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How to use this book

This book fully covers the syllabus for the Oxford AQA International A2 Level Business course (9625). Experienced examiners and teachers have been involved in all aspects of the book, including detailed planning to ensure that the content adheres to the syllabus as closely as possible.

Using this book will ensure that you are well prepared for the assessment at this level, and it gives a solid foundation for further study at university level and beyond. The features below are designed to make learning as interesting and effective as possible.

Activities

These are exercises to do which relate to the chapter content. They can be done in class or as part of individual study.

Progress questions

These are questions through the book to check that you understand the content as you learn. Answers are available in the back of the book.

Key terms

These are the most important vocabulary which you need to learn the definitions of. They are also compiled at the end of the book in a glossary.

Get it right

These are helpful tips and hints to give you the best chance of success.

Link

These are links to other parts of the book for you to find relevant information.

Case study

Subject

These are real-life examples to illustrate the subject matter in the chapters, and are accompanied by questions to test your understanding.

Exam-style questions

These questions are at the end of each chapter section. They use the same command words, structure and marks assignment as the OxfordAQA exams. Answers are available in the back of the book.

The questions, example answers, marks awarded and/or comments that appear in this book were written by the authors. In examinations, the way marks would be awarded to answers like these may be different.

At the end of the book you will find a glossary of the key terms highlighted in bold in the text.

1 Mission, objectives and strategy



1.1 The links between mission, objectives, strategy and the business functions

This section will develop your knowledge and understanding of:

- The links between mission, objectives, strategy and the business functions.
- The need to consider stakeholder needs when making decisions.

Mission

A mission sets out what a business aims to be. An airline may want to be the world's most favourite airline. A hotel may want to be the hotel of choice for families around the world. A mission is often written down as a "mission statement". Examples of mission statements include:

Coca-Cola Company Mission

"Our mission is:

- To refresh the world in mind, body and spirit
- To inspire moments of optimism and happiness through our brands and actions
- To create value and make a difference."

Nike's Mission

"To bring inspiration and innovation to every athlete* in the world.

(*If you have a body you are an athlete.)"

Why does a mission matter?

A mission statement helps employees understand what they are part of and what the organisation is trying to be. The mission helps employees to prioritise and decide how resources should be used. If the business wants to be "a leading innovator" it is clear that a priority is to develop new products and processes. If a business wants to be the customer's first choice, then investment in customer services is a priority.

Producing a mission may be as important as the statement itself. To produce the statement managers may involve employees to help shape the definition of what the business is. If the final statement reflects the views of employees this may help them to feel part of the organisation and more committed to its success.

Objectives

Whilst a mission might set out an overall definition of the organisation it does not provide specific targets. If you want to be the best car company in the world, what does this actually mean? Does this mean you sell the most cars? You have the best safety record? You make the most profit? The general mission needs to be defined in more detail.

Activity

Research the mission of a business of your choice. Why do you think this mission is of interest to employees? How might it affect the way employees behave?

An objective is a quantifiable target for the business. A business may have several objectives. For example, the mission may be to “connect the world”; the objectives may be to achieve a 20% market share globally in five years, to launch a new cloud storage system in three years and to increase users of its mobile app by 200,000 by next year. The objectives make it clear exactly what has to be done and when. While the **mission** statement expresses the big picture, the **objective** is more specific than the mission statement. The mission statement is supported by objectives.

An objective should be SMART, this means that it should be:

- Specific** It should define exactly what is being measured
- Measurable** It should be capable of being measured
- Achievable** It should be possible to achieve the target; if the target is not realistic then employees will not be committed to them
- Relevant** It should be clear to everyone involved why the objective should be aimed for; understanding why motivates people to want to achieve their goals and understand the bigger picture
- Time specific** It should be clear when an objective needs to be achieved; this enables managers to plan properly for them

MISSION → OBJECTIVES

▲ **Figure 1.1:** The mission statement is supported by objectives

Key terms

A **mission** sets out why a business exists.

An **objective** is a quantifiable target.

Get it right

When deciding whether a business is successful or whether a plan worked it is important to consider the business mission and objectives. You can only judge if something is successful if you know what it was trying to achieve; success should be measured against this.

Case study

Our Credo (this means “What we believe” and is Johnson and Johnson’s name for its mission statement)

The statement below sets out the mission of Johnson and Johnson, a healthcare business operating in 60 countries around the world with over 134,000 employees:

“We believe our first responsibility is to the patients, doctors and nurses, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to provide value, reduce our costs and maintain reasonable prices. Customers’ orders must be serviced promptly and accurately. Our business partners must have an opportunity to make a fair profit.

We are responsible to our employees who work with us throughout the world. We must provide an inclusive work environment where each person must be considered as an individual. We must respect their diversity and dignity and recognize their merit. They must have a sense of security, fulfillment and purpose in their jobs. Compensation must be fair and adequate and working conditions clean, orderly and safe. We must support the health and well-being of our employees and help them fulfill their family and other personal responsibilities. Employees must feel free to make suggestions and complaints. There must

be equal opportunity for employment, development and advancement for those qualified. We must provide highly capable leaders and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must help people be healthier by supporting better access and care in more places around the world. We must be good citizens — support good works and charities, better health and education, and bear our fair share of taxes. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed, investments made for the future and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.”

www.jnj.com/credo/

- 1 Explain two factors that might influence the mission of Johnson and Johnson.
- 2 Analyse the potential benefits to Johnson and Johnson of producing a mission statement.

Typical business objectives

Managers may set a number of different objectives for their business. These may include:

- **Profit objectives:** Profit measures the extent to which revenue is greater than costs. This profit shows that the business is adding value through its activities. Profit is a common measure of the success of managers. Profit is an internal source of finance which means that it can fund investment (as opposed to the company having to raise money externally through loans).
- **Cash flow:** Simply making a profit may not be enough; it may also be important to focus on the timings of payments. Imagine for example that many sales are on credit. This would count as revenue because the sales have occurred but the cash has not yet come in and so cash flow could be a problem. Managers may need to ensure the payment terms from customers and to suppliers are suitable to ensure the cash flow is acceptable.
- **Shareholder value:** A company is owned by its shareholders. Shareholders will want the managers to earn more because that way the owners will be happy with the way the business is being run. The shareholders will be interested in:
 - the share price – the higher the share price the greater the value of what investors own
 - the dividends paid; this is the financial payment to shareholders that usually occurs each year. The shareholders vote on the recommendations of the managers.
- **Growth:** Managers may want the business to grow. This shows they are being successful in making the business bigger, which is good for their own success. It may also make the business more powerful and a more well-known brand.
- A business may also have social objectives. These are targets set to improve society, investing in the local community to improve the quality of life and helping certain groups in society, e.g. employing those who have been in prison.
- A business might also have environmental objectives. For example, a business might aim to:
 - reduce the pollution from its factories
 - recycle to reduce waste.

Short termism vs long termism

Short termism occurs when managers focus on short-term objectives. Long termism occurs when managers plan for many years ahead. If managers take a long-term approach they are more likely to:

- Invest in training staff.
- Invest in new equipment.
- Invest in research and development of new products and new processes.

If managers have a short-term focus they will concentrate on activities that bring returns quickly. They will not consider activities that will take many years to earn returns.

Link

For more about cash flow, see Chapter 5 in the AS book.

The causes of short termism are:

- The pressure on managers from investors to generate returns quickly. This may be the case if shareholders are looking for the highest possible returns they can get and insist that managers deliver them. This is most likely in a public limited company where many investors may be looking for short-term financial rewards. The owners of public limited businesses are often other companies such as banks and pensions funds; these investors need to earn a return for their owners and so are looking for high dividends and/or share price increases. Managers of public limited companies may be forced therefore to find ways of boosting short-term rewards to investors.
- The desire by managers to achieve short-term gains. Many managers will be looking to do well in their job and to get promoted. They are often intending to move jobs within a few years and so want to achieve short-term gains. They will be less interested in very long-term projects because they may not be there to take the credit.

The effects of short termism

Short termism means that managers focus on project that bring quick returns and are less interested in projects that might be better for the business but take longer to be successful.

This may mean with short termism:

- Less money is allocated to areas such research and development and training.
- There is less interest in training staff.
- There will be a strong focus on having a relatively short payback period for investments.
- There is little investment in building the long-term brand.

Strategy

A **strategy** is a long-term plan. It sets out how an objective is going to be achieved. For example, a business may want to increase profits over the next two years but it could do this in different ways. It could focus on developing and launching new products. It could target new countries. It could target new customer groups. It could focus on reducing costs.

All of these are different strategies.

A strategic decision usually involves:

- High levels of investment.
- A long-term commitment of resources.
- High levels of risk.

A mission sets out the overall purpose of a business. The objectives set specific targets. The strategy sets out how the diagram will be achieved.

Key term

A **strategy** is a long-term plan of action to achieve an objective.

Activity

Research the news and identify a strategic decision that a business has made, for example, a business buying another business, launching a new type of product, entering a new market or introducing ways of cutting costs. With reference to the features of a strategy described above, explain why you believe this is a strategic decision.

Get it right

When considering the impact of a decision on a business you should think about the effect on the different functions of marketing, HR, operations and finance. You might also consider the interrelationship between these functions; you only want to generate more sales if you have the capacity to produce and if you can do so in a way that it is profitable.

Link

You can read in more detail about the activities of the different functions in the AS book Chapter 3.



▲ Figure 1.1: How the Mission, Objective and Strategy are linked

Business functions

The functions of a business are:

- **Marketing:** these activities deal with the interaction between the business and its customers.
- **Operations:** these activities are responsible for the development and delivery of the product or service. This includes research and development activity, IT and logistics.
- **Finance:** these activities are responsible for raising finance, deciding how it is used and measuring the profits of the business.
- **Human resources:** these activities are responsible for the acquisition, retention, rewarding and development of people within the organisation.

Strategy and functions

Strategic decisions will have implications for the business functions. For example, if the business decides to enter a new market this will involve new marketing activities. For example, the promotion of the product may be changed and new distribution channels may be required; new employees may need to be recruited in different regions and managers will have to consider what are suitable rewards.

Having decided the overall objectives for the business (sometimes called corporate objectives) and the strategy to achieve these, managers will set objectives in their functional areas,

For example:

- **Mission:** become a global business.
- **Corporate objective:** achieve sales of \$10 million in China in five years.
- **Strategy:** sell products in China.
- **Operational objectives:** establish production facilities in China in two years.
- **Marketing objectives:** develop a marketing plan and launch campaign for two years.
- **Human resource objectives:** recruit staff for the Chinese project now and for Chinese production facility in two years.
- **Financial objectives:** establish budgeting systems.

Exam-style questions

Explanation and analysis

- 1 Explain one benefit to a large business of having a clear objective. (4 marks)
- 2 Explain one benefit of stakeholder mapping when changing strategy. (4 marks)
- 3 Explain two ways a stakeholder groups might be affected by a decision to invest in new technology. (6 marks)
- 4 Analyse how a focus on short termism might affect two of the functional areas of a business. (9 marks)
- 5 Analyse how SWOT analysis helps a business to change strategy effectively. (9 marks)

Evaluation

- 6 You have just become Chief Executive of a multinational that has been performing badly. Do you think it is a priority to review the mission statement? Assess the arguments for and against and make a judgement. (12 marks)
- 7 You want to change the strategy of your business. Do you think you should involve stakeholders in developing this strategy? Assess the arguments for and against and make a judgement. (12 marks)

Sample Material