediately. Training existing employees can take time.

Although external recruitment offers the benefits of a greater number of candidates, it is likely to be very expensive. The business will also know less about the person or people they appoint. This means there is a greater chance of making a mistake.

The recruitment and selection process

Most businesses have job vacancies at some point – that is, they need to recruit some employees. We saw earlier that it is important for businesses to appoint the right people. To do this, businesses have to have effective processes to:

- recruit the best possible applicants
- select the right person or people from those who have applied.

The stages in the recruitment process are shown in Figure 4.7.

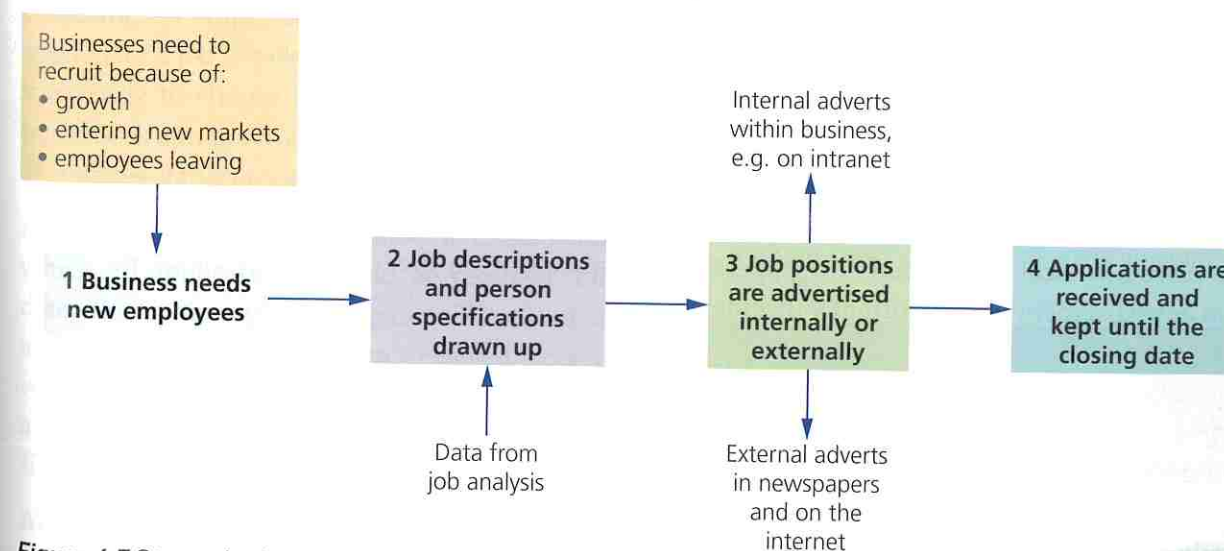


Figure 4.7 Stages in the recruitment process

Documents used in the recruitment process

Before any recruitment documents can be prepared, it is necessary for a business to conduct **job analysis**. Job analysis is the collection and interpretation of information about a job. The analysis of a job helps managers to make effective recruitment and selection decisions.

To identify the best person for the job, managers must understand what the job involves. Job analysis provides this understanding by examining the tasks performed within a job and the skills that are needed to carry it out efficiently. This information is essential if the 'right' person or people are to be appointed.

Once job analysis has been completed, it is possible for managers to draw up the documents used in the recruitment process.

Job description

A **job description** is a document stating information about the duties and tasks that make up a particular job. It usually includes:

- the title of the job
- the hours and place of work
- the main tasks that make up the job
- the employees for whom the person will be responsible.

Person specification

A **person specification** is a document setting out the qualifications and skills required by an employee to fill a post that is advertised. A person specification might include:

- educational qualifications
- vocational or professional qualifications
- ability to work as part of a team
- experience of similar jobs.

A person specification may list some qualities and qualifications as essential and others as desirable. Managers make a lot of use of person specifications in the process of recruiting and selecting new employees. Person specifications can be used to judge applications. If an applicant's qualities and qualifications match the person specification closely, he or she may be a good person to recruit.

Job advertisement

These can be placed in local or national newspapers, in magazines or on the internet. A job advertisement would normally include:

- the title of the job
- some information about the business
- the location of the job
- working hours expected and holidays offered
- pay rates
- how to apply and the closing date for applications.

Key term

Job analysis is the collection and interpretation of information about a job.

Key terms

A **job description** states information about the duties and tasks that make up a particular job.

A **person specification** sets out the qualifications and skills required by an employee to fill a particular job.

Businesses often use employment agencies to draw up their job descriptions and person specifications and to place their job advertisements.

The way in which the job is advertised will depend on the type of job that is available. For junior positions in a business, an internal advertisement on the company's noticeboards or in its newsletters or magazines may be used. Alternatively, the job might be advertised in local newspapers. For more senior positions, such as a company accountant or a production manager, a business might advertise more widely. It may choose to do this because it needs a large pool of potential candidates to attract high-quality applicants. This may lead the company to advertise in national newspapers or specialist national magazines.

Application form and curriculum vitae (CV)

To apply for a job, it is necessary for applicants to give some information about themselves. This will include personal information such as their address, employment history and qualifications. This information is essential so that a business can match the candidate's qualities and qualifications with those set out in the person specification. In this way, the business's managers can choose which of the candidates are suitable.

Sometimes applicants for a job do not fill in an application form, but provide a **curriculum vitae (CV)**. This is a document that sets out information about a person's qualifications, employment history and interests.

Selection

Choosing an employee from those people who have applied for a job is called selection. We saw earlier that it is costly to choose the wrong person. As a result, businesses aim to have thorough selection procedures. The stages of this process are summarised in Figure 4.9.

All job advertisements include a closing date by which all applications should be received. On that date, the company's managers will look at all the applications that have been received and decide which ones they are interested in. They will compile a shortlist of applicants from which to select the successful candidate or candidates.

An employer can use a number of techniques to select the best candidates from the shortlist.



Many businesses advertise vacant jobs at the local Jobcentre Plus branch. These are located throughout the UK.

Key term

A **curriculum vitae (CV)** provides information about a person, including qualifications, employment history and interests.

McCURDY ENGINEERING LIMITED Diesel Mechanic

Our busy Heavy Transport Service Department requires a qualified Diesel Technician to join our team. Experience in the Heavy Automotive Industry is essential.

Full off- and on-site regular and modern training is offered with our franchise groups including Paccar trucks, Kenworth and DAF and also Volvo Truck, Bus & Construction equipment, Cummins and Detroit engines. Other up-skilling opportunities are available if desired also. Tasks involve a good variety of mechanical repairs and truck body repairs and some servicing, etc.

Overtime available if desired. Very good remuneration available for the right person.

We are a great team to be working with: we pride ourselves on the service that we provide to the Heavy Transport Industry. We have a genuine interest in our customers and our staff; we can offer an exceptional working environment with modern equipment and facilities.

Please apply without delay in the strictest confidence by phone or post to:

Jim McCurdy, PO Box 1212, Plymouth
Phone 02 768 6609 or Jim's mobile 0785 449 236

Figure 4.8 A job advert. If you were thinking about applying for this job, what extra information would you require?

Interviews

Interviews remain the most common form of selection. Candidates may be interviewed by panels of up to ten people, but one or two people conducting an interview is more common. It is quite cheap for a business to stage a series of interviews, but they are not always a reliable way of selecting the best people for a job. Some people are very good at interviews, but that does not always mean that they will be good at the job.

Psychometric tests

These are multiple-choice tests designed to show the personality of the candidates who have applied for a job. The results of these tests can help the managers of a business to judge which of the applicants has the most suitable personality for the job. These tests can also show which candidate is most likely to fit in with the team of people with whom he or she will be working.

Assessment centres

Over recent years, businesses have made increasing use of assessment centres to avoid appointing the wrong people. Assessment centres are more likely to be used in making senior appointments. In an assessment centre, a candidate is likely to be involved in a variety of activities:

- role plays simulating the job itself
- psychometric tests
- a number of interviews
- practical tasks for candidates to complete.

Candidates can find the tasks they carry out in assessment centres demanding and stressful. This can help a business to select people who perform well under pressure. Thus, although they are expensive to operate, assessment centres can help businesses to choose the best person or people for a particular job.

The benefits of an effective recruitment and selection process

An effective recruitment and selection process is one that appoints the best and most suitable employees. This gives the business the most skilled and experienced employees and reduces the chances of them leaving within a short space of time. Although operating an effective process for recruiting and selecting employees can be costly, it offers businesses significant benefits. These may become more apparent in the longer term and should result in increased profits for the business.

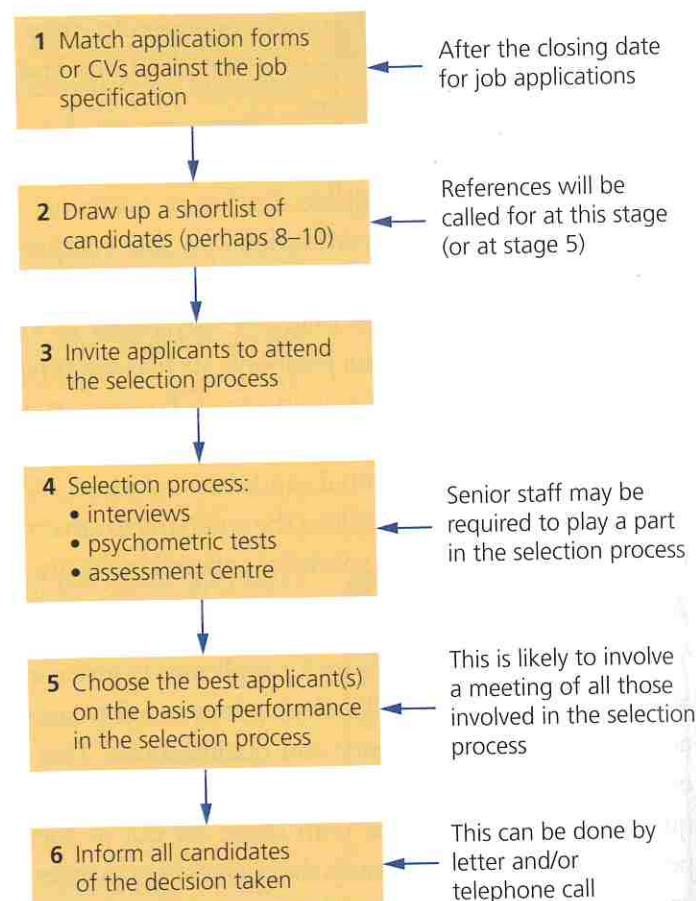


Figure 4.9 The selection process

High levels of productivity

Appointing the best employees can help a business to achieve high levels of **productivity**. This means that employees produce relatively large quantities of goods or services over a period of time, such as one year. If an employee is productive, this means that the labour cost of producing a single unit of output is likely to be lower. This can help a business to be more competitive, as it helps it to sell products at lower prices. This can increase sales. Alternatively, the business may sell at higher prices and enjoy increased profits as its costs of production are low.

Maths moment

Business	Average number of items produced by an employee each year	Average annual pay per employee (£)
A	240	20,160
B	200	19,000

Table 4.2 Average annual production per employee and average annual pay per employee for two businesses

Use the information in Table 4.2 to calculate which business (A or B) has lower labour costs for each unit of output produced.

High-quality products or customer service

Appointing the very best people will help a business to supply good **quality** products. This means that the products will meet the needs of customers as fully as possible. Employing people with appropriate knowledge and skills means they are able to supply goods or services with which customers are satisfied.

- **Quality.** A car manufacturer, such as Nissan, will seek to employ the most skilled engineers to enable it to supply fuel-efficient and environmentally friendly cars to satisfy its customers.
- **Customer service.** A restaurant which employs a knowledgeable and skilled chef will be able to deal with very busy periods when large numbers of customers are expecting meals. The same person will be able to cook a meal for someone with special dietary needs.

Improved levels of quality and **customer service** can be very important for some types of businesses, such as those who pursue objectives other than profits. For example, a charity providing day trips for the elderly may particularly value improvements in its customer service.

Key term

Productivity is the quantity of goods or services produced by an employee over a period of time, such as one year.

Key terms

Quality is the extent to which customers' requirements are met.

Customer service is that part of a business's activities that is concerned with meeting customers' needs as fully as possible.

Business insight

Nissan leads the way

The Japanese car manufacturer, Nissan, produces one in three cars that are made in the UK. It faces tough competition from other car manufacturers such as Volkswagen and Ford. The company's managers say that it is important for it to keep production costs to a minimum.

The company's factory in Sunderland is the largest car factory in the UK. It has the highest rates of productivity of any car factory in Europe or North America. It manufactured 476,589 cars in 2015, building them at a rate of one car every minute, 24 hours a day. The factory employs more than 6,800 people, and a lot of technology is used on the production lines.



Nissan employs some highly skilled workers in its factory in Sunderland.

Analyse why it is important for Nissan to operate an effective recruitment and selection process at its factory in Sunderland. [6 marks]

Employee retention

Employee retention measures the proportion of employees with a given length of service (typically one year or more) expressed as a percentage of overall workforce numbers. This is often measured by calculating the number of people who have worked for the business for a certain period of time (perhaps one year or more) as a percentage of the total workforce. For example, if a business has 1,500 employees and 1,350 have worked for the business for a year or longer, its employee retention rate will be:

$$1,350 \times 100 \div 1,500 = 90\%$$

An effective system of recruitment and selection should increase a business's level of employee retention because it is more likely to result in the best and most suitable person being appointed. As a result, the employee is more likely to be satisfied with the job as they feel they are a success in this role. Equally, the business's managers will be content that the person works well with other employees and has good levels of productivity. Thus, they will want to retain the employee.

Having poor rates of retention because large numbers of employees are leaving can pose problems for a business:

- **Higher costs.** Research shows that the cost of replacing an employee who leaves is up to £30,000. Recruiting and selecting employees is costly (for example, advertising posts and paying other staff to recruit and select employees) as well as training costs for the new employee.

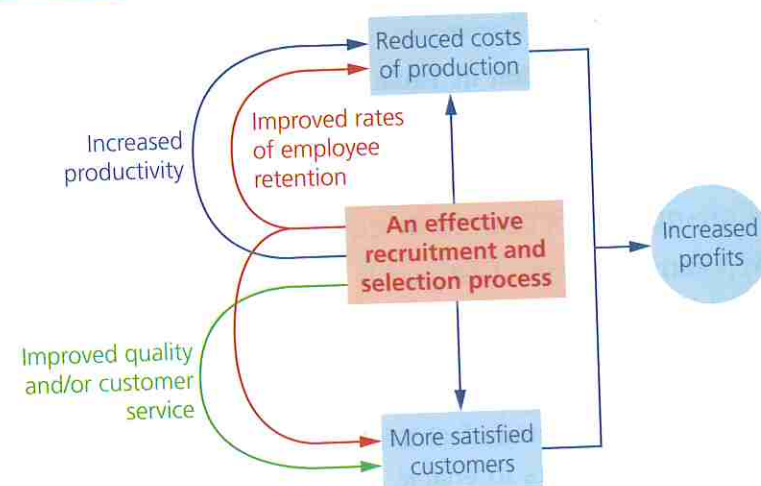


Figure 4.10 A summary of the benefits of an effective recruitment and selection process

- **Reductions in quality and customer service.** Even experienced and skilled employees can take time to settle into a new job. In the meantime, the quality of their work may be relatively low. Customers may be unhappy if they are expected to deal with a new employee. For example, some customers may have valued a particular hairdresser highly and be less happy with a replacement.
- **Reduced rates of productivity.** A new employee will probably be less productive until they are familiar with the business and have possibly received training. Research shows it takes a new employee up to six months to reach their maximum level of productivity. In the meantime, the business's costs are higher.

Contracts of employment

Employees have to be given a **contract of employment** within two months of starting work. A contract of employment is a legal agreement between an employer and an employee, setting out the employee's conditions of employment. It is common for a contract of employment to include:

- normal working hours
- rates of pay
- holidays
- duties at work
- place of work.

Businesses can recruit employees on different types of contracts to meet their need for workers. There are a number of different types of contracts of employment in use in the UK at the moment.

Full- and part-time employment

A business may employ a mixture of **full-time** and **part-time** employees. Full-time employees work for the standard number of hours in the working week. This can vary from business to business. However, in 2015, the average number of hours worked by a full-time employee in the UK was 39.1 hours.

Many businesses also employ part-time employees who work fewer than the standard number of hours. It is common for part-time employees to work two or three days a week, or just afternoons or mornings. Some part-time jobs are allowed to help parents to look after school-age children. Thus, this group of part-time employees may start later and finish earlier than full-time employees each day. In 2016, there were 8.43 million part-time employees in the UK – this is approximately 25 per cent of those at work.



Many parents work part-time to allow them to look after their children outside school hours.

Key terms

A **contract of employment** is a legal document stating the hours of work, rates of pay, duties and other conditions under which a person is employed.

Full-time employment occurs when someone works a number of hours equal to the normal working week, normally between 35 and 40 hours.

Part-time employment takes place when an employee works for fewer than the normal number of working hours per week.

The benefits of full- and part-time employment

Table 4.3 summarises the benefits to employers and employees of full- and part-time working.

	Benefits to employers	Benefits to employees
Full-time	<ul style="list-style-type: none"> Employers may benefit from having employees at work throughout a normal working week. This can result in better communication as employees are more likely to be able to speak directly to one another. Full-time employees may be more skilled and experienced as a result of being at work for more hours each week. This can improve their performance at work. 	<ul style="list-style-type: none"> Full-time employment means workers are paid for more hours each week. This can improve living standards and reduce the need to find a second job. Employees are more likely to be able to gain promotion as a full-time employee. Full-time working can allow them to attend more training courses and to gain more experience.
Part-time	<ul style="list-style-type: none"> Part-time employees can help businesses to cope with busy periods during the week. For example, some shops may attract large numbers of customers at the weekend. Having part-time employees at work can help to provide good customer service. Some businesses need employees with specialist skills, but do not need them throughout the working week. For example, a small business might need an accountant to organise the payment of employees and to update financial records. This might only require one or two days' work each week. 	<ul style="list-style-type: none"> Employees can fit in work with other commitments, such as caring for older relatives or for children. Many employees only work during school hours or for half days. This allows them sufficient and suitable hours to care for their relatives. Some older employees may not want a full-time job, but do not want to retire. Part-time work can be a 'half-way' solution on the road to full retirement.

Table 4.3 The benefits of full- and part-time working to employers and employees

Job sharing and zero hours contracts

Job sharing occurs when two or more people combine to fill a single job role. For example, some teaching posts are filled by two people. One might work Monday to Wednesday each week, with a second person at work on Thursdays and Fridays. For employees who job share, it can offer many of the benefits of part-time work set out in Table 4.3. Employers can benefit in terms of having a broader range of skills. However, there are disadvantages in that the people sharing the job may not communicate well.

Zero hours contracts are used widely in the UK economy. A person with a zero hours contract is not guaranteed a set number of hours of work each week. They may get no hours, or be offered a large number. Employees on these contracts do not have to accept any hours of work they are offered. However, they may feel that turning down work might mean that they are not offered any hours in the future. In 2016, just over 900,000 people in the UK had a zero hours contract – this is about 3 per cent of the country's total workforce.

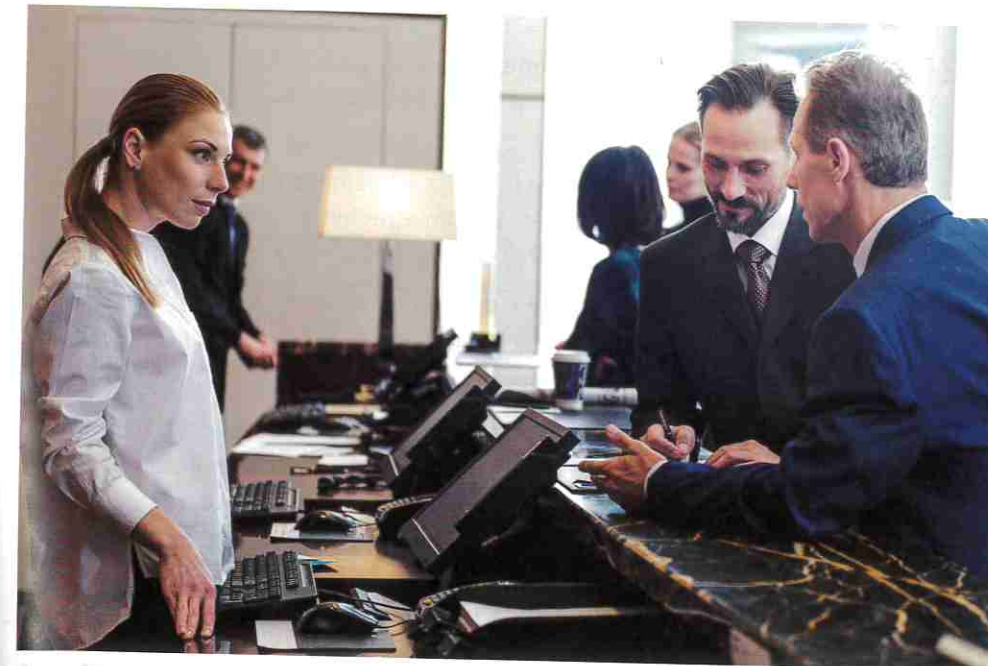
Study tip

You only need to know the benefits of full- and part-time working and not the drawbacks as well.

Key terms

A **job share** exists when two or more employees agree to share the responsibilities of a single job.

A **zero hours contract** allows employers to hire staff without any guaranteed hours of work.



Over 25 per cent of people employed in the hotel and food industries were on zero hours contracts in 2016.

Summary

Businesses can recruit employees from inside the business (internal recruitment) or from elsewhere (external recruitment). Both approaches have advantages and disadvantages. To recruit an employee, a business needs to conduct a job analysis,

draw up relevant documents, advertise the position and select the best person or people. Businesses benefit in a number of ways from having an effective recruitment and selection process. They can use a range of different contracts of employment.

Quick questions

- What is meant by the term 'recruitment'? (2 marks)
- State **two** circumstances in which a business might need to recruit new employees. (2 marks)
- Which of the following is a benefit of the use of internal methods of recruitment? (1 mark)
 - It allows the business to recruit from a wider pool of applicants.
 - It offers the business new ideas.
 - The business is likely to have an employee with the right skills immediately.
 - It offers employees opportunities for promotion.
- State **two** pieces of information that a business is likely to include in a job advert. (2 marks)
- The use of which of the following is a method of selection? (1 mark)
 - Job analysis
 - Assessment centres
 - Person specifications
 - Job descriptions
- Which document used in the recruitment and selection process lists the

qualifications and skills required by an applicant for a job?

- (a) Job description
- (b) Curriculum vitae (CV)
- (c) Person specification
- (d) Application form

(1 mark)

- 7 State **one** advantage and **one** disadvantage of using interviews as a method of selection.

(2 marks)

- 8 Explain **one** reason why a business might use psychometric tests as a method of selection. (3 marks)

- 9 State **two** benefits a business may receive from operating an effective recruitment and selection process. (2 marks)

- 10 What is the difference between a job share and a zero hours contract? (4 marks)

Case study

Swaledale Hotel Group Ltd

The Swaledale Hotel Group Ltd (SHG Ltd) operates 20 luxury hotels in locations across the UK. It expects very high standards of its employees and trains them carefully to provide hotel guests with outstanding customer service. As a result, it has developed an excellent reputation.

SHG Ltd has grown steadily since 1996, opening approximately one new hotel a year. The company's sales and profits have fallen slowly over the last three years. It has seen a large number of its employees leave over this period.

The company is about to open four new hotels in northern England and is seeking to appoint managers and assistant managers for each of these hotels. SHG Ltd's HR managers expect that these posts will

prove popular and should attract a large number of applicants, whether advertised internally or externally. One HR manager is concerned that they might have difficulty choosing the best applicants.

- 1 State **two** methods of selection that SHG Ltd might use over the coming months. (2 marks)

- 2 Explain why the HR managers at SHG Ltd should use person specifications as part of their recruitment and selection process. (4 marks)

- 3 Analyse why it is important for SHG Ltd to have an effective process for recruitment and selection. (6 marks)

- 4 Recommend whether SHG Ltd should use internal or external recruitment to appoint its new managers and assistant managers. (9 marks)

Topic 4.3

Motivating employees

Most managers seek to motivate their employees, although there is disagreement on the best way to do this. Managers do agree, however, that motivation is important because a motivated workforce can help to make a business very competitive.

By the end of this topic, you should know:

- what is meant by the term 'motivation'
- the benefits to businesses of having motivated staff
- the methods of motivation used by businesses.

The importance of motivation

What is motivation?

Motivation is the range of factors that influence people to behave in certain ways. It can be described as the will to do something. In business, motivation is the force that drives an employee to work very hard and to carry out his or her job as effectively as possible. There are different views on where motivation comes from. However, most writers agree that different people will be motivated by different things:

→ **Motivation using money.** Some people believe that motivation is achieved through the use of money. They argue that offering employees higher pay or bonuses for reaching targets will result in increased levels of motivation.

→ **Motivation through non-financial factors.** However, others view motivation as the result of a non-financial factor. Thus they believe that factors such as praise or the opportunity to carry out a more interesting job are more likely to motivate employees.

Why do people work?

Everyone who works is motivated to do so by one or more factors. However, people are all different and this means that they are motivated by different factors. Abraham Maslow, a psychologist, tried to explain this through a theory that has become known as 'Maslow's hierarchy of needs'. Maslow identified five human needs, and he said that if people could meet these needs by working, then this would motivate them at work. Maslow's hierarchy of needs is set out below and illustrated in Figure 4.11:

Key term

Motivation is the range of factors that influence people to behave in certain ways.

Study tip

These two views on the different causes of motivation explain the different techniques or methods used by businesses to motivate staff. Try to remember this when explaining why businesses use different techniques or when thinking about what might be the best method in a given situation.

- **Physiological needs.** These are the most basic needs that a person has and relate to the needs of the human body. Physiological needs include keeping warm, having shelter and enough food to eat – failure to meet these needs leads, ultimately, to death. Physiological needs are mainly met by receiving pay, which allows people to buy food and a home. However, they can also be met at work by having a warm office or a lunch break so that employees can eat.
- **Safety needs.** People need to be safe and secure in their lives and not at risk of a threat to the quality of their lives. There are two ways in which this need can be met at work. Employees want security in their jobs and to know that they will not lose their jobs and their incomes. They also need to be safe from accidents and injury at work. This second need is more important in dangerous working environments, such as farms.
- **Love and belonging needs.** Workers want to be part of a group and accepted as part of that group. They want to be trusted by the people they work with and to enjoy their company and friendship. This need can be satisfied at work by arranging social events such as parties and outings and, more frequently, by organising people to work in teams.
- **Ego or self-esteem needs.** It is normal for people to want to feel good about themselves and to know that the people they work with respect them for their ability to do the job. Employees may know that they are good at their job if, for example, they achieve high levels of sales or their customers are complimentary. However, this need can also be met at work by praise and by recognising an employee's achievements, by paying a bonus, for example.
- **Self-actualisation.** This is Maslow's top-level need. It is the need to be given the opportunity to stretch yourself and to work to your full potential. This might be met by an employee being given a demanding task to complete or by being given the power to organise his or her working day. In both cases, there are more demands being placed on employees, which will help to stretch them.

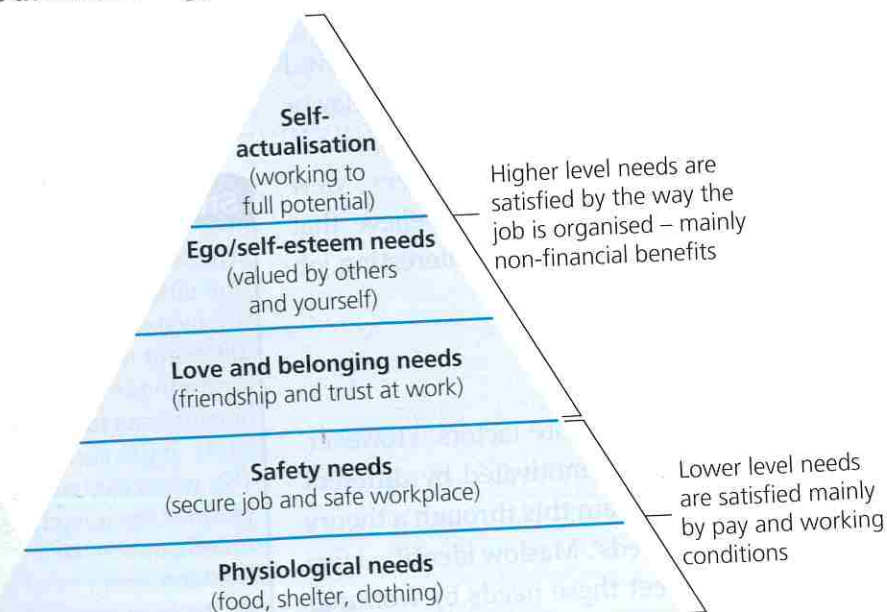


Figure 4.11 Maslow's hierarchy of needs

Maslow argued that people would steadily move up through these five levels of need. Once one level was satisfied they would try to satisfy the next level. The central point of his theory is that if employees are given the opportunity to satisfy the next level of needs at work, they will be motivated by this. Their level of effort and commitment to the job is likely to increase.

The benefits of a motivated workforce

Most managers would say that to have employees who are motivated is a very important factor in making the business successful. There are a number of reasons why this is the case.

Increased productivity levels

As we saw in Topic 4.2, productivity measures the quantity of goods or services produced by an employee over a period of time, such as one year. Motivated employees normally work hard and try to do their jobs as efficiently as possible. The manager of a business might find that motivated employees always arrive at work on time, use their time at work as effectively as possible and do not, for example, stand around chatting. This means that the business will produce a large quantity of goods or services with relatively few employees. In other words, its employees will have high productivity levels.

High levels of productivity can offer considerable benefits to businesses. It allows them to produce goods and services relatively cheaply because the labour cost involved in producing each product is lower. Hence, the goods or services can be sold at lower prices making the business more competitive. This is very important in industries where low prices are important to customers. For example, the airline Ryanair benefits from a productive workforce and low labour costs. The company's labour costs were less than 10 per cent of the income it received from selling flights in 2013. This is lower than many other airlines and enabled Ryanair to sell flights very cheaply.

Improved employee retention rates

Employees who are motivated are more likely to be loyal to a business and to remain with it even if there are tempting jobs available with other businesses. A business has a high retention rate if a large proportion of its workforce remains with the business over a period of time, usually measured over one year.



Employees can be motivated by working with others and by having their safety needs met.

Study tip

While you may not need to know about the specific theories of motivation by name, such as the one written by Abraham Maslow, you may find this theory (and others) helpful in explaining why employees can be expected to behave in certain ways.



Most businesses can enjoy higher levels of productivity if employees are motivated. Ryanair's employees are very productive, which helps the airline to set very low prices for its flights.

Having a high retention rate offers two major advantages to a business:

- It avoids the cost of recruiting and selecting new employees. Research shows that the cost of replacing an employee who leaves is up to £30,000.
- It removes the need to train new employees, which can be costly. Even if new employees do have the right work-related skills, they take time to get to know a new job and to work as a team with their colleagues.

Higher levels of sales

A business with a motivated workforce can be expected to achieve higher levels of sales than would be possible otherwise. Motivated employees will work hard and seek to meet the needs of customers as fully as possible. Customers treated in this way are more likely to buy goods and services.

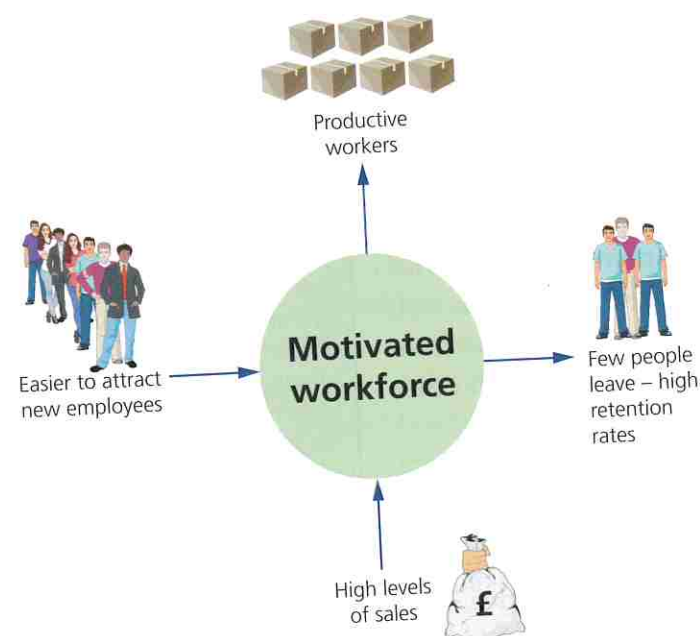


Figure 4.12 The benefits of a motivated workforce

Levels of employee motivation can be an important factor affecting sales in service industries such as retailing. In 2016, research revealed that motivated employees working in shops produce an average 2.5 times more revenue from sales than those who are less motivated.

Improved recruitment and selection

Having a motivated workforce helps to give businesses a good reputation as an employer. This can be a significant benefit when recruiting new employees as the business is viewed as a good place to work. This makes it easier for the business to recruit the best workers, helping to improve its sales and profits.



Replacing an employee can cost a business up to £30,000. Well-motivated employees are less likely to leave.

Business insight

Jaguar Land Rover is Britain's best employer

Table 4.4 shows the top five employers in Britain in 2016, following a survey of 15,000 employees and over 400 businesses.

Jaguar Land Rover (JLR) enjoyed further success in 2016 as its sales figures were very impressive. Its annual sales of vehicles rose 13 per cent to 521,571. This was principally due to rising demand, such as the Jaguar XE. Its revenue for the financial year was £22.2 billion, £342 million higher than in the previous year. JLR has created over 20,000 new jobs in five years and invests heavily in training its employees.

Analyse the possible benefits to Jaguar Land Rover from being voted as Britain's best employer.

Rank	Company	Type of business	Score (Maximum = 10)
1	Jaguar Land Rover (JLR)	Vehicle manufacturing	8.56
2	AstraZeneca	Drugs and biotechnology	8.51
3	Harrods	Retailer	8.49
4	Adidas	Clothing manufacturer and retailer	8.47
5	Dyson	Engineering and manufacturing	8.46

Source: Bloomberg: <http://bbe.trunkny.net/>

[6 marks]

Table 4.4 Britain's top five best employers, 2016

Methods of motivation used by businesses

The methods of motivation that are commonly used by businesses can be divided into two groups: those that use money and those that use other methods.

Non-financial methods of motivation

Increasing authority through job enrichment

Some employees may lack motivation because they are bored. They find their job simple to do and so lose interest in it. **Job enrichment** can help to correct this by making the jobs more demanding and challenging. It can give employees more diverse duties as well as more authority to take decisions at work. For example, a receptionist for a small business might be motivated by receiving extra tasks such as planning a marketing campaign. This would be done alongside normal duties. Job enrichment often involves delegating authority to junior employees. (Topic 4.1 discusses delegation and authority in more detail.)

Training

However, an employee may not be able to take on more demanding duties (via job enrichment) without being trained. The receptionist referred to above may need some training in the basics of marketing before he or she can design a campaign successfully. The training itself is likely to motivate because it shows that the business owner values the employee and this should increase self-esteem. Training can help to motivate in other ways, for example, by making the workplace safer following health and safety training. Training is covered in greater detail in Topic 4.4.

Key term

Job enrichment is designing a job to give interesting and challenging tasks.

Management styles

Managers use different styles within the workplace. Although there are many different management styles in use, it is possible to separate these into two broad categories:

- **Managers who retain authority.** Some managers use a style that is based upon their use of authority to make most, if not all, decisions. Some of this group of managers may 'sell' their decision to junior employees. However, the common factor is that this group of managers take decisions, no matter how they present it.
- **Managers who allow junior employees freedom to make decisions.** This group of managers give much more freedom to more junior employees to make, or at least contribute to, decisions. Some will allow juniors a great degree of freedom to make their own decisions, within some limits. Others grant less freedom, but still allow junior employees to offer suggestions and ideas.

Many employees will be more motivated from working with managers who use the second style. This style provides opportunities to fulfil many of the needs of employees that were identified by Maslow. For example, giving employees freedom to make decisions can offer the opportunity for junior employees to meet their needs for self-esteem as well as self-actualisation.

Business insight

Virgin Group's 'horrible day'

Sir Richard Branson is a well-known supporter of a relaxed working environment. The Virgin Group recently held a 'corporate day', to highlight the ways in which the company motivates its employees.

Virgin Group's workforce was asked to:

- wear traditional office dress, not casual clothes
- abandon flexible working hours and arrive at 9 a.m.
- use the titles Mr and Mrs or Ms for colleagues in their and other teams
- not look at social media or make personal phone calls.

In an interview with the BBC, Branson explained why the company had held the day. He said that the purpose of the exercise was to give his employees 'a taste of what a lot of the world is still run like. It was a horrible experience for everybody.' It was a shock for a workforce that normally benefits from job enrichment and unlimited leave.

Explain one way in which the Virgin Group motivates its employees. (4 marks)



Key term

Fringe benefits are the 'extras' that employees may receive in addition to their pay, for example, a company car.

Fringe benefits

Businesses may offer employees a range of additional benefits to supplement their pay. Examples of **fringe benefits** include:

- health insurance
- a company car
- discounts when buying the company's products.

The use of fringe benefits can help to make employees more loyal and improve retention rates. However, if offered to large numbers of employees, they can become very expensive.

Financial methods of motivation

It is very common for businesses to use money as a method of motivation. The belief that money has the power to motivate employees is based on the theories of a number of writers who believe motivation is caused by external factors. Frederick Taylor is probably the best known of these writers. He argued that:

- employees were only motivated by money
- pay systems should be linked to the amount produced
- managers should retain authority and employees should be supervised closely.

The work of Taylor and others has meant that businesses use a number of methods of payment to reward their employees. Many of these methods have been designed to motivate employees.

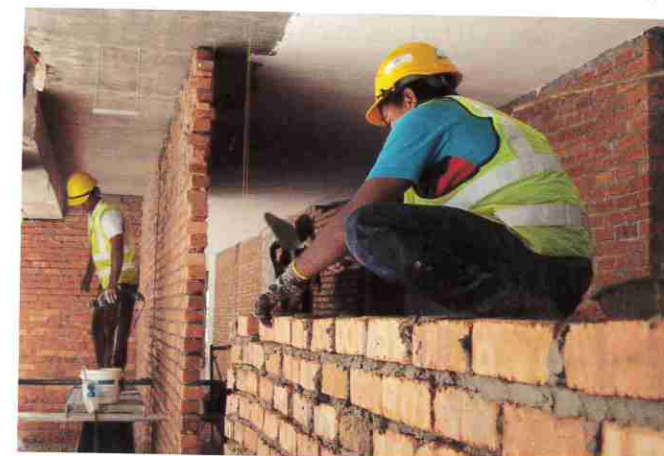
- **Salaries.** A salary is the income received by an employee, stated as an annual figure. For example, an accountant's annual salary might be £47,500. Employees receiving salaries are not normally required to work a set number of hours per week. Employees paid in this way may be motivated by an increase in salary, perhaps alongside some fringe benefits.

- **Wages.** Wages are usually paid each week and employees normally work an agreed number of hours. A higher hourly rate (called overtime) is paid for any additional hours worked. An increase in the hourly rate may be used to motivate employees.

- **Piecework.** Under the **piecework** system, which is also called piece-rate, employees are paid according to the amount they produce. They are paid an agreed figure for each unit of output they produce, subject to them receiving the **National Living Wage** as a minimum rate of hourly payment.

- **Commission.** This is a payment made to an employee based on the level of sales he or she has made over a time period. It is normally paid in addition to a wage or salary. In effect, it is a form of piecework paid to people employed to sell goods and services.

- **Profit sharing.** Under this method of payment, employees receive a share of the business's profits alongside their normal wages or salaries. This can motivate as employees benefit directly from an increase in the business's profits. Many well-known companies such as John Lewis and Zara operate profit-sharing schemes.



Piecework is more common in certain industries, such as picking fruit and laying bricks.

Key terms

Piecework is a method of payment under which employees are paid according to the quantity of products they produce.

The **National Living Wage** is an hourly rate of pay which is set by the government. All employees above a certain age must receive at least this rate of pay.

Maths moment

Sarah has just finished training as a veterinary nurse and is looking for her first job. She has seen two possibilities:

- a job which pays her a salary of £17,500
- a similar post working 35 hours each week and receiving £10 per hour.

Which one will give Sarah the higher pay?

There is much disagreement about the extent to which money can motivate employees. Some writers on motivation, such as Frederick Taylor (who was mentioned earlier), think it is the major factor motivating workers. Others give it a limited role. Abraham Maslow, for example, believes that it can enable employees to meet some basic needs such as those for food and housing, as well as self-esteem needs. However, other writers argue that it is not motivational, and that non-financial methods should be used. This is supported by a recent survey showing that 59 per cent of employees in the UK believe that 'an interesting job' is the most important motivational factor. This result suggests that non-financial factors, such as job enrichment, play a vital role in motivating employees.

Study tip

Do think about how different groups of employees can be motivated or whether the existing way is the best. What methods of motivation could fulfil the needs that are not currently being met? Maybe finance is not the best method and non-financial methods could be more effective.

Business insight

Tom's first day

Tom was excited at the prospect of starting a new job with a new website design company that had just opened. However, his first day at work came as a shock. Tom was given a small, unclean office to work in on his own, while the two owners of the business worked in a separate, larger and much smarter room.

Tom had little contact with them and they did not offer many comments on the work he produced. He wasn't sure whether he was doing well or not. Despite the high rate of pay, Tom left the job after the first week.

Explain the possible actions the two owners of the business might have taken to improve Tom's motivation at work. (4 marks)

Summary

People are motivated in different ways. Some are motivated from within and others by external factors, such as the promise of a reward. People have different needs that can be met by working, and meeting these needs can help their level of motivation. There are significant benefits to

businesses from having motivated staff: they are more loyal, more productive and usually achieve higher levels of sales. Businesses may motivate staff by paying them more, but also by giving them more interesting and demanding jobs, by giving training or through the use of fringe benefits.

Quick questions

- 1 What is meant by the term 'motivation'? (2 marks)
- 2 What is meant by the term 'piecework'? (2 marks)
- 3 State **two** types of needs that employees can meet through work. (2 marks)
- 4 State **two** benefits to a new business of having well-motivated employees. (2 marks)
- 5 What is meant by the term 'job enrichment'? (2 marks)
- 6 Which of the following is a financial method of motivation? (1 mark)
 - (a) Commission
 - (b) Job enrichment
 - (c) Training
 - (d) Delegation
- 7 Which of the following is **not** a fringe benefit? (1 mark)
 - (a) Health insurance
 - (b) A company car
 - (c) Discounts when buying the company's products
 - (d) Piecework
- 8 Explain **one** reason why training can improve the motivation of a workforce. (3 marks)
- 9 Explain the difference between salaries and wages. (4 marks)
- 10 Explain how a business uses financial rewards to motivate its employees. (3 marks)

Case study

Amil's workforce

Amil Khan owns a small factory mixing and roasting seeds. Roasted seeds are becoming increasingly popular as a healthy snack and Amil wanted to be part of a growing market. His business is making a small profit each month at the moment, although its sales are rising steadily.

Amil has seven employees in his factory. He has decided that paying them well is important. He believes that financial rewards are the best way to motivate people and that those who produce more should be paid more. He thinks the business will benefit from having a well-motivated workforce.

Each employee has a simple job to do within the factory and little responsibility. Amil has to leave the business regularly to talk to shopkeepers about

stocking his products. Sometimes, while he is away, production stops because employees face problems that they do not know how to solve.

- 1 State **two** methods of payment that Amil would be likely to use for his workforce. (2 marks)
- 2 Explain **one** benefit that Amil's business may receive from a well-motivated workforce. (4 marks)
- 3 Analyse the reasons why Amil should spend more money on training his employees. (6 marks)
- 4 Do you think that Amil used the best method of motivation with his staff? Give reasons for your answer. (9 marks)

Topic 4.4

Training

Training employees can bring a range of benefits to businesses, such as increased levels of motivation and productivity. It can help a business to be more competitive than its rivals. However, training can be costly and highly trained employees may leave the business.

By the end of this topic, you should know:

- what is meant by the term 'training'
- why training can be important to a business
- the main types of training provided by businesses and their advantages and disadvantages.

● The importance of training

Training gives employees job-related skills and knowledge. It can bring many benefits to businesses. UK businesses clearly recognise its importance as they spent over £45 billion training 17.4 million employees during 2015.

Improvements in productivity

Training results in employees learning new skills and gaining knowledge that can make them better at their jobs. For example, training given to employees on a production line may enable them to use new technology. This means that they can make products more quickly and with fewer errors.

Training can help improve productivity by teaching employees how to do their jobs as efficiently as possible. This should reduce time wasted on unnecessary tasks and time spent correcting mistakes and allow more time to be spent on the most important activities. Training also makes a business more attractive to potential employees. This makes it easier for the business to attract the best, and most productive, workers.



Using technology can result in huge improvements in employees' productivity, but training is required if it is to be used efficiently.

Key term

Training is a range of activities giving employees job-related skills and knowledge.

More motivated employees

We saw in Topic 4.3 that levels of motivation can be an important part of creating an effective workforce. Training can improve employees' motivation:

- Training can make employees feel valued. This will help to motivate them and make them more committed to the business and their jobs.
- Training allows employees to carry out duties which are more challenging and more interesting – this is known as job enrichment. This can improve their enjoyment of the work and their performance at work.

Improved rates of employee retention

Training can make employees feel more loyal to a business. It also gives them additional skills, which may mean that they can be promoted or take on more challenging work. Both these factors mean employees are less likely to leave.

Businesses with good employee retention rates keep experienced staff and do not have to pay the costs of recruiting and training new staff. Research suggests that 75 per cent of recruitment costs relate to replacing employees who have left the business. Thus, businesses can reduce recruitment costs significantly by improving employee retention.

Employee retention is discussed in greater detail in Topic 4.2.

Business insight

TalkTalk fined £400,000

TalkTalk is one of the UK's largest telecoms companies. It has been fined £400,000 for security failings that allowed a computer hacker to access its customers' data 'with ease'. An investigation found that the cyber-attack in October 2015 was possible because of weaknesses in TalkTalk's IT systems.

Criminals were able to gain access to the names, addresses, dates of birth, phone numbers and email

addresses of nearly 157,000 customers and the bank account details of over 15,000 customers.

Research by the UK government shows that 75 per cent of large companies suffered IT security breaches in 2015. Half of these were caused by employees lacking suitable skills.

Analyse why large companies in the UK might spend more on IT training for their employees. (6 marks)

Production of high-quality goods and high levels of customer service

Training is essential if all employees, including those newly appointed, are to provide high-quality products and high levels of customer service. Training reduces the risk of faulty goods being produced as employees are less likely to make errors.

Similarly, training in customer service can give employees a clear understanding of how to meet customers' needs and to use the business's systems to do this. In 2016, Vodafone, one of the UK's largest mobile phone service companies, received a large number of complaints about poor customer service, such as

incorrect bills and problems transferring phone numbers. Vodafone responded by spending £15 million on an additional 72,000 hours of customer service training for its employees. It publicised its response to reassure its customers and its performance has improved.

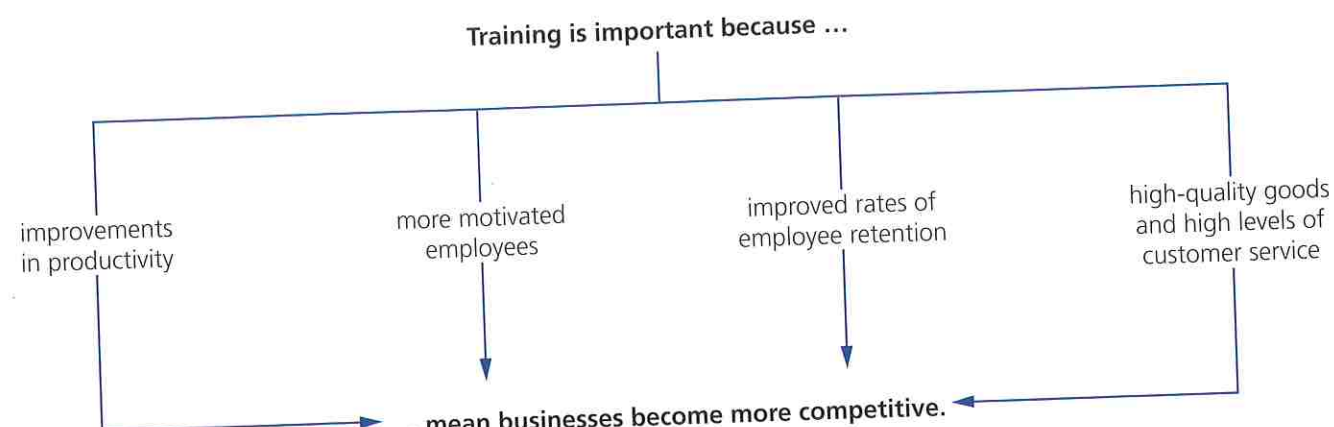


Figure 4.13 Why training is important



The popularity of social media (such as Twitter and Facebook) means that businesses can receive widespread criticism when things go wrong. This increases the value of training.

Types of training

Training is made up of a range of activities that give employees job-related skills and knowledge. There are three major types of training that a business can provide for its employees (see Figure 4.14).

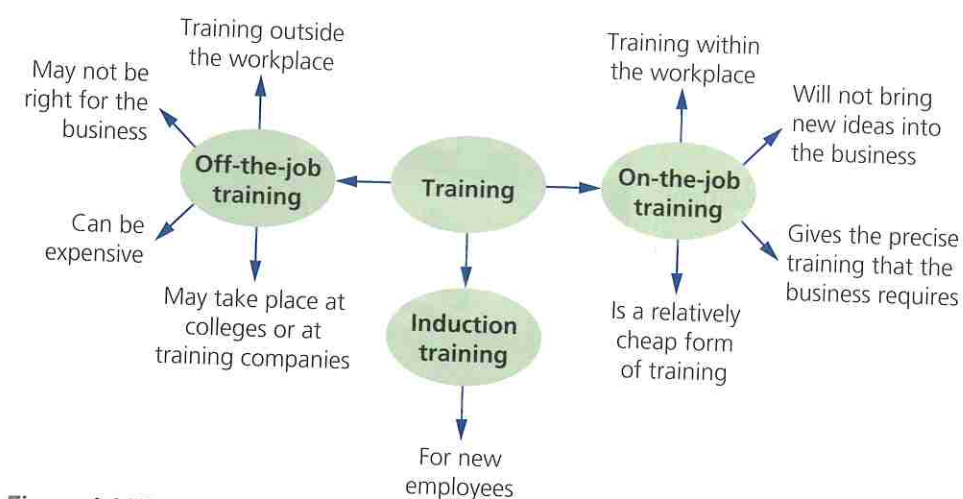


Figure 4.14 Types of training

Induction training

Induction training is the first type of training that an employee will receive once he or she has started a new job. It is intended to help new employees to become more familiar with the business and the job that they are to do. Induction training might involve meeting the other employees at the business with whom the candidate will work closely. The new employee will also learn key information about the business, such as how its IT systems work, as well as more about their role in the business. This type of training normally occurs within the workplace. After induction training, employees may be offered other types of training.

Induction training offers a number of benefits:

- Induction training helps new employees to integrate with existing workers and to learn how to carry out their new jobs effectively. Induction training can help new employees to become more productive earlier.
- Some employees may leave after a very short period of time if they do not feel that they are supported. Induction training can help to avoid low rates of staff retention. As a result, businesses do not face the costs and disruption that can accompany replacing employees.

On-the-job training

Using **on-the-job training** means that the employees do not leave the workplace. This type of training means that employees may learn from more experienced workers. It is popular in the UK with 48 per cent of businesses using it in 2015.

There are a number of types of on-the-job training:

- **Work shadowing.** Here, experienced and skilled employees are observed during the working day. They may offer advice and guidance as well.
- **Formal training sessions.** These can be led by experienced employees or by specialist trainers from outside the business. These sessions can update

Key term

Induction training is the training given to an employee when he or she first starts a job.

Key term

On-the-job training is given in the workplace.

employees on changes that have taken place, for example, in health and safety laws. Alternatively, they may be used to prepare employees to take on new roles within the business.

- **Computer-based training.** It is becoming increasingly common for employees to receive training in the workplace using computer programs. In 2015, 30 per cent of businesses in the UK used computers to deliver training in the workplace.

The benefits of on-the-job training

- It can be a relatively cheap way of providing training, as employees do not have to travel and other employees may be able to give the training. Many businesses cannot afford to spend heavily on training. Using this form of training means that more employees can benefit from a limited amount of spending. This can result in major improvements in a workforce's productivity.
- On-the-job training is also targeted to the exact needs of the business, especially as it is often given by other employees. This means that employees will receive the precise knowledge and skills they require to carry out their roles efficiently. For example, employees receiving IT training can receive it on the business's IT system, rather than a different system.
- Businesses are making increased use of computers to provide on-the-job training. This is called e-learning. It enables businesses to use computer programs to give training which meets the business's needs. This can be delivered at any time and is a relatively cheap method of training, especially if used by a large number of employees.

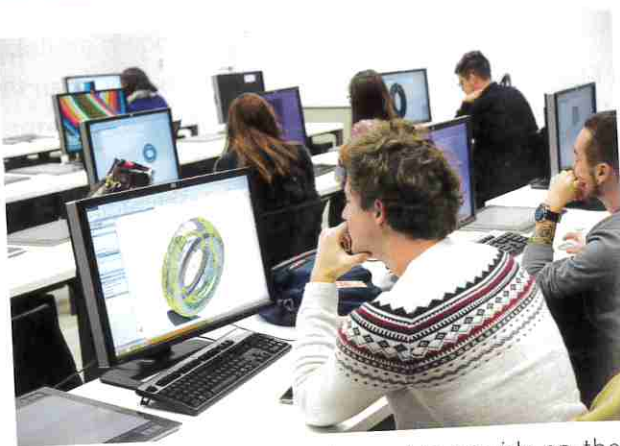
The drawbacks of on-the-job training

- On-the-job training is unlikely to bring new ideas into the business unless an outside trainer is used. As a result, on-the-job training may not lead to dramatic improvements in the performance of a business's employees.
- Using this type of training can result in more employees being unavailable to work within the business for a period of time. The business might, for example, lose the services of those providing the training, as well as those receiving it.

Business insight

Folly Farm Adventure Park and Zoo

Folly Farm is an adventure park and zoo in Pembrokeshire – a very quiet part of Wales. It is committed to looking after its employees, in part through providing training. The company relies on on-the-job training to give employees skills in catering and customer service, as well as on how to care for over 90 different types of animals.



Computers are increasingly used to provide on-the-job training. Some companies specialise in writing computer programs to be used in this way.

Folly Farm is a small business with a big reputation and highly skilled and experienced employees. In 2016, it was voted the best business in Pembrokeshire.

Explain why Folly Farm uses on-the-job training for its employees. (4 marks)

Off-the-job training

Off-the-job training takes place outside the place of work. It might involve attending a course at a college or university, studying at home or going on a course run by a training company. Sometimes, off-the-job training can last for a considerable time. For example, an accountancy firm may pay for its employees to gain accountancy qualifications. This could involve several years' part-time study at a local college.

The benefits of off-the-job training

- Off-the-job training can help to bring new ideas and approaches into a business. This can be valuable in industries, such as developing computer software, in which change is rapid.
- Off-the-job training is expensive and can be used to motivate employees as we saw earlier in this chapter. Receiving off-the-job training can make employees feel valued as their employer is spending significant sums on improving their skills. This may result in substantial improvements in the employee's performance at work.

The drawbacks of off-the-job training

- This type of training can be expensive so, for businesses making only small amounts of profit, it may not be affordable. Many small businesses may not consider this as a realistic option.
- All businesses who provide off-the-job training for their employees take a risk. There is every possibility that the newly trained employee will leave the business for a new job once the training programme is complete. Off-the-job training can prepare employees to work in a range of different businesses. Thus, a business may spend heavily on training an employee, but receive little or no benefit in return.

Factors influencing decisions on types of training

Once an employee is settled in a job, businesses can opt to improve their skills using off-the-job or on-the-job training. These two types of training are used fairly equally by employers. In 2015, around 71 per cent of UK businesses used some form of off-the-job training, such as attending courses at a local college. In comparison, 48 per cent used on-the-job training. Some businesses use both methods, which is why the total is greater than 100 per cent.

There are several factors which would influence which of these two types of training is used.

The business's financial position

Training, and especially off-the-job training, is expensive. Businesses in weak financial positions will be more likely to choose on-the-job training, if they train their employees at all. The average business in the UK spends only about £300 a year on training each employee. Those in poor financial positions will spend less and would be unlikely to be able to afford the cost of off-the-job training.

Key term

Off-the-job training is provided outside the employee's place of work.



Local colleges provide a huge range of off-the-job training programmes, including those in marketing, plumbing, accountancy and catering.

Study tip

You may find it helpful to be able to distinguish between on-the-job and off-the-job training and what the benefits and drawbacks are of using these types of training.

The type of training required

Some businesses require very specific training to meet their particular needs. This might be provided best through on-the-job training. Training provided by local colleges or other training organisations might not suit the business's precise needs and could be too general. For example, on-the-job training might be used by companies using employees to develop computer games or other software. Similarly, relatively simple training, such as that required to operate some production line machinery, may also be provided on the job.

Off-the-job training may be more suited to training that is long term and requires the passing of examinations. The costs of this may be reduced if it takes place outside working hours.

The skills and experience of the business's workforce

It is easy to forget that the ability to train other people is a skill. Not all employees have this skill, meaning that businesses that make widespread use of on-the-job training may have to train their workforces to do this. Without suitable employees to train others, businesses may opt for off-the-job training.

Rapidly growing businesses, or those with low employee retention rates, will have large numbers of new employees. This can make it difficult to provide training on the job and may result in training being provided by external organisations.



The fast-food retailer McDonald's spends heavily on training its employees, but makes a lot of use of on-the-job training. The company believes its employees benefit by learning and practising the skills needed within its restaurants.

Business insight

Training for engineers on overhead power lines

An overhead line engineering training centre in Penrith, Cumbria, offers training to engineers responsible for maintaining power lines. The off-the-job training course has been designed to provide skills that are in short supply.

The training is provided by Newton Rigg College, part of Askham Bryan College. It is a three-year, part-time course. Teaching begins with off-the-job training in the classroom and in a purpose-built training field on the Newton Rigg site. Off-site learning exercises also take place at a number of UK locations managed by SPIE, a European technical services company.

Analyse the possible reasons why these engineers are receiving off-the-job training. (6 marks)



Employees working on overhead power lines need thorough training to do their job safely and effectively.

Summary

Training can be an important way for a business to improve the performance of its workforce. Businesses may give induction training, as well as on-the-job and

off-the-job training. This can make the business more successful in its markets. However, training can be expensive, especially if off-the-job training is used.

Quick questions

- 1 What is meant by the term 'training'? (2 marks)
- 2 Explain why training might help to improve the level of productivity of a business's workforce. (3 marks)
- 3 Explain **one** reason why training might help to improve a business's employee retention rates. (3 marks)
- 4 Using examples, explain the difference between on-the-job and off-the-job training. (4 marks)
- 5 Which of the following is an example of off-the-job training?
 - (a) Work shadowing a colleague
 - (b) Completing a computer-based training course at home
 - (c) A session led by an external training provider in the factory
 - (d) A talk in the office by a senior manager (1 mark)
- 6 Explain **one** benefit of induction training. (3 marks)
- 7 Which of the following is **not** a benefit of on-the-job training?
 - (a) It brings new ideas into the business.
 - (b) It is a relatively cheap way of providing training.
 - (c) It can be designed to meet the business's exact needs.
 - (d) It avoids the need to pay for travelling for employees. (1 mark)
- 8 Explain **one** benefit of on-the-job training. (3 marks)
- 9 Explain why providing off-the-job training might be a risk for a business. (3 marks)
- 10 Which of the following businesses is most likely to offer its employees only on-the-job training?
 - (a) A business that is growing very quickly and whose employees are overworked
 - (b) A business that is not in a strong financial position
 - (c) A business that does not have employees with the skills to train others
 - (d) A business whose employees need long-term training and have to pass national examinations (1 mark)