UNIT 4: BUSINESS IN A CHANGING WORLD

CHANGE

Businesses today have to operate in rapidly changing markets and conditions. They can no longer rely on a constant stream of customers, the same production process or the same product over a long period of time. To be successful, businesses have to try and anticipate change rather than always reacting to it.
Businesses must be:

- proactive rather than reactive
- flexible and responsive.

Major causes of change include:

- **Developments in technology** – New products and processes.
- **Market changes** – New competitors, new markets, globalisation, the expansion of the EU.
- **Consumer tastes** – Environmentally friendly policies, greater information about products being available, more efficient methods of purchasing (such as the internet).
- **Legislation –** Taxation of pollution, government aid or subsidies, safety standards, employment law.
- **Changes in the workforce** – Age and makeup of the workforce, increasing part-time working, increased flexible working.
- **Changes in the economy** – The trade cycle (boom, recession, slump and recovery), inflation, interest rates, unemployment, balance of payments.

INTERNAL CAUSES OF CHANGE

- **Changes in management style** – New leaders may wish to implement new strategies which lead to a change in the culture of a business, e.g. move from an autocratic style to laissez-faire, leading to a new way of working.
- **Change in business ownership** – New owners often look for efficiencies and cost-cutting, to improve profitability. New management may wish to introduce a new ethos within the business, a new way of working. Mergers/takeover may bring about a change in corporate culture.
- **Change in business size** – Businesses can grow organically, carefully building on product ranges, investing in new technologies, developing distribution channels.
- **Introduction of new technology** – New technology can affect both the pattern of consumer demand and methods of production, e.g. online shopping has caused the failure of some large and established high-street retailers.

OLD WAY

NEW WAY

EXTERNAL CAUSES OF CHANGE

- **Introduction of new technology** – Developments in new technology will force businesses to change. Methods of production are constantly changing and the introduction of robotic technology in the car industry is deemed to be essential if quality and output are to be improved.
- **Labour market** – The minimum wage, the living wage, greater employment protection, increased maternity pay, etc. have all pushed up costs. Immigration policy has increased supply of migrant workers, keeping wages of unskilled employees lower than they would have been without the high levels of labour mobility.
- **Changes in economic conditions** – The cyclical nature of the UK economy naturally causes businesses to react to economic circumstances. Exchange rate fluctuations cause businesses to seek new markets or change to new suppliers as their profit margins become squeezed.
- **Competition** – Existing competitors can change their strategy, or new competitors can enter the market place. Businesses must adapt if they are to remain competitive.
- **Changes in consumer tastes** – Tastes can change abruptly, completely altering demand patterns. Changing consumer tastes can create opportunities for businesses as well as presenting challenges.
- **New legislation** – Governments can change legislation, both to limit business activity and alternatively to free up activity.

TYPES OF CHANGE

- **Anticipated and within business control**, such as the introduction of new production technology.
- **Unanticipated but within business control**, such as a sudden increase in demand, requiring expansion.
- **Anticipated but outside business control**, such as a change in the pattern of demand due to a demographic shift.
- **Unanticipated and outside business control**, such as the collapse of a key supplier.

EFFECTS OF CHANGE

- **Shorter product life cycles** – With a shorter life cycle, products must pay a return immediately; there is little incentive for long term investment. Returns can be improved by seeking new markets for products.
- **Diminished brand loyalty** – New entrants into the market find it easier to grab market share; existing businesses have to fight harder to maintain sales. Marketing costs are increased to maintain brands and to introduce new products.
- **New products need to be developed** because goods are seen as more disposable and consumers are constantly looking for better quality products.
- **Changes in production methods are required** – With new products needed continually, spending on new ideas, improving existing products and investing in improved productivity and quality must be funded. As a consequence, capital goods are likely to become out of date much faster.
- **Retraining the workforce** – A skills mismatch has led to the retraining of managers and ‘shop floor workers’.
- **Flexible workforce** – In order to respond quickly and effectively to change, many businesses today have a much more flexible workforce to allow them to remain competitive.
- **The need to comply with constantly changing legislation** has the effect of raising costs for businesses.

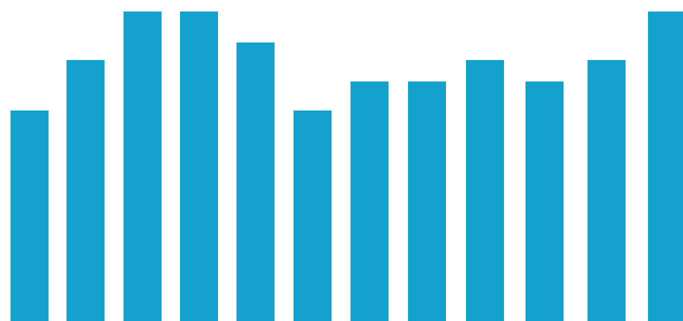
MANAGING CHANGE EFFECTIVELY

One of the most difficult tasks of leadership is encouraging and managing organisational change. To prepare for change and to be in a position to react effectively to change, managers need to put in place a number of key strategies:

- **Employee preparation** – The first stage in effective change management is preparing employees for change. This may involve reskilling to enable employees to carry out new tasks effectively. Such training will make a workforce more flexible and adaptable, enabling them to meet the demands of change. There may be need for recruitment so that the business has employees with new skills or managers who can force the pace of change.

- **Increased research and development expenditure** – This is used both in preparation for change, and as a reaction to change. This type of spending develops new products, new methods of production and new technologies.

- **Additional capital investment** – Change can create the need for investment in new technology and new equipment. Change is often an expensive undertaking. For example, relocation can be very costly. If a business does not have access to sufficient finance, it is very unlikely that it will be able to implement effective change.



IMPLEMENTING CHANGE

Preparing for change is not the same as implementing the required changes. To help solve the problem of implementation, management theorists have presented a range of approaches for implementing change. John Storey offered four optional methods of implementing change.

Storey's Four Methods of Implementing Change

1. NEGOTIATED TOTAL PACKAGE

Management and employees negotiate on how a major change in the way a business functions will be implemented. Therefore, the change implemented will be based on agreement between management and employees in all locations from which the business operates. Trade unions will be very much involved and increased rewards and improved conditions are likely to be offered to the workforce. This is more likely to result in a coordinated process of change which is understood, and accepted, by all stakeholders. This is likely to be the most effective method of undertaking a process of change but requires a good deal of preparation and expenditure. In reality, this may not always be possible in a highly competitive and difficult business environment.

2. NEGOTIATED PIECEMEAL INITIATIVES

Management and employees will consult and agree on various changes as they become necessary – for example, new shift patterns or productivity agreements. There is no overall agreement or coordinated process that is in place for the negotiated total package. This method may be easier to implement than a total package of change but can result in difficulties because of a lack of a complete system change. For example, a productivity agreement negotiated in one location but not in others could cause resentment and conflict.

3. IMPOSED PIECEMEAL INITIATIVES

Managers plan and implement changes, such as a move to flexitime or the development of quality circles, in order to solve particular problems. This saves time and the structure of change is in the hands of management who understand the overall objectives of the business. However, the imposition of change can be met with resistance from employees who may resent the lack of consultation. Each piecemeal change may also be aimed at a different objective, whereas a total package is more likely to be working towards one overall objective.

4. IMPOSED TOTAL PACKAGE

Senior management plan and introduce a major change all at once without consultation with employees. This sort of change might occur when negotiated change has failed or because of rapidly changing external factors that need responding to quickly. Of course, this sort of change is likely to be resisted by middle managers and employees and its success depends on the skills of the senior managers in being able to establish new systems whilst minimising disruption.

RESISTANCE TO CHANGE IN BUSINESS

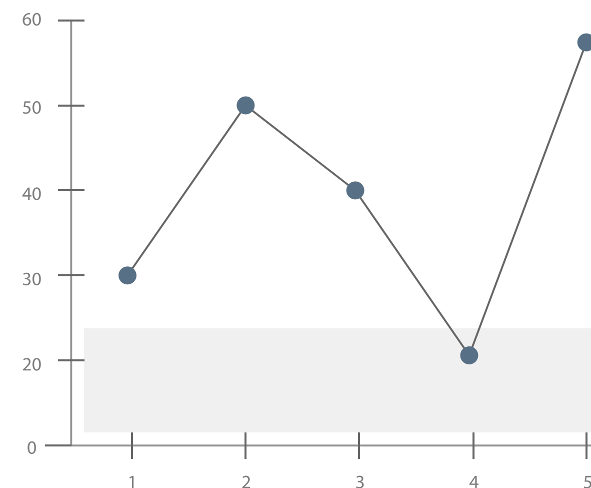
1. **Employee Resistance:**
   - to preserve the existing routine
   - to protect pay and employment
   - to avoid threat to security and status
   - to maintain group membership.

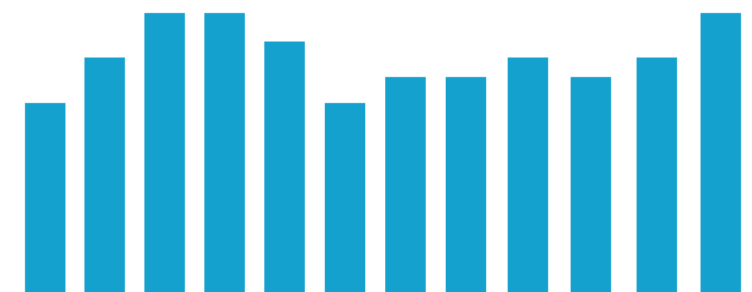
2. **Lack of finance:**
   - the need to invest in more research and development
   - the need for more capital investment
   - the need to extend the product portfolio
   - the cost of training staff.

3. **Lack of management expertise can cause:**
   - a fear of new markets and conditions
   - an inability to adjust to new situations
   - concerns about the future profitability of the firm
   - lack of firm leadership.

4. **Supplier Resistance:**
   - reluctance to adapt to changes made by their customers, e.g. manufacturers who change to a JIT system may find that some of their suppliers resist having to supply components 'as and when' the manufacturer requires due to the costs that this imposes on them.

5. **Owner Resistance:**
   - owners may fear that change will increase risk
   - shareholders may need convincing that operating in new markets will not damage their dividends, especially as implementing change may be costly
   - management will need to justify their plans to convince shareholders that sacrifice now will lead to better profit in the future.





LEWIN'S THREE STEP PROCESS OF CHANGE

Lewin recognised that it was not the difficulty of creating change, but of re-enforcing the change that really mattered. He was concerned with ensuring that the change continued into the future and that employees did not slip back into old methods of working.

Three stages of creating and maintaining change:

1. **Unfreezing**

- Involves **creating a motivation for change** and creating a realisation amongst employees that change is necessary. They therefore have to 'unfreeze' from current approaches to work and be prepared to adapt to a new method of working.
- **Employees have to be shown that change is necessary** and then managers need to create a situation in which employees desire the change.

2. **Change or transition**

- Lewin described the period of transition as a **potentially difficult time** as employees are now moving toward a new way of doing things.
- They are **learning about the changes** and need to be given time to understand and adapt to these changes.
- **Support from management** and supervisors is important in making the transition period work. Support can come in the form of training, education, and learning from mistakes rather than being criticised for them.
- **Allowing employees to develop their own solutions** and maintaining clear communication of the objectives and benefits of the change are also important in maintaining the transition.

3. **Refreezing**

- **Establishing stability** once the changes have been made. Employees have now accepted the change, and the new methods of working have become the new norm and they are comfortable with their routines.
- This refreezing clearly implies **employees must not be forced into continual change** but allowed time to adapt.
- **New methods need to become completely ingrained** before further change occurs, otherwise any gains may be lost.

MANAGEMENT RESPONSES TO CHANGE

The management of change in business has grown in importance in recent years. Under pressure from competitors, higher costs and changing economic conditions, many businesses in the UK have developed company wide change programmes.

When faced with changing circumstances it is very important that businesses respond quickly and flexibly. In doing so, they will need to take into account:

TYPE OF STRATEGY	ACTUAL STRATEGY	EXAMPLES
Marketing Strategy	Changes to the product portfolio	Expansion or reduction
	Image shift	Global, environmentally friendly
Financial Strategy	Different sources of finance	Higher interest rates means borrowing is less attractive, perhaps selling shares would be more beneficial
	More capital investment	To increase research and development and innovation
Human Resources Strategy	Training	Training (or retraining) would give flexibility and would make use of people with outdated skills
	Flexible working patterns	Shift work, subcontracting, part-time working
	Culture that embraces change	Kaizen, changeable organisation structures, management styles
Operations Management Strategy	Quality	Total Quality Management
	Production processes	Just-in-time, CAD and CAM
	Location	Construction of new facilities
	Increased research and development	New products and processes

CORPORATE CULTURE

Definition: 'The way we do things around here' – Corporate culture relates to the values, attitudes and beliefs of those within an organisation. The culture of an organisation influences how the employees think and act.

Culture can be seen in:

- the **business norms** (what is regarded as acceptable behaviour)
- **symbols**, such as the way people address each other
- **rituals**, such as leaving at 5.00 p.m. precisely
- the **physical layout of the premises**, such as open plan
- the **language** used in a business specific way, such as Asda referring to their employees as 'colleagues' and McDonald's calling their employees 'crew members'.

Culture matters because it affects:

- motivation and enthusiasm of employees
- emphasis on customer service
- openness to innovation and change
- focus on improvement
- focus on efficiency.

Types of cultures:

1. **Power culture** – One person at the centre giving orders, encouraging sticking to rules.
2. **Role culture** – Respect for seniority.
3. **Task culture** – Team-working is common in order to get the job done.
4. **Person culture** – Everyone is committed to play their own part in ensuring goals are reached.

Advantages of a strong corporate culture:

√ provides a **sense of identity** for employees – they feel part of the business
√ **motivates employees** in their jobs, which may lead to increased productivity and commitment to their job, which reduces staff turnover
√ helps to **reinforce the values** of the organisation and senior management
√ acts as a **control device for management,** which can help when setting company strategy
√ enables a consistent image/quality of service to be presented to the public/customers worldwide
√ helps achieve objectives more easily – motivated, happy employees can be key to growth
√ customers identify with corporate culture and this fosters loyalty, e.g. ethical factors.

Criticisms of corporate culture:

X research has shown that strong-culture businesses seem almost as likely to perform poorly as their weak-culture rivals
X cultural practices in businesses are interpreted in different ways by employees, which may not always be those intended by management.

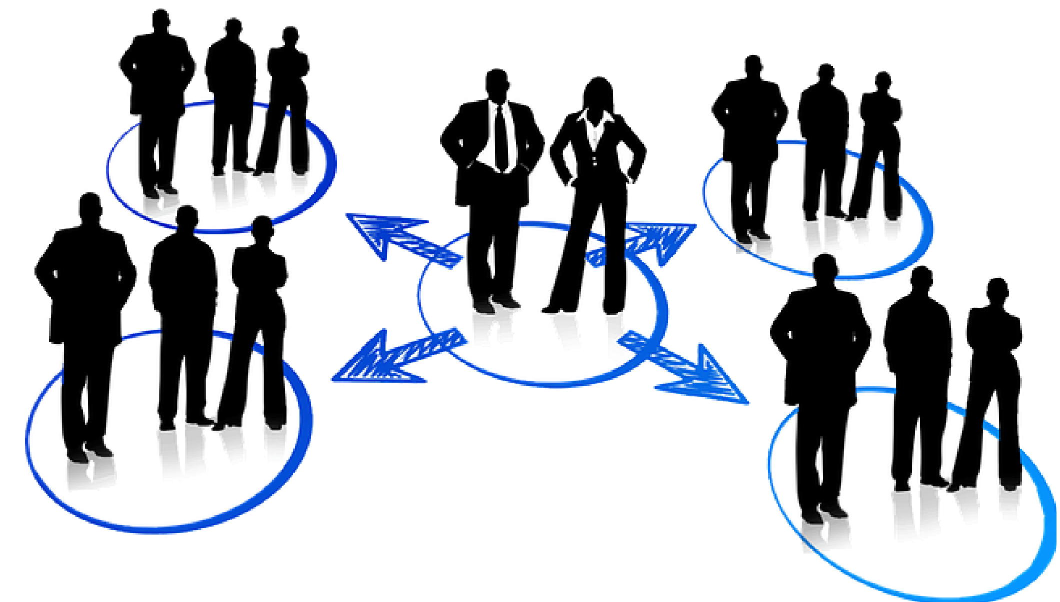
EVALUATING CHANGE

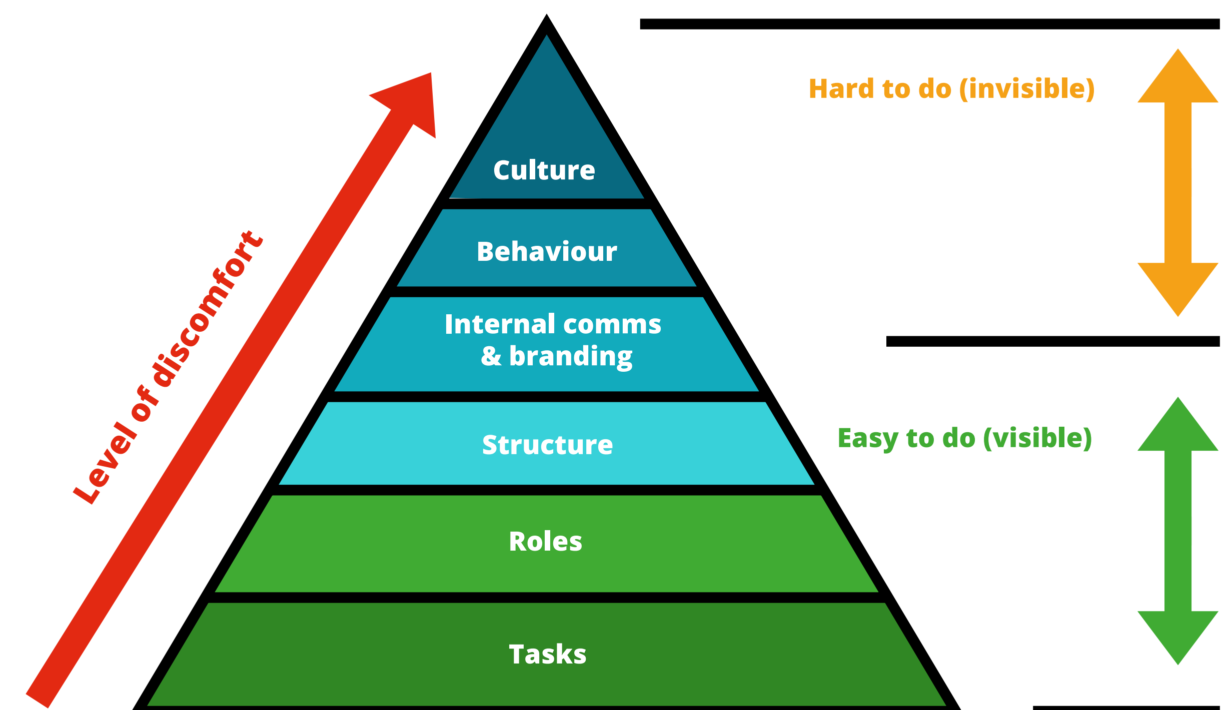
If the leaders of an organisation have planned the process of change effectively, then a clear set of objectives would have been identified from the outset.

There are a whole range of both quantitative and qualitative indicators that can be examined and these will obviously be related to the objectives initially set prior to the changes that have occurred.

Possible indicators may include:

- delivery times
- production defects
- customer satisfaction surveys
- market share
- sales turnover
- profit – 'the bottom line'.





UNIT 4: RISK MANAGEMENT

RISK AND UNCERTAINTY

Definition: Business risk is a circumstance or factor that may have a significant negative impact on the operations or profitability of a given business.

At times, businesses may face crises; these are situations where unstable conditions exist. As a result, problems can occur. Crises are usually unexpected. Effective planning should reduce the impact of a crisis on a business.

Types of Risk:

❒ **Financial** – For example, cash flow problems due to money needed to be spent on raw materials now when payment for a completed order is not due for another month.

❒ **Production** – The breakdown of a crucial piece of machinery. This would lead to a loss of production and a failure to deliver products on time.

❒ **Human Resources** – For example, industrial action taken by employees (which could include strikes). Production may be halted and sales may suffer.

❒ **Environmental** – A business' operations may lead to environmental damage which might cause pressure groups to take action, such as organising a boycott of the business' products.

❒ **Product** – A faulty or dangerous product could lead to a total recall of a batch of the products.

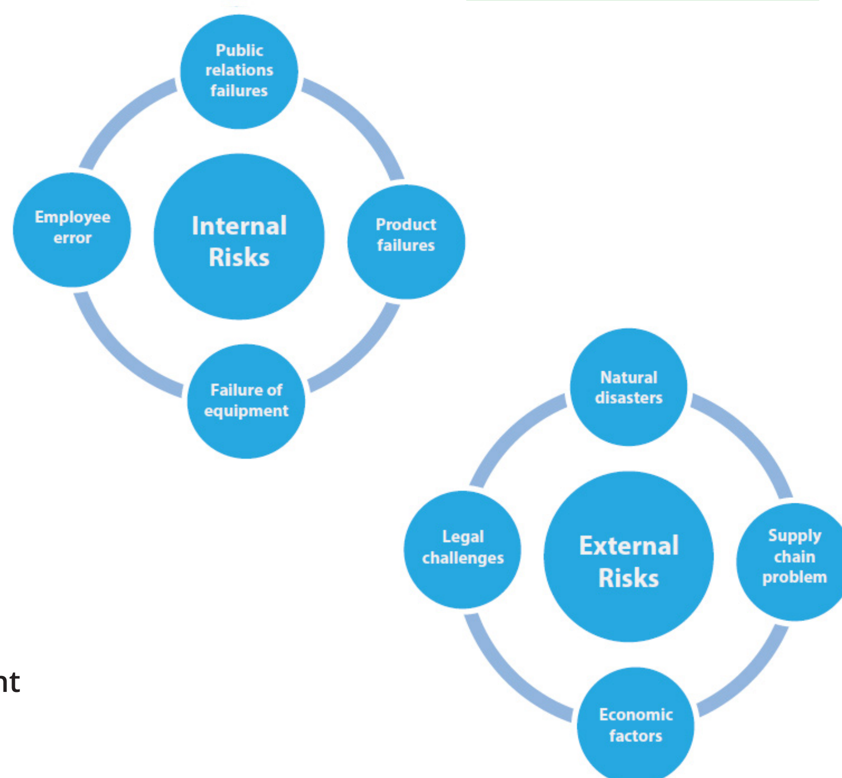
❒ **Legal** – For instance, a product that broke the law because it did not comply with minimum safety standards would have to be withdrawn and new research and development carried out.

RISK-TAKING – QUANTIFIABLE

Quantifiable: Those that can be measured, such as a potential loss of overseas sales due to an increase in the exchange rate.

Examples:
- **Financial Risk** – The probability that a major customer becomes bankrupt and does not pay money owed to a supplier
- **Operational Risk** – The breakdown of key equipment or machinery
- **Strategic Risk** – A new competitor coming on to the market
- **Compliance Risk** – Responding to the introduction of new health and safety legislation.

Many quantifiable risks are also **insurable risks**. For example, insurance can be taken out against the failure of a major customer and a service contract can be arranged to cover the breakdown of equipment and machinery.



RISK-TAKING – UNQUANTIFIABLE

Unquantifiable: Cannot be measured, such as the adverse effect on a company's image if a product is not successful.

Examples:
- The adverse effect on the business' reputation if there is a major failure in quality control or if a major brand has to be withdrawn because it is affected by a health scare.
- Market rejection of one of its new proposed brands.
- The effect of external factors, such as a recession.
- The impact of rapid expansion on staff morale.

Steps that it could take to minimise the risks might include:
- look for alternative supplies of raw materials
- hedge currencies
- introduce rigorous quality control procedures
- train the workforce to deal with anticipated problems, e.g. in health and safety procedures.

RISK MANAGEMENT

Definition: Risk management is the process of understanding and minimising what might go wrong in an organisation. It involves the activities undertaken by a business which are designed to control and minimise threats to the continuing efficiency, profitability and success of its operations.

The risk management process includes:
- the **identification and analysis of risks** to which the organisation is exposed
- a **measurement** of the likelihood of the risks occurring
- an **assessment** of potential impacts on the business
- **deciding what action can be taken** to eliminate or reduce risk.

At the end of this risk management process, the business should have a comprehensive list of risks attached to the business. This list will form the basis for a risk register (the formal record of risks and their potential impact).

The next step is to analyse and attempt to remove the risks. Within large businesses, specialist risk managers have a role in measuring risk and putting in place systems that reduce chances of negative outcomes occurring.

Examples of preventative actions:
- train staff appropriately
- regular backup of IT system
- put robust quality control systems in place.

Risk management strategies include taking out insurance against financial loss or legal liability and introducing safety or security measures. Sometimes external bodies are involved in measuring and managing risk, e.g. the Bank of England and the Financial Services Authority have taken a great deal of interest in the levels of risk carried by banks.

CONTINGENCY PLANNING

Definition: A contingency plan is a plan devised for an outcome other than in the usual (expected) plan. It is often used for risk management when an exceptional risk that, though unlikely, would have catastrophic consequences.

The aim of contingency planning is to minimise the impact of an unforeseeable event and to plan for how the business will resume normal operations after the event.

Examples of contingency planning are:
- fire practices
- keeping back-up copies of data from computers
- planning for a situation in which a competitor makes a take-over bid
- having back-up plans in case there are problems with suppliers.

To decide which events to plan for, a business will consider:
- How likely is a particular event to happen?
- What is the potential damage if it does occur?

The greater the likelihood of an event happening and the greater the potential damage if it does occur, the more likely a business is to plan for it.

Examples of crises for which contingency plans might be drawn up are:
- a situation where a food producer's products are contaminated and it has to recall them
- industrial action (such as a strike) or high levels of staff turnover in a business (when staff do not remain very long working for a business).

Businesses need to be prepared for the unexpected. A business cannot prepare for every emergency, but it is worth highlighting the biggest risks and preparing for these. However, contingency plans must not affect the corporate plans of the business. Keeping a large amount in a contingency fund, for example, may reduce the funds that the business has available for expansion or investment.

Managers must be proactive – anticipating and preparing for change – **rather than reactive** – having to react to crises as they develop.

Reasons for contingency planning:	**Reasons against contingency planning:**
√ Businesses face many risks, both quantifiable and unquantifiable. √ By having a contingency plan, a business will be prepared for any eventuality that may occur. √ This may save the business time and money in the long run.	X Contingency planning may be expensive and time-consuming to carry out. X Unexpected events may still occur, since it is virtually impossible to plan for every possible outcome.

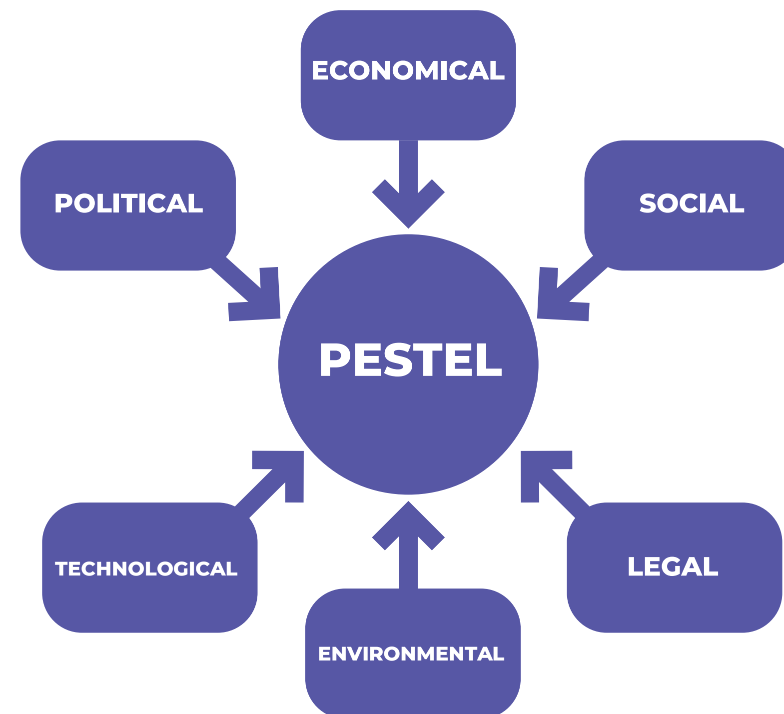
UNIT 4: POLITICAL FACTORS

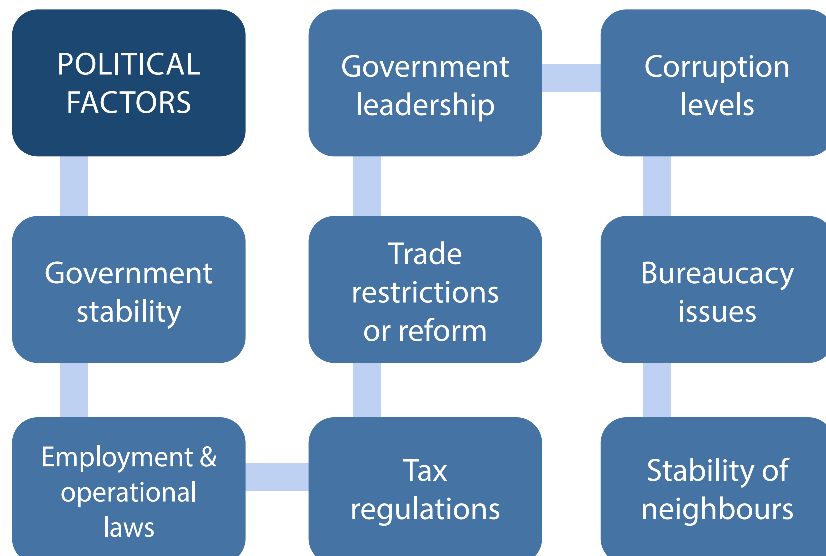
PEST FACTORS

A PEST analysis examines the Political, Economic, Social and Technological environments that affect markets and businesses.

It is recognised by decision makers that, in the longer term, the survival and success of a business are dependent upon adopting objectives and strategies appropriate to the external environment within which their business operates. It is not enough to say we have the right marketing mix or the best product portfolio without being aware of the external environment.

It is also worth bearing in mind that the external environment is continually changing and businesses have to adapt to such changes if they are to remain competitive.





POLITICAL FACTORS

- **Instability** – One of the major objectives of government is to provide a stable economic and legal framework within which businesses can operate and grow and individuals thrive. Competition needs to be fair; the rule of law and clear property rights must apply. Businesses that venture into countries that are politically unstable are taking considerable risks.
- **National security** – This is an increasingly important issue for many countries as terrorist attacks have become commonplace across the world. As governments seek to protect their citizens, they introduce measures that may well restrict the movement of goods, people and capital. Many businesses may suffer negative impacts as a result, especially when attempting to resolve skill shortages.
- **Major trading partners** – Whilst the UK has decided to remove itself from membership of the European Union, the 27 remaining countries are still a vital market for many UK businesses. The UK may not be the only country that decides to make such a move. Such uncertainty has the impact of disrupting financial markets and creating considerable uncertainty in the European Single Market and the Eurozone.
- **Changes in government** – New governments may well have a more, or less, positive attitude towards business activity. For example, legislation may be put in place that lifts restrictions on businesses in terms of such matters as pollution or workers' rights. This may result in cost increases for businesses and impact upon future profitability. Republican governments elected in the USA, for instance, have tended to be more pro-business than Democratic governments.
- **Pressure groups** – The activity of such groups can have a significant impact upon political decision-making. Campaigns against the tobacco, alcohol and gambling industries have all had a significant impact upon bringing about changes in legislation. Businesses are required to put in place measures to comply with such legislation and this inevitably raises costs and lowers profits. Pressure groups are an increasingly significant factor in bringing about political change and businesses need to be fully aware of their activities.

UNIT 4: ECONOMIC FACTORS

EXCHANGE RATES

Definition: The price of one currency expressed in terms of another. There is an important link between the domestic rate of interest and the value of a nation's currency.

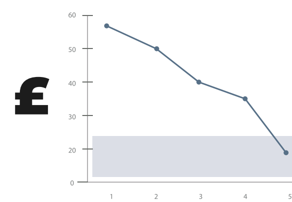
Exchange rates between most currencies vary regularly according to the balance of supply and demand for each individual currency. If the demand for pounds increases (for example, more tourism to the UK), the exchange rate goes up; if the supply increases (such as more UK citizens holidaying abroad), the exchange rate falls.

If high: SPICED – ***Strong Pound Imports Cheaper Exports Dearer***

If low: WPIDEC – ***Weak Pound Imports Dearer Exports Cheaper***

Exchange Rates: WPIDEC

Weak
Pound
Imports
Dearer
Exports
Cheaper



Exchange Rates: SPICED

Strong
Pound
Imports
Cheaper
Exports
Dearer

EXCHANGE RATES AND ITS EFFECT ON IMPORTS AND EXPORTS

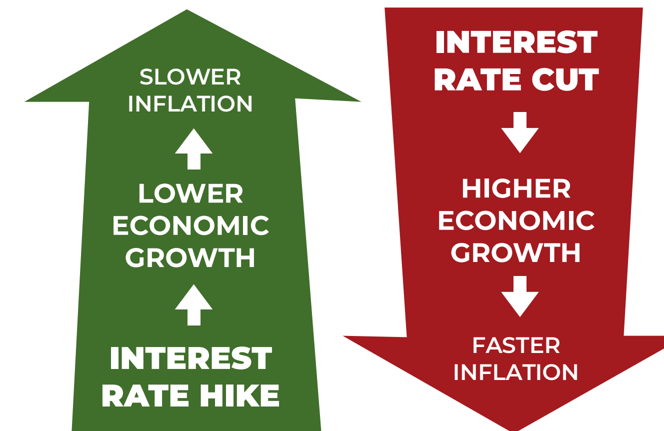
Changes in the value of currencies affect the prices of exports and import:

Exports

- a rise in the value of the pound means exported goods cost more for overseas customers, so demand falls
- a fall in the value of the pound means exported goods cost less for overseas customers so demand rises.

Imports

- a rise in the value of the pound means imports cost less so more profit can be made or prices can be reduced
- a fall in the value of the pound means imports cost more so less profit is made or prices are increased.



THE LINK BETWEEN INTEREST RATES AND EXCHANGE RATES

Rise in interest rate – UK becomes a more attractive location for foreign investors → foreign investors purchase pounds to invest in UK banks demand for pounds increases, raising the price (exchange rate).

Fall in interest rates – UK becomes less attractive to investors → foreign investors sell pounds to purchase other currencies → supply of pounds increases causing the exchange rate to fall.

INTEREST RATES

Definition: The price paid for borrowed money. The **base rate of interest** is the rate set by the Bank of England.

Effect of high interest rates on consumers:

- **Less spending by borrowers** – the cost of borrowing increases so people borrow less (as the cost of repaying the loan is more).
- **More saving by savers** – there is an appeal to saving as they will earn a higher rate of interest on their money and hence spend less money.
- **Less spending** as smaller amount of disposable income (hits those selling luxury items). Also millions of consumers have **mortgages** – when interest rates rise there is less money to spend on other items.

Effect of high interest rates on businesses:

- **Reduction in the sale of luxury items and items normally bought on credit** – businesses selling wants, such as televisions and sofas, may see a substantial fall in sales.
- **Higher overheads for businesses** – loans become more expensive due to the increase in interest charges.
- **Reduction in expansions/growth** – businesses may decide to postpone decisions to buy new machinery or build new factories.
- No real change in sales for businesses selling 'needs'.
- Encourages businesses to **save more** as the returns are greater.
- Sees businesses **reducing their levels of stocks** (maybe selling at reduced prices) to reduce the need to borrow money.
- Sees businesses reducing production to reduce the costs of credit.
- Encourages debtors to delay payment in order to earn interest.
- Sees creditors wanting their money more quickly.

INTEREST RATE (MONETARY POLICY)

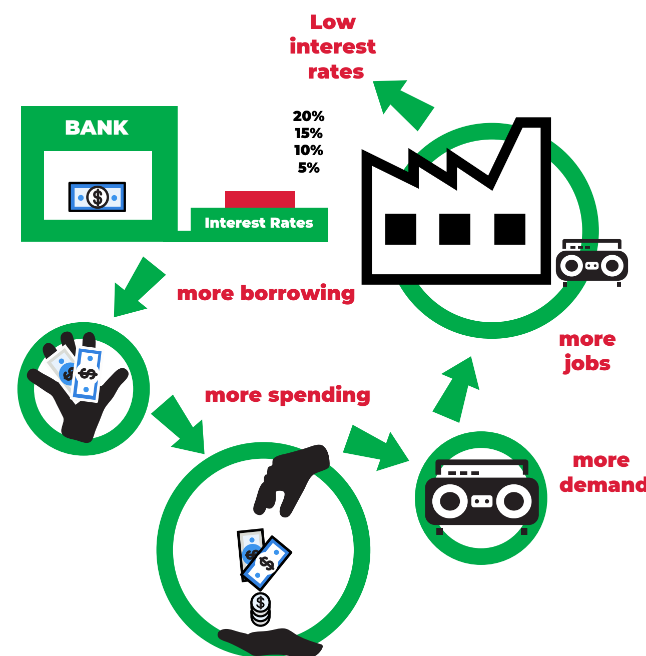
Definition: Since May 1997 the Monetary Policy Committee of the Bank of England has had responsibility for setting interest rates, which it does monthly, with the aim of achieving the government's target for inflation (2% ± 1%) whilst attaining long-term growth in the economy.

The objectives of raising interest rates include:
- reducing the level of consumer spending
- reducing inflation
- slowing the level of economic growth (GDP)
- reducing the number of imports
- dampening down an economic boom.

The implications of raising interest rates are:
- many businesses may experience falling sales as consumers increase savings
- demand for products purchased on credit may decline significantly
- business cancelling or postponing investment plans
- businesses reduce borrowing
- increased value of sterling increasing the prices of exports while reducing import prices.

The objectives of reducing interest rates include:
- reducing levels of unemployment
- stimulating the level of production in the economy
- promoting exports sales by reducing the exchange rate of the pound
- increasing rates of economic growth in the economy
- assisting in recovering from a slump.

The consequences of falling interest rates are:
- demand and sales are likely to increase
- production is likely to be stimulated by increasing employment
- export sales of price sensitive products may increase whilst imports become less competitive.



FISCAL POLICY

Definition: The use of **taxation and public (government) expenditure** as a means of controlling the level of activity within the economy.

The government can operate two types of fiscal policy:
- **To increase the level of economic activity** – achieved by cutting rates of taxation; increasing government expenditure. This results in increased output and spending, less unemployment, possible increase in inflation and more imports.
- **To reduce the level of economic activity** – achieved by increasing rates of taxation; cutting government expenditure. This results in lowered output, spending and employment, lower inflation and fewer imports.

Government expenditure is in two broad categories:

- **Transfer payments** – this is expenditure on unemployment benefit, pensions and other social security payments. An increase in transfer payments often results in substantial increase in demand for basic goods, such as food, public transport and gas.
- **The infrastructure** – governments improve the infrastructure through their spending on housing, roads and flood protection. **Investment in these areas can increase the level of economic activity by boosting demand for the services of construction businesses whilst reducing costs for other businesses.**

INFLATION

Definition: Inflation is the rate at which the general level of prices is rising. Inflation is measured by the Consumer Price Index (CPI) which measures the rate of inflation based on the changes in prices of a basket of goods and services.

For many businesses, a low rate of inflation is not a problem. Inflation only becomes a major problem when it is high, rising rapidly or doing both together. Inflation occurs in two ways:

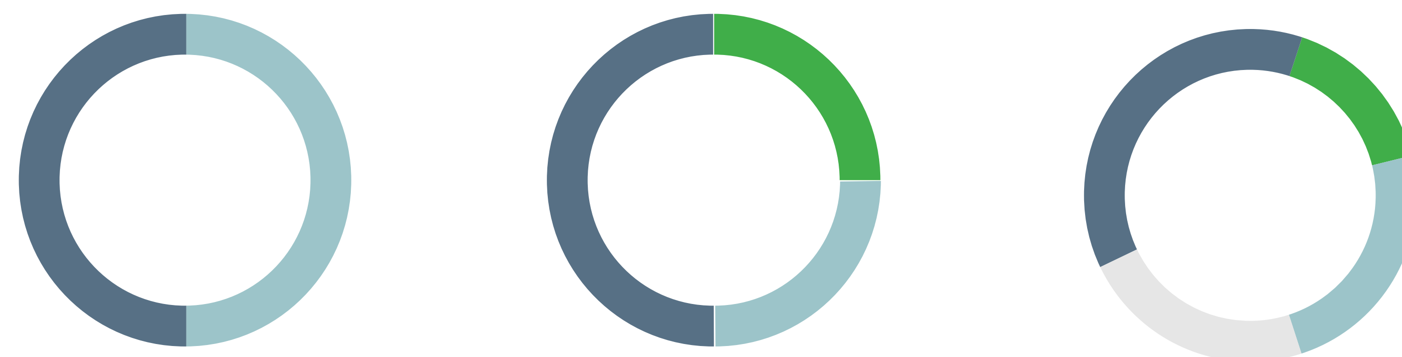
Demand-pull inflation – The demand for the country's goods and services exceeds its ability to supply the products. Prices rise generally as a means of restricting demand to the available supply.

Cost-push inflation – Costs rise due to factors such as rising wages or costs of raw materials and components.

The government's main weapon against inflation has been to raise interest rates. The effects of this are:
- consumers are discouraged from spending their money by higher savings rates and are less likely to buy on credit as it is more expensive
- businesses reduce investment as borrowing becomes more expensive
- output and sales decline and the inflationary pressure reduces.

High rates of inflation affect businesses because:
- rising wages and raw materials costs may force businesses to accept lower profit margins or to raise prices
- businesses face menu costs as prices listed have to be frequently updated
- businesses face shoe leather costs (businesses frequently need to spend time and money trying to find out which supplier has the cheapest prices)
- overseas businesses (with lower inflation rates) may gain a competitive advantage
- some businesses will invest more as the real value of loans falls quickly
- other businesses will hold back on investment because interest rates are likely to rise
- people save more due to uncertainty and because interest rates are frequently raised, so demand falls.

If inflation rates are low: *Opposite of high!*



TAXATION

Definition: Part of any income earned by a business must be paid to the government. The revenue generated is used to fund public services such as education, health and the armed forces.

There are two types of tax: direct and indirect.

Direct: (paid on income and profit)

- **Income Tax** – This is paid by individuals, sole traders and partnerships. All the money sole traders and partners earn belongs to them as they and the business are one. They, therefore, pay Income Tax and not Corporation Tax.
- **Corporation Tax** – This is paid by all types of businesses except sole traders and partnerships on the profit that they earn.
- **National Insurance** – This is paid by both employers and employees on an individual's salary. The contributions are used to fund part of the NHS, state pensions and the Job Seekers' Allowance.
- **Capital Gains Tax** – This is paid by businesses and individuals on the profit that they generate from buying and selling assets.

Indirect: (paid on goods and services purchased and on property)

- **Value Added Tax (VAT)** – This is paid by consumers on the goods and services that they buy.
- **Excise/Custom Duties** – This tax is paid on goods exported out of / brought into the UK from abroad (outside the European Union).

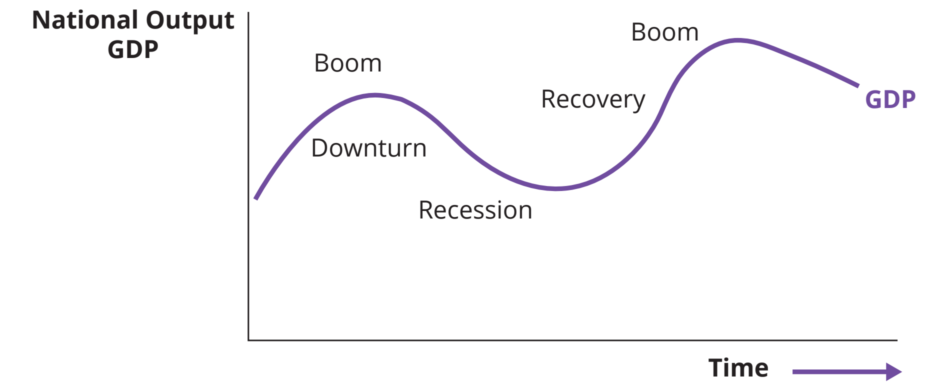
The government can affect the level of spending and economic activity in the country by:

- altering interest rates – **monetary policy**
- altering tax and public expenditure – **fiscal policy.**

BUSINESS CYCLE

All countries suffer fluctuations in the **level of activity** within their economies. At times, spending, output and employment all rise; during other periods, the opposite is true.

Economic activity relates to the level of spending, production and employment in the economy at any given time. A nation's **Gross Domestic Product (GDP)** measures the value of a nation's output over a period of time – normally a year.



This figure is dependent upon the level of economic activity. Rising **economic activity** will cause a higher level of GDP. The **business cycle** (also called the **trade cycle**) describes the regular fluctuations in economic activity (and GDP) occurring over time.

Note that the degree to which a business will be affected by the business cycle will depend on whether it produces 'needs' or 'wants'. However, in general:

- **Boom:** The level of economic activity is rising rapidly, leading to higher inflation and increased imports. Wages may rise as businesses can afford to pay the additional costs. Prices may rise as shortages occur. (Government policies try to head off the worst excesses of a boom. The reduction of growth in GDP is achieved by increasing interest rates and/or increasing taxation and/or cutting government expenditure.)

- **Recession:** Economic activity declines as the economy moves into recession, with production rising less quickly, or declining, and unemployment increasing. Wages are likely to remain static and prices may fall to encourage consumers to purchase. Imports may fall as consumers do not have sufficient funds to purchase them and businesses do not need to purchase as many raw materials from overseas. (The government is likely to reduce interest rates or reduce taxes to encourage consumers to spend or it could increase public expenditure.)

- **Slump:** Demand falls, unemployment is relatively high and there is low inflation. Businesses may have to reduce prices and they will be reluctant to invest. There will be spare capacity in the economy. (Interest rates are likely to be low, taxes may have been reduced and public expenditure increased.)

- **Recovery:** The rate of growth of GDP starts to increase, unemployment begins to fall as businesses take on more workers to cope with the rise in economic activity, inflation might start to increase as prices rise and businesses begin to increase their investment spending as business confidence increases. Imports are likely to increase. (The government may raise interest rates to reduce inflation.)

Businesses supplying 'wants' may be affected significantly by the businesses cycle. Examples include wine, sports and leisure goods, restaurant meals, jewellery and household furniture. Businesses supplying 'needs' are unlikely to be affected to a great extent by the business cycle – in fact, demand may rise for some of these products in a recession or slump: coal, bread, petrol, fresh vegetables and tobacco.

BOOM

RECESSION

Growth at slowest since April 2013 as production and household spending weaken

SLUMP

RECOVERY

UK economic recovery to continue into 2016, forecasts OECD

eduqas wjec cbac

UNEMPLOYMENT

Unemployment will always be with us. This may seem a slightly contentious statement, but the fact is that every economy has a natural rate of unemployment. This natural rate of unemployment does alter over time and will depend on such things as mobility of labour, availability of training, trade union power and the skills of labour.

Types of unemployment:

- structural unemployment
- cyclical unemployment
- frictional unemployment.

STRUCTURAL UNEMPLOYMENT

This appears when there have been large changes in patterns of demand or developments in technology which have caused long-term unemployment in regions or industries. These changes mean that the structure of the industry or service has changed, and that jobs in their previous form are unlikely to return.

A good example would be the high levels of male unemployment in South Wales valleys and regions of Yorkshire which had previously large coal-mining and steel-producing areas. In this case, decline in the industries has been caused by cheap imports and by the switch to natural gas for heating and in power stations.

Providing a solution to structural unemployment when it occurs is one of the largest problems facing any government. Quite often, families have previously been employed for many generations within the same industry. It is difficult to encourage retraining and mobility of labour from these regions. It is also difficult to encourage businesses to move to the areas which are so obviously depressed.

Main types of unemployment

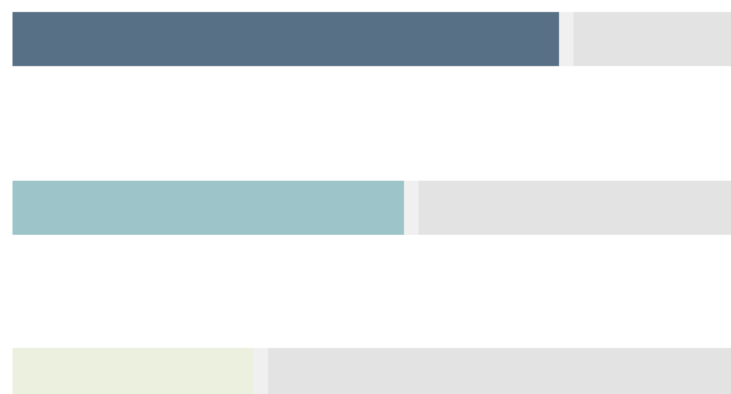
Seasonal	Structural	Frictional	Cyclical
Regular seasonal changes in employment / labour demand	Arises from the mismatch of skills and job opportunities as the pattern of labour demand in the economy changes	Transitional unemployment due to **people moving between jobs**	Caused by a **fall in aggregate demand** leading to a decline in GDP and employment

CYCLICAL UNEMPLOYMENT

Cyclical unemployment, as its name indicates, appears as part of the business cycle. As an economy enters a downturn, unemployment increases; this will peak during any subsequent recessionary period. This type of unemployment will fall during recovery and reach a minimum at the peak of the boom period.

The government has tried to tackle cyclical unemployment in two ways. Firstly, by encouraging wage flexibility, for example, by making part of employees' wages relate to profits of the company (profit-related pay). It is then not so expensive to employ employees when there is a downturn in profits.

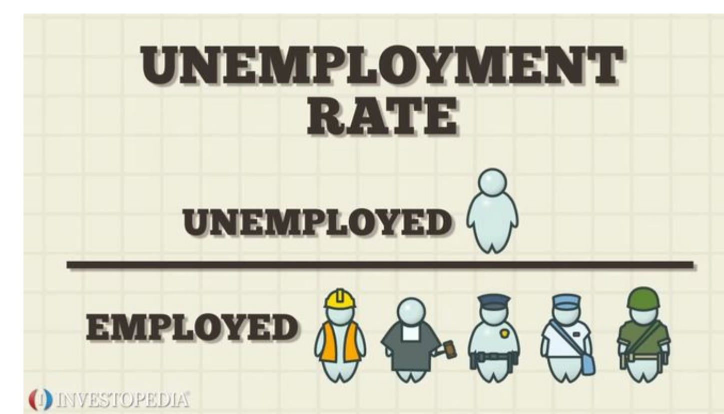
Also the government has tried to reduce the nature of the economic cycle and the large variations between boom and bust. One important way of doing this is to encourage investment in labour and so make it more expensive to shed workers during an economic downturn.



THE IMPACT OF HIGH LEVELS OF UNEMPLOYMENT ON UK BUSINESSES

The major impact of unemployment is reduced demand for goods and services.

- The **economic crisis of 2008 saw the unemployment figure reach 3 million** and this had a very significant impact on the sales and orders of UK businesses. **Sales forecasts were radically revised** and survival became the major objective of the majority of enterprises.
- This fall in demand can result in a **fall in output** and then possible redundancies for some workers if they are not needed.



FRICTIONAL UNEMPLOYMENT

This perhaps is the least problematic of the three types of unemployment and occurs when there is a delay in finding a job after losing a previously held job. This unemployment is obviously less long-term than structural unemployment; it tends to be temporary. Nonetheless, the government still tries to reduce it by increasing information available of vacancies that exist. This can be done through job centres and other employment recruitment services.

UNIT 4: SOCIAL FACTORS

DEMOGRAPHIC CHANGE

Demographics measure the changing structure of the population.

- The first important factor is the **overall size of the population.** This is of interest to businesses since, in general terms, if the population increases, the size of their market will increase, and they will be able to sell more goods.

- The **age of the population** is important. The baby boomers of the 50s and 60s are now entering or moving toward retirement. These people are generally a well-off section of society, the majority with their own homes and many with high-value final salary pensions. Baby boomers can have large amounts of savings and disposable income which can be used for holidays, conservatories, new cars, etc.

- **Migration** is also a major part of the change in UK population structure. For example, young immigrants have added to the working population as they fill the skills gap in the UK and undertake those jobs, such as agricultural labouring, which the UK population has been reluctant to do.

LIFESTYLE CHANGES

Lifestyle changes provide businesses with opportunities and threats:

- One major change over the last 40 years has been the increase in the **number of women who are economically active, i.e. in work**. Working women do not comply with the old-fashioned housewife role; they are busy, with little or no time during the working week to cook, mend and sew.
  - Supermarkets and other retailers focus on convenience, time-saving meals, home delivery and 'click and collect'.
  - The childcare industry has boomed and forms a significant element of many household budgets today.

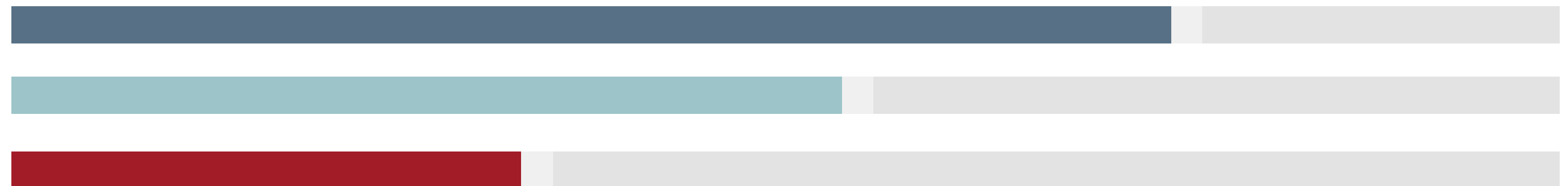
- Society is becoming more health-conscious. Fitness is another sustained lifestyle change. This does not just impact on the demand for gyms but also related goods, such as low-fat, low-sugar and organic foods.

- For businesses, the problem of **how younger people consume media and purchase goods** is a major problem. Teenagers (and younger) switch between TV, phones, tablets to consume entertainment. Now, marketing and selling to these segments has to be focused on a wide spread of media, not just traditional above-the-line methods.

- **Cultural changes** within a population can also have a major impact on business behaviour and the products they produce. Social change also includes fashion changes. Consumers are now happy to pay £3.00 for a coffee – as long as it has the right brand on the takeaway cup.

- **Changes in consumers' attitudes** toward the environment have changed demand patterns across a range of industries. Electrical goods need to be energy-efficient. When consumers are purchasing cars, the focus can be as much on emissions and fuel efficiency, as on performance.

- Social change can also be seen within businesses in the way they **determine objectives and strategies**. There is a growing movement in the setting up of social enterprises, where businesses are primarily focused on a social objective as opposed to profit. This is driven by, and a reaction to, big businesses traditionally having given little thought to their social impact. As a result, some large businesses today go as far as producing a social audit alongside their traditional accounts in order to improve public relations. The social audit measures the environmental and social impact of the business's activities and sets out strategies for reducing any negative impacts.



UNIT 4: TECHNOLOGICAL FACTORS

TECHNOLOGICAL FACTORS

There are many definitions of technology; one of the most common is 'the application of science to solve problems'.

Over the last 20 years, increasing levels of automation and use of information and communications technology (ICT) has had a major impact on all organisations and how they operate.

CONSUMERS AND TECHNOLOGICAL CHANGE

Consumers can benefit in a number of ways from the new technology introduced by businesses:

√ internet provides easy price comparison and much more information through review sites
√ convenience through home shopping and pre-arranged delivery times
√ more choice
√ lower prices
√ improved quality.

But there can also be problems:
X online shopping and banking can lead to fraud
X no-one enjoys phone calls trying to sell insurance, PPI claims, etc.
X rapid technological change leads to pressure to buy the latest products, potentially leading to debt.

AUTOMATION

Automation used to simply mean robots carrying out repetitive tasks in manufacturing industry. However, automation is likely to be seen more and more in the following areas:

- **Retailers** – For retailers, automation has become one of the key issues in business efficiency. Whether it is automated ordering or the more visible self-checkouts.
- **Banks** – Bank clerks are disappearing to be replaced by machines. Those bank staff that are visible are there just to help you use the automated systems and to sell you new products.
- **Warehousing** – Staff functions are being replaced by robots that can do more and more tasks. Robots are not yet capable of removing all goods from shelves but can transport and pack goods.
- **Online services** – Whole systems will be automated; mathematical analysis will determine which products are marketed, where they will be placed and what prices are charged.
- **Utilities** (gas and electricity) – Smart meters will replace the need for manual meter reading. Switching to the cheapest provider may become automatic.

INFORMATION AND COMMUNICATION TECHNOLOGIES (ICT)

With the current rate of progress in ICT, it will soon be possible for computers to have an impact on every aspect of business operations. From stock control to monitoring of staff performance, from marketing goods and services to managing budgets – and much, much more. ICT has an important and growing role to play. There are several ICT applications that have had a massive impact on the way businesses are run. The most important of these are:

Internet Marketing

Internet sales are increasing year on year. Businesses that have already entered this lucrative market have seen share values rocket, as well as sales (though profits are still to show up in many cases). Tesco and Iceland have a full range of products for sale on the internet. Amazon.com, initially internet booksellers, have spread their range to a vast range of products requiring massive warehouses all over the UK to distribute them.

Web-based customer relationships

It is becoming more and more typical for businesses in financial industries to have entirely web-based customer relationships. Banking is done online, bills are paid, direct debits set up and cancelled, loans and overdrafts are arranged without a single visit to a branch - all is done over the internet. The gambling industry has benefited greatly from the growth of this type of interaction with the customer. Now bets on sports, poker and bingo are played through mobile technology.

B2B (Business to business)

B2B involves the finding of commercial buyers for businesses output, and the sourcing of components and raw materials for businesses production, via the internet. It has been estimated by industrial economists that there are potential cost savings of between 5 and 10% if businesses operated all their purchasing through the internet. Business to business portals allow full supplier relationships to be established and maintained.

Manufacturing resource planning 2 (MRP2)

This system is used by manufacturing businesses to plan all aspects of business activity. The MRP2 system takes forecasts and turns them into a series of objectives and targets for each function or department in an organisation. This system, when running efficiently, can replace an entire layer of management who have previously been employed running the planning and budgeting processes. MRP2 allows the maximum possible use of 'what if?' questions. Senior managers are able to judge the impacts of otherwise untestable scenarios on the organisation. This ability to use computer modelling reduces costly errors.

Electronic point of sale systems (EPOS)

The reading of bar codes at checkouts is the tip of the iceberg of EPOS systems. Beneath this, we have a stock database that controls stockholding and ordering for retailers; warehouse stockholding for manufacturers and supply from businesses in the supply chain. Used most efficiently, retailers can use EPOS to determine promotions, selling space allocations and staff requirements. Manufacturers can use EPOS systems to reduce stockholding and working capital, thus ensuring that suppliers supply only as and when required.

IMPACT OF TECHNOLOGY IN BUSINESS

- **Product life cycle and speed of technological obsolescence**

The more technological input into business operations there is, the greater the impact on product life cycles. The ability to develop and bring to market new products much quicker means that product life cycles of existing products become much shorter, and products become technologically obsolete much quicker. As a result of shorter life cycles, products must become profitable more quickly and the numbers of early adopters, willing to pay a high price, may be critical to this profitability.

- **Location of business and ICT**

The rapid increase in the quality of global communications technology and the matching fall in cost of use of this technology have allowed large businesses the option of outsourcing or relocating their 'back office' operations worldwide. For example, call centre operations in India. The costs of these operations are far lower than in the UK – in fact, the estimated cost to the call centre operator of each 1 minute call is just 7p. This includes the cost of the call and the employee costs. When we consider wages in India can be just $200 dollars a month, (approx. just 15% of UK wage costs), and that many posts are filled by graduates, we can see the attractions of this type of relocation.

- **Outsourcing production**

Improvements in technology have also led to outsourcing of production. Because quality can be remotely monitored, the fear that outsourcing leads to quality problems or supply chain delays has, to a large extent, disappeared. This means that many large businesses can reduce financial risk by letting other businesses manufacture their products for them. Apple Computers do not build a single iPad or iPhone, but they still control and monitor production on a daily basis.

UNIT 4: TECHNOLOGY

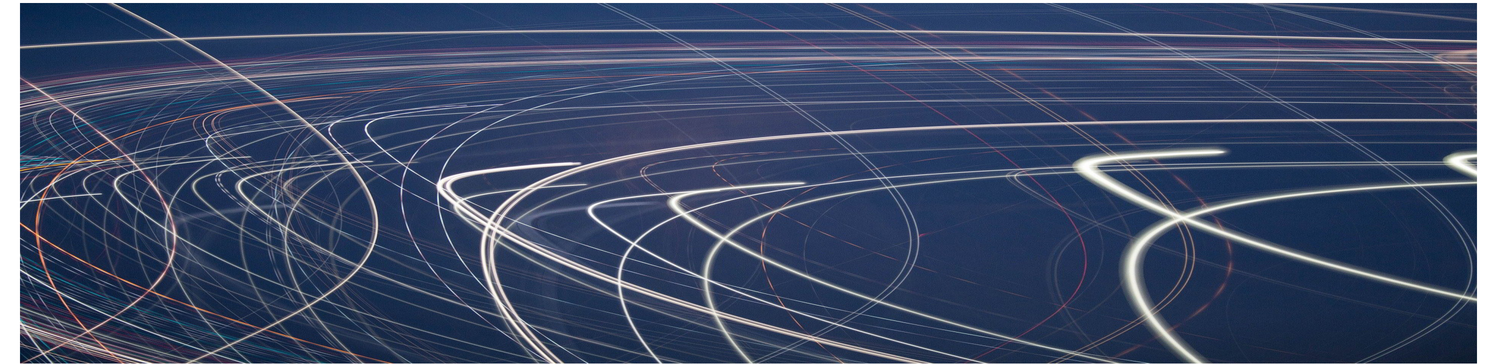
IS USING ROBOTIC TECHNOLOGY IS ALWAYS BETTER THAN EMPLOYING PEOPLE TO DO THE WORK?

Arguments for the use of robots:

√ Robots can **carry out repetitive tasks** with great accuracy time after time – repetitive tasks undertaken by humans can lead to boredom, lack of motivation and human error.
√ They **do dirty, dangerous jobs without complaining.**
√ They **do not get tired, sick, join trade unions, take days off.**
√ Although initial costs high, **long term costs reduced.**
√ **Increased output** – greater speed. Likely to be fewer mistakes/errors – better quality.

However:

X **Initial purchase cost** can be very high and breakdowns can also be very expensive to resolve.
X **Maintenance can be costly** as downtime is required.
X Robots have proved to be too **inflexible** in final assembly where customer options have to be catered for.
X **Reprogramming of robots can be very expensive** indeed.
X They **cannot problem solve.**
X Maybe **costly to keep up** with technological achievements.



CAD: COMPUTER AIDED DESIGN

Definition: Computer aided design is an interactive computer system which is capable of generating, storing and using computer graphics. It assists design engineers in solving design problems.

Advantages of using CAD:

√ Accurate designs can be constructed on a computer which can be **viewed in 3D and rotated** in order to demonstrate the whole range of possible images.
√ They can be **easily and cheaply altered** for a client - reduce lead time.
√ Designs can be accurately measured and tested on screen in order to **detect faults prior to manufacturing.**
√ Increased accuracy and ability to alter designs can **reduce the cost of the design process.**
√ Designs can be more **easily stored and quickly retrieved.**
√ Considerable sums of **money can be saved** by eliminating the production and testing of expensive prototypes.
√ **Testing programmes** can also be included, e.g. wind tunnels.

Disadvantages of using CAD:

X Cost of setting up – buying the machinery + training of employees to use machinery.
X Possible redundancy payments to unskilled employees.
X Reputation of business if they have to make employees redundant.

CAM: COMPUTER AIDED MANUFACTURING

Definition: The use of computers in production. It occurs in all sorts of industries - for example, the use of robotic welders in vehicle production.

Advantages of using CAM:

√ CAM allows for standardised quality – accuracy.
√ Reliability – less waste in manufacture.
√ Lower labour production costs – less supervision.
√ Greater customer satisfaction – fewer returns.
√ Easy to adjust – speed – cheaper.

Disadvantages of using CAM:

X Cost of setting up – buying the machinery + training of employees to use machinery.
X Possible redundancy payments to unskilled employees.
X Reputation of business if they have to make employees redundant.

UNIT 4: ETHICAL FACTORS

ETHICAL ISSUES

An ethical business is one that considers the needs of all stakeholders when making business decisions.
An ethical business, when setting objectives and considering strategy, takes into consideration its social responsibilities. Ethical businesses consider the moral rights and wrongs of any strategic decisions that are made.

Ethics are the shared attitudes and principles held by the employees within a business. An **ethical code of practice** states how a business believes its employees should respond to situations that might challenge the values of the business. An **ethical stance** refers to a business that has introduced an ethical policy.

An **ethical business culture** exists when all employees in a business behave in a moral manner as a normal part of their working lives. This offers businesses a number of advantages in terms of marketing, particularly in relation to PR.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

This is the concept that businesses have a responsibility that goes beyond making profits for their shareholders.

Businesses need to monitor and take responsibility for the impact they have on both social welfare and the environment.

Some large organisations now audit their activities and make a corporate responsibility report available to the public, similar to the way in which they audit their accounts.

KEY ETHICAL ISSUES

- **Employees –** Businesses should treat employees as their most valuable asset. This means taking care of their health and safety and conditions of work and also paying a living wage. Their ethical responsibilities should not stop with their own employees. Those working for suppliers are equally as important. It cannot be regarded as ethical if a business claims to pay its own employees a living wage if employees further down the supply chain are not being paid a living wage.
- **Supplies –** Suppliers should also be treated fairly. This means sticking to agreed contracts, and not forcing renegotiation upon suppliers. It means sharing burdens of developing and supplying products and paying on time and not putting pressure upon suppliers' cash flow.
- **Customers –** Customers want a quality product or service at a fair price. Businesses which act unethically fail to fulfil this moral commitment to customer.
- **Environmental Ethics –Environmental pressure groups (e.g.** Greenpeace) have become increasingly effective in influencing business decision makers**.**
- **Animal welfare –** This is is a major issue for those retailers with claims to be ethical. Grocers look down the supply chain to ensure the welfare of animals, and can focus their marketing on how well supplying farmers treat their livestock. The demand for 'free range' products is a good example of how retailers have responded to their customers' concerns.

ETHICS AND PROFITABILITY

Acting ethically, unless required to do so by law, can negatively impact upon profitability:

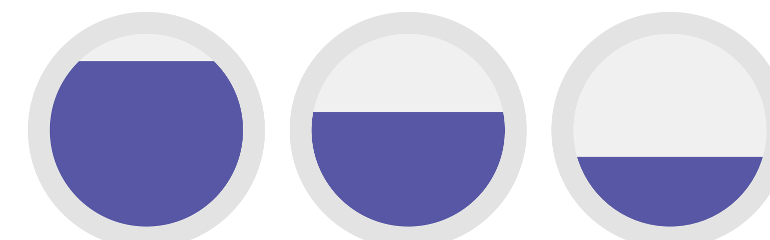
X **Costs are likely to rise**. For example, paying a 'living wage', as opposed to complying with the minimum wage legislation, will increase labour costs. Building improved canteen facilities or providing sports facilities for employees would prove to be very costly.

X **Revenues are likely to fall.** For example, a toy retailer that refuses to target children with blanket advertising prior to Christmas will no doubt lose sales to their competitors. A construction company that declines to offer a bribe to a Third World government official when tendering for a contract may well not be considered for that project.

However, an ethical approach can prove beneficial:

√ **Some customers are attracted to those businesses that adopt an ethical approach**. Restaurants and coffee shops that source their ingredients from ethical suppliers appeal to a growing number of customers. Using 'ethics' at the heart of their marketing campaigns can boost sales in certain instances. The growth of the Fair Trade movement is evidence of such a trend.

√ **Acting ethically can improve public relations** (PR) and have a positive impact on the image that a business portrays. No business wants to have its name splashed all over the newspapers for mistreating its employees or using low quality ingredients that may be harmful to consumers. The discovery of horsemeat in burgers supplied by a number of UK supermarkets is a crisis they could have well done without. Checking supply chains carefully is not only ethical, but can also prevent significant loss of revenue and reputation.



UNIT 4: LEGAL FACTORS

Changes to the law can restrict business behaviour and increase costs – they can also create business opportunities.

- **Employment rights** – This is the key legislation concerned with establishing workers' rights in regard to their terms and conditions of employment. Employees have to be provided with a written contract of employment within two months of starting employment. The contract must state levels of pay, holiday entitlement, rights for maternity pay, pension rights, disciplinary procedures and length of notice period.

- **Anti-discrimination legislation** – The Equality Act 2010 legally protects people from discrimination in the workplace and in wider society. It is illegal to discriminate on the grounds of:
  - age
  - racial or religious belief
  - sex
  - sexual orientation.

- **Company law** – This regulates how private and public limited companies operate. It includes how limited companies are formed, the information that must be publicly available, the format of financial accounts and the type of shareholders permitted.

- **Consumer protection** – There are laws designed to protect the consumer from unscrupulous firms. It covers such areas as:
  - safety of goods
  - labelling
  - the right to return goods
  - the right to money back
  - protection against untruthful claims about the product or service.

- **Intellectual property law** covers the legal rights of individuals and companies in regard to designs, inventions and artistic works.

- **Trademark legislation** covers designs and artwork, such as labelling, brand logo design and product design. Trademarks and other aspects of design can be registered and protected from copying. A copy can infringe a trademark without being an exact copy, but instead similar enough to cause confusion in consumers.

- **Patent Law** covers inventions and gives rights to the inventor or patent owner for a limited period to stop others from making, using or selling an invention without the permission of the inventor or owner. Patent periods can vary in time but are normally for 20 years. The registration process can be relatively expensive, but businesses found guilty of infringement have to pay damages and a court injunction to prevent further infringements occurring.

- **Copyright law** gives the creators of literary, dramatic, musical and artistic works, sound recordings, broadcasts and films, rights to control the ways in which their material may be used. The law means that it is an offence to do any of the following without the consent of the owner:
  - copy the work; rent, lend or issue copies of the work to the public
  - perform, broadcast or show the work in public
  - adapt the work in any way.

- **Competition law** – This regulates the way in which businesses compete. Examples of this include:
  - control of the merger of businesses because of the danger of monopoly power
  - restrictions on one business undercutting others
  - investigation of businesses who are believed to have too much control of the market
  - making cartels and price fixing illegal.

Data protection – Data protection is concerned with how personal data gathered by organisations is used and kept secure. Businesses are required to have a Data Protection Officer whose role is to ensure that the requirements of the Data Protection Act are met. Data gathered from customers or clients must be:

- used fairly and lawfully
- used for limited, specifically stated purposes
- used in a way that is adequate, relevant and not excessive
- accurate
- kept for no longer than is absolutely necessary
- handled according to people's data protection rights
- kept safe and secure.

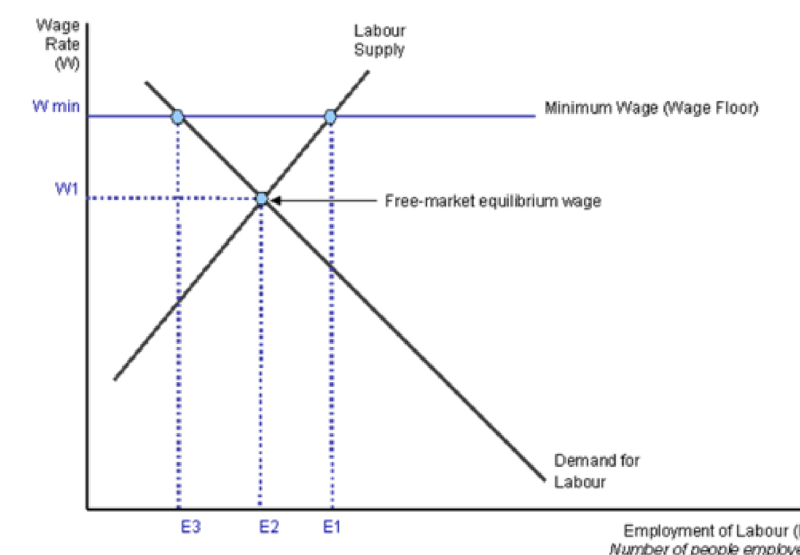
Businesses who fail to protect data can be subject to large fines. Instances of companies failing to protect customers' data online are very much on the increase and it is an issue that businesses are urgently attempting to address.

Health and safety law – Employers have a duty to take all reasonable care to ensure the well-being and safety of their employees. Employers have a legal responsibility to ensure that working environments are safe and that employees are able to understand and are trained to deal with the risks involved in their jobs. Employees also have responsibilities, such as taking reasonable care and ensuring that they abide by health and safety rules – e.g. wearing hard hats on building sites.

Environmental law – Disposal of waste, air omissions. This regulates a business' activities with regard to its effect on the environment. It covers areas such as managing waste, controlling pollution, managing energy, conserving fisheries and clean water stewardship.

Minimum Wage – The minimum amount that an employer can pay their employee per hour. The National Minimum Wage when first introduced in April 1999 intended to boost the pay of very low-paid workers.

The legal minimum wage is reviewed every year and has gone up each year since 1999. Businesses have to comply with the new rates or face prosecution.



Planning law – This restricts a firm's activities with regard to where it may locate and how it may expand its property. It covers such areas as planning permission for the change of use of a building, planning permission for an extension to a building and objections by neighbours to having a business close to them.

Some of the **government bodies** that ensure that businesses comply with the law are:

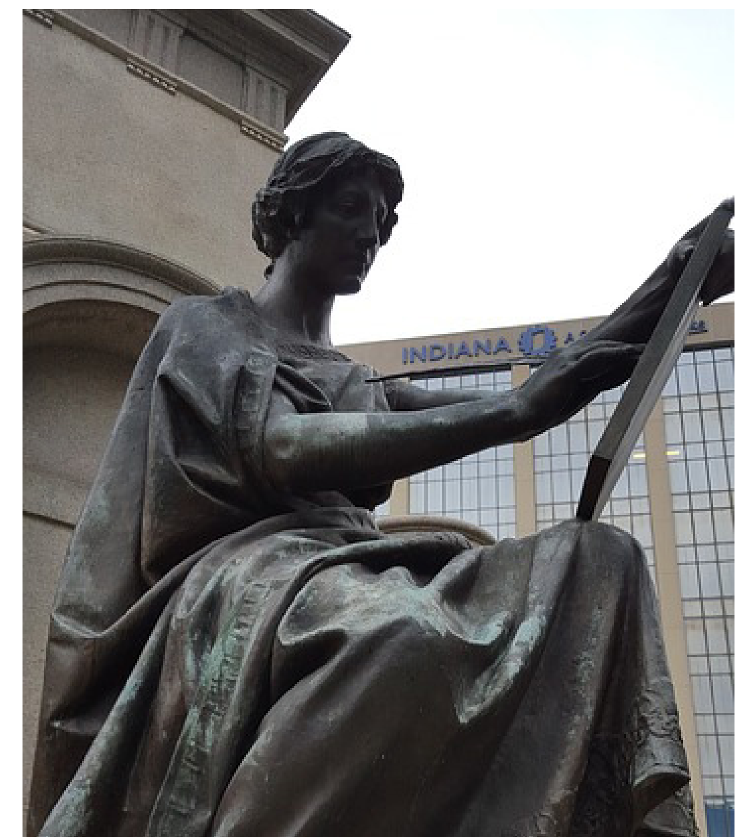
- The Office of Fair Trading
- The Competition Commission
- The Food Standards Agency
- The Environment Agency.

In addition to UK legislation, businesses in the UK are subject to **European Union** laws.
European Union laws take precedence over UK laws.
Examples of European Union laws are:

- 48 hour maximum working week
- no discrimination is permitted on the grounds of age or religious belief
- the weight of goods must be displayed in metric measures.

The government can provide an environment that stimulates business success or it can stand in the way of business growth and innovation.

	EMPLOYERS	EMPLOYEES
ADVANTAGES OF THE MINIMUM WAGE TO:	• Benefit from a more motivated workforce as they are happy to be receiving more money. • More use of zero hour contracts where employees only get paid for the hours that they work. • An increase in the min. wage may lead to an increase in the amount of disposable income employees have. This could then be spent in shops and they may see an increase in business. • Reduces the need to negotiate with unions about pay which could have lead to disputes.	• More disposable income due to the increase in the min. wage. • Benefit particularly those industries that were traditionally low paid. • More supply of labour as working becomes more attractive. • Younger people may find it easier to get jobs as it is cheaper to employ younger workers than older ones.
DISADVANTAGES OF THE MINIMUM WAGE TO:	• Wage costs would increase with any rise in min. wage which could impact on the business' profits. Alternatively, businesses may be forced to reduce the number of people they employ in an attempt to cut their wage bills. • As a result, an increase in the min. wage could lead to cost-push inflation and businesses could see the costs of raw materials rise. • May be tempted to employ cheaper younger workers rather than older workers or, in extreme cases, use illegal workers in an effort to make the wage bills cheaper.	• Older workers may find themselves at a disadvantage if the employer favours employing the cheaper younger workers. • Loss of job security as the business may look to dispose of employees if their wage bills significantly increase. • This increase in min. wage may not be very substantial, therefore, they receive very little benefit of the increase. • Businesses may move production abroad in favour of cheaper labour elsewhere in the world.



UNIT 4: ENVIRONMENTAL FACTORS

ENVIRONMENTAL

Protecting the environment is now a mainstream business issue. Businesses can no longer afford to ignore their own impact on the environment, or the implications of a changing environment for their operations.

Businesses contribute in many ways to the creation of environmental damage:
- the emission of gas through production processes
- pollution caused by transporting raw materials and products, particularly using road vehicles which emit noxious gases and create congestion and noise
- the pollution of the sea by businesses using it as a 'free' dumping ground
- destruction of the natural environment as a result of activities such as logging.

The **negative externalities** (environmental costs) of business activity used to be largely ignored by nearly all stakeholders; those stakeholders that did care were not listened to. Today, things are very different. The government and pressure groups (whether local or global) have a strong influence on business activity and, to some extent, they are able to limit its wider environmental impact.

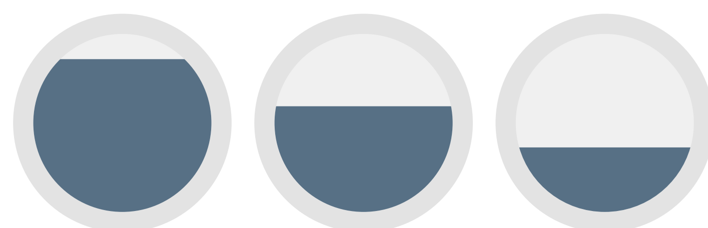
As well as these external influences, **many businesses now undertake the control of their environmental impact** without the need for external pressure. Some produce and publish their own **environmental audits**, which measure their impact on the environment and set out plans for improvement.

THE ROLE OF GOVERNMENT

The UK Government has signed up to a range of EU limits and controls designed to restrict the negative impact of business activity. A range of green taxes has been designed, not so much to punish businesses, but to encourage them to improve environmental practices. These are often referred to as **green taxes**.

Examples of such taxes include:
- **The Climate Change Levy** – This is a tax on energy use by non-domestic users. The tax is designed to provide an incentive to reduce energy consumption.
- **The Landfill Tax** – This was the UKs first environmental tax (1996) and is a charge on waste going to landfills. Landfill sites in the UK are almost full. Trying to open new ones would be met with fierce opposition.

THERE IS NO RIGHT WAY TO DO A WRONG THING.



THE ENVIRONMENT AGENCY

The Environment Agency is the government body that monitors and controls pollution. It was set up in 1995 (Environment Act) and it has had a significant role in helping to reduce emissions into the air, cleaning up our rivers and generally ensuring that UK businesses comply with the numerous pieces of legislation introduced by the EU and UK Government.

PRESSURE GROUPS

A collection of people who combine to bring about change, e.g.:
- environmental groups, such as Greenpeace and Friends of the Earth
- groups concerned with consumer issues, such as the Consumers' Association
- businesses lobbying the Government for changes in policy or legislation, for example, the Confederation of British industry (CBI);
- issues concerning the welfare of animals, such as Compassion in World Farming (CIWF)
- trade unions, for example, the National Farmers' Union (NFU).

Pressure groups operate with the aim of making politicians, businesses and the general public aware of the issues and their opinions in order to bring about some specific change.

Pressure groups can use two main tactics in attempting to achieve their aims:
- **Lobbying** – Using techniques such as leafleting, petitions and demonstrations with the intention of winning the support of the public and politicians.
- **Direct action** – This can take many forms including picketing factories and retail outlets, boycotting the products of companies concerned, occupying business premises and public buildings and violent and illegal actions, such as letter bombs.

A number of factors contribute to the chance of pressure group campaigns succeeding, including:
- the amount of publicity attracted
- the degree of public sympathy
- the alternative products available to consumers
- the potential damage to the business' corporate image as a result of the activities of the pressure group.

WASTE MANAGEMENT

Definition: Waste is also a major issue for businesses. Waste impacts on many different areas of concern within the environment, from the excessive use of materials and resources, e.g. unnecessary packaging, to the production of pollutants as a by-product of the manufacture of goods and the safe disposal of waste generated.

Pressure on landfill space is at an all-time high and the identification of suitable alternative means of disposal presents some difficult problems.

Businesses increasingly recognise this as an area which needs improvement. They should design ways of cutting out waste where possible, e.g. through reduced packaging and identifying opportunities for reuse and recycle. This represents an opportunity for many businesses to drive down costs and even improve profitability.

The phrase 'reduce, reuse, recycle' summarises the core waste-reduction process. By addressing waste management in this order, managers can ensure that they are achieving the maximum reduction in creation of waste:

- **Reduce**
  Elimination at source is far more effective than dealing with waste as a product. Monitor what is coming in and where it goes.

- **Reuse**
  Can waste be turned into a new resource? Shredded paper can become packaging, broken items might be repaired, obsolete items put to an alternative use.

- **Recycle**
  Businesses are starting to get much better at turning waste into new products. Remaining waste (after reduction and reuse) should be separated into recyclable materials.

PROS AND CONS OF WM

√ Waste management can help businesses to reduce their costs.
√ Businesses may be able to offer products at lower prices to consumers, giving the business a competitive edge.
√ By reducing certain types of waste, businesses might be able to reduce the tax they pay.
√ If a business has a well-developed waste management policy, designed to protect employees and the environment from hazardous waste, its image may be improved.
√ By spending money on research and development in waste management, businesses may be able to find ways of using their waste productively, such as developing a material from the waste that they can then sell.

X It can be difficult to arrange for waste to be disposed of correctly. The disposal of nuclear waste in particular has caused international incidents in the past.
X Some aspects of waste management are very expensive and contribute to higher business costs, which can lead to a reduction in profit.
X Higher business costs may raise prices of products to consumers.
X Decisions to be made – with regard to the responsible disposal of waste or the costs incurred by doing it.
X Small businesses may be at a disadvantage as they will not have the resources to spend on waste management that larger companies have.
X Businesses that spend large sums disposing of waste in an ethical manner can be at a competitive disadvantage compared with those that do not take their social responsibilities so seriously.
X A business must decide which is more important, its image with regard to the responsible disposal of waste or the costs incurred by doing it.

BENEFITS OF ENVIRONMENTAL AWARENESS

Environmental awareness can bring a number of advantages other than reduced business costs and avoiding legal penalties. These include:

√ Improved business and brand reputation – environmental friendliness can be a highly effective marketing tool.
√ Recruitment of employees who commit themselves to ethical company objectives.
√ Greater customer loyalty from growing number of ethical consumers.

UNIT 4: INTERNATIONAL TRADE

Internal Trade

Definition: International trade consists of buying and selling of exports and imports between countries.

Why do we trade?

Countries do not produce all their own goods to satisfy the needs and wants of their population. This is because different countries have different natural, human and capital resources and employ different ways of combining these resources. These factor differences encourage **countries to specialise** in those goods and services in which they are most efficient. They are then able to **trade any surpluses they produce** for other goods and services produced by other countries in which they are efficient.

For example, Saudi Arabia exports oil, whilst China exports electrical goods. Revenues from the exporting of electrical goods by China can be used to buy imported oil from Saudi Arabia.

Increased efficiency in the use of resources means some countries can produce goods at a relatively cheaper cost than others – maybe because of the availability of natural resources, the skills or cost of the workforce.

Product differentiation can lead to international trade. Many traded goods are similar but not identical, e.g. cars. However, the differences mean that some consumers in one country will want to buy a product made in another country. International trade allows consumers a much wider choice in the products they buy.

KEY FACTORS BEHIND EXPANSION OF TRADE

- **Consumer expectations** – People now see what consumers in other countries have and want it for themselves. This is particularly the case in developing nations where wage levels are increasing.
- Efforts of the **World Trade Organization** to remove barriers to trade.
- **Technological changes**, such as the internet and satellite communication systems.
- **The falling costs of transporting goods** and the increased use of containerisation.
- **Cross-border deregulation** – Trading blocs create an international trading community making trading across borders easier, e.g. European Union (EU) and the North American Free Trade Agreement (NAFTA).

FREE TRADE

Definition: Free trade means international trade conducted without the existence of barriers to trade, such as tariffs and quotas.

A free trade area is one where there are no tariffs or taxes or quotas on goods and/or services from one country entering another. The members of a free trade area do not have a common external tariff on goods entering the area.

A single market is like a free trade area in that there are no tariffs, quotas or taxes on trade but also where there is free movement of goods, services, capital and people, and a common external tariff on goods entering the single market.

ADVANTAGES OF FREE TRADE

The advantages of the expansion of free trade are numerous:

√ **Allows economies of scale** to occur, reducing costs and increasing productive efficiency.
√ **Increases choice** for consumers.
√ **Increases competition**, improving quality and reducing prices.
√ **Increases chances of transfer of technology** and other skills, helping with development.
√ Trading with other countries **increases political stability.**
√ **Encourages innovation** – Lack of free trade often leads to domestic markets being dominated by a few businesses who avoid competition themselves. Competition provides a powerful incentive to innovate.
√ Leads to **dilution of monopoly power** in domestic markets and reduces potential for exploiting customers.

For developing countries, international trade also:

√ **Brings employment and higher real wages.**
√ **Encourages inward investment** and the move to manufacturing employment from agriculture. This, in turn, leads to up-skilling of the workforce and the growth of local supplier businesses.

PROTECTIONISM

Definition: Protectionism is an economic policy of restraining trade between countries through the imposition of barriers to trade, such as tariffs or quotas.

In spite of all the advantages that free trade between nations offers, some countries actively pursue a policy of protectionism for a variety of reasons:

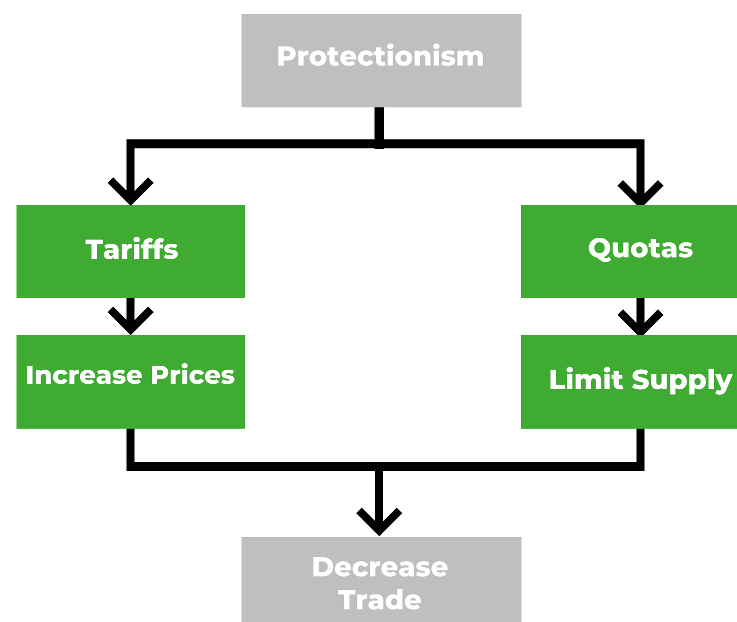
√ To **protect domestic industries**. Industries just starting up may face much higher costs than foreign competitors. A new low-volume domestic producer will find it impossible to compete on price against an established foreign high-volume producer. Only by protecting the new industry as it grows and develops can it compete in the future.
X *However, industries protected by trade barriers lack the competitive pressure to become efficient. Specific subsidies, training grants and tax concessions are likely to be better ways of creating new industries.*

√ To **protect domestic employment**. Preventing those imports which consumers are likely to purchase can create, or at least, preserve jobs.
X *However, consumers are likely to have less choice and pay higher prices.*
X *Foreign countries could retaliate by imposing trade restrictions on exports.*

√ **To prevent dumping**. This is the practice of selling goods at less than cost price by foreign producers in another country's domestic market. A foreign producer may deliberately price at a loss to drive domestic producers out of business. Once they have achieved this, they can raise prices and enjoy monopoly profits.
X *However, preventing dumping stops consumers from being able to gain from buying cheaper foreign goods.*

METHODS OF PROTECTIONISM

- **Tariffs** – These are a tax on imported goods and are sometimes referred to as customs duties. They can be used by a government to raise revenue to finance expenditure. However, most often they are used in a deliberate attempt to restrict imports. By imposing a tax on a good, it is likely that the final price to the consumer will rise. A rise in the price of the good will lead to a fall in demand and the volume of imports will fall. A tariff should therefore help domestic producers as some consumers will switch consumption from the more expensive imported goods to domestically produced substitutes.
- **Quotas** – A quota is a physical limit on the quantity of a good imported. This will increase the share of the market available for domestic producers. It will also raise the price of the protected product.
- **Voluntary export restraint (VER)** – This is a type of quota put in place by exporters. VERs are often created because the exporting countries would prefer to impose their own restrictions rather than risk sustaining worse terms from tariffs or quotas.
- **Non-competitive purchasing by governments** – This involves a government only buying from domestic producers, even if this means paying higher prices.
- **Embargos** – This involves complete or partial prohibition of commerce and trade with a particular country in order to isolate it.



INTERNATIONAL BUSINESS

When businesses are considering moving into overseas markets, there are number of possible advantages. These include:

- **Higher earnings** – Margins in overseas markets may exceed those found at home.
- **Spreading of risks** – This especially relates to fluctuations in demand in the home market caused by the business cycle.
- **New potential markets** – Saturation of home market may have occurred. A business may have the finance to expand, but be unable to do so because of competition, or because of lack of new customers in the domestic existing market.
- **Cashing in on the brand** – New markets mean greater return on investment in expansion of a brand identity.
- **Benefits of economies of scale** – Producing larger production runs helps to cut costs.

PROBLEMS IN DEALING WITH INTERNATIONAL MARKETS

Successful exporting and trading with overseas countries depends upon an understanding that **people all over the world have different needs, priorities, incomes and tastes**. Businesses must acknowledge that most products will have to be adapted in some way to suit local cultures, currencies and buying habits.

Cultural differences can have a significant impact on how goods are sold in different markets. Marketing history is littered with examples of businesses who have ignored cultural differences at their cost. Examples include the Ford Fiesta, which was to be launched with the name Ford Caprino (goats' poo in Italian) and the leading Scandinavian soft drink, Pschitt, which failed in the UK (the name has a silent p).

There are also a number of other factors, external to the business, that must also be considered when considering expanding internationally. These include:

- **Exchange rate factors**. Fluctuations can cause lost orders or pressure on pricing and therefore profits.
- **Different technological and health and safety standards**. These can create extra costs and prevent access to markets.
- **Administrative difficulties**, such as customs paperwork.
- **Distribution problems**. Who is going to wholesale or retail the goods?

Factors	Home Market	Overseas Market
Economic	No currency factors Secure economic environment	Fluctuations of currency value, affecting pricing and profitability Costs of currency transactions Potentially highly uncertain environment, with demand patterns changing quickly
Cultural	No language problems Known social structure Purchasing habits understood	Language barriers, costs of translation Different social structure Unknown purchasing habits
Technological	Familiar standards	Different standards Product adaptation required
Legal	Known laws and regulations	Different reguation Lack of rule of law Political requirements High levels of bureaucracy
Demographic	Size and structure of population known	Lack of understanding of population
Marketing and Competition	Distribution channels established Known brand Activities of competition understood	Need to establish distribution channels High spending required to establish brand Unknown competition Need to adapt pricing stategies

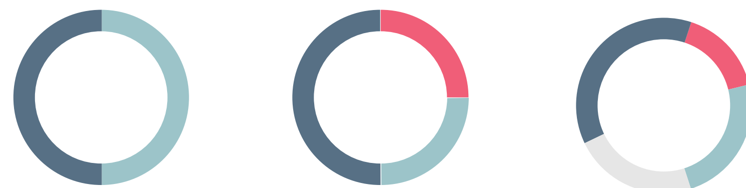
UNIT 4: GLOBALISATION

GLOBALISATION

Definition: Globalisation is the process that enables product, financial and investment markets to operate across the globe.

There are three important aspects of globalisation:
- increased trade in goods and services
- increased movements of labour from country to country
- increased movement of financial capital.

This change, which continues to gather pace, has come about as a result of:
- the deregulation of markets
- political changes
- the removal of barriers to trade
- the lowering of transportation costs
- improved communication systems.



WINNERS OF GLOBALISATION

Consumers who have greater choice and much cheaper goods. Increased competition also improves quality.

Developing countries which increase their wealth by producing goods for export. Most recently, China and India have been the big winners. Other countries that have benefited include Brazil, South Korea and Taiwan.

Developed (Western) economies have experienced low inflation because of the falling prices of imports (the so-called China effect).

Businesses who trade internationally benefit in many ways:
- They can reduce their costs and increase profits by producing in low-cost countries.
- They have a greater spread of risk. The impact of the decline in one market can be lessened by continued trade in other markets.
- Massive economies of scale occur. Selling to a number of countries increases the scale of production; average costs fall, making them more competitive.
- New markets bring new sales opportunities. By selling in new markets, sales can increase quickly. This has been especially important when the home market is saturated.
- Opportunities of partnerships with overseas businesses. For example, within the airline industry British Airways (BA) has relationships with American, Australian and Far Eastern airlines. This improves the service that they are able to offer to customers.
- The opportunities available for employees of developing countries are now far greater. Skilled and educated employees can now complete in a global marketplace for high-paying positions.

LOSERS OF GLOBALISATION

- **Unskilled workers in Western economies** who have found their real wages falling or their jobs being 'relocated' to low-cost economies.
- **Previously viable businesses** who have been outcompeted by low-cost competition from overseas.
- **Employees in developing countries who have been exploited**, working excessively long hours for very low wages in unacceptable conditions.
- **The environment** where the excessive development of land has led to deforestation and flooding. The huge increase in the transportation of goods contributes to global warming.

GLOBAL BRANDING

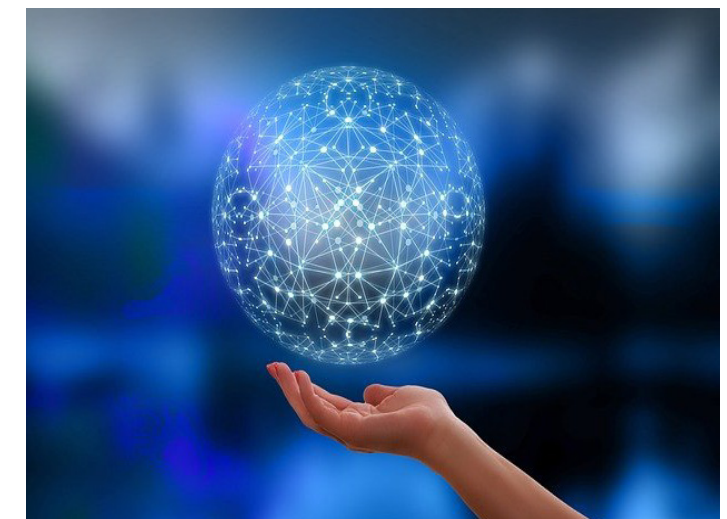
Businesses that have established a strong brand identity in their domestic market are sometimes able to introduce their product or service into other countries based on the recognition of their brand in other parts the world.

- An advantage of a global approach is that it offers marketing economies of scale - a firm can develop one advertising campaign and one approach to packaging worldwide.
- However, this type of strategy does not respond to the requirements of different national markets and so the business may lose sales to competitors who focus more on local needs.

In reality, most companies will choose a balance between the global and the local approach. For example, McDonald's has the same basic brand image and approach everywhere but sells wine in France, does not sell pork in Muslim countries and adjusts the menu in different areas.

STRATEGIES FOR OPERATING IN A GLOBAL MARKETPLACE

- To benefit fully from economies of scale, businesses need to **standardise their products** as much as possible.
- It may not be possible for businesses to produce all their products themselves, so they may **choose to outsource** part of their operation, particularly if that means goods are being manufactured close to the markets in which they will be sold.
- Selling products worldwide means that certain key **staff may need to be mobile,** that is, they are willing to travel to, and maybe live in, other countries.
- Businesses must be aware of the **cultural differences** between the markets in which they operate. This can affect how ethical a business is considered to be in various parts of the world.
- Increasingly, businesses are realising the importance of their **social responsibilities** in terms of how they treat their staff, the effect their activities have on the environment, the need to put something back into the local community and the use of sustainable resources, for example. Increasing globalisation means that businesses have social responsibilities the world over.
- The **use of the internet** (e-commerce) has made operating in the global market place much more accessible to businesses.
- Businesses can **maximise their supply chain** operations by sourcing their raw materials from as near to the place of production as possible.



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MULTINATIONALS

Multinationals are businesses operating in a number of countries, whether extracting resources, manufacturing, retailing or a combination of these activities. Successful British multinationals include BP, HSBC, Tesco, and Vodafone.

There is a large number of foreign-owned multinationals manufacturing in the UK, including Toyota, Ford, LG, Sony and Panasonic. Many more are operating in finance and retailing. Many of the biggest have a level of turnover larger than the GDP of some medium sized countries. This means that they have a huge amount of power and influence.

Advantages of having multinationals based in the UK:

√ Provide employment and create better living standards.
√ Investment leads to infrastructure development.
√ Pay taxes to the government.
√ Introduce new technology and working methods.
√ Increased customer choice.
√ Increased growth in the UK economy – many businesses supplying multinationals in their locality.

Disadvantages of having multinationals based in the UK:

X Multinational companies can severely impact local industries because they increase competition in the economy. They can cause both small and large British businesses to go out of the business, leading to increased unemployment.
X Multinationals have been accused of destroying local culture. Having recognisable 'superbrands' will inevitably lead to a loss of localised products and a shift in habits.
X They may have negative environmental impacts, such as pollution, noise, congestion and destruction of the environment.

SOCIAL COSTS AND BENEFITS OF GLOBALISATION & THE ACTIVITIES OF MULTINATIONAL COMPANIES

Social Benefits:

√ increase in standard of living
√ less armed conflict sorting out trade
√ job opportunities
√ access to latest technologies
√ higher quality goods
√ cheaper raw materials.

Social Costs - These are the costs that society pays for a business' activities, such as pollution and the damaging effect on wildlife. Globalisation has led to significant social costs, such as:

X **Competition for investment** has eroded the will of some governments to protect the environment from pollution and workers from exploitation.
X There has been an **erosion of cultures**. (For example, the average UK's citizen's favourite food is Chinese.)
X The **rich become richer** and the poor can become poorer as they cannot compete.
X The **poor and vulnerable can be encouraged to purchase products that are not beneficial to them** – Coca Cola's mission statement at one time was to have more people drinking Coke than water.
X **Pollution** from one country, the USA for example, impacts on the rest of the planet.

DISCUSS THE VIEW THAT THE SOCIAL BENEFITS OF MULTINATIONAL CORPORATIONS, SUCH AS DOMINO'S PIZZA, OUTWEIGH THE SOCIAL COSTS.

Some multinational companies are extremely large and powerful, and are often bigger than some countries.

Social Benefits:

- Multinational companies provide employment to large numbers of people in developed and less-developed countries.
- Multinational companies provide goods and services that consumers wish to purchase.
- Due to their large size, multinational companies benefit from economies of scale which they can pass onto their customers in the form of cheaper prices.
- Multinational companies often invest large amounts of money in research and development and so can produce new products which are of benefit to consumers.
- Technology transfer.
- Infrastructure developments.

Social Costs:

- Many smaller, local businesses may find it difficult to compete with multinational companies.
- Multinational companies may use transfer pricing in order to avoid paying tax in some countries, e.g., Starbucks and Amazon in the UK.
- Multinational companies may be accused of exploiting workers in less developed countries.
- Multinational companies may have a negative effect on the environment, e.g., BP in the Gulf of Mexico.
- Food miles.
- Threat to local culture.
- Obesity and other health issues.

Conclusion:

Multinational companies are a fact of life whose activities may need to be controlled by regulation. However, in practice, this may prove to be difficult as they are able to move around and can threaten to leave countries whose governments are not friendly towards them. Perhaps some kind of super national authority is required to regulate their activities.

UNIT 4: THE EUROPEAN UNION

EUROPEAN UNION

The **European Union** was formed in 1993 to create a **Single European Market** where there would be:

- Free trade in terms of goods and services and factors of production - land, labour and capital.
- Common technical standards (such as metric units and safety), harmonisation of taxes (such as VAT), a reduction in the number of customs posts and the ending of duty-free sales.
- A **common external tariff** on imports of goods and services from outside (that is, countries wishing to sell goods to any of the EU countries would have to pay an import tax, which would be the same amount for any EU country).
- Common policies on industrial social affairs, defence and health.
- A single European currency (the euro).

MAIN FEATURES OF THE SINGLE MARKET

- **No barriers to trade** between member states. This means no quotas (limits on number, value or quantities) on imports and exports.
- **No tariffs** (taxes on imports and exports) on goods and services traded within the single market.
- **Free transfer of resources** from one country to another, including capital and labour.
- Consistent standards from one country to another (a good, service or professional qualification that is valid for sale or for use in one member state, is free to be sold or used in all member states).
- **Common external tariff** on imports into the EU.

THE ADVANTAGES OF THE SINGLE MARKET FOR BUSINESSES

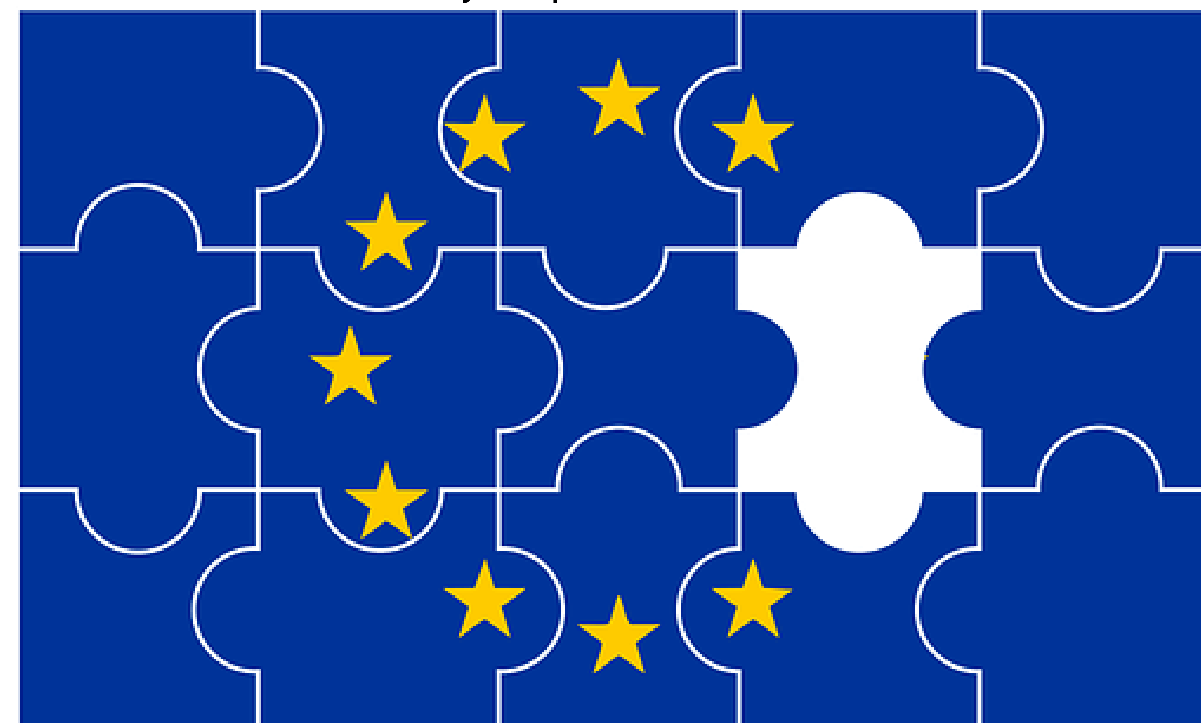
- **Increased levels of demand** results from access to a larger marketplace.
- **Lower costs** through increased economies of scale.
- Larger markets results in larger scale production, **lowering average costs of output.**
- **Freeing of capital markets.**
- Businesses will be able to **access the best finance and capital-raising deals** throughout Europe.
- **Greater employer access** to labour markets – workers from all member states are potential employees.
- **Growing wealth in poorer parts** of the single market could drive future demand.
- Single market legislation has **deregulated markets, increasing opportunities** for competitive businesses to enter these markets.

THE ADVANTAGES OF THE SINGLE MARKET FOR CONSUMERS AND WORKERS

- **Increased wealth as trade and competition increases**. Lower prices means higher 'real income', and increased economic activity leads to more employment.
- **Increased consumer choice**. There is access to all manufacturers and service providers. Why not take out a mortgage or loan with a German bank if the interest rates offered are lower?
- **Greater employment opportunities**. For those with 'marketable skills' – employment anywhere in Europe is available to anyone living in one of the 28 member states.
- EU competition law has **increased choice and forced down prices.**

WHY IS THE SINGLE MARKET NOT YET COMPLETE

- **Protection of industries for political or economic reasons**. Protectionism is still being practiced throughout Europe. Subsidies are paid by governments to uneconomic and non-competitive industries.
- **Problems with harmonisation of standards**. Harmonisation means the bringing together of different standards that exist within Europe. This is a difficult and complex task, made more so by countries fighting to protect their national interests.
- **Cost implications**. For many industries, there are high costs to be met in trying to achieve the harmonised standards set by Europe.



DRAWBACKS TO UK BUSINESSES OF THE EXPANSION OF THE EUROPEAN UNION

- **Greater competition** is likely to appear in some industries, such as tourism, as holidays in some of the new member states are cheaper than holidays in the UK.
- The **UK's agricultural industry may be threatened** by a surge of cheap imports from the new member states – the productive potential of Poland, for example, is extremely large.
- **Jobs may be lost** in the UK economy where labour is relatively expensive as the competition from the east increases.
- There are even more languages that need to be taken into account.
- There are **more currencies** to deal with as the newly joined countries do not adopt the euro immediately.
- There are **greater distances to transport goods** as the countries likely to join the EU are in Eastern Europe.
- UK businesses are under pressure to develop strategies to sell their products in 27 diverse countries.

Evaluate the impact on UK businesses of not being a member of the EU

Benefits:

- As the UK would not be tied to EU trade rules this allows the UK government to set up new trade deals with other trading blocs or countries which may be more beneficial to UK businesses.
- The pound (£) is weaker due to business uncertainty therefore goods bought from the UK in pounds seem relatively cheap to foreign markets. As a result, this is likely to benefit businesses in the UK focused on exporting.
- As the UK will be in a position to impose tariffs and quotas from any trading nation, rather than operating to EU regulations, this may benefit UK businesses by restricting or increasing the price of what may otherwise be cheap imports. This is likely to improve the position of UK goods within the market.

Problems:

- However, tariffs and quotas may be imposed on UK goods being exported to the EU where free trade would have previously been in place. This can reduce demand for UK goods and as a result lead to a reduction in revenue for UK businesses.
- Reduction in available labour can also be a problem for UK industries, such as hospitality, which rely on a large quantity of unskilled labour. Whereas these staff may have previously been taken up by an immigrating population from the EU, the removal of free movement of labour between the EU and UK would cause a staff shortage in such industries. This could result in either a reduction in the quality of work being carried out or an increase in the cost of employing staff, as higher wages need to be paid in order to attract UK workers with the same skills to these positions.
- No free movement of capital may be an issue for UK businesses. As EU businesses were previously allowed to invest in UK businesses without penalty, this may not necessarily be the case after Brexit. This may reduce investment in the UK and as a result reduce the ability to carry out research and development. If this leaves UK business in a weaker strategic position this could become a long-term disadvantage for UK businesses.

EURO ZONE

Definition: Those countries within the European Union who have adopted the Euro as their currency.

The implications for UK businesses of the UK NOT being in the Eurozone:

- It is more difficult trading with EU countries as currencies have to be exchanged, which costs money in commission.
- It makes planning difficult for companies exporting and importing to the EU as the exchange rates fluctuate on a daily basis.
- Non-EU companies, such as Toyota and Nissan, have warned that they will move to another country that is in the Eurozone if the UK does not join the Euro.
- European businesses are less likely to deal with UK businesses due to transaction costs and exchange rate fluctuations.
- Prices are not as transparent as they have to be converted from sterling to Euros, so prices can be higher in the UK than in Eurozone countries.
- UK interest rates are set by the Bank of England not the European Central Bank – they reflect the UK's economy and not that of all of the EU.
- Businesses can benefit from a fluctuating exchange rate – a strong pound means imports are cheaper.
- The Euro may become the working currency of businesses in the UK despite us not being members – many large retailers and banks already quote prices in sterling and Euros. UK businesses would gain the advantages of being Eurozone members without actually joining.

The implications for UK businesses if the UK were to join the Eurozone:

- There would be no need to exchange money when dealing with EU countries – exporting and importing would be made easier and cheaper.
- Businesses exporting to or importing from EU countries would find planning much easier as they would not have to take into account exchange rate fluctuations.
- European businesses are more likely to trade with UK companies as there are no currency conversions necessary.
- There would be more competition as there is price transparency throughout the Eurozone – prices would have to be cheaper.
- Interest rates would be set by the European Central Bank – problems in one country could affect the economies of all the other countries.
- It has been estimated that it would cost £36bn to change over from using sterling to the Euro (converting machines taking money, cashtills, changing price lists and so on) – this is nearly the amount spent on education in the UK in a year.
- Businesses would no longer benefit from favourable changes in currency (for example, a strong pound favours importers).