Everything you need for an NVQ in management

Julie Lewthwaite

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Contents

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I have researched widely in preparing for this book and whilst I have referenced all my sources, may I assure you that if I have omitted any references, it was unintentional.

Introduction

Managing a business – or a department within a business – requires a wide range of skills. You need to manage workloads, both your own and that of your staff; you need to manage relationships; you need to manage resources; and you need to manage yourself.

Managing yourself is a good place to start. By looking at what you do, how you do it, and what you need to learn to enable you to do it better, you will develop as a manager.

When you are acting as a manager, it is impossible to do so in a vacuum. Whatever you do, you will find yourself dealing with other people. They may be people within the company – members of staff, peers, or your own manager(s) – or people from outside – clients, suppliers, or partners. No matter who they are, it is your responsibility to ensure that you forge a sound business relationship with each and every one.

When I was first made responsible for managing people, I had little work experience and no formal management training. It was tough. I made mistakes. I picked things up as I went along. My experience echoed that of many people, both before and since. Whilst learning by doing is a recognised learning method, when you are practising new skills on people it can be an expensive one. Rather than facing a repair bill for the photocopier or the cost of replacing a spoiled batch of goods, you can be faced with a permanently broken relationship, along with all the upset that entails or, at worst, a gap (or gaps) in your workforce, which you then need to fill. Staff, like customers, are more expensive to replace than to retain. It follows that choosing to take a more formal approach to learning and developing your management skills is a sound business decision.

That, I hope, is where you'll find this book useful. Each chapter looks at one of the various aspects of management and examines it individually. For ease of reference, the chapters have been grouped into parts.

Part one deals with you and your personal approach to your work. It encourages you to consider and to plan your personal development, to address issues of time management, and to look at good communication practice.

Part two looks at the people you deal with, from interviewing and employing them, whilst remaining within the law, to developing their skills and abilities.

Part three expands on the 'people' issues by looking at how you interact on a daily basis. Issues addressed include leadership, motivation, delegation and appraisal, plus the 'downside' of management – conflict, disciplinary matters and staff grievances.

In Part four we start to broaden our viewpoint to take in the organisation as a whole, looking at conducting a review of the business, good practice in customer service, and managing and implementing quality initiatives.

Part five looks at getting things done within your organisation, by examining project planning and management, how to get the most out of meetings, managing resources and suppliers and negotiating effectively. We also look at teams – when they should be used, how they work and how to manage them for maximum effectiveness.

Moving on, we look at maintaining momentum and keeping things moving once initiated. Part six investigates methods to help solve problems and make decisions, to manage the wealth of information that will undoubtedly come your way, to help you plan for future success and to manage the change that will inevitably be necessary.

Finally, part seven looks at financial issues and helps you make sense of financial statements and how budgets work, how to undertake financial planning and forecasting and how to exercise effective financial control.

Business management training

This book will be of value to every manager. Some managers, however, will be interested in achieving an appropriate qualification. Consequently the book has been structured around the national standards developed by the Management and Enterprise Training Organisation (METO) and conforms to the requirements of the Qualifications and Curriculum Authority (QCA). National Vocational Qualifications (NVQs) and Scottish Vocational Qualifications (SVQs) are awarded for competence shown in the workplace. To demonstrate this competence, you are required to compile a portfolio in which specific items of evidence are assembled which relate your achievements and experience as a manager to the prescribed units and elements of competence.

After studying the book you should be well prepared and have everything you need to achieve an NVQ/SVQ in management. It is strongly recommended that you do complete the NVQ/SVQ since you then have further evidence of your competence.

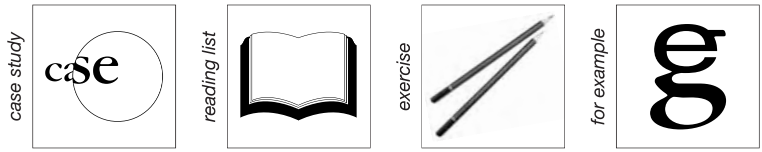
About the book

This book can be used to complement a more formal training programme but you will find it equally helpful used by itself. Each chapter has been written, as far as possible, to stand alone. They do not tell you absolutely everything that you need to know and, in some cases, may only give an introduction. On the other hand, every chapter does offer extensive references and recommended reading lists that, between them, probably will give all the answers.

I am conscious that different readers will have different knowledge, different skills and different learning styles, so feel free to read the chapters in any order that seems appropriate.

Icons

Throughout the book you will see references and symbols in the margins. These are designed for ease of use and quick reference directing you to key features of the text. The symbols used are:



National Vocational Qualifications

Vocational training and education, as opposed to general education, give people both the knowledge and the skills to carry out particular types of work. Courses and qualifications are run by hundreds of different organisations around the UK covering anything from furniture production to marine craft fitting. And, of course, management skills.

National Vocational Qualifications (NVQ) or Scottish Vocational Qualifications (SVQ) were designed to reform the somewhat confused state of vocational qualifications in the United Kingdom and bring them into a new structured framework where individuals can progress towards qualifications at their own pace. NVQ/SVQs are based on national standards and are designed to address the future labour and training needs of UK industry. Achieving an NVQ/SVQ demonstrates not only that you can remember what you've learned, but that you are competent when putting that learning into practice.

The Qualifications and Curriculum Authority (QCA) (formerly known as the National Council for Vocational Qualifications) was set up in 1986 by the Government and is responsible for establishing the NVQ/SVQ framework of qualifications. Lead bodies set the standards and competencies upon which the NVQ and SVQs are based. They decide on the units and the qualification. Awarding bodies are approved by lead bodies or directly by QCA to offer NVQ/SVQs. Awarding bodies include, for example, City and Guilds, Institute of Management and BTEC. Some NVQ/SVQs will have more than one awarding body. Awarding bodies in turn approve delivery centres that actually undertake the training and assessment of people wishing to achieve an NVQ/SVQ.

There are currently five levels:

- **Level 1** – Foundation level, where competence must be shown in basic and often routine activities;
- **Level 2** – Competence in a broader range of work, some of which involves non-routine tasks;
- **Level 3** – Competence in various skill activities including some complex and supervisory tasks;
- **Level 4** – Competence in a wide range of activities perhaps with managerial responsibility; and,
- **Level 5** – Competence in more complex tasks with a large amount of personal autonomy, planning, evaluation etc, and often major responsibility for others.

Each NVQ/SVQ consists of a number of separate units within which there are standards that must be attained. A person gets credit for each unit completed. Often, you can choose some options within the NVQ/SVQ. The units completed are shown on the individual's certificate which provides a full record of achievement.

NVQ/SVQs are available in modular form. There are no examinations as such. NVQ/SVQ assessment takes a variety of forms including practical tests, projects and written work. Assessment depends on the type of NVQ/SVQ that is sought. Practical competence is important, as is work-based assessment. The work is assessed and NVQ/SVQs are awarded for being competent at carrying out an activity to the required standard. If a person can already do the job to the required standard they can get a credit for that.

Management NVQ/SVQs

A national body, the Management Charter Initiative (MCI), now incorporated into the Management and Enterprise Training Organisation (METO), has developed *standards* of best practice for managers which set out the essential competencies that they will require to be effective.

The NVQ/SVQs around which this book has been designed are:

- **Management Level 3 NVQ/SVQ**;
- **Management Level 4 NVQ/SVQ**;
- **Strategic Management Level 5 NVQ/SVQ**; and,
- **Operational Management Level 5 NVQ/SVQ**.

In addition, the Institute of Management Foundation offers a number of professional development programmes and qualifications for managers:

- **The Certificate in Supervisory Management** – derived from the knowledge requirements of the level 3 generic management standards.
- **The Certificate in Management** – derived from the knowledge requirements of the level 4 generic management standards.
- **The Diploma in Management** – derived from the knowledge requirements of the level 5 operations management standards.
- **The Post Graduate Diploma in Strategic Management** – derived from the knowledge requirements of the level 5 strategic management standards.

Fulfilling the requirements of the Certificate/Diploma will fulfil the requirements of the associated NVQ/SVQ, although fulfilling the requirements of the NVQ/SVQ will not necessarily fulfil the requirements of the Certificate/Diploma, as the assessment criteria are more stringent.

Why an NVQ/SVQ?

Managers who demonstrate competence across sufficient standards can be awarded an NVQ/SVQ at their chosen level. Many managers will want to learn new skills. Many will choose not to seek the NVQ/SVQ, but there can be advantages. Achievement of an NVQ/SVQ will lead to certification, which can be used to demonstrate your ability and competence to a third party.

The MCI standards

The MCI standards and qualifications comprise a series of *units* – some are mandatory but some are optional so you can gear what you do to your own specific requirements.

Each unit is made up of *elements* which identify what you should be able to do within a defined area. For each element, there are *performance criteria*, *range statements* and *knowledge requirements*.

Performance criteria are the outcomes against which you must demonstrate competence. Range statements show the context in which the competence must apply. You must also be able to demonstrate that you have the necessary underlying knowledge and understanding.

In order to gain the NVQ/SVQ you will need to assemble a portfolio of evidence covering all of the performance criteria. The published standards provide an indication of evidence requirements.

To achieve an NVQ/SVQ in Management you will need to complete the mandatory units plus any relevant optional units.

You and your mentor

The guidance and support of a mentor is essential to your development. This should be someone – perhaps a senior colleague – who has first-hand knowledge of your work and is also able to use his or her influence, where necessary, to ensure that you are given a sufficiently diverse range of experience in order that you may demonstrate a wide range of competence.

Organising your portfolio

Your portfolio is a record of your learning, which will not only be useful to you in achieving the NVQ/SVQ, but also as an account of your knowledge and experience in the future.

It is a good idea to keep a contents page and index. You will require a detailed summary of how you have demonstrated competence in each of the elements of the management standards. Everything contained within your portfolio (for example, statements of competence or achievement) should be cross-referenced to supporting material in your evidence file.

Your evidence file

The contents of your evidence file must all be authenticated: that is, whilst originals (certificates, for example) will normally be acceptable as they stand, any photocopied material must bear signed confirmation of authenticity by your manager or mentor.

Plotting your progress

As you complete each element of the NVQ/SVQ, you should discuss progress and evidence with your mentor. At planned tutorials, your assessor will sign elements off on your control sheet (which will be sent to you by your examining body soon after you start the programme) provided that the material you present is acceptable and sufficiently comprehensive.

Achievement records

Your overall achievement records will be entered on an appropriate record of achievement by your tutor. This will be countersigned by an external verifier from the examining body.

I'm sure all this sounds like a lot of hard work – and it will be. But since you will be working hard anyway you may feel that it makes sense for you to have something to show for it.

Of course, even if you decide not to pursue a qualification, there is benefit in developing your skills as a manager. Whatever your reason for reading this book, good luck with your development and your career.

Part One

Managing your own performance

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chapter one

Planning your personal development

The information in this chapter relates to Key Role C: Manage People

chapter one: Planning your personal development

The information in this chapter relates to Key Role C: Manage People

MC13

If you are studying for the MCI3, the information in this chapter will help you to:

1. Accurately assess your skills and identify any learning needs, taking into account your objectives.
2. Plan to address those learning needs, setting yourself learning objectives which are specific, measurable, achievable, realistic and timebound.
3. Seek feedback and support from others, updating your plan regularly as necessary.

MCI4

If you are studying for the MCI4, or either of the MCI5 NVQs, the information in this chapter will help you to:

1. Assess your current performance accurately.
2. Identify, in conjunction with current objectives, your development needs.
3. Plan to meet those needs.
4. Seek assistance and feedback from others in achieving learning objectives.
5. Review progress and update the plan on a regular basis.

Personal development

Learning is an essential management skill. It involves acquiring, sorting, analysing and storing information. Information is what underpins all human action. You can learn by obtaining new information; by combining existing information into new patterns; by finding new meaning in existing information.

As well as acquiring information, you need to be able to use it. It's all very well knowing everything there is to know about fly fishing (for example), but if you never get to fish, where is the value in your knowledge? Information is a vital tool, but must be coupled with practise – of the techniques of fishing, playing squash or whatever else it may be – in order that it may be used effectively.

The final consideration is how well you are able to do what you want to do – your level of competence. You do not have to be the best and most successful fly fisher in the world to be competent and to enjoy it, and the same is true of your development as a manager. There is nothing wrong with aspiring to be the best there is, in fact it has much to commend it, but it is perhaps more realistic for most of us to aspire to be the best that we can – or need – to be.

So, we need information, we need to practise to turn the information into a skill, and we need to develop to a standard in order that we may be confident of competence. The necessary standard will be set by the organisation in which we manage, or, if you are pursuing a qualification, by the examining or awarding body. Achieving that standard is your ultimate goal.

Objectives

The aim of this chapter is to help you to plan your personal development. It will enable you to:

- recognise the stages of learning;
- understand how people learn;
- identify your learning needs; and,
- set and plan to meet learning objectives.

As your job role develops and starts to grow you will rapidly find yourself needing to acquire more knowledge and develop more skills if you are to remain effective and in control. This development is likely to take you outside of your 'comfort zone'.

The comfort zone

We all have a sphere of experience or operation in which we feel at home – this is our comfort zone. Learning or doing something new takes us outside of that area and can feel unpleasant. However, it is only by leaving the constraints of the comfort zone that we can grow and develop. In time, areas once outside the comfort zone become incorporated into it and we can push out the boundaries once more.

Learning to drive takes you outside of your comfort zone initially – but with practice it soon becomes second nature.

The importance of personal learning

We learn more in the first eight years of our lives than in all the remaining years. Most of this is unconscious and even accidental and comes from experience – learning by doing. Learning by doing is, for many people, one of the most effective ways of learning, but it is also the way most likely to lead to mistakes and there are some mistakes that you may not be able to afford to make. It becomes ever more important, therefore, to think regularly about whether your current skills are sufficient for you to achieve your personal and work objectives over, say, the next year. If there are gaps, then you can begin to do something to address those gaps.

Once you get into the swing of it, you will find that learning and development becomes a continuous activity. Remember that learning does not simply mean sitting through training courses, it can occur through a wide range of activities. The key outcome will be a change in your behaviour. In other words, putting into practice what you learn through the training or learning experience. This is far more important than how long the training course or learning experience lasts. If last week you could not use a computerised spreadsheet and now you can prepare your financial forecast on one, you have a successful outcome. You can pinpoint this by posing two questions to yourself after every learning event: 'What did I learn?' and 'How will I now apply that learning?'

What is learning?

It is hardly surprising that most of us see learning as something to be endured – pass the exam, find the job, get the promotion. Learning is, however, more than this. Learning is fundamental to human performance. Some psychologists and behaviourists go so far as to say that our specialisation as a species is that of learning rather than using tools or speech.

Because people are fairly essential elements of a business, learning is also fundamental to business performance. It involves change and, as such, means that if your company fails to learn to meet changes in the market place, it will fail to perform properly. Increasingly, we see terms such as 'the learning organisation' or 'the learning company' in common use.

Learning must come up with, or exceed, changes in the environment in order for a company to continue to function.

If you don't learn to cope with the changes in the world around you, you will not acquire or maintain the competitive edge that is necessary for business success. If you don't learn, you don't develop, and if you don't develop your organisation in the face of change, your organisation will die.

What's in it for you?

There is a lot of evidence to suggest that as managers we are unable to 'see' ourselves. If we can't 'see' how we operate, we're unable to change our own practice. So, if we think that the best way to get people to do things is to manipulate them, or to withhold information from them, or to shout at them, we'll tend to look for things that support that view. We'll keep on using that management strategy, despite the fact that it's not working.

This means that we'll use more and more effort less and less effectively, when by learning we can change and develop our strategy to use less effort for more effectiveness. It is important to remember that learning isn't comfortable. As we'll see, learning is about change, and change is uncomfortable.

Stages of learning

There are four stages through which we progress as we are learning. They are:

- unconscious incompetence;
- conscious incompetence;
- conscious competence; and,
- unconscious competence.

Let us look at these in more detail.

Unconscious incompetence

Suppose you were to visit a clothing factory and watch the machinists at work. They perform their tasks so naturally that it's only when you step back and think, that you realise that here are learnable skills that up until now you have been unconsciously incompetent in.

As you start on the path to personal development you are conscious that you are going to learn something, although not conscious, as yet, of the complexity of your learning goals. To begin to want to learn you must move on to the next stage.

Conscious incompetence

Either think back to when you learned to drive or imagine that you are going to learn. You have been told that you must be able to use the pedals, the gears, the indicators and so on; so, daunting as it may be, you know the complexity of your learning goal.

Learning will require you to:

- adopt new behaviours and attitudes;
- accept and learn from criticism;
- take things one step at a time;
- own the situation – only you can make sure that you succeed; and,
- face up to your problems and work hard to overcome them.

Because you know what you must learn and are taking steps towards competence, you are conscious of your own current incompetence; this is the 'clumsy' stage of development.

Conscious competence

Congratulations! You've passed your driving test. You have proved your competence, but still have to concentrate because your skills are new; they have not yet become 'second nature'. In other words, you are consciously competent.

Unconscious competence

Now your skills are second nature; you drive to work or to the shops and are only aware of the journey if something unusual happens and you are required to react in some way. The rest of the time you cruise along on autopilot, like the machinist in the clothing factory – not carelessly, but with skills so ingrained you call upon them unconsciously.

Improving your ability to learn

Many people see learning as difficult – but more often than not, that is because they are trying to learn in a way with which they are uncomfortable. You may find it helpful, therefore, to think a little about types of learning, the learning cycle and learning styles.

Types of learning

There are four main ways in which people learn:

1. **Intuitive**: the underlying, natural process which takes place all the time, often without you being conscious that it is happening at all.
2. **Incidental**: learning which is triggered by events that prompt you to think about what happened and why. This sort of learning is more conscious.
3. **Retrospective**: a more systematic approach in which you think more rigorously about activities and events and analyse what you have learned from them.

4. **Prospective**: this is the most active type of learning in which you plan carefully what you hope to learn from a particular experience and then review carefully afterwards.

This last type of learning is the most effective and, like so much else in business, takes us back to the planning cycle, which we can represent as a learning cycle.

The learning cycle

A learning cycle has four stages. The first stage is to plan what you want to learn and how you intend to do it. The second stage is to do it. The third stage is review what you have learned from the experience. The last stage is to put this into the context of your work, concluding whether what you have learned is relevant or valid and deciding how you will put that learning to practical use. That takes you back to the beginning when you can start to think about what further learning may be required.

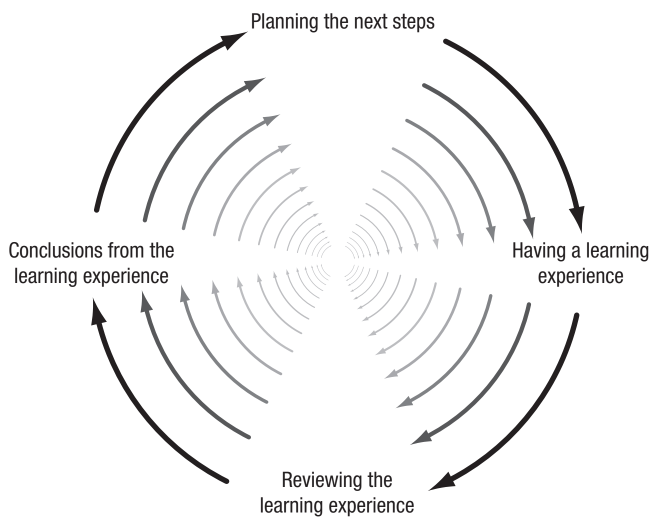

Figure 1: The learning cycle

Learning styles

Extensive research, particularly by Peter Honey and Alan Mumford, suggests that there are four learning styles:

1. **Activists**: people who learn best from relatively short, perhaps intensive, immediate and active involvement in practical tasks. Activists are always ready to complete the first two stages of the learning cycle but are more reluctant to complete the last two. Activists tend to favour intuitive and incidental types of learning.
2. **Reflectors**: people who learn best from situations and activities in which they can stand back, listen and observe before they act. They are consequently most effective in the review component of the learning cycle. Reflectors tend to favour the retrospective type of learning.
3. **Theorists**: people who prefer to place their learning in the context of a theory or model. They perform best in the conclusion stage of the learning cycle. Theorists tend to favour retrospective and prospective types of learning.
4. **Pragmatists**: people who learn best when they see a clear practical link between the subject matter and a personal or work-based problem or opportunity. Pragmatists are particularly effective in the planning stage of the learning cycle. Pragmatists tend to favour the prospective type of learning – provided it is directed towards a practical goal.

If you understand which is your preferred learning style you will be able to gear the ways in which you learn to fit that style. There will, of course, be occasions when you have to adopt types of learning with which you are not entirely comfortable, but you will then be better placed to back this up with additional learning activities with which you are more comfortable.

Learning in ways that suit your personality make it easier to learn, and as learning becomes easier and more natural, your capacity to learn also improves.

Right and left brain learning

Another important consideration is our tendency to use one part of our brain more than another in our learning. The human brain consists of two halves: left and right. They are connected, but where one half dominates our attitude to problem solving, learning or decision making, we will display a clear preference for one type of learning.

Use the exercise below to determine your orientation towards left or right brain learning. It should give you an idea of your learning preferences. Considering your own learning style and orientation, it will help you develop effective learning strategies that will improve your performance.

exercise

Assessment exercise

Respond to each of the statements in Section A by choosing a) or b) to make the statement true for you.

Section A

1. When planning my daily activities, I usually:

a) make a list of things to do

b) picture the places I will go and the people I'll see

2. When I go to the cinema I usually sit in:

a) the left side of the theatre

b) the right of the theatre

3. In order to prepare myself for a new difficult task I am likely to:

a) compile extensive information about the task

b) visualise the problems and how I'll deal with them

4. My favourite problem solving approach is to:

a) find the best way of solving the problem

b) think of a number of different ways of solving the problems

5. When I meet someone, I find it easier to:

a) remember the person's name

b) remember the person's face

6. When I shop, I:

a) buy on impulse

b) only buy the best bargains after weighing up the costs and benefits

7. Generally, I absorb new ideas by:

a) comparing and contrasting them with other ideas

b) applying them to 'real world' situations

8. When I need to motivate myself, I do so by:

a) setting my own targets

b) competing against others

9. Daydreaming is:

a) a viable tool for planning and problem solving

b) a waste of time

10. I am best at recalling:

a) spatial arrangements – room layouts, where people sat

b) verbal or numerical data – names, ages, dates

11. When I am explaining something I prefer:
   a) to do it in writing
   b) to do it by speaking

12. When someone gives me an assignment, I would rather have:
   a) specific instructions
   b) flexible instructions

13. If describing a film that I have seen, I tend to describe:
   a) the scenes and action
   b) the dialogue

14. If I had a choice, I would rather work:
   a) by myself
   b) in a team

15. When reading a paper, I read:
   a) to understand the main ideas
   b) to understand details and facts

16. I tend to make decisions:
   a) after careful thought and analysis
   b) by gut feeling or ‘hunches’

17. I like to organise things:
   a) to show relationships
   b) to show time or other sequence

18. I prefer solving problems:
   a) intuitively
   b) logically and rationally

Section B

Place a tick against all the statements that are true about you.

19. I am outgoing and work well with others.

20. I am good at thinking up new ideas.

21. I can make sense of plans and diagrams.

22. I like to relax and do nothing.

23. I like to paint and sketch.

24. I postpone making telephone calls.

25. I like to sing in the bath.

26. I enjoy redecorating my home.

27. I have a place for everything and a system for doing things.

28. I can learn through reading books and instruction manuals.

29. I like to collect things.

30. I take notes at meetings and lectures.

31. I am results-oriented.

32. I enjoy planning projects in detail.

33. I like to read.

34. I enjoy crossword puzzles.

Scoring

Section A – circle your response.

	Left brain	Right brain		Left brain	Right brain
1.	a	b	**10**.	b	a
2.	a	b	**11**.	b	a
3.	a	b	**12**.	a	b
4.	a	b	**13**.	b	a
5.	a	b	**14**.	a	b
6.	b	a	**15**.	b	a
7.	b	a	**16**.	a	b
8.	b	a	**17**.	b	a
9.	b	a	**18**.	b	a

Section B

Statements 19-26 are right brain responses, add one point for each ticked.

Statements 27-34 are left brain responses, add one point for each ticked.

Add up each total and this will give you your likely preference.

Where we show a preference for right brain thinking, we may demonstrate considerable creative, musical or artistic talents. Right brain thinkers tend to rely on feelings and intuition. They are good at recognising patterns with a minimum of information provided and may excel at solving complex problems requiring creativity and insight.

Left brain thinkers may demonstrate strong verbal, logical or analytical skills. Such a person tends to be meticulous and well organised and probably excels at planning, projecting costs and performing similar tasks requiring precise attention to detail. However, whilst an awareness of your own preference is useful, it is perhaps best to seek to achieve balance.

Leonardo da Vinci was not only an inventor and scientist (left brain), he was also a great artist (right brain) – both sides of his brain worked in equilibrium and harmony. Einstein, as well as being the father of the theory of relativity (left brain), was an excellent violinist (right brain). Consequently it is to our advantage to try to learn in ways which appeal to both sides of the brain. This can help to make learning more memorable.

Remember, remember

When we study, we need to remember what it is that we have learned. If we attend a training course but don't think about the information we have been given for a week or so, we will find that we can remember very little of it. In fact, if we do not review the next day, we will find that we remember very little.

The first point to consider is the length of time, on average, we can maintain concentration. Studies have shown that we can do this for 20 to 40 minutes at a stretch – no more. Study for longer than this (the caffeine-fuelled all night pre-exam study sessions of some students, for example) and by the end of the study period we remember very little of what we covered at the beginning of it.

This is obviously not a good strategy. To get the best return for the study effort you put in, you should arrange for short, frequent breaks. After studying for say, half an hour, have five minutes off. This releases the tension that can build up and allows you to reflect on what you have learned. This period of reflection – or review, if you like – is vital to your remembering information.

Tony Buzan[1] suggests that to make sure that information is assimilated into your long-term memory, after a one hour study period (with breaks), you should:

- review information for ten minutes, ten minutes after the study period ends;
- review for two to four minutes after one day;
- review for two minutes after one week; then,
- review again after about a month.

The first review session should be carried out directly from the notes you make; for subsequent sessions, you should jot down the main points of what you remember, then compare that information with your original notes.

Learning needs

So far, we've talked about the stages of learning and the ways and styles in which people learn best. But what is it that you need to learn? Only you can honestly answer that question and sometimes the answer may not be immediately obvious. You may think that you already know what you are doing, yet, with a little bit of external assistance, you might be able to be so much more effective. Think how often, for example, you've bought a new electrical appliance – a video recorder say – brought it home, plugged it in and wondered why it wouldn't work before finally resorting to reading the instruction book.

[1] Tony Buzan, *Use Your Head*, British Broadcasting Corporation, 1974.

Developing your own ability is most effective when you set clear objectives for yourself and then evaluate your performance against the requirements for meeting those objectives. Monitor your job performance carefully; this will often help identify learning needs.

It can also help to sit down with others, such as your line manager or business adviser, to consider your learning needs. Often they will undertake training needs analysis with you. This is simply a review of your current and anticipated business activities and objectives, broken down in detail, followed by an analysis of your competence in completing each of those activities. Learning needs can then be easily identified.

Do not feel that once started in business or in management you can no longer seek help, assistance and training. There is considerable support available. No one will think any less of you for asking; indeed, quite the reverse. Business support organisations will be delighted to help in every possible way – identifying needs, helping with training that is appropriate or assisting in other ways, such as, developing a strategy for growth or introducing ISO 9000. We recognise that people in business do need help the first time they do something new – and probably the second and possibly the third time as well. Furthermore, the business support organisations can help you to identify the changes, if any, that will be necessary both in your own working practice and that of your business and then assist you in managing those changes.

Conclusion

Any type of new behaviour can be difficult to adopt, and learning is no exception. However, the benefits far outweigh any perceived problems and you will probably find that once you have embarked on your new routine the desire to learn grows and the act of learning becomes easier.

reading list

Reading list

Accelerated Learning for the 21st Century
Colin Rose and Malcolm J. Nicholl, Judy Piatkus (Publishers) Ltd, 1997.

Use Your Head
Tony Buzan, British Broadcasting Corporation, 1974.

Speed Reading
Tony Buzan, David & Charles, 1988.

Developing Yourself and Your Staff
David Irwin (Ed), Thorogood, 1998.

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chapter two

Making the most of your time

The time factor

Managing time

Streamline your life

Rhythm of life

Coping with paperwork

Goals

Your own personal organisation system

Conclusion

Reading list

The information in this chapter relates to Key Role C: Manage People

chapter two: Making the most of your time

The information in this chapter relates to Key Role C: Manage People

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Set yourself **SMART** objectives (**S**pecific, **M**easurable, **A**chievable, **R**ealistic, and **T**imebound).

2. Prioritise objectives effectively and estimate time realistically.

3. Work in such a way as to optimise available time.

4. Regularly review progress and reschedule as necessary.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Set **SMART** objectives and prioritise according to the organisational requirements.

2. Plan work to maximise efficient output.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Set **SMART** objectives for your work.

2. Plan and prioritise activities in line with objectives and available resources.

3. Plan to make optimum use of the time available to you.

4. Review progress and reschedule activities as necessary in order that you may achieve your objectives.

The time factor

In business and in home life most people have an agenda of things they would like to achieve. Have you noticed that some people seem to spend their days running flat out just to stay in the same place while others do the things they choose and get the things they want almost effortlessly? What is it, do you think, that makes people so different? Is it that some people are just born lucky and get all the breaks? If you belong to the former group, running on your treadmill day after day, then that's probably how it seems; if you belong to the latter, racing ahead of the field, then you already know the secret.

Each one of us has 24 hours a day in which to live our lives; the distribution of time is truly fair and democratic. *What makes the difference is just how we spend that time*.

Objectives

The aim of this chapter is to make you aware of the benefits of using time wisely. It will help you to:

- recognise and eliminate time wasting factors from your life;
- streamline and simplify things for yourself;
- cope effectively with the paperwork that crosses your desk;
- listen to and work with your body clock; and,
- set goals, prioritise and succeed.

Whether you work for yourself or for someone else, ambition and success bring their own demands; you will find yourself working longer hours and working harder. Wouldn't you jump at the chance to achieve more in less time and so succeed in your professional life whilst still having time for your personal life? Your personal life, too, will benefit from these new practices, should you choose to adopt them.

Rather than being a slave to good time management practice you will find that with a little effort on your part to make these new habits and techniques a part of your life they will liberate you from much of the frustration of feeling overburdened and missing deadlines and targets.

Managing time

When we consider time and how to spend it wisely, there are four facts which are inescapable:

- time cannot be bought, only spent;
- time cannot be stored or saved up for a rainy day;
- time cannot be stopped, even for a second; and,
- time cannot be recovered; unlike the cost of an unwise purchase, once it's spent, it's spent for good.

So, there are no second chances. Although we may certainly learn from our mistakes if we are willing, we can never turn back the clock and do something differently or better. Despite the fact that it is a valuable, if not essential skill, time management is not taught in school. Consequently many people are not even aware of the fact that they could make more of their time.

How do you spend your time?

It can help to know exactly how you do spend your time at work. (Be honest – do you really know where the time goes?) Rather than try to remember what you did yesterday, or last week, start today or tomorrow. Log your activities for one week. Include everything – the chat that turns into a long conversation, the distractions that stop you working, the extremely productive time you spent working on a report… log it all. Once you know where your time is going, it's easier to keep a check on things.

Typical time wasters

What is it that steals your time and doesn't allow you to finish what you've started by your deadline? Have a look at this list – are any of these familiar? Typical time wasters include:

- misplacing things;
- telephone calls;
- meetings;
- interruptions;
- procrastination;
- paperwork;
- crises;
- perfectionism;
- distractions and
- lack of planning.

If you find these familiar, take heart – there is little here that cannot be overcome by better time management alone.

Habit

Habit is related to self-image. We stay late or accept extra work because that's just the way it is, even though we swore we'd never do it again.

Luckily habits can be changed, bad ones can be replaced by new, more positive ones, but you're going to have to work at it. Habits may be so ingrained that we're unconscious of them – what we must do is spotlight the bad ones and plan to replace them with better ones.

To give you an idea of how tough that can be, just think of how many people you know who are going to start a diet, swim twice a week, give up meat, spend more time with the kids or clear and keep clear that massive pile of ironing – starting next Monday. That's what they said last week, that's what they say this week and guess what? You know next week's conversation in advance.

Don't be like them. Decide to make a change for the better – and do it!

Planning to change

Simply making the decision that it's time to change a bad habit is a positive move in itself, provided you don't add to your stress by beating yourself up about it. Your internal monologue should not be a constant litany of 'I've got to change or I'm a failure', it should be a single statement of confirmation, 'I'm going to change because I'm a success'.

Once you've taken that first, vital step, it's time to make a list.

Six point plan for habit breaking

Following the format below will help you to focus your mind on what you are going to do, why, how and by when.

The six points are:

1. identify and write down your desired new habit;
2. state the objective;
3. consider the disadvantages of the old habit;
4. consider the benefits of the new habit;
5. commit yourself to change; and,
6. set deadlines for implementing change.

Say your bad habit is that you procrastinate. Your six point plan might look similar to the one below.

Case study: Changing bad habits

I never put things off because they might be difficult or unpleasant.

As of now, I am going to start my day by doing the two things I most want to put off.

If I put things off I run the risk of missing opportunities, or of making potentially difficult situations much worse.

If I deal with these things immediately, I don't have them hanging over me and dragging me down.

I am going to tell my mentor and my line manager about my intentions. By telling them, I am making a commitment to action; I don't want to be seen as someone who cannot be taken seriously.

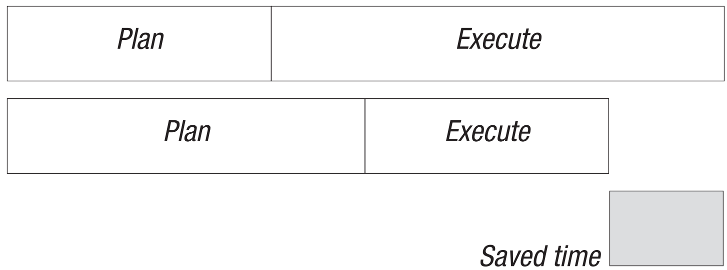
At first, I will deal with difficult or unpleasant things immediately they arise. After two weeks, I will prioritise all items on a daily 'to do' list. After one month, I will never procrastinate again.

Wasting time by being busy

People don't just waste time by sitting around daydreaming. Some of the seemingly busiest people around are, in fact, the greatest wasters of time. Dashing around unproductively eats into your life in an insidious way and in addition increases your stress levels. Are you guilty of this? If so, take a little time to plan your day.

Planning ahead

The key to being organised is to plan. Think about what you want to achieve, this week, this month, this year, longer term. Make a list; these are your goals. Now think about how you can best achieve those goals. Break each one down into steps. How long will each step take?



Planning is the antidote to spending your days like a rudderless ship with no direction. Many people believe that planning is a waste of time – instead of writing your plan, you could be doing the job! Don't be fooled – the better you plan, the quicker you will be able to implement your ideas.

Even your weekly grocery shopping trip can be more organised as a result of planning. A little time spent on next week's menus and a shopping list will save you much time and money in the supermarket. In addition, you'll have bought what you need, rather than having wandered up and down the aisles racking your brains, only to get home, put the kettle on and realise you forgot to buy coffee and milk!

The Pareto principle

This leads us on to the Pareto principle – the 80:20 rule. For example:

- 20 per cent of customers account for 80 per cent of the debt;
- 20 per cent of a book contains 80 per cent of its information;
- 20 per cent of employees account for 80 per cent of the work; and,
- 20 per cent of your effort produces 80 per cent of your results.

Did you pick up on that last point? It reads, 20 per cent of your effort produces 80 per cent of your results. Imagine you are writing an important letter or completing an important form. You very quickly get the main points down on paper, but then spend four times as long again reading it over, refining your work, writing it out again, changing a word here or a comma there… and to what end, realistically? Yes, you need to check it over to be sure you haven't made any silly or glaringly obvious mistakes, but you need to do that only once. The rest of the time is spent floundering in the swamp of perfectionism.

Think about the consequences if you had put in, say, half the time on your letter or form, spending one hour on it instead of two. The overall effect would have been almost exactly the same; the last hour was effectively non-productive, as you pondered and worried and refined – adding little to the finished product.

Using what you know about the 80:20 rule, just take note of its accuracy and relevance to what you do; then, even if you can't bring yourself to dispose of the 80 per cent of less productive effort in its entirety, you should at least be able to cut down by about half. This would enable you to do twice as much in the time available without putting in any extra effort – in other words, to work smarter, not harder.

Time traps

Having said earlier that time is allocated in a truly democratic manner, there is another consideration that can upset the apple cart – the real-time exchange rate. Our 24 hours is fixed, the hands of the clock move at the same speed, but do you always get the same rate of exchange for your activities? They say that time flies when you're having fun – do you experience the same exchange rate for half an hour of your time spent in a traffic jam as for half an hour of your time spent on the phone to a friend? Which seems the longest – the five minutes you spend enjoying a chocolate bar or the five minutes it takes the dentist to drill and fill your tooth?

So, real time is fixed and we all get the same amount, but the activities we pursue each have their own exchange rate depending on emotion and perception. We each have our own idea of how long things should take. It is interesting to note that out of work we are often very optimistic about how much we can cram into a day or how long a task will take to complete. Inside work, it can be a different story.

Parkinson's Law

Parkinson's Law states that 'work expands so as to fill the time available for its completion'.[2] What this means to us is that if we have all day to complete a task, then the task takes all day. (Very often, the last hour or so is also the most productive – in the morning, when the day stretches out ahead of us, we tolerate interruptions, make out our shopping list, take time reading the mail and so on. By the afternoon, we are feeling the pressure – we only have half of our original time at our disposal and need to get on with things. By the last hour or so, we are working furiously as our deadline approaches, wondering where on earth the day has gone.)

[2] C. Northcote Parkinson, *Parkinson's Law or the Pursuit of Progress*, John Murray (Publishers) Ltd.

The length of time it takes to do something is generally a mental limitation. It has always taken that long, or that's the time that has been allocated to the task, so that's how long it takes. Going back to the

Pareto principle and what we learned there, ask yourself: 'What would happen if I only had half the time to do the job? Would it still get done?' The answer in the majority of cases is yes, it would, because if you saved time by not wasting it, half the time would be enough.

Prioritising your work

It might help you with your time planning if you differentiate between those activities which are important and those activities which are urgent.

Urgent

Unimportant	**Quick and simple** Demands are urgent but of low importance *Danger – spend time doing these*	**Crisis** Demands are urgent and important *Danger – may not get done well*	**Important**
	Waste Demands are neither urgent nor important *Danger – spend time doing these*	**Planning** Demands are not urgent but they are important *Danger – may not get done*	

Not urgent

Figure 2: Prioritising your work

Too many people think that because they are doing something they must be making good use of their time. Try to avoid this 'activity trap'. Focus on your goals, then prioritise them, and then make decisions about how to use your time. One way of doing this is to make a 'to do' list.

exercise

'To do' list

Number	What	Deadline	Action by	Priority	Note

When compiling your 'to do' list, you should:

- determine priorities in order of importance relative to achieving each goal. Mark each task A, B or C;
- re-examine Bs and make them either A or C;
- put Cs away – forget about them; then,
- number the As in order of importance;
- work on A1 items first;
- do it now – do not delay; and,
- don't be a paper shuffler – try to handle at once. If it helps, make monthly lists, but break those down into weekly lists. Monitor the time spent on each activity. You might find, for example, you are spending too much time on manufacturing and not enough on selling.

Discipline

Time management is 99 per cent self-discipline. You should take care of A1 priorities first – that's why you've called them A1. Learn to say 'no' to people. It may not be pleasant, but sometimes it's better than doing a bad job of something for which you really didn't have the time.

Procrastination

List all the tasks you are putting off at the minute. Do two of them straightaway. Plan to deal with the others at the rate of, say, two or three a day. Get the momentum going and keep it going.

If you have concentration work to do, either shut yourself away or rearrange your desk so you can't see anyone else. If you can't catch their eye, they won't catch yours.

Handle paper only once, if at all possible. Try the 'dots' method to control it; every time you pick up a piece of paper and don't deal with it, put a dot on it. When it gets to three dots – throw it away!

Keep a diary

It makes sense to keep a diary to:

- make and keep appointments – who? where? when? why?;
- provide a historical record; and,
- use for follow-up and reminders.

Information plan and storage

Managing people, either in your own business or as an employee, inevitably means that there is paper to keep. Each piece of paper needs a fundamental decision made about it – to keep it or not to keep it. If it is worth keeping it needs to be stored in such a way that it can be quickly and easily retrieved; otherwise it is not worth keeping anyway.

Reading and travelling

Do your reading while you travel, if possible. Learn to scan, but read only what you must – anything else can be given a C priority. Give yourself enough journey time, so you don't get stressed and therefore inefficient.

Combat forgetfulness

Forgotten tasks, when remembered, eat into your time if you let them – here is a five point plan to help you combat forgetfulness:

- have a place for everything with everything in its place;
- 'link' things – put things together to act as a reminder (for example, your car keys on top of a parcel you must post);
- make lists;
- keep notes; and,
- improve your memory – go on a course or study one of the books available on the subject.

Delegation

You may find it difficult to delegate jobs when you become a manager. If you have staff, ensure you delegate tasks effectively. You might also look at whether part of what you do can be sub-contracted.

However, you may have particular difficulty with one aspect of work; say, report writing. If so, ask your mentor or adviser to go through your work with you. This will be quicker than struggling on your own and you will learn more.

Make use of technology

If a machine can do something as well as you can, but in a fraction of the time, why not let it? Many gadgets and gizmos are now available to help you save time. You can send electronic mail instead of memos, faxes instead of letters, use a dictaphone instead of hand writing letters, use a computer either in or out of the office, use an answering machine on your fixed line phone and have a mobile with an answering service to stay in touch on the move – check out what is available and, if it really is a time-saver rather than an expensive toy, invest in some technology!

Managing your health

If you are ill, you will be wasting valuable work time!

Working too hard may result in stress – too much pressure or tension – and this can cause physical problems as well as mental.

To avoid becoming ill through overwork or poor time-management techniques, allow time for yourself to:

- take some regular exercise;
- eat as healthily as possible;
- get enough sleep; and,
- take holidays.

Streamline your life

Are you a hoarder? At home, do you have Christmas cards and birthday cards going back years? Are your cupboards filled with mugs with broken handles and packets of foodstuffs that are out of date? How many items of clothing do you have that you haven't worn for years (and couldn't get into anyway)? William Morris, the celebrated Victorian designer, said, 'Have nothing in your home that you do not know to be useful or believe to be beautiful.' So, if it was useful once but is not useful now (because it's broken, out of date or represents something in which you are no longer interested) throw it out!

If your home is cluttered, the chances are that your desk or office will be too. Apply strict streamlining rules to the contents of your filing cabinets, desk and in-tray. If something is not useful *now*, then it is useless and should be discarded. Have a serious clear out (the first time is the most difficult) and schedule regular clear outs in the future. Ask yourself: 'What would happen if I threw this out?' If the answer is 'nothing', out it goes! Do the same with your daily post; the fact that someone has sent you a nice, glossy catalogue doesn't mean that you are obliged to keep it. Are you interested now in another stationery provider, or hardwood floors, or ergonomically designed furniture? If the answer is 'no', throw it out. If the answer is 'not just now, but I might be in a few month's time', throw it out. (You could note the name and number of the supplier if you wish, but that's the most you should keep.)

Keep things simple

Look at your systems and practices also. Is everything done in the simplest, most straightforward way possible? If not, change it. Constantly question how and why things are done in a particular way, and, if you can see a way to do the job as efficiently but quicker or easier, make the change.

When you write memos or e-mails, don't fill them with waffle; if you can say what needs to be said in a paragraph or two, then that's all you need write. Write as if you were speaking to the person; that should help keep it short and to the point.

Of course, before you write anything, you should question whether it is really necessary – could you make a phone call instead? Do you have a meeting planned with your addressee? Only write when you must.

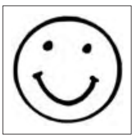
Rhythm of life

Our lives are controlled by rhythm. Night and day regulate our sleep and activity, which in turn control hunger and mental alertness, mood and energy. Part of this life cycle is our own internal body clock. This is different from person to person and is the reason why some of us are 'morning' people whereas others of us 'wake up' later in the day.

Find your personal rhythm

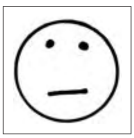
We all have times when we are at our best and can perform to peak standard, and times when we are low on energy and concentration and can only efficiently perform routine tasks. As a general rule, energy peaks at about 10am and dips sharply after lunch, especially if you ate a large lunch and/or consumed alcohol. There is often a rise again towards the end of the afternoon (about 4pm) which can last a couple of hours or more.

I am energetic!



Over the space of a few days, keep a note of your own highs and lows. If you are completing the time log as suggested earlier, you might like to monitor your highs and lows in conjunction with this; perhaps a simple 'smiley face' system would work using the icon on the left to represent high energy…

Moderate energy



Low energy

… then the icons here to represent moderate energy and low energy. Do you conform to the average or are you different? When you know your peak times, you can make the most of them – keep routine work for the low energy periods and use your high-energy periods for more complex tasks.

Balance your time

We need to try to achieve a balance between time spent working and time spent at home on other things, time spent in company and time spent alone. All work and no play is a bad combination which, if prolonged over long periods, can lead to tension and persistent tiredness. The busier you are, the more important it is to take regular breaks; plan your time to include periods of exercise, relaxation, reading and other hobby time. Similarly, time spent alone is a necessity, not a luxury; even if the only time you are alone is when you are in the car, make the most of it – you need space to relax, sort out your thoughts and put things into perspective.

Incidentally, when you are working, schedule regular short breaks. If the pressure is on and a deadline is looming, it can be tempting to work straight through from the time you arrive at work until the time you leave, snatching a sandwich at your desk for lunch. However, you will be more productive overall if you take short breaks and get out for a walk – even if it's only for ten minutes – at lunchtime.

Coping with paperwork

The volume of information people are faced with nowadays is phenomenal. Never before has so much knowledge – and so much dross – been at our disposal.

Read selectively

The first thing to decide on when faced with a pile of paperwork, e-mail messages and so on is whether we are going to read all (or indeed any) of it. Sort out those things that must be dealt with immediately and put them to one side. Have a final check through the rest, and if something isn't useful now, put it in the bin. We know that initially this will hurt and also that it goes against the grain, for we are taught to hang on to things in case they come in handy. But all that clutter simply adds to your workload and your stress. Be brutal – throw it out.

Now that you have thinned out your information, it should be starting to appear to be more manageable.

Read faster

You are still, however, faced with a wealth of paperwork from which you must extract the relevant information quickly. We mentioned earlier that you should learn to scan; here are some tips to help you.

Firstly, notice how you read now. You may say the words in your head or perhaps use your finger as a guide on the page. But how many words do you take in at once? Probably you are a one word at a time reader – after all, that's the way most of us were taught. If so, try the following exercise.

exercise

Exercise: Reading faster

Draw a faint pencil line down the centre of the text which follows on page 52. Now, instead of reading one word at a time, take in the group of words before the line as a whole, and then the group after the line. Continue down the page to the end of the passage.

The room in which the boys were fed was a large stone hall, with a copper at one end; out of which the master, dressed in an apron for the purpose, and assisted by one or two women, ladled the gruel at meal-times. Of this festive composition each boy had one porringer, and no more – except on occasions of great public rejoicing, when he had two ounces and a quarter of bread besides. The bowls never wanted washing. The boys polished them with their spoons till they shone again; and when they had performed this operation (which never took very long, the spoons being nearly as large as the bowls), they would sit staring at the copper, with such eager eyes, as if they could have devoured the very bricks of which it was composed; employing themselves, meanwhile, in sucking their fingers most assiduously, with the view of catching up any stray splashes of gruel that might have been cast thereon. Boys have generally excellent appetites. Oliver Twist and his companions suffered the tortures of slow starvation for three months. At last they got so voracious and wild with hunger, that one boy who was tall for his age, and hadn't been used to that sort of thing (for his father had kept a small cook's shop), hinted darkly to his companions, that unless he had another basin of gruel per diem, he was afraid he might some night happen to eat the boy who slept next him, who happened to be a weakly youth of tender age. He had a wild, hungry eye; and they implicitly believed him. A council was held; lots were cast who should walk up to the master after supper that evening and ask for more; and it fell to Oliver Twist.

The evening arrived, the boys took their places. The master, in his cook's uniform, stationed himself at the copper; his pauper assistants ranged themselves behind him; the gruel was served out; and a long grace was said over the short commons. The gruel disappeared; the boys whispered to each other, and winked at Oliver; while his next neighbours nudged him. Child as he was, he was desperate with hunger, and reckless with misery. He rose from the table; and advancing to the master, basin and spoon in hand, said, somewhat alarmed at his own temerity, – 'Please, sir, I want some more.'[3]

[3] Extract taken from *Oliver Twist* by Charles Dickens.

How did you find that? It can be difficult at first, but with practice you will soon master it. The next step is to try to read a whole line at one glance. Reading in this way is not only quicker but, as you take in groups of words instead of individual words, can help your comprehension and stop you needing to skip back a word or two and re-read as you may have done previously.

File promptly

Make sure you keep your filing up to date. Set time aside regularly for clearing out your trays. File what you want to keep, pass on anything that might be of interest to someone else and throw out anything with which you are finished.

Magazines and books

Magazines and books are tools for you to use. If there is a one page article in a magazine that you want to keep but nothing else is of interest to you, then cut it out and throw the rest away.

With books, make notes in the margin and underline or highlight passages of interest. This may go against the grain; after all, for years (at school, for example) we were told *not* to write in books, but don't be afraid to mark them in this way, especially not when you think how much time it could save you when trying to locate useful information.

Goals

Goals may be large or small, personal or professional, long-term or short-term. Without them, we are doomed to spend our lives aimlessly, as we don't know where we are going and are unable to recognise if we ever get there. If you don't know why you are doing something then you cannot progress or determine your priorities. For actions to have purpose and meaning, they have to be part of a plan.

The simplest and best way to recognise and acknowledge your goals is to put them in writing. This act in itself forces you to think things through and to clarify matters. Are your goals a long way from where you are now? Can you believe that you can achieve them? If you can't *believe* it, how will you ever *do* it?

If you truly see a goal (or goals) as being unrealistic, reassess the situation. Do you still want to achieve that goal? If so, can you break the process down into smaller, less daunting steps?

Your own personal organisation system

By following a few simple rules it is possible to devise and follow a simple personal organisation system to ensure that things get done on time. Try the following five step plan:

- make a list;
- get organised;
- prioritise;
- plan ahead; and,
- review progress regularly.

Make a list

Make a list of everything you have to do, no matter how large or small the task. Spend time on this to be sure you have included everything. What are your deadlines for each job? Note them down at the side.

Get organised

In order that you may avoid having piles of paper littered around your desk or putting something in a 'safe' place never to see it again, have a file of ongoing work. Get a large concertina file (or devote the suspension files in one of your desk drawers to this purpose). You need sufficient space to number the compartments 1-31 for anything relevant to the current month, and to have at least another six compartments to be used for work which is relevant to the months ahead. (I used a similar system effectively to control outstanding customer queries – it works!)

Prioritise

Looking at your 'to do' list and the deadlines for your task, prioritise the entries. Ask yourself, does anything depend on something else having been previously completed? Do your deadlines reflect this, or do you need to make any adjustments? Now ask, is it possible to use the information gathered for, or generated by, the completion of one task in the completion of another? For example, you have a report to write on the management of information, a paper to read on the data protection act, an assessment of the current filing systems to complete and a presentation to the board on the way forward for information technology within the company. Having completed the first three tasks, isn't it reasonable to assume that you will have gathered quite a bit of information for your presentation? Make sure that this is reflected in your deadlines. (Remember that your deadline is the last possible date for completion of your task; if it suits you to do something earlier to save yourself time and energy on another job, then all you are doing is making your life easier – that's one deadline you've met well in advance!)

Plan ahead

Once your system is up and running, you will know what you are doing day to day. For bigger projects, however, you may be able to allocate your time for some weeks – or months – ahead. If you know now that for the next six months you must dedicate around 20 hours a week to Project A, you will justifiably be able to say 'no' to Project B, which will last for two weeks and is scheduled in three months time, but would require 40 hours per week of your time. (Alternatively, if Project

B is an opportunity you don't want to miss, you can look at putting in more time on Project A before and after Project B – but this means that Project B absolutely has to come in on time.)

Planning ahead can be as simple as using a month and quarter planner in conjunction with – or instead of – a diary for appointments, etc. If you can't find exactly what you want, why not design your own forms and keep a supply handy?

Planning ahead gives you freedom: to choose what to do, to meet all your deadlines, to avoid the stress of suddenly remembering a job you'd overlooked or working flat out just to stay in the same place. *Those who plan ahead, get ahead*.

Review progress regularly

You are the best one to know if you should be reviewing your 'to do' list daily or weekly, for example, or if you should be checking you're on target with your longer term planning. The important thing is that you review your progress and periodically check that you are on the right track. That way, if things go off the rails a little you can take corrective action promptly – before things go too far.

Conclusion

You can never have enough time. There is always something demanding to be done, or someone demanding to be seen.

However, a little effort can go a long way when it comes to 'making' more time. I hope you adopt some of the practices discussed and that they pay off for you.

The benefits of being more organised will be felt not only in your professional life, but in your private life, too. As well as getting more done in the same amount of time (because you will be working smarter, not harder) you will have a sense of achievement, peace of mind, less stress – and control over your life.

reading list

Reading list

The Complete Time Management System
Christian H. Godefroy and John Clark, Judy Piatkus (Publishers) Ltd, 1990.

Beat the Bumph!
Kathryn Redway, Nicholas Brealey Publishing Ltd, 1995.

Speed Reading
Tony Buzan, David & Charles, 1989.

Goal Setting
Susan B. Wilson, AMACOM, 1994.

How to be an Even Better Manager
Michael Armstrong, Kogan Page Ltd, 1996.

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chapter three

Getting the message

Whilst the information in this chapter does not relate directly to any particular standard, good communication is inextricably linked with effective management; therefore, this chapter is recommended reading for all.

chapter three: Getting the message

Effective communication is simple, isn't it? You speak and I listen; when you have finished speaking I take a moment or two to consider my reply and then I speak and you listen… and so on. Except I've thought of something to say *before* you've finished, so I'm either going to interrupt you or hold my thought and ignore the rest of your message. As soon as I get the chance I'm going to say my piece – but wait a minute – what was *that* you just said? How about *this* for an idea then? Hey – look at so and so over there – look at how he's standing – arms folded, shoulders hunched – who's he talking to? She doesn't look very happy either! I wonder what *their* problem is?

…I'm sorry, what was that you just said?

Getting a fair hearing and putting over what we want to say accurately and concisely isn't as easy as perhaps we'd like it to be. Not only that, but we need to be able to communicate effectively face to face, over the phone, in writing, with managers, colleagues, staff, customers, suppliers, with people who are timid or fierce, nice or not so nice – the list is endless.

This chapter is about making sure that you get your message across to others and understand clearly what they are saying to you.

Objectives

The aim of this chapter is to raise awareness of the power of effective communication. It will help you to:

- recognise non-verbal signals and use your own non-verbal communication to your advantage;
- know and be able to compensate for the limitations of the phone as a means of communication; and,
- write concise and effective letters, reports and memos.

Communication isn't something that you either are or are not good at, it is a skill that you can learn. In today's increasingly competitive market place it is an essential component of your business tool kit.

Two-way communication

Two-way communication works much better than one-way communication. In general, two-way communication takes twice as long, makes people more confident that they have understood and is more accurate than one-way communication. Listening is extremely important – we have two ears and one mouth, and should use them in that ratio!

Two-way communication works best when you:

- ask questions;
- listen actively;
- watch for signals; and,
- talk the same language.

Asking questions

If you want to know what someone thinks or feels, then the best way to find out is to ask them. You can influence the tone of a discussion by asking well thought out and effective questions; similarly, you can put up barriers by questioning ineffectively, because you will find it difficult to establish the facts.

There are a number of different types of questions you can use in conversation. Each has its place, though some should be used with care:

- **Open questions**: open questions are fact-finders and begin who? what? where? when? how? why? They are open-ended and encourage people to talk, inviting information and opening up discussion. Beware of 'why' questions – 'why did you do that?' or 'why did you think that was a good idea?' – they can sound critical, disapproving, or make people feel stupid.
- **Probing questions**: probing questions follow on naturally from open questions, encouraging people to give more detail. Questions such as 'Can you tell me what happened next?' or 'How often does this happen?' are examples of the probing technique.
- **Hypothetical questions**: hypothetical questions may be useful in establishing how someone else might approach a problem, for example. 'Imagine that you have a member of staff who is persistently late. How would you deal with that?' or 'Suppose the supplier left damaged goods. What would you do?' are examples of hypothetical questions.
- **Closed questions**: closed questions are direct and are used to establish specific pieces of information; they generally produce yes/no answers, or times, dates and so on. For example, 'Are you available at 10am on Friday the 8th?' or 'Would you please tell me the amount of the cheque?' With closed questions you have to be careful; if you use too many, it sounds like an interrogation and doesn't allow the person you are speaking to to offer their opinion or expand on the facts. However, they can be useful to shut up bletherers.
- **Multiple questions**: multiple questions demand several pieces of information in one breath. 'What did you do next? Why did you do that? How did it work? What feedback did you get?' This confuses people as they don't know what to answer first; in any event, you

are likely get an answer to the only part they can remember clearly – the last question. This means you don't get all the information you wanted and in addition you have come across as nervous and confused yourself. Avoid these at all costs.

- **Leading questions**: leading questions impose your opinion on others, in an attempt to influence their response. 'You're happy now, aren't you?' or 'You want to move there, don't you?' Leading questions tell people what you want them to say and so, like multiple questions, should be avoided.
- **Loaded questions**: loaded questions aren't really questions – they are expressions of disapproval. Again, you are imposing your opinion on the other person, an opinion that is definitely not favourable. 'Don't you see…?' or 'Didn't you realise…?' are designed to make the other person very aware of your perception of their shortcomings and to feel stupid.
- **Undermining questions**: by using these you are seeking to chip away at the other person's credibility and/or confidence. 'Have you checked that?' or 'Is that really the case?' are good examples of this type of question. Unless you are intentionally seeking to embarrass or deflate someone, do not use these.
- **Tolerating silences**: not a question, but a handy technique to employ after asking one, particularly if the question you've posed is a bit tricky. It gives people thinking time and also puts pressure on them to give an answer – people generally don't like silence. You might not like the silence either, but you must bite your tongue – this is your time to listen, not to speak.

The statement-question technique

Another extremely useful technique that you may use is the statement-question technique. With this, you make a statement and then follow it up with a question, which helps you to control the conversation. For example, you might say: 'The 6.30 am train will get you to Edinburgh for 8.00 am, allowing you plenty of time to get to your meeting. Would you like me to book you a seat?'

Where possible, include a benefit to your customer. For example, 'If you were to settle your account now by credit card, I could remove the stop and take your current order. Do you have a credit card number you could give me?'

The statement is simply a statement of fact, explaining the current situation or making a reasonable suggestion that would meet a customer's needs. Making the statement alone would not necessarily move the conversation forward; you would be relying on the other person to take the initiative rather than controlling things yourself.

By using the statement-question technique, your conversations should become less rambling and more to the point.

Listening actively

Listening is a complex process with three main phases:

- **receive** – gather all the signals being sent to you, both verbal and non-verbal;
- **comprehend** – try to understand what you've sensed and consider what it means; and,
- **respond** – ask questions and reflect back your understanding.

Many people consider themselves to be good listeners, but even if you pay close attention you only actually pick up some 30 per cent of what is being said. Normally, the figure is nearer 15 per cent.

Consequently we need a way of ensuring that what we have heard is what has been said to us.

Active listening consists of two separate activities:

- encouraging the other person to talk; and,
- rephrasing what the other person has said.

These activities are achieved by using a number of techniques, each designed to either stimulate conversation or confirm understanding:

- **Encouraging the speaker**: this is done by nodding and looking interested – non-verbal signals – or by the use of listening noises, such as 'I see', 'yes' etc (listening noises – verbal nodding – are essential when you are on the phone). You may also use encouraging statements, simple conversational bridges such as 'That sounds interesting; I'd like to hear more about that'.
- **Reflection of feeling**: this is especially useful if you are speaking with someone who is in an emotional state, as the state normally persists until the person experiencing it realises they are being acknowledged. Phrases such as, 'You must find that very frustrating', or 'I can understand how you feel – I'd be upset if that happened to me', acknowledge the emotion and show that you aren't being judgmental in any way – the speaker knows he is being heard and you can home in on whatever it is that generated the emotional response.
- **Restatement of meaning:** this listening skill is key – it is the one which helps you to be sure you have heard and understood. By translating what you heard into your own words you confirm that you have listened, test your understanding, enhance concentration in both parties and prevent either party from making assumptions.
- **Repeat back information**: use only when you have to get something right word for word in order to be sure that the specific details you have taken down are correct.

- **Summarising the conversation**: provides an update for both parties and enables you to agree on what has been discussed and, if necessary, change the direction of the conversation.

Taking notes at any point during a conversation (formal discussions, such as interviews or meetings) also indicates that you are listening, as long as the notes are brief and you don't look away from the speaker for too long.

Watch for signals

When we take in information via the five senses, we absorb 75 per cent via the sense of sight. It comes as no surprise to find, then, that extensive research has proven convincingly that 60 to 80 per cent of face to face communication is non-verbal, or body language.

Body language

Body language has been described as the language we all speak but which very few understand. It tells you more about what people really mean than words ever would and nobody can help speaking this non-verbal language.

What happens is that your brain takes in your surroundings and situation and responds emotionally – with fear, joy, anger or whatever – which it communicates to the various parts of your body. They quickly respond by triggering specific actions or expressions – body language. Body language is generally communicated unconsciously; we don't even realise that we are sending gestures and signals out to others.

Body language is a broad term which includes posture, sitting position, facial expression, eye and body movement, handshake, dress, distance (territory) and so on. Even if we can interpret the body language of others it is quite something to be able to control our own and to appreciate the relevance it has to the message we are giving. Think of two actors playing the same role – one may be totally convincing and the other invite derision. They will use the same words, but their mastery of the role is conveyed by their body language.

With practice you can learn to interpret other people's body language. The advantages of knowing if someone is bored, lying, nervous or whatever is obvious – words may lie but the body seldom does.

Eye contact

Good eye contact is essential and is preferable to talking to the floor, the wall behind someone's head, their mouth or their chest. Minimal eye contact suggests that you may be disinterested, shifty or afraid. You don't have to hold the other person's gaze overlong – that, too, can cause problems as it may seem to be aggressive – just long enough as seems natural or comfortable. It is also usual to look at the other person more when they are talking than when you are – some 75 per cent of listening time compared with 40 per cent of speaking time. Studies have shown that eye contact is also used to regulate conversation – as you come to the end of what you have to say you will find that you gaze steadily at your listener, who will in turn look away and begin to reply. Being aware of such signals, to which we normally respond unconsciously but can miss, making the other person feel uncomfortable, can help you to time your periods of speaking and listening in a way that others find comfortable and reassuring.

Smile

Smiles are unique to human beings and the act of smiling makes you feel better. Not only that, they are infectious and normally trigger a smile in response, making the person you smiled at feel better too. Whatever you do, however, make sure your smile is genuine – there is nothing more off-putting than a fixed, professional smile.

Shaking hands

Many greetings and farewells include touch – a hand on the shoulder, a pat on the forearm – but handshakes are perhaps the most revealing of all touch rituals.

The purpose of a handshake is to say hello or goodbye, or to signify an agreement. We are often put off by weak, damp, limp grips; indeed, these can ruin an otherwise positive impression. Vice-like grips are unnecessary – a symbol that the gripper is seeking the dominant upper hand. In all cases, a firm handshake will make the best impression.

Territory

Have you noticed how on a crowded train or bus people rarely look at each other, preferring to stare at the roof or the floor or out of the window? How they seem to have a kind of 'bubble' around them that they don't want to let other people into? In situations like this, we are put in a position where we are physically closer to people than feels comfortable, so we erect an invisible barrier around ourselves in order to retain our own little bit of territory.

A sure way of making someone feel uncomfortable is to 'invade their space', to stand closer than they would like you to. It is a move which may be seen as aggressive or overly familiar, depending on the circumstances, but if you have overstepped the mark the other person's body language will tell you very clearly that you have done so.

When you are sitting at a desk or table with someone, remember that to sit directly opposite is confrontational. Try to sit at right angles, perhaps across a corner. Round tables are the most democratic choice as no one can dominate and everyone has equal territory.

Shoulders and head

As a general rule, people will raise their shoulders when tense and lower them when relaxed. A raised head indicates interest, openness and control of a situation whereas a lowered head can indicate doubt, fear and dissatisfaction. A sideways tilt of the head can show interest or curiosity – women tend to head tilt more than men.

Take the positions of the head and shoulders together to get a feel of a person's tension, reluctance, openness, satisfaction or degree of control.

Little white lies

Lying produces stress signals – a person's breathing becomes uneven, their mouth becomes dry and they may clear their throat more than usual.

Give-away gestures include putting hands in pockets, clasping them tightly together, or covering the mouth. This last gesture is often disguised by tugging at an earlobe, or touching the face – particularly rubbing the nose. Most people find it difficult to look you in the eye when they lie to you, so watch out for brief glances at you and then eyes looking down – shifty eyes are traditionally untrustworthy.

Take note of the voice, too – it normally becomes more monotonous and people are more likely to slur words or stutter when lying.

It is perhaps fairer to describe this behaviour as 'concealment' rather than 'lying'. In addition, you should always remember to look for groups of signals to be sure that someone is indeed keeping something from you.

Interpreting body language

To look at just one detail of body language and draw a conclusion about how someone is feeling or acting would be unfair. If someone to whom you are speaking folds her arms, it could indicate that she is unreceptive to what you are saying. Then again, she could be cold, or resting, or just more comfortable sitting like that. If, however, as well as folded arms she has crossed legs or ankles, a frown, raised shoulders, lowered chin… then, yes, she probably isn't very happy with the situation. Try to assess body language as a whole – in order to be sure of reasonable accuracy, look for at least three signals pointing in the same direction.

Talking the same language

When we communicate face to face we said earlier that we take in 60 to 80 per cent of the message via what we see. Of the maximum 40 per cent left, which is what we hear, it might surprise you to find that only seven per cent of the message is transmitted by the words we speak – the remaining 33 per cent is inferred from the tone of voice we use.

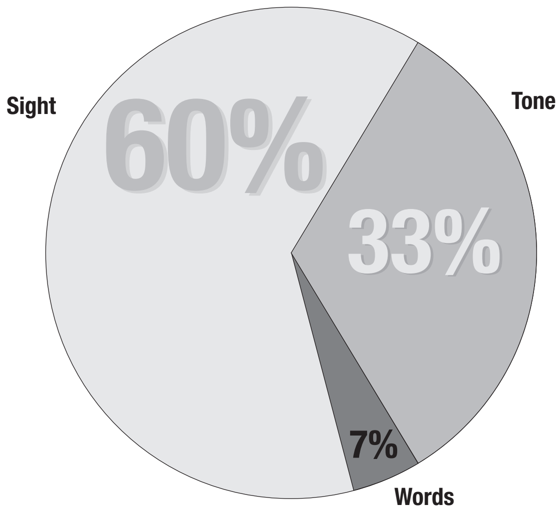

Figure 3: Interpreting speech

Despite this, words are important. Using language which the other person finds difficult to understand will put them off and stop them listening.

Paint a picture

Since sight is the most important sense, it helps to give a visual image in conversation – to talk in word pictures. If someone said to you 'Why don't you get an alphanumeric pager? They're great, and since they're only 31/2 inches by 21/4 by 5/8, they fit in your pocket!' would you be able to picture it? If instead of that they said 'Why don't you get a message pager? They're great, and they're only about the size of a cigarette packet, so they're not too bulky to carry around!' then you'd have more of an idea what they meant. Comparing things to everyday items which may be visualised, aids understanding.

Things to avoid

Don't use jargon unless the person you are speaking to has as good an understanding of it as you do and would expect you to use it. Using jargon to someone who doesn't understand it himself will make that person feel stupid, or annoyed, or both. It's not just jargon which may cause a problem – complex forms of expression can be just as bad.

'As I am unable to consider effectively and offer an adequate response to the enquiry which you have raised, I have no alternative but to refer you to our accounts department.' Why not just say, 'The accounts department are the best people to help you with this'. Keep it simple and there's more chance you'll be understood.

When speaking, you should be careful not to run words together, or to swallow the ends of words; don't trail off at the end of a sentence, either, it makes you sound uncertain.

Voice turn-offs

Some voices will get people's backs up immediately. Avoid at all costs the following voice tones:

- apathetic – you will sound as though you just can't be bothered with your listener;
- rushed – people will start to share your stress and become rushed and anxious too;
- irritated – even if you are, you should never let it show;
- false – many people have different voices for different circumstances – for the phone, for meetings, for talking to the bank manager – and this is fine, provided that others can't see (or rather, hear) the join; and,
- hesitant – this will never inspire confidence.

If you speak in a lower pitch you come across as more capable and believable. Watch your volume – too loud and you sound aggressive, too soft and you come across as timid and powerless.

Considerations for the telephone

As we've just mentioned, face to face communication places seven per cent meaning on words and 33 per cent on tone. Communicating by telephone removes the channel of vision and so deprives us of the 60 to 80 per cent of meaning we pick up visually. How much more important, then, are words?

Not appreciably – the ratio is maintained with 18 per cent of the meaning picked up from the words we say and a staggering 82 per cent reliance on tone. However, with no visual signals to explain or soften the effect of the voice, we must be even more careful.

Toning up

You can use voice tone to assist telephone communication in the following ways:

- smile – the act of smiling realigns the muscles in the face and affects tone; you can hear a smile;
- be enthusiastic – enthusiasm is catching and breeds enthusiasm in the listener;
- sit up straight in your chair – not uncomfortably so, but don't slouch – that affects your voice and you sound apathetic;
- take a breath before you speak – you'll be able to project your voice with confidence; and,
- believe what you are saying – and the listener will too.

Incidentally, if you want to sound more authoritative or to take control of a call, stand up – it works!

Words

In addition to the points noted, beware on the phone of using:

- slang;
- overused words, such as 'okay' or 'yeah';
- cliché; and,
- colloquialisms such as 'okey-dokey' or 'bye-bye'.

Writing right

Time is a valuable commodity and writing can be time consuming and difficult; it is not a skill which comes easily to everyone. However, there are times when it is the best method of communication for the job, and the increasing use of e-mail for example means that more people need to be able to write well.

Advantages of supplying written information include the fact that you have time to prepare – complex subjects may be carefully considered and you can present your ideas in the most suitable format. In addition, your reader can absorb information at a time which suits him, a permanent record is provided, and your comments may be used as a reference.

However, there are also disadvantages of writing. It can be hard to get the right 'tone' for example, and you can't observe the recipient's reactions. Also, you can't guarantee that your document will get the appropriate amount of consideration; and writing is a slow, one-way communication.

The most common mistakes of writing include:

- failure to think of the reader;
- failure to plan the order of content;
- inclusion of too much information;
- inclusion of inaccurate or ambiguous statements;
- use of complex words, slang or jargon; and,
- poor presentation.

Rules of writing

No matter what type of document you are creating, there are a number of potential danger areas:

- incorrect spelling;
- bad grammar;
- incorrect punctuation;
- inconsistent layout;
- language which is difficult to understand; and
- too much information/text.

Whether you are writing a letter, a memo, a business plan, a report or anything else, for that matter, the above list represents things you should avoid when writing. Let's have a closer look.

Incorrect spelling

There is no excuse for incorrect spelling in a document. If you are using a word processor, then the chances are it will have a spell-check; use it as a matter of habit, but do remember that a spell-checker will not pick out a correctly spelt word used incorrectly. If you are writing by hand, either use a dictionary to check spelling or ask someone to look over your document and spot any errors.

Bad grammar

Good writing has no accent. Good grammar is the means by which it is silenced. For example, although in conversation you might say 'I seen Gary about the order last week' and get away with it, writing this down looks dreadful. If this is an area which causes you problems you could try reading more, or perhaps listening to an audio book or to the radio. This will help you to develop an ear for good use of language.

With your own writing, hear the words in your head as you read the documents over; do they sound acceptable? Can you pick out and understand the main points? Are any words or phrases constructed awkwardly? If you really struggle with grammar, perhaps have a look at a book on the subject of written English or get a friend or colleague with a good grasp of the key rules to advise you. Then again, you could always consider enrolling on a more formal course – it's worth the effort and it's never too late.

Incorrect punctuation

Punctuation gives the written word the rhythm of speech and, used properly, aids understanding. If you keep your sentences short and punctuate to copy the speech rhythm, you will probably get by most of the time with no more than full stops and commas. Here are some of the more commonly used punctuation marks:

- *full stops* – which indicate a break in thought;
- *commas* – which mark pauses or separate clauses;
- *semi-colons* – useful if you are separating listed items;
- *colons* – indicate a pause in thought longer than a comma;
- *dashes* – indicate a break in a sentence or list;
- *ellipses* – three full stops indicating that the thought continues;
- *exclamation marks* – useful for emphasis, but be wary of using too many, or you may appear either smug or too impressed with the humour of your writing;
- *question marks* – used to indicate interrogation;
- *apostrophes* – used to indicate that something belongs to something or someone (eg John's hat, the bank's policy). Apostrophes are also used to indicate where letters are missing – for example, should you run two words together, such as shouldn't for should not or isn't for is not; and,
- *speech marks* – used to indicate quoted speech or writing; for example, 'Is this your coat?' Ann asked, or, 'Facts do not cease to exist just because they are ignored', Aldous Huxley.

Inconsistent layout

When you write, be conscious of the effect of the whole document on the reader. Choose a layout, with main and sub headings, bullets, headers, footers – whatever is appropriate. If you are using a word processor it is worth investing time to become familiar with whatever 'style sheets' might be part of the package, as these can save you time. When you choose your style, stick to it. What you are doing with this approach is giving readers signposts and landmarks so that they can find their way through the text quickly and easily. An inconsistent approach means that they may get lost and give up, whereas what we want to achieve is to keep people reading – or at least scanning – right to the end.

Difficult language

Clarity is king – never use a long word where a short one will do. Avoid jargon; it makes people defensive because it shows them their lack of knowledge. They may be too embarrassed to ask for a full explanation or, worse, mistrust you because they feel you have something to hide. In all of your writing you should aim to express yourself clearly and simply, in language that everyone can understand.

Information overload

There is a limit to what people will read. You must be careful to include only necessary information; including information of marginal interest or importance may give a more thorough appreciation of your main points to someone with sufficient time to read it all, but most people these days have too much to read as it is.

Brevity also applies to style – don't let your sentences become paragraphs – split them up into brief statements. (And don't let your paragraphs become pages – break down the information you are giving into bite-sized chunks.) Don't be afraid to cut back and redraft when you are writing; concentrate on getting the essence of your message across.

Proof reading

Always, always proof read your documents. Better still, come to an arrangement with someone whereby you proof read for each other. When your work contains mistakes, it detracts attention from your message. Remember that this is an element of good writing, not something you only do if you've got the time.

Writing letters

When you write letters, you should keep it **SNAPPY**. Every letter should have:

Signature:	Wherever possible sign it personally rather than having it 'pp'd'. (Note that the 'pp' goes next to the typed name, not next to the signature. It is being signed 'per pro' the other person.)
Neat appearance:	It should be typed or word processed if it is a business letter; photocopied letters should not be sent.
Address:	Address your letters to a named person.
Politeness:	It goes without saying.
Personal tone:	If it sounds like a circular, it'll hit the bin soon after it hits the door mat.
Your reference:	So that you can quickly trace it if necessary. If you are replying to a letter which was referenced by the sender, be sure to quote that, too.

Format

The general format of the content of a letter is that, like a story, it should have a beginning, a middle and an ending. To make this easy to remember, you could use the ABC of letter writing:

A – Attention: Start with a clear first sentence, introduce the subject and gain the reader's attention.

B – Body: This is where you present your ideas or information, each of which should follow on logically from the one before. It is essential that this part of the letter should flow.

C – Conclusion: As a result of the body of your letter a conclusion must be drawn. This may be action to be taken, the refusal of a request, an apology… whatever is appropriate.

for example

ABC in action – example 1

Attention

On February 4th this year we placed an order for 600 x 2' purple widgets.

Body

Although delivery was promised in March, it is now May, and we need the widgets urgently.

Our current situation leaves us no alternative but to insist on delivery by the end of this month, or else cancel the order and seek an alternative supplier.

Conclusion

Please let me know by next Monday if you are able to guarantee delivery by the required date or if we should go elsewhere.

for example

g

ABC in action – example 2

Attention

May we draw to your attention invoice no 12345, dated 4th February and for £123.12.

Body

We have not yet received payment for this invoice, which has now been outstanding for 90 days.

Our terms of business are 30 days net, as stated on our invoices and statements. It is our policy to take legal action on outstanding debts of this duration.

In order that we may avoid this embarrassing situation, please send us a cheque for the full amount owing, by return of post. I enclose a copy of our invoice in case the original has gone astray.

Conclusion

I look forward to receiving your payment by return.

Using ABC to structure your letter – whilst keeping in mind all of the rules of writing – means that you can break things down step by step. The body of the letter may be broken down further, by listing keywords to represent what should be covered in each paragraph.

Intro/outro

All that is needed to complete the letter is the introduction and the sign off.

Letters should generally begin 'Dear...' and then bear the intended recipient's name. It is absolutely crucial that the name and title are correct.

Try to use titles as your reader would wish. With a man, you should not go far wrong using 'Mr'. With a woman, 'Ms' is a neutral term you can use if you aren't sure if the title should be 'Mrs' or 'Miss'. In all cases, be careful to properly address doctors, members of the clergy and so on. Using 'Dear Sir', 'Sirs' or 'Madam' gets round the problem, but is an extremely formal term of address.

When you use someone's name – either second name following their title or first name – be sure to spell it correctly. If necessary, make a telephone call and check spelling.

When signing off, 'Yours sincerely' is the correct phrase for a letter addressed by name, and 'Yours faithfully' for a 'Dear Sir' letter. Note that 'sincerely' and 'faithfully' should begin with lower case letters. Your own signature should be legible.

Stick to the accepted formalities for introduction and sign off, and you won't go far wrong.

Writing memos

The same rules apply to writing memos – or e-mails – as to writing letters. If you are writing to colleagues you know well, you will be more likely to sign off with 'Regards', for example, rather than the more formal 'Yours sincerely', but use ABC to get the message across in as straightforward a way as possible.

Writing reports

When writing business reports or business plans, the first item to be included is the summary. Although this will most likely be the last section to be written, it should be presented first so that busy people may immediately see what the document is about. If they want further information on any points, they can then find details in the main body of the document.

The summary should include the following, in brief:

- the starting point;
- the steps completed;
- the results obtained;
- the conclusions to be drawn; and,
- any appropriate recommendations.

Thought must be given to the results required of your investigations or whatever; you should ask yourself, have I met the objectives? What do I want people to be aware of as a result of reading this document? What action if any, do I want to instigate? You must be quite clear of the answers to these questions; if you are not, then you are not yet ready to write your document and must go back to the drawing board.

Writing your summary

Think of the processes which have been undergone and why, as well as what you have learned as a result. Make a list of key words or statements to describe each one. Put these in order and if the list flows logically, expand briefly on each to flesh out your summary.

You will need to draw conclusions from the above, which are able to be supported by factual evidence and which are not just value judgements. Similarly, recommendations should also be supported. In the summary, include conclusions and recommendations only – the rest of the document can provide the proof.

The body of the report

Keep your information here in as logical an order as your summary. This is where you will provide underpinning evidence to support the information in your summary. Although you will include detail in the main body, you should still write tightly – in other words, say what you've got to say as briefly as possible.

Formats for reports may vary, but the following will provide a good basis for offering information:

- the past – what was the situation and/or what was it that happened that initiated your work?
- the present – what is the current situation, as identified by your investigation?
- the future – where do you want to be ideally, and how can you get there?

You may also need to provide an appendix if more background information might prove useful. Again, keep it to a minimum.

Well written reports are more likely to get results than those which are poorly presented. Cut back, redraft, amend, until you are confident that you have presented your information in the best light possible.

Conclusion

Communication is a wide-ranging and fascinating subject. Pick one or two of the points mentioned in this chapter and observe for a while – perhaps how long eye contact is maintained during conversation or how a series of closed questions can seem like an interrogation – learn from that and move on.

People who communicate effectively are more successful in achieving their goals. They express themselves directly and without hostility, thus building good working relationships and creating goodwill and a feeling of well-being between themselves and others. With practice, we can all behave assertively and communicate effectively, but we have to want to learn and be prepared to change.

reading list

Reading list

Body Language
Jane Lyle, Reed International Books, 1990.

How to be a Better Communicator
Sandy McMillan, Kogan Page Ltd, 1996.

Games People Play
Eric Berne, Penguin Books, 1970.

Body Language
Allen Pease, Sheldon Press, 1984.

Manwatching
Desmond Morris, Panther, 1978.

Part Two

The right people

Blank

chapter four

Recruiting and selecting staff

The information in this chapter relates to Key Role C: Manage People

chapter four:
Recruiting and selecting staff

The information in this chapter relates to Key Role C: Manage People

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Base the identification of personnel requirements on sufficient and relevant information.
2. Ensure that suggested requirements plan to meet organisational needs and are presented appropriately.
3. Ensure that selection methods are appropriate and sufficient to meet organisational needs.
4. Ensure that information gathered and suggestions for selection are clear, accurate and based on established criteria.
5. Keep complete and accurate records.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Identify personnel requirements accurately and develop job specifications accordingly.
2. Involve appropriate people and selection criteria in the selection process.
3. Establish an accurate system for evaluating data.
4. Ensure that all relevant people are kept informed as to progress.
5. Keep complete and accurate records in line with legal and organisational requirements.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

The right person

As part of your job it may be that it falls to you to recruit for your company. Perhaps your initial involvement will be to create a job description, perhaps you will need to consider where candidates might be found and how you will attract them, or perhaps you will take the role of interviewer; whatever your own responsibility in the process, partial or total, it will help you to consider all of the responsibilities of recruitment and selection.

Objectives

The aim of this chapter is to guide you through the employment process. It will enable you to:

- identify and analyse jobs;
- define your requirements;
- prepare a job description and person specification;
- advertise vacancies effectively; and,
- interview and hire personnel.

Hiring the right people is critical to your success. Your staff, or 'human resources' can be a valuable asset; they may also constitute your firm's largest overhead cost.

Businesses recruit for several reasons; it may be to carry out new activities, to replace staff who have left, or to allow the business to expand.

As part of the business planning process, you will need to consider the specific tasks to be undertaken; the knowledge, skills and competence required to complete those tasks successfully; and, whether additional staff are required or existing staff can cope in some way with the extra workload.

Whatever your reason for recruiting, be sure that your plans are in line with business strategy and objectives. Writing things down can help to clarify your thoughts.

Recruitment and selection

The process of recruitment and selection may be compared with fishing. Firstly, you decide what would be the ideal type of fish (job definition and analysis) then you decide where you will most likely find those fish and how to attract them (recruitment advertising). Having got a number of potentially ideal fish in your net, you inspect them all (interviewing, other selection techniques) before finally making your choice. Unlike fishing, however, it is wise to be sure that your ideal choice is happy with you, too, before throwing the rest back!

Defining your requirements

Recruitment and selection can be seen as a two-stage process. Recruitment is the process whereby the optimum number of suitably qualified candidates are attracted to apply for the post. Selection can be seen as a process whereby this potentially large group of individuals needs to be filtered through a variety of criteria in order to determine their suitability for the needs of the job and the needs of the business. (This may not be the case where an organisation needs a particular highly skilled individual, when the process may place much more emphasis on recruitment rather than selection.)

Recruitment and selection must be considered as two separate processes, otherwise one or both may fail. If you filter wrongly at recruitment, you may end up with a pool of poor candidates. If you attract at selection, you may end up with a poor fit between the job and the job holder.

The first rule of effective selection is that you should know what you want. If more than one person is involved in the selection process then this information should be shared with everyone involved. It is essential that you have a written statement of what it is that you are looking for that includes the knowledge, skills and attitudes required to do the job.

Businesses recruit people to carry out specific tasks. These tasks may have been previously defined and the recruitment is only for replacement, or the business may be expanding and require additional people to carry out new tasks in which case you will need to define tasks from scratch. What are the 'jobs' or tasks that need to be undertaken?

The objective of the selection process is to match as closely as possible each person you recruit to your requirements. All jobs consist of activities and responsibilities that have to be performed in a particular way; these are tasks. Once you have identified tasks to be performed, you will need to consider the knowledge, skills, aptitudes and attitudes required. The tasks and duties of a job holder can then be set out in a systematic way: a Job Description.

This can be used to determine what the job will demand of the job holder in terms of physical and mental abilities, attitudes and personal circumstances. The required abilities and attitudes can then also be set out in a systematic form: a Person Specification.

The matching process takes place successfully when you can match the abilities and attitudes of a candidate to the demands made by the job.

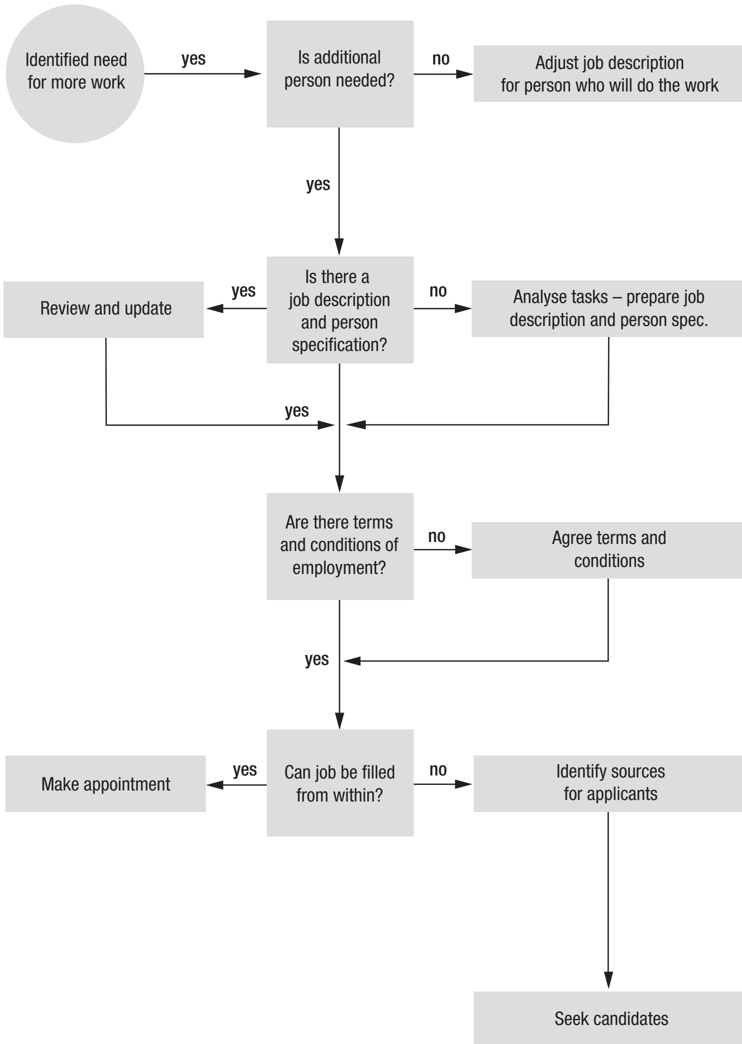

Figure 4: The matching process

Developing the framework

Let us look now at some of the ways in which we can develop a set of criteria which will help us select an appropriate candidate for the job. In order to decide on criteria, information will be needed about the following factors:

- What does the job involve? What sort of tasks? What sort of skills will be needed to carry out those tasks? Manual skills, clerical skills, selling skills, leadership skills? What sort of knowledge? Knowledge of a particular milling machine or software package? Knowledge of a foreign language? What sort of attitudes? Does the job holder need to be friendly, flexible, caring?
- In what context is the job performed? Is it in constant contact with customers or other staff? What levels of responsibility are there? Who would the job holder report to and what type of supervision will they require? How would working conditions impact upon the type of person who would fit the job requirements?

Once we have developed our list of factors, we can ask where we would be likely to find such information. In a smaller organisation (or department) of, let's say three or four people, most of the people working there are likely to know quite a lot about the requirements of the job, because they are already doing all or part of it. The growth of a company (or department) to beyond six or seven people means that it is not all that easy any more.

Let's look at the likeliest sources of effective job information. Often we can assume that the boss is the most likely person to know what the job requires; doing, however, is a different skill to managing. You may find that as you develop your management skills you become more distant from the job and need to look elsewhere for your information.

Job analysis

Job analysis is the process of breaking down a job into its component parts. It requires you to think carefully about all the tasks (eg book-keeping, selling, etc) undertaken by a defined job holder. Once you have considered all the tasks, think about the competencies, attributes and behaviours (eg imagination, initiative, ability to work under stress, etc) for which you will be looking in the jobholder. You may find it helpful also to think about the importance of individual tasks, the frequency of tasks, the relative difficulty of tasks, and the consequences of error.

There are a number of sources of information, and methods that we can use to collect it, in developing a clear picture of the job requirements. Some of these are complex and may not seem worth the effort. Listed below are some of the sources of information from which you might gain a clearer picture:

- someone who has held the job in the past – this person will have a great deal of information about the job, although it may be biased. In the case of a new job, this source is unavailable and you will need to consider the next most accurate source;
- the group or team in which the job is to be performed – it is likely that in a smaller business unit, working under pressure, existing staff will to some extent be doing the job already; and,
- the boss or the person who is directly responsible for supervising the new job – this may be the most inaccurate source of job-related information in that the boss or supervisor may offer criteria which are related to their own personal preferences and not to the needs of the job. This is, however, the most common source of job-related information.

Another useful source of information is expert information. This can be from external sources or experts. Your local library may have a copy of the *American Dictionary of Occupational Title (DOT)*. This lists thousands of job titles with brief descriptions and a skeleton job description for each. Experts who work in other organisations can be consulted informally.

Where possible you should always use more than one information source when deciding what it is that the job requires. Do not make assumptions that you alone know what a job entails. You may be wrong.

Once you have decided on the sources of information that you intend to use, you may wish to consider how you intend to collect it. When collecting information we need to use 'good enough' methods which will give the best possible picture of the needs of the post. We can use three main rule of thumb methods:

- **observation** – this applies where there is already a person in the post to observe;
- **individual interview** – again, this is of more use where there is already a postholder to interview; and,
- **group interview** – this means involving the group or team who may be already doing the job between them and asking them just what it is likely to involve and what type of person would be needed to fill it.

Job analysis is a critical element in the process of recruitment. When a post becomes vacant, there is the opportunity to look not only at what is involved in the job, but what should be involved, offering an opportunity to introduce change and to eliminate bad practice which may have crept in.

for example

g

Job analysis:
Job title – Office Manager

Task	Knowledge	Skills	Aptitudes	Attitude
1. Allocate work to suitable staff	Awareness of staff skills	People management	Ability to prioritise time planning	Pleasant manner
2. Reception, word process-ing, book-keeping and other work as required	Skills to operate machines	Computing	Manual dexterity	Desire to complete jobs on time; willingness to join in
3. Maintenance of equipment	Maintenance timetable	Fault finding		
4. Ordering materials	Reorder procedures		Clerical	
5. Training staff		Able to use computer/ other equipment	Teaching	Pleasant manner
6. Monitoring costs			Numeracy	Understand importance of cost control

Job description

Once the job analysis is completed, you can prepare a job description. This is a broad statement that sets out the main purpose and scope of the job, the responsibilities and the tasks. It is normal also to include the job title, the line manager to whom the job holder reports, the job titles of staff who report to the job holder, and any functional relationships.

for example

g

Job description: Job title – Office Manager

Department: Administration

Main purpose of job: To provide efficient word processing, reprographic and switchboard services to all other staff

Responsibilities

Responsible to: Finance manager

Responsible for: Six staff on three sites

Main duties

1. To ensure the provision and maintenance of an accurate and efficient word processing and reprographic service by:
   - receiving work for word processing and reproduction
   - deciding priority of work
   - allocating work
   - checking samples of work for accuracy and presentation
   - undertaking work oneself as required.
2. To ensure equipment is maintained and working at all times.
3. To order stationery and office materials, as required.
4. To train and assist in selection of new staff.

Person specification

Once you have prepared the job description you can define the person you need to do the job. In writing the person specification, it may help not only to consider the expertise and experience required, but also to think about desired behaviours, such as decisiveness, teamwork, leadership, delegation, creativity, and initiative. Think in terms of competence, skills, experience, values, behavioural characteristics, etc. At all times, you need to be clear about your own objectives in recruiting additional members of staff. Lastly, it may help to consider the organisation's values and culture when recruiting people.

The emphasis should be on skills and abilities. If you require a candidate to speak reasonable French, for example, you might be better off with someone who is unqualified but goes to France regularly on holiday and converses in the language whilst there, than someone who passed a GCSE in the subject five years ago and hasn't spoken a word of French since. Qualifications don't necessarily prove skill.

Always state a minimum length of experience as well as the level at which it must have been gained; for example, 'a minimum of two years experience of managing a retail unit of at least 2,000 m^2' rather than 'experience of retail management'.

It is essential to weight the specified criteria in order that you may gauge the suitability of applicants against both the criteria and each other. In other words, if you have ten criteria listed, it is unlikely that each merits a score of ten per cent toward the total; perhaps the most important should be rated at 30 per cent, with the rest ranked to suit.

Person specification: Job title – Office Manager

	Essential	*Desirable*
Attainments	• 'O' level English language or equivalent • Ability to type and to operate office machines • Experience of general office work.	• 'O' level maths or equivalent • RSA II typing • Experience of using simple statistical information • Experience of staff supervision.
General intelligence	• Above average.	
Special aptitudes	• Reasonable manual dexterity • Facility with figures.	
Physical make-up	• Good health record • Acceptable bearing and speech • No serious uncorrected impairment of sight.	• Pleasant appearance, bearing and speech.
Disposition	• Persuasive and influential. • Self-reliant.	• Good degree of acceptability, dependability and self-reliance. • Steady under pressure.
Interests	• No special interests.	
Circumstances	• No special circumstances.	

Alternatives to hiring someone new

After carefully reviewing the task and the person specification, you can decide whether you need a new full-time employee to carry out the tasks required.

Consider the following options:

- **Redistribute tasks to your existing workforce**: Can the tasks of the job be shared among your current staff? Will it over burden them? It may mean taking time from current projects or involve paying overtime.
- **Transfer staff or promote internally**: An existing employee already knows your firm and will need less training. You already know the employee's working style, dedication, flexibility, strengths, and weaknesses. However, you may be overlooking strong candidates in favour of existing employees who are less suited. It could also affect staff morale if one person is chosen over another.
- **Use sub-contractors**: You could hire an outside business or expert to undertake the tasks. This works best if the job is on a project-by-project basis. Sub-contractors can be expensive and you may have less control over the project.
- **Hire part-time or temporary staff**: Part-timers may cost less than full-time staff, but they often need the same training. The main benefit is increased flexibility. Temporary staff contracts should clearly state start and finish dates, extensions, and the likelihood of the post being made permanent. The length of employment for temporary employment must be less than two years.
- **Job sharing**: Two or more employees can take on the tasks of one job. This gives greater flexibility, and provides cover when one of the employees is absent or on leave. The workload needs careful consideration and employment costs may be higher.

Attracting applicants

Once you have defined the requirements of the job and communicated this to the people who need to know, you can consider how you are going to recruit. Recruitment is the process of generating a pool of rainbow trout from which you can pick out the best rainbow trout. It is also about avoiding a pool of trout, chubb, piranha and goldfish, simply in order to avoid the effort involved in throwing the wrong fish back. Often even professionals working in the field of recruitment and selection can lose sight of their objectives. In some cases individuals can start to recruit before they actually know what the job requires, assuming (wrongly) that their recruitment methods will throw up any number of appropriate candidates.

Even if this is so, the effort expended in sorting through the unsuitable candidates will cost more than necessary and tax the stamina of the selectors. After you have interviewed the seventh or eighth, unsuitable candidate you may be too tired to notice the ninth, suitable, one. Effective recruitment involves knowing what it is that you want.

You will need to identify sources of potential recruits. These might include:

- internal recruitment;
- advertising;
- Job Centres;
- careers services and local schools;
- employment agencies;
- newspaper advertising;
- training schemes;
- professional recruitment agencies;
- word of mouth; and,
- speculative applications.

In most cases you will probably advertise in the local newspaper and/or use the Job Centres, depending on the sort of person you are after. There are a number of ways in which you can gather information about the candidates, including: CVs, application forms, references, tests and interviewing. You will probably ask candidates to complete an application form, which you will follow up with an interview and, perhaps, some appropriate testing. You should also take up references. A summary of the recruitment and selection process is shown below.

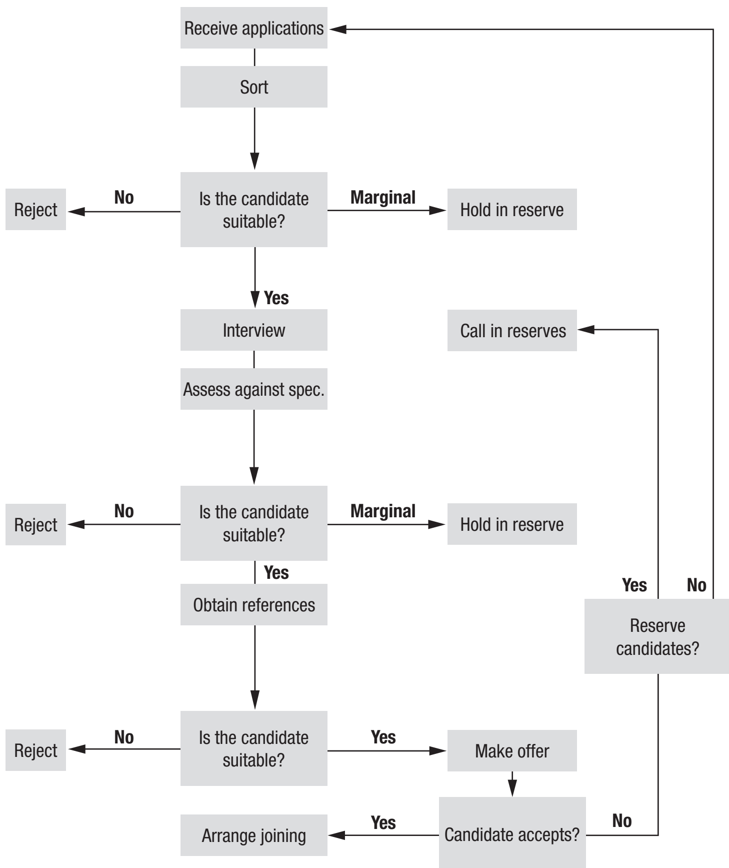

Figure 5: The application process

Only you can decide what particular channel or channels are appropriate for the job that you wish to advertise. All have their advantages and disadvantages. Some people, for instance, would never entertain speculative applications because many of them come from unemployed individuals; the same applies to Job Centres. You should, however, in the interests of common sense as well as fair practice, try to reach as many of the type of candidate that you want as possible. Don't disqualify before the selection process – or, indeed, at any stage – on the basis of your own prejudices.

Recruitment advertising

Recruitment advertising of any sort is about creating and managing the right impression with your potential candidate pool. At a minimum, this means disclosing the right information to this pool. Potential candidates will need to know:

- location;
- salary package;
- company description;
- job title and content;
- candidate requirements; and,
- accurate and sympathetic reply instructions.

If you fail to meet these criteria, you may, at a stroke, alienate suitable candidates, attract unsuitable ones and leave the world in general with a sense of your incompetence.

Selection techniques

It is a sad but indisputable fact that in any group of people who apply for a job, there will be a number who will not give accurate information about themselves. This may be because they do not understand what information it is that you need, or it may be because they badly want the job, despite not being sufficiently qualified or experienced, and don't consider the problems they may face should they get it. It is also true that organisations do not give accurate information for similar reasons.

This means that your information gathering and giving process needs to be as accurate as possible. In order to obtain accurate information about candidates, you should use more than one method, in the same way that you use more than one method when preparing the original job criteria; multiple methods give greater accuracy in matching the person to the job. The following paragraphs give you a range of different selection methods, ranging from the most popular and least expensive to the least popular and most expensive. This is not to say that cost necessarily needs to be an important factor in choosing a selection method. Expensive methods such as biodata or psychometric testing may be cost effective because of their perceived success rate in finding the right person to fill a job and because of the reduction in work required by the recruiter. However, selection effectiveness can be achieved without worrying about these issues.

Screening

The filtering process needs to begin once you've got your pool of candidates. If you attracted 80 or 90 applicants, you could filter them by asking them to telephone and by having someone ask them pertinent questions about their experience or educational qualifications. Of course, you can also screen after shortlisting if you've got sufficient good candidates, by asking them to telephone for a brief chat.

Other screening processes could include using the type of information you already have as part of the selection process. If, for instance, you already have a group of good workers doing the same job, you could construct a profile looking at their education, experience, etc and throw out anyone who didn't fit. There are large companies that sell these sorts of profiles based on information from several organisations. This is called biodata and may be a very good predictor of candidate performance.

Application forms

Inviting applications by CV is undoubtedly easier for the applicant, but the resulting tidal wave can be horrendous; trying to sort through a pile of CVs, all with different formats and with widely varying levels of presentation, can be extremely time consuming and makes it difficult to spot key information.

Consequently, many organisations have designed their own standard application form. These generally are divided into a number of sections covering areas such as:

- knowledge, skills and attitudes;
- experience;
- physical criteria; and,
- any other requirements.

Interview

Many people dislike the interview process, both as an interviewee and an interviewer. Although the interview is the most popular form of selection, it is also arguably the least useful in predicting the performance of candidates on the job.

Interviews are none the less an important method of exchanging information, but only if they are approached in the right way. More information on interviews follows.

Group selection methods

When working with other people is an important part of the selection process, it could be useful to consider a group selection method. This could involve asking a group of candidates to carry out a task and to look at the ways in which they interact. The task need not be particularly complicated. It could, for instance, involve the group in designing and delivering a presentation on the changing nature of the world of work.

You could observe the group and look out for the people who seem to demonstrate the sort of qualities which the job requires; those who were verbally skilled, those who showed leadership behaviour, those who mediated when squabbles broke out.

It is important to tell people what sort of qualities you are looking for before you start such an exercise, as if you do not give clear goals, some potentially viable candidates may try to second-guess you and demonstrate completely untypical behaviours. (Where clear goals exist, candidates may also try to show untypical behaviours, but this is very difficult to do successfully.)

Realistic job previews

Methods like this are time consuming and there are serious issues of confidentiality, but if you can screen your shortlist down to two or three, there's no reason why you shouldn't bring them in and give them a problem to handle.

You do need to make sure that the problem has a clear solution; preferably, it would be a problem that you've already dealt with.

The other thing about realistic job previews is that they can involve more staff in the selection procedure. People will tend to work well with candidates whom they have seen and had some say about.

Portfolios

Portfolios were something which were little used in the UK with the exception of specialist professions, such as photography or graphic design. The development of portfolios such as Records of Achievement seemed to indicate that this was something that would change. Growing numbers of employees, particularly in service companies, could develop portfolios of work, including customer references.

References

Written references certainly have some drawbacks; perhaps someone wants rid of an employee – they certainly won't give a poor reference under those circumstances! Poor references could also turn out to be libellous, although one of the main problems is that people just don't know what you're asking for. The most accurate references are ones which come from face to face or telephone interviews with someone who has had direct experience of the candidate's work.

If you're writing, you could ask for a telephoned reply or say that you will telephone them. Where this isn't possible, enclose a copy of the information which you have collected about the job and ask the referee if the candidate is suitable for this job.

Assessment centres

An assessment centre comprises a series of tests, exercises and perhaps interviews given to a team of candidates and lasting, typically, a day. Candidates are observed by a team of assessors, with another person (or people) acting as facilitator(s). Tests and exercises are used which are designed to predict how candidates will perform in the workplace. Realistic job previews, lateral thinking exercises, psychometric tests and practical demonstrations are all popular events in an assessment centre.

Care must be given to select tests which will demonstrate appropriate skills, knowledge and attitudes, and assessment must be weighted, with the demonstration of more highly desirable attributes attracting more 'points' than the demonstration of attributes which are 'nice to have' but not essential.

Other methods

Perhaps the most popular of the other methods available is psychometric testing, which offers actual tests in areas such as intelligence and personality characteristics. The Myers Briggs Test is reasonably user-friendly (it's short) and purports to identify people by personality characteristics such as extrovert v. introvert and thinking v. feeling. These characteristics are similar to those that we use when learning.

Finally, there are selection methods which use samples of candidates' handwriting (graphology), their star sign (astrology) or which select through palmistry. Little evidence exists to support these as adequate predictors of performance.

What is important is to know what you want and to use processes that you feel comfortable with in order to select your candidate.

Interviewing candidates

Interviews are the most popular method of gaining information about and assessing candidates. Handled properly, they can be extremely useful and beneficial. Handled badly, they can be a nightmare for all concerned.

So how do you make sure that your interviews are successful? As with all things, the key is planning.

Who should interview?

Perhaps the first question is to decide who should conduct the interviews. Gerard Lemos argues that one person alone should not conduct interviews, as the opportunities for bias are considerable and it is not the most effective way to get the best from the candidates.[4] He suggests three or four people is the ideal number for an interview panel.

Another approach is to have one person conduct first interviews and another final interviews. Larger organisations may have a representative from personnel plus the supervisor of the vacant post conduct an interview.

Your own decision will be based on the resources available to you and your considered preference. Try not to be influenced by what has gone on in the past. If you truly believe that interviews are best conducted by more than one person, then don't be afraid to suggest this even if previous interviewers have flown solo.

[4] Gerard Lemos, *Fair Recruitment and Selection*, Lemos Associates 1994.

When to interview?

The timetable for interviews needs to be carefully completed. You should be sure all interviewers are available and that sufficient time is allowed for each candidate. Bear in mind that despite your best intentions to keep each interview to one hour, it is possible for one to over-run by 10 or 15 minutes – perhaps due to a late start because the candidate was delayed or because there are some interesting and directly relevant areas to explore further in the discussion.

Your letters inviting people for interview should go out in plenty of time and should be very clear. They should tell the candidate:

- that they are being invited for an interview;
- when the interview is and how long they can expect to spend on the process;
- where they need to report (including instructions or a map, if necessary) and for whom they should ask;
- what they should bring with them;
- whether expenses will be paid;
- whether they need to confirm their attendance (with contact details if they do); and,
- who to contact in the case of a problem arising.

It goes without saying that the letters should be personally addressed and signed.

Pre-interview preparation

There are a number of things which should be prepared before the interview takes place, some well in advance, others just before. The following checklist should help:

- **prepare questions** – you need to know what you want to ask each candidate and how you want to ask it (more information on this subject may be found below);
- **book a room** – make sure that you have somewhere suitable to conduct your interview. Consider the size of the room, the seating arrangements, the lighting and so on, bearing in mind at all times how the candidate is likely to feel in these surroundings. In addition, make sure that on the day of the interviews there will be no interruptions;
- **order stationery** – make sure that you have sufficient copies of everything you need, from brochures or fact sheets about the company that you may give to candidates, to pens and paper for note-taking; and,
- **re-read the documentation** – go over the job description and person specification to be sure you are familiar with the contents, as well as the application form/CV submitted by each candidate.

Interview questions

The questions you ask will be driven by the information contained in the job description and person specification. What are you looking for? How can you gain evidence?

It is said that past performance is the best indicator of future performance, and you should get a truer picture of likely events if you ask for actual examples of behaviour rather than asking for solutions to hypothetical problems. We all generally know how we should behave (hypothetical answer), the acid test is how we do behave (actual examples).

For example, if you want information regarding someone's interpersonal skills, you could ask, 'Can you think of a time when someone clearly did not want to develop a working relationship with you? How did you handle the situation?' Alternatively, if you want to check out their project management skills, you could ask, 'Can you think of a project with which you were particularly pleased? Can you tell me what was so good about it?'.

Questioning in this way gives candidates a chance to relate real-life examples of behaviour, making them feel at ease (no trick questions) and giving you an insight into their work behaviour.

The next thing to consider is how to ask the questions. The examples given above are open, and open or probing questions are the best fact finders. Beware of using closed questions and never use leading questions. For more information on questioning, see Chapter 3, *Getting the message*.

The interview structure

Structure is a vital element of the interview for a number of reasons. Firstly, the candidate expects you to take control and to guide the proceedings. It looks professional and helps to use the available time in the best possible way. Secondly, it means that you can be confident that you have covered all relevant areas – after all, you can hardly ring the candidate up after the event and say 'Oh, by the way, I forgot to ask...'. Finally, it makes it easier for you to compare candidates afterwards. An unstructured approach may bring you a wealth of information, but how on earth can you accurately score it to arrive at a fair comparison?

The interview can be broken down into the following stages:

1. **Welcome**: Upon the candidate's arrival, put him/her at ease by using selected 'small talk'.
2. **Supply information**: Give relevant background information on the business, including its objectives, organisation, and culture. Clearly state the tasks involved in the job.
3. **Acquire information**: Use open-ended, specific questions about the candidate's background to probe further into his or her experience and qualifications. If you are not satisfied that the candidate has properly answered your question, it is best to rephrase it rather than simply repeating it. This way, you don't appear to be bullying.
4. **Invite questions**: Ask the applicant for questions.
5. **Parting**: Wrap up the meeting by asking the candidate if s/he has anything further to add.

Immediately after the interview, take time to make notes on anything said that is directly relevant to the decision. Do this while the conversation is still fresh in your mind. The final decision should be based on how closely each candidate matches the person specification for that particular job.

Horns or halo

The interview is a time to be particularly alert for signs of your own bias. This can be either for or against the candidate, but either way it is to be avoided. It can be described as the horns or halo effect; someone says something, does something, or looks like something you don't like, and so everything they say in the interview is received unfavourably. Alternatively, they say, do, or look like something you particularly like, and so they can do no wrong. Be alert to these impulses; you must remain impartial and unbiased.

Keeping people informed

At all times during the recruitment process make sure that you keep people informed. Many individuals have high hopes following an interview, or feel great pressure to find a job; some might be holding on to another offer until they hear from you. Whatever their individual circumstances, people find the process stressful enough, without worrying how they have done, what stage things have reached, and so on. Not all will pick up the phone and ask you, either, for reasons ranging from superstition, fear, or not wanting to appear too pushy.

Selecting the successful candidate

Having conducted your interviews and gathered information, the time has come to make your decision and select the candidate to whom you will offer the job. If you have followed the procedure outlined previously, this should be relatively easy. You have listed and weighted the attributes considered essential and desirable, and questioned in such a way that examples of behaviour illustrate those attributes and their usage.

Now it is time to code the evidence. The coding procedure (for which you can read 'grading' or 'scoring') is best decided before the interviews are conducted. You should be confident that the process will help you to compare all candidates equally.

Offering the job

When you come to offer the job to your 'chosen' candidate, do not be in too much of a hurry to reject the rest; your first choice might turn you down! Waiting until you have a firm acceptance before issuing rejections makes sense; do not forget to build extra waiting time into the response timescale you give candidates.

The offer letter

The letter you send offering the job should be specific about salary, holidays, place of work and so on. It may be that you offer the job by telephone initially to gain agreement on some points and then confirm in writing. Either way, get the letter out promptly in order that you may get a prompt response.

The rejection letter

Letters of rejection can be difficult to write and are certainly going to be disappointing for people to read; consequently, giving a little thought to them can help soften the blow.

Always make them personal; they should be personally addressed and signed, and offer an explanation as to why the candidate was unsuccessful – perhaps that their experience was lacking. If you plead volume of applicants, it sounds like you may have divided the pile in half and rejected one lot out of hand! Be specific.

Keep all application forms and letters of rejection on file for three months after making your decision – they may be needed to answer queries from unsuccessful applicants, or as evidence if you are accused of discrimination.

Probation

People expect to be on probation when they start a new job. Many also want the opportunity to get out of the contract relatively painlessly if the company doesn't shape up. It is usual to have a probationary period of some three months, although with higher level positions the timescale could be greater.

Keeping records

You will undoubtedly have to keep records of the process you have undertaken. Whether you keep a list of interviewees and copies of letters sent, or full interview notes and records of all communication will depend upon the policies set down by your company. Make sure that you are fully aware of what needs to be recorded and how, and complete your paperwork promptly.

You will also need to consider who needs to be informed; payroll, for example, will need details of any starters. Be sure that you let everyone know who needs to know.

Evaluation

As with all processes, the recruitment process should be evaluated when it is complete. Your evaluation should aim to tell you how successful you feel you have been, where problems were encountered and why, and conclude with recommendations for improvement as appropriate.

Conclusion

Recruitment should not be confused with selection: recruitment is the process of developing the best potential pool of candidates for the job in question; selection is the process of filtering that group of potential candidates to 'fit' them to the job and the context in which the job is done.

The recruitment process is difficult without clear objectives. You must ask yourself:

- What does the job involve?
- What sort of qualities should the person have?

Without comparable information, the selection process is ineffective.

Just as there are a number of ways in which you can collect job information and translate it into job characteristics, there are a number of ways in which you can collect information about the person in a way which will match job characteristics. Using more than one method of collecting information will result in more accurate processes; the matching process is likely to involve managing relationships with the candidates and having clear objectives about the process.

reading list

Reading list

Fair Recruitment and Selection
Gerard Lemos, Lemos Associates, 1994.

A Handbook of Personal Management Practice
Michael Armstrong, Kogan Page Ltd, 1991.

Managing People at Work
John Hunt, McGraw-Hill Book Company, 1992.

Managing and Employing People
David Irwin (Ed), Thorogood, 1998.

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chapter five

Keeping within the law

The information in this chapter relates to Key Role A: Manage Activities and Key Role C: Manage People

chapter five:
Keeping within the law

The information in this chapter relates to Key Role A: Manage Activities and Key Role C: Manage People

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Ensure that information regarding legal and organisational responsibilities for maintaining healthy, safe and productive working conditions is made easily available to all staff.

2. Ensure that recommendations for improvements are encouraged and dealt with according to organisational policy.

3. Ensure that breaches in health and safety requirements are promptly identified and effectively dealt with.

4. Ensure that you keep full and accurate records which comply with legal and organisational requirements.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Ensure that the organisation operates an equal opportunities policy.

2. Ensure that the organisation has a health and safety policy which meets all legal requirements.

3. Deal with breaches in health and safety requirements promptly and effectively.

4. Keep full and accurate records.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Ensure that the organisation operates an equal opportunities policy.
2. Ensure that the organisation has a health and safety policy which meets all legal requirements.
3. Deal with breaches in health and safety requirements promptly and effectively.
4. Keep full and accurate records.
5. Ensure that staff are redeployed effectively.
6. Ensure that redundancies are dealt with fairly and legally.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Keeping within the law

Employers must be vigilant when dealing with staff to ensure that they are operating within the limits of the law.The penalties for not doing so can be severe, and ignorance is no defence.

Objectives

This chapter aims to supply basic information with regard to the legal aspects of employment. It provides details of:

- employment legislation;
- equal opportunities policies;
- health and safety requirements;
- redundancy;
- trade unions and the law; and,
- human resources documentation.

Employment legislation

An employer needs to keep up-to-date on the legislation which protects the rights of both applicants and employees. Job applicants cannot be discriminated against on the grounds of race or sex. Applicants who feel they have been discriminated against have the right to apply to an industrial tribunal for compensation.

Once you begin hiring employees, you must inform the Inland Revenue. A job description must be provided to people who will be employed for over 16 hours per week. A statement of the employee's pay must also be provided, showing gross amount, variable deductions, fixed deductions and net pay. If any part of an employee's contract changes, the employee must be informed within a month of the change. A change can only be made with the consent of the employee.

As soon as you employ other people, you need to comply with a number of statutory regulations. Have you:

- Prepared a written statement of employment for all staff?
- Established a system for keeping personnel records?
- Introduced an equal opportunities policy?
- Insured for employer's liability?

There are several pieces of legislation which apply to employment. These include:

- Employment Act 1980.
- Employment Act 1982.
- Employment Act 1989.
- Health and Safety at Work Act 1974.
- Race Relations Act 1976.
- Sex Discrimination Act 1975 and Sex Discrimination Act 1986.
- The Equal Pay Act 1970 and Equal Pay (Amendment) Regulations 1983.
- The Factories Act 1961.
- The Employment Protection (Consolidation) Act 1978.
- The Transfer of Undertakings (Protection of Employment) Regulations 1981.
- The Disability Discrimination Act 1995.

Summary of legal aspects of employing people

You (and your spouse)

A. Health and Safety at Work Act 1974.

B. The Factories Act 1961 (NB no contract of employment is required for your spouse.)

Employing up to five people

A and B and…

C. Race Relations Act 1986.

D. Sex Discrimination Acts 1975 and 1986 and the Employment Act 1989.

E. Equal Pay Act 1970 and Equal Pay (Amendment) Regulations 1983.

F. Contracts of Employment for all staff within eight weeks.

G. Itemised pay statements.

H. Defined notice periods.

I. Dismissal only for fair reasons.

J. Disability Discrimination Act 1995.

Employing 5 to 19 people

A to J and…

K. Prepare and publish a health and safety policy statement.

L. Factories Act requirements (and also Office, Shops and Railway Premises Act 1963) become stronger.

M. Have to re-employ following maternity leave.

Employing 20+ people

A to M and…

N. Facilities for secret ballots for recognised trade unions.

All employment law applies.

Equal opportunities policies

Equal opportunity employment means that every person has the same chance in matters relating to employment. The following legislation applies:

- The Race Relations Act 1976 – states that discrimination on the grounds of colour, race, nationality, ethnic and national origin are illegal. Applies in England, Scotland and Wales.
- The Fair Employment (Northern Ireland) Act 1989 – this Act aims to deal with discrimination on the grounds of religion. Applies Northern Ireland only.
- The Sex Discrimination Acts, 1975 and 1986 – protects both men and women from discrimination on the grounds of sex and marital status and, for example, makes it illegal to pay men and women different rates for the same (or broadly similar) jobs. There are some circumstances where men or women only may be employed – for example, in private clubs which are themselves men or women only. Applies UK wide.
- The Disabled Persons (Employment) Acts, 1944 and 1958 – these oblige an employer with 20 or more staff to employ a quota of their workforce from a register of disabled people. Applies UK wide.
- The Equal Pay Act 1970 (amended 1983) – states that it is unlawful to discriminate between men and women with regard to pay and the terms of their contracts of employment – overtime, bonus and piecework payments, holiday and sick leave entitlement, for example – and applies to every person under an employment contract. The provision allows equal pay for both sexes if:
  - they are doing equal or similar work;
  - the work has been rated as equivalent by an analytical job evaluation scheme; or,
  - they are doing work of equal value.

The terms of the Act do not apply if there is a genuine difference in the work performed. Applies UK wide.

Direct discrimination

Direct discrimination occurs when someone excludes people because of their race or gender, for example – a factory currently employs only white males and sets out a deliberate policy to keep out everyone else.

There are genuine exemptions when a job carries what is known as a genuine occupational qualification (GOQ). This occurs when there is a reason why one race or one sex is better suited to the job. GOQs are very rare, but would include a job providing personal services for members of a specific racial group, where duties would most effectively be performed by a member of that group, for example.

Indirect discrimination

Indirect discrimination occurs when a requirement is placed on both men and women or members of all racial groups, but which works to the detriment of members of one gender or racial group (for example, the post-holder must have long, straight, blonde hair) and cannot be justified in terms of the requirements of the job.

Positive discrimination

Except in certain very tightly defined circumstances (where GOQs apply) it is not lawful to discriminate in favour of any particular racial group, or either gender. It may also be rather foolish to attempt to discriminate positively, resulting in bad feeling and low morale among the work force and undue pressure on people who find themselves in jobs that they cannot handle.

Victimisation

This occurs when an employer treats an employee less favourably in a way covered by the Race Relations Act or Sex Discrimination Acts.

Becoming an equal opportunities employer

There are several steps involved in becoming an equal opportunities employer. The first is to formulate a written equal opportunities policy, which states your intentions to develop and apply non-discriminatory practices, and which should be communicated to all employees, Job Centres and recruitment agencies. The policy should be expressed by – and ultimately be the responsibility of – a senior manager, and the commitment of all staff to the policy is essential.

Someone should be appointed to implement, monitor and update the policy. A committee, which will be able to review the policy in action, may work best.

All employees involved with personnel decisions should be given training on the policy and their responsibilities, and current practices should be examined. It is important that grievance procedures are set up and that employees are aware of them.

Information should be gathered on the ethnic origin and gender of the current workforce to determine whether or not equal opportunities are being offered, and wages should be compared to verify that differences in pay are based on something other than sex.

Past discriminations should be identified and corrected and positive action taken to train members of particular groups in areas where they are under-represented.

As an employer, documenting your equal opportunity steps will give proof of your efforts in this area which can be used should someone make a complaint against you.

Health and safety

This section looks at the concept of health and safety, and at the main legislation applying to the creation and maintenance of a safe working environment. While it gives a general overview, it is not comprehensive and should be cross-referenced with other appropriate information.

Health and safety is one of the most strictly regulated areas of business activity. Complying with the law will keep a business safe and ensure that it does not encounter legal difficulties. A number of Acts and Regulations cover the creation and maintenance of a safer working environment in the UK. Some legislation is general, but particular areas are covered by specific legislation. British law is now being tightened up and rationalised as part of the European Commission's programme to harmonise legislation across the European Union. All the same, it is important to be aware of the older legislation, much of which remains in force.

The Health and Safety at Work Act 1974 (HASAWA)

HASAWA lays down the basic principles of health and safety that apply to employers, employees and to the self-employed. It covers work premises, and all activities taking place on those premises.

The main provisions of the Act are:

- Employers must conduct their business in such a way as to ensure as far as is reasonably practicable that nobody is exposed to health and safety risks as a result of their activities.
- Employers must ensure as far as is reasonably practicable that employees are not subjected to health and safety risks.
- Employees must take reasonable care to ensure the health and safety of themselves and others who may be affected by their acts or omissions at work.

- The control of dangerous substances and certain emissions into the atmosphere is also dealt with under the provisions of the Act.

A duty of care is owed to various groups of people including:

- Those employed by, or working for, the business (eg trainees).
- Those who use the workplace (eg a landlord).
- Those using any of the business equipment.
- Visitors to the premises (eg maintenance workers).
- Anyone who may be affected by work taking place on the premises (eg the general public).
- Users of the product or service.

The Act states that every business must undertake a Risk Assessment and have a Health and Safety Policy. Any person employing five or more workers must put both in writing. Employees must be aware of the policy and it must be enforced. The policy should contain the business's aims with regard to the employees' health and safety. It should be revised as necessary and monitored for effectiveness. If the business recognises a trade union, the trade union may appoint a safety representative within the firm. The representative must be given time off work to attend functions and undergo training.

All employers must display a Health and Safety law poster. Entitled 'What You Should Know', these are available from the Health and Safety Executive (HSE).

All employers must provide a First Aid kit and keep details of accidents and dangerous occurrences. Serious accidents must be reported to the HSE or the Local Authority; both enforce HASAWA. They have powers of entry, improvement and prohibition.

The 1992 Health and Safety at Work Regulations

Several sets of health and safety regulations implementing EC directives came into force in 1993:

- Management of Health and Safety at Work Regulations 1992;
- Personal Protective Equipment at Work (PPE) Regulations 1992;
- Workplace (Health, Safety and Welfare) Regulations 1992;
- Health and Safety (Display Screen Equipment) Regulations 1992;
- Manual Handling Operations Regulations 1992; and,
- Provision of Use of Work Equipment Regulations 1992.

These regulations consolidated and expanded upon existing health and safety legislation, though some new areas are covered, notably health and safety management, manual handling (lifting and moving operations) and display equipment. Older health and safety law, such as the Factories Act 1961 and the Offices, Shops and Railway Premises Act 1963, was largely replaced by the newer regulations. More recent statute law such as that covering the Control of Substances Hazardous to Health (COSHH) remained in place.

One of the major new requirements under these new regulations is that employers must carry out a risk assessment, and those with five or more employees must record their findings. The HSE provides leaflets explaining the employer's responsibilities.

Fire Precautions Act 1971 (as amended by the Fire and Safety of Places of Sport Act 1987)

The rules relating to fire safety are contained in the 1971 Fire Precautions Act which was amended in 1987. The Act aims to ensure that an employee's knowledge of how to escape a fire and of general fire precautions is clear. This is achieved mainly by ensuring that businesses must obtain a fire certificate.

Premises used for a variety of different business activities require a fire certificate:

- sleeping accommodation;
- institutions providing treatment or care;
- premises for entertainment, recreation or instruction (eg a club, society of association);
- premises for teaching, training or research;
- premises used for access by the general public, whether on payment or otherwise;
- premises used as a place of work; and,
- premises used solely as a place of worship.

Premises classed as being a factory, shop, railway or office must obtain a fire certificate when a number of conditions apply, for example if:

- at any one time, 20 or more people are on the premises;
- ten or more people are employed and work other than on the ground floor; and,
- explosives or highly flammable materials are used or stored.

The Factories Act 1961

The Factories Act applies to premises classed as a factory, that is, those in which persons are employed in the making of, or adding to, goods for the purpose of gain. This includes open air premises. Many of the areas covered by the Act, such as machine safety, dangerous substances, working conditions and employee welfare are complemented or superseded by new legislation eg the Workplace (Health, Safety and Welfare) Regulations 1992. Employers should check carefully those sections relevant to themselves.

The HSE must be informed, in writing, of the intentions to use premises as a factory one month before operating begins. The information given must include:

- occupant's name or title of the company;
- postal address of factory;
- nature of the work;
- whether mechanical power is used, and if so, the nature of that power; and,
- the council district in which the factory is situated.

If a new occupier is taking over a factory and the nature of the work is unchanged, work can begin before the notice of occupation is served.

Office, Shops and Railways Premises Act 1963

This Act applies only to those places classified as an office or shop. As with the Factories Act, much of it has been superseded by the Workplace (Health, Safety and Welfare) Regulations 1992. These new Regulations make provisions with regard to lighting, temperature, cleanliness, maintenance of the workplace, etc. The workplace Regulations cover a number of premises that were not covered by the previous legislation, such as temporary worksites. 'Workplace' refers to any premises, or parts of premises, other than domestic, that are available as places of work. This includes any areas which people have access to while at work, and any room, lobby, staircase or corridor, etc used as a means of access to that place of work (with the exception of public roads). For a fuller explanation, see the appropriate HSE leaflets.

Specific safety regulations with regard to lifts, machinery etc are still in many cases in place and so should be checked as required.

As a business grows it becomes more difficult to know details of everything which takes place, so it is important to get employees involved in health and safety matters from the start.

Health and safety inspectors are aware of the special needs of small firms so take advantage of the help and advice they can offer. Ask for information and advice on any relevant areas.

Health and safety inspectors may visit your business at any time. Ensure that your business meets the legal requirements at all times.

Redundancy

Redundancy is an emotive subject. Loss of employment is a severe blow for individuals and their families. At the same time, failure to take prompt action may lead to complete business failure. You need to be aware of these issues if you are considering making staff redundant. Your decisions should be based on a rational assessment of the long-term needs of the business, and the requirements of current employment legislation.

What is redundancy?

There are a number of circumstances in which a dismissal may be classed as redundancy:

- the business employing the worker ceases trading, or intends to do so;
- the type of work the person was employed to do is scaled down or ceases;
- the worker becomes surplus to requirements through a factor affecting the tasks undertaken by that individual (eg being replaced by a machine); or,
- the business employing the worker ceases (or intends to cease) operations at the site where the worker is employed (refusal to move to nearby premises may not entail redundancy eg if accessibility is an issue).

The main feature of redundancy is that an employer has had to reduce their workforce in some way. To be redundant, a worker's job must have disappeared, even if the employer is recruiting in other areas. If a worker's job is taken over by another employee, redundancy is still valid if that employee's job is then vacant or there is a net loss of jobs.

Some workers have contracts that allow periods off without pay, or on short-time working (earning less than half a week's pay). They can claim to have been made redundant if they have been laid-off or put on short-time working either continuously for four or more weeks, or for any six weeks out of thirteen. The worker must notify the employer of the claim in writing within four weeks of the end of the period. The employer has seven days from receipt of notice in which they may notify the worker of a 13 consecutive week period of employment expected to start within four weeks. If this new period of employment is not forthcoming, the worker can be classed as redundant.

Entitlement to redundancy payments

Employees (meeting qualifying criteria) are entitled to redundancy payments; the self-employed and members of partnerships are not. Directors may qualify if they have contracts of employment, but not if they work on a fee basis. Employees of normal retirement age are not entitled to redundancy payments, nor are apprentices whose period of service ends at the same time as their apprenticeship contract.

Qualifying periods

Since February 1995 the qualifying period is two years for all employees, irrespective of the number of hours worked per week. Service only counts after 18 years of age. Employment Department booklet PL711 details the rules governing continuous employment.

Continuity of service

Time counted as continuous is subject to various conditions. Work for a previous employer may count (eg if the business transfers ownership, or if the employee changes companies but the firms are under the same ownership). Contracts where the employee normally works outside Great Britain do not give that employee entitlement to redundancy payments; but if the employment conditions change and the employee works within Great Britain for the same employer, the previous overseas service will count towards the period of continuous service. The number of hours contracted for, and worked, in a week have a bearing on qualifying periods. Strikes do not affect continuity of service, but the number of days on strike can be deducted from the total number of days served when calculating length of service.

Fixed term contracts

A fixed term contract of two years or more which ends without renewal may entitle the employee to a redundancy payment unless the contract included a waiver clause and the employee gave written agreement to it.

Alternative offers of employment

Offers of alternative employment with the same or an associated employer, or with a new employer taking over the business, may remove entitlement to redundancy payments. This happens if the offer is made before the old contract ends, provided the new contract starts within four weeks. The employee may choose to try the alternative post for up to four weeks before accepting or rejecting the offer. If the alternative is unsuitable, or there are valid reasons why an employee cannot take up the offer, the employee is deemed to have been redundant from the original date that employment ended. Employees unreasonably rejecting offers of employment lose their entitlement to redundancy payments. If employees are made redundant when a business is transferred it becomes unclear whether the old or the new employer is liable to make payments. Any dispute over entitlement to a redundancy payment can be referred to an industrial tribunal if it is not settled earlier in consultation or arbitration.

Calculating redundancy payments

A statutory redundancy payment to an employee is not taxable as income, though it is a business expense for the employer and can be set against tax.

Calculation of redundancy payments is based on length of service, number of years service in particular age bands, and on the weekly pay. Statutory entitlement starts at two years continuous service. The maximum payment is for 20 years' continuous service. Length of service is reduced by the number of days an employee has been on strike, and lengthened by the number of days notice due but not given.

There are three age bands, with entitlement ranging from half to one-and-a-half week's pay for each year worked in a band. A week's pay normally means the payment due for basic contracted hours, though in some instances regular overtime and bonuses may be included. The payment entitlement of employees approaching their 65th birthday reduces by a twelfth for each month after their 64th birthday. Entitlement reaches zero when they reach normal retirement age. When the employer pays the redundancy payment, the employee must be given a written statement setting out the calculation for payment.

Calculating entitlement and payments can be complicated. The Employment Service booklets on the subject give the precise and up-to-date criteria. Disputes can arise over any aspect of continuity of service or the value of a week's pay. Any such dispute can be referred to an industrial tribunal and/or ACAS.

Handling redundancies

Forward planning

Making employees redundant can be unpleasant. The problems are minimised where redundancy falls at the end of fixed term contracts, provided employees do not expect renewal of contract. Early awareness of a need to reduce staff or introduce new working methods will let you plan the workforce changes required and implement retraining or allow natural wastage and a freeze on recruitment. Planning ahead makes it possible to consider the needs of the business beyond the immediate crisis and ensures that the right staff are in place for the recovery. The blow can be softened by giving the employees concerned as much warning as possible and makes sure that they hear it from you first. Consider the effects of rumour and adverse publicity on customer and supplier attitudes.

Notification

An employer must notify the Department of Trade and Industry (on a form obtainable from any Job Centre or Unemployment Benefit Office) if he proposes to make 20 or more people redundant within a period of 90 days. Notification should be received by the Department at least 30 days before the redundancies occur. You need not notify the Department of fewer than ten redundancies, though it may be prudent if the number might rise to ten or more. Redundancies of 100 or more workers within 90 days require at least 90 days' notice. Failure to notify will lead the employer to be liable to pay a fine.

Consultation

Copies of any notification of proposed redundancy must be given to representatives of any trade unions that you recognise – whether or not the employee to be made redundant is a member of a trade union, provided that an employee of the same description is a trade union member. The employer must also inform the union in writing of various aspects of the redundancies including: reasons behind them;

method of employee selection; proposed method of carrying out dismissal; number and description of employees; proposed method of calculating non-statutory redundancy payment; total number of employees of any such description employed at the establishment in question. Periods of consultation are the same as for periods of notice to be given to the DTI. Aim for full consultation with the union before individual redundancies are finalised to see if the number of redundancies can be lowered. Consultation can lessen the effects of redundancy directly because management and employees are seen to tackle problems together and effective measures may be agreed. If the employer proposed fewer than 20 dismissals within 90 days, there is no direct duty to consult, but consultation is still advisable to prevent a redundancy dismissal from being rendered unfair.

Notice to staff

Once it is certain that redundancies will occur, due notice must be given to the selected staff, or payment in lieu of notice should be arranged. Statutory minimum notice periods apply unless contracts of employment require longer. After one month's service, one week's notice is due; after two years, two weeks are due – thereafter the period of notice is one week for every year worked, up to a maximum of 12 weeks.

Selecting staff

The selection of personnel for redundancy has to be done carefully so that you avoid claims of discrimination or unfair dismissal. Volunteers should be considered first, bearing in mind that some may have experience or skills that you do not want to lose. When deciding on compulsory redundancies, the process should be fair. Take into account length of service, performance and possibilities for retraining. If it is customary for your firm to use a last-in, first-out process, it may be unfair to change. Give affected staff time during work hours to look for alternative employment or find training options. Some firms will use contacts and Job Centres to help find new positions and provide job search facilities such as telephone, photocopier and a word processed CV.

Payment problems

If serious cash flow problems threaten the business, and making redundancy payments would push the firm over the edge, redundancy payments may be arranged by the DTI from the National Insurance Fund. To get such assistance, you must show that no more credit is available to you. You need to repay the amount as soon as possible. If insolvency occurs, the Department claims repayment from the assets of the business.

Trade unions and the law

Trade unions aim to improve pay and working conditions and generally aim to protect the interests of their members (eg health and safety, pensions, security etc). Many managers of small businesses have had little direct contact with unions. They and their employees often feel that unions are an irrelevance due to the size of their business. Many large businesses now refuse to recognise a trade union. There can, however, be advantages. For instance when discussing pay you may find negotiating with a single representative and entering into formal agreements easier than negotiating individual employee contracts.

The Trade Union Reform and Employment Rights (TURER) Act 1993 included various provisions on trade unions and industrial action. Individuals now have more freedom to choose which trade union they wish to join. More union information will be disclosed and consent must be obtained before unions' subscriptions are deducted from pay. The Act also provides for industrial action ballots conducted by full postal voting. Individuals will be able to exercise 'Citizens Right' which enables them to stop unlawfully organised industrial action with the help of an independent commissioner.

Employer obligations

There is no legal obligation to recognise a union. If you do recognise a union, certain obligations are immediately imposed upon you. For instance, if a shop steward is appointed, he/she is entitled to reasonable time off work for trade union duties and activities. You are expected to keep the union informed of new company projects and you are under a duty to consult them if you dismiss a union member for redundancy. During a period of collective bargaining it is the employer's duty to disclose to representatives of a recognised trade union any information without which they would both impede union officials and damage industrial relations. In any event, it is sensible to promote good industrial relations without recourse to the law.

More information must now be published by the unions including financial information such as pay and benefits of its leaders and annual written statements. The appointment of a certification officer means that the trade union's financial affairs can be investigated.

Membership

Employees can belong to any trade union they like except where membership is limited to particular occupants, skills, geographical area, or if the employee's conduct is unacceptable. If an employee is unlawfully excluded or expelled, they can complain to an industrial tribunal.

Membership dues can only be deducted with the employee's written permission. This must be renewed every three years or when the rate changes, and the employee must be given one month's notice of this by the employer, with a reminder of the member's right to withdraw. Trade unions cannot expel a member for leaving this system, joining any other union or for being a non-member. Employees can complain to an industrial tribunal if wrongful deductions are made.

The Trade Union and Labour Relations Act 1992 made it unlawful to threaten industrial action to establish or maintain any sort of union closed shop practice. A closed shop, as such, is not illegal but it cannot be enforced.

Health and safety

Employers are required to appoint safety representatives in each area of work, unionised or otherwise, according to the Health and Safety at Work Act 1974. If a trade union is recognised it can appoint safety representatives. How it appoints the representatives is a matter for the union. The safety representatives must be given time off work to undergo training and to fulfil their functions. These include:

- investigation of accidents, dangerous occurrences and hazards; notification of these situations to the manager;
- meeting relevant outside inspectors;
- formal inspections of the workplace every three months or following accidents; and,
- inspecting and keeping copies of relevant documentation kept by the employer.

Under TURER, your employees have the right to complain to an industrial tribunal if they are victimised or dismissed when carrying out health and safety duties. You cannot dismiss employees for leaving the workplace when faced with a serious danger to their health.

Industrial action

A person or trade union that calls for, or threatens to call for, industrial action only has legal immunity if acting in contemplation or furtherance of a 'trade dispute'. The official definition of what constitutes a trade dispute is long and complex but, briefly, two main conditions must be satisfied. It must be a dispute between workers and their own employer and the dispute must be wholly or mainly about employment related matters. A trade union needs to give an employer seven days' notice of industrial action in writing.

If a trade union calls on its members to take industrial action, it will have no legal immunity unless it holds a properly conducted secret ballot and secures a majority of its members in support. Any individual who claims that unlawful industrial action by a trade union will lead to the prevention or delay of the supply of goods and services can take legal action, irrespective of the effect of that action on the individual. An independent commissioner can be appointed who may help the individual exercise this right.

A union can be held responsible for the unofficial action of its members where the appropriate official does not act decisively to communicate the union's official policy to its members, although the union may avoid liability by repudiating the Act within a reasonable time period. Trade disputes are now classed as private disputes between you and your workforce. Employees cannot bring in outsiders for consultation during discussions with you. Peaceful picketing is allowed. Government codes of practice suggest it will be rare for the number of pickets to exceed six. Picketing should be at or near the place of work. It should be connected to the trade dispute and should be only to peacefully inform or persuade others and not to intimidate them. Pickets are allowed to reason peacefully with workers in an attempt to persuade them to join in with the industrial action. Union officials are permitted to visit pickets to give them moral support. Secondary action involving the businesses commercial contacts is illegal.

Ballots

Following TURER, in order for a union to retain its immunity from civil action all industrial action ballots must be conducted by full postal voting. Seven days' notice of the ballot must be given by the trade union and you are entitled to see the full results and sample voting papers. Ballots of more than 50 members will be scrutinised more closely and the results made available to employers and members within a month of the ballot.

Small businesses employing less than 20 staff are exempt from requirements to permit their premises to be used by union members for a secret ballot.

Union merger, election and political funding ballots, must all be conducted by full postal voting. Trade unions are not allowed to distribute material that may influence voting in merger ballots.

Employment legislation regarding trade unions is complex and is continually changing. The following points should be borne in mind:

- If you do become involved in a dispute, try to resolve it locally through procedures agreed with the recognised union. If this fails, consider using ACAS as an arbitrator. The majority of ACAS negotiations are on behalf of small and medium sized companies. Following TURER, charges may now be made for some ACAS services.
- Useful information regarding disciplinary procedures and what is considered reasonable disclosure of information to a union when involved in collective bargaining can be obtained from the ACAS codes of practice.
- If you know that a union has acted unlawfully, eg by not balloting over industrial action or participating in secondary action, always obtain legal advice before starting legal proceedings.

Human resources documentation

It is desirable to keep records on both jobs and people, along with any standard forms that are used. Human resources documentation should include:

- job descriptions;
- person specifications;
- application forms;
- interview record forms;
- training records;
- contracts of employment; and,
- salary details.

Most of these have already been covered in Chapter 4, *Recruiting and selecting staff*; information on contracts, wages and salaries follows.

Contracts of employment

A contract of employment exists when the employee provides acceptance of an employer's terms and conditions of employment by starting work. Terms of the contract may be 'expressed' in words or 'implied' by conduct or customs. Whilst all the terms of the contract need not be set out in writing, you must provide an employee with written details of the main terms and conditions of employment within two months of starting work.

Employers must notify employees of any changes in the terms and conditions 'at the earliest opportunity' and in any event within one month.

The written statement of employment must include:

- the names of the employer and employee;
- the position and job title of the employee;
- the date employment commenced;

- a statement as to whether or not any other employment is to count as part of the employee's continuous period of employment;
- the hours of work;
- how much and when the employee is paid;
- pension rights;
- holiday and sick pay entitlement;
- required length of notice (both ways);
- place of work;
- period of employment;
- summary of duties;
- collective agreements affecting the employee; and,
- any periods to be worked outside of the UK and any payment changes this may incur.

The Advisory, Conciliation and Arbitration Service (ACAS) Code of Practice, Disciplinary Practice and Procedure in Employment, recommends that employers have stated rules of discipline which all employees should know and which should be set out in the statement.

Express terms may be drafted into a contract of employment to restrain the employee on termination from using or disclosing the employer's trade secrets or confidential information, soliciting or canvassing the employer's customers or remaining employees, dealing with the employer's suppliers or from generally competing with the employer's business.

Generally speaking, such terms are void unless the restraint can be shown to both protect the legitimate business interest of the employer and be a reasonable restraint in all the circumstances. In order to be considered reasonable, the restraint must be drafted to afford the employer no more protection than is required to protect his interests.

Essential factors to be considered when determining whether such an express restraint is reasonable are the nature of the business concerned and the scope of the restriction in terms of geographical area and duration of time.

Wages and salaries administration

As soon as a business starts to employ people (including directors of a company) you will need to comply with a number of statutory requirements.

You must deduct your employees' tax and National Insurance under the Pay As You Earn (PAYE) scheme. In addition, you must add the employer's National Insurance contribution and send it with the deductions to the Collector of Taxes every month (or every quarter, if you qualify as a PAYE small employer).

You are expected to provide a written pay statement to your employees explaining how you have calculated their pay. Payment to staff may be made as agreed with them (cheque, bank credit or whatever) and you are also expected to administer statutory sick pay (SSP) and statutory maternity pay (SMP) arrangements.

Useful addresses

- Health and Safety Public Information Centre, Health and Safety, Executive (HSE), Broad Lane, Sheffield S3 7HQ. Tel: (0541) 545 500.
- British Safety Council, National Safety Centre, 70 Chancellors Road, London W6 9RS. Tel: (0208) 741 1231.
- Royal Society for the Prevention of Accidents, Edgbaston Park, 353 Bristol Road, Birmingham B5 7ST. Tel: (0121) 248 2000.
- HSE Information Centre, Broad Lane, Sheffield S3 7HQ.

- Trades Union Congress (TUC), Congress House, Great Russell Street, London WC1B 3LS.
- Advisory, Conciliation and Arbitration Service (ACAS), Head Office, Brandon House, 180 Borough High Street, London SE1 1LW.

Central Offices of the Industrial Tribunals:

- **England and Wales**: 19-29 Woburn Place, Russell Square, London WC1H OLU.
- **Scotland**: Farnborough House, 123-157 Bothwell Street, Glasgow G2 7JR.
- **Northern Ireland**: 20-24 Waring Street, Belfast BT1 2EB.

reading list

Reading list

Fair Recruitment and Selection
Gerard Lemos, Lemos Associates, 1994.

A Handbook of Personnel Management Practice
Michael Armstrong, Kogan Page Ltd, 1996.

Managing and Employing People
David Irwin (Ed), Thorogood, 1998.

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chapter six

Developing your people

The information in this chapter relates to Key Role C: Manage People

chapter six: Developing your people

The information in this chapter relates to Key Role C: Manage People

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Accurately identify people's development needs with the input of the people concerned.
2. Ensure that plans to address development needs are realistic and agreed with the relevant people.
3. Ensure that development activities are appropriate and evaluated for effectiveness.
4. Ensure that assessment is thorough and fair, involves the individual and is carried out against established criteria.
5. Offer feedback that is clear and fair and allows for individuals to respond.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Facilitate and encourage the identification of individuals' learning needs.
2. Seek guidance where necessary on meeting those needs.
3. Keep secure and appropriate development records.
4. Plan to help individuals to meet their learning needs.
5. Monitor progress and review and update plans regularly.
6. Provide feedback to individuals on their progress.
7. Evaluate the effectiveness of any training provided.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Facilitate and encourage assessment of individuals and of the team as a whole.

2. Select appropriate development methods.

3. Provide feedback which recognises achievement.

4. Ensure development activities enable managers to deal with present and future work roles.

Staff development

Failing to develop staff adequately is like buying an expensive car, putting it on the road, running it for 40,000 miles a year and failing to maintain it. After all, you tell yourself, you pay to put petrol in it, you paid a lot of money for it, it's supposed to keep going forever. There are lots of organisations like cars stood by the side of the road with black smoke pouring out from under the bonnet whilst the driver stands by, scratching his head, wondering what could have gone wrong and cursing the manufacturer!

Objectives

There are a number of clear steps in developing staff. The aim of this chapter is to facilitate the process of developing people by helping you to:

- gain an understanding of why development is important;
- identify clear developmental objectives which link into organisational performance;
- decide on the methods which you intend to use to help your people develop; and,
- measure the effectiveness of these methods.

Why training and development?

Managers often have a problem with the whole idea of training and development. Some of the reasons for this are fairly obvious:

- there seems to be no discernible benefit in training for the 'bottom line';
- training and development seem to force admission of some sort of shortfall. 'We've been doing our work but you're saying that we need to train';

- development seems 'wishy washy' or 'soft'; and,
- there is a likelihood of poor pay-off from investment in training and development, because you can't be sure that you'll receive the benefit – invest two or three thousand pounds in training someone and they could leave to go to a better paid job elsewhere.

Others are more covert:

- if we develop staff they might overtake us, steal our ideas and take our place; or,
- 'I had to work my way to the top without help, why should anybody else have it?'

Whatever reasons may be given for not developing staff, there are a number of more powerful and cogent reasons for doing so. Let's turn now to the issue of staff performance. Most managers would say that performance is what they want from their staff, but how do they define it?

Performance can be defined as the added value created when the outputs of an organisation exceed its inputs:

$$\frac{\textit{output}}{\textit{input}} = \textit{added value}$$

Performance from people can be seen as the same thing:

$$\frac{\textit{outputs (as completed tasks, service provided etc)}}{\textit{input (as reward, management time etc)}} = \textit{added value}$$

People outputs consist of two elements. The first of these is an individual, motivation or effort in carrying out the tasks. The second is his or her capacity or ability to carry out the tasks.

Development is about increasing an employee's capacity to carry out a task. This might be a complicated task, such as doubling the number of service contracts completed by the organisation, or a simple one, such as assembling a cardboard package. Capacity should not be confused with motivation. It is all too easy to blame poor performance on lack of motivation when in fact the problem is lack of capacity.

New types of management and organisational practice, such as Total Quality Management, place an emphasis upon continuous improvement. Continuous improvement means developing the capacity of employees to produce better goods with less faults in shorter time periods, with new types of delivery. Without developing employees, this is impossible.

Development is perhaps more important to small organisations than it is to larger ones. The varying nature of work in a small organisation means that people have to be flexible in order to cope with these variations in task. Increased flexibility in production means making use of increased capacity by developing staff.

Finally, covert reasons for failing to develop should be analysed carefully. If managers neglect employee development because they are concerned about their own position, it may be that this position will no longer exist without employee development. Holding employees back from development can not only create bad feeling, but also actively hamper a manager's own personal development.

The developmental process

An essential part of developing an organisation is developing the people who work in it. *Development is about learning and learning is about change*. Before we go on to look at setting clear objectives in the development process, let's explore the idea of change a little further.

About 3,000 years ago the Greek philosopher Plato identified three areas in which it is possible for individuals to change. The first set of possible changes is in knowledge. This is often seen to be the only job of training or education: 'We can offer Andrew a training course in running the new software. It's just knowing how to use the menus'. Knowledge isn't an inert component, however. Andrew will not only learn about software, he will also learn about his own ability, or lack thereof, to deal with new packages. Such knowledge will probably impact on other areas of life and work. Knowing about incidents in history, such as the Holocaust or the defeat of the Spanish Armada, will have an effect on the second area in which change takes place.

The second set of changes is about how we feel. This type of change is perhaps more subtle, since development is a personal process which can impact upon values underpinning attitudes. A great deal of work was carried out in the 1950s and 1960s in changing or helping people explore their values with the intention of changing attitudes affecting learning. Andrew's new skills in operating a software package will impact on his feelings of confidence, the way he feels about the people who have provided the training, and perhaps on how long he will consider staying with the company.

The final changes are the physical signs of changes in the other two areas. These might be called changes in skills or in what people do. Skill changes are often the only ones that are recognised in vocational training, because they provide hard evidence that can be measured to demonstrate the effectiveness or ineffectiveness of training.

Altogether this framework of knowledge, attitude and skills (KAS) will give you a starting-point through which to identify training needs and training objectives. Whilst each organisation will have unique training needs and require individual training objectives, the following list offers some which are common to all organisations.

Knowledge

- **Information about the customer needs and business**: How the customer uses our product, our service, our information. What the customer's expectations are and how we meet those expectations. How our products and services help the customer grow. What we contribute to the customer's profitability.
- **Standards**: Clear statements of our standards of excellence and achievement. Clear descriptions of our measurements of product quality, service quality and personal effectiveness. Clear statements of the way in which we evaluate performance.
- **Professionalism**: Knowledge of what constitutes professional behaviour in your organisation. What the accepted practices are with regard to communication with managers/employees, colleagues, customers, suppliers. What rules relate to dress and what constitutes acceptable social behaviour at work.
- **Job information**: What is the full range of job information required? Who should I go to for the information I lack and what can I expect the organisation to provide? What resources am I expected to use? What do I do if I can't find the information I need? What are the requirements of my job?
- **Organisational information**: What is the business of this organisation? (You may surprise yourself by asking people this question.) What is its financial status? Where do I fit in? Where do I go or develop within the organisation?

Attitudes

- **Fairness**: The need to treat other people fairly, and be treated fairly in relation to the way others are treated.
- **Openness**: The need to deal with people openly, honestly and directly in order that they can do the best possible job.

- **Respect**: The need to respect other people – employees, customers and suppliers – as fellow contributors to the well-being of the organisation. The need to receive respect.
- **Supportiveness**: The need to receive support for work from administrative, technical and other staff whose jobs are interrelated with my job. The need to offer support in the same way.
- **Responsiveness**: The expectation that my efforts will receive a response in terms of prompt and specific feedback and the resources needed to do the job.

Skills

- **Procedures**: Step-by-step instructions or guidance on how to do a task or a whole job related to the way in which the organisation works.
- **Models**: Representations of what is happening in the organisation, which will help me understand what needs to be done.
- **Criteria**: Standards of performance that tell me what I need to do and what constitutes acceptable work. Specific measures about quality and quantity. Measures related to skills I have.
- **Tools**: Methods to communicate effectively. Ways of gathering data and processing it into an understandable and communicable form. Manual dexterity and methods for acquiring it. Methods to manage time and workload. Ways of making decisions. Problem-solving methods.

This checklist will help you identify some key areas that may benefit from employee development. The process of development as part of the job contract relies on the creation of an honest relationship between the employee and the manager. Development is not merely a process designed to benefit the employee, it also has to benefit the organisation. This can be done through a technique called key performance analysis.

Key performance analysis

Key performance analysis is unlike ordinary training needs analysis in a number of important respects. Training needs analysis tends to look back and identify skills shortfalls. Key performance analysis looks forward to identify training needs that are linked to operational results. This involves a seven-step process which involves looking at the following questions:

- Why does the organisation need this person to occupy the position that they do? What is his or her core function?
- What does he or she need to do to perform this function? What are the main activities that produce results for the organisation? What are the key result areas?
- In each of these areas, consider how you know that the person is doing what they say and doing it well.
- How can you tell whether the job is being done better or worse from one month to the next? What is the proof? This proof may be behavioural objectives, customer feedback, peer feedback, supervisor feedback, but it needs to be evidenced in a useful way. It's no use saying that Alan does a good job, because he has managed to do the job well and because he is liked. We need to know whether he met the criteria for the behavioural objective, to know how much positive customer feedback he receives over what time period and which deadlines were met for the amount of work processed.
- Against the measures of how well the person does the job, how well is he or she actually doing? What is the current achievement level? You could record this for a month.
- Is everyone concerned happy with the current achievement level? What steps does the individual employee need to take to improve this level of achievement in each of the key result areas?
- If these steps are taken (and these could include training), how much could the employee improve on last month's achievement level? What would the objectives be?

You can turn this into an action plan for strategic training as shown below.

Name:			Position:		
Function (**Step 1**):					
Key result areas **Step 2**	Evidence of good performance **Step 3**	Measures of achievement **Step 4**	Current achievement **Step 5**	Steps needed **Step 6**	Goal **Step 7**

Once you have decided what it is that you want your employees to learn – the content – the next thing that you need to consider is the process; how they are to develop the knowledge, skills and attitudes that you want.

Blocks to development

People tend to think that developing people is just about adding something to them – new knowledge, new skills, new attitudes. The thinking behind this is flawed: 'You've got a two and if you add two more you'll get a four'. Unfortunately, people aren't numbers, and we may have to subtract something before you can get the sum right.

Nancy Friday, an American writer on family relations, tells a story about a man married to a woman who always cuts the Sunday roast into two parts before she puts it into the roasting tray. He asks her why and she says that she's not sure, but that her mother always did it that way. The man, curious, goes to the mother, who can't remember but was sure that her mother did it that way. The man then visits the grandmother, and asks her why she did it. The grandmother replies that she had only had a small roasting tin when she was younger.

Friday uses the story to demonstrate how we learn unconsciously from our parents, but we pick up learning unconsciously from all sorts of significant people. This sort of learning 'sticks'. It's very difficult to unlearn. The point is that to develop employees you might have to help them unlearn bad habits before they can learn new and better ones.

While everyone learns in different ways, there are some broad rules that you can obey when designing a developmental framework for employees. Employees learn best when:

- they are active rather than passive;
- the content of the learning is perceived as relevant and meaningful by participants and not only by the trainer: 'We want to know' rather than 'You need to know';
- they are challenged rather than talked at;
- they are involved rather than observing; and,
- they are committed rather than detached.

Once you are aware of some of the blocks that may affect your training, you can decide how you are actually going to deliver in a way that overcomes these blocks.

Delivering development

In a small organisation, or a department within a larger one, you are likely to develop people informally on a regular basis. It can help you to consider what methods are available to develop employees before you integrate these into an effective overall developmental plan which links into the objectives which you have defined by using key performance analysis. Development can be achieved through four main processes:

- **informal training**;
- **one-to-one training** – training between the manager and one member of staff;
- **peer training** – training between staff members; and,
- **group training** – this is training between the trainer and a group of employees.

Informal training

There are a number of useful ways through which you can develop employees informally:

- **communication** – changes in knowledge can develop people. Regular bulletins, team briefings, meetings etc will help develop employee knowledge. In training, we should 'paint the big picture';
- **delegation** – this should be a developmental activity;
- **project work or assignments** – giving someone a clearly defined project to carry through is risky but can pay dividends in their development; and,
- **modelling** – if you show a positive attitude towards developing yourself and encourage development in key employees you will foster some positive attitude in other employees.

Formal and informal methods should be integrated. It can be damaging to give mixed messages about development by either giving someone a project and not meeting their request for further development in that area, or by developing them and not giving them the framework to practise the new behaviour.

One-to-one training

One-to-one training is perhaps the most common sort of training in smaller organisations. It can be effective if carried out properly. It is important, however, to avoid the production line syndrome. The production line syndrome is one where a new worker is given five minutes of instruction on working on a fast-moving production line and told, 'Now you do it and you'll soon get the hang of it'. The unfortunate employee is required to assemble unfamiliar objects passing by at speed when he or she has only just arrived in a new setting and where the information processing load is fairly high already – meeting new people, finding the way around, discovering the rules in the organisation. We may be hesitant about showing people what they need to do from fear of insulting them, but if we make clear why we are telling them, and ask them if they need to know, it is unlikely that anyone will feel insulted. All too often induction programmes involve meeting other people and being shown how the software works.

One-to-one training involves stepping out of your role as manager and into your role as trainer. Often these roles can be similar. One of the roles of a leader is that of developer of people, but it is important to be open about the change in role. To help support this role, it can be helpful for you to be rigorous about your objectives. Make it clear at the beginning of any session that this is a training session and stick to that.

Basic strategies

Before you begin a training session you may wish to sit down with your trainee to talk about expectations. What sort of goals does he or she expect to attain through training? Once you have negotiated the goals of the training there are a number of basic strategies that may help to ensure that the training that you do is put into action and results in increased productivity.

- **Present the big picture**: Often people lose the sight of the relevance of their work to the overall aims of the organisation. This can happen in quite small organisations. You can remedy this by describing the way in which the job should be done, by describing the effects of the new practices or equipment, the benefits of doing something in a new way, describing what the organisation will look like if the new way works.
- **Review the requirements**: Be sure that your learner understands what the new task or situation requires. Take the time to prioritise, clarify and elaborate where the learner doesn't know. People like to know what the weather's like before they start a new trip and also where they're going. At this stage be careful of the person whose resistance to learning is so strong that he or she knows it all already.
- **Fill in the gaps**: Limit your gap-filling to information that is specifically relevant to the task.
- **Take the learner from where they are**: People will learn more comfortably and effectively if you start from their level of understanding. Do not overwhelm your learner with demonstrations of knowledge or skill, unless it is to demonstrate how easy it is to learn a particular task. Don't presume that just because you learned it easily, everyone else will. Show that you appreciate the knowledge, skills and attitudes that exist at present.
- **Build your training around problem-solving**: Individuals like to solve problems. It makes them feel useful and gives a sense of achievement. All learning is in some sense about problem-solving

and a formal problem-solving approach will help to facilitate the communication between trainer and learner, as well as making the learning relevant.

- **Try to demonstrate the outcomes**: This is similar to describing the 'big picture' but is a smaller part of it. If, for instance, you're training someone to use a new machine show him or her the finished product from that machine. Make the outcome of the training real.
- **Provide feedback**: It is vital to progress. Always give your trainee feedback in a form that they can readily understand.
- **Plan for follow-up**: Build into the training some suggestions for follow-up – a meeting after a week or some other sort of monitoring. Ask the learner for suggestions on follow-up.
- **Provide a prop**: Props in training – handouts, flipcharts, models – are all important. A short handout or description of the training content will define the session as a training session.

Remember that one-to-one training – or any sort of training – should not be too long: a one-to-one training session should not last more than 30 minutes. If you cannot get the information across in that length of time, you may wish to run two or more sessions back-to-back. Remember, however, that one-to-one training is very intensive and the session may break down into a general discussion. Thirty minutes (or even better, 15 minutes) helps maintain focus.

Each session should have a plan. A plan sets out the behaviours that you want to see as evidence that your training has been successful. Examples of behavioural objectives are:

- to sort
- to categorise
- to arrange
- to find
- to assign
- to connect
- to load
- to compare
- to calculate
- to select
- to reduce
- to restructure

Behavioural objectives are small and specific. If you train and expect to see a change in attitude, don't automatically assume that staff will be nicer to the customer as a result. They may well be, but there are problems in evaluating what 'nice' means. McDonalds, the fast food chain, have a large set of procedures dealing with staff/customer relationships but there is a considerable difference between 'Good morning, may I help you?' in a pleasant tone and saying the same thing in a dull or disinterested tone. When you evaluate, you will need to evaluate in a way that reflects the behavioural objectives you have set.

The other issue in planning a session is that the content should have only around four items that you want to get across. Examples of content items might be:

- setting the machine up;
- safety procedures;
- overload signals; and,
- job timing.

More than four content items will tend to confuse the person being trained.

Peer training

When you don't have time to train, you can delegate the training task to someone else – a colleague or a peer. Peer training has many of the benefits which delegating any task will bring. It has other benefits, in that it can transmit information much more quickly.

Employees will tend to listen more carefully to other employees – after all, they see them all the time whereas they may see the manager only part of the time. Of course, this means that you need to be careful about choosing a peer trainer, because they can give the wrong sort of information.

A third advantage is the 'stickability' of the training. Training is associated in learners' minds with the trainer. If the learner is in constant contact with the trainer, they are more likely to find the learning is constantly reinforced.

The design of peer training is effectively the same as one-to-one training. Use the following exercise to consider how you might select a suitable peer trainer.

exercise

Exercise: Selecting a peer trainer

1. He/she believes that every individual at work has the capacity to learn.
2. He/she feels that individuals learn at different rates and in ways that are unique to them.
3. He/she believes that adults learn best when they are involved and the learning is of some use.
4. He/she feels that training around agreed standards with measurable outcomes is best for the trainer and the learner.
5. He/she would give positive reward or reinforcement during a lesson.
6. He/she acknowledges that adults like to tell you how they learn best and what they need to know.
7. He/she likes to share what they know with other people.
8. He/she takes a pride in their work.
9. He/she has a good relationship with fellow workers.
10. He/she shows patience when presenting information.

Group training

The final method is group training. Group training is generally perceived as the only form of training, because of our early classroom experiences. Group training has a lot in common with presentation. If you marry the principles of employee learning to the skills of presentation, you will need to take control of the session through effective planning and to encourage activity, challenge and participation in the group that you are training.

Preparation

It will help you to consider the following issues in the approximate order given as you prepare to train a group.

How to assess needs and prepare

Ask yourself the following questions. What information do you have on participants' work environment, age, sex, race, religion, etc?

- What are the participants' expectations re the workshop?
- Has any pre-course work been carried out?
- What further information do you need to obtain at the beginning of the programme?
- What can you infer from the participant's mood, willingness to volunteer, readiness?

Where you have already set broad goals for the training programme, you will also need to consider specific issues around the people whom you intend to train. As we've seen, people will bring all sorts of differences in attitude, learning preferences, and expectation to the learning arena. Tailor your training to your audience.

How to set training objectives and prepare your audience

This stage involves you taking action that will prepare your audience. You may wish to negotiate or set the goals for the session and establish your own responsibilities as a leader or trainer. Above all, be explicit about the values of the session, the methods to be used and the ground rules.

How to assess resources and skills

This third stage involves deciding the tools that you will use. Above all, you should be comfortable with the methods that you choose. Consider your own special interests and skills, as your enthusiasm will help get the message across. Make a list of the resources you need and the resources available to see if there are any gaps.

Stating the objectives for each session

Ideally, the objectives should be specific and measurable: 'by the end of this workshop you should be able to…'. Objectives should be set through discussion and negotiation with the staff. Remember that you should present the objectives to the participants at the start of each session. If participants have clear goals, this will help them to learn more readily.

Predicting the time schedule for each element

This should be specific: Introduction, ten minutes; forming groups and giving instructions, five minutes; working on the task, 40 minutes; etc. On a larger scale, review the schedule to see if sufficient time is available for what is planned, for each element. Try to remember to provide 'fillers'. Is more time available than the work will consume? Avoid planning so much that the participants feel hurried.

Allocating responsibilities

If you decide to use other tutors, remember to make sure that the responsibilities are clearly defined and that everyone knows what they are supposed to deliver. No matter how good a trainer is, he or she cannot read minds. If you don't specify what you want, you will not get what you want, and you will have nobody to blame but yourself.

Assessing logistics

Make sure that you have enough space: large rooms, small rooms, comfort, convenience. Make sure that you have your toolbox ready – materials such as handouts, pencils, flip chart paper, name tags, workbooks, masking tape, blu-tac, markers, reference materials, tape recorder and tapes, video recorder and tapes etc. Remember housekeeping details: breaks, meals, special needs, and socialisation. The socialising effect of training can be very useful – don't discount it.

Provide for evaluation
Consider how you will integrate the evaluation process into the programme and into your overall development strategy. Unused training can be lost or wasted training. Have you made arrangements to put it into action?

Delivering the training

After designing the session and preparing the group and the material, the final issue is actually to deliver the training.

This checklist is designed to offer you some ways that may help you keep the attention of a group in a 'pure' training situation:

- focus the group's attention on you from the very beginning;
- tell the group what they will be able to do by the end of the session;
- use each group member's name; have people introduce themselves or use name cards;
- praise group members when they do something right;
- keep the pace lively by using activities and exercises;
- reward the group with breaks after lectures or difficult problems;
- don't lecture for more than ten minutes at a time;
- move around the room;
- vary pitch and tone in delivery;
- use humour – share horror stories and funny incidents;
- repeat important points; write them on flipcharts or black/white board;
- don't use jargon;
- use analogies and metaphors to get complex ideas across;

- use visuals; and,
- break the group up into smaller groups and let them work on problems or share information.

Training, one-to-one or in groups, is something which will become more effective and more natural with practice. Training is about effective communication with people.

Evaluating development

Once you have actually carried out the training, the final step is to evaluate it. Training without effective evaluation is worthless. Evaluation is necessary for two main reasons. The first of these is that evaluation will give you feedback on the effectiveness of your training.

Try to remember the worst teacher that you ever had. S/he might have talked to class after class of children five days a week for 30 years without getting feedback except through exam results. S/he never changed their style or the material, just plugging away as the needs of the audience changed and the listeners slowly disconnected.

Now try to remember the best teacher you ever had. S/he probably listened to you when you said that you didn't understand and this is the benefit of feedback. People whom you train may give you feedback consciously or unconsciously, but they will need to see responsiveness to the feedback they give. If ignored, they will turn away and your training will be ineffective.

The second reason for evaluation is that it will give you information about the way in which your team is going. Development is one of the ways in which you can gain information on the capacity of your human resources. When you evaluate you will probably need to consider two main issues: the effectiveness of the content of your development, ie what you are training, and the process of your development, ie how you have delivered it.

Evaluating effectiveness of content

We've already looked to some degree at preparing for tactical evaluation. Tactical evaluation is an evaluation of the small steps that are seen in the behavioural objectives that you've set. In your 15-30 minutes' training session you can expect to achieve up to three behavioural objectives. These may be:

- to set up the new laser printer;
- to load the postscript cartridge; and,
- to load fonts on to disk.

You can evaluate the effectiveness of training these objectives by actually seeing them carried out. This gives you evidence of the skill. You can also check on the learner's knowledge by asking questions such as:

- 'What would you do when...?'
- 'When would you...?'

Unfortunately, this evaluation is subjective. It rests upon your own interpretation of adequate or good performance. This can vary from day to day, depending on any number of factors. It may be more helpful to set measurable standards of achievement for each behavioural objective. Examples of standards for behavioural objectives include:

- with 90 per cent accuracy;
- with zero defects;
- with a maximum of three errors per page;
- in 15 to 20 minutes;
- so that it is level;
- at A equals 440 pitch;
- within 0.05 microns; and,
- with increase of customer satisfaction to 6 on a scale of 1-8 (where 8 is high).

Once you've set standards for your behavioural objectives, you can measure the content effectiveness of your training much more easily.

Evaluating effectiveness of process

The other type of feedback available to the tactical trainer is feedback on process. Generally speaking, your training works if you achieved the standards set for your behavioural objectives. You can enquire to see whether you can improve the process by either designing a learner feedback form or asking questions such as:

- Were the objectives realistic? (Ask for specifics.)
- Did I cover everything that needed to be covered?
- Did the training help you learn? (Ask for specific suggestions for improvement.)
- Did I present the information clearly enough? (How could presentations be improved?)

Remember that, when you ask for feedback:

- you should make sure that the learner knows that you want him to be honest. Dishonest feedback is useless and damaging;
- accept feedback as feedback. Don't defend your position or explain – try to think why;
- raise probing questions to clarify; and,
- don't let the feedback giver get carried away.

Once you have evaluated the effectiveness of your development in terms of process and content, you will need to consider how to relate this to your overall objectives. Overall, this can be seen as strategic evaluation.

Strategic evaluation

In order to carry out a strategic evaluation, we need to go back to the key performance analysis. The second step in this process involves identifying the key areas that produce results for the organisation.

At the beginning of this chapter, we identified the performance of an employee as being:

$$\frac{\textit{input}}{\textit{output}} = \textit{added value}$$

Obviously, 'input' and 'output' can be measured in a number of ways. Some common ways include:

$$\textit{Profit per employee} = \frac{\textit{Gross profit}}{\textit{Number of employees}}$$

$$\textit{Output per employee} = \frac{\textit{Units produced or processed}}{\textit{Number of employees}}$$

$$\textit{Value added per employee} = \frac{\textit{Sales revenue – cost of sales}}{\textit{Number of employees}}$$

In order to evaluate strategic training effectiveness, we need to relate employee performance through one of these measures (or any other measure which you want to apply) to training evaluation.

Conclusion

Employers have a responsibility to help staff to achieve their true potential. Of course, development must occur within a structured framework and with fair evaluation of the results – otherwise, how can you be sure that you are hitting the mark?

Developing people is both motivational and beneficial. The benefits are reaped not only by those being developed, but by the developers and also by the organisation for whom they all work. Staff who are motivated and fulfilled are less likely to be off sick and more likely to work to their full potential, rather than clock watching or using their talents to come up with ever more inventive ways of doing nothing. In short, effective people development affects the bottom line.

reading list

Reading list

Accelerated Learning for the 21st Century
Colin Rose and Malcolm J. Nicholl, Judy Piatkus (Publishers) Ltd, 1997.

Use Your Head
Tony Buzan, British Broadcasting Corporation, 1974.

Developing Yourself and Your Staff
David Irwin (Ed), Thorogood, 1998.

Part Three

Managing others

Blank

chapter seven

Leading and motivating staff

The information in this chapter relates to Key Role C: Manage People and Key Role G: Manage Projects

chapter seven: Leading and motivating staff

The information in this chapter relates to Key Role C: Manage People and Key Role G: Manage Projects

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Establish and develop effective working relationships with colleagues and managers.

2. Use behaviour that engenders mutual trust and support.

3. Deal with conflict in such a way that the relationship is maintained.

MCI4

If you are studying for the MCI4 or either of the MCI5 NVQs, the information in this chapter will help you to:

1. Establish and develop relationships with colleagues, team members and their manager in such a way that mutual trust and support are established.

2. Support and motivate team members to achieve established objectives.

People

In a sense, managing people is both an easy and a difficult matter. It is easy because we use skills we have developed all our lives. It is difficult because we can fail to recognise the complexity of a situation, and apparently simple situations involving two people can be incredibly complex – think of a marriage or a relationship.

Objectives

The aim of this chapter is to help you to manage people more effectively. It will enable you to:

- deal effectively with difficult people;
- establish and develop relationships with people at all levels;
- understand leadership styles;
- understand different methods of motivation; and,
- motivate your own staff effectively.

Managing relationships

To manage people effectively, you need to manage relationships effectively. This may involve considering:

- the 'rules' of the relationship;
- the support or maintenance given to the relationship; and,
- the way in which the relationship develops and is developed.

Relationships are much easier to manage in the context of this framework. Considering the management of relationships, rather than of people, offers you more flexibility because it gives you more things to manage; manager-employer relationship, employer-employee relationship. Managing people gives us only one way of looking at the problem: 'I told him what to do and he wouldn't do it – there must be something wrong with him'. Managing the relationship gives a more accurate way of looking at the problem:'I told him what to do and he wouldn't do it – there must be something wrong with the relationship'.

Establishing and developing relationships

During our working lives we need to establish and develop relationships with superiors, subordinates, colleagues, customers, suppliers and anyone else we come into contact with. The ability to be able to get on with people at all levels can pay great dividends – people will more readily share information, tip you off if they hear a rumour, confide in you, trust your judgement, even promote you.

Despite this, it has to be said that this is not a skill that comes easily to everyone. Consequently, we offer here some tips on how you can become a better relationship builder.

Paying attention

Everyone needs attention; children and animals in particular will go to extraordinary lengths to be noticed. Any kind of attention you can get from or give to another person may be called a 'stroke', and strokes are essential to our sense of well-being. Insufficient stroking can lead to unusual or unacceptable behaviour, a crisis of confidence, mental illness and, in extreme cases, death. The exchange of strokes between you and others is essential to the health of your relationships.

Strokes, which are either physical, verbal or non-verbal, are also either positive or negative, conditional or unconditional.

Positive strokes are those which enhance your feeling of well-being – praise, admiration, thanks, interest.

Negative strokes erode your feeling of well-being – criticisms, ridicule, ingratitude, disinterest.

Worst of all is zero strokes. Solitary confinement, if prolonged, will lead to a degree of mental damage.[5]

Good relationships with colleagues and work contacts is vital to confidence, peace of mind and success. Practise offering strokes and people will respond positively. If you get a negative reaction to a positive stroke, then that person needs more strokes. Think of it as balancing the scales; people need as many or more positive strokes as negative strokes.

Rapport and pacing

When you deal with others, rapport is about meeting them on their own level and making them feel at home; it is based on agreement and mutual respect. You have two choices when you meet people – you can concentrate on the differences between you, or you can emphasise the similarities.

Pacing is the best method of emphasising similarities and achieving rapport. We can pace body language, speech and feelings. As we communicate best with people who are similar to ourselves, who see the world as we do and have the same likes and dislikes, then this method of subtly holding a mirror up to another person helps them to feel at ease with us.

Similarly, dispacing someone – speaking slowly in conversation with someone whose speech rate is generally fast, giving off 'closed' signals to someone exhibiting 'open' body language, showing no respect for another's skills and abilities – will make that person feel ill at ease.

Pacing must be done with subtlety to avoid the feeling that you are copying someone, but people you pace will be on your side and will be more likely to support you when you need them to or to accept criticism or change should they be necessary.

[5] An example of the effect of zero strokes was seen in the children inhabiting the orphanages of Romania, following the fall of Ceauşescu

Being open and honest

The best way to develop a relationship is to demonstrate openness and honesty. Keep people informed, encourage open and frank discussion, offer support where you can and always, always, do what you said you would do.

Assertiveness

Assertiveness is a behaviour that allows you to take responsibility and stand up for your rights, but without violating the rights of other people. If you are assertive, you are honest with yourself and others. You say directly what it is that you want or need, or how you feel, with confidence but while showing understanding of the other person's point of view. Assertiveness shows respect for other people whilst maintaining your own self-respect.

The other types of behaviour we could choose are aggressive or submissive. Making either of these choices means that we are also choosing to use or to be subjected to intimidation or manipulation, or to disguise our emotions in some way.

Aggressive behaviour involves sarcasm, verbal and non-verbal hostility, and often a patronising attitude. Aggressives want their own way at all costs and lack respect for others' views or needs.

Submissive behaviour is often used to try to either avoid hurting or upsetting others or to gain their approval. Submissives let other people have their own way and don't put forward their own views, needs or feelings.

Assertiveness is not about always getting your own way or about learning how to manipulate people to your advantage.

The many advantages of assertive behaviour include personal performance which is more likely to be recognised and rewarded, and that people who take responsibility for their own actions, are less likely to make excuses or blame others, spend less time plotting for revenge or worrying about what others think of you, and consequently a greater feeling of self-worth is enjoyed.

Leadership

As the business grows, you need to guide it safely through change and through the various stages of growth, but you need to do it in such a way that everyone feels that they are responsible. In the words of Lao Tzu, 'But of a good leader, who speaks little, when his task is accomplished, his work done, the people say, 'We did it ourselves'.' This is likely to become increasingly important as businesses continue to replace financial or physical capital with knowledge capital. When the core competencies of a business are largely in people's heads, then leading and managing those people becomes quite tricky. Bigger businesses are now looking carefully at how they can capture, share and retain that knowledge. Burson Marsteller, a large public relations company, for example, have recently appointed a chief knowledge officer.

When managers are asked to define leadership, they typically provide common sense answers such as:

- leadership involves getting others to do what you want;
- leaders motivate people to get things done; and,
- leaders provide a vision, a sense of meaning and purpose.

A leader for many people is someone who founds something new – a new movement, a new purpose, a new city. The word 'leader' stems from the old English word 'laedere' which means to lead someone upon a journey – usually by going in front or by example. The idea of change is implicit in leadership, as is the idea of example. Example holds a group together better than command. If people in a team see their leader operating or behaving in a particular way, they will tend to behave in that way. If a leader is seen as telling, rather than doing, the group will tend to want to ignore that person.

Leadership is about helping people. It is not about leaders getting their own way but empowering people to do what they need to do. It is about ensuring that there are clear goals, about fitting the purpose of the organisation to the environment, about assisting people to get the right things done, about setting high standards. Do not be afraid to lead. Set out clearly the direction or path you plan to take – and then follow it. Andy Grove, founder of Intel, argues that it does not even have to be the best direction, just strong and clear.

Leadership is a natural focus of the process within a group – the leader integrates the group and initiates structure. The leader is the person who comes up with ideas, who gives their group purpose and meaning. In some groups, the leader influences through force of personality, which also makes possible feats of leadership of which ordinary men and women are incapable.

Exercise of influence over other people is considered to be a hallmark of leadership. Leaders change the behaviour of others, by example or successful communication of the need for change.

Paul Hersey advocates a similar model of leadership style that takes a two dimensional approach – task and people. Hersey combines task and people in a matrix which illustrates four leadership styles.

High relationship

Low task

Leadership through participation Use when staff are ‘able’ but ‘unwilling’	**Leadership through selling** Use when staff are ‘unable’ but ‘willing’
Leadership through delegation Use when staff are ‘able’ and ‘willing’	**Leadership through telling** Use when staff are ‘unwilling’ and ‘unable’

High task

Low relationship

Figure 6: Leadership styles

These styles depend on the situation in which the leader is working:

- When staff are unable and unwilling to carry out the task the leader should presumably explain and tell or direct. Such people need to be directed.
- When staff are willing but unable to do the job the leader should ‘sell’ to staff, explaining their decisions and providing staff with the opportunity for clarification.
- When staff are able but unwilling the leader should invite staff to participate in order to increase motivation.
- At the highest level, when staff are both ‘willing’ and ‘able’, the leader should simply delegate.

Hersey claims that his situational leadership model is a training programme used by over 500 of America’s top companies. In a complex world this model, working with two dimensions of leadership, may be of limited use. It has the benefit of being simple to understand and to implement, but again focuses on the group and neglects important elements of the leadership process.

Action centred leadership

Another slightly more complex method of looking at the leadership process is John Adair's action centred leadership[6]. Adair suggests that leaders achieve the task, build the team and develop individuals. These stages are interlinked. Developing staff will achieve the task. Building the team develops staff.

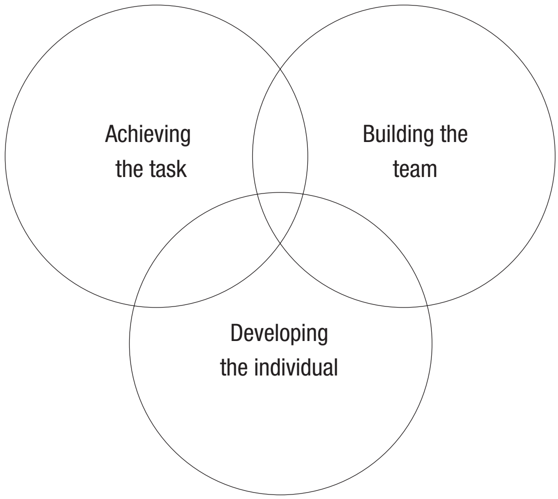

Figure 7: Adair's action centred leadership

Some managers may be focused on achieving the task more than building the team or developing the individual. Look at yourself. Where is your primary focus?

6 John Adair, *Action Centred Leadership*, Talbot Adair, 1983.

Motivation

An understanding of motivation is necessary to help you understand why people sometimes do the things that you want them to and sometimes don't. For a manager, motivation is about providing people with the means to achieve their goals and also about ensuring that the individual's goals and the organisation's goals are aligned to some degree. As such, motivation is something that concerns the interplay between people and organisations. Many consider people's skills, knowledge, energy, creativity and commitment to be an organisation's most important resource. Organisations may, however, be so alienating, dehumanising and frustrating that these critical resources are wasted.

In many ways, larger organisations seem to be either ineffective or oppressive and inhumane. Such organisations are presented as being dominated by insensitive and selfish managers who care only about power and profit. Such a view portrays people as pawns who are at the mercy of the organisation and who can only hope either to protect themselves or to exploit the organisation before it exploits them.

What does this mean for smaller organisations? Can small organisations also be seen as uncaring and dehumanising? Will people working in smaller organisations also react to those organisations in the same manner as people working in larger organisations – by withdrawing labour and commitment or by actively sabotaging the organisation's effort? One of the classic stories of people's reactions to work is that of the workers at the sweet factory who were so fed up with their job that they set up the rock machine to put an obscenity through eleven miles of Blackpool rock.

There is little research evidence which indicates that smaller organisations differ from larger organisations in the question of motivation. At the bottom of this issue there are several core assumptions:

- organisations exist to serve people;
- organisations and people need each other;

- when organisational needs and people needs don't fit, one or both will suffer – either people will be exploited or people will take advantage of the organisation; and,
- a good 'fit' will benefit both people and organisations.

Central to this way of looking at organisations is the issue around organisational needs and human needs. The whole question of motivation is driven by the concept of human needs. Unless we can understand staff needs or our own needs, how can we satisfy them? Furthermore, how do we understand the consequences for failing to do so?

What is a need?

A need can be defined as something which people have to have in order to survive and develop. So, basic human needs are things such as air, food and water, because without these things people will not survive. More complex is the idea that people have basic psychological needs as well, so that apart from a need to provide food and shelter, people have an inbuilt need for love, companionship and security.

Maslow's hierarchy of needs

If we agree then that all people have needs and that some of those needs are the same, what needs do people have in common? Abraham Maslow[7] developed one of the most influential theories of human needs. He started from the point that humans have a variety of needs, some of which are more fundamental than others. He noted, for instance, that the need for food was paramount to the hungry, but that people who had sufficient food had different needs.

[7] Abraham Maslow, *Motivation and Personality*, Harper and Row, 1954.

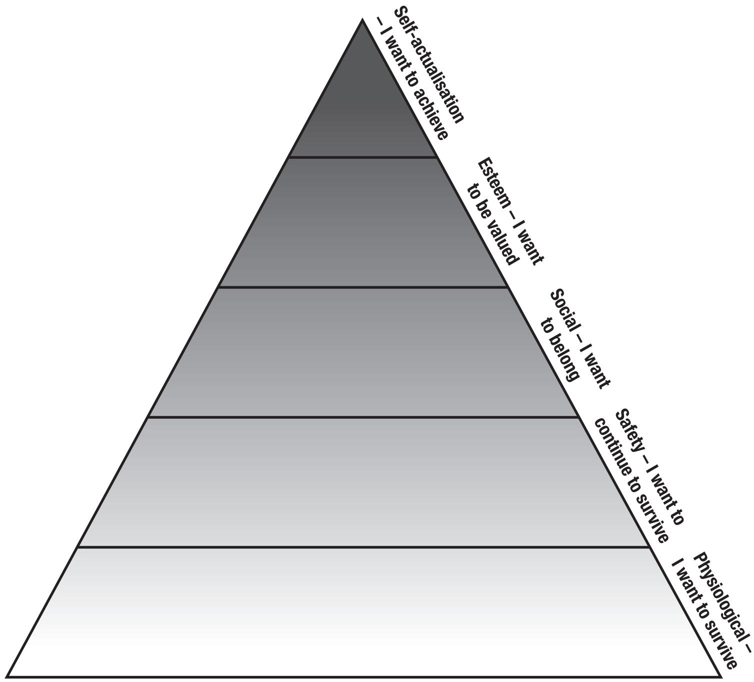

Figure 8: Maslow's hierarchy of needs

Maslow grouped his needs into five basic categories and arranged them in a hierarchy from higher to lower. The strategies to satisfy lower needs dominated behaviour until these needs were satisfied, then strategies to satisfy higher needs took over.

In Maslow's view, lower needs were what he called 'prepotent' and had to be satisfied at least in part before humans went on to the satisfaction of higher needs. If we accept these ideas, it means that an employee's and a manager's behaviour will vary in accordance to the satisfaction of need. It means also that systems designed to motivate – pay, benefits, etc – must adapt because of the change in the way in which people meet their needs.

In organisational terms, Maslow's theory means that we must constantly upgrade the way in which we manage staff. Pay may be enough to help them satisfy their lower level needs, but we will then need to introduce job security to satisfy safety needs, team-working to satisfy belonging needs, job redesign and authority to satisfy needs for esteem, and training and development to satisfy needs for self-actualisation.

A variant of Maslow's hierarchy of needs even offers transpersonal needs above self-actualisation needs. Transpersonal needs would deal with spiritual or religious issues. So, if we accept Maslow's hierarchy, we can see that the motivation of staff and self is about designing work so that it meets the needs of staff and self.

Putting Maslow to work

Frederick Herzberg[8] tried to put Maslow's theories into action in a different way. He carried out a number of surveys in which he asked employees to talk about the times when they felt best and worst about their jobs. The dominant theories in 'good feelings' stories were achievement, recognition for performance, responsibility, advancement and learning. The 'bad feelings' stories were about things such as company policy, administration, supervision and working conditions.

Herzberg called those aspects of work that produced job satisfaction 'motivators' and those that produced job dissatisfaction 'hygiene factors'. In effect, Herzberg took Maslow's hierarchy and cut it in two, with hygiene factors including physiological, safety and belonging needs, and motivators including needs for self-esteem and self-actualisation. Herzberg's hygiene factors all dealt with the environment in which the work was carried out, whilst the motivators concerned the work itself. He argued that all the methods used to motivate staff – better pay, better fringe benefits, training, etc – were variants of the 'stick' approach (as opposed to the 'carrot'). In Herzberg's view, such approaches do not motivate – they may get the person to move, but not necessarily in the right direction, and they will soon need another whack to get them to move again.

[8] Frederick Herzberg, *Work and the Nature of Man*, World Books, 1966.

Herzberg argued that the idea of job design and enrichment was central to motivation. He saw job enrichment as being the process of 'vertical job loading'. This is done by adding to the job factors that give the worker more autonomy, more freedom, more challenges and more feedback about their performance.

Forms of motivation

We've discussed motivation being about the satisfaction of needs and considered some of the ways in which we might look at individual needs. Let's now consider some of the ways in which a manager can satisfy needs in a manner which helps his or her organisation to reach its objectives.

Pay as a motivator

One of the major elements in giving people the things that they can use to meet some of their needs is pay or reward. Clearly, if you give someone ten, or fifteen, or thirty thousand pounds a year, you are giving them a powerful tool to help reach a state where some of their needs are met. Pay will enable them to buy food, drink, shelter – even, perhaps, some social and psychological needs.

It is dangerous, however to see money as being the sole or even the best motivation for the type of behaviour that you need. Pay is, at best, a short-term motivator. It is also important to ensure that when you pay to help satisfy someone else's needs, you are motivating the right sort of behaviours.

If we pay for 'performance', we need to decide what our output measures are. Performance standards in many organisations measure anything but performance but even so, accurate performance assessment is difficult, which is why most people find it easiest to pay for time.

Let's consider some of the things that we could be paying for:

- time;
- productivity;
- customer service;
- creativity and new ideas;
- new skills development;
- vision;
- commitment;
- flexibility;
- ability to work as part of a team; and,
- ability to work on own account.

We can subsume all these into one heading of 'performance,' but if we're unclear about what it is that we're paying for, we can unwittingly give the wrong messages to staff and find that we're paying for something that we don't want.

You must also ensure that you are paying enough to get the right sort of person for the job. Pay doesn't only impact on motivation, it also affects recruitment. High-calibre staff are invariably in short supply; they will know how much they are worth and will expect corresponding rewards. Any reward system will need to be attractive and competitive.

Pay needs to reflect performance. You should not only ensure that you are rewarding the right sort of performance, but also that there is some equity in reward between people at lower reward levels in an organisation and those at a higher level. Too great a gap between levels of an organisation may be very demotivating.

Pay is part of reward and part of a reward's strategy. A reward strategy is about developing and integrating a whole range of management tactics to ensure that staff perform.The following objectives must be met:

- ensure that the organisation can recruit the quantity and quality of staff it needs to meet its performance targets;
- develop the 'fit' between organisation and people;
- provide rewards for good performance and incentives for further performance improvement;
- make sure that similar jobs are paid similar rates (this is a legal requirement);
- make sure that the different character of different jobs is recognised;
- create flexibility to ensure that the system can accommodate particular needs (for instance, if a company needs an 'expert' who would be paid more than the Head of Department);
- be robust – that is, simple to explain, operate and control; and,
- be cost-effective.

The essential elements of effective pay systems are balance and linkage. Balance means that a pay system should never be allowed to get out of control. Pay should reflect the levels of performance that the individual worker produces. Linkage means that there should be clear and recognisable links between pay and performance. Due to the way in which funds are transferred now, people can lose sight of the links between pay and performance. Numbers appear in their bank account at the end of the week or the end of the month, with no apparent connection to performance at work.

Motivating through work design

Apart from reward, there are a number of other ways in which we can motivate staff.The first of these takes us back to Herzberg and his work on 'job enrichment'. Herzberg believed that the nature of the job was central to motivating employees. If jobs are narrow, fragmented and restrictive, it is possible to redesign work to make them more appealing. Herzberg argued for what he called 'vertical job loading', on which the employee is given increased authority and challenge within the job together with more feedback.

Job design

Hackman[9] and his colleagues extended Herzberg's theories and argued that three factors were necessary to ensure that job redesign experiments were successful:

- They needed to see their work as meaningful and worthwhile. On a day-to-day basis, it is all too easy to lose sight of the purpose of work. This holds true for both managers and employees, and many methods have been tried to help retain that sense of purpose and commitment.
- They need to feel personally accountable for the work that they do. Working in organisations can often contribute to a loss of identity. Again, efforts have been made to ensure that people are accountable for their efforts by the use of individual production targets, progress charts, etc.
- Thirdly, people need effective feedback. Without knowledge of progress, it is difficult to feel motivated about work.

A number of job characteristics which will contribute to the motivation of staff come out of Hackman's work and the work of others. These characteristics are likely to result in an increase in the three factors which lead to feelings of accountability, meaning and feedback:

- **Variety in the job, the tools used, the place where the job is carried out and the people whom the employee meets**. An employee who sits in place at a production line carrying out the same task repetitively with the same tools and seeing the same people is unlikely to feel any sense of meaning or accountability.

[9] J.R. Hackman & G.R. Oldman, *Work Redesign*, Addison Wesley, 1980.

- **Autonomy in the way the task is performed**. If the supervisor tells the worker that he needs 300 boxes a day to be assembled and that the assembly has to be done in a particular way, the worker is unlikely to feel that the job has any meaning.
- **Responsibility**. Jobs are often designed to operate within authority structures and this tends to reduce the employee's sense of responsibility for the task.
- **Challenge**.The degree to which the job presents an opportunity for growth and development is a factor that contributes to the meaning of the job. Solving problems and overcoming difficulties gives a sense of achievement.
- **Interaction**.This is the way in which people holding a job meet and respond to other people. A retail sales job is likely to have a high degree of low-quality interaction with customers, while a flexible manufacturing cell, built around a high performance team, is likely to have a high degree of high-quality interaction. Where sales staff are in constant contact with customers who do not seem to care for them as people, a manager will need to introduce better quality interaction by allowing staff to develop as a team.
- **Task significance**.This gives meaning to the job. Hackman notes that a person whose job it is to tighten nuts on an aircraft engine will be more likely to deliver a high performance than a person whose job it is to fill boxes with paperclips.The aircraft fitter will see his or her task as significant.
- **Goals and feedback**.Without clearly defined objectives and feedback on performance, staff will be in a position where they are like blindfold people trying to find a pin in a darkened room. Without clear, accepted goals or objectives, nothing is very likely to succeed.

Job redesign seems to work. It may be ineffective in some cases, as some workers will resist a move towards more responsibility. It does, however, tend to produce an increase in the quality rather than the quantity of production, because workers will get more satisfaction out of doing a job well than from doing more work. It also tends to increase staff flexibility, ie the way in which jobs can be moved around amongst staff as the need arises, and makes it easier to attract and retain staff.

Motivation through participation

The worker participation movement is a result of Elton Mayo's work, based upon experiments carried out in the Chicago factory of the Hawthorne Electric Company and in other factories in the United States. A classic example is described in William Whyte's book, *Money and Motivation*. In this, he described a group of staff – all women – who were responsible for painting dolls in a toy factory. The women worked a new system whereby each woman took a toy from a tray, painted it, and put it on a hook passing by on a belt. The women received an hourly rate, a group bonus and a learning bonus.

Management expected no trouble with the new system, but production declined dramatically. Staff morale was very low. They especially complained about the heat in the room and the speed of the belt. Reluctantly, the supervisor followed advice to meet the staff and an agreement was ultimately reached to put fans into the workshop, although the industrial engineer who designed the system doubted that these would help. The fans led to a significant increase in morale and further talks led to the women making a radical suggestion – that they be allowed to control the speed of the belt. The industrial engineer resisted this because he'd calculated the 'best' speed for the belt, but reluctantly the supervisor agreed to try it out.

The staff worked out a complicated schedule in which the belt ran fast at some times and slow at others. Morale shot up. Production exceeded the engineer's targets and began to overload other parts of the plant. Pay shot up and the women's production bonuses meant that they earned far more than many 'senior' staff members. As a result, the experiment was discontinued. Production dropped, morale plummeted and most of the women left.

None the less, the experiments had proved that employee participation in designing some of the elements of their job improves both production and morale.

Participation may, however, be problematic if it is not implemented honestly. Managers tend to believe in participation for themselves rather than for staff. This is because managers are reluctant to 'trust' and are ambivalent about their own attitude to power and control.

exercise

Exercise: Power

Examine the following statements and place a ring around the letter that you believe corresponds to your own attitude towards power.

		Very strongly		Not at all
1.	I need to control what's going on around me.	**A**	**B**	**C**
2.	I need to be involved in everything.	**A**	**B**	**C**
3.	I find it difficult to delegate.	**A**	**B**	**C**
4.	I don't like uncertainty.	**A**	**B**	**C**
5.	I prefer games of skill to games of chance.	**A**	**B**	**C**
6.	I generally trust other people's ability to do a job.	**A**	**B**	**C**
7.	I don't like asking for favours.	**A**	**B**	**C**
8.	I don't like crowds of people near me when I've got work to do.	**A**	**B**	**C**

Scoring

Questions 1-5 and 7-8: score 3 points for every A, 2 points for every B and 1 point for every C.

Question 6: score 1 point for A, 2 points for B and 3 points for C.

16-24 points: You demonstrate a high need for control. You are unlikely to accept the idea of worker participation at all.

8-16 points: Your need for control is lower but your attitude towards worker participation is likely to be a token one.

Under 8 points: You probably already involve workers in all elements of the organisation's operation (or you lied!).

Conclusion

The aspects of managing people which we have examined in this chapter are key to your success as a manager. Understanding the different styles of leadership will be invaluable in getting people to behave as you would like them to, and understanding and providing those things that motivate your team will keep them moving towards the goals you have set. If you are an effective leader and motivator, the chances are you will have a satisfied and effective team at your command.

reading list

Reading list

How to be Better at Motivating People
John Allen, Kogan-Page Ltd, 1996.

The One Minute Manager
Kenneth Blanchard and Spencer Johnson, HarperCollins Publishers, 1981.

Action Centred Leadership
John Adair, Talbot Adair, 1983.

Motivation and Personality
Abraham Maslow, Harper and Row, 1954.

Work and Nature of Man
Frederick Herzberg, McGraw-Hill, 1960.

Work Redesign
J. R. Hackman and G. R. Oldman, Addison Wesley, 1980.

chapter eight

Delegating and appraising staff

The information in this chapter relates to Key Role C: Manage People

chapter eight: Delegating and appraising staff

The information in this chapter relates to Key Role C: Manage People

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Allocate work in line with available resources, people's ability, and their established objectives.
2. Ensure that understanding of, and commitment to, objectives and work allocations is established.
3. Involve team members in the processes of setting objectives, planning to meet them and allocating work.
4. Ensure that an efficient and effective process for monitoring and assessing performance exists.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Allocate responsibility and authority in line with available resources, people's ability, and established objectives.
2. Ensure that understanding of, and commitment to, objectives and targets is effectively established.
3. Provide appropriate resources and support to delegates.
4. Ensure that an efficient and effective process for monitoring, assessing and reviewing the situation exists.
5. When you revise targets, communicate clearly with those affected.

Delegation and appraisal

If you are responsible for managing people, then it will undoubtedly be necessary for you to delegate work to them and to appraise their performance. These areas are key: how you handle these situations will have a very great bearing on how you are perceived by your reports. In addition, there is more to each process than simply to sit down and have a chat to tell someone what you think of them or what you want them to do next.

Objective

The aim of this chapter is to help you to achieve things through other people more effectively. It will enable you to:

- understand the purpose of delegation;
- delegate effectively;
- understand the purpose of appraisal; and,
- conduct performance appraisals in a structured manner.

In the book *The One Minute Manager*, Kenneth Blanchard and Spencer Johnson[10] argue that there are three main management tasks:

- goal setting, which includes setting performance standards and identifying key areas;
- praising, which should be sincere, immediate and specific; and,
- reprimand, which should be both immediate and specific, but in addition should only be used if the person concerned has all the skills to do a job, yet still gets it wrong.

Reprimands should be reinforced with praise (some people advocate a kind of sandwich, using praise as the bread and reprimand as the filling – the middle bit of the interview) and in all cases the manager should go for the ball, not the player. In other words, criticise the behaviour without attacking the worth of the individual.

[10] Kenneth Blanchard and Spencer Johnson, *The One Minute Manager*, Harper Collins, 1994 (first published 1981).

Personal issues have no place in your relationships with staff or other colleagues; grudges should not be borne and axes should not be ground. If you like people, great! If you don't, tough! Either way, they deserve the same fair treatment and consideration; you cannot afford to play favourites.

Blanchard and Johnson advocate trying to catch people doing something right, rather than the more accepted management style of catching people doing something wrong and then punishing them for it. Finding a reason to offer praise is a great motivator and spurs people on to give you more reasons to praise them; recognition is a basic human need and people will often go to extraordinary lengths to achieve it.

Delegation

Delegation allows the manager to control processes through other people. Delegation is essential because a manager can't do all the work. If you want your organisation to function properly, you must delegate. Unfortunately, as we shall see, there is a considerable difference between delegating, and delegating well.

The process of delegating effectively and comfortably will involve a number of elements:

- learning to give up responsibility for a task whilst retaining control;
- practising the types of behaviours which demonstrate trust;
- selecting and matching the task to the employee; and,
- clearly setting out the contract within the process of delegation.

Why delegate?

There are a number of good reasons for delegating. First, you can't do everything. In as much as this is true, it is amazing that managers don't spend more time learning to delegate.

Second, it is one of the methods that we can use to develop staff. Development is something which employees must learn to do for themselves.

Third, it is a way in which employees can avoid demotivation. It is very demotivating to be selected and trained for a job, only to be told that you cannot or are not trusted to do it unless you are being watched all the time. This gives messages about trust and the self-fulfilling prophecy shows us that if you show people that you don't trust them, they become less trustworthy.

Fourth, there are issues about the management of time, location and organisational product diversity. If an organisation is going to grow, it is likely to take up more of all of these. One person will simply not have the time to do, or even to check, all of the tasks that need doing. The organisation may open other branches or sites that will cut in on time resource because of travel time. The organisation may offer more products or services as it develops, and this diversity means that delegation must be practised because one person or group of people will not be able to carry out all of the core tasks that the organisation requires.

The causes of poor delegation

These can broadly be defined in three areas:

- **roles**;
- **relationships**; and,
- **control**.

Roles

Formal roles involve issues such as job title and nature of the work carried out. Informal roles are likely to involve personal characteristics and the way in which a person fits into the group. Let's look, for a moment at what we mean by 'role.' The word 'role' originally meant the part which an actor plays. It broadened to include a person's function or the part they were expected to play in a group or an organisation.

Roles are not only about the part we play, however. They are about messages that we send to ourselves and others about who we are. Roles are given and received by behaviour; for instance, your role as a manager will be defined to a large degree by the way in which other people defer to you and ask you for advice.

Small organisations are prone to uncertainty. People who work in small organisations may not have a clear vision of the future and the present can be problematic. Small organisations are uncertain because their information-gathering apparatus may be inadequate. Poor information leads to uncertainty, which contributes to poor role definition. In a larger organisation, people's roles can be stable and well defined: 'Fred has been the sales manager here for 20 years'. In small organisations, a high level of uncertainty means that people switch roles very rapidly, moving from project manager to personnel manager to sales manager in a very short space of time.

Instability or poor role definition can create difficulties in relationships. If people cannot identify a clear formal or informal role for a person, they may find it difficult to build a relationship with that person. They may also find it difficult to delegate where roles are unclear, or where they have previously held that role themselves. For instance, when a manager has previously acted as financial controller but work pressure forces recruitment of a new financial controller, the manager may find it difficult to delegate because he or she is unable to relinquish the role; ultimately, this might lead to role conflict.

Relationships

The second group of causes which lead to poor delegation are connected to the quality and nature of the relationship in which the delegation takes place. Roles have a major effect on relationships. You might be prepared to delegate to the tea boy, but you might find it difficult to delegate to the sales manager, particularly if he or she seems knowledgeable and confident.

Delegation is all too often seen as something that has to be done downwards. This perception of delegation comes about because it involves the tasks that a manager does not want. We will look later at the problems caused by delegating only the bad tasks.

Delegation is about giving up power and authority. An effective manager will manage his or her relationships within the organisation so that he or she can delegate upwards and sideways, as well as downwards. When relationships are effectively managed, delegation becomes the norm rather than the exception.

Whilst delegation is about giving up power and authority, it is not about giving up control.

Control

It is a commonly accepted belief that relationships happen naturally in a passive process, which involves people coming together. It is also commonly held that relationships are about 'good' things such as support, help and mutual recognition, and not about criticism or challenge. An honest relationship will involve all these elements and more. An honest relationship within the context of a delegated task or responsibility involves:

- retaining control whilst giving up authority and power; and,
- adapting controls to the task or responsibility in question.

Retaining control involves giving up, within limits, responsibility for the process of the task or group of tasks whilst retaining responsibility for the outcome. In delegating, control is about the information that you need to ensure that the task is progressing within agreed limits.

Thus if you delegate a task to someone by saying, 'Could you do this?', you will need to put in place a framework which will ensure that:

- time checks are made ('Could you let me know how it's going by Wednesday?');
- status checks are made ('Could you let me know how many have gone out by Friday?');
- objectives are set ('We'll need to get this lot out by the end of the month.');
- fallbacks are implemented ('If you've got any problems I'll be around all week.'); and,
- checks are made ('Are you sure you've got what you need?').

Adapting controls

It is important, when you consider the subject of controls, that the controls are appropriate for the delegated task. In order to delegate effectively, the manager needs a clear set of objectives. Without clear, measurable objectives, delegation is likely to fail.

There may be a gap between what we say we want employees to do and what we actually ask them to do. General objectives such as 'being the best widget making operation west of Cheam' are little use in delegating specific tasks. Equally, specific objectives such as 'improving defect rates by one in every five units' will be ineffective for a more broadly based delegated task. Reporting methods and procedures should also be appropriate to the task.

This means that control mechanisms – reports and objectives setting – should be tailored to the nature of the task. Remember that individual tasks need individual solutions. Standard controls tend to interfere with delegation.

The delegation process as a contract

We have seen how roles impact upon relationships as part of the delegation process. It may be helpful to think about the delegation process as a contract. There are contractual duties on behalf of both the delegator and the delegatee.

Broadly, the first contractual duty of a delegator is to control the delegatee flexibly. Control should be broad enough or subtle enough not to stifle initiative. The second is to let other people make mistakes. The third is to give authority to those who can make best use of it, and the fourth is to give the other person's ideas the opportunity to be tried out.

Within these four core propositions there are a number of specific behaviours which will help build an effective delegatory relationship. These can be broken up into behaviours before, during and after the delegation.

Useful behaviour before the delegation

The first of these takes us back to selection. You need to select the right person for the task that you want to delegate. Clearly it is no use delegating a complex new task to someone who does not learn quickly and has not the verbal, manual or conceptual skills to carry on the task.

- **Delegate both the good and the bad**. It is a natural human desire to save the good stuff for yourself and give the bad stuff to someone else. If you can accept and deal with this, you will be able to reward effective delegation with enjoyable or important tasks.
- **Delegate gradually**. Delegation is not merely taking the contents of an 'in-tray' or action file and handing them over to someone else. Test the water by delegating small tasks before you go on to more complex and difficult ones.
- **Delegate in advance**. If you wait until a problem develops before you delegate, you are giving messages to employees that may lead to their feeling that 'the only time I get the job is when he is in trouble'. If you delegate in advance, you have got more time for planning and development.
- **Delegate for specific results**. It can help here to differentiate between the words 'accountability' and 'responsibility'. In the process of delegation, responsibility is the scope of a job – what must be done to carry out the tasks involved. Accountability is the results that must be achieved within the scope of the job. Delegate on the basis of accountability.
- **Avoid gaps and overlaps**. Make sure that only one person or group is accountable for performance in one particular area and make sure that they know that. Where accountability gaps or overlaps occur, delegation can fail because either it 'was not my job' or 'it was the other person's job'.

- **Communicate constantly**. Unless the delegatee knows what is required, delegation is unlikely to be successful. This involves using communication skills to give the delegatee a clear picture of the limits of the assignments, results expected, time limits involved and the method of reporting on the progress of the task assigned. This communication should go on throughout the delegated process.

The more perceived influence over the task that the delegatee has, the more likely he or she is to be motivated to carry the task out, and the more satisfaction will be found in its completion.

Useful behaviour during the delegation

- **Delegate the whole of a task to one person or to one team**. This makes one person or team specifically accountable and minimises the likelihood of confusion and mistakes. It also gives a clear and positive trust message to the staff involved.
- **Define responsibilities and targets clearly**. Tell people what you expect from them; it saves a lot of trouble later on.
- **Be consistent**. Unless you intend to carry the delegation through, it is best not to start. Delegating sporadically, or revoking a delegation for no good reason, will cause confusion and threaten the delegatory relationship.
- **Give support**. Support when the delegatee is right contributes to the trust relationship. It will also help the delegatee to manage the delegation if he or she runs into problems with other staff or customers.

Useful behaviour after the delegation

- **Delegate credit, not blame**. One of the most difficult parts of the delegation process is the issue of credit and blame. If a delegated task is completed successfully, the delegatee and not the delegator should, and will, be given the credit. When a delegated task fails, the delegator and not the delegatee should accept the blame.

- **Delegation involves responsibility without power**. Therefore it needs mutual trust within the context of a good working relationship. Delegators who try to claim credit or apportion blame to where it is not due will not be able to preserve a good working relationship.
- **Review results, not methods**. A common belief is that there is 'one best way' to complete a task. Delegating the task means accepting different methods for task completion. The important question is whether the task results have been achieved, not the manner in which they have been achieved. Attempts to influence approach will lead to over controlling and give poor trust messages. Once the delegation has been made, the person should be left to carry out the task within the controls you have put in place. He or she should be free of anything but carefully tailored support.

Finally, there are some tasks that should never be delegated. These include problems in relationships with staff who report directly to you – appraisal, reward, discipline, counselling and coaching are best handled by you if you want to maintain an effective relationship with the individual, and with other employees who might see and interpret the issues for themselves.

Behaviours to look for in the delegatee

It can be useful to think of the delegation contract as being a customer-supplier relationship. The behaviours that we saw above constitute an offer to tender. Relationships aren't one-way processes and as such there are some behaviours which you can expect to see in your 'suppliers':

Initiative

The delegatee needs to agree to take the initiative. Delegation is not a one-way process.

Suggestions

The first thing you can expect is that the person delegated to will take responsibility for recommending the job results rather than having them defined. In our customer-supplier metaphor, this would be the equivalent of walking into a garage and telling the mechanic that you have a problem with your car.

We expect the mechanic to ask us what the problem is and not to wait for us to explain it. We also don't expect to have to explain why the problem has occurred. The mechanic is an expert, we're not. When delegating, the delegatee is the expert.

Openness and trust

The second thing that you can expect is an adequate level of openness and trust with the delegatee. Relationships are risk-taking processes. If your openness and trust don't seem to be reciprocated, don't delegate to that person.

Disagreement

A 'good' delegatee will feel able to disagree with the delegator about the realistic nature of the goals, and whether they fit in with the personal objectives of the person delegated to. Effective delegation involves ensuring a degree of 'fit' between personal objectives and organisational objectives.

Self-development

The effective delegatee should be actively looking for opportunities to develop him or herself as well as actively seeking new assignments. Where an employee or colleague is looking for training or new developmental activity, he or she is likely to be an effective delegatee.

Carrying out the delegation

The final sign of an effective delegatee is one who has completed delegation adequately in the past.'Completed' means precisely what it says. In the delegation contract, there can be a tendency for the delegator to interfere in the task when it is half-finished or stand at the shoulder of the delegatee. Equally, there can be a tendency, particularly when the delegated task is problematic, for the delegatee to turn to the delegator at every stage to check. It is much easier for the delegatee to ask for answers from the delegator.This must be discouraged. Unless the delegatee is prepared to take on the whole task and provide answers for the delegator, the contract is flawed and your delegation will cost you more than you can perhaps afford to 'pay'.

What stops you in the delegation process?

Your approach to delegation will be dictated by a number of factors – need for power, need for achievement, need for interest and emotion. The emotions that a delegator feels will impact upon the delegation process.

Let's take a snapshot of the sort of feelings that a delegator may have about the delegation process:

- **Guilt**: The person delegated might already be snowed under with work. You may feel guilty about giving even more. Delegation, however, isn't only something that managers do to employees.The delegatee can also learn to delegate and if the delegation is properly carried out within the framework of an open, supportive relationship, he or she can refuse.
- **Fear**: Fear is a powerful feedback. It's so powerful that we immediately shy away from its implications.'I could lose the whole order, then I couldn't meet my loan repayment, then I'll be forced to cease trading and I'll be unemployed and my partner will leave me or my children will starve.' If your delegation is realistic and you've adapted the controls, your fears may be unrealistic. Consider your fears in context and if they are realistic, do the task yourself.

- **Envy**: This is one reason that many people don't acknowledge. We've seen that delegation is about giving up power. It's also about giving up praise whilst retaining responsibility. The key questions here are whether or not the delegatee might do the job better, and if they get the praise from it, how the delegator feels. Delegation seems at one level to make a delegator unnecessary and this produces envy and uncertainty. If you're envious, consider the costs of not delegating.
- **Anxiety**: Uncertainty is about loss of control. It is closely connected with anxiety. Research in the 1950s shows that a degree of uncertainty or anxiety tends to create a 'vigilant' problem-solving attitude, which actively searches for information in order to reduce anxiety. A higher degree of anxiety will lead to 'hyper-vigilant' behaviour, which gathers information in a sporadic manner and which merely adds to the uncertainty of the problem-solver. This block can be overcome by knowing your people and putting adequate controls in place.
- **Distrust**: Distrust is a chronic form of anxiety that is directed at other people. Because we've been 'burnt' in the past, we'll not trust people again. If you don't trust the people with whom you're working, you're unlikely to achieve much anyway. Trust is about the nature of the relationship between the people that you manage and yourself. Work at building that relationship.
- **Conflict**: Delegation is also about mediating between the demands of the task and the capacity of the delegate. Sudden changes in the demands of the task need to be negotiated into revised objectives. Where openness and trust exist, conflict can be managed into negotiation and into new work targets.

All of the above are likely to have undesirable effects upon the nature of the relationship between the delegator and the delegatee. Open, honest relationships, which facilitate the delegation, can be encouraged by effective communication. It can also help to recognise and acknowledge the feelings you may have about delegating or about the relationship. Whilst delegation is the core of managerial activity, you will only delegate effectively within the context of a good relationship if you feel happy delegating.

Staff appraisals

Performance appraisal is the human system's equivalent to a compass for checking position and direction. It is designed to ensure that you are on course and have not strayed into dangerous territory. Without an effective route finder, you may not reach your intended destination or, even worse, get completely lost.

Effective appraisal involves taking a number of steps:

- deciding what it is that you are appraising;
- deciding how often you will appraise;
- choosing the best information source for appraisal – who should appraise;
- deciding on a structure for the appraisal;
- being aware of the problems; and,
- carrying out the appraisal.

What use is appraisal anyway?

Many managers adopt appraisal systems because other successful organisations have them or perhaps just because it is the right thing to do. This can mean that the organisation ends up with an appraisal system that does not fit its needs. In addition, people are often unclear about what it is that an appraisal actually does. For most managers and staff with experience of appraisal, it is inevitably linked with problematic issues such as pay awards or specific difficulties with staff performance. Perhaps this contributes to the confusion people often feel. Very few managers are naturally good in appraisal.

Appraisal can be used for a number of purposes and with a number of intended consequences:

- **Evaluation**: This is designed to give some idea of individual performance and share out pay and benefits according to the differences in performance. (In practice this rarely happens because of other issues such as status or length of service.)
- **Audit**: This is designed to discover the work potential of individuals and groups working in the organisation.
- **Training needs analysis**: This is designed to ascertain individual and group training needs. Appraisal and development are inextricably linked, in that identifying a performance shortcoming will mean offering a path via which it can be remedied.
- **Motivation**: Appraisal can be used to give information and praise to motivate and reward staff for good performance.
- **Development**: This is an intended consequence of 'good' appraisal. Reward can be used in a number of ways, one of which is to allow people to develop their own autonomy.
- **Planning**: Effective appraisal will give an accurate picture of staff capacity and an idea of whether you will need to take on more staff or can manage tasks with existing staff.
- **Control**: This is, of course, the underlying reason for all work systems. Without control, there are unlikely to be satisfying outcomes from work. Without control, staff and managers will be running around working part of the time on mutual projects, part of the time on individual projects and part of the time on projects, the purposes of which are unclear even to them. This isn't to say that control has to be external. In fact, in many smaller work units it is internal, with all members of staff sharing a similar set of purposes.

The seven sets of objectives (above), some of which overlap and some of which may contradict, are unlikely to lead to clear processes within the appraisal interview. People participating in the interview are unlikely to feel comfortable without clearly defined objectives.

Broadly, we can say that the seven sets of aims can be translated into three groups.

The first of these relates to the management of people through the distribution of rewards. There are a number of different types of reward available to the manager, ranging from money through to status, autonomy – even the key to the executive toilet, a marked car parking space or a new job title. As the whole subject of reward is such a sensitive one, it impacts strongly upon the other two groups and should always be kept separate from them. We can call this type of appraisal *reward appraisal*.

The second group deals with the potential of the particular person being appraised. This group attempts to answer the question of the future needs of the organisation in which you work. This may include asking what sort of skills and attitudes the organisation will need in future, how the person involved wants to develop, either in their existing job or in a new one, whether he or she is realistic in their expectations and how the whole organisation is likely to benefit from such development. This type of appraisal can be called *development appraisal*.

Development appraisal can leak into the final group, with which we will concern ourselves here. This is the group which addresses issues such as an individual's actual (present) performance over a particular period and in connection with particular projects or work. We can call this type of appraisal *performance appraisal*.

A performance appraisal system is designed to add to staff capacity in the same way that development does, although by a different route. Development is about adding to the capacity of employees by giving them the tools to do the job. Performance appraisal is about adding to that capacity by identifying and measuring the ways in which those tools are used.

Individual and team performance

Performance appraisal or review is often considered to be about individual progress. There are issues, however, which relate to team performance, in so much as no one works in a vacuum. All our work depends upon, and supports the work of, other people. This means that an individual may be unable to perform adequately if he or she is working as part of a team that is failing to perform.

Questions about the accuracy of performance appraisal may seem to be largely academic, but it is important to recognise that work is not carried out in a vacuum, and that group, team or departmental performance may impact upon individual performance just as individual performance will impact upon group, team and departmental performance.

How often?

Before you embark on the process of achieving increased capacity from a performance appraisal, you may need to consider both the frequency and the framework for the review.

The first point to consider is how often should appraisal take place. Larger organisations will often conduct performance appraisals once or twice a year, and many smaller organisations follow suit. Larger organisations, which were once able to work in stable environments with work that did not change on a day-to-day basis and staff who were familiar with the work, only needed to conduct appraisals once or twice a year. Smaller organisations working in rapidly changing environments in which staff duties vary daily may need a different approach.

Let's look at putting this into action. Organisations tend to hold reward appraisals once a year. This ties in with budgets and for many people is the only type of appraisal which is important. Due to the way in which budgets are set, it is unlikely that a reward appraisal will take place more than once a year.

The second type of appraisal that we identified was the development appraisal. Developmental appraisals can take place quite often, perhaps four or more times in a year. A development appraisal may be nothing more than a check to see how the needs of the employee are fitting in with the work that he or she is carrying out on behalf of the organisation.

The final type of appraisal is that of performance.This type of appraisal may also take place formally once a year, but it is one that goes on constantly. If it does not, you may well have problems. The formal appraisal interview may be the only time the manager and employee meet to discuss performance, but you may wish to ask yourself if this is appropriate for your business.

Adequate performance appraisal over a period is arguably a more accurate indicator of business performance than financial information, because it comes back as quickly and can be much more enlightening. People generally know when they are not performing well, and will, if asked properly, tell you.

How long should you set aside for appraisal? One school of thought argues that no more than 15 minutes should be necessary – if issues are dealt with as and when they arise and there are no surprises, then this should be enough time. On the other hand, this is the appraisees' moment – their official and recognised opportunity to speak and be listened to, so one to two hours might be more appropriate.

Who will appraise?

Once you've decided how often appraisal will be carried out the next important question is,'Where is the best information likely to be found?' It is easy to assume that the supervisor or line manager is the best judge of performance.This may not be true. Good information about performance is likely to come from various sources – line manager, supervisor, the employee, the employee's colleagues, production figures, etc. A really effective appraisal system will make use of as many of these information sources as is practicable.

The best source of information about an employee's performance may often be the employee him or herself. Obtaining employee information can be done jointly with the supervisor or manager in a formal or informal interview, or it can be done solely by the employee. It may be that employees are not completely honest about their own performance, so managers tend to doubt employees' ability to rate themselves. This may be reluctance on the part of the manager to give up perceived authority, which carrying out an appraisal can bestow. Research seems to indicate that employees who self-appraise without input from managers do so accurately when pay is not linked to performance, and when they are not asked to compare themselves with others.

The next source of performance information is peers. Peer appraisal is potentially more accurate in that they spend more time with the person being appraised than do managers. Relationships between peers, however, may mean that such information is not accurately presented. Peers may be afraid of 'grassing' on their fellow employees or – where relationships are poor – may give inaccurate information for reasons of their own.

Finally, where employees are in regular contact with customers and suppliers, good performance information may come from those individuals dealt with.This may take the form of customer service enquiries or customer feedback documents.

As in the collection of job related information, the collection of performance related information is likely to be more accurate when collected from a number of sources.

A structure for appraisal – how to appraise

Once you have decided how often you are going to appraise and where the best information on performance is likely to be found, the next thing to consider is how you are actually going to carry the appraisal out.

The appraisal interview is time taken out of the everyday routine when, for a little while, you stand back from things and deliberately take in the full panoramic view – the big picture. It is often the appraisee's one and only chance to say exactly what is on his or her mind – whether you want to hear it or not.

It may help you to think of the process more as a meeting; at interview, one party questions and the other one answers; at a meeting, there is a general sharing of thoughts and ideas. However you see the process, it is vital that you do not attempt to force or manipulate agreement; this would result in a superficial accord that would be unlikely to prompt action.

A three-stage process is used: reviewing past performance, setting the performance step and checking understanding.

Reviewing past performance

Managers often spend 90 per cent of the time in an appraisal considering past performance, 75 per cent of which concentrates on negative aspects of that performance. This means that only ten per cent is spent looking forward and 25 per cent looking at good performance. It is hardly surprising that neither managers nor employees look forward to appraisal.

Reviewing the last performance step should concentrate on average performance over the course of the period being reviewed. We will see on page 233 in 'What can go wrong' that we tend to pick out the peaks or troughs rather than overall performance. In checking the last step, it is much more useful to concentrate on those elements of performance which are currently acceptable and identify ways in which they can be improved.

This stage of appraisal should contain no surprises. It is more of a formal opportunity to look back over a period of time and summarise performance, followed by the next stage – an opportunity to look forward to the next period, to agree work objectives and to explore development needs.

In checking the last performance step, remember to ask what has gone right before you ask what has gone wrong. Equally, once people have identified what has gone wrong, listen and use probing questions before you begin to give feedback.

Checklist for past performance

Introductory

- What are your expectations of this point of the appraisal?
- What particularly would you like us to cover?
- How do you feel about the last year/period?

Job

- What do you see as the main purpose of your job?
- How has the job developed over the last year/period?
- Which aspects of your job do you find least/most interesting?
- Which aspects of your job do you see as most challenging?

- Which areas do you feel happy about?
- Which areas were most frustrating?
- What has caused these successes?
- What has caused these problems?

Relationships

- Who are your main work contacts?
- Who impacts on your performance most?
- Who do you affect most in your work?
- How do you feel your relationships are with colleagues, staff, me?

Development

- What do you think are the key skills you need to do your job?
- How do you rate yourself in these skills?
- What skills do you feel you have that aren't being fully used?

Personal

- How do you feel about the problems we've identified?
- What would you say you've learned from this?
- Looking back, what would you do differently?

Conclusion

- Is there anything else you'd like to raise?
- How do you feel about this assessment?
- How can we take this forward?

Once you have explored the reasons for either positive or negative performance, you can then give feedback on that performance. Feedback is one of the ways in which you communicate with people to help them change or develop.

Setting the performance step

Broadly setting the performance step involves two types of activity. The first is to gather information about the person's capacity to perform. It is useless setting a performance step unless the employee is able to carry it out. This involves establishing an agenda that doesn't just focus on particular tasks. The primary issue in the early stages of the review is to gather information. This means that the person appraising needs to initiate conversation and listen actively. The conversation here should focus on the wider world of work – relationships with other staff members and career aspirations. This will help develop a whole picture of the individual's needs and potential.

Relationships are vital in the process of managing people. When setting the performance step, you should attempt to maintain your relationship with the person being appraised. This emphasis on mutuality ('We are going to have a problem next year with the new Health and Safety Regulations') will avoid appraisal being seen as something which is 'done to' the employee. If you don't feel, however, that your relationship with the employee is a good one, try to avoid this. When a manager has spent 12 months telling an employee that 'you've done this and you haven't done that', the latter will not welcome the proverbial arm around the shoulder on the one day of appraisal.

Where a poor relationship exists, try to improve it outside of the appraisal context. Where this isn't possible, try to tap into the appraisee's interests, and foresee what they might want from the interview. This first stage is to encourage them to talk about their work as they see it. Whilst you may not see it in quite the same way, their perceptions are true for them.

The final action at this stage is to acknowledge that performance depends on your relationship, and to ask for honest feedback about your own performance as a manager. This does not mean tacking a forlorn, 'What more can I do as your manager?' on the end of the interview. The emphasis on 'your manager' may be sufficient to block feedback. It does mean asking honestly for feedback and dealing honestly with it when it comes.

Once the relationship issues have been dealt with, the second type of activity involves tackling actual aspects of performance.

Dealing with performance

The main issues with regard to performance at this stage of the process are that you should always talk about performance, responsibilities, and accountabilities, rather than individual tasks. An effective manager needs to set objectives, targets and results, not methods or means.

In setting a performance step, you should bear in mind that it is not merely enough to agree the steps, you must also take some action to make this happen. A step should never be identified and responsibility not allocated. This may mean writing down what was said and highlighting agreed action and responsibilities. Many organisations record appraisals, although when an appraisal has little to do with day-to-day performance this may merely be an exercise in covering one's back. The performance step should, however, be recorded and shared.

The performance step should always be a realistic one (preferably measurable and timed, too). It is possible to have such a positive relationship with an employee that plans can get out of hand. By agreeing something within an appraisal interview, you are making a promise. If you fail to keep your promises, your relationship with staff will suffer. It is far better to agree a small performance step and the action that it will need to be supported by, than a large one and forget about it – your work will have been wasted.

Checking for agreement and understanding

The first rule in checking for agreement is to listen more than you talk. If you don't listen, the appraisal may well, from the best of motives, become a one-way exercise in communication. It is often the case that a manager may be full of ideas about helping staff develop, and have visions for the future of the organisation. This enthusiasm may overwhelm the appraisee.

Remember at this point also that appraisal is a focused discussion leading to an agreed action or set of actions. Some people may not have a lot to say at appraisal. Checking the step involves using communication skills in both good and poor relationships.

In checking the step you will also need to use probing and open questions to encourage people to speak freely, to make thorough and honest self-assessments, and to elicit agreement with regard to the nature of the step. In this part of the process, you should also encourage the appraisee to speak first. Encouraging the appraisee to set their agenda for the interview establishes equality in the relationship and shows that you value the employee by putting them first.

Examples of questions that you could use when checking the performance step are given opposite.

Checklist for future performance

Introduction

- How do you anticipate that your job could (should) develop or change in emphasis over the next year/time period?
- How would you like to see your working relationships (with me or colleagues) develop?
- What can be done to improve things or make things better?
- How would you prioritise the things that you've identified?

Job/relationships

- What can you do to help to make things happen?
- How would you go about doing that?
- What support would you need from others/me?
- What do you see as appropriate objectives for the next year/period?
- How could we measure success?
- What would be likely to block our success?
- How could we overcome these blocks?
- What alternatives do we have?

Developmental issues

- What additional training, development, special projects would be useful for you?
- What sort of responsibilities do you see yourself taking on?

Personal

- How do you see your future career progressing?
- How do you see your long-term future with this organisation?
- What do you see as the next steps in your personal development?

Conclusion

- Is there anything that you'd like to talk about?
- How do you feel about what we've discussed?
- What do you see as the main targets for the next month/quarter/year?
- When should we meet again to review progress?

Feedback

Praise is vital and motivational, but must be specific. Criticism must similarly be specific – and factual – and aimed at the behaviour, not the person.

If you are dealing with sub-standard performance, don't blame – look for ways in which you may gain control of the situation. Ask, 'How can you/I/we influence this? How can we make this better?' You can normally get a handle on a problem by moving it from the category of 'can't affect' to either 'influence' or 'control'.

Can't affect	Influence	Control
Sales report is late because sales reps do not forward figures on time. Appraisee has no authority over reps.	Make forwarding figures on time a factor in paying commission.	Make reps accountable to appraisee on this issue.

The above example shows how this approach can work. You may need to think laterally to generate some solutions, but a solution can normally be found.

Giving feedback is important in terms of increasing the subordinate's awareness of self, particularly with regard to strengths and weaknesses. If properly given, feedback results in greater rapport between the manager and employee. Feedback is effective when the manager ensures that it:

- is descriptive rather than evaluative;
- is focused on the staff member's behaviour rather than the staff member as a person;
- concerns behaviour that is open to change;
- is specific and based on information rather than general and based on impressions;
- provides information from the manager's experience;
- reinforces positive new behaviour and what the subordinate has done well;
- suggests rather than prescribes avenues for improvement;
- is continual rather than sporadic;
- is based on need and is listed by the staff member;
- is intended to help;
- satisfies the needs of both the manager and the subordinate;
- is checked with other sources for verification;
- is well timed; and,
- contributes to the rapport between the manager and the subordinate and enhances their relationship.

You might want to discuss the characteristics of effective feedback with the employee before any appraisal session begins. No one likes nasty surprises and it does seem to help if the manager can indicate what is going to happen beforehand to reduce uncertainty. It might also be helpful to discuss possible reactions with the employee. The employee should be encouraged to view the feedback in terms of exploring ways to improve his or her performance. Of course, if your relationship with your staff is poor, they are unlikely to see feedback in this way. This could result in defensive reactions such as:

- denying the feedback, instead of accepting responsibility for the behaviour being discussed;
- rationalising, instead of analysing why the behaviour was shown;
- assuming that the manager has negative feelings about the subordinate, instead of trying to understand the manager's point of view;
- displacing (expressing negative feelings when the manager may not fight back), instead of exploring the feedback with the manager;
- accepting automatically and without exploration, instead of listing more information in order to understand the feedback and the behaviour;
- taking an aggressive stance towards the manager, instead of seeking his or her help in understanding the feedback;
- using avoidance techniques such as displaying humour, instead of concern for improvement;
- exhibiting counter dependence (rejecting the manager's authority), instead of listening carefully to the feedback;
- showing cynicism or scepticism about improvement, instead of accepting the feedback and planning to check it with other people; and,
- generalising, instead of experimenting with alternatives for improvement.

Providing you use effective communication and feedback, you will generally be able to manage defensive reactions. Additional behaviours which may be useful in managing defensive reactions include the following:

- The 'you-we' technique involves using 'you' to compliment or reward the person being appraised and 'we' to designate a need for improvement. 'You are doing a great job down on the pontoon but we have a problem.'The 'you-we' technique shifts the focus away from blaming the employee and making him or her defensive.

- The second-hand compliment involves relaying a compliment from a third party:'Dave says you have done a great job.'This again rewards the employee, but reinforces that reward in that the second-hand compliment is a compliment from two people.
- Advice request is one which can be used where communication is threatened and the employee is so defensive that he or she won't listen to your feedback. You may then ask the employee for his or her suggestions and advice with regard to the performance issue at hand.

What can go wrong

Because of the potential quality of the information which you can gain from accurate performance appraisal, you should be aware that there are two sets of traps into which you can fall into with regard to the whole process. The first of these pertains to the ways in which human beings acquire and process information. The second pertains to the skills of the person acquiring information.

Human information processing capability is huge, but limited in a number of ways. The first of these is the fact that people will tend to see what they expect to see. The second is that people tend to perceive what is 'vivid' or immediate. This leads us into two main issues.

The first of these is the so-called 'halo or horns' effect – appraisers may tend to rate people with one noticeable good quality as being generally good. Of course, this tendency also works in the other way, leading us to believe that one noticeable 'bad' quality means that all aspects of a person's performance are bad.

A similar effect is that we tend to put too much emphasis on recent behaviour or performance. In this sort of situation a poor performance from someone who is generally good, or a good one from a poor performer, will stand out and may colour the whole of the interview.

This is called the 'recency' effect and may leave employees feeling either that they have been unfairly judged with the resulting loss of motivation or – perhaps worse – that the person appraising is gullible and can easily be fooled into accepting poor performance.

Research has shown that different people reach different conclusions on the basis of the same data because of differences in values, likes and dislikes. Different 'frames' will lead to different judgements about a person. People like people who are like themselves, and may tend to give a better rating to someone who shares the same interests, or vice versa.

The second group of problems relates more to the attitudes of the individuals involved in the appraisal process. The first of this group of problems is called 'central tendency', or 'leniency'. It is a natural human tendency to avoid extremes because we are averse to risk. Extreme behaviours are likely to make us stand out from the crowd and make us more visible and thus potentially more at risk. Appraisals can be potential areas of conflict, particularly when they involve sensitive issues such as pay. We may find it difficult to handle conflict and appraisals can turn into a 'warm bath' where both appraiser and appraisee avoid extreme judgements, even when they are appropriate.

In addition to the problems of leniency, there is often a problem with rigour in the appraisal process, because human behaviour is multi-dimensional; that is, it has many aspects. 'Good' behaviour or performance in a job is made up of many factors. When appraising, we can attempt to measure a number of factors that are not related to actual performance. We may fail to realise what it is that we are attempting to measure, with confusion resulting for appraiser and appraisee alike.

Once you know about the things that can go wrong, you can identify paths to put them right. Proper questioning and feedback giving is important. The next stage is to identify the ways in which you can link performance appraisal and organisational performance. The link here is generally the manager himself or herself, but apart from mistakes in identifying the links there can be blocks in making the link.

Conclusion

If it can take courage to honestly appraise a member of staff, it can take more to 'give up' responsibility for a task by delegating it. Both processes are necessary, however, and taking a planned and structured approach will increase your chances of success. An added bonus will be the enhanced trust and openness you experience in your relationships with people as the result of effective appraisal and delegation.

reading list

Reading list

Goal Setting
Susan B. Wilson, AMACOM, 1994.

Ask the Right Question
Rupert Eales-White, McGraw-Hill, 1997.

The One Minute Manager
Kenneth Blanchard and Spencer Johnson, HarperCollins Publishers, 1994. (First published 1981.)

Managing and Employing People
David Irwin (Ed), Thorogood, 1998.

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chapter nine

Conflict, disciplinary and grievance procedures

Managing people

Handling conflict

Discipline in the workplace

Handling employee grievances

Useful addresses

Appendix 1

Appendix 2

Reading list

The information in this chapter relates to Key Role C: Manage People

chapter nine: Conflict, disciplinary and grievance procedures

The information in this chapter relates to Key Role C: Manage People

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Ensure that team members are aware of what is expected of them.

2. Encourage open discussion of problems.

3. Ensure that conflicts arising are dealt with promptly and effectively.

4. Ensure that disciplinary and grievance procedures exist and are communicated to all staff.

5. Ensure that your contribution to the development and implementation of disciplinary and grievance procedures are sufficient, relevant and appropriate.

6. Show respect for the individual at all times.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Handle conflict with colleagues and/or your manager promptly, and achieve constructive and positive outcomes.
2. Quickly identify and fairly deal with poor performance in line with organisational procedures.
3. Ensure that effective procedures for dealing with disciplinary matters are in place and communicated to all staff.
4. Ensure that effective procedures for dealing with grievances are in place and communicated to all staff.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Handle conflict with those to whom you report promptly and achieve constructive and positive outcomes.
2. Provide clear behavioural guidelines.
3. Ensure that effective procedures for dealing with conflict are in place.
4. Ensure that effective procedures are in place for dealing with disciplinary matters, and that they are both communicated to all staff and adhered to.

Managing people

When you are responsible for managing people, you will have to deal with the unpleasant aspects of relationships as well as the more pleasant ones. This is never easy and is generally a cause of stress for all involved. Having set procedures and methods of dealing with issues as they arise can help to make the process more manageable.

Objectives

The aim of this chapter is to help you to deal effectively with potentially difficult situations. It will enable you to:

- understand and manage conflict;
- implement disciplinary procedures; and,
- implement grievance procedures.

Handling conflict

Well managed relationships are a major factor in successful communication and successful communication leads to better managed relationships. What do we do though when the person will not listen to or engage in communication with us? What do we do when we see either the person or the situation as difficult? What do we do when the relationship breaks down and we find ourselves in conflict?

A major block to effective communication is the perceived difficulty in a situation or of a person. We react to difficult situations and people in different ways – avoidance, embarrassment, fear, anger.

We can use effective communication as a way of managing difficult people and situations. Communication can involve influence and persuasion, assertion and negotiation.

Unfortunately, communication may not be enough and what were previously difficult situations can often lead to conflict. Conflict is a situation where relationships have broken down. When faced with difficult people or situations likely to lead to conflict, the determinants of our behaviour will often lead us to fight or flight. These primitive behaviours, ie attacking or running away, can be managed by taking a number of factors into consideration. The first of these is self-image or self-regard, and regard for others.

Many people are concerned about conflict and rarely deal with it comfortably. It is seen as destructive and something to be avoided where possible.

Functions of conflict

Conflict can be a constructive force. As a central part of everyone's life, it helps people bring to the surface issues which they would not normally talk about. It can help bring people closer together. We've seen already however, that many people find conflict difficult to handle and destructive. Conflict does not need to be destructive. The following section offers a way of identifying both constructive and destructive conflict.

Constructive conflicts:

- tend to be centred on interests rather than needs;
- tend to be open and dealt with openly;
- are capable of helping a relationship develop;
- focus on flexible methods for solving disputes; and,
- help both parties achieve their objectives.

Destructive conflicts:

- tend to be centred on people's needs rather than interests or issues of fact;
- involve face-saving and preservation of power;
- attack relationships;

- focus on personalities, not action or behaviours: 'You are an awkward so-and-so' rather than 'You've been awkward recently, what's been wrong?'
- concentrate on quick fix, short-term solutions; and,
- tend to repeat themselves.

Mapping conflict

Once you've identified the nature of the conflict, you might wish to consider how conflict came about. Conflict doesn't just happen, it develops through clearly identifiable stages. These stages are, however, often not identified by the parties involved in the conflict. These stages can be labelled as follows:

- **No conflict** – the first stage is, of course, no conflict at all. This stage means that there are either no differences between the parties or else one or more of the parties are afraid for one reason or another to express a difference. This is a stage where parties may be avoiding conflict.
- **Unexpressed conflict** – this stage occurs when one party feels that there is something wrong, but will not or cannot express it. Many of us may have been in situations where we feel that there is something wrong with a relationship, but the other party refuses to identify the problem. The classic case is of the husband-wife relationship where the husband or wife asks what is wrong, only to be answered, 'nothing'. Such unexpressed conflicts can turn into open conflict very quickly.
- **Problem identification** – this stage will involve one or both parties identifying the issues, which are general interest issues which can be addressed easily at this stage. If issues are relational or emotional, however, it may be that the next stage of conflict is reached.

- **Dispute** – the fourth stage is one where conflict has started to get out of hand. Parties will bring in issues that are not related to the problem. A party's needs have not been met so he or she will escalate the conflict, although there is a stage in which parties may try to involve others in the conflict, to try to obtain help.
- **Help** – the fifth stage may involve other people either in an official or unofficial capacity. Individuals will appeal to a third party to attempt to resolve the conflict. Such a strategy can be dangerous for the third party, but generally their aim should be to get the parties talking again before the situation degenerates further into the penultimate stage.
- **Flight or fight** – the sixth stage is one in which people tend to become very emotional and may allow the conflict to degenerate into physical or verbal aggression – hitting the other party or name calling. The conflict is such that the parties involved no longer feel safe and will be forced to leave the relationship or attempt to destroy the other party or the relationship itself.
- **The conflict cycle** – the final stage can demonstrate that conflict repeats itself. Once into stage six it is very difficult to emerge. People need to feel safe when they communicate; effective communication helps them feel safe. As soon as safety is challenged, conflict can be perpetuated because we can't take the risk of talking to the other party. People in this position will often legitimise their position by talking about 'principles' or 'rights' as though the conflict is outside of them. Such conflicts may be impossible to handle.

Once you understand the nature of conflict and the way it has come about, the next stage is to manage it. The first stage in managing conflict is to structure and analyse the underlying issues.

Structuring the issues

When conflict takes place, individuals tend to bring unnecessary baggage. Few, if any of us, stop to analyse the issues when our partner has been caught seeing someone else or the sales manager orders some printing without clearing it through the boss. Conflict here moves quickly through its stages, with no attempt to examine the issues. Nonetheless, if we want to manage conflict we have to consider the issues. This can be done by means of **DRIVE**.

D Data or factual issues relate to the facts about the problem. We may be in conflict because the April invoices have gone missing, which threatens our potential safety;

R Relational issues reflect the nature of the relationship. The nature of conflict about the invoices will depend on the nature of the relationship. In a weak relationship, conflict is likely to be of a longer duration;

I Interest issues impact upon what needs the parties are trying to serve and what they are trying to achieve to meet those needs;

V Value issues involve individual sets of values which dictate attitudes. Issues here are about assumptions of what is 'right' or 'wrong'; and,

E Emotional issues are tied to the way in which a person's individual goals and needs are met. This set of issues includes concepts such as pride, dignity and fairness.

Managing conflict

Once you've analysed and structured the issues in conflict, you can look at some of the tools you can use to manage them. Remember, though, that it helps to be as creative as possible in searching for solutions to overcome conflict. The narrower your search for information and solutions, the less successful your conflict management strategy is likely to be.

There are a number of broad strategies that may help you to manage conflict. The first of these is in the field of enquiry. Once you have structured the issues, you may need to find out why the issues have led to conflict. Enquiry can involve:

- checking by using your own words to paraphrase what the other person has said and to ask if they feel that you have understood;
- interpreting by offering your own understanding of the situation. 'I think that you are angry because… but you aren't saying so. Is that true?' and,
- feedback and negative feedback to give your own feelings about the person's behaviour before asking for their opinion. 'You've heard how I feel, is there anything you want to say?' Feedback can include disclosure 'I don't like to tell you this, but I am…'

The second broad strategy is control. Control involves you stepping back both from the issues that are generating the conflict and your feelings about it.

Control techniques can include relaxation exercises. Other methods include 'R.D.A.' statements:

- **R**esent;
- **D**emand; and,
- **A**ppreciate.

Thus you might say to your partner:

'I resent the fact that you didn't wash the pots last night.'

'I demand that you do your share of the housework.'

'I appreciate the fact that you cleaned the bathroom last week.'

This helps to develop the elements of a contract for future behaviour. 'R.D.A.' statements should concentrate on past behaviour. That is what the difficult person does or says, and not what you consider that person to be.

A variant of R.D.A. statements is the 4R series. Using this model you:

1. **Receive** the other person's comments without interrupting. This shows that you are listening and value the other person's statement;
2. **Repeat** the other person's comments as objectively as possible. This can help the other person open up about the problem;
3. **Request** the other person's proposed way of dealing with the problem. People who are unable to deal with conflict are often unable to offer solutions, instead releasing tension and wanting to talk about the problem; and,
4. **Review** the possible options.

The final strategy is assertiveness. Assertiveness training became very popular in the late 1980s and can be a useful way of communicating in the context of a good relationship. Assertiveness is about honestly disclosing your feelings in a way that is acceptable to the other person in the relationship.

Assertion techniques include 'broken record'. This involves you in repeating your statement using the same tone of voice and volume. 'I appreciate you are busy but…' and briefly stating what you need or want, your belief or opinion. Assertiveness is really only honesty or congruence in communication.

Whatever method you use, dealing with conflict or potential conflict involves you attempting to restore effective communication as soon as possible. As conflict can involve emotional, value, interest and relational issues our reaction is often dictated by our primitive behaviour patterns. Our initial reaction is to run away or turn and fight. In order to deal with these reactions we need to step outside the issues and to manage ourselves. Without managing our 'self' we are immediately discarding half of the resources within the relationship that we need to manage.

Discipline in the workplace

To get the most from your workforce, you need to handle staff problems with care. Failure to do so may result in lack of motivation, poor performance and lost loyalty. In extreme cases, staff may resort to an industrial tribunal for redress. It is, however, inevitable that problems will arise, and so it is a good idea to establish the relevant procedures in advance.

Disciplinary procedure

The purpose of a disciplinary procedure is to enable you to deal fairly and consistently with disciplinary problems. To be effective, the procedure must be seen to be fair, reasonable, consistent and easy to understand, and must be acceptable to at least a majority of staff.

The Advisory, Conciliation and Arbitration Service (ACAS) have published a code of practice on this subject which will come in useful as a reference guide when drawing up rules and procedures. The code sets out guidelines for a fair and reasonable policy on dismissal, and is taken as standard in unfair dismissal tribunals. Whilst it is not a statutory requirement that you follow the ACAS code, adherence will serve to protect your interests in the event of any dispute.

Establishing rules

The rules you wish to apply will be determined at least in part by the nature of your organisation. In a large organisation, different departments may have their own rules in addition to the standard company rules. The core rules, however, will generally include:

- protection and safety of the person (employee, manager, customer or third party), the business, and its resources, products or shareholders;
- creation or regulation of behaviour which ensures that individuals can operate to a degree of mutual satisfaction;

- an outline of minimum standards which will ensure the well-being of the business;
- prevention of inefficiency or loss; and,
- presentation of the business.

In addition, reference may be made to health and safety or confidentiality requirements, and to aspects of the original contract of employment such as time keeping, presentation or standards of customer service. Reference may be made to major offences (violence in the workplace, misuse of company property) with their seriousness underlined. All rules should be clearly and concisely expressed and listed in the personnel policy or staff handbook, and made readily available to all employees.

Drawing up disciplinary procedures

Disciplinary procedures should specify to whom they apply and provide for matters to be dealt with quickly. They should provide for a thorough investigation, giving the employee the opportunity to state his or her case, and the employee should be allowed to have a trade union representative or a colleague present at any interview, should they so wish.

Dismissal should not be permitted for a first offence, except in the case of gross misconduct, and an appeals procedure should be specified. In addition, the following points should be covered:

- number of warnings issued prior to dismissal;
- disciplinary hearing procedure;
- length of time warnings should remain on record (which may depend on the seriousness of the offence or degree of importance; in fairness, however, employees should be able to have their records cleared after a certain period); and,
- a list of offences which may result in summary dismissal.

Once a procedure exists, it must be adhered to. Failure to follow agreed procedures may result in dismissal being held unfair at tribunal, even if the reason for dismissal is fair.

Disciplinary action

When people break the rules, action in accordance with the disciplinary procedure will be necessary. The first crucial step is to establish exactly what happened, particularly if a third party brought an incident to your attention.

Before determining whether formal disciplinary action is appropriate, you should talk to the employee and explain in detail the complaint held against them. This gives them the opportunity to offer an explanation – perhaps the incident arose through lack of training, for example, or a lack of awareness that higher standards were required.

At this stage the tone should be enquiring and interested, and the focus should be on the potential for improvement. Disciplinary action is meant to ensure a return to performance standards that the rules are designed to enforce. You may decide that an informal warning is all that is required, or that further action needs to be taken.

The disciplinary process will normally incorporate the following:

- a formal verbal warning;
- a formal written warning;
- a formal final written warning; and,
- dismissal, or other disciplinary action.

The disciplinary interview

All disciplinary action, including warnings, should be preceded by a face-to-face interview. The following is a basic check list for disciplinary interviews:

- be prepared – gather all necessary information prior to the interview. This might include work records, job description, details of the offence;
- be aware of the possible sanctions available;
- determine who will attend;
- discuss the situation and clarify the facts;
- agree on the way forward – areas of necessary improvement, support required etc;
- plan to monitor future performance and/or conduct; and,
- set a realistic time for a further review.

A record of the interview and its conclusion should be kept and the action formalised. A further interview will assess whether sufficient progress has been made, at which stage recognition of improvement and co-operation should be made or further appropriate action taken.

Warnings

Formal warnings, whether verbal or written, should be discussed and recorded in the personnel file. Provided appropriate action is taken, they should expire after a reasonable length of time and be removed from the record. The nature of the offence and action required to remedy the situation should be specified, along with the consequences of a lack of improvement, which, in the case of a final written warning, would be dismissal.

Dismissal

This really is the last resort, following either a series of warnings which failed to elicit appropriate action, or gross misconduct. Under the Employment Protection (Consolidation) Act 1978, there are five, fair reasons for dismissal:

- a reason related to the capability or qualifications of the employee to do the job for which he or she was hired, which may include the employee's health;
- a reason related to the conduct of the employee;
- redundancy;
- that the employee could not remain in the position held without contravening a statute; and,
- any other substantial reason of a kind to justify dismissal.

Employees with service of two or more years have a right to ask for a written statement of reasons for dismissal; this must be provided within 14 days of the request. Detailed records of all actions relating to the offence must be kept. Claims for unfair dismissal can be made by employees with two years' continuous service and working at least 16 hours per week, or five years' continuous service and working at least eight hours per week.

Suspension

Suspension without pay is illegal unless it is a term of the contract of employment. Where it is enforced, the term of suspension is normally within one and four days. Suspension with pay is often used whilst a problem or allegation is being investigated.

Fines and deductions

Can be illegal under certain circumstances – not being paid for lateness or non-attendance, for example, or failure to meet production levels. In order to impose fines, it must be a term of the contract of employment. If deductions are to be made, perhaps in the event of stock or revenue deficiencies, you should refer to the Wages Act 1986, which places restrictions on this.

Demotion

Demoting a staff member is effectively a breach of contract. The employee has the right to resign and can claim constructive dismissal. Some companies do, however, write this into their terms and conditions of employment.

Transfer

Unless the employee's contract contains a 'job mobility' clause, transferring them to another location as a disciplinary measure also constitutes breach of contract.

Appeal

Employees should be made aware of their right to appeal against any disciplinary procedures taken against them. Appeals should be made to their immediate manager.

Generally, people work best when they are clear as to what is expected of them and confident that issues will be dealt with in a fair and reasonable manner. Remember that if someone does transgress, the staff will expect that justice will be done. Failure to take the appropriate action may be a seriously demotivating factor. Procedures should always emphasise individual improvement and recognise positive efforts. The point of a disciplinary procedure is to encourage appropriate behaviour and to measure improvement, not to be a stick to beat people with until you can finally sack them.

Handling employee grievances

No matter how well run an organisation, grievances may still arise. When they do, it is essential that they are dealt with promptly and sensitively. Failure to do so can result in the loss of staff, disciplinary issues or even complaints to industrial tribunals. The resulting demotivation can lead to a dispirited workforce performing poorly and ineffectively.

Grievances can arise as a result of staff relationships, where possibly the breakdown of communication can lead to misinformation and rumours being spread, or work-related problems – problems with the environment, the work itself, bullying, sexual harassment or whatever.

The grievance procedure

As with the disciplinary procedure, the grievance procedure should be clear and concise and available to all employees. It need have only two stages:

- the employee raises the problem with the immediate line manager; and,
- if it is not resolved, the problem is raised with the employer.

In larger organisations, stage II is often split into two – an appeal to a senior manager, followed, if necessary, by an appeal to a company director.

Grievances should be handled speedily – ACAS recommend a period of no longer than seven working days.

As well as the right to appeal, as described above, an employee should also have the right to be accompanied by a colleague. Records of each stage of the procedure should be kept.

Handling grievances

It is often said that the best way to settle grievances is to get the facts and then settle on an equitable solution.This is easier said than done. The problem is frequently hedged around with matters of opinion, but it is essential to attempt to penetrate the problem in order to reach the underlying causes.

Approaches

It will not be possible to achieve the co-operation of the individual in solving the problem if an autocratic or directive approach is adopted, ie telling him/her what is wrong and how to improve. More co-operation and more information will be obtained if the following non-directive approaches are used:

- **Listen with intelligence and sympathy** – someone in difficulty cannot fail to benefit if he/she is allowed to discuss problems with a sympathetic listener. The interviewer's attentive silence is often the best contribution.
- **Define the problem** – ideally, the interviewee should define the problem for him/herself with the aid of sympathetic listening and brief, well-directed questions. It is essential to get the problem clearly stated and accepted as a problem by the interviewee as well as the interviewer. A considerable amount of listening and questioning may be necessary before the point becomes clear since strong emotions and clarity of expression seldom go together.When you think you understand his/her viewpoint, it is often helpful to ask a summarising question – 'Am I right in thinking that you mean…?' – without passing any moral judgement at this stage.
- **Stay alert and flexible** – if possible plan the interview in advance to decide broadly how you will tackle it, but be prepared to change direction in the light of new information.
- **Observe behaviour** – while listening to the words being spoken, take note of gestures, manner, tone and inflexion, pauses and other ways of responding.

- **Conclude the interview** – try to get the interviewee to summarise the problem and suggest a possible solution. If this response is not forthcoming, help him/her either by a summarising or a crystallising statement, such as 'Am I right in thinking that your problem boils down to this…?'

The aim should be to get to the root of the matter and, if there is no justification for being aggrieved, let the individual work it out for him/herself, with prompting from the interviewer as necessary. If there is some substance to the complaint, time and effort should be taken to identify the causes rather than just dwelling on the symptoms.

Individuals should be given the right to appeal if they feel that their complaint has not been adequately dealt with. A grievance procedure should allow people to take their case through higher levels of authority, to the head of the organisation if necessary.

Notes on grievances

Grievance procedures should be simple, understood by all employees and rapid in operation.

You need to assess what has been put to you and decide whether or not it is a true grievance, a try-on or a plea for help. Some grievances may at first appear petty but may be hiding other, deeper rooted, problems.

You should reach a decision or verdict that is fair to both the individual and the business and consistent with what you have heard. Be careful not to set a precedent.

If there is an amendment to policy because of the grievance, you should make sure that all staff are made aware of it.

Useful addresses

Advisory, Conciliation and Arbitration Service (ACAS)
27 Wilton Street, London SW1X 7AZ
Tel: (0207) 210 3613/3000.

Appendix 1

Draft disciplinary procedure

Principles

a. No disciplinary action will be taken against an employee until the case has been fully investigated.

b. At every stage in the procedure the employee will be advised of the nature of the complaint and will be given the opportunity to state their case before any decision is made.

c. The employee has the right to be accompanied by a fellow employee (at any stage) or a friend (any stage after stage one) or a representative (any stage after stage one) during any disciplinary interview, provided that notification of accompaniment is given in advance and that the accompanying party is acceptable to management.

d. No employee shall be dismissed for a first breach of discipline except in the case of gross misconduct where the penalty can be dismissal without notice or payment in lieu of notice.

e. Employees have the right to appeal against any penalty.

f. The procedure may be implemented at any stage if the alleged misconduct warrants such action.

g. Employees' rights to dignity, privacy and personal representation will be upheld by those parties involved in disciplinary investigations or actions.

The procedure

Minor problems will be dealt with informally but where the matter is more serious, the following procedure will be used and the senior managers will be notified at each stage.

Stage 1

Formal verbal warning, given by line manager or personnel manager, where conduct or performance does not meet acceptable standards.

The employee will be advised of the reasons for the warning, that this is the first stage of the disciplinary procedure, the timescale for required improvement if the warning relates to performance, and the right of appeal. A note of the warning, signed by the line manager and the employee will be kept on the employee's personnel file. The active period of the warning will be stated and will lapse after that time, and be removed from the file, subject to satisfactory conduct and performance.

Stage 2

First written warning, given by line manager or personnel manager, for further offences or for more serious offences.

This will give details of the complaint and the timescale for required improvement. It will warn that action under Stage 3 will be considered if no satisfactory improvement occurs and will state the active period of the warning after which it will lapse, subject to satisfactory conduct and performance. The employee will be advised of the right to appeal. A copy of the warning, signed by the line manager and the employee will be kept on the employee's personnel file.

Stage 3

Final written warning, given by line manager or personnel manager, for continued failure to improve conduct or performance or for offences sufficiently serious to warrant only one written warning but not dismissal.

This will give details of the complaint and the timescale for required improvement. It will warn that dismissal will result if no satisfactory improvement occurs and will state the active period of the warning after which it will lapse, subject to satisfactory conduct and performance. The employee will be advised of the right to appeal. A copy of the warning, signed by the line manager and the employee will be kept on the employee's personnel file.

Stage 4

Dismissal, where conduct or performance is still unsatisfactory and prescribed standards have not been met. The agreement of the senior manager is required for any proposal to dismiss an employee.

The employee will be given written reasons for dismissal, the date on which employment will terminate, and the right of appeal.

Gross misconduct

Any employee accused of an act of gross misconduct may be suspended from work, on full pay, whilst the alleged offence is investigated. If, upon completion of the investigation, the company is satisfied that gross misconduct has occurred, the result will be summary dismissal without notice or payment in lieu of notice.

Appeals

Any employee who wishes to appeal against a disciplinary decision should inform the personnel manager within two working days of the decision. Appeals against dismissal may be made to the personnel manager or, subsequently, to the personnel director.

Examples of general offences

- Poor time keeping.
- Poor standards of work.
- Negligence or inadequate attention to work.
- Unreasonable absence from place of work.

Examples of serious offences

- Unauthorised absence from place of work.
- Verbal abuse.
- Refusal to obey a reasonable job request.
- Behaviour which causes disruption or serious hindrance to other staff in the performance of their duties.

Examples of gross misconduct

- Fighting on company premises.
- Wilful destruction of company property.
- Continuing refusal to obey a reasonable job request.
- Unauthorised possession of company property.
- Falsification of company records.
- Theft.
- Assault on a member of staff, a client or supplier.
- Fraud.
- Sexual or racial harassment.
- Serious incapacity to perform duties due to alcohol or drug abuse.
- Failure to follow health and safety procedures.

Appendix 2

Draft grievance procedure

The company's policy is to encourage free interchange and communication between staff and managers. This ensures that questions and problems can be asked and resolved quickly.

Stage one

Any employee wishing to raise a grievance related to his/her employment may do so either orally or in writing with his/her immediate manager or with the personnel manager. If the matter is not resolved within five working days (where this is reasonably practicable) you may refer it to stage two.

Stage two

A grievance not resolved at stage one may be referred orally or in writing to the senior manager. When the stage one referral is to the senior manager, the stage two referral will be to the personnel manager. Where possible a meeting will be arranged within seven working days of the request being made.

At stage two, the employee may be accompanied by a colleague, friend or representative, provided that notification of accompaniment is given in advance and provided that the third party is agreeable to management.

Normally, stage two is the last stage of the procedure and the decision reached is final.

Conciliation

If this procedure is exhausted without agreement being reached, the parties will request ACAS to conciliate.

If agreement is not reached, discussions will take place between the parties concerned to establish terms of reference for the matter to be referred to agreed independent arbitration. The arbiter's finding or award will be binding on the parties.

reading list

Reading list

Employee Relations (2nd Edition)
Roger Bennett, Pitman Publishing, 1997.

Human Resource Management
Graham Hollinshead and Mike Leat, Pitman Publishing, 1995.

Tolley's Employment and Personnel Procedures
Tolley Publishing, 1996.

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Elizabeth Slade, Tolley Publishing, 1996.

Grievance Procedures
A. W. J. Thomson, W. Murray, Saxon House, 1976.

Hiring and Firing
Karen Lanz, NatWest Small Business Bookshelf, Pitman Publishing, 1988.

Personnel Management – A New Approach
D. Torrington and L. Hall, Prentice Hall International, 1991.

Personnel Management
Margaret Attwood, Macmillan Professional Masters, 1989.

Managing and Employing People
David Irwin (Ed), Thorogood, 1998

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Part Four

Hitting the mark

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chapter ten

Reviewing the current position

Reviewing your progress

Checking customer satisfaction

Checking staff satisfaction

Strengths, weaknesses, opportunities, threats

Industry attractiveness

Management information systems

Variances

Conclusion

Reading list

The information in this chapter relates to Key Role A: Manage Activities

chapter ten:
Reviewing the current position

The information in this chapter relates to Key Role A: Manage Activities

MCI3

MCI3 – recommended reading.

MCI4

MCI4 – recommended reading.

MCI5 – Operational

The information in this chapter is not relevant to the MCI5 – Operational Standards.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Analyse the external operating environments of the organisation.
2. Conduct an evaluation of competitors and collaborators.
3. Develop effective relationships with stakeholders.
4. Review the structures and systems of the organisation.
5. Evaluate the performance of your organisation.

Reviewing your progress

When you are in business it is easy to be so focused on the task in hand that you don't notice what is going on around you – a bit like being so intent on changing the cassette tape in the car that you miss your turning on the motorway; and, like the driver who has to take a possibly lengthy detour, when you drift off course getting back on course can be costly in terms of both time and money.

Consequently it is to your benefit to take time out on a regular basis to review your current position. Are you still satisfying the customers' needs? Are your staff content with their lot? How are you really doing financially? Are you performing to optimum standard in all aspects of your business?

Objectives

This chapter aims to encourage you to ask just such questions and to help you to provide yourself with the answers, so that you can see the true picture and make any adjustments that are necessary to your plans. It will help you to:

- measure both staff and customer satisfaction;
- conduct a SWOT analysis;
- understand the benefits of good management information systems; and,
- continue to monitor performance on a regular basis.

Checking customer satisfaction

You are in business to satisfy customers, otherwise they will not buy from you. You need therefore to measure their satisfaction in some way. Just working on the basis that any customer is a satisfied customer is no longer enough. Remember that the cost of winning new customers is far greater than the cost of retaining existing customers. It is estimated that it costs six times as much to attract a new customer than to keep an existing one.

Many businesses regularly undertake customer satisfaction surveys. If you sell a product you might include a questionnaire with it. Not only can this give you valuable feedback but it also is a way of building up a database of your customers. This approach was taken by Japanese manufacturers when they first started out making motor bikes. The difference between the standard and quality of the early 'buzz-boxes' compared with the state of the art machines they produce nowadays is tremendous. Much of what they learned, they learned from their customers.

If you are rather closer to your customers, perhaps because you provide a service, then ask them regularly what they think about you, your business, and your product or service. Use questionnaires or bring people together in a focus group.

One of the requirements of total quality management is regularly striving to improve the product or service that you offer. Asking your customers to help can be very rewarding. If they feel that they are really being involved, and if you take note of their suggestions, then this can help to foster customer loyalty.

Lastly, if you have complaints you must deal with them quickly and, in so far as it is possible, to the satisfaction of the customer. A satisfied customer will recommend you to friends – but a dissatisfied customer will complain about you loudly and often. Many proprietors make a point of dealing with complaints themselves.

Even if there is a cost involved in satisfying a complaining customer, it is probably still worth it. And remember that the cost to you is often marginal. For example, garden centres will often provide new seedlings if a customer complains that last year's flowers have died. The cost of the seedlings is negligible – and you are unlikely to achieve another sale with that customer until their complaint has been resolved to their satisfaction.

Checking staff satisfaction

Keeping staff satisfied is at least as important as keeping your customers satisfied. If they enjoy their work then they will be more likely to pull together as a team, they will be more likely to put in that extra effort when particularly required, they will be more likely to suggest ways of improving the way that you run the business.

If your business is very small it is unlikely that you will want any formal means to facilitate staff feedback. But whatever size your business may be you might find it helpful, periodically, to meet with some or all of the staff and get feedback informally.

Ways of getting a feel for staff satisfaction include looking at punctuality, staff sickness rates and staff turnover as a percentage of total staff numbers. If the percentage is high then a lot of staff are leaving. Are the wages too low? Do you expect too much? Are you giving enough training? Are you leading and motivating?

Ideally, every member of staff should ensure that they are playing their part. Whilst managing staff may not be part of their brief, if goals and standards are clearly defined then staff appraisal becomes relatively straightforward. Indeed, staff will probably be able to effectively appraise themselves.

One of the ways of motivating staff is to involve them – tell them about problems and opportunities, ask them to help in devising new approaches, be open about the finances, involve them in strategic thinking, encourage them to share the vision. If all the staff are committed to achieving the vision, it is more likely that it will be achieved. Remember that it is your staff who turn your plan into reality.

Furthermore, it should be possible to agree with each member of staff personal development objectives that reinforce the strategy. Ideally, introduce a continuous staff development programme. You might consider reinforcing this by working towards achieving recognition through the Government's Investors in People programme. Recruiting and training new staff is expensive; it makes sense therefore to invest in your existing staff.

Strengths, weaknesses, opportunities, threats

Once you have looked at the external environment and the market place you should have a fair idea of the opportunities and the threats. If you have not already done so, now consider your own strengths and weaknesses and those of the rest of your team.

It often helps to formalise this review into a SWOT analysis.

Have a go now: using the grid, write down the strengths, weaknesses, opportunities and threats for your business:

Strengths	**Weaknesses**
Opportunities	**Threats**

Think about how you can match your strengths to the opportunities. How will you overcome your weaknesses? If there are many threats, how do you propose to overcome them?

Industry attractiveness

The concept of market segmentation may be seen as a way of defining your specific market place more accurately. If you are selling in more than one segment then you might find it helpful to consider the attractiveness and competitive position of each segment.

General Electric, who not only sold to a number of different segments, but also in many totally different business sectors, have developed a matrix to help them assess which subsidiaries to expand, which to retain and which to sell by plotting the position of each subsidiary according to industry attractiveness and competitive position. An industry might be attractive because there are no or few competitors, or because margins are high, or because customers have to buy the product etc. Your competitive position may be strong because your costs are low compared to those of your competitors, or because you have unique strengths, competencies and skills.

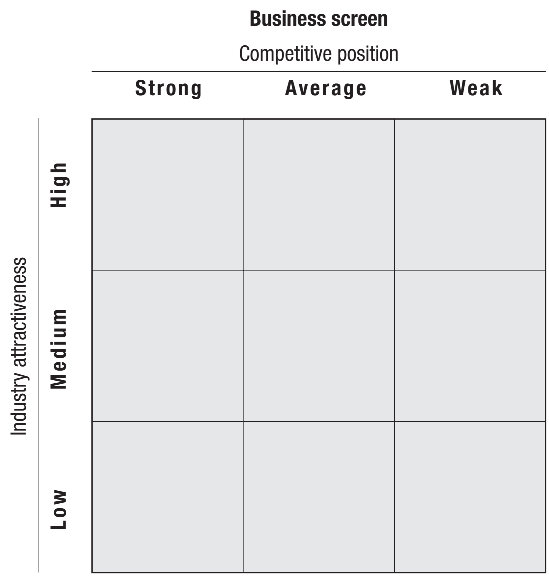

Figure 9: Defining your specific market

For example, you sell computer hardware. The industry is not very attractive because of high competition and low margins. After analysing your strengths and weaknesses you conclude that you are weak compared to your competitors. As a result you place that service in the bottom right hand corner.

On the other hand, you also write bespoke software for real time control applications. The market is small, but there is little competition and margins are high. You are strong compared to your competitors and so you place this service in the top left hand corner.

Do this for all your products and services. Aim to concentrate on those in the top left. Take care, however, before divesting. Do those low margin, highly competitive services carry a high burden of fixed costs? Do they promote your name to prospective customers?

Staying informed

Gathering information and market intelligence can be very time consuming, so think carefully about the questions that you are trying to answer before you embark on your research, and plan accordingly.

In particular, you need to know if you can generate enough sales, regularly, to cover all your costs and make a profit.

Similarly, competitor scans should be undertaken regularly – it is important to keep track of what your competitors are doing. Undertaking primary research such as questionnaires, which is more time consuming, is more important when you wish to know what your customers' reactions will be to new ideas.

At all times, remember:

- to take care to see that you are not ignoring information either because it does not fit your values or because you are blocking it out; and,
- not to fall into the trap of paralysis by analysis – gather enough information so that you know what is happening and then act on it, but do not spend time gathering unnecessary information.

Management information systems

Having a suitable management information system (MIS) is a pre-requisite for effective monitoring. Although it might sound daunting, an MIS can be extremely simple. For many businesses, there are likely only to be a few key elements:

- **Marketing monitoring** – are you achieving your sales target? How full is your order book? Are customers paying the right price?
- **Staff monitoring** – are the staff being effective? Are they satisfied and motivated?
- **Financial control** – are you meeting your financial targets?

Computerised spreadsheets and accounting packages make it relatively straightforward to record data and present it in a format which is easily understood. It still requires discipline to ensure that the data is collected, but making an effort will be rewarded through the improved control that you will have over your business.

Checking your marketing

It is essential to check all aspects of your market frequently. There are two major requirements – the first relates to the sales figures and the second relates to meeting customers' needs – that is, quality assurance.

The sales figures can be looked at solely in financial terms. This can be done through monitoring progress towards the breakeven point, financial variances and a number of specific ratios. The easiest way to plan and to monitor progress towards achieving the strategic objectives is to ensure that the short-term objectives move the business in the right direction.

Do not forget, though, to also keep an eye on what is happening in the environment. As suggested earlier, you need continually to gather market intelligence. Are the trends changing? What are your competitors doing? What does this tell you about the way the market is developing? How are customers' needs changing? Do you need to make a response?

Checking the money

Arguably the most important variable to monitor is the money flowing into and out of the business. Unless there is a specific complaint, monitoring the cash can give the first indicator that there is a problem. You can do this by looking directly at some of the figures and by looking at some of them as ratios.

Variances

Provided you are keeping your books accurately, it should be possible at any time, and at least monthly, to generate a comprehensive financial picture of how the business is doing. You can then look at the *variances*.

A variance is simply the difference between your targeted and your actual performance. Whether it is positive or negative, it will have implications for your business.

The costing and pricing system for your business is based on estimating future costs. It is essential, therefore, to monitor actual costs against budgeted costs to ensure that you are on track. Many businesses fail because action has not been taken to rectify problems that variance analysis would have highlighted.

Review the variances regularly, at least once per month, after you have balanced the books. For each difference, ask what caused it. Watch for variances simply caused by differences in timing – have orders been brought forward or delayed? How accurate are your budgeted figures? If sales are below budget, was the budget over-optimistic? Can the business survive on the lower levels of sales? Can you compensate by an increase in price? Or will a price decrease generate more sales? Are you spending too much on raw materials? Can you find cheaper suppliers? Can you reduce overheads? Can you become more productive?

To be effective, analysing variances has to consider more than just differences in cash. Indeed, there may be major variances even though the overall cash position remains more or less as forecast.

The following figures should be reviewed regularly:

- sales, enquiry and order position;
- material and labour usage;
- overheads;
- cash position/cash forecast;
- stock; and,
- capital expenditure.

Sales variances

You should monitor the sales for each product both by volume and by value, since both can vary. If your price drops but your volume increases this may give an apparently favourable sales variance, whereas your costs as a proportion of the sales price may have risen significantly.

Sales by volume

	This month			Year to date			Last year
	Budget	Actual	Variance	Budget	Actual	Variance	This month
Product A	200	360	160	600	880	280	150
Product B	110	117	7	650	833	183	88
Product C	440	320	(120)	2600	1800	(800)	360
Total	750	797	47	3,850	3513	(337)	

Sales by value

	This month			Year to date			Last year
	Budget	Actual	Variance	Budget	Actual	Variance	This month
Product A	6,000	9,000	3,000	18,000	22,000	4,000	4,500
Product B	2,200	1,400	(800)	13,000	10,000	(3,000)	1,750
Product C	2,200	1,600	(600)	13,000	9,000	(4,000)	1,800
Total	10,400	12,000	1,600	44,000	41,000	(3,000)	

Figure 10: Sales variances

The figures show one way of monitoring sales by volume and value both on a monthly and a cumulative basis. The 'corresponding period previous year' figure enables you to see at a glance if you are ahead of last year's figures.

If you look at product A, you will note that the actual sales have exceeded the budgeted sales by £3,000, an increase of 50 per cent. However, the increase in volume is 60 per cent. In other words, the price has been reduced. In the case of product B the number of items sold has increased marginally but the revenue has fallen by a third.

These changes can be illustrated graphically. The price variance is shown on the y (vertical) axis and the volume variance on the x (horizontal) axis. The total revenue in each case is the area contained by the graph, which can be calculated by multiplying together the two sides. The budgeted sales price of £30 with sales of 200 units would generate £6,000 for the month. The actual sales price of £25 with sales of 360 units generates £9,000.

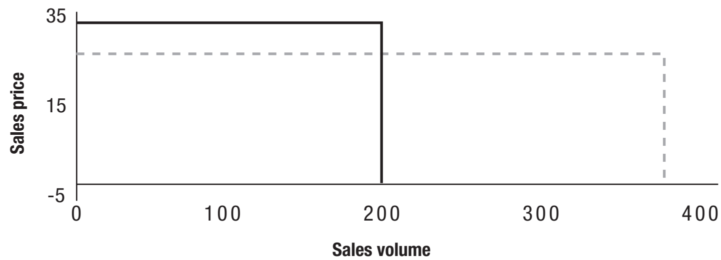

Figure 11: Variances

If your direct costs are constant, say at £10/unit, then the contribution per unit has dropped from £20 to £15. In this case the contribution has risen as a result, from £4,000 (ie £20 x 200) to £5,400 (ie £15 x 360). So it is worth dropping the price. You need to watch closely, however, since sometimes the contribution drops further than can be made up by increased sales.

If you sell more than one product, the final variance may disguise substantial variances of the individual products. You must therefore look carefully at the individual product variances.

The presentation would be improved if the sales figures for the year were plotted as a graph with the forecast, actual and previous year's performance all shown together.

Sales figures are very important – you need to pick up trends quickly. A downturn in sales will require a cut-back in expenses. If the trend continues for too long, you could go out of business.

You should also look regularly at your order and enquiry position. Do you have enough orders for next month? Do you have enquiries that might quickly be turned into firm orders? If the answer to both of these is no, then you need to be working harder to promote your business.

Material and labour variances

As with sales variances, analysis of material and labour costs needs to look both at the cost and the usage of raw materials or direct labour. One might be favourable, but the other might be unfavourable.

case study

Case study: Material variances

Gary runs a business that manufactures sealed, double glazed window units for the building trade. He has budgeted for the year to pay £20 per m^2 for glass. The average size of window is $0.25\,m^2$ that requires $0.5\,m^2$ of glass. However, he budgets for wastage and breakage to add a further $0.25\,m^2$ per window. Thus each window, on average, costs £15 for glass.

After one month, Gary compares his actual costs with his budget. The price of glass has risen to £22 m^2. However, his average usage, including wastage and breakage, is just $0.6\,m^2$.

The variance can be calculated as follows:

Budget	$0.75\,m^2$ x £20	£15.00
Actual	$0.6\,m^2$ x £22	£13.50
Variance	(favourable)	£1.50

If it helps, this can also be looked at graphically. Similar calculations can be employed for wage rates and labour efficiency.

It is important to understand why the figures are changing. It is quite possible for a favourable variance in raw material price to be cancelled by increased wastage, for example. This will not show up immediately in the analysis of the figures extracted from the accounting records, but needs to be monitored carefully.

Overheads variances

Variances in overheads are easier to monitor. For fixed overheads, any variance is simply caused by spending more or less money. Provided these costs are under control, and provided sales targets are being achieved, problems are unlikely to arise. If, however, margins are low and the targets are not being achieved then the sales revenue will not cover the fixed costs.

Variances of variable overheads are more difficult to track. Some should be watched carefully. If you have a high demand for electrical power, you will have a peak power meter installed and may find yourself on a tariff that changes if you use more power than agreed with your local electricity company. This should, therefore, be monitored in a similar way to raw material usage.

Conclusion

Reviewing and monitoring your business's performance makes good business sense and, using the techniques discussed here, does not have to be either complicated or too time-consuming. By conducting SWOT analyses, having sound management information systems and regularly monitoring variances, you can review your current position and plan to manage your future.

reading list

Reading list

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

The Art of the Long View
Peter Schwartz, Century Business, 1991.

Competing for the Future
Gary Hamal and C. K. Prahalad, Harvard Business School Press, 1994.

Making Management Decisions
S. Cooke and N. Slack, Prentice Hall, 1991.

Building Your Business
David Irwin (Ed), Thorogood, 1998.

chapter eleven

Caring for your customers

The information in this chapter relates to Key Role A: Manage Activities

chapter eleven: Caring for your customers

The information in this chapter relates to Key Role A: Manage Activities

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Seek information from both colleagues and customers to ensure that requirements are fully met.
2. Ensure that recommendations for change resulting from the above are realistic and well-researched, and in line with identified objectives.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Research and confirm requirements with customers.
2. Plan to meet customer requirements in full.
3. Confirm others' understanding of the plan.
4. Encourage others to suggest further improvements.
5. Operate at all times within organisational constraints and procedures.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Research and confirm requirements with customers.
2. Plan to meet customer requirements in full.
3. Confirm others' understanding of the plan.
4. Encourage others to suggest further improvements.
5. Keep full and accurate records of customer service.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Service matters

There are many businesses offering products and services which are the same, or which are sufficiently similar that they may meet the needs of the same customers. Why, then, should someone buy from your business rather than someone else's? One of the major deciding factors – perhaps more so than price – is the *quality* of customer service.

The quality of service offered to customers may be seen in everything, from promotional material to premises, from staff to stationery. Service matters in all customer – or potential customer – contact. Service becomes crucial, however, when things go wrong.

Objectives

The aim of this chapter is to improve your skills as a giver of service, to raise awareness of the importance of customers to the success of any business and of the role of quality customer service in gaining and keeping customers.

The objectives are that by the end you will be able to:

- present a confident and positive image to your customers at all times;
- identify and satisfy core customer needs;
- encourage customer complaints;
- handle difficult customers effectively; and,
- develop a customer service strategy.

What is service?

Case study: Jill goes to London

Jill had booked a place on a telephone skills training course in London. As she was travelling from Darlington, she journeyed down the day before and arranged to spend the night in the hotel at which the training was to take place.

The mid-afternoon train from Darlington got her into King's Cross at around 6.00pm. The hotel she wanted was at Brent Cross – too far to justify getting a taxi, but accessible by tube. She found the right platform easily enough and was soon on her way.

Coming out of Brent Cross tube station she looked around for either a taxi rank or a taxi ad. A sign said 'Taxis Outside', but they'd evidently stopped for the day. No telephone number was on the sign, but as the public telephone had been vandalised, that no longer mattered.

Still, she had a map, so she set off to walk.

It was January, cold, dark and drizzling with rain as Jill made her way in the direction of the hotel. Eventually she could see it – but could only get to it by risking life and limb to cross a major road. The only safe or comfortable way to get to this hotel was to drive! Undeterred, she braved the road, clambered up the verge and over the crash barrier around the hotel's car park and finally entered reception.

Jill was cold, wet and tired. Rain ran into her eyes from her hair and her shoulders ached from carrying her luggage. The young man at reception didn't look up as she put her bags down and waited to check in. Eventually, he said, 'Yes?' but still didn't look up. She gave her name, and was efficiently processed. As he passed over her key, the young man asked, 'Is there anything you would like?' Jill smiled – 'A hot bath and a large gin to start with'. Unsmiling, he pointed to the bar and got on with his work.

case study

Case Study: Jill goes to Bristol

Occasionally, as part of her job, Jill travelled down from Darlington to work in the Bristol office; when she did, she always stayed in the same hotel. She had been treated with warmth and courtesy the first time she stayed there, so, despite the fact that there was a 'better' hotel nearby, she returned to the same one.

When Jill turned up there after an absence of some six months, she was greeted with the usual warmth and courtesy and as she walked past the bar on her way to her room she recognised the bar manager and smiled. 'Hello again', he said, 'long time no see'. They chatted for a minute, then he said, 'Let me get someone to take your bags to your room for you, and I'll pour you a drink while you settle in. Gin and tonic, isn't it?'

Jill won't stay in the hotel in London again and tells everyone how awful it was. The hotel was nicely decorated, clean and comfortable, the food was excellent and she slept well.

She wouldn't mind going back to Bristol and staying in that hotel again and recommends it to friends and colleagues. The hotel was reasonably well decorated – although three of the bedroom walls are of painted breezeblock – the curtain and bedspreads in the room are a little worn and the food is okay.

What do you think made the difference?

Defining service

Service is maddeningly difficult to define, for reasons including:

- it is intangible, it cannot be weighed or measured;
- it can be sold, but a customer cannot be supplied with a sample to take away and consider;

- it is perceived by different people (or by the same person at a different time) in different ways; and,
- it is more emotional than rational.

Service perception depends on customer expectations. If a friend recommends a restaurant to you and enthuses about how marvellous everything is, then you are more likely to be disappointed; without having had your level of prior expectation raised, the same visit to the same restaurant may well have delighted you. Cultural differences, too, may have an effect. If I am served by someone in a shop and they put my change on the counter, not in my hand, I feel I have been badly served; now I have to balance my parcels, scrabble around to pick up my cash and also get out of the way of the next customer. In Korean culture, however, to place money directly into someone's hand is to show disrespect.

What this tells us is not that we might as well get on with it and do as we like because you just can't please people, but that people will evaluate service in their own terms.

Giving good service is really about giving people a sense of well-being. Good service is meeting people's needs.

Service power

As givers of service we are in a position of great power. DisneyWorld in Florida entertains some 20 million visitors every year, and these visitors drop a lot of litter and ask a lot of questions. When the organisation realised that the people these questions were generally put to were the custodial crews – the people responsible for keeping DisneyWorld clean and tidy – they set about training them in customer service and provided them with a uniform, in which they are always impeccable, in order to help them appreciate the vital role they play in DisneyWorld's success.

As givers of service we have the power to:

- gain – or lose – new clients or customers;
- maintain – or decimate – the established client or customer base; and,
- make our lives and those of our customers much easier – or much more difficult.

Service attitude

The choice as to whether or not to give good service is ours and it very often comes down to attitude. How often have you heard comments like these?

- 'I don't like going to such and such – their staff have got a bad attitude!'
- 'That checkout operator's good – he's got the right attitude!'

Picture the scene. You're looking around the department store and you find something you want to buy. You pick it up and, as there's no one on the till nearest to you, you move to one a little further away. When you hand the item to the till operator, she folds her arms, turns aside and says, 'It's not my counter!'.

The till operator chose to behave toward you in that way at that time. No one made her do it, you can be sure it isn't company policy – it's a matter of personal choice.

Moments of truth

The point at which you moved to the till and offered over your goods for payment was a 'moment of truth'. Badly handled, as here, it becomes at best 'pass me on' as you go from till to till trying to make your purchase, and at worst a lost customer, as you put down your goods and walk out of the store never to return.

When something like this happens the customer is seeing the cracks in the company's façade.

In giving service it is vital that the customer sees the company – whether that company consists of two people or two thousand – as one unit. The minute the buck is passed then the image is broken.

As a giver of service let your motto be ‘It’s my problem’. After all, if it’s you that the customer is standing in front of – or you he/she is on the phone to, or you to whom s/he has written – then you do indeed have ownership of that particular problem.

Going back to our till operator, think how different the experience could have been if she had chosen to own the problem. If she had smiled, taken your purchase and said ‘I’ll be happy to help you with that’, then the moment of truth could have had a positive outcome.

The origins of the moment of truth lie further back in the organisation – the breaks were wrongly scheduled so the post was left unmanned, or the person who should have been there was held up, called away, dealing with another customer – but the outcome is what the customer will remember.

Moments of truth which are rewarding to a customer will normally ensure a purchase, some good word of mouth publicity and some future business. As service givers we should try to leave each customer with a feeling of well-being and a positive image of the company.

Who your customer really is

Perhaps you think that the people who have direct contact with actual paying customers or clients are the only ones who need to consider ‘service’. You, as someone who deals purely with people inside the company, are not a giver of service and do not have customers yourself. What about the person from credit control who needs you to get a copy of a customer’s invoice for her? Or the person who does your books who needs you to keep your receipts in some kind of order?

People you deal with inside the organisation are your customers too – internal, rather than external customers, but still deserving of the same consideration and care.

The External Customers are the people who buy your goods and services and who make pay day possible.

The Internal Customers are the people with whom you work inside your company, the people who pull together as a team to deliver the product or service required by the External Customer.

What your customer expects

Although we said earlier that service is difficult to define, we can still say what it is that the customer wants from a transaction. Put yourself in the shoes of a customer of yours, or think of a time when you, as a customer contacted an organisation.

The customer wants:

- someone who will listen;
- someone who will solve their problem; and,
- someone who will do what they say they will.

Remember, too, that customers are neither aware of, nor interested in, how many other customers there are or how busy you may be. As far as they are concerned, you have one customer and one problem with which to deal!

Benefits of good service

If, as service givers, we deal with our customers effectively and efficiently, the company will benefit in a number of areas:

- the cost of solving problems that occur will be minimised;
- money owed to the company may be collected quickly;
- a relationship is developed between the company and the customer;

- the possibility of supplying additional products and services is opened up; and,
- it introduces the customer to an area of the company other than sales.

Michael LeBeouf, an internationally published author, lecturer and professor emeritus at the University of New Orleans, tells of someone who ordered a floral arrangement to be sent to celebrate the opening of a new branch office. When he got to the grand opening, he was shocked to find a wreath bearing the inscription *Rest in Peace*! When he angrily rang the florist to complain, the reply was, 'That's not so bad. Look at it this way: somewhere a person was buried today under a wreath that read, *Good luck in your new location!*'[11]

Treating customers like this, however, means that you miss out on a tremendous opportunity. General Electric conducted a survey and found that customers who had bought their products and subsequently had problems with them, but whose problems were effectively resolved to the mutual satisfaction of the company and the customer, were three times more likely to purchase further products and services than those customers who had not had any problems at all. Those customers now had confidence that any problems that did arise would be dealt with effectively.

Think of it this way; if you buy a new television, take it home, plug it in and it blows up, you are not a happy customer. However, if you ring your supplier and within an hour they are at your door with a new television, which they plug in and test before taking the old one away, and they leave you a bunch of flowers and a box of chocolates besides, where will you go when you want a video? To the shop that sold you the exploding television, of course!

Very often in customer service we only get the chance to show how good we are when something goes wrong, but what the customer remembers is the successful outcome of the transaction – hence their confidence in making further purchases from us.

11 Michael LeBoeuf, *How to Win Customers and Keep Them For Life*, Judy Piatkus (Publishers) Ltd, 1990.

Solving your customers' problems

Whether your customers contact you in person, by telephone or by letter, you can use the SERVICE method to solve their problems; although since two-way communication is always best you may have to call your correspondents for information – question and answer is a very long process by post!

Seven steps to great service

Everything is easier if taken one step at a time and resolving customer complaints is no exception. The method described here is a practical guide to covering all the bases that, with practice, can become second nature.

S ay hello
E stablish it's for you
R esearch the facts
V erify the facts
I nitiate proposal
C ommit to action
E nd transaction

Let's look at those in more detail.

Say hello

It sounds obvious, but as the greeting you give your customer sets the tone for the whole transaction, it deserves a little thought.

Written communication is easier to get right at this stage – use the right title and be sure to spell the name correctly. Face-to-face, smile, give your name and offer your hand if appropriate. On the telephone you should still smile – you can hear a smile as well as see it – and introduce your company as well as yourself. Wherever possible, use the customer's name – it makes the conversation more personal. (Use the name wherever appropriate throughout the entire transaction.) At this stage you should be welcoming and friendly, helping to put your customer at ease.

Establish it's for you

Ask yourself, 'Am I the right person to deal with this issue for this customer?'. If you aren't, now is the time to establish that and to put the customer in touch with the person who is. Have you ever explained something in great detail to someone, only to be told 'That's dealt with by our _________ department, I'll just put you through' or 'I'll just get someone for you'. It's infuriating, not least because you know you'll have to go through the same rigmarole at least once more.

Don't think that by passing the customer on in this situation that you are passing the buck; by taking the responsibility of putting the customer in touch with the appropriate person or department, you are actually offering good service. In service, we should always concentrate on what we can do, not on what we can't.

Research the facts

Having established that you are the right person to deal with this, it is time to get the facts. Remember that customers often don't express themselves directly; you must dig deep to find the core need.

Needs can be defined as a feeling of dissatisfaction. Remember that we said good service is meeting people's needs and that we want to leave the customer with a feeling of well-being. Dissatisfaction may be the result of real issues or perceived issues. Addressing the real issues – the rational need – can often be achieved quite easily, but addressing the perceived issues – the irrational need – is much more difficult. Meeting the rational need does not make the customer feel better.

case study

case

Case study: Jill gets what she wants

The gas board had been working in Jill's street all week – in fact the workmen said good morning as she left the house and got in her car each day. On the Friday morning, they stopped her and said they had replaced the gas supply pipe to all the houses in the street but hers, but as they were working in the next street next week, if she'd pop round and let them know on what day someone would be in, they'd do her house then.

When she got to work Jill arranged for a day off the next week to let the workmen in. When she got home that night her gas supply had been cut off. Jill's little terraced cottage had a gas fire, a gas cooker and a gas water heater.

It was October, and chilly, and she now faced a weekend with no heating, cooking facilities or hot water.

The card that had been put through the door had an emergency phone number on it, so, grateful that she didn't have a gas phone, she dialled it.

The first conversation was very short. She was told that as there were no children or elderly people on the premises, she was not an emergency, then the phone went down. Jill rang back. After losing her temper she was designated an emergency, and assured that an emergency pack would be despatched immediately. It only took one more call for the pack to arrive an hour later.

The gas board emergency pack consisted of an electric kettle, a small electric fan heater, and a calor gas two ring burner which was so dirty that it couldn't have been used without some serious cleaning.

Jill got angry. She rang the emergency number again and demanded to be put in touch with the manager. She got the number and rang it – a furious exchange ensued which resulted in a promise of the emergency pack being picked up within half an hour and the workmen replacing the gas supply pipe at 8 o'clock the next morning. The pack was picked up and the workmen arrived early, at 7.45am. Why was Jill still unhappy?

case study

case

Case study – Jill doesn't get what she wants

When Jill went out to buy her cousin's wedding present she didn't have time to shop around. She knew where she was going, what she wanted and what it cost. When she got there, however, the shop had sold out. Seeing her looking lost, the assistant came over and offered help. Jill explained and the assistant apologised for not having the goods Jill wanted, then asked who the purchase was for. Once she knew it was a wedding present, she suggested some alternatives and showed Jill the items she had in mind.

Jill left the shop with something entirely different to the item she had gone in for and having spent more than she had intended. Despite this, she was extremely pleased with herself.

So, what do we learn from the two examples above?

We could draw the conclusion that customers are fickle and it's anybody's guess as to how they will react. This, however, would be to miss the point.

Service isn't just about giving people what they want, although it's nice to do that when we can. Service is about the way we treat people, the way we make them feel as a result of doing business with us.

We mentioned before that people don't always express themselves directly and that it's part of a service-giver's responsibilities to use questioning to get the facts and establish the core need.

Think of it this way. When Jill rang the gas board, what she wanted was for someone to come out and restore her gas supply as quickly as possible. What she said, however, was not as direct as that. The conversation went something like, 'I've got no heating or anything – how do you expect me to live this weekend? What am I supposed to do, camp out in my own house?' As it got more heated, it became, 'You might not think it's an emergency – but I'll bet you'd change your mind if you were living here!'.

At no point did she say 'I want my gas supply back as soon as you can possibly restore it. When will that be?' However, it's also fair to point out that with kinder treatment and a better thought out emergency pack, she might well have waited until after the weekend to have the supply restored, and might even have been happy to do so.

As a result of your questioning – and remember that open questions are the fact-finders – you will have amassed an amount of information relating to both the rational and irrational needs of the customer. The next step is to verify your information, with the emphasis on the rational issues.

Verify the facts

The purpose of this step is to make sure that what you heard is actually what the customer said. The techniques used are very simple – repeat-back and summarise.

If a customer had called because their payment cheque had been sent and yet they'd still received a reminder letter, then your questioning would have established the cheque details. Repeat – back would be the technique here – 'So the cheque was dated _____, the number is_____, it's in the name of _____' and so on. With this type of information you are simply parroting back the details to make sure you have recorded them accurately.

With summarising, you are putting what you understand to be the facts succinctly into your own words to check that you have understood correctly. For example 'So as I see it, Mr Smith, the widgets we supplied you were the wrong size and colour and you need those ones to be picked up and the correct ones to be delivered by Thursday noon at the latest so that you can complete your customer's order'.

As you go through the information, provided you have got it right, your customer will be saying yes and agreeing with you as you cover each point. This process is not only important to check your understanding – it also builds your customer's confidence in your ability to deal with this matter for them. Every time they say yes, they feel better.

Of course, if you have got it wrong, they will say no – but at least you have discovered your error now before you go any further and formulate an inappropriate proposal.

Either way, you can make sure you are on the right track before you move on to the next step.

Initiate proposal

The proposal for the way forward is based on your confirmed understanding of the facts and your knowledge of what it is or is not possible for you to agree to.

For example, if a customer has three months worth of invoices outstanding, you might say, 'Okay, Mr Brown, I'll send you a copy of invoice x by first class post today and you will send me a cheque by first class post and marked for my attention for invoices y and z. If I don't receive that by _____, I'll be sure to ring and let you know. Similarly, I'll either have your payment for or your query regarding invoice x by _____. Again, I'll be in touch if needs be. Is that acceptable?'

Again, your customer should be saying 'yes' and agreeing with you here, all of which builds confidence and helps meet irrational needs by developing a sense of well-being.

Commit to action

This needs to be nothing more complex than to say something like, 'I'll get on to that right away, Mr Brown'. It is a positive statement that promises prompt action. If the customer has anything to do, then your statement will generally prompt a similar statement from him.

It goes without saying that you must do whatever you said you would do, and within the agreed time span. A handy technique here is to under promise and over deliver. For example, if you think that you can send Mr Smith's replacement widgets on Tuesday afternoon, but are confident they will be there on Wednesday afternoon – both ahead of his Thursday noon deadline – promise to deliver Wednesday pm at the latest. Then, should they arrive ahead of schedule on Tuesday, your customer will be delighted. If you promise Tuesday, however, and a hold up means that delivery is Wednesday, then – even though you have beaten the customer's deadline – he will be disappointed. Use this method for everything you can – it is as useful for promises to ring back with information as it is for deliveries of goods.

If you have promised to do something by a deadline and something happens which makes it impossible for you to keep your promise, that is not the end of the world – provided that you let the customer know. There is nothing more frustrating than being left hanging on with no information – no call, no goods, no whatever. It is guaranteed to make a customer angry.

End transaction

By the time you have reached this stage with your customer, you're both feeling pretty good. You have listened and understood, you both know what is going to happen next and are in agreement about it, so why do you need to talk about ending the transaction? Quite simply because you have worked hard to get this far, you have gained the advantage and you don't want to lose it now with a casual close. It is the conclusion that the customer remembers, so if you say 'Cheers, mate' and hang up the phone or walk away, you could be back to square one.

Use the customer's name, smile, offer further help if it is required and neither hang up nor turn away before the customer has gone. It's just common courtesy, when you think about it.

Dealing with difficult situations

The people that you have to deal with as a giver of service may behave in a number of ways, they may be confident and assertive, angry, upset, unsure… any one of a number of attitudes may surface during the transaction.

Customers who begin by behaving in a 'reasonable' manner and who then become 'unreasonable' are reacting to the way they are being dealt with. It could be that you are not matching their expectations in some way – perhaps they feel you are not listening, or not asking enough questions, or that you don't understand. Using the SERVICE method and following the procedure laid down will generally mean that you avoid this sort of unpleasantness.

Customers who are immediately unreasonable are in a highly emotional state. They can be hard to tie down on factual information, they have a need to express the frustration and anger that they feel and they are looking for recognition of their state of mind.

When you are dealing with someone who is angry, it can be very tempting to apologise – even though at this stage you may not even know exactly what you are apologising for. You may also be tempted to shout back, or at the very least to let your displeasure show in your face or voice. Resist both of these temptations; although they are both perfectly natural – when faced with an aggressor it is human nature to either run away or fight back – neither response will do in a service situation.

What you must do is rise above it and not take it personally – after all, it isn't you that the customer is angry with, it is the situation; you just happen to be a convenient target. You still have to deal with it, however; if you ignore the anger it is adding fuel to the flames.

Instead, empathise with the customer. After all, it's perfectly normal to get angry when things go wrong. You can use phrases like 'I can understand you being angry – I'm sure I would be, too'. Don't interrupt customers who are getting something off their chest; nod, say 'I see', 'I understand', give them your full attention and they will calm down. Once the anger has been dealt with, start getting the facts. Use simple, direct, open questions to focus the customer on the situation rather than the emotion. Use SERVICE to give your transaction a structure and nine times out of ten, if not 99 out of 100, the customer will apologise for shouting and thank you for your help.

Customer service strategy

In order to be sure that we consistently put the customer first and provide high quality customer service, we need to formulate a strategy.

Any customer service strategy must be:

- an integral part of the strategy for the business as a whole;
- put in writing;
- effectively communicated to all staff; and,
- effectively communicated to all existing and potential customers.

We have said that good service is meeting customers' needs. In order to meet those needs we must first establish as precisely as possible what they are. If needs are not fully defined, or if they are ignored when known, a business is unlikely to survive.

The best way to find out what it is that customers want, what they like about you and what they don't like, is to ask them. Make it as easy as possible for customers to tell you what they think, perhaps by having a suggestion box or conducting a customer survey. Have a mechanism for recording complaints from customers and actively seek this information – it is among the best business information you can get, and it is free. Having an established complaints policy and welcoming complaints from customers will pay off – after all, those that don't bother to complain are already lost to you.

Some facts about customer complaints:

- for every one customer who complains, an estimated further six don't bother – and don't come back;
- every unhappy customer tells some six other people about the experience; so,
- that means for every complaining customer you have lost six others and a further 40 or 50 people have heard bad reports about your company.

You might want to establish the current position by conducting a customer survey, either by telephone or by post. Keep questions brief and to the point and be sure to thank people for taking the trouble to answer your questions.

It can be useful to develop a simple and easily understood customer care mission statement. Apple computer states that 'Our goal has always been to create the world's friendliest, most understandable computers – computers that empower the individual'. A customer service mission statement might be something like, 'We will endeavour at all times to put the needs of the customer first, by selling products and services that don't come back to customers who do'.

Short mission statements are more likely to excite and inspire stakeholders and are more likely to be remembered by staff.

Having discovered what your customers really think of you and developed your mission statement, you must develop and agree standards of performance with all personnel to enable the customer care mission statement to be implemented. Everyone should be encouraged to have a personal stake in the company's success – everyone owns the mission statement and should take a pride in achieving the specified aim. In return, people should be supported and developed themselves by the company. Performance should regularly be assessed against performance standards and results recognised and rewarded.

Measuring customer satisfaction is not a one-off exercise, but one that should be regularly repeated. If a survey reveals that corrective action is required, then take it – fast. That way you can begin to plan for continuous improvement.

When evaluating your company's customer service compared to a competitor's, you could try the following.

Enlist the help of someone you know and get them to make a slightly awkward request at an inconvenient time, perhaps lunchtime or at the end of the day. Do this with your company and at least one of your competitors to get a comparison from a customer's point of view.

Conclusion

'Customer first' is an attitude and one which must be held by every member of a company in order for it to become a reality. You will hear the attitude described in different ways – service with a slice of lemon, for example – but however it is described it means recognising the value and potential benefits of offering high quality customer service to all.

reading list

Reading list

How to Win Customers and Keep Them for Life
Michael LeBoeuf, Judy Piatkus (Publishers) Ltd, 1990.

A Complaint is a Gift
Janelle Barlow and Claus Møller, Berrett-Koehler Publishers, 1996.

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Geoff Burch, Headline Book Publishing, 1994.

Total Quality Management
John S. Oakland, Heinemann, 1989.

Managing Quality for the First Time
Dawn Cranswick, Pitman Publishing, 1996.

Beyond the Next Wave: Imagining the Next Generation of Customers
Glen Peters, Pitman Publishing, 1996.

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chapter twelve

Implementing quality

The information in this chapter relates to Key Role A: Manage Activities and Key Role F: Manage Quality

chapter twelve: Implementing quality

The information in this chapter relates to Key Role A: Manage Activities and Key Role F: Manage Quality

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Plan and implement quality audits to assess compliance with quality systems.
2. Ensure that identified non-conformances are dealt with in line with organisational policy.
3. Maintain complete and accurate records.
4. Establish that required corrective action has been taken.
5. Present appropriate recommendations for improvements to the systems in line with organisational guidelines.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Monitor continuously the quality of products and services to ensure that they meet quality requirements.
2. Identify improvements and encourage other people to do so too.
3. Provide advice and support to people to enable the development of strategies to implement quality policies.
4. Establish and maintain effective quality systems.
5. Identify, recommend and feed back information regarding improvements to quality systems.

6. Plan quality audits and implement the audit plan.

7. Report fully the findings of quality audits.

8. Bring non conformances to the attention of the relevant people, and ensure that any necessary corrective action is implemented.

9. Analyse the information gathered and make recommendations for improvements as necessary.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Monitor continuously the quality of products and services to ensure that they meet quality requirements.

2. Identify improvements and encourage other people to do so too.

3. Provide advice and support to people to enable the development of strategies to implement quality policies.

4. Establish and maintain effective quality systems.

5. Identify, recommend and feed back information regarding improvements to quality systems.

6. Plan quality audits and implement the audit plan.

7. Report fully the findings of quality audits.

8. Bring non conformances to the attention of the relevant people, and ensure that any necessary corrective action is implemented.

9. Analyse the information gathered and make recommendations for improvements as necessary.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Total Quality Management

Total Quality Management (TQM) is a way of planning and managing all the activities in an organisation, to lead to a process of continuous improvement, through the prevention of potential problems rather than the solving of existing ones. To be successful, the TQM approach must become embodied in the organisational culture. Quality must be designed and manufactured into the product. Inspection cannot add to the quality; it merely weeds out the products that do not reach the appropriate standard. If, however, you provide a service, then you only have one chance to get it right. TQM brings quality awareness to everyone in your business focusing on customers, and their quality needs.

Objectives

The aim of this chapter is to help you to implement total quality effectively. It will help you to:

- understand what is required for total quality;
- introduce and maintain quality systems; and,
- evaluate and develop those systems.

Many people complain of the cost of total quality – but think of the cost of not doing anything: higher failure rate; higher rework rate; and, failure to retain customers.

Implementing quality management

A quality product or service is defined as one that meets the specification agreed with the customer in terms of standard, cost, delivery date, etc. It is one which is 'fit for the purpose' agreed with the customer.

A quality management system is one that is defined and developed to satisfy consistently the customer's needs in a cost effective manner, achieving a balance between too much control (bureaucracy) and too little control (anarchy).

Quality assurance incorporates all of the company's activities and functions concerned with the attainment of quality.

Why TQM?

TQM should be adopted as an opportunity to improve all business functions. There is not a department or area which can excuse itself from the need for TQM. The benefits of quality improvement include cost savings, staff commitment and increased confidence as to what is required from each person in the organisation.

Through staff involvement at all levels of the business people want to do their job right first time, every time, which, after all, is what they are paid to do. This leads to reduced rework, reduced scrap levels, improved performance, and ultimately higher levels of customer confidence and an enlarged customer base.

First steps

Total quality can start by ensuring that:

- the business has stated its purpose clearly and that it is understood;
- every member of staff has clearly defined roles and responsibilities;
- customer requirements are agreed and understood;
- performance measures and performance standards are agreed;
- everyone understands the importance of communication throughout the organisation; and,
- personal needs are catered for and contributions are encouraged in order to stimulate a process of continuous improvement.

If you have successfully managed some elements of quality within your business, you will be keen to demonstrate this to customers, potential customers and the world at large.

One of the most popular ways to do this is to become registered to a quality management standard.The most widely used standard, by a long way, is ISO 9000[12]. Registration to ISO 9000, formerly BS 5750, is an independent endorsement that your business operates an effective quality system in compliance with all the requirements of the standard.

ISO 9000

Your customers will almost certainly be interested in the quality of the product or service you provide. Indeed, some customers insist on undertaking quality audits before they will buy. More usually, nowadays, customers are willing to accept suitable third party assessment, eg ISO 9000 as evidence that their suppliers have an appropriate quality system in place. Most businesses see ISO 9000 as a step towards introducing total quality management.

Although sometimes seen as unnecessarily bureaucratic, ISO 9000, when properly introduced, simply encourages businesses to do what good businesses have always done. Many businesses already have detailed procedures and control mechanisms for at least some of their activities, though they are not always formalised.

ISO 9000 is an internationally recognised standard for quality systems. It is widely used as a way of demonstrating to customers that you are committed to quality and have been assessed by an external assessor. Remember that it does not guarantee the quality of the product or service itself.The principles are applicable whether you employ ten people or 10,000.They identify basic disciplines, specify the areas requiring procedures and the criteria to ensure that products and services meet the specified requirements. It is appropriate for all manufacturing, commercial and service industries.

ISO 9000 requires you to have documented procedures for each step of your work, a method for reviewing (auditing) yourself to ensure that the business adheres to those procedures and a recording mech-

12 BS EN ISO 9000 (formerly BS 5750) Quality Systems (1994).

anism to provide audit trails. In reality, all ISO 9000 does is to enforce techniques that the best companies have always followed.

ISO 9000 is divided into distinct parts; you can therefore choose which is best suited to your operation and your customers, requirements. The vast majority of businesses are certificated to ISO 9001 or ISO 9002, either as registered companies or registered stockists.

- ISO 9001 – specification for design, manufacture and installation. ISO 9001 is the complete standard, featuring all 20 sections (listed below) and is the most rigorous. It is appropriate for businesses who design their products or services (and who wish to include that design activity in the scope of their quality system).
- ISO 9002 – specification for manufacture and installation. ISO 9002 requires only 17 of the 20 sections and is appropriate for businesses that manufacture a product or provide a service to their customers' specifications and designs. In other words, the major feature that ISO 9002 excludes is the design element.

Objectives of implementing ISO 9000

Implementation of a formalised quality management system should grow from an existing desire to improve your business. Unfortunately many businesses see it as a licence to trade and allow ISO 9000 to lead their desire to improve. This can be dangerous.

Before introducing a formal quality management system it is useful to examine why you want to do so. Whilst your customers may well wish you to hold ISO 9000 certification, there are other equally persuasive arguments for doing so.

For example, when you employ a member of staff, there are certain activities that you will be required to undertake as part of the induction of a new member of staff. There are legal requirements such as health and safety issues (HASAW Act), Control of Substances Hazardous to Health (COSHH) as well as contractual issues and familiarisation with the work environment. As you are already required to undertake certain activities it makes sense to document these as a written procedure or checklist. If someone else needs to induct a member of staff at a later date they will be able to follow the procedure without undertaking a lot of extra work to find out what is needed and you can be confident that you are meeting both legal and contractual requirements.

Unfortunately, some businesses do not always remember why they are introducing a formal quality management system and can become caught up in a loop of producing more and more paperwork. This is to be avoided. A certain amount of paperwork is obviously necessary, but only to document what is already done in most well managed businesses. The business should operate the system, not vice versa.

Drawbacks and benefits of ISO 9000

Pros	*Cons*
Sets standards	Can be expensive to implement and maintain
Formalises a system to aid employee understanding	May require large amounts of paperwork
Empowers and gives responsibility to employees	Stifles creativity
Encourages an attitude/culture of improvement – may be used as a tool of TQM	No guarantee of high quality
Marketing tool	Written for large companies
Required by current customers	Written for manufacturers
Required by potential customers	Full of jargon
Used to enforce management policy and best practice	No guarantee of new customers
As a paper system it is easily audited, a tangible system	Can increase costs

The key for any small business who decides to go ahead is to keep the system as simple as possible. Research in 1995[13] into the benefits identified by small companies becoming registered to ISO 9000 suggested that the paybacks were significant. Twenty seven per cent of respondents found fewer rejects and at least 20 per cent have benefited from reduced administration and increased productivity.

Your objective must be to begin with what you do already and use ISO 9000 to improve things.

The ISO 9000 process

Specifically, ISO 9000 requires businesses to have a system of procedures which ensures consistency of approach and of control documentation which ensures any member of staff can identify the current status of a product or service. In turn, this allows members of staff to carry on where others have left off, for example, if someone falls ill.

If you want to pilot ISO 9000, consider whether only one aspect of your operation or one site should introduce it first. Most businesses, when introducing ISO 9000, quickly recognise the way in which it can help them to be more effective. For most businesses ISO 9000 will simply formalise what is already happening. It will add little, if any, paperwork to well run businesses.

In order to achieve ISO 9000, you will need to design, document, install and operate a quality system that meets all the criteria of the standard. Once installed and running, your quality system will have to be assessed by an authorised certification body. Once a decision has been taken by a business to introduce ISO 9000 a number of detailed steps are required.

13 Independent survey by Manchester Business School (1995) – commissioned by SGS Yarsley, ICS Ltd.

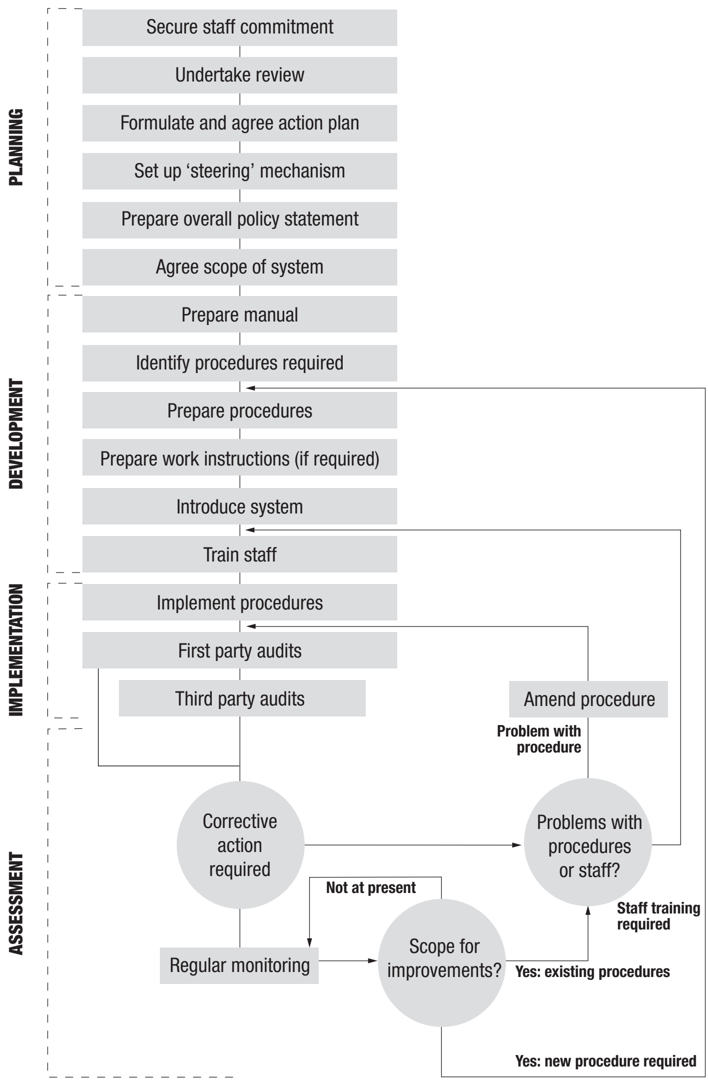

Figure 12: The four stages of ISO 9000

The figure demonstrates that there are four key stages to undertaking ISO 9000; the amount of time and work involved in each will depend on you and the nature of your business.

Planning

The first and potentially most crucial phase is the planning phase. Certain key decisions will need to be made during this phase, such as what activities will be covered and which part of the standard will apply.

Probably one of the most helpful steps to take is to purchase a copy of the standard. Many people are surprised when they see the actual document, as they expect it to be some great tome. Familiarising yourself with a copy of the appropriate standard document for your business will prove vital as the process of implementation progresses.

Quality system documentation

Quality systems normally require you to write a manual and procedures. Some systems also require work instructions. The quality manual acts as a link between ISO 9000 and the organisation and will define the scope and framework within which internal audits and external assessments will be conducted. These audits and external assessments and the subsequent management reviews will seek to ascertain:

- whether the established arrangements are adequate (ie do they comply with ISO 9000?);
- whether they have been fully implemented (ie are we doing what we say we are doing?);
- whether they are effective (ie are the things we are doing the right ones and can they be improved?).

The steps required to introduce a quality system, such as ISO 9000, are as follows:

Staff commitment

If the staff are not already committed, there will need to be effort, starting from the top, to ensure that all staff become committed to quality. This often requires a change in attitude in which the staff 'put customers first'. ISO 9000 should be seen as a milestone on the road to achieving total quality and not an end in itself. The business should commit itself to this goal.

Review

A detailed review of the business will be needed to assess:

- existing commitment to quality; and,
- existing written procedures or good custom and practice.

Action plan

A detailed action plan that sets out the steps, timescales, staff involvement, etc will be needed. It is easy to slip on the timetable so this will need to be realistic and flexible but also attempt to set agreed deadlines in order to concentrate minds.

Steering mechanism

It is likely that several people will need to be involved in the process of preparation, implementation and maintenance. Many businesses find it effective to have a Quality Improvement Forum, which acts as the main body for all decisions regarding quality management.

Policy statement

Having a policy statement on quality is a pre-requisite of ISO 9000. It is also good business sense. It is very easy, however, to write a statement which is like 'motherhood and apple-pie'. It takes time and effort to write an effective statement, which will consider the needs of the customer and will ideally state the criteria against which the business would like to be judged.This statement requires the broadest ownership possible within the workforce.

case study

Case study: Project North East

'Project North East has always been committed to providing quality services matched to the needs of the client. It aims:

- to listen carefully to every client and to work together to define and agree the client's needs;
- to provide appropriate and independent assistance at a cost acceptable to the client or, where appropriate, to refer to an alternative for help;
- to use experienced and qualified people and to provide suitable training on a regular basis for all staff;
- to treat clients on a confidential basis and not to disclose information about them to a third party without their prior agreement; and,
- to strive continually to improve the quality of service offered by regularly evaluating what we do.'

Scope

It is vital to ensure that your scope of registration covers all of the necessary activities within your organisation. If your scope covers, for example, the activities associated with a retail outlet supplying fashion items, and you introduce a mail order service for customers, it will be outside of your scope.This means that even if you have a written procedure documenting precisely how you undertake all the mail order activities this element of your business will not be covered by your registration to ISO 9000.You will need to contact your assessor and may need another full assessment with the corresponding cost.

So, the scope of the quality system is arguably the most important definition. It is the scope that governs the extent to which the quality procedures cover the activities of the organisation.

case study

case

Case study: Project North East

Enterprise and economic development agency offering business counselling, training, consultancy and related services to new and growing businesses.

Development

The next phase of the process is the development phase, when key decisions about your system have been taken and you can begin preparation in earnest.

Manual

The manual acts as a 'bridge' between the standard (ISO 9000) and your organisation's quality systems. It expands on the policy and explains how the standard applies to that particular company.

The quality manual may be in any format preferred by your business, but needs to cover each element of ISO 9000, describing how the company's system meets the requirements of the standard.

Small companies should attempt to keep the document concise, cross-referencing to other parts of the system where possible.

The quality manual usually contains:

- the quality policy, signed by the chief executive;
- an outline of the company's organisation, including the nominated management representative who is responsible for ensuring that

the requirements of the quality system are understood, implemented and effective; and,

- a guide to the many links between ISO 9000, the manual and the procedures.

It is the co-ordinating document for the system, and should be:

- clear, helpful and illustrative; and,
- brief – referring to other documents in the system as much as possible.

Procedures

The procedures will flow logically from the quality scope and the manual. Each procedure will normally address scope, responsibilities, application and review. It is helpful to involve as many relevant people as possible in the writing of procedures by setting up quality improvement teams that, in turn, report to an over arching quality body, such as the Quality Improvement Forum described above.

When writing procedures always attempt to:

- write simply and clearly;
- use short words in short sentences;
- avoid any words which may be misunderstood;
- be clear, precise, logical and brief;
- avoid vagueness; and,
- be factual.

The procedures define in detail the activities performed within each area of the company and show the responsibilities of each person working in that area.

Work instructions

Detailed work instructions may be required in certain areas in addition to the procedures, though in many instances they are not essential. If work instructions are required, procedures should refer to them for more details.

Implementation

It is useful to set a target implementation date as soon as you have decided to undertake ISO 9000. A target date focuses the organisation about timescales that may otherwise lapse. It also gives you a date, which you can state confidently to the third party assessor as your first date for evidence gathering.

Introducing the system

In many cases, the procedures will simply formalise what is already happening. It will therefore not cause too much disruption, although initially it is likely staff will find themselves doing more paperwork. It is essential that new procedures are introduced gradually, are piloted before final approval and that staff are trained as required.

Training

The key point for training is that people in your business understand their responsibilities. Each procedure states the responsibilities of people undertaking tasks, and when the assessor records non-compliance the source will be clear.

Training will be required at different stages in the preparation and implementation:

- to introduce the concept of quality management;
- to introduce the requirements of ISO 9000; and,

- to ensure each member of staff understands what is required of them.

Internal auditors (if appropriate) will require training.

Going live

Once all the procedures have been approved and all the staff have been trained, the business is ready to 'go live'. All members of staff will be expected to conform with the requirements of all the procedures that apply to them. If conformance to procedures is not possible staff should be monitoring and recording the activities to amend the documentation. Amendments and improvements are an essential part of the quality process.

Assessment

The assessment process should begin as soon as implementation is underway. You and your staff will want to check whether procedures are being followed and to assess whether your system is working.

First party audits

Audits which clients undertake on themselves are known as first party audits. All procedures will have to be audited regularly on a first party basis. How frequently each procedure or area is audited will depend on the importance of the procedure and previous audit results. However, each procedure must be audited at least annually, although more frequent audits are preferable and provide useful information about areas for improvement in the business. Certification bodies will not undertake their audit until the majority of procedures (and all the important ones) have been audited internally. The audit process supplements the monitoring that staff undertake themselves and produces a formalised impartial view of organisational conformance.

There are basic rules for internal audits that should be followed.

- plan ahead – know what you are auditing;
- base non-compliance on facts only;
- verify information with the person showing you the process;
- don't criticise or argue; and,
- give credit where it is due.

Second party audits

Second party audits are those carried out by customers who wish to verify a supplier's controls for themselves.

Third party audits

The certification body may undertake a pre-audit assessment and then about three to four months later, the formal audit. If successful, the client will be certified to ISO 9000. The certification body will also undertake surveillance visits (sometimes unannounced) annually to ensure the business is still conforming to its procedures.

Continuous improvement and corrective action

Customer complaints and first, second and third party audits will all result in possible need for corrective action. Non-conformances may be noted requiring further staff training. Alternatively, shortcomings in the procedure(s) may be identified which require the procedure(s) to be amended.

Regular monitoring

In addition to audits, businesses need to stand back periodically and look at their overall quality system to identify opportunities for improvement. Once certificated, third party assessors will be looking for evidence that the business is continually attempting to improve their quality system and, ultimately, the quality of service given to their customers.

What is involved?

There are 20 sections to ISO 9001 (the full standard) and each section must be addressed by businesses looking for certification. There are instances when it is acceptable for companies to exclude certain sections of the standard as inappropriate. A typical example of this would be section 4.7 of ISO 9001, *Control of customer-supplied product*. Essentially this section refers to any free issue or customer supplied items; for example, where a galvanising plant treats their customers' steel tanks and returns them after the coating has been completed. Many service businesses will find they have no element of their process that fits this section and will simply say in their manual under section 4.7: 'This section does not apply. A procedure will be produced if required at a later date'.

The 20 sections of ISO 9001 cover:

1. Management responsibility

Define the requirements for quality management systems; adopt a philosophy of continuous improvement; include a quality policy that is easily understood and followed by every member of staff.

2. Quality system

A documented system must be in operation to meet the requirements of the standard.

3. Contract review

Each contract must be reviewed to ensure capability.

4. Design control

Procedures must be in place to control the design function adequately.

5. Document and data control

All documents must be controlled to meet the requirements of the standard.

6. Purchasing

All purchased products must meet the specified requirements.

7. Customer supplied product

This applies to the control of 'free issue' material, provided by the customer to your business to add value, for example if you provide photographic enlargement service, the customers' negatives would be 'free issue' material.

8. Product identification and traceability

Each product or service should be easily identifiable.

9. Process control

This applies to any activity which directly affects the quality of the product or service and must be carried out under controlled conditions.

10. Inspection and testing

Incoming product or materials must not be used until verified.

11. Control of inspection, measuring and test equipment

Any equipment used to inspect products must be checked regularly.

12. Inspection and test status

Inspection and test status is identified.

13. Control of non-conforming product or service

Any product or service which does not conform to the required specification must not be used.

14. Preventative and corrective action

Procedures must be in place to ensure causes of problems are identified and eradicated.

15. Handling, storage, packaging and delivery

Procedures should be established to provide means of handling and storing product or service to prevent damage.

16. Quality records

All records of the quality system must be stored in a methodical manner for a specified period. Some people may confuse records with documents. The difference is that records may not be changed, but documentation may be changed under a controlled process.

17. Internal quality audits

Internal checks and verification of the system must be undertaken, by staff independent of the area being audited.

18. Training

Training should be provided and records kept for all staff whose work affects the quality of the product or service.

19. Service

If servicing is specified in a contract, procedures should be in place to ensure that the servicing meets the specification.

20. Statistical techniques

Where appropriate, adequate statistical techniques to verify capability should be used.

How long does it take?

The time taken to obtain certification will ultimately depend upon the size of your business and your state of preparedness. As a guide, many companies can achieve ISO 9000 in about 9-18 months. A vital factor is the extent of the commitment of the entire workforce to accept and achieve quality improvement.

How much does it cost?

The cost of achieving certification will clearly vary depending on the size and complexity of the business, but also on the methods chosen to achieve it. The following should be included:

- staff time;
- consultancy;
- training; and,
- certification fees.

Once a business has been certified, the certification organisation will return each year to undertake a surveillance visit. You should compare costs carefully, as some bodies charge more in application fees and have a relatively modest annual certification fee, whilst others charge higher annual fees.

Third party assessment process

The National Accreditation Council for Certification Bodies (NACCB) accredits a number of organisations to enable them to offer certification to ISO 9000. Each certification body is then accredited to offer certification in a number of industries and processes defined by Standard Industrial Classifications.

So, your first step in selecting a certification body is to find one whose scope of accreditation includes the specific activities to which you wish to be registered. You can do this by contacting the Association of British Certification Bodies (you will find the address at the end of this chapter).

The next step is to fill in general interest applications to the appropriate certification bodies who will respond with details of prices and their own preferred methods. They should advise you of their policies on documentation appraisal, how many people will comprise the assessment panel, what notice, if any, they will give prior to surveillance visits and of course their fees. Some will require copies of documentation prior to assessment and may wish to hold a copy of all documentation permanently. It is at this stage that you must decide which certification body looks the most appropriate for your business.

Once you have made your choice and applied for assessment, a lead assessor from the certification body should contact you to set a date for pre-assessment or full assessment. As there are now around 30 certification bodies in the UK, clearly there are different procedures in operation for the timescale and cost to a small business. A good certification body will ensure you are confident with your system before coming out to assess your business. Remember that every visit by an assessor will be charged out on a daily rate, so it is worth being sure before inviting them. As a guide, certification bodies will charge around £500 per person per day, with one or two days required for a small business.

Non-compliance

Almost any assessment visit will result in minor non-compliance or observations being made by the assessor. Usually these will simply require you to produce a corrective action plan detailing how and when you propose to put things right. If a major non-compliance is found it will probably prevent a certificate from being issued and means that either your system or your documentation is not working adequately. This may mean another visit or even a complete re-application, depending on your certification body's policy.

One important point to consider is not to use first party (internal) audits as witch-hunts.The quickest way to lose commitment from staff is to have auditors who finger-point and encourage a blame culture. It is always the process which should be addressed and remembered, Denning and Crosby blame most quality-related problems on management. To blame an individual member of staff is unlikely to address the whole issue.

Typical problems

As minor non-compliance and observations are frequently discovered, it is helpful for you to consider where the most common problems occur.This should alert you to likely problems that you can usefully check prior to assessment.

- Businesses may apply for assessment too early and not have enough objective evidence of their system available.
- Poor document control with several versions of one document in circulation.
- No evidence of internal audits.
- Staff unfamiliar with system and documentation.
- Too much paperwork.
- Procedures which do not follow working practices.
- Corrective actions which do not fully solve the problem.
- Lack of understanding of policy by staff.
- Procedures document what the manager would like to happen, rather than what does happen.

Implementation of ISO 9000 is expensive, time consuming and demanding. So why do so many businesses undertake it? Because the benefits outweigh the costs.This is another area where small businesses are at an advantage. Small businesses require small systems. As the business grows the system can grow with it, as necessary.

To manage quality you need to manage people and processes. A quality management system that meets the requirements of ISO 9000 will help you to manage all the important processes in your business.

However, this is just the beginning. Initially your system will cover how things are at the moment; your aim is to increase control within the business to increase consistency. ISO 9000 will give you a mechanism to do this.

So how can you make ISO 9000 work in your business?

- Procedures should be written and amended by people as close as possible to the process.
- Prove your management commitment. Don't short cut the system – you will lose credibility.
- Encourage all tools that help your staff to control processes – flowcharts, diagrams, checklists.
- Don't be over specific in procedures, if flexibility is required, build it in.
- Remember the system exists to serve the business, not vice versa.

Conclusion

Implementing total quality will take time, effort and commitment from everyone in the company. Taking things one step at a time is more likely to result in success, so don't be overwhelmed by the huge amount of work that may seem necessary – make a plan, set realistic objectives and make a start. Good luck!

Useful addresses

British Standards Institution (BSI), 389 Chiswick High Road, London W4 4AL, Tel: (0207) 629 9000.

The Institute of Quality Assurance (IQA) & National Quality Information Centre (NQIC), PO Box 712, 61 Southward Street, London SE1 1SB Tel: (0207) 401 7227.

Association of British Certification Bodies, Audley House, 13 Palace Street, London SW1E 5HS.

reading list

Reading list

Achieving Quality Standards
Lesley Munroe-Faure et al, Pitman Publishing, 1993.

Total Quality Management
John S. Oakland, Butterworth-Heinemann, 1994.

ISO 9000 Quality Systems Handbook
David Hoyle, Butterworth-Heinemann, 1994.

ISO 9000 (second edition)
Brian Rothery, Gower Press, 1993.

Implementing Quality Through BS 5750 (ISO 9000)
David Irwin (Ed), Thorogood, 1998.

Gower Handbook of Quality Management
Denis Lock (Ed), Gower Press, 1990.

Checklist for the Quality Assurance and Quality Control Manager
E. B. Ocran (Ed), AIPC Limited, 1990.

Planning to Succeed in Business
David Irwin,Pitman Publishing, 1996.

Managing Quality for the First Time
Dawn Cranswick, Pitman Publishing, 1996.

Building Your Business
David Irwin (Ed),Thorogood, 1998.

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chapter thirteen

Managing quality

The information in this chapter relates to Key Role A: Manage Activities and Key Role F: Manage Quality

chapter thirteen: Managing quality

The information in this chapter relates to Key Role A: Manage Activities and Key Role F: Manage Quality

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Ensure that recommendations for improvements to work activities are encouraged and dealt with according to organisational procedures.
2. Facilitate and support thorough and accurate assessment of processes and working environments.
3. Keep accurate records in line with organisational requirements.
4. Ensure that any legal requirements are identified and relevant advice offered.
5. Offer advice and support for the development of plans to improve quality systems.
6. Offer advice and support for the development of accurate measuring systems.
7. Facilitate the collection, analysis and documentation of information gathered.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Provide timely and accurate advice and support to achieve the development of a quality policy.
2. Ensure that the quality policy supports the organisation's mission.

3. Plan implementation of the quality policy and monitor progress against agreed criteria.

4. Present any recommendations for improvement to the appropriate people and in the appropriate manner.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Identify ways in which quality can contribute to vision, mission and values.
2. Actively and effectively promote quality.
3. Put forward proposals for improvement.
4. Effectively promote two-way communication on quality issues throughout the organisation, the customer base and the supplier network.
5. Develop and implement quality monitoring systems.
6. Promote continuous quality improvement.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

The quality question

There is much talk nowadays about quality. Companies claim to offer quality products and services, have quality procedures, quality accreditation or simply claim to be quality companies. Consequently you may feel under pressure from your customers to demonstrate that you too have in place some kind of quality systems, but perhaps do not really understand what is involved.

Objectives

The aim of this chapter is to help you to understand what quality is and how you can improve it in your organisation. It will help you to:

- appreciate the benefits of quality;
- set quality management objectives; and,
- measure performance against quality standards.

So is quality worth the effort, or is total quality just another fad? Only you can decide.

What is quality?

A quality product or service is one that is 'fit for purpose'. In other words, it does what it is supposed to. You can take that a step further, however. As well as doing what it is supposed to, it must also suit the customer in terms of standard, cost, delivery and so on. Consequently, we are taking as our quality definition, 'meeting customers' needs'.

It is important to recognise that if you are not currently meeting your customers' needs, then steps can be taken to change things. The thing to be conscious of is that quality solutions address the cause of a defect, or short fall, or problem, not just the symptoms.

Look at it this way. If you go to your doctor complaining of constant headaches and he suggests cutting off your head then, despite the fact that it will eliminate the problem, it is not a quality solution. It addresses only the symptoms. If on the other hand he suggests you get your eyes tested, and you find your headaches are cured by wearing glasses, then he has treated the cause.

In business terms this suggests that by eliminating defects from occurring during a process, savings can be made in terms of time, scrap, energy and even human stress.

Measuring quality

Dawn Cranswick asserts that there are a number of key quality indicators [14] which can be used to measure quality and about which there is broad agreement (although as with any management discipline there are areas of disagreement as to importance). They are:

- documentation of a policy for quality;
- training employees to improve performance;
- the use of work-based teams;
- involvement of customers in the development of products and services;
- the measurement and analysis of waste and scrap;
- the collection of numerical data on processes by employees;
- the use of written task specifications; and,
- calculation of the costs of quality.

By using these eight steps as the basis for your organisation to develop a quality management plan you can be confident of following in the footsteps of some of the finest minds in quality management history.

14 Dawn Cranswick, *Managing Quality for the First Time*, Pitman Publishing, 1996.

Work is a process, not an event, and we need to understand a process to improve it. All activities must be analysed and considered if we are to improve quality. It should be remembered that each of us within an organisation fulfils the roles of both customer and supplier to others within the organisation.

The discipline of Total Quality Management (TQM) is the study of all aspects of a business, including people, processes, information, equipment and style of management. TQM can assist organisations to improve what they do, continuously, saving money and improving the quality of service to customers.

Documentation of a policy for quality

Within your business it is imperative that TQM is driven down through the business from the Managing Director, who must show constant visible support to the concepts of TQM. You must therefore have a clearly defined quality policy to show commitment and give an indication of the importance you place upon quality within your company.

For example, a quality policy might read:

'*Our policy is to provide products and service of the highest quality which fully satisfy our customers' requirements. Total quality will be a permanent feature within this company. It will be implemented, monitored, nurtured and maintained by having a continuing quality improvement programme, which will be achieved through our people working together for success*.'

The first requirement of the planning process is to think realistically about your quality management objectives. Any worthwhile quality objectives will be linked to your business's overall objectives – the improvement in quality should affect the bottom line, by for example, increasing the number of customers, the size of orders, or decreasing the number of complaints or faults.

Consider your longer-term plans – where do you hope to be in five years' time, for example? Quality objectives should reflect the direction in which the company wishes to move and support any existing plans for development. When drafting your list of quality objectives don't worry too much at this stage if you are unsure of their achievability or whether you will be able to implement them.

Quality planning

During the planning phase, you should be sure that you look rigorously at all the options. Before you attempt to implement your plan, walk round it and look at it from all angles to establish how workable it is. A sound planning process will:

- ensure all objectives fall within the strategic aims of the business;
- identify measurable objectives (eg reduce complaints by 20 per cent) which can be clearly demonstrated when fulfilled;
- break each objective down into sub-objectives and tasks, which include timescales for completion;
- analyse each task against the likely barriers which may either prevent it from being done or create delays/problems in completing it;
- give consideration to the ways that barriers can either be prevented from occurring or dealt with when they arise; and,
- monitor progress regularly and evaluate the success of each action.

At this stage you are embarking on the route to continuous improvement, setting your compass for the first destination on your journey plan. As you reach each goal you will set new, more demanding goals and the journey will continue. Checking your compass periodically will keep you on course and you will need to be alert for obstacles in your path so that you may circumvent them and not meet them head on.

Quality objectives, like all other objectives, should be S.M.A.R.T: Specific, Measurable, Achievable, Realistic and Timebound. For example:

- within six months we will reduce customer complaints to less than one complaint per 100 sales;
- within 12 months we will reduce raw material wastage to no more than five per cent of raw material costs; and,
- by the end of 2001 we will improve utilisation of machines from 55 per cent of capacity to 75 per cent of capacity.

It is important to check that your objectives can be verified before you test them. You cannot introduce an objective which requires you to analyse something outside your control.

Breaking objectives down

You need to be able to break each objective down into a series of sub-objectives, to consider the activities needed for each, to put a timescale on each and to consider potential problems.[15]

Case study: Juno Restaurants

Juno Restaurants is a small family chain of six restaurants. They specialise in family meals, competitively priced and have a fairly limited menu.

They have developed a mission, which is 'to provide value for money meals, which families will want to come back for'.

The main quality objective for Juno Restaurants is to achieve increased customer satisfaction. They plan to achieve this by establishing the needs and opinions of their customers through staff feedback and customer care surveys and then responding to the customers' requirements. They recognise they will need good communication with staff. Their success will be measured through repeat business and by the occupancy of tables.

[15] For detailed information on anticipating problems and providing workable solutions, see Chapter 20, *Problem solving and decision making*.

Following is Juno Restaurants' overall objective of reducing customer complaints to less than one complaint per 100 sales, broken down into sub-objectives with activities and timescales identified.

case study

case

Objective planning: Juno Restaurants

Overall objective: Reduce complaints to less than one per 100 sales by 30 December.

Sub-objectives:

- identify the current level of customer complaints;
- identify causes and areas of complaints;
- discuss with staff reasons for complaints;
- prepare plan to reduce number of complaints; and,
- evaluate progress and level of success.

Activities needed for sub-objective:

- review customer complaints for previous 12 months and profile against sales figures;
- analyse and collate areas of complaint;
- hold brainstorming session to identify root causes for complaints;
- identify with staff an action plan for each cause of complaint; and,
- monthly reports on number and cause of complaints to all staff.

Timescale for each sub-objective:

- by 10 July;
- by 31 July;
- at monthly staff meeting on 30 July;
- at monthly staff meeting on 30 July; and,
- monthly.

Monitoring and evaluating progress

It can be difficult to keep on course with your plan. However, having realistic, achievable objectives will help. Monitoring is essential, but does not need to be formal – just disciplined. Are you en-route, at a satisfactory point in your journey for the current time?

Review whether you have encountered any unforeseen events – do you need to re-define your objectives? Learn from your problems and mistakes (inevitably you will make a few) and then move on. By knowing where you are at any given time you are more able to change task quickly if required.

Quality improvement is about the continuous improvement of all processes within an organisation; the key is to approach the improvement in a planned and controlled manner.

Training employees to improve performance

TQM involves all the people working within your business. No one can be excluded. All the managers within the business must demonstrate a total commitment to the concepts of TQM because if any scepticism is seen by the rest of the workforce, commitment to TQM will not happen. If the culture change then fails it will be very difficult to raise TQM as an issue in the future. It may be useful at an early stage to identify the driving and restraining forces within the business.

All people within the business must first accept that quality is their responsibility, regardless of their position. Quality cannot be inspected into a product. It must be planned in at the design stages. Inspection can only weed out the defective material and is not 100 per cent effective. Some defects will always be missed, even if only through human error.

Once the people of the organisation have accepted that they are responsible for the quality of the product or service they supply, then they should be actively involved in trying to bring about improvements in their own areas of work. After all they are the experts at what they do; they do it all day every day. This involvement can happen in a number of ways. One popular method is a suggestion scheme; another is the use of continuous improvement teams or quality circles.

Small but continuous improvements within the business are of great benefit as they keep the process moving in small manageable steps. All improvements made must be rewarded with recognition of a job well done. This reward does not necessarily have to be monetary. Often a 'well done' from the boss is sufficient.

There are many ways of developing people; professional development will help staff to improve their expertise as well as contributing to the overall improvement process within your business. Developing people has additional benefits; staff are more loyal, more motivated, and experience a higher level of job satisfaction if they are offered training and encouraged to improve their performance.

Springbank Industries found that after introducing tailored NVQs equivalent to Levels 2 and 3, sickness and absence fell by 62 per cent and staff turnover by 45 per cent over a two year period.[16]

Consequently we can see that making staff development a part of your quality strategy is not just altruistic – it pays off in measurable and realistic terms.[17]

Using work-based teams

Maximising your ability to deliver a quality product or service is clearly dependent upon your ability to get the most from the people with whom you work, whether they are staff, sub-contractors or casual labour. To manage quality, you must manage two elements: people and processes. The greater of the two is people. If the people are right and the processes wrong, then people can make the processes right. It is

16 Reported in *Personnel Today*, Reed Business Publications, 27 February 1997.

17 For more information on staff development, see Chapter 6, *Developing your people*.

unlikely that you would ever have the reverse situation – if the processes are working well, then it follows that the people must be too.

Many small businesses, or departments in larger ones, already work in teams. A team can be defined as a committed, cohesive group of people with complementary skills all working towards a common objective.

There are, however, tasks which will not benefit from a team approach. Any job which calls for high levels of concentration, uninterrupted thought and specific expertise may be difficult for a team to complete. There are also organisations where the culture can mean that team working will not flourish. If everyone knows that the manager has very strong opinions and likes to 'approve' all decisions, a team will constantly be inhibited by the knowledge that '(s)he won't like that because (s)he dislikes blue!'. Some teams can also suffer from hidden agendas which can lead to conflict and to the failure of the team to complete the task they set out to do.

Additionally, any personal or professional conflicts should be acknowledged at the outset if they are not to cause difficulties for the team.

If team members have spent time and effort on analysing a situation and developing a solution, then perhaps the single most dismaying outcome would be to have their suggestions ignored. If you feel you might have problems accepting proposed solutions generated by your employees, it might be better to wait before team building. If you look forward to sharing responsibility with your staff for problem solving and improving things, build that team!

Involving customers

Two-way communication is essential in any business. How do you know what your customers want if you do not ask them? You cannot afford to assume you know people's requirements – you are unlikely to think of everything.

Think about what it is you need to know – if you are unclear about what you are asking, the answers will be similarly unclear. The following questions should act as a guideline:

- What do I need to know? Am I seeking their opinion, information about their last purchase or information about their next one?
- Who should I ask? All customers, all potential customers, only those whose requests have been easy to fulfil or only those from whom I made a substantial profit?
- How should I ask? What method of communication suits us best: face-to-face, postal questionnaire or telephone survey?
- What should I ask? How should I phrase the questions in order to get the information I need, and what questions should I pose?

The last point is probably the most difficult, but following a few basic guidelines should help. It is important that, whatever method of communicating with your customers you choose, you tell them that you are asking for their help in order that you may improve the product or service you offer.

You could of course be more rigorous and undertake a more formal survey. Doing this can be expensive in terms of both time and money, however, so it is important to be certain that this is necessary and to get it right first time.

At this stage your objective is to find out what makes people buy from you and to pinpoint what would make them buy more. Of course, they may not want to answer, but if you are genuinely trying to find ways of improving what you do, then they are missing out on an opportunity to help themselves if they do not respond.

Analysing the information

By analysing the responses to your survey you should be able to rate your product or service against your customers' requirements. Some points will be obvious and may be addressed straight away. Others might be less so, and may require detailed analysis to identify.

Check your responses for the following indicators:

- What was the most frequently mentioned issue?
- What are your customers' needs in priority order?
- How is your firm received?

If you are in an environment where prompt delivery is the most critical issue to your customers, rate your own delivery service against their requirements. Do they want fast delivery or reliable delivery? There is a difference. Never promise what you cannot deliver, even if the promise would win you orders from the competition. You will end up letting your customers down – dressing it up by calling the day before the delivery is due and saying there is a problem, in order to move the delivery date back to one you can meet, is not acceptable.

Profiling against requirements

With every issue your customers have identified, rate yourself against it. Assess your strengths – do you need to be more positive about communicating them to your customers? Build on your weaknesses – ignoring them won't make them go away, so acknowledge them and concentrate on areas where you can improve.

Customer care policy

One way to keep track of customers' feedback and complaints and ahead of their needs is to introduce a customer care policy. Start with a statement of principle about how you think your customers should be treated: for example, 'we aim to treat our customers in the way in which we would expect to be treated ourselves'.

Set specific standards of care backed up by suitable procedures. Involve staff in designing the customer care policy; this means you benefit from both their ideas and commitment. Use simple, direct language, and circulate the policy to everyone once it has been formulated. Review it regularly and be sure new staff are introduced to it so they are aware of the standard from the start.

Monitor the quality of service regularly and use incentives to help motivate staff – a reward could be anything from a simple 'thank you' to a bonus scheme.

Make sure that your complaints procedure is first class – chances are something will go wrong at some point, and how you handle the matter is crucial – you could lose the customer completely or turn him or her into a raving fan, depending on your attitude and actions. Learn from your complaints – they are among the best business information you will ever receive.

Keep an eye on the competition

Knowing who the competition are, what they are doing and how well, helps you to stay one step ahead. If they are cutting costs, using new materials, offering special discounts or extras, you need to know. Information is power in this instance, and you should take steps to contain potential damage.

In addition, make a list of the businesses or individuals with whom you deal and who are good at supplying you. Write against each one what it is that keeps you going back. Consider each point; can any of them be adapted to your business? This process keeps you thinking about some of the best organisations you know and identifying whether some of their methods could be useful to you.

Measuring and analysing waste and scrap

We are starting to tread upon the ground of quality costing now, by measuring and analysing waste and scrap. This is a two-pronged approach; improving quality is as important as reducing costs. Indeed, the one (cost reduction) should occur naturally as a result of the other (quality improvement). Target one or two processes for improvement. Your first objective will be to deal with failure costs, since these have the greater impact on customer satisfaction. The easiest areas to target are where waste is evident. Waste is insidious and can take the form of time, space, energy, equipment, people and materials, as well as cash.

Case study: Analysing waste

Stuart Fairbairn owns a small gardening business in Tyneside. Most of his clients are the elderly residents of his local neighbourhood, although he has recently been fortunate enough to win a contract for a small park in the town.

He buys all his supplies in from a big garden centre and hires in extra help when he is busy. He occasionally uses a secretarial service for important documents and promotional leaflets, but produces simple quotes and invoices on his own computer.

The example demonstrates a simple cost collection form which Stuart has used to record the quality costs incurred during the initial phases of his new park contract. He enlisted a friend to help him with weeding and digging. The instruction from the client regarding one of the flowerbeds was not clear and Stuart used the client's specification to purchase the supplies for the job. Unfortunately, incorrect bulbs were supplied and planted.

He spotted the potential error himself and telephoned the client to clarify, so the client was unaware of the extent of the problem. However, it did require correction and left Stuart with wasted time and supplies.

By agreeing a more detailed specification next time Stuart will be clear, in advance, of the precise nature of each element of the work.

If he had spent one extra hour of his time clarifying the initial specification details he would have increased his prevention costs by £15 over and above what is shown. However, he could have reduced his failure costs to zero and made himself an extra £55 net to add to his profits (£70 failure costs saved, less the extra £15 prevention cost).

case study

Case study: Measuring the costs

Company: Stuart Fairbairn **Job**: Park Contract

Date: Sept 1999 **Duration**: 1 Week

	Cost Type	£
1 Quality System Costs (Prevention)	**Cost Type**	**£**
Accreditation and consultancy fees		
Quality and appraisal staff salaries		
Audit fees		
Calibration costs		
Training costs		b
2 Design Costs (Prevention)		
Time used negotiating with client	2 hours	30
Resource used to design and amend contract and document invoice		25
3 Management Costs (Prevention)		
Time and resource spent in sourcing, negotiating and buying supplies	1 hour	15
4 Sourcing and Purchase Costs (Prevention)		
Time and resource spent in sourcing, negotiating and buying supplies	1 hour plus travel expenses	20 *(Total 90)*
5 Production Costs (Appraisal)		
Time and resource used checking supplies	40 minutes	10
Inspection of grounds during work	2 hours	30
Checking of paperwork	1 hour	15 *(Total 55)*
6 Post Production Costs (Failure)		
Time spent solving problems	1 hour	15
Scrap, supplies		20
Downtime of labour and machinery	1 hour	15
Investigation of cause		20 *(Total 70)*

Whilst the example is straightforward and merely points out savings which could be achieved, there are non-measured costs to consider also – what else could people have been doing? What were the negative effects of stress and demotivation?

In larger examples, such as where goods or services have been supplied before problems are identified, you can add documentation, transport, peoples' time and loss of reputation.

The vital element in the equation is how often the process occurs and if things need to be corrected more than once – all will add to the cost of the waste. Your objective is to solve each problem only once, so if a problem does occur, you can put it right and build in a preventative mechanism to ensure that it doesn't happen again.

Measuring the costs

Having identified the area for improvement and gained the commitment of staff, you should aim to define exactly what you are going to measure, and how, before you begin.

It is a good idea to implement a pilot study, covering one or two processes for a period of time. Set a defined limit on your data collection (maybe one week, or the next four Mondays) and take into account any factors which may aid or hinder the success of your pilot (for example, if Fridays are mad, with people rushing around to finish things, avoid them for your survey).

Be sure staff are aware of what is happening and why, and that the exercise will in future be regular but not frequent (perhaps yearly or half-yearly).

Analysing data

Once the data has been collected, it should be analysed. Time measurements should be multiplied by salary or wage costs and materials at purchase price. Simple calculations can give you an estimate of annual costs for each part of the process.

Improving the process

Completion of the analysis will give you figures for conformance and non-conformance activities. The people who were involved in the process of collection should look for ways to reduce the failure (ie non-conformance) costs. Inevitably these prevention activities will cost, but costs should be one-off. It is important that those involved in measuring the costs should be involved in the development of action to reduce failures – it is their problem and they should be given the opportunity to solve it. Once the suggested action has been taken, the cost of the process should be measured again (sticking as closely as possible to the previous parameters) so that success may be gauged.

Collecting data

An important element in managing quality is ensuring that there is proper control of the processes involved in producing the product or providing the service. This requires set methods and procedures to ensure consistency.

Monitoring – collecting data – on these processes allows analysis to take place. Most businesses undertake some form of analysis already, even if it is only checking the monthly sales and costs figures. Collecting and analysing data can provide valuable information about the processes within your business; it has been said that if you can't measure it, you can't manage it.

for example

Tally charts

Tally charts are merely forms by which instances of events can be recorded. A simple tally chart is shown below.

Example: Tally chart

Name: N Stone	Task: Letter Typing
Date: 27.08.99	Instances: 20

		Total	
Less than 5 minutes			%
6-10 minutes	IIII		5%
11-15 minutes	IIII		5%
16-20 minutes	IIII		5%
21-25 minutes			%
26-30 minutes			%

Remember to consider the data you wish to output when drawing up a tally chart. A useful site is on a display board or flip chart. The benefit of a tally chart is that it can be completed at intervals to suit the convenience of the user. In this instance, the typist merely places a mark in the appropriate column as each letter is completed.

Used in more sophisticated settings, tally charts can be designed to record data from production runs, frequency of faults, occurrences of deliveries or types of clients visited.

Bar charts

Bar charts are helpful in showing comparative data.The x-axis shows description.The y-axis shows the number of occurrences. A major benefit is the fact that it is a visual tool which clearly displays the information gathered. A simple example would be to compare typical production times (y-axis) for a range of activities (x-axis).

for example

Example: Bar chart

A big issue these days, for many businesses, is the number of times the telephone rings before it gets answered. Many businesses are setting three rings as their target. You might, therefore, decide to monitor how quickly your staff are able to answer the telephone and then set out the results in a chart as shown below.

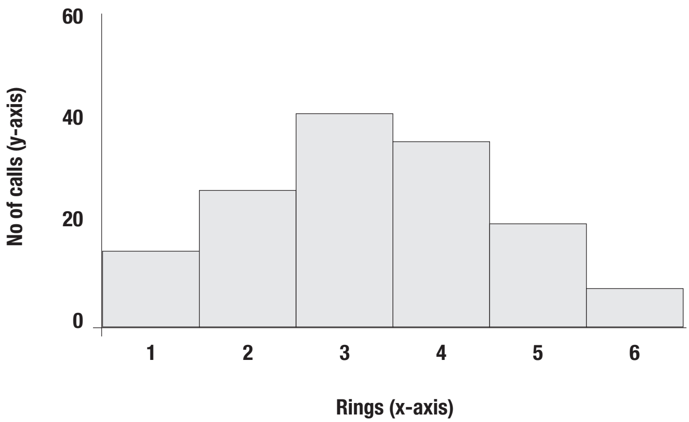

Figure 13: Bar chart showing comparative data

Histograms

A histogram is a type of bar chart where it is the area, rather than the height, of each bar which is the representative of its magnitude. The histogram provides a measure of spread. The bars always touch and the area of each bar reflects all the occurrences between the relevant scale points on the x-axis. An example will clarify this further.

for example

Example: Histogram

Imagine, for example, that you make bread. The weight for a standard large loaf is 800 grams so you have decided that you will aim for every loaf you make to weigh 825 grams. If it is too low customers will complain – and if it is below the minimum requirement you might be prosecuted. On the other hand, if the weight is too high you will waste money. Although you have set a target weight, you cannot be absolutely certain that every loaf you make will weigh the same. You decide, therefore, to weigh every loaf for a certain period to monitor what is happening.

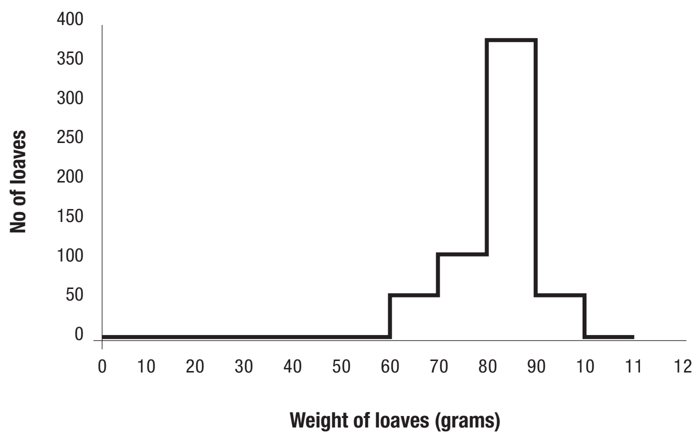

Figure 14: Histogram

It is only one step from a histogram producing a frequency distribution curve.

Frequency distribution

Many decisions in business depend on knowing the likely distribution over a population of, say, height or weight or length. Imagine that you run a shop selling women's fashions, or a shoe shop, and want to know how many shoes of each size to stock. You can also use distributions to assist with setting up control mechanisms – say to monitor the weight of loaves of bread if you are a baker. Most distributions, and inevitably those occurring in nature, are 'normal' distributions.

We are not going to go into long explanations here of statistics, probabilities and sampling theory. Briefly, the average, or the 'mean' of a population with a normal distribution will be at the centre (see figure below). The standard deviation gives a measure of spread or 'dispersion'. A small standard deviation will result in a graph that is wide and squat. The area under a normal curve is always one (or, if you prefer, 100 per cent of the population or the sample population). One standard deviation on either side of the mean therefore covers 68.26 per cent of the population, two standard deviations covers 95.45 per cent and three covers 99.73 per cent.

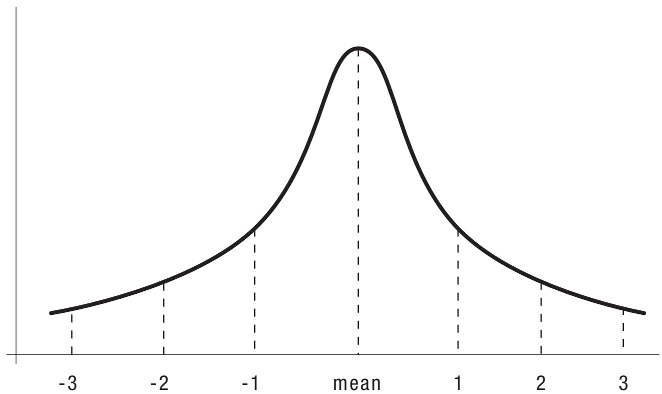

Figure 15: Frequency distribution curve

Control charts

Whilst the preceding methods may seem increasingly complicated, it is leading you towards the concept of statistical quality control.This is a practical use of sampling theory applied to a process – either to look at variables such as weight or length or to look at attributes such as satisfied or unsatisfied.

case study

Case study: Bert's bakery

Bert is a baker and has specified that a large loaf will weigh 800 grams. Inevitably, there will be some variation in the weight of the loaf. If it is too low, customers will complain; if it is too high, he will waste money. What weight of loaf should Bert aim for? And how can he check that he is staying within the required limits without checking every loaf?

Sampling theory enables Bert to set up a control chart on which he can plot warning lines and action lines. The warning lines are drawn such that 95 per cent of his samples should fall within them; action lines are drawn such that 99.8 per cent of samples should fall within them.

Bert decides to aim for every loaf to weigh 825 grams and, on average, they do – with a standard deviation of 16 grams. Bert would like to weigh just four loaves, chosen at random, from each batch. According to sampling theory, the means of the samples should have the same mean as the total population and a standard error of 8.

95 per cent of the area under the normal curve lies within 1.96 standard deviations and 99.8 per cent lies within 3.09 standard deviations. So 95 per cent of Bert's sample should lie between (825 – 1.96 x 8) grams and (825 + 1.96 x 4), that is, in the range 809 – 841 grams. And 99.8 per cent of every sample should be in the range (825 – 3.09 x 8) – (825 + 3.09 x 8), that is, 800 – 850 grams. The control chart is set up with these weights on the y-axis. Then Bert can take a sample of, say, four loaves from every tray, weigh them, calculate the mean weight, and plot the mean on the control chart.

If his process is 'in control', he would expect just 1 in 40 sample means to be outside one of the warning lines and only 1 in 1000 sample means to be outside the action lines. So if a sample falls outside the action lines, it almost certainly identifies that there is a problem which must be investigated.

Note that in this case the targeted mean has been chosen to give warning lines and action lines which ensure that loaves are likely to be within the desired tolerance.

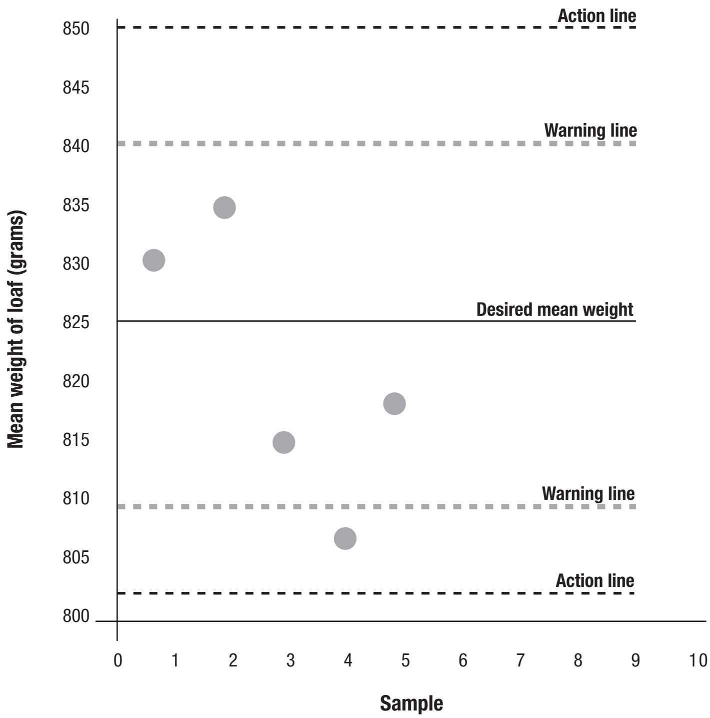

Figure 16: Statistical quality control using control charts

Using written task specifications

Written task specifications, or work instructions, are used to set down the steps involved in completing a task in such a way that anyone could follow them, whether that person is familiar with an organisation or not. They are not always necessary and might perhaps be more likely to exist in a manufacturing environment; although it is possible to write work instructions for any task, including answering the phone. Where work instructions do exist, they should be tied in to a procedure in order to put them into perspective.

Calculating the cost of quality

Philip Crosby argues that '… quality is free. It's not a gift, but it is free'.[18] The logic behind this statement is simple. The cost of producing good quality will be less than the costs already incurred by poor quality.

The practise of 'costing quality' enables you to improve the quality of your product or service whilst reducing the costs of running your business – consider what we learned when we looked at measuring and analysing waste and scrap.

The quality cost within an organisation can be defined as the cost of meeting the customers' requirements plus the cost of not meeting them. If you make silver jewellery, for example, quality costs include:

- materials;
- finished product and left over materials;
- time (to design, make and check);
- faulty items; and,
- fuel.

18 Philip Crosby, *Quality is Free*, McGraw-Hill Book Company, 1979.

The practice of costing quality is the combination of two important elements: the first is to analyse the cost of each part of a process and identify areas where services may be made; the second is the 'right first time' approach. Of course people don't just need to do things right, they need to be sure they are doing the right things.

The aim of a quality costing process is to maximise quality whilst minimising cost. A sound quality costing programme will:

- measure the cost of quality;
- control and reduce it; and,
- monitor it as a measure of progress.

Case study: DC Motor Factors

Dave runs a small business supplying auto parts to garages and mechanics in his local area. Always aware that the 'big boys' can beat him on price he relies on speed of delivery and quality of service to keep his customers. When he is offered 100 cut-price exhaust pipes for around 80 per cent of the usual cost he thinks that, for once, he will be able to compete on price. However, he ended up replacing one in every three of the exhausts he supplied to his customers and there are 73 exhaust pipes at the back of his unit which he is afraid to send out to his customers. What was the quality cost of his bargain?

The process of quality costing is, on the whole, one of negative analysis – instead of strengths, it looks for weaknesses. This may be a painful exercise, be prepared for that. But remember that by identifying costs you can take steps to reduce them. Ignoring ineffectiveness and poor quality is rather like the ostrich approach to management – if I don't see it, it won't hurt me.

It is useful to bear in mind that the best business with which to compare quality costs is your own. If you introduce quality cost measurement activities twice a year you will soon have data to compare.

Quality management is about continuous improvement and it is your own quality cost figures you need to improve. It is important that you don't lose sight of the reasons for costing quality – quality improvement. As Philip Crosby said, when the concern becomes who has the most accurate figures, the purpose of keeping the figures gets lost. It is like someone on a tight budget keeping neat records of overspending.

So, collect quality costs and keep records of how you arrived at them. But remember, the crucial part of the equation is what you do to put them right.

Conclusion

Quality is an attitude, a part of the culture (the way we do things around here) of your company. Like all things, it is best if taken step-by-step:

- planning (where do we want to be?);
- analysis (where are we now?);
- objective setting (how will we get there?);
- implementation (setting out on the journey);
- monitoring (where have we moved to now?); and,
- evaluation (did we take the best route?).

Think of it as a journey and take the first step on the road to continuous improvement.

reading list

Reading list

Benchmarking for Competitive Advantage
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David Irwin, Pitman Publishing, 1995.

Managing Quality for the First Time
Dawn Cranswick, Pitman Publishing, 1996.

Building Your Business
David Irwin (Ed), Thorogood, 1998.

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Part Five

Getting things done

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chapter fourteen

Planning and managing your projects

The information in this chapter relates to Key Role A: Manage Activities, Key Role C: Manage People and Key Role G: Manage Projects

chapter fourteen: Planning and managing your projects

The information in this chapter relates to Key Role A: Manage Activities, Key Role C: Manage People and Key Role G: Manage Projects

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Establish and clarify the scope and definition of the project.
2. Plan to achieve the goals of the project.
3. Set clear objectives and specify roles for members of the project team.
4. Research and recommend necessary resources and establish control methods for the project.
5. Co-ordinate the running of the project, offering support and encouragement to team members.
6. Monitor and evaluate progress towards goals, recommending change if necessary.
7. Keep relevant people informed at all times.
8. Confirm that all goals have been met and complete all relevant documentation.
9. Evaluate and report on the outcomes.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Project planning

In all businesses it is necessary to plan, implement, manage and evaluate activities and processes. For some businesses, such as consultancies, designers, construction etc the work they do is entirely in the form of one-off projects. Businesses that manufacture, need to manage their production process. In all cases an individual will be responsible for planning, securing resources, ensuring work is carried out on time and evaluating the results. Too often projects are established with vague objectives, poor planning and inadequate resources. Project management requires careful planning and progress reviews.

In some cases, there will be a number of requirements, perhaps quite complicated, to effect implementation of a particular project. In these cases you will need to plan particularly carefully how you intend to proceed. For example, your company has chosen to seek accreditation to the quality assurance standard, ISO 9000 and now has to set out a programme to achieve it within 12 months. Alternatively the decision may have been taken to establish a customer services call centre. There again, you may have to consider what you have to do to make sure all staff are fully conversant with a new computer billing system.

Objectives

The aim of this chapter is to introduce project planning techniques and to encourage you to use them to keep track of progress. It will enable you to:

- use a number of different project planning techniques;
- implement your project plan;
- monitor progress; and,
- identify potential improvements to the business.

Project planning techniques are used extensively by many large organisations when planning complex projects or when establishing scheduling systems to ensure that they can deliver their products on time. People often assume that such methods, using charts and such like, are too complicated for non-specialists to use. These techniques are just as valuable, however, for people starting up a business or for planning, for example, the launch of a new product or the introduction of a new process.

Project planning is used when there is a definite start and end to an exercise. This approach helps ensure that almost nothing is forgotten because the process itself makes you take everything into account. Planning in this way gets things in the right order and ensures you can set a realistic deadline for the end of the job. It also increases your efficiency by helping you to spot any peaks or troughs when there is either too much or too little to do.

Broadly speaking, the objectives in any project planning method are:

- to determine all the activities required for successful completion;
- to determine the relationship between activities (that is, which activities are dependent on the results of earlier activities) and which activities are independent and can, therefore, be undertaken in parallel (resources permitting);
- to identify the time required for each step; and,
- to consider the resources required.

Project management

A project may be seen as work that has a definite start and end; for example, moving premises, running a training programme or installing a new piece of machinery. Project management methods seek to optimise the use of available resources (people, facilities, information, cash, equipment, etc) in order to produce a successful result. An important feature of business is that resources are often only available on a shared basis. The discipline encompasses a wide range of activities, from solo project based consultancy work, to specialist project managers dealing with complex industrial processes.

When a need for a project has been identified there should be some critical investigation to determine if it is feasible. If the project is of an investigative nature, make sure published results do not already exist before you start.

Project management requires a pragmatic approach, good organisation and an ability to deal with people. Leadership qualities are important as management authority is usually informal and outside established lines of responsibility. The project manager needs to be positive and decisive in order to keep the team motivated, if there is one. Check on progress at least once a week, set clear objectives and give support when necessary. Projects are all about solving problems, so systematic problem solving methods should be used.

Flowcharting

Flowcharting can help you to think through all the elements of a particular activity. It might be intended, for example, to help write a quality assurance procedure or to control progress and expenditure on a substantial capital investment.

A flowchart is simply a model of a process, representing graphically that process and the often sequential steps within it. It may identify steps that might be problematic. It should give assistance in reaching a common understanding of a process and thus provide a starting point to re-design it if required.

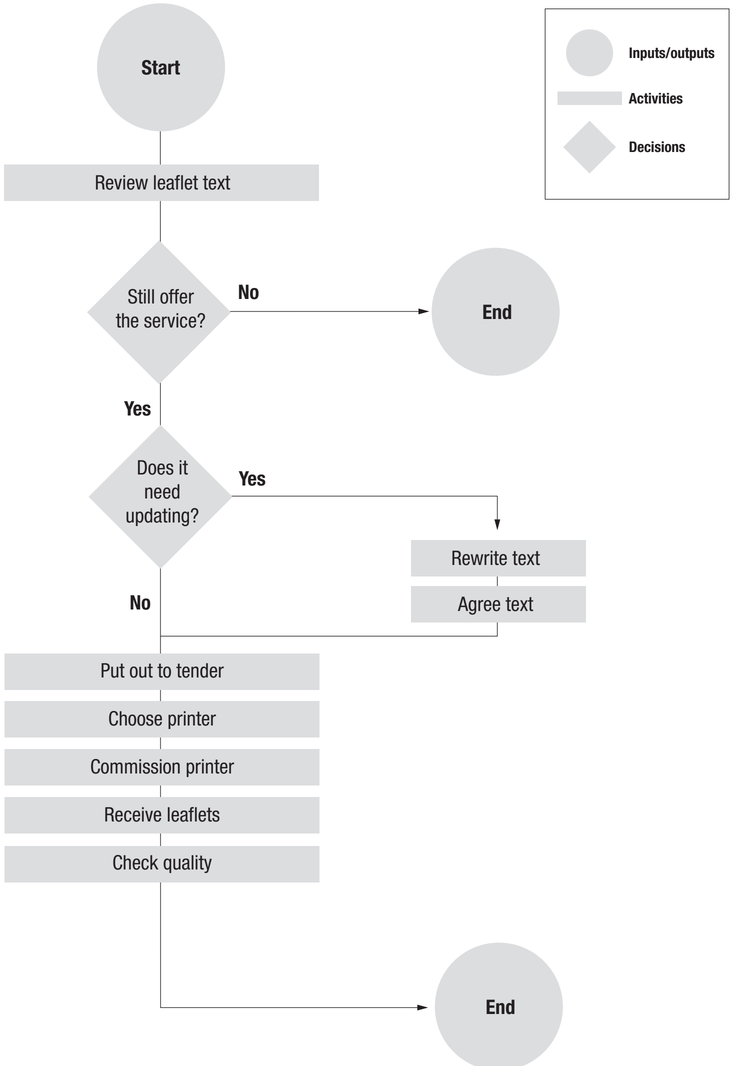

Figure 17: A flowchart demonstrating activities within a project

A carefully thought out flowchart can be used as the basis for preparing *Gantt charts* and *critical path analyses*, both of which are covered later in this chapter.

If you are responsible for a manufacturing process, you will have to plan and control all your production scheduling which might include:

- ordering raw materials and any sub-contract work (allowing for delivery delays);
- routing materials and sub-assemblies through production process;
- ensuring machines are as close to fully loaded as possible to maximise benefit;
- storing of finished goods; and,
- despatch.

You will also need to plan and control quality, maintenance, progress chasing, etc.

Even if you are offering a service, you will not be able to ignore all these. Imagine, for example, that you are a graphic designer but also arrange the printing for your design customers. You will need to:

- schedule your own work to meet customers' deadlines;
- order print;
- meet the printer's deadlines in order that they can meet your customers' delivery dates;
- check up on the print quality; and,
- chase progress.

The project plan

Once the steps are identified, it is essential to prepare a project planning document which sets out the objectives, analysis, strategy and specific schedules for the project. Producing the document will help you to refine plans and is a vehicle to ensure everyone understands what is expected of them. The planning stage is when most of the potential management problems should be anticipated and addressed.

Objectives must be very clear, specific, achievable and should relate to the wider business development strategy. Review objectives regularly; they may need to be changed, or the project abandoned, in the light of experience.

Project planning techniques

Project management is simply about the detailed scheduling of tasks. This is particularly difficult when resources are scarce or have to be shared. To make things happen, people need to know what they have to do and when they have to do it. Accurate scheduling is also necessary in order to make sure that team members have carried out their tasks. A useful tool to use here might be a task analysis chart, which will give you an 'at a glance' picture of your project.

for example

Example: Task analysis chart

No.	Task	Dependency	Deadline	Resources

Recognised planning tools should be used. At the very least, a plan needs to be drawn up grouping tasks to be carried out and allocating deadlines and responsibilities. At a higher level, *Gantt charts* may be used to co-ordinate workloads and to check the availability of resources. Whilst written charts can be used, they will be altered continually. Using computerised project planning packages makes this process easier. You can also produce and circulate progress charts and integrate your own plan with others who use the system.

Costing needs to be undertaken in conjunction with the planning process. It is only when you come to define the specific tasks that the real costs (usually underestimated) will become apparent. A number of options may need to be costed out before the final plan can be authorised. Good costing practices can resolve many difficulties. If other staff know that the impact of the project will be accounted for in their own budgets, this can relieve many political difficulties. Development projects should be evaluated as investments. Do not be vague about costs, this can undermine overall commitment to the project.

Gantt charts

A *Gantt chart* is a planning and scheduling chart originally devised by Henry Gantt. It provides a simple overview of a number of related activities and their expected durations for a particular project. Specifically, a Gantt chart is a series of horizontal bars combined on a chart with each bar representing a specific activity and the length of the bar representing the time required.

Imagine that you want to launch a new service writing bespoke computer software. The key steps might include:

- secondary market research;
- primary market research (amongst existing customers if already in business and amongst all potential customers for a new service);
- define the specific service to be offered;

- identify additional resources (such as staff, equipment, premises, etc); and,
- prepare a business plan for the new service.

You then estimate how long each of these steps will take and show them on a chart.

Some activities can occur at the same time (resources permitting), but some activities cannot start until others are complete (though these dependencies may not be obvious from the chart). For example, you cannot define the service accurately until you have completed the market research.

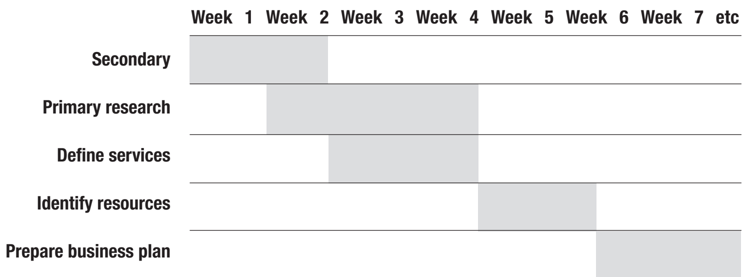

Figure 18: Planning and scheduling with a Gantt chart

The way to start is simply to write down a list of all the things that have to be done, put them in a logical order and finally fill in a project planning sheet with estimates of how long each activity will take. To avoid delays, start long lead time activities as early as possible in the order of events.

In larger and more complex projects, the Gantt chart can also be used to prepare a resource histogram, for example, to show the number of staff required for any part of the process. (A histogram is a type of bar chart where it is the area, rather than the height, of each bar which is representative of its magnitude. The histogram provides a measure of spread.)

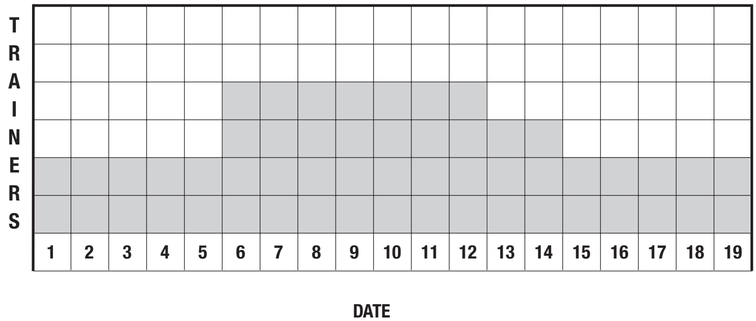

Figure 19:A simple resources histogram for a training programme

The example above shows a simple resources histogram for the training programme planned to back up the implementation of a new computer billing system.The histogram requires the availability of four separate computer training areas for the middle week – should only two be available, or should other computer training be necessary at the same time, then the histogram would have to be redrawn to reflect this.

A further histogram could be prepared to show the financial resources required as the project progresses.

The chart can be used to monitor progress; activities and resource requirement can easily be amended as necessary.They are easy to understand and, with modern computerised project planning software, are cheap and easy to prepare.

Critical path analysis

In a 'network' the planned activities are linked logically – to show the dependencies. Networks provide a model of the overall activity which are not necessarily time dependent and which can be more difficult to understand than the Gantt chart. On the other hand, they can easily show which activities are dependent on others and which are critical.

It is important to differentiate between events and activities. An *activity* needs time whilst it is undertaken whereas an *event* is a milestone: a specific point in time such as the end of an activity.This may, of course, also be a signal for the next activity to commence.The activities, together with their expected durations can be summarised graphically in a chart, known as a critical path analysis. Using this, it is possible to determine the critical activities; that is, the ones that, if delayed, will delay the entire project.

Computerised project planning software makes the preparation of critical path networks very easy. Most have the facility to add resource requirements. Critical path analyses can also be used to monitor progress and are easily amended if necessary.

Event schedules

It is sometimes necessary to put together a meticulous plan for a specific day.Very few businesses can operate without having to organise some kind of an event. It may be to launch a new product, it may be a press call, it may be part of a package of work you are doing for a client.Whatever it is, it is crucial that everything runs smoothly if your customers are to believe that you are a professional outfit. On such occasions your company is on show.

Planning for the event should be done as a project plan, and the workloads programmed into the long-term schedule. In addition a master schedule for the event can be very useful. The schedule (running to no more than two pages) should summarise everything about the occasion. It should contain:

- an outline with specific times of everything that must be done during the day, and who will do it, from the first arrival to packing up and finishing;
- key events/moments (eg, 'arrival of guests', 'presentation starts', etc) incorporated into the schedule, with times;
- a list of everyone involved, including those people you might have contracted-in listing their responsibilities for the day;
- contact information (eg organiser, venue manager, etc), and any other important facts or instructions you want to stress; and,
- it is often helpful to attach a map of the venue to the schedule.

Make up the schedule when you first plan out what will happen and update it as things develop, providing all those involved with a revised copy. Making up a master schedule is an excellent prompt to force you to think of everything, and is a useful document for future reference. Paper is kept to a minimum and you can be confident that everyone has been put in the picture and knows what they have to do. This is particularly useful if subcontractors (such as caterers, stage managers etc) do not live up to expectations. On the day of the event, the schedule serves as a handout for a team briefing session before the action starts.

Long-term scheduling

Many managers benefit from having a longer term scheduling chart. For example, when negotiating a contract a glance at the chart will show if you have the capacity to meet the extra demand. You may need to schedule it for a later time or contract the work out.

Master scheduling charts are also good communicators: all staff can see forthcoming workloads and make their own suggestions. Note: this can be crucial when arranging holiday cover at the beginning of the year. A well presented chart will also impress your clients.

The best charts for long-term scheduling are dry wipe boards, which can be altered as the situation changes. You can buy shapes and stickers to make up your own chart. You can also buy charts for particular types of business. A useful format is to have columns for each month and horizontal sections to group similar activities (eg promotion, client projects, administration etc). Items can be written in, or a symbolic system can be used.

Every business works to different time horizons. Normally long-term schedules are reviewed on a monthly basis, when more detailed plans for the month are drawn up. This is the time to look at what will be coming up over the long-term – it's surprising how often you will foresee something obvious (for example getting your year end accounts sorted out could interfere with work you had planned to do for a customer). If all the team are involved in this, you are more likely to spot future bottle-necks; it's a little like a continuing version of project planning, only not for a one-off event.

When new commitments are taken on it is crucial that they are marked into the schedule immediately – especially if a number of people use the chart.

Monitoring progress

It is very important to monitor progress. The plan can then be used to check regularly on what needs to be done and by when, and whether everything is going according to plan. It is a tool to be used – not a useless exercise. The project planning sheet needs to be brought up to date regularly because plans always change. This way you can control the changes rather than the changes controlling you. This technique is useful in many different areas – from planning a holiday to organising a summer fayre. The manager should be in constant dialogue with team members, visiting and investigating, holding meetings and consulting. Projects need constant attention. Stay involved and address problems as they arise. Do not let things fester.

Implementing the plan

Once the planning process has been completed and any necessary authorisation received, you need to move things forward by implementing your plan. Your first step might be to obtain and allocate resources.

Resources

If you require a team of people to implement your project, then be sure to pick people with appropriate skills and experience and to allocate roles and responsibilities accordingly. Responsibilities in particular must be very clearly defined, and the commitment of each individual team member sought. If people are reluctant they will not help you to achieve your goal. In addition, keep team members to a minimum, you do not want too many cooks.

Other resources which need to be negotiated may include space, administrative support and office services. Cash may be needed for research (ie buying reports, commissioning research), travel, external consultants, temporary staff etc. All of this should have been highlighted in the planning stage.

Setting the standard

The individual elements of your project plan do not just need to be completed, but to be completed successfully *and* to the required standard.

To give a simple example, suppose your project is to renovate and decorate a building, and one of your team is responsible for painting the doors. Without performance standards, you might find yourself with a very disappointing job on your hands! After all, anyone can paint a door, but not everyone can paint a door well.

Setting the standards and being sure that agreement on them has been gained should be one of your first tasks. Failure to establish these at the outset could cost you dearly later if elements have to be repeated, possibly holding up further progress.

Monitoring the plan

Monitoring is essential if you are to stay on the right track. Checklists are useful to be sure nothing has been overlooked. The project manager will have to keep track of both individual team members and their work and the critical areas of a project.

Team meetings

Keep in touch with individual team members and, if possible, hold weekly meetings. Ensure meetings are to the point but be prepared to look at issues in depth, and to alter schedules, if problems do arise. Use the meeting as a real planning forum and act on the decisions taken. Meetings are a good place to check on individual workloads. Keep everyone informed about progress.

Critical areas

In any project, certain elements are critical to success, or are likely to throw up obstacles. Identify these and give them special attention. Carry out regular checks on these areas throughout the life of the project. Prepare contingency plans to deal with any failures in these areas. Some managers choose to formalise checking into an auditing process where a list of items is checked off. The most critical time in any project is the early stages: plan to invest extra time and effort checking, consulting and sorting out problems, and getting the show on the road.

Management information

In addition to meetings, other sources of information may be available, eg database reports, expenditure. If you have a computerised system to track time, you may regularly check on how much time has been spent on the project. Many such packages can be linked directly to project planning software for this purpose. Information about progress needs to be presented in an understandable form. Charts can be drawn up manually. Software packages can produce a variety of useful reports instantaneously. Budget control charts show actual against predicted expenditure. Milestone charts simplify progress to important targets and deadlines over the lifetime of the project, eg questionnaire agreed, questionnaire sent, results compiled etc. Use these tools to monitor progress and to keep everyone informed.

Reporting

Perhaps the easiest way to make sure that the necessary information is generated would be to design a progress report form for people to complete and return as each element of the project is completed or as any element goes over schedule. This will give you the information you need either to be confident that things are going according to plan or to perform your analysis of what has gone wrong. Part of your analysis may be to look at whether the individual(s) responsible for a 'problem' element have the right skills and abilities or have perhaps been allocated a task with which they are struggling.

Progress feedback should be regular and frequent to enable you to deal with problem areas promptly and to minimise disruption to the project as a whole.

Coping with failure

When things do go wrong you must take stock of the situation and re-assess your position. If you are very lucky, the fact that an element is running late or not going according to plan might not make any appreciable difference. More likely, you will have to take corrective action.

If the problem is a shortage of resources, perhaps you could arrange for people to work a limited amount of overtime in order to catch up, or perhaps resources could be made available from elsewhere. It can be a good idea to re-assess your original objectives to see if things have changed since implementation – it is all too easy to get tunnel vision when involved in a project.

If changes are necessary, make sure they are documented and reflected in an updated project plan which is distributed throughout the team and to any other interested parties. It is important that people understand the changes and the reasons for them and are confident that problem areas have been addressed. You need their commitment to this new plan before you can move ahead with confidence.

Noticing benefits

At all times you should be alert to any possible improvements that may be made within your company. You may find that working on a project gives you a unique opportunity to identify areas which could be improved, simply because as elements are embarked upon and completed any part of the system which, for example, holds things up unnecessarily will be highlighted and may be addressed.

Completing the project

When a project is completed, then at the very least, a brief report should be written to detail the outcome of the venture. All interested parties should be issued with a copy.

It is also necessary to have a complete cut-off point for costs; no more man-hours, for example, should be booked in on a time sheet for a completed project, although it may be necessary to hold a project account open for a short time after project closure, so that any last costs may be met.

Project planning and management is not only about bringing projects in on time and to budget; quality is also an issue. Building in quality assurance – in your documentation, assessments and evaluations – is just as vital a component as building in sufficient resources. There is no point in simply going through the motions to complete something only to find at the end of the day that what you have done – in the time allowed, and with the money and resources allocated – misses the mark.

Quality documentation will allow you to track what is happening at all stages of your project. If your project involves training, for example, it is vital that you ask for feedback after each session. If things aren't going well, you will find out after a session or two rather than after all the sessions have been delivered. That way, taking stock and putting things right will be a much shorter process.

Conclusion

Managing projects does not have to be difficult. Take time to plan what you are doing. Whilst it may feel as though it is taking up too much time, it will save considerable time later. Make use of flow charts, Gantt charts and critical paths – they will all help you to organise your work efficiently and effectively.

reading list

Reading list

How to be an Even Better Manager
Michael Armstrong, Kogan Page, 1996.

The Essentials of Project Management
Dennis Lock, Gower Publishing Ltd, 1996.

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

A great many user-friendly project management software packages are available, including Microsoft Project, Artemis Schedule Publisher, Schedule Express, On Target and Time Line. Check recently published software catalogues for further details.

chapter fifteen

Managing and participating in meetings

The information in this chapter relates to Key Role D: Manage Information

chapter fifteen: Managing and participating in meetings

The information in this chapter relates to Key Role D: Manage Information

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Ensure that sufficient notice is given to attendees and agreement on objectives gained at the start.
2. Facilitate discussion in such a way that objectives are met.
3. Ensure that information following the meeting is supplied promptly to relevant people.

MCI4

If you are studying for the MCI4 or either of the MCI5 NVQs, the information in this chapter will help you to:

1. Ensure that meetings are planned, structured and controlled in order that they achieve the established objectives.
2. Seek feedback and use it to improve future meetings.
3. Undertake thorough preparation before meetings are attended.
4. Ensure that discussion is both productive and constructive.
5. Report information regarding decisions taken promptly and accurately.

Meetings

Many of us find that we spend a considerable amount of time in meetings, much of it, sadly, not very productive. Between those people who appear to think it's okay to be late, those who digress and introduce irrelevancies, those who think meetings are a forum in which to air complaints and those who think that to be worth having, a meeting must last at least a couple of hours, we can be forgiven for finding that our hearts sink when yet another invitation to attend a meeting comes our way.

Objectives

The aim of this chapter is to provide you with a strategy to help you make the most of meetings. It will enable you to:

- decide whether a meeting is appropriate;
- prepare thoroughly for meetings;
- deal effectively with conflict;
- successfully chair a meeting; and,
- complete all necessary follow-up action.

One thing we can be sure of is that meetings are here to stay. New technology, in the form of telephone and video conferencing, means that even when people are not in the same geographical location, they can still be in the same meeting.

Meetings that don't work

We have probably all attended meetings which were a success and which left us feeling enthused and eager to fulfil our action points. Unfortunately, we have probably all attended meetings that left us deflated, dissatisfied and wondering why we bothered! Why is it, though, that meetings don't work?

Reasons for failure

If you ask people who have had an unsatisfactory experience in a meeting why it was so bad, the chances are that the reason will be one of the following:

- this wasn't a meeting, but a lecture;
- objectives were not specific or shared;
- there was no agenda;
- people wanted to talk more than to listen;
- it became an information giving session instead of a discussion and decision-making forum;
- the chair dominated the proceedings;
- the chair was dominated by the proceedings;
- there were too many people present for everyone to have their say;
- people were playing political games;
- people kept silent for fear of ridicule;
- people were unsure as to why they were there;
- time-keeping was poor;
- discussion got bogged down in detail and trivia; or,
- people didn't care about the discussion subject.

You may not have had experience of all of these, but I'm sure at least some have cropped up in meetings which you have attended. In the rest of this chapter we will look at a more positive approach to meetings that should help you to succeed where others perhaps fail.

Is a meeting necessary?

Whenever you would normally automatically arrange a meeting, stop and ask yourself the following questions:

- Do I need people to discuss this face to face?
- Do I need people's help or agreement to achieve something specific?
- Is the situation likely to change as a result of people talking about things?
- Is the decision likely to be different as a result of debate?

If the answers are yes, then a meeting probably is necessary. If the answers are no, then it probably is not. Consider alternatives – would, under the current circumstances, one of the following work just as well?

- Send a memo – if all you wish to do is inform people, then a memo (or an e-mail message) will do the trick.
- Make a phone call – again if your main aim is to inform, a phone call is a quick and effective way to achieve this.
- Ask for comments – if you are looking for feedback, write up your information and circulate it among all interested parties asking that it be returned with comments.

Even if a meeting is the answer, you should ask yourself whether it is necessary to call a separate meeting or if the issue could be included in the agenda of or discussed following an existing scheduled meeting. For example, if ten people meet every other Monday and six of them would be the people appropriate for your meeting, you could suggest that they reconvene following a short break after the original meeting. After all, one of the obstacles to your success can be getting a number of busy people together at the same time.

Meetings are generally necessary when:

- a choice must be made between options; or,
- a project or programme needs discussion and collective decision to be moved forward; or,
- ideas need to be exchanged and explored; or,
- alternative possibilities or proposals must be debated.

Structure

Taking a logical approach to meetings helps us to be sure that all the main points are covered. The main points we are going to look at here are:

- how and who to invite;
- the agenda; and,
- order and control.

Inviting people

Before issuing an invitation, you need to be clear about the purpose of the meeting.

Is it to make a decision? Is it to progress a project? Once you know why you are calling a meeting, you can decide on who should be invited to attend and what should be on the agenda (although participants should be invited to submit agenda items, too).

Getting the right people to attend is key to your meeting's success. Do not ask people just to be polite: your boss, or a close colleague, for instance. Stick to those people who can make a valid contribution and who are directly involved in the subject matter. It is not necessary to drum up a good number of participants in order to justify the meeting; in fact, the more people who are involved, the longer it can take to air opinions and the more difficult it can be to reach a consensus. More than eight or ten people and the chances are they will not all get their say.

In the first instance, call your intended participants with the invitation; that way, you can sense any reluctance and 'sell' the benefits of attending. Be sure to explain the purpose of the meeting, rather than just say you want to talk about something. Stating that you want to discuss the issues surrounding the introduction of the new billing system and arrive at a workable solution is a more tempting invitation than saying, 'Let's talk about the new system'.

It is also much more difficult to say 'no' to someone on the telephone who is stressing the benefits of attending than it is to reply to a written invitation with a short note saying, 'Sorry, can't make it on Tuesday'.

The agenda

The next step is to prepare the agenda. Ask for any additional items by a specific date/time, and make sure the final, full agenda is circulated at least 24 hours prior to the meeting; that way, people are informed and can prepare.

When preparing an agenda, do not be tempted to include a great long list of points to be covered, as this will put people off. If people have submitted additional agenda items, look at how they have worded them; are some of the points the same, only expressed differently? Group what you can. Also, put a time limit against each item. Meetings are notorious for running on and on, and one way of helping to keep control is to make things timebound.

Order and control

The order of your agenda may be dictated by the logical order of the necessary discussion. Where there is flexibility, however, you could try the following:

- Start off with a couple of less important, uncontentious items; this gives the stragglers a chance to arrive before the serious discussion begins *and* helps to break the ice.
- End with an easily made decision to finish on a high note.
- Arrange that the meeting will end at lunchtime or the end of the day, which will motivate people to stick to the timetable.

Rapport

It can help to build rapport if coffee is served when people arrive and they have a few minutes to chat prior to the start of the meeting. Despite this, you should be sure to start on time, even if everyone hasn't arrived. At the start, reiterate the purpose of the meeting so that everyone is clear, and then work through the agenda with one eye on the clock. Using statements like 'We've got about another ten minutes on this one' can help people to focus on the issues. Re-cap regularly to aid understanding and to keep people focused.

If an issue looks like running over time, get the consensus of the group as to what to do. Should you allocate a specific amount of extra time? Should you allow (within reason) discussion to take its course? Should you extend the overall time of the meeting? Or should you postpone one or more other agenda items until next time? Rushing something through may mean that not everyone is committed to the decision made, and a lack of commitment very often means a lack of action.

Finally, if a meeting is going to be a long one, schedule some breaks. People need to stretch, to get a drink or a breath of fresh air if they are going to continue to concentrate or to be productive. If no breaks are scheduled, but people are beginning to fidget or lose interest, call a short break at an appropriate moment. The five minutes or so lost by doing this are worth it if the meeting reconvenes with increased interest and attention.

Pre-meeting preparation

Whether you have called the meeting or been invited to attend by someone else, it is likely that some preparation will be necessary in order that you may contribute effectively.

Preparation by the chair

Ensure that the purpose of the meeting is understood by all participants and that a detailed agenda is prepared and circulated in good time. If briefing notes are necessary to ensure people are fully informed (and to save time in the meeting) make sure that they, too, go out in plenty of time.

Book a room for the meeting with appropriate facilities. Consider whether you need an OHP, a flipchart, a screen, a slide projector or whatever. Arrange for coffee to be served.

If you need someone to take minutes, make sure that your chosen scribe can attend. Double check also that all the people you have invited can attend.

Preparation by the participant

Make sure that you have all necessary paperwork (agenda, briefing notes etc) in good time. Read them thoroughly, get clarification of any points you do not understand or which aren't clear, and also look up any further information you may require. If you will be representing the views of others, be sure that you fully understand those views.

Make contact with other participants. Sounding them out at this stage can give you a feel for how things are likely to go. If you have a particular standpoint, it will help you identify potential allies and opponents.

Presenting arguments

Prepare your arguments in advance. Note down key points to act as reminders. These will help you to martial your thoughts should you be under pressure. Think about things you might be prepared to concede in order to move things forward, or that you could be prepared to negotiate.

Making a presentation

There may be a time when you are called upon to make a presentation in order that you may present facts and ask for suggestions or argue your case more effectively. Presentations can be crucial – it can be as much your own effectiveness as the purity of your argument which sways people. Consequently, it makes sense to consider how to best put your point across.

Presentations should be informal and relaxed, but structured. You need to present information in a logical order, in bite-sized chunks and in an interesting manner. Keep any visual aids simple and uncomplicated. Find out well in advance how long you will have and who your audience will be. That way, you can pitch information at the right level and practise your delivery to be sure you run to time. The following checklist should help you to structure your presentation:

- introduction;
- ice-breaker;
- argument;
- summary;
- conclusion;
- any questions.

Let's look at those in more detail.

Introduction

Introduce yourself and your subject. Tell the audience briefly what they can expect and how long it is likely to take.

Ice-breaker

If you can think of something appropriate you could use to break the ice, then do include it. If the problem is communication, you could try a round of Chinese whispers; lack of attention to detail, perhaps show a slide with an appropriate phrase but which includes an extra word or a spelling error; an unwillingness to see things from another person's point of view, a slide which shows a different picture depending on which way you look at it (the one with which most people are familiar shows the face of an old woman which, when turned upside down, becomes the face of a young woman).

If you do use an ice-breaker, then make it relevant, uncomplicated and brief, otherwise you will manage to annoy rather than interest people.

Argument

Break down your message into bite-sized pieces. Discuss each point thoroughly and be sure it was understood before moving on. Present information logically and simply; there is nothing to be gained by trying to blind people with science.

Re-cap regularly to help people keep pace. Make notes on a flip chart if you like to help people remember the stages through which your argument has progressed. Stick to the main facts, do not digress, and do not try to tell them everything you know about the subject – you do not want to detract from your main argument and lose focus.

Summary

Having presented your argument, you should now summarise it as concisely as you can, rounding up the main points and reminding people why you are offering information in the first place.

Conclusion

At this point you need to let everyone know that this is the end. Don't peter out, end on a high note and emphasise the benefits of adopting your proposal (if that is indeed the reason for the meeting). Letting them know what is in it for them will help people to visualise potential change and, if what they see is good, to back you in what you want to do.

Any questions

This session should bring out any misunderstandings (or lack of understanding) resulting from your presentation. Anything that wasn't clearly covered may be picked up here and explained.

It may be that you believed you had phrased things in such a way that even an infant could understand. Even so, do not try to direct blame for lack of understanding toward any member of the audience, either by stating or implying that s/he wasn't listening or isn't very bright. Take all questions on board and answer them seriously and thoroughly.

Turning on a member of the group will turn the group against you, possibly with disastrous results for your scheme.

Chairing a meeting

Meetings can only work if all those involved are prepared to participate fully. However, even with full participation, someone needs to direct the process and act as the chair. The chair doesn't have to be the most senior member of the group, but does have certain responsibilities. The chair should:

- make sure people are properly briefed prior to the meeting;
- agree objectives at the start;
- make sure the agenda is adhered to;
- present information in a clear and concise manner;
- keep to time;
- make sure everyone has a chance to speak;
- re-cap regularly and when necessary to facilitate understanding;
- encourage people to co-operate;
- encourage courtesy between participants; and,
- encourage progress towards agreement and decision making.

With regularly held meetings, it can be a good idea to rotate the chair and let every member of the group experience this form of leadership. Having taken the chair themselves, they may be more considerate toward others who take the job on later.

Leadership

Leadership qualities are needed by anyone who chairs a meeting and styles are dictated by circumstances; a person does not generally have one style for all occasions, but chooses the style appropriate to the situation. In an emergency, for example, there's no point in calling a meeting. A quick decision is required, so the appropriate style would be autocratic. Similarly, where a decision involves the weighing up of various pieces of perhaps specialist knowledge, then consultative may be best. In a meeting, the most likely style to be used is democratic, with the chair (or possibly another participant with a particular interest in the subject matter) leading the discussion and guiding the group towards a consensus.

Conflict

Whenever people come together in a group, conflict is possible, due either to them holding opposing views or due to personal issues.

Conflict is not always a bad thing, and might even be preferable to people behaving submissively and agreeing to things just to keep the peace. The benefits of conflict include:

- it can earn respect for people who are courageous enough to speak their mind;
- a diversity of ideas can be encouraged making more alternatives available for discussion;
- dealing with conflict facilitates compromise;
- creativity can be encouraged; and,
- it certainly makes life more interesting!

Having said that there can be benefits, however, conflict must still be coped with. It must not be allowed to dominate or destroy the discussion. Here are some strategies that may help you to deal with conflict:

- restate the objectives of the meeting and, if you suspect someone of having a hidden agenda, ask them to clarify what they hope to gain from their intervention;
- allow everyone to air their views;
- try to keep interruptions to a minimum – if necessary, allot a fixed length of time for everyone to speak;
- be enthusiastic rather than hostile – you don't want to add fuel to the flames;
- take objections to proposals on board;
- suggest alternatives and seek compromise; and,
- use logic rather than emotion when dealing with conflict.

If you have someone in the group who appears to be spoiling for a fight, you must handle the situation carefully. Under no circumstances rise to the bait, but instead ask the other members of the group for comments. Stress that the type of comments needed are constructive ones. If someone is simply being unreasonable, then the group will help to deal with this during discussion. Similarly, if someone is trying to catch you out with questions, enlist the help of the group by passing them back.

Follow-up action

Following a meeting it is important to produce some notes, even if only to remind people of what it was they agreed to do. Whatever form your notes take, they should be prepared and distributed promptly, ideally within 24 hours.

Not all meetings will necessitate a full set of typed minutes; you must decide if these would be necessary in your case. Often a list of agreed actions with the initials of the person responsible for them is sufficient.

You must also be sure to communicate information about decisions which have been taken or ideas which have been generated to all interested parties. It is also a good idea, as part of your evaluation of your personal effectiveness, to seek feedback from those who attended to identify areas where improvements may be made.

Conclusion

By following a few simple guidelines, you should be able to benefit much more from the meetings you attend and possibly chair. Keeping people focused on the objective(s) of the meeting should ensure that you get the results you require, probably in less time.

reading list

Reading list

Beat the Bumph!
Kathryn Redway, Nicholas Brealey Publishing Ltd, 1996.

The Handbook of Skilful Management
Sheila Cane, Pitman Publishing, 1996.

How to be Better at Motivating People
John Allan, Kogan Page Ltd, 1996.

How to be a Better Communicator
Sandy McMillan. Kogan Page Ltd, 1996.

chapter sixteen

You and your team

The information in this chapter relates to Key Role A: Manage Activities, Key Role C: Manage People and Key Role G: Manage Projects

chapter sixteen:
You and your team

The information in this chapter relates to Key Role A: Manage Activities, Key Role C: Manage People and Key Role G: Manage Projects

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Explain fully and confirm understanding of work requirements.
2. Monitor progress regularly to ensure work meets agreed standards.
3. Deal with identified shortfalls in standards and performance promptly and effectively.
4. Ensure that the work of teams and individuals is planned thoroughly and effectively and with the input of the people concerned.
5. Ensure that assessment is thorough and fair and carried out against established criteria.
6. Offer feedback that is clear and fair and allows for individuals to respond.
7. Refer problems that arise and which are outside of your scope of responsibility, to the relevant people.

MCI4

If you are studying for the MCI4 or the MCI5 in Operational Management, the information in this chapter will help you to:

1. Define and develop realistic objectives and work plans with members of the team.
2. Ensure understanding of, and commitment to, those plans.
3. Identify and assist individuals to rectify poor performance.

4. Encourage and facilitate activities that permit individual and team performance.
5. Monitor progress and review and update plans regularly.
6. Operate at all times with the constraints of organisational policy.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Select team members and share decisions on team development with all managers involved.
2. Select appropriate development methods.
3. Ensure that development methods enable managers to deal with present and future work roles.

Teams

At some point in your working life, it's a fair bet that you'll be either a member or a leader of a team. Being part of a team means not only getting things done, but also taking the opportunity for both personal development and the development of other members in the team. Teams can be an extremely effective method of getting things done; teams can also fail spectacularly. It should always be remembered that there's more to building a team than putting together a group of people and calling them one.

Objectives

The aim of this chapter is to look at the ways in which people interact and build relationships. It will help you to:

- understand teams and how they work;
- understand team roles and development stages;
- know when teams are appropriate; and,
- look at the advantages and drawbacks of teams.

Employees do not merely have a relationship with their manager; they also have a relationship with each other. There is no one particular path that will guarantee that your employees will work together, although there are a number of methods or approaches that will help you intervene in employee relationships. Team building is about using a range of approaches and techniques to build relationships amongst employees. Effectively, it is about relationship building for other people.

Why teams?

Human beings are social animals. They live and work in communities of people. Upbringing is in small groups – families, classrooms, gangs – and people learn early to be comfortable in small groups. This helps them to develop commitment to a team, which they might not have to a large organisation. Ask people for whom they work and they'll give the company name. Ask them what they see in their mind's eye, and the chances are it will be their immediate manager and/or colleagues. People can lose sight of the big picture, especially in large organisations. It is their work 'family' that they relate to.

This social cohesion gives us strength. Most tasks are beyond individual human beings. Growth and development comes through interaction within groups, as does the completion of any major task. Groups also offer continuity. A group can continue work on a task when individuals leave or take a break.

This cohesion and continuity mean that well organised groups – teams – can improve productivity in the organisations in which they work by between eight and 11 per cent. Teams can also contribute to the improvement of the working climate, because of the improved relationships that they should engender between employees.

It is important, however, to look at what team working involves, before you consider implementing team building within your organisation.

What is the purpose of your team?

It is important to know *why* you are organising for team working or building a team before you begin. Team building has been one of the many popular 'fads' in management practice, and consequently people may adopt the idea of team building as a good one in all cases. Management fads are like the hula-hoop or the skateboard. They pass in time and can do more harm than good. Team working, when inappropriate, is no exception.

There are a number of considerations with regard to whether relationship building amongst employees is appropriate or necessary.These can be offered in the form of indicators:

- The first thing that will indicate whether teams are appropriate is the nature of the work itself.Teams tend to perform better when they are involved in carrying out tasks that have clear short- or medium-term objectives.Where the work cannot be broken down in this way, teams can be destructive.
- The second indicator for team performance is the nature of the work environment and the management style, which is accepted. A 'strong' management style where the team leader needs to 'tell' people or where the leader is very influential may not assist in team development. Leadership in a small group may have very different characteristics to the generally accepted model of what a leader or manager does. If you are unhappy to relinquish power to the group, then team building may be inappropriate.
- The third indicator is the individuals who make up the team and the way in which they communicate. Teams do not need to be made up of similar individuals and diversity can be an advantage in developing high-performance teams.Where the work requires little communication between employees, there is little reason to develop teams.
- The final indicator is the nature of the environment. In an organisation that is structured by departments or where individuals concentrate on individual tasks with little relation between employees, it may be inappropriate to consider team building.

Team types

One of the more influential methods of looking at the way in which teams 'work' involves the type of people who make up the team. These 'types', or informal roles, have been classified and scales have been developed to identify them. One of the most popular of these was developed by Meredith Belbin,[19] who identified a number of 'traits' or characteristics in each potential team member, as follows:

- high intelligence *v* low intelligence;
- high dominance *v* low dominance;
- extroversion *v* introversion; and,
- stability *v* anxiety.

These traits combined with a number of secondary measures determine team 'type' or role. Belbin identifies eight types or roles as being appropriate or useful in teamwork:

- **Chairman** – focuses on objectives; establishes the work roles and boundaries for other team members. Shows concern in the effective use of human resources. Clarifies and sets agendas. Summarises and makes decisions when necessary – a good listener and communicator.
- **Shaper** – high nervous energy. Full of enthusiasm and drive. Continually looking for opportunities for action from ideas. Heavily involved in team's action and successes. The task leader of the group.
- **Plant** – the creative ideas person; tends to bring new insight and imagination to the group. Concerned with basics, not details. Tends to criticise. May withdraw if ideas are rejected.
- **Monitor-evaluator** – objective and serious. Concerned with idea analysis rather than idea generation. May lack motivation, but skilled in analysis and decision making.

[19] R. Meredith Belbin, Management Teams, *Why They Succeed or Fail*, Butterworth Heinemann, 1981. These figures are reprinted by permission of Butterworth Heinemann, a division of Reed Educational and Professional Ltd.

- **Company worker** – the practical organiser. Concerned with order and feasibility. Methodical, efficient and systematic. Does not respond well to innovation or lack of structure. Pragmatically focused; may be inflexible, but responds to direction.
- **Resource investigator** – friendly and sociable; enthusiastic and positive. The member who goes outside the team to explore and obtain new ideas and information. Enthusiasm may fade quickly; tends to be stimulated by others.
- **Team worker** – sensitive, aware of feelings and emotions in the group. Tends to weld the team together. A popular and supportive member; uncompetitive and dislikes friction. A good listener and communicator.
- **Completer-finisher** – concerned with details and order, tends to worry over possible mistakes; communicates a permanent sense of urgency. May get bogged down in detail, losing sight of the main objective.

For Belbin, a balanced team needed to be made up of a full range of these roles and a missing role, or more than one person within the team occupying the same role, would weaken the team.

This approach involves managing relationships within the group by selecting compatible people, or people who occupy compatible roles. Whilst some research has shown this approach to be effective, roles are unstable. They will change, depending on the nature of the task and the environment. People can be shapers in one area and monitor-evaluators in other areas.

Group dynamics

Another approach to the way in which teams work takes a more passive set of processes as its model. In this approach the group members are likely to pass through a number of stages, because of the information-processing needs and the communication issues in the group. These stages can be represented as follows:

Forming

This stage is characterised by 'testing' behaviours such as greetings and welcomes. People check out the rules or 'norms' of the group and begin to plan unconsciously what roles they might take on and what the purpose of the group might be. This stage might also be referred to as preparation for negotiation.

Storming

This stage involves competition for role and purpose. This competition can be difficult to recognise, as it can be hidden as well as being open. At the storming stage, people might attack others within the group, withdraw, try to create alliances or dominate others.

Storming is a time when group members test the rules and boundaries that they've identified in the first stage and prepare for the next stage. This stage might also be called negotiation or conflict as people come to terms with each other's needs from the group.

Norming

The norming stage is one where the rules begin to be accepted. They 'harden' and people have dealt with, or contained, conflict. Group members here begin to take on responsibility for their roles and accept the group's collective purpose. Rules on norms are the accepted processes that guide the nature of the relationship.

Performing

This stage is where, internal issues having been dealt with, the group turns outwards to perform its task or meet its goals.

Mourning

Mourning is the stage when the group's internal or external purpose no longer exists. Internally, relationships are accepted and possibly static. Externally, the task may have been completed. Group members will tend to exclude themselves from the relationships and roles that they formerly held. Often there may be a reluctance to face the fact that the group is ending and it may be that one or more members will need to end the group on a positive and celebratory note.

What can go wrong?

Groups in organisations can take many different forms – project teams, production teams, committees, quality circles, statistical process control teams, working groups, to name only a few. Whatever they are called, they often frustrate and confuse their members. One of the oldest jokes about groups is that a camel is a horse designed by a committee.

Organisations large and small are full of people who hate working in groups because groups are invariably confused, frustrating and inefficient. They are also threatening and stressful, or at least potentially so.

This attitude is common in small organisations, where much of the achievement has been directly linked to the effort of one person. Small organisations can reflect this 'single person' culture. Yet groups have obvious advantages over individuals. They are more diverse, have greater knowledge, and more time and energy. Groups can be a good way of improving communication. Nevertheless, groups can over-respond to social pressures or individual domination, and personal goals can frustrate group purposes. As well as being productive, inducing commitment, developing people and creating excitement, groups can create stagnation, imprison people, induce conformity and leave people feeling frustrated, worthless and unproductive.

This section offers a way of looking at groups which uses a particular framework to identify central issues in group process. Where task issues will concern themselves with formal roles, formal processes, timetables and resources, relationship issues will concern themselves with informal roles, informal processes, agendas and conflict.

Roles

A role is a position defined within a group that is defined by expectations and needs. The person who occupies a particular role is expected to behave in ways that reflect the role and also because they need to behave in that way.

For instance, a manager will be expected to tell people what to do, be confident and take the initiative. Staff are supposed to obey the rules, work hard and support the manager. Politicians are expected to promise that things will get better if they are elected, and voters are expected to respond sceptically but vote anyway. Roles in an organisation can be defined by titles and job descriptions; for instance, the 'Head of the Packing Department' will create certain expectations about appearance, behaviour, etc.

In teams, the roles can be much more informal. Every small group (which meets for a length of time) will have a network of informal roles. This informal network will have a strong, subtle and pervasive influence on the team. We have already seen that the personal characteristics of team members will affect the nature of the task. Different people have different skills and needs that they will bring to the task. Groups will do better when they structure themselves to take into account differences in skill and preference among team members.

In addition to the roles that are negotiated or imposed because of task needs, there are other sets of roles relating to personal needs, which are quite unconnected with the task.

As long as these informal personal roles are well matched, the team will get along well. But let's presume that another member joins the team.This will have a spin-off effect on the team and people may take sides, with the conflict becoming widespread and ultimately affecting the team's productivity.

Few teams have an unlimited amount of resources or an unlimited number of compatible individuals.They have areas of both compatibility and conflict. Many teams fail to address the role issues that need attention. Some teams see them, but refuse to talk about them for fear of offending others. Avoiding such issues can mean that they reawaken, particularly when the group is under pressure.

Potential conflict of this sort should be surfaced and dealt with.

Informal group processes

The second issue that can lead to poor team performance is that of the rules or norms which govern the processes within groups. Each team will develop its own 'rules' about how they do things. Often these rules can be so team-specific that they exclude other groups.The sense of cohesion that this gives the group can be very useful. It can also be problematic in that some teams will develop one, two or even three sub-groups.

Remember that just because a group of people is called a team does not mean that they are one.Watch out for the real team within teams; these will be defined by norms of dress, sense of humour, language and one hundred and one other things.

Hidden agendas

A hidden agenda is an objective that the individual may not reveal to his or her team mates. If everyone in a team has a hidden agenda, then the confusion and opportunities for conflict will increase dramatically. Hidden agendas will all impact on the team performance and can destroy performance capacity altogether.

Conflicts

Potential conflict underlies all group processes. If people fail to agree about their respective roles, or fail to negotiate about their respective agendas, or think that others are going off looking for other jobs, this conflict can become real, with a resulting series of problems and loss of productivity.

There are a number of simple guidelines to help deal with group conflict. Teams need to:

- **Agree on the basics** – that is, identify their own rules or norms and roles; only if all members are equally comfortable with both the informal rules and roles will the teams develop commitment. Remember also that formal titles and processes will impact upon informal roles and rules.
- **Agree on the common ground** – a team will need to continue to search for, and identify, issues in common. Emphasising common issues will tend to shift attention away from hidden agendas and towards a common purpose. Common purpose should not be confused with common attitude. As we have seen, one of a team's major strengths is its diversity.
- **Experiment** – where conflict is intractable, it is best to try out new solutions. Experimentation is a powerful tool for obtaining more information where conflict is intractable. It gives the information upon which the group can make a decision to resolve the conflict.

- **Doubt their own infallibility** – there can be times when a team can turn into five leaders in search of a follower.When this happens, it can help if one of the group at least asks,'What is going on here? Are we sure we are right?'
- **Treat differences as a group responsibility** – in the event of conflict between two members, it will be a temptation for the other group members to step aside and avoid the conflict. However, it is the responsibility of the entire group to resolve differences. Even if an issue seems to be entirely personal, it will spill over into the group's ability to work effectively.

We can see that within a team there are a number of crucial issues, each of which impacts upon others. Roles impact upon relationships, which impact upon communication, negotiation and dealing with conflict, which in turn again impacts on roles.

Flexibility in all of these is important to teams, but that the flexibility needs to be channelled and focused and may need to become rigid to carry out the task. Also, there are certain 'rules' which will help foster team performance and developments.

Let's look at two practical tools that can underpin team development. The first of these is a way of looking at communication processes.

Developing a small task group involves using a wide range of communicating behaviours. One way of looking at this is the TORI model developed by J. William Pfeiffer[20]. This involves four factors, each of which is a function of communication:

- **Trust** – confidence in other team members' ability and attitude. Key questions: Do the other team members do what they say they are going to? Can you believe in them?
- **Openness** – the free flow of information, ideas, perceptions and feelings. Key questions: Do we share information about the task? Do we share information about our own feelings? This factor involves self-disclosure.

[20] J. William Pfeiffer, *A Handbook of Structured Experiences*, University Associates, 1985.

- **Realisation** – self-determination, role freedom. Key questions: What choice do I have in this group or task? How much freedom do I have to develop? This factor impacts upon the nature of the relationship in which the communication takes place.
- **Interdependence** – shared responsibility, reciprocal influence. Key questions: How much does my job depend on others in the team? How much do others depend on me? This factor also impacts upon the nature of the relationships.

You can use these four factors to build your own team within the vision you have developed and shared. Trust will come about when you yourself demonstrate your own trustworthiness and trust others. Openness will develop as you share information and feelings in a positive way. Realisation is about the amount of choice that you give to other team members and interdependence is about a shared vision of a common future.

Another way of considering the process of team communication involves the channels through which communication takes place. Whilst the TORI model assumes that everyone can 'talk' to each other, this may not be so. In the diagram below, we can see five methods in which a team can communicate information.

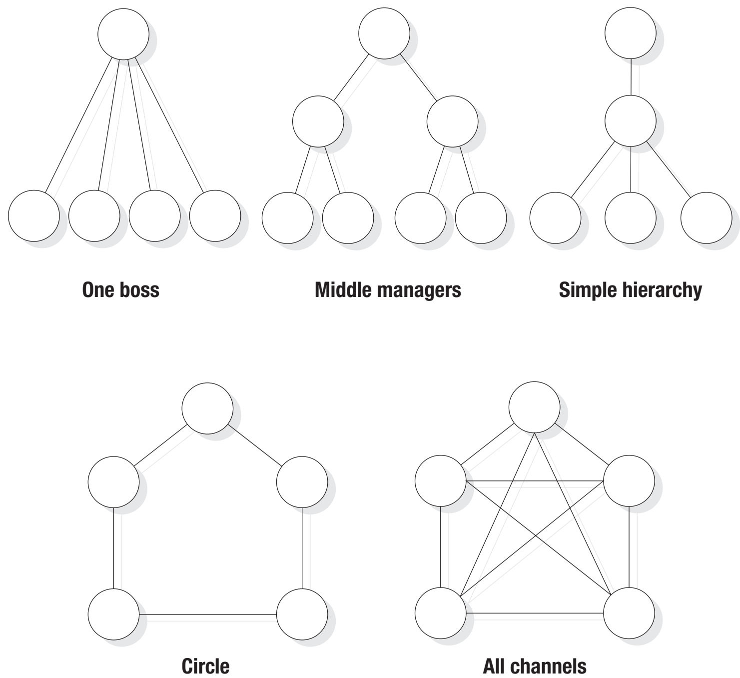

Figure 20: Communication within teams

We need to devise a communication structure that meets the needs of the task. Remember that a one-boss structure will involve the boss in dealing with lots of issues, which can be time-consuming. Where tasks are complex and open to interpretation, this load can be too heavy.

A second way of looking at the communication process would be to introduce 'middle managers' who would filter the information to and from the boss. This could reduce the load on the boss (although it may not), but it will also increase the amount of time it takes to get things done. Team performance could be dependent upon the skills of your 'middle managers'.

A third option is to put one 'manager' between the boss and the rest of the team. This design tends to be more efficient than the previous one, but fewer team members will have access to the team leader and the power invested in the one manager may be considerable, leading to confusion about who is 'boss'.

A fourth option is to pass information sequentially around the network. This has advantages in that it involves all team members, but again, information passage is slow. In fast-moving business situations, this may not be helpful.

A final option is to consider a 'star' or all-channel network that allows each member to talk to everyone else. This design is useful where tasks are complicated and ambiguous, but bears the risk that people may get left out of the information loop. If your team members are good at communication, enjoy participation, can tolerate uncertainty and do not have too many conflicts, this may be the model to use.

Responsibility charting

Responsibility charting is a way of formally structuring roles so that no time needs to be lost negotiating or 'storming'. Similarly, as sports teams which have to function in uncertain situations have clear responsibilities and communication channels, the members of a soccer team will have clear roles and responsibilities and communication rules are clearly designed. This is not to say that before the match, the team would not be free to suggest strategies or change positions in a 'kickaround'. Responsibility charting assigns:

R Responsibility given to an individual in a group and outlines how that person will relate to others.

A Do some people in the team need to have their actions approved?

C Are there individuals who need to be consulted?

I Are there people whom the responsible persons need to keep informed?

Roles

In looking at a team of four people within a retail clothing shop – Jill, Jean, Joanne and Sam – we have come up with the following:

Tasks	Sam Assistant	Jill Display	Jean Display	Joanne Manager
Display	–	R	R	–
Stock order	C	R	I	I
Customer complaints	R	–	–	I
Cleaning stock	C	C	A	R
Checking	C	C	R	I
Sales	R	R	R	R

Once you have sorted out roles and communication patterns within the teams that you manage, you will have a foundation for performance. Remember that team building involves building the power of relationships within the team. As relationships become more powerful within the team, you should expect to lose some of the power of your relationships. Relationships will become more 'equal'. If you find this difficult to accept and need a special relationship, then you should not consider team building. Bear in mind, though, the penalties in time and effort resource that this is likely to involve.

It may help you to consider your own attitudes to teams by completing the following exercise.

exercise

Exercise: How do I feel about teams?

The style and tenor of a group's approach to problems, and of its internal processes, can often usefully be related by the use of a slogan or an aphorism, such as 'We work hard and play hard', 'We're good losers', 'We enjoy chatting.' Usually there are also hidden, inadmissible slogans that may provide a bitter face to the group. These have been likened to T-shirt messages with the overt message printed on the front and the twist on the back. (eg 'We share our work fairly' on the front and 'except for the nasty jobs' on the back). Further, individuals may carry messages on vests underneath the T-shirt (eg 'And I do as little as I can').

Can you identify these messages for your group and its members? Ask yourself what would be a good epitaph for your group. Perhaps 'They did a good job', 'They tried hard', 'They ran out of time'. Seeing what is written on the tombstone of your efforts can be a salutary experience!

It is important to remember that whilst the internal mechanisms of a team are important – roles, relationships, etc, so is a team relationship with its task. High performance teams will need tasks that are consonant with their abilities. As we've seen, teams tend to work more effectively when involved in finite, measurable projects, which involve the whole team and which they have the opportunity to complete.

Developing teams can be very useful. Teams tend to get things done. Team building is not, however, a partial process. Done properly, team building can release much of the energy locked within the organisation. A partial process can either not release the energy, in which case you've wasted your own time and effort, or release it in ways which you find hard to control.

Teams need to expend the energy that is generated by bringing them together. If you don't have anything for the team to work at, it will waste that energy on backbiting and politics or on completing the wrong task.

Releasing the energy in relationships allows teams to perform much more effectively than groups.

Teams can produce	*Groups produce*
• total involvement	• partial involvement
• voluntary effort	• involuntary effort
• decisions	• recommendations
• a focus on success and performance	• a focus on failure and problems
• flexible structures	• permanent structure and roles
• changes in managers	• no change in managers

Conclusion

Working in teams can be very satisfying and can help you and other members of the team to develop. Being part of a successful team engenders a sense of belonging and can be very motivational. Loyalty to the team equates with loyalty to the company and can have additional benefits in reduced absenteeism and staff turnover. Be sure that team building is appropriate and initiate the process wholeheartedly and you should have a successful team on your hands.

reading list

Reading list

Management Teams – Why They Succeed or Fail
R. Meredith Belbin, Heinemann, 1981.

How to be a Better Teambuilder
Rupert Eales-White, Kogan Page, 1996.

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David Irwin (Ed), Thorogood, 1998.

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chapter seventeen

Supplier management

The information in this chapter relates to Key Role B: Manage Resources

chapter seventeen:
Supplier management

The information in this chapter relates to Key Role B: Manage Resources

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MC14, the information in this chapter will help you to:

1. Procure supplies of a consistent quality and right quantities to ensure continuity.

2 Source suitable suppliers, establish relationships and secure terms which are favourable to the company.

3. Deal with any problems which arise promptly and effectively.

4. Keep appropriate records and make them available as necessary.

MCI5 – Operational

MCI5 – Operational – recommended reading.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Working with suppliers

Almost all businesses purchase goods and/or services. The quality of the supplies received may in turn affect the quality of what is offered to the end-user – the customer. Therefore it makes sense to give some thought to the processes and procedures involved in the buyer/supplier relationship.

Objectives

The aim of this chapter is to help you to manage your relationships with suppliers effectively. It will enable you to:

- assess current requirements and forecast those of the future;
- establish supplier selection systems;
- monitor and evaluate supplier performance; and,
- operate effective purchasing and stock control systems.

The buyer/supplier relationship is vital to the success of your department and/or company. Contracting the wrong supplier or getting stock levels wrong can be a very costly business; substandard parts, late delivery, money tied up in surplus stock or production halted due to a shortage are all problems that it would be wise to design out of your supplier management strategy.

Remember also that not all suppliers are external; colleagues within the company are also your suppliers – of information, of assistance and of goods. These relationships are worthy of the same attention as those that you have with external suppliers and should be nurtured with the same care.

The buyer/supplier relationship

The relationship between buyer and supplier is well covered by legislation. Most of it was developed to protect consumers, but business to business transactions generally also benefit. In England, Wales and Northern Ireland this consists of a range of Acts, the main ones being:

- The Sale of Goods Act 1979;
- The Unfair Contract Terms Act 1977;
- The Trade Descriptions Act 1968;
- The Sale and Supply of Goods Act 1994; and,
- The Supply of Goods and Services Act 1982.

In Scotland there is similar protection, although in some cases the application may differ slightly.

The legislation provides 'implied rights' which automatically come into play during the transfer of goods. The transaction takes on the standing of a contract with both parties having obligations and duties. Ultimately, goods that are exchanged must fulfil the criteria of satisfactory quality and fitness for purpose, and they must be as described. The buyer has the right to reject goods that fail to meet these requirements and if losses are incurred as a result, then further compensation may be sought from the supplier.

Contracts and terms

Business transactions frequently differ from those of private buyers in that specific terms and conditions often form part of the deal. Suppliers can request that buyers give up certain rights with regard to liability for the goods. However, exclusion clauses placed in specific contracts cannot be upheld, even after the transaction has taken place, unless they can be shown to be 'reasonable'. You should be certain that you have read and fully understand the conditions of sale before committing yourself to any contract. If you agree to complete a transaction, you have as much responsibility as the supplier to uphold your part of the bargain. It is important that your duties are understood and completed if you are to attempt to cancel in any way.

Care and time taken to establish the correct terms early on will help you to avoid some of the problems which occur through straightforward misunderstanding. If the relationship is to be long-term and/or involve high value goods, it might be worth having a specific contract of supply drawn up and checked over by a solicitor. In all circumstances, once a sale has been accepted by both parties, put the conditions in writing. This applies in particular to issues that can affect price and time of delivery.

Choosing a supplier

It is essential when selecting your suppliers that you choose those which not only offer you the best prices, but also the best service. Some companies who have achieved ISO 9000 accreditation will only deal with companies who are also accredited, seeing the quality symbol as an indication that the company is a 'quality' company. Others might have a list of criteria which a supplier must meet before they will purchase from them.

Should you receive a request for goods which none of your regular suppliers can fulfil, then you need to identify suitable sources. Generally, you would draw up a shortlist of possibles and send each a request to quote for the order. Your list could be compiled from the following sources:

- colleagues, or contacts in other companies;
- trade journals;
- buyer's guides; or,
- directories.

When choosing which quotation to accept, you might compare commercial aspects such as price, discounts, payment terms or delivery dates, and particularly with lucrative orders you might also visit the suppliers' premises. Once your decision is made, you would add the supplier to your approved list.

Evaluating performance

It is important that you regularly evaluate all suppliers, not just new ones, and monitor their performance. The types of things to measure would include:

- timeliness of delivery;
- quality of goods supplied;
- price/discount/payment terms; and,
- standard of service.

It is up to you to determine what is acceptable and what is not: given the choice between a company which is cheap, delivers on time, rarely sends defective goods but whose staff are surly and unhelpful, and one whose prices are average, which usually delivers on time, rarely sends defective goods and whose staff are very pleasant and helpful, which would you plump for?

You might determine a scoring or rating strategy, perhaps weighted in such a way that those elements that you consider most important score more highly than those less important to you. You might set upper and lower levels of acceptable performance, so highlighting suppliers which deviate from the norm. Whatever you do, you must have some sort of system for evaluating performance.

When things go wrong

When you are dealing with suppliers, it is almost inevitable that sooner or later you will hit upon a problem. When that happens, it is as well to be prepared. In this chapter we will look at some possible areas of complaint and how you might handle them.

Late deliveries

Increasingly, businesses rely upon suppliers to deliver the goods as and when they are needed. If a time of delivery has been specified as part of the order (and hence part of the sales contract), action can be taken against late deliveries. Even if no time limit has been set, you can, after a reasonable length of time, notify the supplier that if the order has not been fulfilled within a stated period, action will follow.

Faulty goods

This issue has been addressed by legislation, as mentioned above. Although the law does *not* make specific conditions, it allows you to expect certain standards of goods/services from a supplier. If the supplier fails to deliver what has been reasonably expected, you can reject the goods. However, this must be done within a reasonable length of time, or you will be deemed to have accepted the goods. If goods develop a fault after they have been accepted, but within a period for which they can be expected to be serviceable, then a complaint can be made. Any guarantee from the manufacturer is in addition to these basic rights, not instead of.

If you have been allowed to inspect the goods prior to purchase, then you can only complain with regard to faults which were not pointed out to you at that time or which would not be obvious upon initial inspection. Any samples supplied to you must truthfully represent the goods.

Damaged goods

Responsibility for goods damaged in transit may be specified in the contract of supply. It may lie with the supplier, the buyer or the carriage company. If you agree to take responsibility, you may wish to arrange insurance for goods in transit. If damage does occur, try to establish the time at which it occurred.

Wrong goods/quantity

Mistakes in this area can occur through simple human error and your supplier should be ready to rectify them. Make sure that you have fulfilled all your duties correctly, that you are up to date with any payments, that the order form has been completed accurately and so on. If you still receive a wrong order, make sure that the supplier investigates the reason for the error. Keep copies of order forms, invoices, etc in case any disputes should arise. If the supplier is at fault, you are not obliged to arrange for the goods to be transported back to the supplier. This also applies in the case of faulty goods.

Price change

Ideally, when goods are ordered a fixed price should be agreed. If an invoice is received that exceeds this price you have adequate grounds for rejecting the goods and cancelling the contract. If no price has been fixed then check to see if the conditions of sale allow for price changes.

Goods not as described or fit for the purpose

Goods that are sold or hired out must be as they have been described and appropriate for the purpose for which they were supplied. Suppliers can only claim defence if the goods are put to use for something for which they are clearly unsuitable, or if it was clear that the seller's advice was not taken during the purchase.

Quality assurance procedure

If your customer returns to you with a complaint that has arisen as a result of defective goods, faulty supplies, etc then you will be held responsible for their losses unless you can prove that the fault was beyond your control. It is important, therefore, that you keep careful records of suppliers and shipments received.

Under the now widespread quality assurance standard ISO 9000, managers are required to draw up a quality system through which all aspects of the business can be monitored. The checking of supplies should form part of a total quality approach and may enable you to establish a convenient 'just-in-time' arrangement. By developing a procedure for checking the performance of suppliers, problems will be noticed early, minimising the effects for both parties. Such a procedure may contain the following steps:

- Make one member of staff clearly responsible for purchasing and checking supplies. This will help to avoid wrong orders being made and it will help to have someone who is familiar with the supplier in question.
- Carefully check all orders sent and invoices/quotations received. When large or expensive orders are concerned it is useful to have a checklist of points to examine. This will include such things as conditions surrounding pricing, insurance, price breakdown, date and method of delivery, payment method, etc. Look at all the terms involved as to how they affect your rights should the supplier fall short of your expectations.
- When goods are received, try to examine them before the carrier leaves your premises. If this is not feasible, and you have to sign for their receipt before you have had a chance to give them an adequate inspection, write 'not inspected' on the form and keep a copy of this.

Making a complaint

It is very important to approach complaints with care and tact. Most suppliers should be willing to help in order to maintain trade and goodwill. Weigh up the cost of protest against the benefits, particularly if a good relationship, discounts, etc have been established. If a complaint still seems the best form of action, proceed as follows:

- Inform your supplier of the problem as soon as possible. If some time has passed, you may be deemed to have accepted the goods and it will be harder to prove where the problem arose. It will benefit you both if the problem can be sorted out amicably and quickly, but you need to make sure that your complaint is taken seriously.
- Try to speak to a customer services manager or someone in a similar position. Telephone first to establish the situation, but follow up with a letter, explaining the problem, saying what you want done and by when. It is important to set a deadline for action to gauge whether the supplier is likely to respond or not.
- If no compensation is forthcoming, tell the supplier what action you will take. Initially this may be withholding payment or withdrawing your custom. However, if you get no response from this, make sure that you act upon the warning. If you or your supplier belong to a trade association they may be able to advise you. Some associations offer an arbitration service, although should you decide upon this route you will not be able to then go on to court proceedings. A solicitor may give you an initial interview for minimal cost, but going to court can prove expensive.

As previously mentioned, it is a good idea to develop a system for monitoring suppliers and supplies along with an action plan, which will minimise the consequences should anything go wrong. Familiarise yourself with the principles of buyer legislation.

Make a habit of keeping copies of all documents and letters received and sent. Record the time and details of phone calls made and follow these up with letters. Never send off original receipts, guarantees, etc – send copies instead.

As a general rule, always research potential suppliers, as you would prospective customers. Not only will this give you a better idea of what to expect and the quality that is available, but knowing that you can shop around will give you more negotiating power when making a complaint.

Finally, be sensible when considering taking action. Weigh up the advantages and costs carefully and obtain legal advice before proceeding. Legal action can be very costly in terms of both time and money; there may be times when proceeding with a claim could be to throw good money after bad.

Assessing your requirements

Regular assessment of purchasing requirements is generally based on a system of keeping a certain number of each component in stock, based on previous requirements. So, if your optimum number is ten and you currently hold four, you would order six.

This is fine, so long as requirements do not or are not likely to change. But, like the supermarket manager who orders Christmas puddings in October – along with turkeys, mince pies and extra sage and onion stuffing – you need to be able to look ahead and anticipate the future requirements of your department. Is the business seasonal? Are changes within the market likely to lead to increased or decreased demand? Is your product likely to be made obsolete due to technological advancements?

Get into the habit of keeping up to date with industry news and purchasing trends; that way you are likely to stay one step ahead and be able to order stock accordingly.

Purchasing methods

For the manufacturing business, purchasing is a crucial part of the production process. Materials must be to the correct specification, delivered on time and, of course, cost the business as little as possible, commensurate with quality and customer specification. Service businesses also need effective purchasing procedures to ensure good value from the goods and services they buy.

Objectives of purchasing

The main objectives of purchasing are as follows:

- to provide materials, components, goods and services, which are fit for the purpose specified;
- for the supply and/or maintenance of these to be on time and of a specific level of quality; and,
- to provide the above for the minimum price achievable.

Minimum price should be seen in the context of supply and specification. Your company is looking for value for money, not false economies. It is pointless purchasing the cheapest item on the market if it does not do what it is supposed to do, and/or cannot be delivered on time.

Managing the purchasing function

It is important that lines of responsibility are clear if purchasing is to be managed effectively. If too many individuals can take such decisions the most suitable supplier may not always be sourced and costs may get out of control. At the same time, those responsible should have the authority to negotiate and take decisions themselves. The authorisation for purchasing different items, depending for example on the cost, may well be allocated to different levels of management. Some decisions may have to be taken by only the most senior managers.

If possible one person should have responsibility for purchasing. This ensures that costs are easily managed and that purchasers can build up their expertise and therefore acquire a thorough knowledge of the suppliers and materials available. The person should be a resolute negotiator, have a good understanding of any production processes (particularly materials), be a good communicator (inside and outside the business) and be numerate.

Evaluation

Along with all other aspects of the business, purchasing should be reviewed regularly. The basis of any evaluation is the records that are kept, the most important being the accounts. If costs seem to be climbing to unexpected levels, how far can this be traced to purchasing? Are there industry norms for these costs? This will allow more specific targets to be set for performance. It is also important to keep records of how well your regular suppliers are performing. Accounts are usually reviewed monthly, but a closer monitoring process may be necessary for high volume production operations.

Purchasing procedures

Ideally, there should be a set procedure for the purchasing process. Major purchases will require the full process to be gone through each time. Smaller, regular purchases should be reviewed periodically – at least annually.

The requirements that the purchaser must meet should be defined as exactly as possible. For new, expensive purchases this may involve in-depth research and consultation. In most cases the specification should be concisely set down on paper, including all relevant information such as quantity, quality, deadlines, packaging requirements etc. This ensures the purchaser knows exactly what is wanted and it saves time when communicating with suppliers.

Sourcing suppliers

If possible source a range of suppliers. For new items this again may involve extensive research. This increases your options and can give you leverage over the supplier you finally choose as they will know you are prepared to shop around. Keep this information for future use, and regularly review the performance of existing suppliers.

Short-listing suppliers

Short-list suppliers by requesting further information, including samples, price lists etc. You may wish to invite representatives to visit you at this stage. Check their prices, terms and conditions against your own specifications. It may be necessary to get independent recommendations and follow them up.

It can be prudent to check on the solvency of your potential supplier, especially if a sudden loss of supplies would put you in a difficult position. Suppliers who have achieved British Standards may be preferred, particularly if this is becoming a precondition for trading in your sector.

It could be that your company has an approved list of suppliers which match up to the stated or identified requirements. The purchaser may buy from one main supplier, but occasionally may buy some items from the other suppliers on the approved list. All the companies on the approved list will meet criteria set by the purchasing company. If you have more than one supplier you will be covered should any problem arise with your main supplier.

Invite tenders/quotations

Send out your specification and invite your shortlist to submit a quote or perhaps to make a formal presentation. Define the quality you expect as precisely as possible – send a sample if you can. When you receive quotations examine the terms and conditions carefully to check your rights should the supplier fall short of expectations.

Make a decision
A purchasing decision can be made based upon the information received. At this stage you may need to negotiate with the supplier in greater detail before striking a final deal.

Delivery and payment

Check quality carefully and do not accept delivery of goods that do not meet the specification. It may make it difficult to recover your money if you subsequently discover a mistake. In addition, always check that the invoice is correct in every detail before authorising payment.

Economic purchasing

Buyers of course should look for discounts whenever possible, but frequently there will be financial consequences for the business. For example, if a discount for buying in bulk is available, what are the consequences of tying up working capital in additional stock (including the cost of storage)? Such decisions need to involve all concerned and should be seen in the context of the financial strategy of the business.

Economic order quantities

It is important to know the optimum amount of stock to order at one time. Whilst you do not want to run out of stock, you also do not want to store too much as this will cost you money, eg the rent on the storage space and insurance. An equation can be used to calculate the economic order quantity:

$$\mathrm{EOQ} = \sqrt{\frac{200 \times U \times O}{H \times C}}$$

where U is the annual usage, O is the cost of ordering, H is the holding cost and C is the cost per unit. The figure arrived at should be used for guidance only.

case study

case

Case study: Penny's pine chairs

Penny makes pine chairs and orders supplies of timber regularly from her supplier. She normally orders and uses 1,000 metres of timber a week, which she can store on the premises. Her supplier offers her a 15 per cent discount on the cost of the timber if she orders a minimum of 10,000 metres.

The normal cost of the timber is £50 per 100 metres. Storage space will cost £20 per week. Penny can see that it is worth her while to take advantage of the discount, but how much should she order at a time?

Using the formula above, Penny works out the economic order quantity.

If a unit is counted as 100 metres of timber, and chairs are produced for 48 weeks of the year (although storage space will be held for the whole year), then the figures may be calculated as follows:

The square root of 200 x 480 (annual usage in 100m units) x 20,400 (cost of timber in £s) ÷ 1040 (cost of storage in £s) x 43 (unit cost in £s) = 209 units.

This suggests that the economic order quantity would be to order in six-monthly batches, although Penny can see that ordering quarterly would still entitle her to the discount – or perhaps she can negotiate a higher discount for the larger order involved in taking six-monthly deliveries?

Large orders

Suppliers normally lower the unit price for those who buy in bulk. This can also take the form of discounts when the cumulative purchase reaches a given level in the future.The crucial thing here is to be able to estimate future usage accurately. If you buy too much you will lose the benefit of the discount in storage and finance costs. Estimates are deduced from past usage and forecast demand.

Long-term commitments

Discounts can also be available for a long-term commitment to a particular supplier. Remember, though, that if you contract to buy all your stationery (for example) from one supplier, then you would be in breach of contract if you took even a small delivery from another stationer during the period in which the contract applied.

Grouping supplies

Discounts could be offered for the purchase of a range of items, or a package of goods and services. Grouping can make life easier because you are dealing with fewer people, provided there is regular usage of a range of items. Beware of becoming over-dependent on one supplier.

Collective purchasing

Costs may also be reduced by joining with other businesses to purchase some goods and services collectively.

Types of purchase

Some of the many different types of purchase that you might find yourself making are:

Office supplies and equipment

Most businesses will require stationery, furnishings, PCs and so on. Businesses should guard against such purchases becoming too routine. Suppliers operate in a highly competitive market and you should be prepared to shop around for good value and to review supplier relationships regularly.

Production materials

The purchase of materials for production is an integral part of the overall production process. The quality and reliability suppliers achieve are likely to be crucial issues, perhaps making sourcing more difficult and more wide ranging. This may result in suppliers having more leverage, so beware.

Utilities

The purchase of utilities such as electricity, water etc should be reviewed and negotiated in the same way as other purchases, especially if you are a major user of such resources. Increasingly companies are able to shop around for the best deal, so do not allow complacency to creep in by continuing to buy from your regular supplier just because you always have. Loyalty is important, of course, but your first loyalty is to your company, to get the best possible deal.

Services and subcontracting

It may be better to subcontract some services out as they can be carried out better by a specialist. As an example, many firms will buy in accountancy services as they do not need a full-time accountant.

Developing the relationship

As a general rule, it is a good idea to treat suppliers as colleagues. It is better to work out common solutions to problems than to jump between suppliers whenever anything goes wrong. At the same time, remember that you are the customer. Do not allow a supplier to exploit a good relationship by bumping up prices once the relationship is established. In fairness to the relationship, your part of the bargain is to ensure that your suppliers are paid on time.

It goes without saying that you should ensure the specification for goods is correct in every detail before approaching suppliers, to avoid wasting your own and other people's time. In addition, you should always question the price tendered. Many sales people regard the price as a starting point. You should always be prepared to negotiate a discount.

Stock control

There are three key elements to stock control: what to order, when to order and how much to order. It sounds simple, but requires systematic thought and the development of a framework of procedures within which to work, if it is to be as effective as possible.

The stock which a company holds will normally fall into one of four categories:

- raw materials and components;
- work in progress;
- finished goods; and,
- consumables.

Raw materials and components are held ready for use in production. They may be held at higher levels than might be desirable for several reasons, including uncertainty about supply, expectation of price rises, uncertainty about demand, availability of discounts for quantity purchase, or because components are often produced or delivered in batches.

'Work in progress' is the term used for stocks of unfinished goods. In a production setting, these stocks can be used as a buffer between manufacturing stages, ensuring that a stoppage in one area does not immediately halt work further down the line.

Stocks of finished goods may be held if customer demand is unknown but instant availability may be required (eg in the case of spare parts). Production is in batches while demand is more regular, or a full order is waiting to be completed.

Consumables include items such as stationery and fuel oil. These are stocked because, like raw materials and components, they are important to the running of the business. The level of stocks will also reflect uncertainty about supply, expectations of price rises, uncertainty about demand, or the availability of quantity discounts.

Why control stock?

Stock control is of importance to businesses in several areas. Careful control can minimise the amount of working capital tied up at any one time. When cash is tied up in stock it involves extra interest payments to the bank or has an opportunity cost if the money could have been used for other purposes.

Planning and monitoring stock levels can prevent problems such as stock-outs from halting production, saving money and avoiding loss of customer confidence. The value of stock can rise or fall due to inflation or obsolescence, your plans can take advantage of one and avoid the other. Some goods are perishable, requiring careful rotation of stock to ensure first-in first-out and to prevent waste.

What stock to manage

It is widely recognised that for many businesses something like ten per cent of stock can represent around 60 per cent of the total stock value, whilst 60 per cent of stock might only amount to ten per cent of the value. This means that it can be worth categorising stock items into high, medium and low values, allowing more resources for managing stocks of the higher value items and less for low value items. However, it should not be forgotten that low cost items may be critical to the business, so they will still need to be managed.

Managing stock

There are two main methods of stock control. One method involves identifying a minimum stock level and re-ordering when stock reaches that level. The other method is to have regular reviews of stock, placing an order to return stocks to a maximum level. Businesses often use a mixture of these methods as appropriate to the types of stock held. Both methods can be operated using either manual or computer-based systems.

Effective stock control involves considering and setting minimum and maximum levels of stock to be held. Factors affecting these levels include lead time (the delay between placing an order and receiving the goods) and order sizes. Lead time is important because it makes you estimate the rate of usage and set minimum stock levels to ensure that stocks do not run out while new supplies are on order. Order sizes are determined by several factors including expected demand and the cost of placing an order (eg transport costs and administration).

A manager has to allow for seasonal fluctuations in demand or supply, and should consider holding safety stocks to supplement the standard level of holding of items which are vital to the business. Any stock control system should be set up to allow for these factors.

Stock control works alongside other administrative systems. For goods inward, information can come from supplier delivery notes, goods received notes, purchase order receipts, return to supplier notes, or credit notes. Goods outward may involve issue notes or requisitions. The stock controller logs information from any such documents before passing them on (to accounts, for example). Stock can tie up much of a firm's working capital; management accounts and annual accounts rely on accurate information about stock levels and values. Any system must allow such information to be easily produced. The accuracy of figures may need to be verified either through stocktaking (full periodic audits of stores) or by a rolling programme of stock checking. Any discrepancy in the figures needs to be investigated, it may indicate problems such as pilfering or failures in the system.

Manual systems

With all manual systems, users have to track stock levels and place orders. The most basic manual system is the Stock Book. It is suited to the simplest of businesses, logging stock received and issued. Where stocks are more complex, the systems will reflect this. A simple re-order level system used for small, cheap items is known as the Two Bin System. Two bins hold the stock items, one of them is sealed – when the first bin is empty, the re-order level has been reached; the second bin is opened for use and an order is placed for a new bin-full. Some items issued for use (eg overalls) may need to be replaced on a regular basis; they can be issued on an exchange basis (new for old).

Stock Cards can be used for either re-order level or periodic review systems. One card is used for each item of stock. The cards can show correct descriptions, cost prices, storage location, estimated lead time on re-ordering, re-order quantities, usual supplier and stock movement histories. Re-order levels will be shown if periodic reviews are not used.

Stock codes can be given a prefix to classify items from expensive (should only be held short-term when needed) to cheap (little cost incurred when buying or holding). The codes can also reflect the storage location of the item.

Computer-based systems

Computerised stock control systems can be very similar to manual ones, but if properly designed and used they can be more flexible, saving time and effort. Some systems can tie in with accounting and invoicing systems so that data only has to be typed in once. Orders can be prompted automatically when the re-order level is reached.

When first setting up a computer-based system, staff will need to be fully trained. A stock take is required to set the opening balance and it is wise to run the new system in parallel with any existing system until any problems have been ironed out.

These systems can help in production planning because information on stock levels is easier to extract. You can identify suppliers who deliver promptly, highlight slow or fast moving stock, and produce up to date stock valuations. However, they only work if procedures are in place for collection and input of data. Systems must tie in with orders already placed to prevent duplication or neglect and should identify stocks earmarked for use or sale.

Computer systems are becoming more commonplace in businesses with large stock movements. Some big retailers insist upon Electronic Data Interchange (EDI) to swap orders and information on stock levels. Where customers require instant notification of availability, employees can be given a computer terminal with access to stock information. Bar coding systems can be used to speed up stock processing and recording, label readers and printers can be operated using software that runs on a personal computer.

Ordering and stockholding costs

Stock involves expenditure. There are acquisition costs: the fixed cost of placing an order, variable costs of ordering, and the price of the goods. There are also holding costs: capital tied up (or interest paid), insurance, pilfering and risks of deterioration or obsolescence. Stock management involves balancing the cost of excessive stocks against the less certain cost of not having stock when it is needed.

The economic order quantity (EOQ) described earlier is a standard formula to calculate the best compromise between frequent small orders and infrequent large orders of stock. In a re-order level system, the EOQ is the number of items to order at a time to minimise the total cost of ordering and stockholding. It is best calculated for items which are used regularly (variations are required in other circumstances). Computer spreadsheets may make calculating stock control formulae easier.

The EOQ is the cheapest solution given a fixed purchase price. If quantity discounts are allowed you will need to calculate the total cost of an order at EOQ (including price and holding cost) then compare it with total costs for the minimum order quantity at any discount level.

The Just in Time (JIT) co-ordination of manufacturing companies and their suppliers is a form of stock control. It aims to reduce costs by cutting stock to a minimum, relying on the supplier to deliver the items required just as they are needed. By operating this method the customer becomes vulnerable to stock outs, though contracts place stiff penalties on the supplier for this. The cautious supplier may feel forced to act as stockholder for the customer.

Stock turnover and stock holding period

It can be useful for management to know the rate at which stock for sale is sold. High stock turnover improves the profitability of some types of business. Some, like fruit shops, need to hold stock for the shortest possible time, while some, eg bookshops, hold stock for longer periods. It is possible to calculate financial ratios like stock turnover and average holding periods. If compared with industry averages, these ratios can help you to detect slow moving stock.

Safety and security

In addition to considering the systems, procedures and costs of stock control, various other issues can arise. Health and safety legislation covers stock handling, labelling and packaging in several ways (eg the Manual Handling Operations Regulations, or the Chemical (Hazard Information and Packaging) Regulations).

Pilfering or 'shrinkage' can be a problem for firms where several people have access to stocks, especially if items are small but valuable. This makes it important to have appropriate security measures in place. The knowledge that stock checks may be made at any time can reduce pilfering; another advantage of computer-based systems. Security measures and insurance both add to the costs of storage.

You should never spend more on a stock management system than the system is worth in savings. Regular stock checks, in addition to the stock management system information, will help to highlight obsolete and redundant items; remember that such stock may still have a market value, in which case it should be sold off and the cash used elsewhere.

Useful addresses

The Office of Fair Trading and the Trading Standards Department of your local authority can provide a range of advice and information.

Office of Fair Trading, Field House, 15-26 Bream's Buildings, London EC4A 1PR. Tel: (0207) 269 8902.

Institute of Purchasing and Supply, Easton House, Easton on the Hill, Stamford, Lincolnshire PE9 3NZ. Tel: (01780) 56777.

reading list

Reading list

Purchasing for Profit
John Kelly, Pitman Publishing, 1991.

Buying for Business
Tony Attwood, Kogan Page Ltd, 1988.

Small Business Production/Operations Management
Terry Hill, Macmillan Education, 1987.

Handbook of Management (3rd edition)
Denis Lock (Ed), Gower Publishing Company, 1992.

Storage and Supply of Materials
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Modern Inventory Operations
Jan B. Young, Van Nostrand Reinhold, 1991.

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David Irwin, Pitman Publishing, 1991.

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chapter eighteen

Resource management

The information in this chapter relates to Key Role B: Manage Resources

chapter eighteen: Resource management

The information in this chapter relates to Key Role B: Manage Resources

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Seek information from others and take into account past experience and future plans when recommending use of resources.
2. Make recommendations that take into account all relevant factors, indicate potential benefits, and are presented appropriately.
3. Encourage individuals to become involved in controlling the use of resources.
4. Monitor both the quality of resources and usage against the plan.
5. Make recommendations for improvement in an appropriate manner.
6. Keep complete and accurate records.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Gather relevant information and plan the use of resources accordingly.
2. Ensure plans contain all relevant data and are presented in the appropriate manner.
3. Deal with any shortfall in requested resources without affecting the work to be done.
4. Monitor accurately the use of resources and ensure that any identified corrective action is taken promptly.
5. Keep complete records, securely.

MCI5 – Operational

MCI5 – Operational – recommended reading.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Resource management

'Management' can be defined as 'the efficient and effective use of resources to achieve results with and through the efforts of other people'. Consequently it can be seen that the management of resources is an essential and integral feature of effective management.

Objectives

The aim of this chapter is to help you to achieve the right results from your planning. It will enable you to:

- identify and source necessary resources;
- manage effectively the human, physical and financial resources at your disposal;
- monitor the use of resources; and,
- plan to succeed within the restraints imposed by those resources.

What are resources?

A whole range of resources will be available to you. Some are easier to obtain and to manage than others and you may find yourself having to develop particular skills in certain areas. You can use the six Ms to label and remember the different types of resources available to management:

- **Machinery** – equipment, computers, etc;
- **Materials** – raw materials, stationery, etc;
- **Methods** – knowledge and processes;
- **Manpower** – people;
- **Money** – finance; and,
- **Minutes** – time.

Let's look at those areas in more detail.

Machinery

How do you manage the use of your machinery? What systems do you have in place for making best use of equipment?

Let's say you have two members of staff and just one computer, which they both need to use. How will you split the time they spend on it? Will one always have mornings and the other afternoons? Will you operate a day on, day off system? Either would be fine, providing they both have an equal requirement (and providing provision is made should something urgent crop up) but what if their needs differ?

Then again, what if they are held up in their work because the computer itself is old or inefficient? What would you do then?

Consider another example; you have five manufacturing machines which operate 24 hours a day, but which require seven consecutive hours maintenance each per week. You have two maintenance engineers (who also have other duties) two shifts each of five machine operators and a third shift of four. How will you plan the time spent on the machines?

Planning the use of the above resources incorrectly could mean a machine standing idle on one shift, following an operator standing idle while his machine was serviced on another.

Materials

Managing materials well can have a direct impact on the bottom line, as can managing them badly by having either lots of money tied up in stock, or loss of production because you ran out of raw materials.

This doesn't just cause a headache in manufacturing companies; a service company that ran out of pens and order pads, for example, or a training organisation that ran out of flip chart pads or workbooks, would also suffer.

Methods

The level of knowledge of your people and the efficiency of your processes are fundamental to your success. Regular appraisal should highlight training needs and having quality systems in place, together with a culture of sharing information, experiences and opinions, should keep processes in order. Be sure that you are able to address both areas fully.

Manpower

This is not just a case of having the right people in the right jobs, but also of a manager being able to effectively delegate, brief, appraise and lead his or her team. Communication skills are key.

Money

It is essential that available money is used wisely. If you have a budget for a project and spend all your funds on non-essentials, then just as the person who blows their monthly salary in the first fortnight has too much month for their money, you will have too much project for your budget.

You must have systems in place to gather and analyse useful information. This may come from both inside and outside of your organisation. The use of commonly accepted performance measures will enable you to compare your own organisation's performance with that of others.

You should also look at alternative methods of finance, and compare your current position and performance with other methods of acquiring and allocating financial resources. Do this using projections for the short, medium and long-term.

When reviewing your use of financial resources be prepared to act promptly to deal with issues which are highlighted.

Minutes

Managing your time effectively can free you from the drudgery of always being late, always missing deadlines and always feeling overburdened. Investing time now in developing this skill will be rewarded in the future as you achieve more in the same time – or less time, if you previously had to put in extra hours to get by and now do not need to.

Capacity planning

It is very straightforward to undertake a simple capacity planning exercise. The objective in capacity planning is to identify how much capacity is available to manufacture the required number of products or deliver the required number of service hours. This is important, for example, when you are seeking to take on additional work and wondering whether you have the capacity (both people and machines) to complete the work on time. The converse of this is determining how much work you expect to have and calculating how many staff may be required.

Figure 21: Capacity planning

Staff planning

The basic approach is as follows:

- forecast sales and plan future production levels;
- estimate the amount and type of work that will be required;
- identify who can do this work and how training and recruitment can fill the gaps; and,
- implement the plan and review its success.

Staff planning is linked to the wider strategic planning process. The staffing plan will develop from the long-term forecast for the development of sales and the required increase in working capacity that this represents. The various types of work must be identified and quantified. Costs may then be attached, enabling budgets and finance to be planned. Plans will be required for the long-term (eg five years), the year ahead (relating to the annual budget), and possibly a month-by-month plan showing how change may be phased in during the year ahead (coinciding with the cash flow forecast).

for example

Example: Project North East

One of the training teams at PNE has contracts to deliver a range of training courses. If every course goes ahead a total of 220 days direct contact time will be required. With a mix of new and old programmes, it is estimated an additional 130 days of preparation time will be required. Some participants on some programmes wish to achieve NVQs. Extra mentoring and assessment will require a further 200 days. This gives a total of 550 days. Allowing for holidays, each member of staff will be available for 228 days. So three staff are employed giving total availability of 684 days. This allows an extra 134 days to develop new proposals, provide sickness cover, do internal administration and marketing. Obviously, the training courses have to be sold at a price which covers the extra days otherwise problems will arise!

Capacity ratios can also be applied to machines – since their availability might be a bigger constraint than staff. If there is a maximum number of hours available – one machine, say, might be available for 132 hours per week and require 12 hours maintenance (assuming round the clock activity). This is an absolute constraint on the business. Monitoring an overall schedule will help you to quote accurate delivery times and perhaps to spot gaps where you can fit in some extra work or devote more time, for example, to preparing the next promotional leaflet.

If you prepare Gantt charts, it is very easy to add a resource histogram, for example, to show the number of staff required at any part in the process.

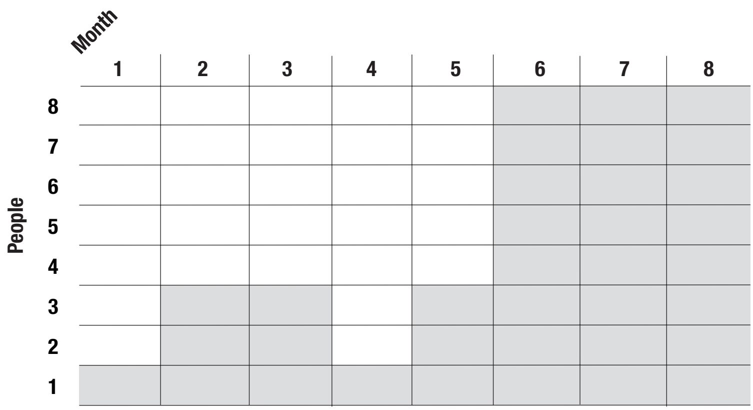

Figure 22: A Gantt chart illustrating staff/time allocation

A further histogram could be prepared to show the financial resources required as the project progresses.

Estimating future work requirements

In addition to estimates for future levels of output, information is needed about how work is done, who does it and what the options are for making changes.

Analysing jobs

The first step is to clarify the main job elements and to determine how much work is required to carry them out. Do not make too many assumptions about what people do and how they do it. The staff themselves are more in touch with how things are really done. A minor task may take much longer than you think. Another task may be so boring that it seriously threatens effectiveness and job satisfaction. Whilst a scientific 'work study' can be useful (and is covered later), informal discussion and team meetings are a much more diplomatic way to look at how work is done.

Estimating increased workloads

From sales forecasts you can derive the required level of production from month to month. These estimates then need to be shown in terms of staffing levels. Clearly, the number of staff required will increase in proportion to the volume of work. For example, double the work (usually) requires double the staff. It is often helpful to create estimates based on the amount of work required to produce one unit of production (sometimes known as the Workload Method). The work required to produce one unit is split into its constituent parts. Each part is given a time value. These can then be multiplied by the number of units required, giving the total amount of work of each type.

for example

Types of work	Time/unit	@ 180/month	@ 200/month
Assembly	1.0	180 hrs (24 days)	200 hrs (26.6 days)
Testing	0.4	72 hrs (9.6 days)	80 hrs (10.6 days)
Packaging	0.2	36 hrs (4.8 days)	40 hrs (5.3 days)

Relating tasks to individuals

Adjusting individual work roles can become very complicated. Where a large team is working on a variety of projects, changing one factor can have a major impact. You need a simple way to look at who does what, and then to look at what happens if you change who does what, and how this will develop over a period of time. A computer spreadsheet is especially useful for this, enabling you to reconsider values without having to recalculate totals every time.

One approach is to create a matrix that sets individuals against specific work areas. For example, calculating on an average of 18 working days (allows for sickness and holiday) per full-time employee per month, the table shows how work (shown in days) is split between a number of staff, for an estimated level of activity in each area.

for example

Types of work	Total	Fred	Jim	Carol	Janet	Joan	Mike
Sales and admin	18	3	12	3	–	–	–
Research	47	–	4	15	16	6	6
Editing/Proofing	28	–	2	–	2	12	12
DTP	15	15	–	–	–	–	–
Total days/month	108	18	18	18	18	18	18

Linear programming

Some businesses are in the position where they manufacture a mix of items, say tables and chairs, but the quantity of each that they can make is constrained by the machines that they have. How do they optimise the use of their machines? How do they maximise the profit that they make?

Constraints might include:

- level of demand for a particular product or service;
- machine or staff limitations and availability; and,
- raw material availability.

Techniques that consider numerical relationships are known as quantitative techniques. One of the simplest quantitative techniques is linear programming. It is used to optimise the use of resources where the relationships between the objectives and resource limitations are linear, that is, they are directly related. For example, the number of products manufactured is directly proportional to the machine capacity.

for example

Example: Chris's carpentry

Chris Clark has a carpentry shop and makes two standard products: window frames and doors. Both require processes in two departments: sawing and sanding. Chris has one circular saw and one sanding machine. Sawing a door takes 12 minutes and a window frame 36 minutes. Sanding a door and window each take 18 minutes. (The window frame also requires assembly but this does not require machine time.)

Total machine time, under current working arrangements, is 60 hours (or 3600 minutes) per week for each machine. If Chris makes D doors and F window frames, then:

$$12D + 36F \leq 3600$$

(ie the total time for both doors and window frames is less than or equal to 3600 minutes).

Similarly:

$$18D + 18F \leq 3600$$

Assuming that demand is not a constraint on sales of each product, Chris will want to manufacture a mix of doors and window frames which maximises the gross profit (that is, the contribution towards overheads).

If the gross profit for a door is 40 and for a window frame is 30, Chris will want to maximise:

40D + 30F

These calculations are frequently now done on a computer, but each equation can also be represented on a graph. (For each equation, first set D to zero and calculate F, then set F to zero and calculate D. This gives the end points for each line.)

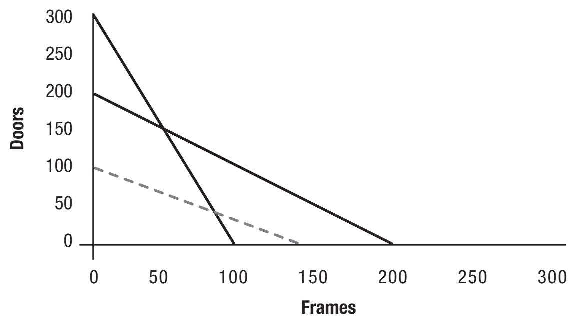

Figure 23: Linear diagram

The number of doors and window frames that Chris can manufacture must lie inside the area bounded by the two graphs.

The maximum profit normally occurs at one for the vertices: in this case calculate the profit for 100 doors and no window frames (£4,000), no doors and 200 window frames (£6,000) and for 50 window frames and 150 doors (£7,500). It then becomes easy to choose the combination that maximises profit.

Alternatively you could plot a series of profit lines, such as the dotted line shown when profit equals £4,000. These will be parallel lines. The point bounded by the graphs with the profit line furthest from the origin will show the maximum profit and the combination of doors and frames required to produce that profit. In this case, the maximum profit will be where the two solid line graphs cross.

Linear programming where there are more than a very few variables becomes impossible to do graphically, but there are powerful computer programmes available to assist.

Linear programming problems can be solved algebraically, for example, using a method known as the simplex method. A particular application of the simplex method is solving transport or distribution problems.

Imagine, for example, that you run a courier business, or manufacture a product which you have to distribute yourself to retail outlets throughout the country. Data can be presented to set out demand at a number of destinations served by stock from a number of locations. The objective is to identify the possible routes and minimise the cost of delivery. There is not room to describe the technique here, but there are many books which describe them in detail.

Work study

Work study is about efficiency. It involves measuring time and cutting out waste within work systems. It is a structured examination of the work people do, looking at all the aspects which may affect the efficient performance of the task. From this, possible solutions are developed which will save time and, ultimately, money. There are two sides to the practice of work study – method study and work measurement. When used properly, they can help a manager to make the best use of available resources to meet the objectives of the business. Although the processes of observation, analysis, measurement and recording are often thought of as on-the-job activities, it is often possible to assess a job or task before it is carried out.

Method study

Method study looks at the sequence of events within a job or task. Tasks may have been done a particular way for many years. But is this now the most efficient way of doing the job? Can parts of the task be left out? Need the task be undertaken at all? Looked at objectively, wastes of time, skill and raw materials (all of which mean money) can be cut out. Although it is traditionally thought of as applying mainly to heavy industry and engineering, in reality, method study is relevant to all jobs and the separate tasks which make up those jobs. Method study can be used:

- to prevent problems before they arise (eg when a new factory, shop unit or office is being planned, or new equipment is to be purchased, method study can be used to prevent faulty or ineffective systems coming into use);
- to improve existing methods and systems; and,
- to cure a specific problem, such as excessive wastage, over-tired staff, or an inefficient office or factory layout.

Problems to be studied are 'open' problems. This means the analyst must first decide what the problem is, then, from the mass of information and facts available, pick out those relevant to the problem. There is no measurement of one task or aspect of a job, as happens in work measurement. This makes the situation not only more complex but also more open to subjective interpretation.

In method study you should be asking open questions: What, Why, When, How, Where and Who. Start with the present situation then look for alternative scenarios for each stage. Don't discard suggestions which seem unworkable immediately, they could turn out to contain the bright idea that saves resources in the long run. The stages involved are:

- Select your area of study.
- Define the problem to tackle.
- Record all the relevant facts.

- Examine those facts.
- Develop options for a new/improved method.
- Select the best method option.
- Sell the new method to all concerned.
- Put the new method into practice.
- Fine tune the new method.

In a real situation these stages won't separate out so easily eg relevant facts may come to the surface later in the investigation.

Recommendations arising from a method study may be quite straightforward, eg positioning related machines close together in an arrangement that suits the work-flow so that workers don't have to move about so much. They could also be more complex, eg resulting in a new product design or a completely new production system which works better and so saves resources in the long run. Alternatively, several changes may be developed, depending on future situations – eg a new material may be about to come on the market, use of which would improve performance or costings, or the market may be about to crash.

Work measurement

Work measurement is the other side of work study. It examines the length of time a task takes, and how often it is carried out. Again, it can be used for many jobs. From an examination, it is possible to assess the optimum (and reasonable) length of time which a specific task should take. Recommendations derived from work measurement must be reasonable.

Work measurement is often thought of as a way of increasing the speed of workers. However, the goal is not so much increased speed as increased productivity, and this can be increased by a far greater percentage than can the speed of the workers. Productivity can be improved in three areas: speed of work, method of work, and utilisation of the work system.

Specific uses for work measurement include:

- To plan tasks in relation to other aspects of the manufacturing process as a whole, or to an individual's job.
- To establish pay schemes.
- To compare methods of working.
- To assess how many staff are required.
- To assess how much each person should have to do.
- To assess the costs of the product, eg for use when establishing price.

Work measurement tasks

Work measurement involves 'closed' (clearly defined) problems, and the search for a particular answer or solution. It is a much more structured process, leaves less room for observer influence, and the facts and information which the analyst is seeking can be worked out in advance of the study itself.

It requires great attention to detail, and exact recording of your observations. Work is divided up into chains of tasks. These tasks are also broken down into each sub-task or action within them. The sub-tasks are analysed and measured independently of each other, then put back together.

Measuring can be done using a watch, but the task to be measured must have specified start and end points so that you know what to measure. Workers should be informed of the study and the reasons behind it.

The analyst should be situated where they can see the process clearly without getting in the way. When they know the routine well, they may feel the process is inefficient and a method study should be carried out (although time measurement may still be necessary until any method changes are instigated).

The task to be measured should be split into sub-sections, each with 'break-points' that clearly delineate the end of that part of the task and the start of the next.

Drawbacks of work study in practice

Work study is straightforward to learn, and can be applied to a wide range of situations. However there is a danger that users will accept the first available answer, instead of waiting for the most effective solution which may take a little longer to identify.

Light and varied work may not require an allowance of time for fatigue or relaxation. More physical work (or work done in difficult conditions, eg excessive heat) probably will. The observer must make allowance for this in time measurement studies.

The person carrying out the study will alter the situation by being there. If someone is aware they are being watched, recorded, assessed or analysed they will modify their behaviour accordingly, perhaps speeding up for the duration of the study. This can have the effect of distorting the analyst's perception of the 'correct' amount of time required to complete a certain task, or even cause more errors than would usually occur in the process. The process may be followed exactly, whereas usually corners would be cut. Although an analyst can make allowances for the 'observer effect', they can only ever estimate the extent of this influence on time and work patterns. Work study requires a certain amount of interaction between the workers and the analyst, whilst trying not to influence the outcome. Such interviews and observations are always to some extent subjective.

The differences in approach required for work measurement and method study mean that if a small business wishes to either employ someone to undertake a study, or ask someone within the business to carry it out, two people may be needed. Someone used to having a concrete problem and analysing it through measurement may find it difficult to cope with an open problem that has to be assessed and before that, pinpointed, with few guidelines – it requires a much more open mind.

It is difficult to measure work which predominantly uses 'brain power' as opposed to physical work – how do you assess how much rest and recovery time is needed? How do you measure the lessening of concentration over time?

Work study can never be entirely analytical, as everyone will bring to an assessment situation their own strengths and weaknesses; they will select certain facts depending on their training background.

Those being observed should also be suitably experienced in the tasks they are carrying out. In time study, observers will often rate workers according to a mythical 'standard' performance.

Time tracking systems

Many businesses (eg management consultants, solicitors, designers, engineers, software houses, auditors, architects) rely on selling the expertise of their staff to clients. The main cost they must keep track of is the time their staff spend on jobs for different clients. Freelance consultants will charge out their time at an hourly or daily rate, making a note of how much time they have spent on each client as they go along. The process becomes more complicated as the number of clients, and the number of staff, increases. Charged rates also vary with the different grades of staff working on each job. For such businesses it can be critical to be able to account for staff time accurately. This ensures that costs and estimates are accurate, and helps you identify inefficient practices and assess individual performance. Time tracking also helps project managers to monitor progress at regular intervals.

Implementing time tracking systems

Any time tracking system depends upon the ability (and the will) of individuals to monitor and record their own use of time. Staff must see the value of time tracking. Implementing a workable system can be quite difficult. Consultants in particular are accustomed to a lot of autonomy in their work and will often see an exact time tracking system as an imposition. The system must be easy to use, otherwise staff will see it as a drain on their time. Design your system from the point of view of the individual. Discuss the requirements of your staff. They will be the ones using the system. Contact your trade association and colleagues in other businesses to find out which system they find most workable.

You need to set your time tracking needs against the practicality of tracking that time. For example, a design consultancy may allocate work on client designs by the hour as the studio will only work on three or four jobs at a time. Staff in a busy legal practice may deal with many cases in one day; so time units of as little as three minutes may be appropriate. Do not record time to an unnecessary level of detail. Consider the ability and the need for particular staff to account for their time. You may choose not to require administrative and secretarial personnel to account for their time use (ie their time is considered a fixed rather than a variable cost).

You need to assign a member of staff to the implementation of a time tracking system. They will also be responsible for maintaining data input and overall management of the system. They will have to make sure that all members of staff provide or enter their timesheets onto the system at a set time each month. The employee you choose for the role should be persistent and tactful. Make sure they have your full backing. The person responsible may be your accountant or practice manager.

Time tracking is closely related to time management skills. Some consultancies integrate their time tracking and time management systems; for example, a 'Filofax' style package with timesheets may be provided together with training in time management.

Administration and processing

Recording on forms

The normal process is to allocate job numbers or codes to particular jobs before work starts. Staff record the time they spend on particular jobs on a chart setting job numbers against days. Timesheets may be submitted daily, weekly or monthly, depending upon the number of jobs and the detail required. Many consultancies also use their timesheets to record where letters and calls have been carried out for a client.

Recording on computer

The information then needs to be processed to arrive at values for each job, and ideally this should be done on a computer. Sophisticated systems allow staff to enter their own time allocations on a portable computer or hand held electronic diary (eg Psion) and the information is downloaded on a regular basis to the main programme. Linking to diary systems allows the user to benefit from diary support as well as to track their time. On some systems it is possible to use a timer to record the time automatically. Similarly, regular users of network terminals can access the tracking system themselves and insert their own information. Such a co-operative approach requires quite a heavy investment in hardware, software and training. Moreover, everyone must be willing and able to use the system, something not easy to achieve if there are quite a number of staff involved. A small consultancy type practice may find such systems the easiest to use.

Centralised processing

For a larger business, time tracking is perhaps best co-ordinated through a central administrator, such as the office manager, book-keeper or company accountant. Time tracking systems can also be linked directly to accounting packages for the purposes of invoicing, using a paper-based system to obtain the information from staff. The administrator is also in a good position to run any client tracking system, which in particular will allocate the project, client or job code. Files and paperwork show the job number, enabling staff to make the correct allocation. Forms with staff names on them can be issued, say on a monthly basis. If there is a variety of staff involved (eg consultant, researcher, designer), their time will be charged out at different rates. Staff will frequently need guidance on how to fill in the form. It is usually appropriate to issue written guidelines for staff, and certainly to have frequent briefing sessions to keep everyone on track.

Estimating time

At the other extreme, where the number of different jobs is not so great, only a rough estimate of time spent may be required. All the same, it is important that this is done systematically. Staff should be in the habit of estimating the time spent on a job, at least on a weekly basis. Another practical method is to mark the time spent on a job on a chart in the job or client file. This can be used to compile an invoice at the end of the job.

Computer software

A number of computer software packages exist which can help you and your staff to track the time they spend on various jobs.

Timesheet Professional is one example of such a system. Individuals can use the system themselves to record their time, or it can be done centrally. There are on-screen and printed report facilities. Timesheet complements other packages designed to support project management (eg Project Workbench) and invoicing, so that data can easily be exchanged between systems. Another leading product of this type is the Carpe Diem system.

Psion produce a range of pocket computers which combine personal organiser facilities (eg diary, address book, planners, calculator) with an array of standard computing facilities including word processing, spreadsheets, and even automatic dialling and fax. Psion have produced a number of customised packages based around their Psion Series 3a. Timebase is a multi-user, electronic time capture system, which enables accurate records of chargeable time to be kept, combined with expenses and disbursements. Client reference codes and activity descriptions can quickly be located and a timer set when work starts. A reporting facility enables you to view work in progress at any time and information can be downloaded to a networked PC version of Timebase. Also through Psion, the PsiTIME system collects time, expense and cost data for analysis on the Psion or transfer to/from another PC system (eg Sage Timeslips).

Many businesses have software packages developed especially for them, eg management consultant suites incorporating most administrative functions including time tracking. Your trade association may be able to recommend a suitable package for your type of business.

Identifying and securing resources

Experience, both your own and that of your team, is a major consideration when drawing up resourcing plans. The manner in which resources have been used in the past should be taken into account, along with your knowledge of what is happening currently, and future intentions, trends and influences. All planning should be consistent with the overarching objectives of the organisation.

It can be helpful to conduct an audit of all available resources, whether from inside or outside of your organisation. Identify what is available and also define quantity and quality. Showing how available resources are being utilised is the step following the resource audit. Until and unless resources have been organised into processes and systems that support strategic objectives and achieve measurable results, they have no value.

When requesting resources, remember to stress benefits as part of your justification. Be enthusiastic but realistic, and be prepared both to negotiate and to adapt your plans where necessary. Where you have to give ground due to not securing all the resources for which you originally asked and planned, be sure that your adaptations still provide sufficient resources to implement a suitable workaround. The same activities will very likely still have to be carried out; be sure to get the agreement and support of others involved in the process.

Resource efficiency

The cost-efficiency of available resources is a key factor for consideration. Four areas to look at are:

- economies of scale;
- supply costs;
- product and/or process designs; and,
- past experience.

You should also review just how well your product or service meets the needs of customers.

Effective use of resources

The quality of the resources at your disposal is a major consideration; you should be careful to monitor quality regularly to ensure consistency of supply. Other members of your team should be encouraged to accept responsibility for reporting any drop in quality and to use resources responsibly and effectively.

As well as monitoring quality, you should monitor the use of resources against your plan. If too many resources are being used, where is the problem? Assuming your planning was accurate, and that quality is acceptable, then some other factor (pilfering, carelessness) is affecting usage. If you are using fewer resources than you expected, is the quality of your final product or service suffering?

Where there is a significant difference between the planned and actual (or potential) use of resources, then it will be necessary to take corrective action. This action could take several forms; you may need to:

- change the processes involved;
- change the way resources are used; or,
- renegotiate your resource allocation.

You should constantly be alert to improvement in the use of resources and implement any desired changes promptly. Also, keep accurate records; as well as identifying problems promptly, they will assist you with your future resource planning and management.

Conclusion

Resource planning and management is an important part of strategic planning and of implementing your plan. It is supported by a number of planning tools, including budgets, financial forecasts and plans, and project planning techniques. The decisions required are two-fold: how will we allocate available resources; and how will allocated resources be deployed? Add to this the control elements of performance measures and effective management information systems, and you should be well-placed to manage effectively the resources at your disposal.

reading list

Reading list

Exploring Corporate Strategy
Gerry Johnson and Kevan Scholes, Prentice Hall, 1993.

The Good Manager's Guide (2nd Edition)
Trevor Boutall, MCI, 1997.

Building Your Business
David Irwin (Ed), Thorogood, 1998.

Handbook of Management (3rd Edition)
Gower Publishing Company Ltd, 1992.

chapter nineteen

Successful negotiation

The information in this chapter relates to Key Role B: Manage Resources

chapter nineteen: Successful negotiation

The information in this chapter relates to Key Role B: Manage Resources

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MCI4 or either of the MCI5 NVQs, the information in this chapter will help you to:

1. Negotiate in such a way as to establish and develop relationships.

2. Ensure negotiation results in a 'win/win' situation.

Negotiation

'Negotiating' is a term used a great deal nowadays, whether in newspapers or on television. It often seems to imply that only large companies or whole countries are involved, not individuals. However, we all frequently have to negotiate, even though we may not realise it.

In fact, all human interactions are characterised by some sort of negotiation between or among people trying to give to and take from one another. This process of exchange is continual and often goes unnoticed. Take time for a moment to consider why you occupy the position that you now do. How much negotiation did it take – at home, at school, at work, elsewhere – to enable your occupation of this position? Negotiating is a process of bargaining to reach a mutually acceptable agreement.

Objectives

The aim of this chapter is to make you aware of the different aspects and stages of negotiation. It will enable you to:

- recognise the need for negotiation;
- identify different negotiation strategies;
- identify the different steps involved in negotiation; and,
- identify your preferred style of negotiation.

Negotiating is finding solutions to problems in order to reach a result that is acceptable to all parties. It is not having your own way in all situations. Successful negotiations achieve win/win situations: that is, mutually acceptable outcomes.

case study

case

Case study: Win/win solutions

Two chefs were preparing for an important meal. They both needed an orange. Unfortunately, only one orange was available due to a mistake by the kitchen assistant. The chefs started arguing with each other about who needed the orange the most.

They could have cut the orange in half, in which case both would have less than they needed. Both would, therefore, lose. Or, the senior chef could pull rank on the junior – leaving the junior as the loser, and possibly losing his future co-operation.

It turned out that the first chef needed only the juice and the second needed only the rind. So, the chefs were in a win/win situation.

An important part of negotiation is establishing the needs and objectives of the other party. Look at the following case study; Brian and Chris are clearly collaborating.There is no agreement yet, but the statements suggest a process of seeking mutual advantage – Chris to win an order and Brian to get value for money.

case study

Case study: Collaborative negotiation

Brian is responsible for arranging printing for the company for which he works. Chris runs a small printing business.

Brian has telephoned Chris:

'I have been told that you might be able to help with a printing job'

'I'll help if I can – tell me more'.

'I need to print 10,000 copies of a newspaper.'

'Would it help if I visited to discuss your requirements? I can bring some samples and we can look at prices.'

case study

Case study: Confrontational negotiation

Imagine a company that manufactures ceramic mugs. Peter is an engineer in the quality control department; Andrew is a foreman on the shop floor. Peter has identified that the mugs are not round.

'Andrew – I am most disturbed about these mugs.'

'Why? There is nothing wrong with them.'

'They are not round.'

'No-one will notice.'

In the case study above, Andrew and Peter are quickly heading for confrontation. They are arguing about the quality of the mugs, rather than looking together to see how quality can be improved. This will not improve the way they feel about each other, nor will it lead to a solution that solves the problem.

Scope for agreement

The importance of establishing the needs of each party was mentioned earlier. In any negotiation, you quickly need to discover whether there is likelihood that you might be able to reach a satisfactory agreement. This may be thought of graphically, as illustrated below, as an overlap of objectives. For example, a seller may be seeking to maximise the sale price, but has a price below which they must not go. Similarly, a buyer may want to minimise the purchase price, but will have a maximum above which they will not buy.

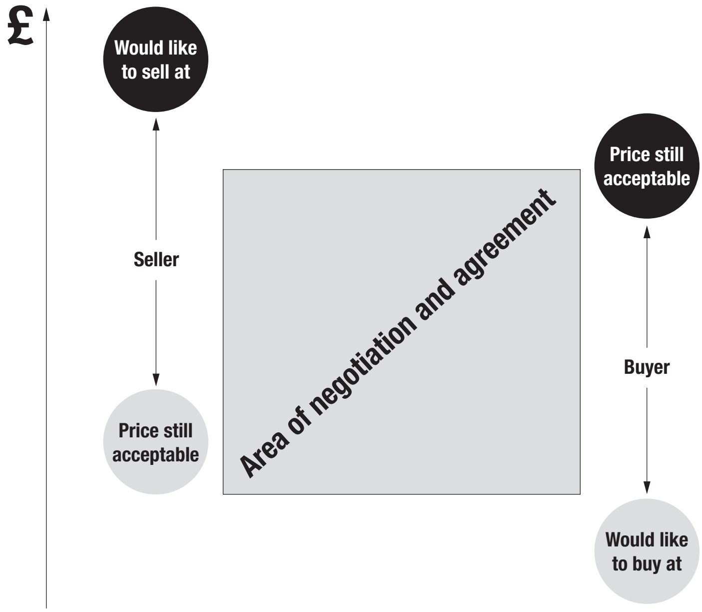

Figure 24: An overlap of objectives

Steps in negotiation

In any successful negotiation you are concerned with three key elements as shown below.

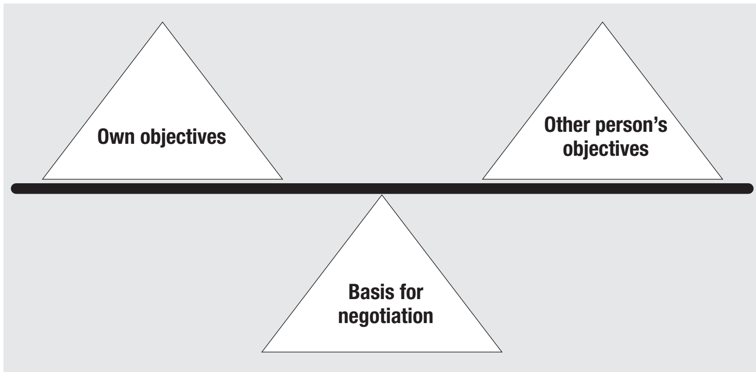

Figure 25: The three key elements in negotiation

Firstly, you need to know your own objectives. Then you need to plan and prepare for your negotiations. It is assumed that you have a thorough knowledge of the subject under negotiation. This will often be the case, for example, when dealing with customers or suppliers. However, you may also find yourself negotiating leases on property or loans from the bank and may not feel totally confident about your knowledge. You should try to find out as much information as possible, from various sources, prior to the meeting.

You may need to think about the procedure for the negotiation, particularly if there are a number of negotiable points.

If the negotiation is at your request, you will wish to retain control as far as possible to establish the scope for reaching agreement. It can be important, therefore, that you create a friendly atmosphere to achieve satisfactory negotiations.

Five steps to successful negotiation

You can use the mnemonic 'Partners Don't Pick Bad Arguments' to remember the steps in the negotiating process, which are as follows:

Prepare

Always prepare thoroughly for negotiation. There will still be times when you must think on your feet and respond to the unexpected, but try to keep the possibility of this to a minimum. Firstly, decide your objectives and, as you will be assertive in your dealings with the other party rather than aggressive, decide your fall-back position.

Categorise them as follows:

- must achieve;
- intend to achieve; and,
- would like to achieve.

Case study: Setting objectives

Richard needs to lease premises of 10,000 m^2 in a town centre location with a current fire certificate though he does not have any other essential requirements. It would be desirable, however, to have parking, access for the disabled, lift to all floors and 24 hour, seven day access. He knows the maximum he can afford to pay and the minimum length of lease for which he will settle.

Richard's desired outcome is to obtain a deal on the lease agreement of the premises. His objectives are:

- rent within his budget;
- length of lease as required; and,
- no hidden costs.

Negotiations often involve a compromise, so you need to decide what you are not prepared to concede. Think of all the solutions which may be offered to you and decide in advance which are acceptable.

Once your objectives are established, you must do some research to be sure of your facts. Gather and analyse what information is available, then plan your strategy for negotiation. What will your opening offer be? What are you prepared to trade?

Try to assess the needs of the other person in the negotiation by listing the information under *must achieve*, *intend to achieve* and *would like to achieve*. What will they need to get out of the deal? Use any previous knowledge of the person or company to work out what stance they are likely to take. Do not make assumptions.

case study

Case study: Analysing information

Richard has the following information:

- the 'going rate' for property of this type and age is £4 per m^2 if in decent condition;
- current local authority regulations require one parking place per 1,000 m^2;
- refurbishment will cost about £80,000; and,
- the premises have been empty for a long time.

He can now redefine his objectives. Specifically, he needs to get the rent below £1 per m^2 if he is to be able to afford to refurbish the premises. However, he can only justify that expense if he gets a lease of at least ten years.

Discuss

You know what you hope to achieve – the discussion stage is where you establish the other party's objectives and requirements. Once you have both sides of the story, you are in a position to move on.

> **Case study: Discussion**
>
> Richard has arranged a meeting with the landlord of the premises he wants.
>
> **Richard**: 'The premises are in a good location, but they need a lot of work doing on them. The building is not worth more than 50 pence per m^2.
>
> **Landlord**: 'I want to let the premises but I want something in the region of £3 per m^2.

What would you do next?

In the case study, both Richard and the landlord have stated their opening positions. At first sight there appears to be a wide gulf between them. However, both have also signalled that they may be prepared to move: Richard in stating that the location is good; the landlord with his desire to let the premises. The next step is to make firm proposals.

Propose

Based on your knowledge, offer proposals and find out what the other person is prepared to trade in return. At this stage, nothing is set in stone – you are tentatively exploring possibilities.

It is important to use an opening statement, which should cover the main issues at stake for each party:

> *'I would consider renting these premises, but a lot of money needs to be spent to bring them up to standard as they have been empty for such a long time.'*

Alternatively, an agenda could be discussed so that both sides are fully aware of all the issues under debate. If there is conflict in the purpose of the negotiation, this must be overcome before proceeding further.

This is the time to ensure that the information received is accurate. Both sides may have given facts and arguments, to convince each other of their case. However, statistics can be misused, facts may be wrong and emotional appeals might have been made. It is always sensible to test the other party's statements.

When both parties have satisfactorily explored the issues, the requirements to be mentioned in the bidding phase should be summarised:

> *'Refurbishment is going to cost quite a bit of time and money before the business can become operational. We need to discuss this in more detail and decide who will meet the costs.'*

Bargain

You are now moving to firmer ground and your bargaining and trading should take you forward to agreement.

After discussing each other's requirements and exchanging information, the bargaining can start. It is important not to start bargaining too early – you may miss important concession areas or information. Generally, you receive more if you ask for more. If conflict arises at this point, indicate that your opening offer is not necessarily what you will finally accept.

When your offer is made, state this clearly. If you use the word 'about', an experienced negotiator can challenge on a variety of issues, and change your offer dramatically.

case study

case

Case study: Bargaining

Landlord: 'I was thinking of about £2 per m^2.'

Richard: 'I do not think that is a realistic price, considering its condition.'

Or:

Richard: 'Yes, that sounds reasonable to me.'

In the first instance, Richard can assume that the landlord has not really thought about the price. This will enable Richard to knock down the price considerably. The second response illustrates a bid that is too low. Richard, with no further negotiation, has accepted the price, obviously having expected it to be higher. Richard was also at fault here – the price could have been negotiated lower.

When the offer has been made, the next step is to find out exactly what it includes. Ask for clarification. You will have prepared a list of your requirements in the pre-negotiation stage, so ensure that your needs have been met.

The points to remember when making an offer are:

- Aim high – you can reduce your demands later.
- Make a positive offer.
- Ask for clarification of offers you receive.

The next stage is the most vital phase of the whole negotiating process. The offer has been made, and the two parties have to ensure that this is mutually acceptable.

All the issues to be negotiated need to be identified. At this stage, concessions may be introduced. Trade off items that are of little value to you, but of great importance to the other party, in exchange for items of great importance to yourself. If you are offered a concession, it can be dealt with in four ways:

- Be grateful – and ask for more.
- Trade with a smaller concession.
- Accept it and continue talking.
- If it was too small, act as though you had not heard it.

Do not trade all your concessions at once. If they are given too early, the other party may expect more. Also, you should record all concessions, to ensure no misunderstandings occur. No deals are binding until the contract has been agreed.

Case study: Concessions

Richard: 'I will completely refurbish the premises at my expense provided that you give me a 15 year lease.'

Landlord: 'I am happy to give you a long lease and will, therefore, reduce the rent to £1 per m^2.'

Richard: 'That rent level is acceptable provided you also give me the premises rent free until the refurbishment is completed.'

You will note that both parties are offering proposals, agreeing at least part of the other party's offer but seeking concessions in exchange. It looks like they are on their way to reaching an acceptable agreement. Their positions are now beginning to overlap. Think carefully about what is expensive and what is cheap for the other party. In the example, the premises are empty thus generating no income. They have been empty for a long time so a tenant paying anything will be an improvement. The premises, having been refurbished, will revert to the landlord at the end of the lease. He may, therefore, be prepared to forgo a high rent in exchange for an increase in capital value.

When making concessions or offering counter-proposals, flexibility should still be maintained.This should reduce the possibility of a deadlock. If an agreement cannot be reached on one issue, discuss all the other issues and then return to the final point of disagreement, with the aim of finding a solution.

Agree

The final stage: an agreement satisfactory to both parties is arrived at and the documentation drawn up to seal the agreement.

When agreement is in sight, the energy level of the negotiators may increase. Other signs to watch for are verbal indications – 'maybe' 'perhaps', and non-verbal – papers may be placed in briefcases. It is time to summarise what has been discussed and agreed. Do not start bargaining again.

It is vital to ensure that all points discussed have been clarified. An action plan may be required, giving details of deadlines and allocating tasks.

Offer a summary of what has been agreed.This will give a chance to confirm or correct any decisions. Ensure that all concessions have been agreed as part of the total package. It is too easy to feel relieved at the final stage and overlook some detail that could disrupt the whole negotiation.

If there is any disagreement, negotiations should recommence until a successful outcome is reached again. If minutes or notes were made, get them written down straight away and give a copy to the other party. Send a letter documenting the points made. Having the agreement backed up in writing is better than just shaking hands on the deal.

Make sure you mention:

- the terms of the agreement;
- the names of those concerned;
- the prices mentioned, plus any discounts, credit terms agreed, etc;
- individual responsibilities; and,
- time schedules and any dates, if agreed.

Case study: Richard's letter to the landlord

Dear Mr. Brown,

I am writing to confirm our agreement regarding 10 Grey Street:

1. You will give me a rent free period of one year followed by a full repairing lease of 15 years with three year rent reviews.

2. The starting rent will be £1 per m^2.

3. I will refurbish the premises at an approximate cost of £80,000.

4. Rent reviews will be based on the current condition of the building and prevailing rental levels; the refurbishment will not be taken into consideration.

I look forward to receiving the lease from your solicitors, and to a long and happy relationship that will be to our mutual advantage.

Yours sincerely

Following this procedure will work well to achieve win/win results between two assertive parties; there is no guarantee, however, that the other party will not behave in a non-assertive way. Submissives may be guided by the process and encouraged to behave more assertively as a result; even if they continue to be submissive, don't be tempted to take advantage of their lack of assertiveness or the result will be win/lose.

Factors in negotiation

Let's look for a moment at the sort of things that are likely to effect the negotiation process:

- The first of these is the nature of the relationship between the parties. If you value the relationship you will generally use collaborative strategies; collaboration seems to demonstrate concern for the other party.
- The second of these is your own, or the other negotiating party's level of skill in communicating. Much of this is simply a matter of confidence, which is built up over time.
- The third is the amount of time available to the parties. Studies have shown that parties who face tight deadlines when negotiating will tend to use competitive strategies, although these are likely to be the most time-intensive where parties are more or less equal in power.
- Fourthly, clarity of objectives impacts upon the negotiation process. If you have clear goals you will be more likely to enjoy a focused discussion in which the objectives can be used to define progress and as a measure of success.
- Fifthly, you may need to consider the way in which openness affects the negotiation process. Openness is a major factor in contributing to both communication effectiveness and negotiation success. You might think that knowledge of the other party's positional strength would put them at a disadvantage. Research seems to prove the opposite to be true. Knowledge of the other party's relative weakness seems to lead the negotiating party into responding collaboratively. Such information needs to be honest and relevant.

You must also think about your tactics: within the relationship that you set up, you will have some choice regarding the tactics that you use in the negotiation process. There are two broad ways of negotiating, part of which is dictated by the nature of the relationship and part of which will be dictated by personal preference.

exercise

Exercise: Assessing your negotiating behaviour

Consider the statements below and the extent to which you generally engage in the behaviours that they describe when negotiating:

If you **never** engage in the behaviour, score **1**.

If you **seldom** engage in the behaviour, score **2**.

If you **sometimes** engage in the behaviour, score, **3**.

If you **often** engage in the behaviour, score **4**.

If you **always** engage in the behaviour, score **5**.

1. When I negotiate I try to win.

2. When I negotiate I try to win, but if I can't, I make sure the other person can't win either.

3. I tend to blame other people for the problem.

4. I would conceal my true intentions.

5. I would discredit the other person's position.

6. I'd try to work towards a situation acceptable to both parties.

7. I'd reveal my true intentions at the beginning of a negotiation.

8. I'd give the first concession.

9. I'd try to stay flexible about the means to a settlement.

10. I'd never personally attack the other negotiator.

Conclusions

Statements 1-5 are characteristics of a competitive negotiator. The highest score is 25, the lowest is 5. The higher your score on these statements the more you will prefer a competitive style of negotiation.

Statements 6-10 are characteristics of collaborative negotiation. The highest possible score is 25, the lowest 5. The higher your score on these statements, the more likely you are to engage in collaborative negotiation.

Competitive negotiation incorporates an approach in which the objective is not only to win, but also to make the other party lose. Collaborative negotiation is the type of approach in which the objective is to arrive at a solution in which both parties are satisfied with the result.

Negotiating roles

Before we look at these approaches in more detail, let's look at the roles which you might take on in a negotiation. It is possible to identify five, each of which has particular strengths.

The factual negotiator:

- knows all the facts related to the negotiation;
- asks factual questions;
- covers all bases to ensure that no facts are left out; and,
- provides information.

Factual negotiators tend to leave aside emotional issues such as 'face' – a person's desire for a positive identity. (People like to feel and look good and will react in a hostile manner to attacks that make them feel or look bad.) They can get most involved in details about the negotiation.

The relational negotiator:

- establishes relationships with the other party;
- is sensitive to the other party's emotional issues;
- builds trust; and,
- perceives the position of the other party.

Relational negotiation can lose sight of the reasons for negotiation and the objectives in their anxiety to build relationships. They can also give away information without realising it. Their sensitivity can make them become emotional and lose perspective.

The intuitive negotiator:

- comes up with unexpected solutions or ways of approach;
- sorts the wheat from the chaff – the key issues from the irrelevant detail;
- visualises the implications of a proposal;
- accurately guesses the progress of negotiation; and,
- sees the 'big picture'.

Intuitive negotiators can be dangerous because of their wildness. They may also have very little discipline.

The logical negotiator:

- sets the rules of the negotiation;
- develops an agenda;
- argues a logical rather than emotional way; and,
- adapts their position to meet changing situations.

The logical negotiator can sometimes see the process of negotiation as being more important than the content.

The lead negotiator

Finally, all these approaches or roles need to be co-ordinated by the lead negotiator, who is responsible for all of the above roles and who makes the final decision about strategy, etc.

It is likely that there will be some or all of these in your own make-up as a negotiator. If the intuitive negotiator is strongest, you will need to develop discipline. If your logical negotiator is most prominent, you may need to develop relationship building skills. Consider how you might do this. Now let's look at the two broad approaches to negotiation which were mentioned earlier.

Competitive negotiation

You can assess the characteristics of a potential negotiating situation by looking at these factors:

- Do both parties need the relationship to continue?
- Are both parties skilled in negotiation and communication?
- Is there sufficient time for the negotiation to take place?
- Are there clear objectives?
- Is there an effective exchange of information between the parties involved?

If you answer 'no' to more than two of these questions, the negotiation is likely to be a competitive one. Where these factors seem to indicate that the negotiation is likely to be competitive, you will need to consider some of the informal ground rules for competitive negotiation. Competitive negotiation may be uncomfortable and ultimately self-defeating, but it happens, and in order to succeed you will need to consider a number of factors.

Opening bid

In a competitive negotiation you may need to give some consideration to the way in which the negotiation begins. The secret of successful negotiations is to manage the context of the relationship in which the negotiation takes place. This will help balance the power between the parties and maintain communication. Where it is not possible to manage the context of the relationship, you will need to use strategies which increase the dependency of the other party by limiting information, controlling agendas and so on.

The first rule of competitive negotiation is that you should try to avoid making the opening bid. The opening bid gives a great deal of information to the other party and making it will decrease the opposing party's dependency on you.

The corollary to this rule is that if you are forced to make the opening bid, it should be just under the point at which your opponent will be insulted. This gives as little information as possible to the opposing party *and* avoids the possibility of their withdrawal. If your opening offer does insult your opponent, it is possible that s/he may withdraw and both parties will suffer loss.

The way that you pitch your opening offer will depend on a combination of the information that you have about your opponent's position, your own perceived strength, and the amount of time available. One of the skills of competitive or value-claiming negotiation is estimating the opponent's real needs as opposed to his or her expressed desires. This involves the use of listening skills and the interpretation of body language.

Concessions

In similar fashion to the opening bid strategy, the competitive negotiator will need to consider the effect of concessions. In a competitive situation these are seen as a sign of weakness or dependency. The second rule of competitive negotiation is, keep concessions to a minimum.

The size of the first concession will also give away information about your best alternative to a negotiated agreement (BATNA). The BATNA is a vital piece of information that will tell the other party exactly how far they can go before the negotiation breaks down. In competitive negotiation, your BATNA should always be hidden.

Conflict

Within a negotiating situation, there are certain rules which relate to conflict. If the parties ignore these rules, the negotiation is likely to break down into futile argument with little result for either party.

The first rule with regard to arguments is to make sure that your position is strong and clear. It is important to be well prepared and to keep your arguments well supported and to the point. The more relevant information that you have, the more effective your argument is likely to be. Irrelevant arguments are not likely to lend you credibility and a fuzzy position will indicate weakness.

The second rule with regard to conflict is to make sure that your arguments are capable of persuading your opponent. In order to do this, you will need as much information as possible about your opponent.

The final rule for competitive negotiation is that you should avoid attacking or threatening your opponent, except as a last resort. Threats to use power may work in the short-term, but you send potentially dangerous messages when you threaten. The first is that your negotiating position is one that does not have an adequate alternative. Unless you have an alternative to a negotiated settlement, your position will be perceived as weak by an experienced negotiator. Threats communicate your desperation and can bring the negotiation to an end.

We've looked at broad tactics. The specific types of behaviour that you can use in a competitive negotiation may include:

- being sarcastic in an attempt to produce emotional reactions and provoke the other party to reveal information;
- misunderstanding the other party deliberately through a mistaken summary or question;
- exaggerating by amplifying what the other person has said; using words like 'always', 'never', 'impossible', 'extremely', 'nobody', which can pre-empt another person's extreme position;
- making an unexpected move by introducing a surprise topic which has nothing to do with the subject, which can cause the other negotiator to lose track of the argument;
- overloading the other person with questions or too much information, in order to put them in a position where they are forced to ask you for help; or,
- using prolonged silence right after a question or a statement made by the other party – if you do not talk there is a good chance he or she may start again and disclose further information.

You can see that communication is used even in competitive situations. Competitive strategies require that you find out as much as possible about the opponent in order to prepare your message. This then leads to knowing what your message is, and preparing yourself for delivery. Negotiation is often an extremely intense form of communication because of the way in which it is affected by power issues. Let's look at the other type of strategy available to the negotiator.

Collaborative negotiation

Competitive negotiation is about one party achieving power over another party, whereas collaborative negotiation is about both parties balancing the power between them. They look for solutions that will create value for all the parties involved in the negotiating process – to create a 'win-win' situation.

Amongst the best known proponents of win-win negotiation strategies are two Harvard professors, Roger Fisher and William Ury,[21] who produce a model of 'principled bargaining' built around four strategies:

- Separate the people from the problem – involves communicative strategies which accept the people as human beings and focus on the problem as a separate issue.
- Focus on interests, not positions – avoid the opposing party's positional stance, but look for the underlying interests; a communication strategy, which looks at the underlying message.
- Invest options for mutual gain – create new opportunities based on the free exchange of information about individual need.
- Insist on objective criteria – create or use external standards which are untouched by the bargaining process.

Collaborative negotiation can be much less intense because of the parties' attitude to power within the negotiation. Where parties set out to balance power in a relationship, this gives clear messages about the quality of the relationship and the degree to which the parties wish it to continue.

Collaborative negotiating is characterised by the following types of behaviour.

[21] Roger Fisher and William Ury, *Getting to Yes*, Hutchinson, 1990.

Opening

The opening of a collaborative negotiation will involve you in gathering as much information as possible, but also in disclosing information to develop solutions that are acceptable to both parties. This will involve behaviours such as considering a high number of alternatives for each issue, using open questions to gather information and actively helping the other party to expand his or her ideas about potential solutions.

Concessions

Collaborative negotiation is aimed at levelling power imbalance within the relationship. As such, focus is maintained on long-term rather than short-term implications. Sarcastic or irritating remarks should be avoided. These include:

- positive value judgements about yourself, eg 'my generous offer';
- counter-proposals which may cloud the issue; and,
- argument dilution – five reasons for doing something are less persuasive than just one good one.

Conflict

Similar rules about conflict pertain to both competitive and collaborative negotiation. In collaborative negotiation you may need to structure the issues and address them separately.

Specific behaviours in collaborative negotiation would include effective communication behaviour such as actively listening, paraphrasing, sermonising and disclosing. A useful communication tactic is to label behaviour by giving advance warnings .'I would like to ask you a question…' or 'I feel that I need to tell you that…'. Behavioural labelling slows down the negotiation process and gives both parties time to gather their thoughts and prepare responses.

Dealing with aggressors

Aggressive people are dealing from an emotional standpoint; don't meet emotion with emotion, use logic and reason instead. Avoid 'absolute' statements as the result will be deadlock and possible lose/lose. Be prepared to justify your proposals and clarify objectives; at the same time be prepared to make concessions that cost you little but add value for the other party.

At all times be alert for opportunities to move the negotiation forward and invite the aggressor to help you, perhaps by asking someone to join the discussion or by moving on to another item on the agenda on which agreement might more easily be reached. If he concedes to this, then you have struck a bargain and psychologically this should help towards striking more bargains.

Don't be beaten into a submissive stance; if all else fails, you can walk away. By this, we don't mean back off and call it a day, that really is a last resort. You could suggest that you negotiate with someone else in the organisation, or that you leave things for a couple of days and then fix up another meeting. An aggressor who realises that you can't be bullied may well be encouraged to behave more reasonably; after all, if his company is serious about doing business with you, can he afford to fail?

Conclusion

So, negotiation is a means of arriving at a solution to a problem (or problems) in a manner which ideally results in an outcome which is of benefit to all parties; in other words, a win/win situation. Everybody is happy, and as a result of your different needs and objectives, it is possible for everyone to leave the table with substantial gains and inconsequential losses. The trick is to trade things which cost you little but which have a high value to the other party.

Negotiation calls for assertive behaviour. You should collaborate to achieve an agreement satisfactory to all concerned. If you deal with an aggressor, someone who always wants to win at all costs, then the result would be win/lose. The danger of taking this stance is that it may lead to a complete lack of co-operation – the other party dislikes and distrusts the aggressor's style, and so will not bargain – so that the final outcome is lose/lose. Needless to say this must be avoided, otherwise the process becomes pointless.

Rules of negotiation

The following pointers will help you when planning your strategy and conducting your negotiation:

- be assertive;
- respect the other party – they have objectives, too;
- open with a realistic offer, be neither too greedy nor sell yourself too cheaply;
- work out your objectives in advance – this makes it easier for you to compromise if that becomes necessary;
- always trade – don't give anything for nothing;
- if you need time to think, take it – ask for a short break and recap your notes. Don't be pushed into a decision you haven't thought through; and,
- make sure that the outcome is mutually beneficial and that all parties leave with a feeling of well-being; that way they'll be happy to do business with you again.

reading list

Reading list

Getting to Yes
Roger Fisher and William Ury, Hutchinson, 1990.

How to be a Better Negotiator
John Mattock and Jöns Ehrenborg, Kogan Page Ltd, 1996.

Handbook of Management (3rd Edition)
Gower Publishing Company Ltd, 1992.

Part Six

Keeping things moving

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chapter twenty

Problem solving and decision making

The information in this chapter relates to Key Role C: Manage People, Key Role D: Manage Information and Key Role G: Manage Projects

chapter twenty: Problem solving and decision making

The information in this chapter relates to Key Role C: Manage People, Key Role D: Manage Information and Key Role G: Manage Projects

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Ensure that sufficient relevant information is gathered to facilitate decision making.
2. Ensure that decisions are made promptly following the acquisition and analysis of information.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Ensure that you source appropriate information to facilitate the decision making process.
2. Ensure that you understand fully the information needs of others and the manner in which information should be presented to them.
3. Analyse information in line with pre-determined objectives.
4. Provide advice as appropriate following analysis of information and including reasoned argument and appropriate evidence.
5. Keep full and accurate records of the process undergone.
6. Maintain confidentiality, and work according to organisational policy at all times.
7. Seek feedback in order that future performance may be improved.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Ensure that you source appropriate information to facilitate the decision making process.
2. Ensure that you understand fully the information needs of others and the manner in which information should be presented to them.
3. Analyse information in line with pre-determined objectives.
4. Provide advice as appropriate following analysis of information and including reasoned argument and appropriate evidence.
5. Keep full and accurate records of the process undergone.
6. Maintain confidentiality and work according to organisational policy at all times.
7. Seek feedback in order that future performance may be improved.
8. Take decisions as appropriate following analysis of information.
9. Communicate your decisions to those who need to know.

MCI5 – Strategic management

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Ensure that you source appropriate information to facilitate the decision making process.
2. Analyse information in line with pre-determined objectives.
3. Take decisions as appropriate following analysis of information.
4. Communicate your decisions to those who need to know.
5. Maintain confidentiality and work according to organisational policy at all times.
6. Seek feedback in order that future performance may be improved.

Solving problems and making decisions

Solving problems and making decisions are everyday activities; very often we perform the tasks without really thinking about them. Too often in business, however, we fail to apply the skills we use so naturally in life.

Objectives

The aim of this chapter is to raise awareness of the different approaches to problem solving and decision making which may be employed. It will enable you to:

- understand the problem solving cycle;
- use creativity in problem solving and decision making;
- anticipate potential problems;
- gain the commitment of others to your decisions in order that they may be effectively implemented; and,
- evaluate the effectiveness of the techniques used.

The Kepner-Tregoe[22] method of decision making distinguishes between:

- plans, seen as the means of dealing with potential problems;
- problems, seen as deviations from the norm; and,
- decisions, which are choices between alternatives.

They assert that the essential differences between the concepts of problem analysis and decision making are that the former requires sharp observation, analysis and specific comparison, all aimed at identifying the cause, whereas the latter involves stating clear objectives and then carefully evaluating alternatives, all aimed at taking action.

Whether we are faced with an everyday decision such as how to prioritise the work that must be done or a major problem such as how to cope with the fact that half our staff have called in sick, there are tech-

22 Charles H. Kepner and Benjamin B. Tregoe, *The Rational Manager – A Sympathetic Approach to Problem Solving and Decision Making*, McGraw-Hill Book Company, 1965.

niques and methods that may be employed and which will make our life easier. The ability to solve problems effectively and make good informed decisions – often when under pressure – is an essential component of our business tool kit.

Making choices

Decision making is about choosing from a range of options. Sometimes you may not be immediately aware of the need to make a decision, so having a clear vision of where you are going will provide a framework for the decision making process.

Taking decisions inevitably means taking risks, because you cannot be absolutely certain about the outcome. The level of risk in a decision clearly depends on the amount of information available. It is important to gather all the information that you need. Research suggests that decision-makers tend to be risk averse. Managers do not take foolish risks; they take calculated risks. But calculating the risk is only possible if you have sufficient information on which to base it. So gather as much as you can – easily and cost effectively.

The ability to make correct decisions is the mark of a successful businessperson no matter what size the business. It is difficult though, often even with hindsight, to determine if a decision was correct. If you feel comfortable with a decision, then it was correct for you.

Barriers to decision making

There are a number of potential barriers to decision making.

One barrier is the quality of information available to you. Do you have, or can you obtain, information about the environment and the market place, for example?

Your own values and beliefs will influence your decision making. For example, you may choose not to adopt a route which, whilst arguably good for the business, is unethical.

The amount of information that you can handle at any one time may also affect your ability to make good decisions. Research suggests that human beings can only hold around seven pieces of information in their short-term memory. This limits the capacity for decision making, as a complex decision may contain tens, or even hundreds, of items of relevant information. It does, however, support Peter Senge's assertion[23] that people should try to consider systems and problems holistically.

Decisions are usually needed when we face problems that we wish to solve. Solving problems effectively requires a number of steps as shown in the problem solving cycle below.

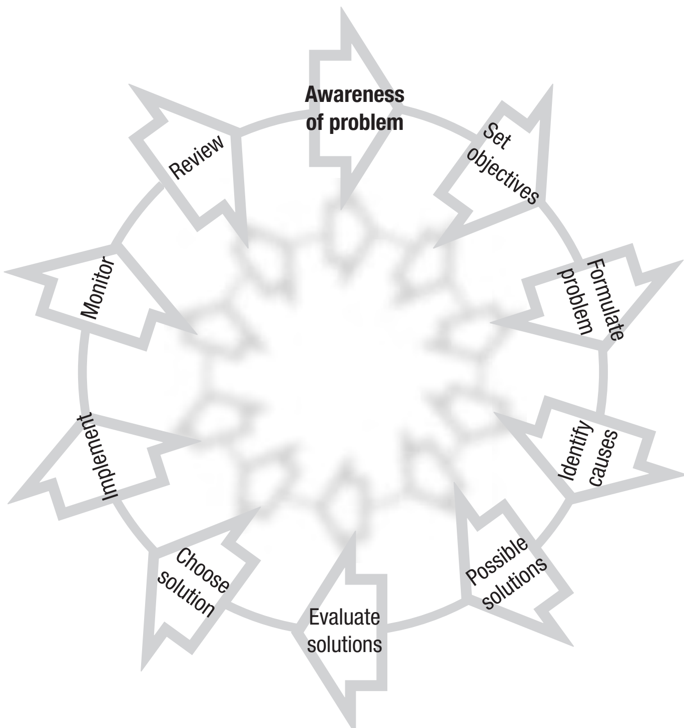

Figure 26: The problem solving cycle

[23] Peter Senge, *The Fifth Discipline*, Century Business, 1990.

The first seven steps – from awareness of the problem to choosing a solution – are the steps in the decision making process.The other steps complete the solution of the problem.

What is your problem?

First, you have to become aware that there is a problem. The word 'problem' is used deliberately because, even if you are looking at an interesting opportunity for your company, your problem will be how to exploit that opportunity. On the other hand, you may really have a problem – your biggest customer has just collapsed; your four-colour printing press has a major fault; a key member of staff has just resigned; or, a competitor has started undercutting your prices.

If you are to come up with a solution to a problem, you must know exactly what the problem is. It sounds obvious, but often people are aware of only a vague sense of unease rather than a neatly defined and packaged problem to be solved. They know that things aren't right, but don't really know what is wrong.

For example, you may notice that the level of bad debt is rising; this in itself, however, isn't the problem. It is a symptom, but to resolve the issue you must identify the cause. Is it within the company or outside of it? Is it because there is a recession or higher interest rates, or because the person or people responsible for chasing payment are not motivated or have too much to do to be effective? Once you know the answer to the question of cause, you may define your problem. Obviously this stage in the process is crucial – if the problem is economic, there is no point in plunging head first into a staff incentive or motivational training scheme; if the problem is motivational, there is no point in offering customers discounts for prompt payment.

Once you are aware of the problem, you can begin to set objectives for the rest of the decision making process. Often these will be quite straightforward, but try not to be too constrained by what you've always done before.

What do you want to achieve?

When the problem has been identified, you must decide on your overall objective – what is it, exactly, that you want to achieve? This will enable you to do two things – to break down the main objective into smaller steps and to identify possible solutions.

Factors you should consider when setting the objective include the cost of the solution, the impact on customers, competitors, profitability, staff… whichever are relevant to your situation. Bear in mind that it might not be possible to achieve your ideal outcome, so give some thought as to what is acceptable.

Using the bad debt example above, your next step is to identify an acceptable level of bad debt and make that your objective. So, knowing that your days' sales outstanding is currently 80 days – but has previously been as low as 45 days – ought to help you to set a realistic objective; maybe 50 or 55 days' sales outstanding.

Once you know what you want to achieve, you can move on to formulate the problem more specifically.

Breaking down the problem

You can use a number of techniques to break down a problem into underlying causes and subsequently to prioritise these so that you can concentrate on the most important issues.

For example, if the overall problem is that your printing press is unserviceable, your main objective will be how to complete your existing orders so that you do not over-run agreed deadlines, preferably without costing too much. You may then begin to formulate the problem as one of how to sub-contract your print work cost-effectively with no reduction in quality. This is a short-term operational problem.

On the other hand, if a competitor starts to undercut your prices substantially, you may have a strategic problem. You might have to rethink your marketing strategy – are you selling on quality or on price? How does this effect your relationship with your customers and the way you promote yourself to them?

Brainstorming

You may be familiar with brainstorming techniques – in which you define a question and then, whilst suspending judgement, suggest as many answers as possible. The question in this case will be what is the problem and what is causing it. Simply having a long list, however, is not necessarily very helpful. You need to determine which are the most important or the most urgent issues. Brainstorming is best done by a small group, since all can spark ideas off each other. If you work by yourself, try and bring together a group of friends or other business people, or even customers, to assist. For more details on brainstorming, as a technique for generating solutions see page 519.

Identify the causes

The specific causes may be easy to identify or they may be more difficult. A customer might be complaining about the specks on the printing you do for them. All your machines appear to be working properly, so how and where is the fault occurring?

Maybe your customers have stopped buying. Talk to them. Do they have alternative suppliers whose product is better or cheaper? Do they have problems of their own? Perhaps their customers have stopped buying from them. Has the market place changed? Has a new approach altered the way that customers perceive their requirements?

Cause-effect diagrams

Cause-effect – or fishbone – diagrams were developed by Dr Kaoru Ishikawa and are useful for showing relationships and thus identifying the potential causes of a particular problem. As a starting point for using cause-effect diagrams in your work, you could think about relationships in five areas as shown in the figure below.

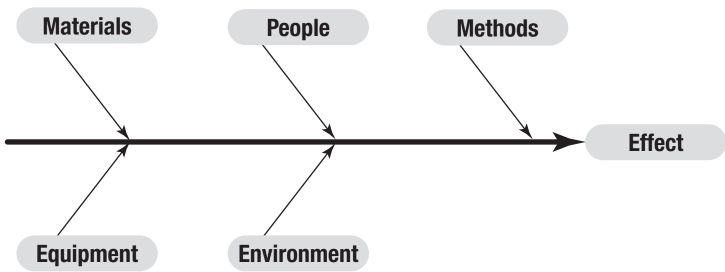

Figure 27: Fishbone diagram – outline

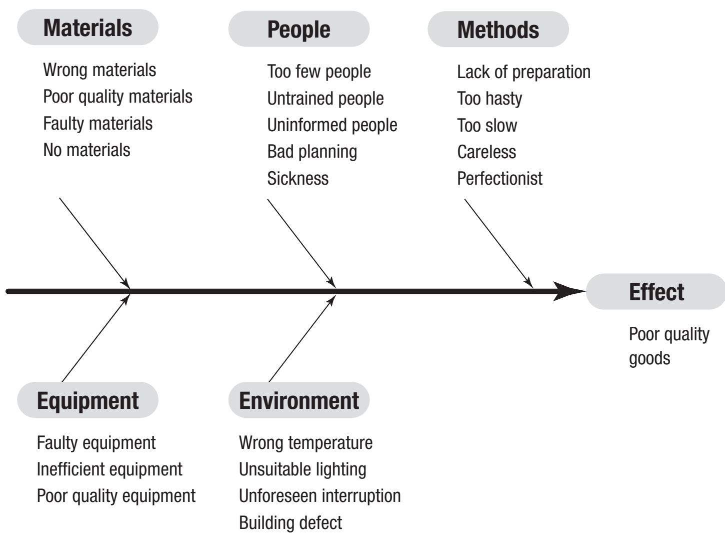

Figure 28: Fishbone diagram – detail

In order to gather more information at this stage you will probably need to make further investigations. What you need, why, and where you get it from may be immediately obvious; in the event that it is not, the following list of questions might help you to decide:

- Into what category (ie financial, strategic or whatever) does the problem fall?
- What, specifically, do you need to know?
- How will this help you in the problem solving process?
- Who has – or can get – the information you need?

Once you have obtained the necessary information, you need to consider how it all fits together. Is one factor subject to influence by another? Do any factors contradict or conflict with each other? Are there any gaps in your understanding? Do you need further information?

The Pareto principle

It was Vilfredo Pareto who first observed what is often known as the 80:20 rule – 20 per cent of your products produce 80 per cent of your profit; or 20 per cent of machine faults cause 80 per cent of the down time. Knowing the 20 per cent, whether of products for sale, or faults with machines, or whatever, will help you pinpoint areas for attention.

The objective of a Pareto diagram is simply to organise data according to each of the main causes – problems, activities, etc – and to separate the critical few on which action should be targeted.

case study

case

Case study: Problems in business

A large number of small businesses were asked about the biggest single problem that they had in running their business. The answers were categorised into:

- marketing
- cashflow
- bureaucracy and government regulations
- raising finance
- tax
- problems with premises
- lack of staff with right skills
- interest rates
- problems of management, and,
- problems of getting raw materials on time.

The responses in each category were totalled and a bar chart drawn (opposite). While it is not essential to show the results graphically, drawing a bar chart with each cause shown in descending order of frequency is a powerful way of drawing attention to the key problem areas. Sometimes it is shown as a cumulative frequency graph as in the diagram. In this case, the chart quickly illustrates that the two biggest problems are marketing and cashflow.

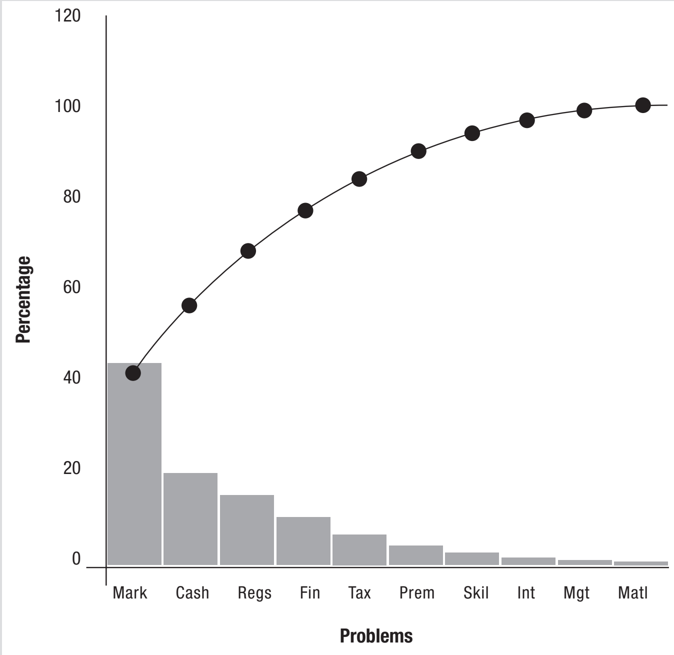

Figure 29: A cumulative frequency graph

Imposing a cumulative frequency curve shows that, in this case, the two biggest problem areas (20%) in this case account for 60% of the problems. Clearly these are the ones to address first.

Having identified the causes it is then possible to identify solutions. Each of these will need to be evaluated. Does the benefit outweigh the costs?

Generating possible solutions

One of the first decisions to be made when considering problem resolution is whether in this instance it is best to work alone or in a group.

The following checklist should help you to decide which approach is best:

- Will information be required from only a few areas?
- Do you feel that at most only a handful of solutions are likely to be possible?
- Does the problem affect only a small number of people?
- Is the scope of the problem quite narrow?
- Can you implement the solution easily without the commitment of others?

More 'yes' answers and you should probably work alone; more 'no' answers and you should probably work with a group.

Problem solving groups

Using groups to solve problems has potentially both advantages and disadvantages. On the one hand, you can draw on a wealth of experience and knowledge, consult with people who will see different aspects of the problem and 'bounce' ideas around. On the other hand, someone may dominate the group, others may be afraid to put forward ideas for fear of ridicule and people may be trying to 'score points' off one another. Consequently you must be aware of the knowledge and attitude that people will bring with them to the problem solving process and conscious of the way in which you lead the group.

Once you have chosen your group, you must brief them all as to the problem as it has been defined. Do this prior to your problem solving session, but do recap at the start to be sure everyone understands and to focus people's thoughts on the issue.

You must also keep things moving and make sure everyone contributes to the meeting – people are there because they are deemed to be knowledgeable, so make sure they chip in with their bit. Encourage people to explore avenues of thought and discourage judgmental comments; this will encourage less confident or newer members of the team to offer their opinion.

Brainstorming

When people come together in a group to generate ideas, probably the most popular and widely used technique is brainstorming. Devised for use in the advertising industry, brainstorming has found many other applications and can prove quite effective. When brainstorming solutions to problems with your group, specify a duration for the session (30-45 minutes should be adequate) and go over the rules before you start:

- criticise nothing;
- accept wild and wacky suggestions;
- encourage people to build on other's suggestions;
- contribute yourself;
- write everything down; and,
- display all ideas generated for the whole group to see.

It can be useful to have a warm-up exercise planned to get people 'loosened up' before you brainstorm the solution to your problem; simple ideas often work best – 101 uses for a brick, paperclip, biro or sheet of paper, for example.

If ideas dry up or aren't very forthcoming, try re-stating the problem. Walk around it, look at it from every angle, think of another way to phrase it and go again.

Evaluating the ideas

Once a number of ideas are available, it is time to evaluate. You may do this immediately after the brainstorm or, if you wish, leave it until the next day. Either way, you should discuss and explore different aspects of ideas to see if they contain a solution. Try not to dismiss anything out of hand (unless it is illegal) and use your objectives to help identify the best solution.

Deciding on a solution

There are many decisions that need to be taken, at all levels, to make your business a success. All the time, as you continue in business, you will be confronted by choices. Some decisions will be easy, but others will be more difficult. Some decisions will only have short-term implications, but some, such as building a new factory or investing heavily in plant and equipment, will have long-term implications.

Arriving at the right decision is the result of a design process – we are designing the most appropriate course of action. To do this, we may deliberate and discuss many times, during which we will also identify possible courses of action which we will in turn explore and eliminate – until we identify the best course of action, which we will adopt.

Part of the process of exploration may be a cost/benefit analysis. Divide a sheet of paper into two columns, headed 'pros' and 'cons' respectively. Score each entry on a scale of one to ten, then add up the columns. Is there more in favour of the decision than against it? Or do the costs outweigh the benefits?

Sometimes it will just be a case of researching the facts, weighing up the options and making a choice. On other occasions, there may be sound financial arguments that suggest one option is more attractive than the rest. In other cases, it might be helpful to consider the probability of one event or another happening.

Even when there is good numerical information available, it is not always clear which option is the best for your business. Consider the following example.

case study

case

Case study: Sarah's silk shirts

Sarah is in the fashion business, designing and marketing silk shirts made with raw silk from China.

If she imports the silk, and has the garments made up in England, her monthly gross profit is £3,000. If she arranges for the silk to be made into garments and then imports the garments she can increase her gross profit to £4,000. Her overheads remain the same in both cases. What should she do?

She discovers that if she imports completed garments she is more likely to have problems with delivery reliability.

She has to promise to meet delivery deadlines with her key customers. If the raw silk is late, she can pay overtime at her sub-contractor reducing her gross profit to £2,500. If, on the other hand, she imports completed garments which are late, her main customers will refuse delivery. She is usually able to sell the shirts elsewhere, but at a reduced gross profit of £2,000.

She can look at the options in a number of different ways.

The maximum pay off

The maximum pay off from each option is:

- Import silk arriving on time gives £3,000 per month
- Import shirts arriving on time gives £4,000 per month
- Sarah then chooses the maximum of those maxima, this is known as the *maximax criterion*.

Please turn over

The minimum pay off

On the other hand, delivery times are unreliable so Sarah could consider the worst outcome from each option that gives:

- Import silk late gives £2,500
- Import shirts late gives £2,000
- She then chooses the maximum of those minima, known as the *maximin criterion*.

Maximum regret

Sarah still cannot decide between the options so she looks at the problem in a different way. Whatever option she chooses might result in some *regret*. Regret is measured in lost profit. If Sarah decides to import shirts, and they arrive on time, she has no regrets and makes £4,000 profit. But if the shipment is late, she would have been better off importing the silk, so the lost profit is £500.

	On time		**Late**
Delivery		Regrets	
Import silk	0		500
Import shirts	0		2,000

Sarah then uses the option that minimises the maximum regret. In other words, she chooses to import the silk and have the shirts made up at home.

Expected monetary values

However, this does not take into account the likelihood of shipments being late. From talking to other fashion designers she discovers that on average one shipment in every four is late.

Sarah can now look again at the likely profit. If she imports raw silk, her expected profit is given by:

(profit when on time x probability on time) + (profit when late x probability late)
= (3,000 x 0.75) + (2,500 x 0.25)

= 2,250 + 625

= 2,875

Similarly, the expected profit if Sarah imports completed garments is:

(profit when on time x probability on time) + (profit when late x probability late)
= (4,000 x 0.75) + (2,000 x 0.25)

= 3,000 + 500

= 3,500

If Sarah chooses to import shirts, over the long-term, her expected profit is £3,500, compared to £2,875 if she imports raw silk.

Considering probabilities

Probabilities can affect the expected outcome of your decisions. Techniques that take probabilities into account are known as stochastic methods and such methods rely on making estimates about probability. Sometimes this can be relatively easy, such as looking at the chances of rain: if you are a market trader, on any single day rain might affect your profits and, over the long-term, the number of days when it rains is reasonably constant.

Other probabilities are far more difficult to estimate. If you start to stock a product sold by the retailer next door, what is the probability that he will retaliate?

If you have been able to make reasonable estimates about probability, a particularly helpful method of setting out the information is the tree diagram.

exercise

Example: Sarah's silk shirts – decision tree

Sarah wants to concentrate either on importing raw silk or on importing completed shirts, otherwise her administration becomes too complicated. Using the figures from the earlier example, it is possible to create a decision tree.

The probabilities and expected profits for each branch are shown. The expected value at chance node 1 is:

E1 = (2,250 x 0.75) + (625 x 0.25) = 2,875

and the expected value at chance node 2 is

E2 = (3,000 x 0.75) x (500 x 0.25) = 3,500

Sarah chooses the branch with the higher expected value.

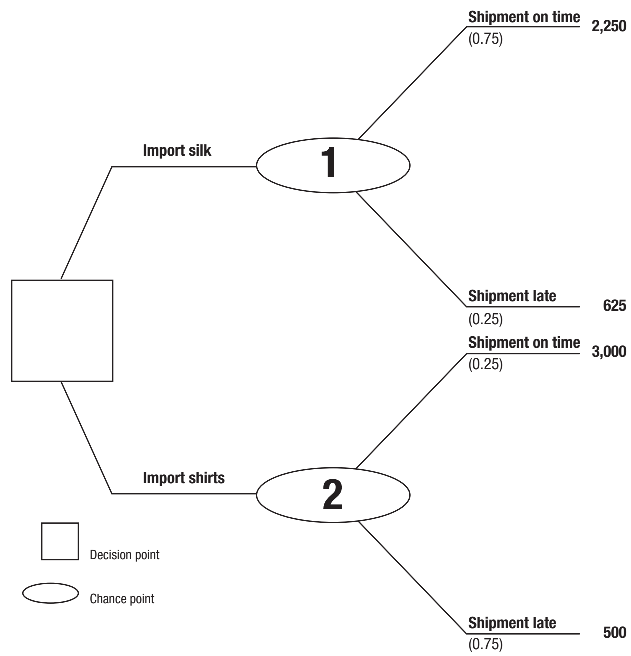

Figure 30: Probability tree

It is, of course, possible to build rather more complicated decision trees. If you think they would be helpful when planning in your business, there are many books available which will help you.

Coping with criticism

When criticising someone else's suggestion or dealing with criticism of one of your own, always resist the temptation to make a personal attack – go for the ball, not the player. Beware of politics and personalities; you can rarely win if you enter those arenas. Keep all discussions firmly on a no-nonsense factual basis and deal with people fairly and rationally.

Criticism should be questioned – why is this not a viable proposal? Could it be that you or others are being constrained by the boundaries of rigid thinking? Perhaps there is a need for a more flexible approach. Also, whilst we should learn from our experiences, we should not make this an excuse to continually look back instead of looking forward.

Face up to your fears

Courage is often needed in decision making; you must not be afraid to make a decision that is unpopular. Equally, you must not be afraid to say 'no'. Facing up to your fears is part of the responsibility of decision making, and whilst you must also stand by your decisions once made, you should have the courage to re-evaluate and change a decision which proves to be wrong.

Other areas to be wary of are postponing taking a decision until it is too late and your course of action is decided for you, or making a decision to please the majority which involves so much compromise that its worth is questionable.

Finally, if you do make a bad decision (and most of us do at some point) learn from it and then move on – there is nothing to be gained by continually beating yourself up about it.

Communicating the decision

Once a decision has been made, you must let the relevant people know what it is. For the decision to be effective you will need their commitment, and so this stage can involve an element of selling – you want people to 'buy in' to what you plan to do.

Talking in benefits is very persuasive; people will want to know what's in it for them, so make this an element of your presentation. Give good, logical reasons as to why the course of action chosen is the best one, and be fully prepared – if you are asked questions which you find yourself unable to answer convincingly this will damage your credibility.

To solve the problem, of course, you then need to implement the decision. Remembering the plan, do, check, act cycle should ensure that you monitor the implementation and review the original problem. If that leads to further problems, off you go again!

Implementing your decision

The best way to implement your solution successfully is to prepare a project plan. As well as considering what resources (whether human, financial or material) may be required, you must also consider how much time will be needed and if any steps are dependent on any others.

It will not be easy to stay with your plan. Sometimes there are so many pressures from the day to day operation of a business that it is hard to look ahead. However, if your objectives are realistic, with achievable timescales, then you should be able to do so.

As you progress through your objectives you will inevitably encounter factors which will hold up your plans. If your objectives were unrealistic or unobtainable this should have come to light during the planning period. However, it may be that the time necessary for an activity is longer than you anticipated, or it may be that your staff take longer to commit than expected.

Monitoring

Regular monitoring of your progress is essential and you should build in 'orienteering' sessions to coincide with the timescales for your objectives. However, monitoring does not need to be formal, just disciplined. Are you en route, at a satisfactory point in your journey for the current time?

Have you encountered any unforeseen events, do you need to re-define your objectives? Hopefully, any unexpected issues will be minor, but like all activities, planning becomes easier with experience and the hiccoughs in your first plan will help you to be more precise next time.

Evaluating the outcome

The final stage of the process is evaluation. There is no point in spending a lot of time planning a process if you do not allow time for evaluation both during and at the end. The things we need to know include:

- How effective was the problem solving process?
- How effective was the solution?
- How could things be done better in future?
- Has the cause of the problem been eliminated?
- What have we learned from this experience?

In this, as in all things, we should aim to learn from our experience, so that we do not repeat mistakes but do build on our successes.

At the end of any project (including a successfully completed objective) you should write a brief final report. It only needs to be one page, perhaps less if you have made regular monitoring notes. And you can use this report to identify, and justify, your next objective. If you have successfully established and raised your customer satisfaction level, perhaps you have identified that most problems are occurring in the area of supplier's materials. If this is the case then your next objective should address this matter.

Of course, not all problems will prompt action; it is possible that the cost of solving the problem could be greater than the cost of living with it, in which case nothing is likely to be done. In such circumstances, however, it would be prudent to monitor the situation and, should things change, go on to discuss action at that stage.

The benefits of success

If you have successfully achieved your objective, there should be a universal benefit. Employees and customers will have gained greater satisfaction through their association with your business. As a manager of the business, you will have gained increased knowledge and a sense of control as well as recognition that the future does not have to be the great unknown.

In order to take advantage of the opportunities that the future will inevitably offer, you need to be able to move quickly. One of the most significant advantages smaller businesses have is their flexibility. Larger organisations, too, need to be swift on their feet. Clearly, if you need to change tack quickly, it helps if you know where you are at the moment. Setting objectives and planning will help you to know.

As you become more proficient at setting and working towards objectives, you will obviously be able to refine and become more sophisticated in your plans.

There may be trouble ahead...

When you are planning your work, you are likely to set overall objectives that are then broken down into sub-objectives. Once this has been done, you can start identifying any *potential* problems that may occur. Two useful techniques that may be employed are creative thinking and failure mode effect criticality analysis. As with most techniques, there are rules for both of these.

Creativity in problem solving

In many cases the most logical solution to a problem is not the best and by taking a more creative approach to the situation we can often come up with something much better.

Dr Edward de Bono, the originator of the concept of lateral thinking, is regarded by many as the leading authority on teaching creative thinking. He says that the simplest way to describe lateral thinking is to say;'You can't dig a hole in a different place by digging the same hole deeper'.[24] In other words, you have to move sideways and look at the problem from a different angle. Get a fresh perspective, get away from the same old train of thought.

A manufacturer of aeroplane tyres held a creative thinking session in order to generate ways of boosting business. The question they were considering was, how can we get more airlines to use our tyres? One of the people present suggested that they should give the tyres away – that way they'd all use them! Strange as it may seem, that was the approach adopted, resulting in the tyre company winning a considerable amount of business from its competitors. In time, the competitors followed suit.

Thinking laterally, the solution that was generated was that instead of selling an airline tyres in the usual way, which represented quite a substantial cash outlay for the customer, they would give them the tyres and then charge them every time a plane took off and landed. This had benefits for both parties: the cost of tyres was spread over a longer period of time for the airline and the tyre manufacturer had a guaranteed and regular income.

Creative thinking is also coloured by perception; true logic doesn't always see the long-term implications of a decision. An example quoted by Edward de Bono concerns little Johnny, an Australian five year old, whose friends offer him the choice of two coins, the $1 coin and the smaller $2. Little Johnny takes the larger coin. His friends think him stupid for not realising that the smaller coin is worth twice as much as the one he chooses, and, whenever they want to make fun of him, they offer him the same choice and he takes the same coin. An adult observes this little ritual one day and points out to Johnny that the smaller coin is actually worth more, to which little Johnny replies,'Yes,

[24] Edward de Bono, *Serious Creativity*, HarperCollins Publishers Ltd, 1992.

I know that. But how often would they have offered me the choice if I had taken the $2 coin the first time?'

Human perception allowed little Johnny to make the choice he did – and, although it was a seemingly illogical choice, it paid off. It pays us to use our ability to look at the big picture and perceive the possible results of our actions long-term.

If you find that you are in a bit of a rut when thinking about a problem or situation, write it down as concisely as possible and then turn things around to get a different view. For example, 'How can we boost widget production?' can become 'How can we motivate our people to do better?' Instead of throwing money at the problem in terms of paying for overtime, more staff or new machinery, you can start by looking at how many widgets don't make the grade, what procedures are followed and if they are all equally effective, an incentive scheme with a reward for the person to have the lowest number of rejects and so on.

Potential barriers to success

Creative thinking is useful for producing ideas, and developing an overall picture of the reasons why events occur. By involving a number of people, differing viewpoints are covered and the group involved can build on each other's ideas.

Gather together a group of people who know you and your work objectives and who you can trust to be honest. The objective is to create an atmosphere of enthusiasm and commitment. Every member of the group can put ideas forward. The objective is quantity, not quality, so wild ideas are okay and there can be no criticism of others' ideas. Piggybacking is encouraged, using others' ideas to develop your own.

You should look at your objectives and activities one by one and think about what might prevent you from completing each one. The more people you involve with this the better.

The reason for this is that the more potential barriers there are on your list, the less likely you are to miss an important one.

Case study: Barriers to the fulfilment of objectives

Juno Restaurants held a creative thinking session for the management, family, staff and one or two regular customers and came up with a list of reasons – the potential barriers – why they may not be able to achieve their objective: to achieve 85 per cent utilisation of capacity within 12 months:

- Increases in price
- Salmonella poisoning
- New competition
- Chef sick
- Impolite waiters
- Fire
- Health inspection
- Cash flow problems
- Death in family
- Flood
- Changes in fashion
- Decrease in consumer spending
- Availability of parking
- Lose liquor licence
- Rise in costs of raw materials, premises or labour
- Necessary refurbishment
- Need to change the menu
- Building is condemned
- Change in public transport routes
- Withdrawal of key stakeholder
- Supplier lets you down
- Breakdown of machinery
- Change in passing trade
- Pest infestation

As you can see, some of their list were quite likely, some unlikely and some downright silly, but all were possible and may have prevented their plans from succeeding.

Failure mode effect criticality analysis

The next step is to analyse the list of barriers, to discover which can potentially create the most problems. One method used to do this is failure mode effect criticality analysis (FMECA). FMECA studies the effects of potential barriers or failures and their effects on certain aspects of a system or process. It also helps to determine which aspects of the process are critical to these barriers. FMECA is frequently used in design processes to 'design out' potential problems.

In undertaking an analysis, there are various steps to follow. It is necessary to identify the likelihood of a problem occurring, to determine its criticality on the business and to assess its predictability. Each is ranked on a scale of 1-10 and the three rankings multiplied together. Action is then required to reduce the barriers with the highest rankings down to an acceptable level (say 100). This technique can also be applied to processes as well as products. FMECA can work well, and is worthwhile, but it can be time consuming.

Likelihood of the existence of the barrier

This indicates the probability of the barrier actually existing. This is rated on a scale of 1-10 with 1 representing a low probability and 10 indicating a barrier that is almost certain to exist.

Criticality of the existence of a barrier

This indicates how critical it would be to a system or process if a quality barrier were to exist. This is rated on a scale of 1-10, with 1 showing a minor barrier and 10 showing a major hazard that will prevent the system or action from occurring.

Predictability of a potential barrier

If potential barriers can be detected within the system, then it is important that they are anticipated, to enable you to plan ways in which they can be overcome. If, however, they are impossible to predict before they occur, every effort must be taken to prevent them. A scale of 1 is recorded if the barrier can be easily predicted, but 10 if it can only be detected when it is too late to avoid the consequences. The most important steps are to:

- identify the system or objectives;
- list each possible barrier;
- state the effect of each barrier on the overall success of the system;
- list all possible causes of these barriers;
- determine likelihood of problem occurring (scale 1-10);
- determine criticality to business (scale 1-10);
- assess predictability (scale 1-10); and,
- calculate the product for each barrier (Likelihood x Criticality x Predictability) to give FMECA score and rank to show the relative priority of each barrier.

Once you have identified the most likely problems with your objectives, you can anticipate whether the level of the barrier is enough to cause you to change your methods of achieving your objectives, or even your objectives themselves, or whether you can overcome the potential problems through contingency planning.

In order to do this you can work through your list, item by item, to identify ways of preventing the barriers from arising, or in the case of unpredictable occurrences, what you might do when it happens.

case study

case

Case study: Analysis of potential barriers

Juno Restaurants analysed the effect of each of their potential barriers.

Potential barriers to quality objectives	Likelihood 1-10	Criticality 1-10	Predictability 1-10	FMECA LCD
Salmonella poisoning	2	10	10	200
Health check failure	3	9	5	135
Competition – new restaurant	10	7	8	560
Change in fashion	4	8	4	128
Key staff leaving	4	8	7	224
Supplier let us down	3	9	8	216

You can see that they already suspected a new restaurant might open in their vicinity, and the Juno management felt that this would certainly prevent them from increasing their capacity. In order to verify the likelihood of a competitor opening, they decided to read the local planning applications and tender columns, as well as listen for any local trade gossip.

By identifying the most likely and critical potential problem as increased competition, they were then able to consider what actions might prevent the problem occurring, and what actions might assist in dealing with the problem when it did occur.

Juno management thought there was probably little they could do to prevent a competitor opening except perhaps object to a planning application. So, for their barrier prevention tools, they could select mainly from areas that would keep them informed.

Juno did feel that they could continue some of their existing activities to help to maintain customer loyalty. These were to continue to endeavour to provide a first class service, advertise, provide value for money, and maintain good relationships with their customers.

In addition they decided to start checking customer satisfaction regularly and offering a loyalty bonus to regular customers. The also decided to increase the frequency of their children's packs, which they had introduced briefly at Christmas and also to offer 'contracts' with regular customers where a discount was offered.

And, if the worst scenario occurred, and a competitor did open a similar restaurant, their contingency plans would include undertaking detailed research on their competition and deciding on ways to differentiate from them by increasing and changing their advertising.

At least Juno would have some period of time to implement their contingency plan if they did find themselves with a competitor nearby. Other organisations might find that their biggest problem might be something that is not easily predictable.

A classic example of an unpredictable event is a fire. A fire extinguisher is an example of a contingency to deal with an unpredictable event. However, all kinds of preventive actions such as fire officer training, safety inspections, fire alarms, sprinkler systems, fire-check doors, health and safety audits, contribute to the fact that an unconfined, major fire in a modern building is thankfully, a rare occurrence.

Henry Mintzberg[25] argues that planning is about preparing for the inevitable, pre-empting the undesirable and controlling the controllable.

You must, sensibly, do everything you can to prevent problems, or barriers to your plans, from occurring. But when they do occur, and they will, you need to be ready for them. The next step in the process is to amend your original objectives to take account of what you have learned.

[25] Henry Mintzberg, *The Rise and Fall of Strategic Planning*, Prentice Hall, 1994.

case study

case

Case study: Amending objectives

The management of Juno Restaurants decided that they needed to include a regular visit to check planning applications in their objectives to take account of their suspicion that they might be targeted by their competitors.

Conclusion

Even with all these tools at your disposal, solving problems and making decisions will not necessarily be easy. Courage will be needed both in taking calculated risks and following unpopular courses of action. However, with practice you will become more adept at using the tools and making good decisions more quickly.

reading list

Reading list

How to be a Better Decision Maker
Alan Barker, Kogan Page Ltd, 1996.

How to be a Better Problem Solver
Michael Stevens, Kogan Page Ltd, 1996.

Six Thinking Hats
Edward de Bono, Penguin Books, 1986.

Six Action Shoes
Edward de Bono, HarperCollins, 1991.

Serious Creativity
Edward de Bono, HarperCollins, 1992.

Use Your Head
Tony Buzan, British Broadcasting Corporation, 1974.

Building Your Business
David Irwin (Ed), Thorogood, 1998.

The Fifth Discipline
Peter Senge, Century Business, 1990.

Making Management Decisions
S. Cooke and N. Slack, Prentice Hall, 1991.

The Rise and Fall of Strategic Planning
Henry Mintzberg, Prentice Hall, 1994.

The Rational Manager – A Systematic Approach to Problem Solving and Decision Making
Charles H. Kepner and Benjamin B. Tregoe, McGraw-Hill, 1965.

chapter twenty one

Managing information

The information in this chapter relates to Key Role D: Manage Information

chapter twenty one: Managing information

The information in this chapter relates to Key Role D: Manage Information

MCI3

If you are studying for the MCI3, the information in this chapter will help you to:

1. Source information that is accurate, sufficient and relevant.
2. Store information securely and in such a way as to facilitate easy retrieval.
3. Ensure that information supplied to others is appropriate to their needs and supported by reasoned argument.
4. Seek feedback and suggest improvements where necessary.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Ensure that sources of information are reliable and sufficiently wide ranging.
2. Obtain information that is accurate and sufficient to assist decision making.
3. Ensure that information is stored securely and storage systems conform to legal and organisational requirements.
4. Ensure that information is stored in such a way as to facilitate easy retrieval.
5. Give feedback from the assessment of information that is open, honest, and fair.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Ensure that sources of information are reliable and sufficiently wide ranging.
2. Obtain information that is accurate and sufficient to assist decision making.
3. Ensure that information is stored securely and storage systems conform to legal and organisational requirements.
4. Advise and inform others.
5. Seek feedback in order to improve the service.
6. Fully research and identify information and communication requirements.
7. Select appropriate systems for managing information and communication.
8. Effectively implement those systems.
9. Monitor and evaluate the systems.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Ensure that sources of information are reliable and sufficiently wide ranging.
2. Obtain information that is accurate and sufficient to assist decision making.
3. Set clear objectives for analysing information which are consistent with required decisions.
4. Analyse information accurately, identifying significant patterns and trends.
5. Keep records of your analysis.
6. Use the results of your analysis to take critical decisions which are consistent with organisational values, policies, guidelines and procedures.
7. Ensure that you fully meet the advice and information needs of others.

Information

Wherever we go, whatever we do, we are bombarded with information. Radio, television, advertising, newspapers, books, magazines, mail… then, when we get to work, there are memos, faxes, reports, minutes, e-mails… and we still haven't mentioned telephone calls, meetings, gossip, the grapevine – the list, it seems, is endless.

The problem is not often obtaining enough information, but obtaining the right information; sorting the wheat from the chaff, sourcing relevant data, using it wisely and storing it securely.

Objectives

The aim of this chapter is to help you to deal with the huge amount of information likely to come your way. It will help you to:

- obtain and assess relevant information;
- use information to aid you in, for example, decision making;
- set up workable storage and retrieval systems;
- keep your information securely and lawfully; and,
- evaluate and review information systems and requirements.

Types of information

Whatever form your information takes, written, on paper, electronic or verbal, it can be divided into two types: hard and soft.

Hard information

Hard information is factual, accurate and largely provable, and is the sort of information two or more people are likely to agree on. Examples of hard information include:

- sales figures;

- personnel information (eg number of employees);
- accounts;
- suppliers' catalogues and price lists; and,
- statistics showing, for example, output levels per machine.

Hard information goes into (for example) reports, and can be used to make decisions that help meet the organisation's objectives. However, on its own, hard information does not always give you the full picture.

Soft information

Soft information is subjective, intuitive and whilst it may be believable, a further step has to be taken to make it provable – more research, for example. Soft information may be generated by such questions as:

- What do our customers feel about what is happening in the market? Are our products going to become popular again or is the trend towards our competitor going to stick?
- How good is our product compared to our competitors', bearing in mind we are fighting for a share in a smaller market?

Statements generated inevitably start out as judgements, with intuition, prejudice and past experience colouring the picture, and they may be disputed and argued over by those with opposing viewpoints.

Telling the difference

An example you may find easy to relate to is to consider an interview situation. The hard information is easy to pick out: age, qualifications, experience etc; but it is much more difficult to extract soft information, such as how does the candidate deal with difficult people, react to stress or fit into the team?

Information necessary to answer such questions may be gleaned from an explanation of how a difficult situation was handled, for example, or generally how questions are answered, and from the candidate's body language. At the end of the interview, the interviewer reflects on the discussion s/he has enjoyed with the candidate, leading to judgements and decisions based on the interpretation of the soft information.

Sourcing and assessing information

When seeking information, the problem is likely to be quality, not quantity.

Much of the information you receive is unsolicited: you have ended up on a number of mailing lists and the flyers/catalogues/special offers come flooding in; you have achieved a certain position in your company and people send you things 'just in case'.

Alternatively, you could actively solicit information. Say you see an advertisement in a magazine promoting a particular software package; it looks like it does everything you need it to, but you want to find out more, so you clip the coupon or make the phone call to ask for further information. Conducting market research is an example of how you would go about actively soliciting information, as is conducting a customer survey.

External information

External information may be either solicited or unsolicited, and may come from a variety of sources – customers, potential customers, suppliers, magazines or as the result of your networking. Whether this is useful to you will depend on your individual circumstances at the time.

Internal information

There is a central concept in modern management of internal customers and suppliers; in order that the external customers should receive the quality they expect, everyone inside the organisation has to work together. There is a chain, with each link acting as a customer of those people who pass things to them and a supplier to those representing the next stage in the process. One of the key products that passes through the chain in both directions is information.

The diagram below shows the flow of information, which is by nature complex and which occasionally, breaks down.

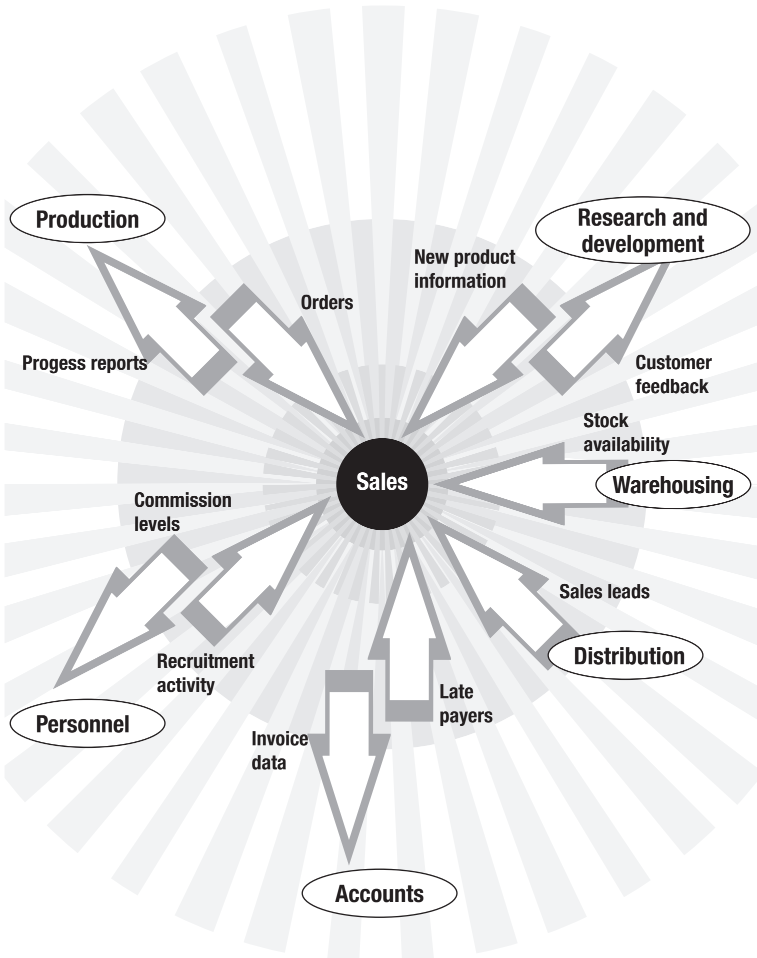

Figure 31: Flow of information

So what do you need to know?

You need to profile your ideal customers accurately. The more precisely you can describe them, the easier it will be not only to offer a product or service that meets their specified needs but also to target them more carefully with your promotional activities. This is particularly necessary for small businesses. With limited resources you cannot hope to compete in all available markets. For a small business this either means finding a highly specialised 'niche' in a national or international market, or tailoring a product or service to compete in local markets. One way of developing profiles is through market segmentation.

Superdrug, the fast growing pharmacy, has segmented the market for cosmetics by looking at the youth market. Microsoft, in segmenting the business market, has identified start ups, steady state, dynamic growers and vulnerables.

It may be helpful to consider the values of your customers – what are they looking for in their suppliers, that is, you? They'll certainly be interested in quality, performance and delivery times. They'll probably be interested in your ability to innovate and improve. But they may also be interested in your business ethics.

Competitor analysis

There is little doubt that you will be better able to develop your business and achieve your goals if you have an understanding of your competitors. For most small businesses, there are likely to be many, many competitors and you clearly cannot assess all of them individually. But as you analyse the market place in general, you should also gain a feel for how your competitors see the market place. You can then group them together, depending on their approach to the market and the degree to which they are in direct competition. Some competitors may be more significant and you may want to look at them individually. This will require an understanding of the market place in which you are operating, and possibly also of the wider environment, which we will look at shortly.

It may help to pose questions around:

- their customer definition – they may state it explicitly or you may be able to infer it from their activities
- their strategies for increasing sales – by further market penetration, perhaps, or by diversification
- the resources that they have available.

What strategies are being followed by your competitors? What are their strengths and weaknesses? Do those represent threats or opportunities for you? In particular, ask yourself:

- What, precisely, are they selling and to whom?
- Is anyone doing this already?
- What do they charge?
- Are there gaps in the market?
- Is anyone likely to muscle in?
- What methods/equipment do they use?
- Are they any good at it and why?

Reviewing the environment

Market places do not exist in isolation. As well as looking at customers, competitors and the market place, you also need to look more widely at the environment in which your business is operating and the likely environment in which it might be operating in, say, five years' time. You, and your business, need to learn as much as possible about the environment; furthermore you need to be sensitive to the demands and constraints of the environment. One of the characteristics of the current environment is that we are experiencing rapid change. And furthermore the rate of change appears to be increasing. This leads to uncertainty and consequently anxiety, even amongst people who are clearly successful. You can, however, reduce anxiety by analysing the environment and the changes that are taking place.

Assessing information

When you come to assess your information, whether solicited or unsolicited, bear in mind the Pareto principle: 80 per cent of the information you require is likely to be contained in 20 per cent of the pile of paperwork, e-mail messages or whatever. Bearing this in mind will help you when you come to sort things out, using the principle of the four Fs.

The four Fs

When managing information, it can be categorised using the four Fs, which are:

- forget it – put it in the bin;
- file it – file it away for future reference;
- forward it – pass it on to someone else to whom it might be more useful; or,
- follow it up – decide on a course of action and take it.

There are a number of criteria that will help you to decide which category you should pick. Assess the information to see if it is ACCURATE:

A ppropriate – is it the best information available and does it tell you what you need to know?

C orrect – is it reliable? Is it from a good source?

C ost-effective – is this the cheapest/quickest way of finding out?

U sable – is it sufficiently understandable, relevant, accurate and timely to be of use to you?

R elevant – does it fit in with what you are trying to achieve?

A ccessible – is it legible and readable? Can you locate and retrieve it easily?

T imely – is it current or has it arrived too late?

E nough – is there sufficient information and does it cover all of the relevant points?

Assessing against the previous criteria will help you to decide how the information should be managed.

Using information

One of the problems we face when managing information is how to see the wood for the trees. Even after deciding what information you wish to keep and discarding the rest, you are likely still to have a sizeable amount – to say nothing of the information you already have stored.

When we read, we should have a purpose. Keeping this purpose in mind helps us to scan and to pick out relevant details.

Case study: Scanning labels

Susan is a vegetarian. When she goes shopping she checks labels to be sure that what she buys contains no animal products.

She knows the words she needs to look out for: lecithin, whey, gelatine, for example, and so scans the labels quickly, not really registering what is there, just checking that her key words aren't.

So, if you are seeking information relating to a particular subject, you can scan a document whilst keeping your key word(s) in mind, and pause to read fully only those bits of information which are directly relevant.

Interpretation

One benefit of being in possession of information is that we may use it to identify possible future trends. If a number of our competitors seem to be heading off in a new direction, we may have missed the boat as far as developing an opportunity is concerned. If, on the other hand, we notice that interest in a particular subject appears to be growing, we might be able to use that knowledge to our advantage, either by developing a new opportunity or by changing course to avoid disaster.

Case study: Spotting trends

It was reported[26] that according to a Gallop poll there are at least three million vegetarians in Britain. Five thousand a week became vegetarian over the last couple of years, many of whom cited the BSE scare as the main reason for the change. A Vegetarian Society survey, reported in the same article, surveyed 1400 school children aged between four and eleven on their meat-eating habits. 45 per cent avoided one type of meat; 24 per cent, two or more; five per cent ate fish only and three per cent were strictly vegetarian. The main reason cited was that the child simply didn't like meat; concern for animal welfare came a close second.

The person in possession of such information might – depending on its relevance to their job – be prompted to gain more information to determine if this gave evidence of the development of a new trend to which they should react.

[26] *Here's Health*, EMAP elan, September 1997.

Organising and accessing information

There is no point in amassing information if you have no accurate, secure means of storage or an easy method of access. There are two main types of storage system:

- manual – filing cabinets, boxes, card index etc; and,
- electronic – microfilm/microfiche, computer.

The type of system you choose depends on the nature of your everyday work and the information you need, but it must fulfil certain criteria. Your system must:

- fit in with the way the rest of the organisation operates;
- be designed to allow other people to find their way around if you are unavailable; and,
- be legal.

Organising information

Information must be organised in a way that makes it easy to digest. Once you have collected raw data, there are three basic ways of presenting it:

- words;
- numbers; and,
- pictures and graphs.

Information needs to be presented so that the message is clear and to the point, with no chance of misinterpretation. Using simple language will help you here, as will using pictures and graphs where possible; we take in the bulk of our information visually, so are more likely to remember this type of information. Be as concise as possible, imagine that you are taking the raw data and distilling it to make a concentrated essence.

If you use numbers, use them in a way that makes their meaning obvious, and don't forget that accuracy is essential:

- figures must add up;
- costs sometimes cannot be rounded to the nearest tenner;
- temperatures must show specific ranges; and,
- measurements must be accurate.

Numerical information can be useful to show comparisons or to display patterns and trends. Be careful, though, when using graphs and charts to be sure that they are self-explanatory.

Disseminating information

Some of the information you acquire will be of use to other people within your organisation (or outside of it – don't pass up opportunities to develop relationships by passing on useful snippets). When disseminating information to others, it is essential that you control the flow and content, rather than passing things on indiscriminately. As a general rule, there are a number of points to follow:

- Simplify and abridge information wherever possible. People will be put off by unwieldy amounts of text.
- Disseminate information which is clear and relevant, and either discard or research further any which is ambiguous or incomplete.
- Colour code information, perhaps setting up a system where different subject matter is copied onto different coloured paper, or headlines are highlighted in the appropriate colour.
- Prioritise information – a simple 1-2-3 system should suffice, although something more discriminating could be used if desired.

- Use icons and/or a standard format when presenting information to others.This helps them to get their bearings and pick their way through the facts more easily.
- Supply information only to those people who need it. Indiscriminate dissemination can damage your credibility and make others dread receiving your missives.

The Data Protection Act 1984

The Data Protection Act is an act of parliament designed to protect personal information stored on computer. If you plan to hold such data, you will need to be registered under the Act. (Details are available from the Data Protection Registrar.) The Act is based on a set of principles which reflect and underpin the Council of Europe's convention of data protection. There are eight rules, or principles, on which the Data Protection Act is based:

- the information contained in personal data shall be obtained and processed fairly and lawfully;
- personal data shall be held for only one or more specified and lawful purposes;
- personal data held for any purpose or purposes shall not be used or disclosed in any manner incompatible with that purpose or those purposes;
- personal data held for any purpose or purposes shall be adequate, relevant and not excessive in relation to that purpose or those purposes;
- personal data shall be accurate and, where necessary, kept up to date;
- personal data held for any purpose or purposes shall not be kept for any longer than is necessary for that purpose, or those purposes;

- an individual shall be entitled at reasonable intervals and without undue delay or expense to:
  - be informed by any data user whether they hold personal data about the individual;
  - have access to such data held by a data user; and,
  - where appropriate, to have data corrected or erased.
- appropriate security measures shall be taken against unauthorised access to, or alteration, disclosure, destruction or accidental loss of, personal data.

Individual rights

The Data Protection Act gives individuals four specific rights in respect of the information held about them by others. It provides:

- a right for individuals to obtain a copy of the information which forms the personal data held about them by a data user;
- a right to take action for compensation if the individual is damaged by inaccurate personal data or by loss or unauthorised destruction of personal data;
- a right to take action to have inaccurate personal data corrected or erased; and,
- a right to complain to the Registrar that any data protection principles or any other provision of the Act has been broken.

Key definitions

Some key definitions of the Data Protection Act are as follows:

- **Data subject** – any living individual on whom personal data is held. Corporate bodies cannot be data subjects as the Act refers to individuals, not companies.
- **Data user** – individuals, corporations or other agencies that control the automatic processing of data.
- **Registrar** – the Registrar is appointed by the Crown to supervise the legislation. The Registrar holds a register of data users and has many powers and rights, being central to the whole Act.

Enforcement

The legislation is enforced by the Registrar who has to ensure compliance to the eight principles. The Registrar can serve three types of notice:

- an enforcement notice, directing a registered person to take specific steps to comply with the principles;
- a de-registration notice, cancelling from the register the whole or part of any entry; and,
- a transfer prohibition notice, prohibiting the transfer of personal data overseas.

Anyone who receives a notice and feels it is unfair can appeal to the Data Protection Tribunal. The courts also have powers to adjudicate in disputes between data users and subjects.

Keeping your data secure

Whether the data you hold is business data or personal data on individuals, it is essential that it is securely held. You are the best judge of who might pose a threat to your company and why. Give this some thought as it may in turn give you some indication as to your potential security problems.

When security is breached, it happens either by accident or by design. Examples of accidental breaches of security include:

- documents left lying around, or read in public places where they can be seen;
- careless conversations;
- floppy disks left lying around; or,
- computers sent for scrap which still contain data.

If information falls into the lap of, say, one of your competitors, can you be sure they will not use it? If the roles were reversed, what would you do?

Deliberate breaches of security would include:

- computer hackers getting into your system;
- unscrupulous members of staff selling information;
- theft of computers (lap tops are particularly vulnerable);
- industrial or economic espionage; or,
- phone tapping, or monitoring of cellphone conversations (analogue particularly).

If you hold sensitive information, it is wise to be sure that your premises and equipment has adequate security – passwords on computers, a decent alarm system, locking filing cabinets and so on. However, it could be that not all information needs to be so stringently protected, and so it may benefit you to introduce a system of classification.

Classifying information

When classifying information, a three tier system should be sufficient:

- **Level 3** – routine information, disclosure of which might be inconvenient but would not be critical. The majority of information would fall into this category. Level 3 information would not normally be marked.
- **Level 2** – information which could cause harm if disclosed, either by affecting the company's reputation or by revealing future intentions. This information should be marked and controlled.
- **Level 1** – information which could cause serious problems and inflict major damage if it were to be disclosed. Suppose a merger were to be planned between two companies: premature disclosure could have a major effect on share prices. This material should be clearly marked and very carefully controlled. If it is sent between

sites, then the outside of the package should not be marked confidential, as this would alert potential thieves to its significance. Instead, have the information in a second envelope which is marked.

It is likely that you will from time to time need to re-classify information; the information in the merger example above is only sensitive prior to the event, for example.

Evaluation and review

As with all systems, it is necessary to regularly evaluate effectiveness and implement changes if necessary. Just because something has always been done a certain way does not mean it is right, and what worked last month might not work now.

Part of your evaluation should be to review your requirements and check whether you are still getting the information you need. Again, perhaps a change of plan will prove necessary.

reading list

Reading list

Keeping it Confidential and *Understanding Risks*
Booklets available from the Department of Trade and Industry by calling 0207 510 0174 (fax: 0207 510 0197) and quoting references URN 98/938 and URN 96/939 respectively.

Beat the Bumph
Kathryn Redway, Nicholas Brealey Publishing Ltd, 1995.

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chapter twenty two

Managing change

The information in this chapter relates to Key Role A: Manage Activities

chapter twenty two: Managing change

The information in this chapter relates to Key Role A: Manage Activities

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Encourage people to submit suggestions for improvements to work activities, evaluate ideas fairly and provide feedback.

2. Ensure that where any change is required, the process is planned and managed effectively, and the appropriate people informed.

3. Establish people's understanding of, and commitment to, change.

4. Recommend improvements to organisational plans that are realistic and achievable and presented appropriately.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Encourage people to submit suggestions for improvements to work activities, evaluate ideas fairly and provide feedback.
2. Evaluate proposed changes for benefits and disadvantages.
3. Ensure that where change is required, the process is planned and managed effectively, and the appropriate people informed.
4. Establish people's understanding of, and commitment to, change.
5. Implement changes in activities effectively.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Facing change

We all face change throughout our lives, both professional and personal. Leaving school, starting work, getting married, moving house – these are examples of change that we are all likely to face. Most of these changes will be made by choice, but there are also examples of changes that are forced upon us.

Perhaps you remember the changes brought about by decimalisation; perhaps also the changes in types of money: at one time, the majority of people dealt only in cash; now there are cheques, credit and debit cards, store cards and other varieties of credit, not just for the select few, but widely used by the population as a whole.

Of course people do not always accept change. We may all know someone who still keeps his or her money in a sock under the mattress, for example. However, no matter how resistant we are to change, we will still have to learn to cope with it to some degree.

Objectives

The aim of this chapter is to consider why change happens, what effect it may have on those affected and how best to cope with it. It will help you to:

- understand why businesses change;
- identify the changes required in your organisation;
- plan to implement change effectively;
- understand barriers and reactions to change; and,
- monitor and evaluate the benefits of implemented change.

Having a strategy to help you and others cope with change makes good sense; we all have enough stress in our lives without adding to it by lack of foresight and planning.

Why change happens

In *Organisation development*,[27] John Woolhouse asserts that there are four main reasons for planned organisational change:

1. the emergence of something new;
2. a reaction to external forces;
3. identified failure within an organisation; and,
4. a reaction to planned change and development.

Types of change

The French have a saying, '*plus ça change, plus c'est la même chose*'. In other words, the more things change, the more they stay the same. Change often occurs only on the surface, with the underlying principles, procedures and attitudes remaining untouched.

For example, the job of a typist has, on the surface of it, changed quite a lot over the years; from using old, heavy, manual typewriters, to lighter more portable versions, electric, electronic, and finally, word processors. These changes are only surface deep, however; the underlying principle, that of taking a hand-written or dictated document and turning it into a typed document, has remained the same. Such change is procedural.

Think about the change faced by the manufacturer of the typewriter; the actual process of design and production has changed radically. Anyone who can only create an old-fashioned manual typewriter, with its 'sit up and beg' keyboard, messy ribbon and heavy keys, will find that perhaps the only customer left is a museum. Such radical change is occurring more frequently and is unpredictable; who could have foreseen 15 years ago that home computers would become so popular, hitting, for example, the market for portable typewriters. Even IBM misjudged that one.

27 *Handbook of Management* (3rd Edition), Dennis Lock (Editor), Gower Publishing Co. Ltd, 1992.

Change may be either reactive or proactive. Often reactive change keeps you in a position of constantly 'firefighting'; you wait for something to happen and then react to it – fast. It doesn't have to be like that, however; it is not necessary to be always a victim of circumstance. Instead, you can take control, identify necessary changes and implement them to suit you and your people. Change can be a way to make things happen.

Where the change is you

A type of change that can be particularly difficult to handle impartially is that of your own employment in, or promotion to, a new position.

Firstly, let's step back and consider the possible reasons for you receiving a negative reaction in such circumstances, bearing in mind that we too may have felt like this at some point in our career. Your appointment could breed resentment for a number of reasons, including:

- one or more of your peers could also have applied for the job;
- people may feel that they have been unfairly passed over for promotion in the past;
- people are older and more experienced than you;
- people are reacting in a manner which is either racist or sexist;
- people are fearful of the extent of the change which they may face as a result of your appointment;
- you appear to be aloof and to show little or no interest in people (possibly as a reaction to their treatment of you, or because of shyness);
- you act as though you know it all;
- you communicate badly or in an impersonal manner (perhaps sending a memo instead of speaking to people); or,
- you issue ultimatums without explanation.

case study

case

Case study: Jim's new job

Jim was delighted when he was promoted to the position of manager of the customer service call centre in his company. He was aware that the job held many challenges for him, not least of which was reducing the figures for the number of calls lost and the time it took for them to be answered. He was determined to make his mark quickly.

Before he joined this particular company, Jim had been in the army for many years. Consequently it seemed natural for him, as captain of this particular enterprise, to fall back on old habits. He came up with a plan of action for improvement, called a meeting with his supervisors and told them straight what their duties would now be and what was expected of the staff.

The emphasis was strictly on performance, on doing what was necessary and no more, on staffing the workstations at all costs. Tea breaks (allowed as an unofficial perk) were stopped, lunch breaks were regimented, and staff even had to put up their hands and wait for someone to staff their workstation before they could go to the bathroom. Instead of seeing a customer query through from start to finish, details had to be taken over the phone and, if the answer could not be provided there and then, written down and passed on to someone else in the 'backline' team.

The atmosphere in the department became positively mutinous. Staff became devious and subversive in the ways in which they contrived to beat the system. Tempers were frayed and tears were frequent. Communication was so bad that it took the personnel department to intervene in what almost became a disciplinary matter before things could be sorted out.

So, if people are reacting badly to your appointment and feeling threatened or resentful, how do you know? It's unlikely that they will come to you and tell you directly, so you must be aware of, and alert to, the likely signals.

Things to watch out for include:

- people talking about you behind your back, which includes them shutting up when you approach, or whispering and looking over frequently in your direction;
- people openly sneering at your ideas and actions; watch their body language – it can tell you an awful lot;
- people following your instructions to the letter, doing exactly what you say and no more – especially if they are more experienced than you and are aware that there is something that you have overlooked ('It's not my fault – I only did what you said');
- people criticising your decisions, either openly or behind your back;
- people generally undermining your authority; and,
- people being very proper and polite when speaking to you.

The only way to deal with this is to grasp the nettle and discuss the problem with those concerned. You should be totally honest about what you do and don't know, which in turn leads on to stressing how much you value their experience and would like them to help you to make the department a success. You could say something like:

'*I have been brought in for my organisational skills and for my experience of previously working in credit control to help them to improve their cash collection figures. However, I accept that I have a lot to learn in this department and I am relying on your skills and experience to help me with that. In return, I can look at working practices here and identify both training needs and other areas of potential improvement. The advantage is that I'll look at these things with a fresh pair of eyes, but I'm going to need you to discuss ideas with me to see whether they are viable. I won't make any changes without us discussing them first*.'

The golden rules for dealing with this type of situation include:

- be honest; people will know if you are trying to pull the wool over their eyes;
- gain agreement on the way forward;
- get them to 'buy in' to specific objectives and responsibilities;
- get their backing on proposed changes – make them stakeholders in the future of the department;
- empower them to fulfil their objectives – powerless people can become subversive;
- acknowledge and praise their assistance and achievements; and,
- never take credit for someone else's idea or success.

In addition, if someone's behaviour is unacceptable you must tell them specifically what they did and when, and why it must change. Again, seek agreement, but particularly when people are coming to terms with change, do not discipline them unless their behaviour is extreme.

Change and motivation

Change, handled correctly, can be extremely motivational. Conversely, handled badly, it can be just the opposite.

Getting it wrong

When new technology was introduced into the newspaper industry some years ago, it brought about major changes in responsibilities and working practices. You may remember the scenes as people went on strike and picketed, and many people lost their jobs.

One of the changes was that instead of newspaper advertisements being written or typed by the telesales team and passed on to the compositors to be set, the telesales people would have to learn how to use a VDU and would enter the text that would subsequently appear in the newspaper, cutting out the compositors' role. One problem with this was that the compositors were paid considerably more than the telesales people, who were expected to pick up this extra responsibility with no increase in salary.

Protracted negotiations ensued, and while both sides gave a little ground, neither gave enough to enable them to meet in the middle and gain agreement, hence the strikes and the sackings. Some people were reinstated in time, but many lost their jobs for good.

The change here was handled badly, largely due to a lack of communication. Both sides knew that the situation was going to be difficult, but instead of confronting the issue honestly and openly, they confronted each other.

Case study: Staff training

When Vicky started her job as a member of the new accounts department in the north eastern office of a national manufacturing company the first thing that happened was that everyone went to the head office in Yorkshire to be trained in the correct procedures. They spent a fortnight with the people there learning various jobs and procedures with the benefit that they also had a personal contact point when they set up their own operation should they have any queries.

The training was a great success, from both a business and personal situation. Folks kept in touch and a good relationship was enjoyed between both offices.

After the new office had been running for a couple of months, it was announced that the accounts function in Yorkshire was to be made redundant. Management had known that this was the plan for some time, but had not told anyone because they did not believe that the staff in Yorkshire would have trained the newcomers if they had known they were training themselves out of a job.

The news hit both Yorkshire and the north east office staff very badly; the people in Yorkshire knew it wasn't the fault of the north easterners and didn't blame them, but the north eastern staff took a long time to recover from being unwitting pawns in a very underhand operation.

There are probably more examples of people getting change wrong than getting it right, perhaps because they are more entertaining. There's not much mileage in saying, 'Hey, things are changing at work and I'm really happy about it – I think in the long run we'll all be much better off'. It can and does happen, however.

case study

Case study: Going PLC

Jenny worked for a company that, over a period of about six years, had changed through acquisition and natural growth from a small/medium enterprise to a large company employing some 2,000 staff in their UK operation alone. The company was privately owned but, as time went on, a general feeling grew among the staff that the company was about to be floated on the Stock Exchange. No-one was quite sure how the rumour started, but having taken hold, it was not denied and it spread, becoming fact within a few days.

The reason it had not been denied was that it was true; once they were aware that it had been leaked (deliberately, to prepare the ground?) management sent a memo to all staff in the first instance confirming that the company would indeed be floated and when.

This was followed up by further information letting everyone know exactly what would happen and giving the details of the press office in case any journalists should get in touch.

The final information concerned the various staff share options that would be available; the details were circulated on paper at first and then backed up with a series of meetings held in works time to go over the offers and to answer any questions people might have.

Consequently a situation originally perceived dimly as a threat by staff became one which was an opportunity. On the day of the flotation there was a general air of excitement, with regular updates about the share price on the staff bulletin board on the e-mail system.

Quality and change

Quality is itself a process designed to promote and sustain continual improvement – or, to put it another way, change. People must be encouraged to buy into the ethos of continual development, for only in this way can change be managed, rather than having change manage us.

In truth, most of us have, to a greater or lesser degree, accepted this already. We know that there is no longer such a thing as a job for life – we won't work on the illuminated letters of the same bible, or the stonemasonry of the same building, from apprenticeship to retirement – and we know that we must be flexible. Research has suggested that people will change not only their jobs, but their careers, four or five times during their lifetime. That can be a phenomenal amount of change with which to cope, and an awful lot of knowledge to take on board and skills and abilities to develop.

Consequently, continuous improvement and continual self development must become second nature. It is debatable whether this will make accepting change within an established position easier, however; this is generally change over which we have little or no control and which, handled badly, can make us feel threatened and powerless.

Identifying and monitoring industry changes

It is essential that you keep up to date with changes in the general climate and the climate of your own specific industry. Read trade journals, the broadsheets, specialist magazines, general interest magazines, watch and/or listen to the news, keep informed. Question what you hear. Suppose you manage or work for an organisation that makes biscuits. You pick up a statistic that says there are more vegetarians now than ever before; an extra 5, 000 people a week are becoming vegetarian; many others who do not become strict veggies have given up meat and meat products and only occasionally eat fish.

So what? You may think, what does that have to do with biscuits? Well, quite a bit. Check out your ingredients; do you use animal fats? If so, can you change? If you don't use them, or following the change, why not put a little stamp on the packet or box saying 'Suitable for vegetarians'? The same would go for a manufacturer of cheese; do you use animal rennet, and if so could you change to vegetable? Again, mark the packaging; if a cheese is not marked as suitable for vegetarians, then most will not buy it because of the rennet issue.

Listen, absorb, question. Always ask, what's in it for me? How does that affect me? Take a long-term view and think creatively about possible implications – brainstorm with colleagues if you think it is warranted.

Keep an eye open for indications that a trend may be developing; if you think you have spotted one, investigate it thoroughly. Even things that are seemingly unrelated could have a bearing on your business. Identify opportunities and threats and the change necessary to exploit or avoid them.

Identifying required areas of change

As well as change which is prompted from outside the organisation, there is likely to be a requirement for change which is prompted by the organisation itself. One way to identify such requirements would be to undertake a 'diagnosis' of the company. In essence, this can be likened to a thorough medical; perhaps every five years or so you go to your doctor for a full check up (the 50,000 mile service) not because anything is specifically wrong, but to keep an eye on things and to identify areas of possible or actual concern. Identifying such issues before they become full blown problems can help to avoid serious illness or even death. It is the same with the diagnosis of your company (or department) – you are checking up to see what is and is not working properly, enabling you to take steps to correct any defects before they get out of hand.

The diagnosis should be split into various functions or processes to make the task more manageable. The following topics are suggestions for areas at which you might like to look:

- people;
- processes;
- marketing;
- service;
- planning; and,
- fitness.

Let us look at those in more detail.

People

Under this heading, you might like to ask questions about training and development, pay and conditions, appraisal, promotion and career development, communication and management effectiveness. Depending upon your organisation, other areas may also need to be covered.

Processes

Under processes you should examine the effectiveness and efficiency of working procedures. It may be necessary to have a separate survey for each department, depending on how complex or diverse the work itself actually is.

Marketing

Here you should examine the competitiveness of your product or service in the market place and consider your competitors and your knowledge of them. Do you know enough, or do you need to find out more? Consider the market research that has been carried out (is it sufficient?) and how you analyse and use the results.

Service

Arguably this could come under market research, as an aspect of it is to investigate the service you offer to customers and their perception of you. It is listed separately, however, because service is such an important area and because you need to consider your service to internal as well as external customers. If you do not wish to include this as a separate topic, make sure that 'people' and 'marketing' ask the right questions to gain the information you need.

Planning

How effectively do you plan? How often do you review progress? Do you move the goalposts without informing people, so both confusing and exasperating your staff? Have you any scenario plans in place in case of future problems?

Fitness

By fitness, we mean the fitness of the organisation. Are you lean and mean, or top-heavy, overweight and complacent? How quickly are you able to react to situations arising which present opportunities or threats? Do you lumber slowly into position only to find it took you too long, or are you nimble? Are the right people in the right jobs, and are they doing the right things right (as opposed, perhaps, to just doing things right)?

Planning to find optimum methods/changes

Having identified areas where change is desirable, you must go on to identify the best method of implementing change. A simple example might be that 50 per cent of your staff are unable to make full use of information technology – perhaps because what they know, they have picked up as they went along, never fully understanding what the hardware and/or software they are using is capable of. How do you make sure that they are better informed, and how do you make sure that the learning is transferred to and utilised in the workplace? Do you buy in training for everyone, or do you buy in training for in-house trainers who then roll out a programme to everyone? Do you need to buy in training at all? Do all staff need the same training (a one-size fits all approach) or should training be tailored to the needs of the individual?

Taking time at this stage to plan what should be done and what approach should be taken can save much time later. Do not forget to plan in a method of monitoring change and evaluating success.

Implementing changes

Organisational leaders must take the initiative in the change process and the key to getting people to take ownership is to keep them informed. People who have to guess what is happening are likely to put two and two together and make a lot more than four. They will wonder why they are not being informed, and are likely to come to a conclusion that it is because they would not like what was happening (or going to happen) if they knew. At times like this, rumour control tends to go into overdrive and before you know where you are you've got a revolution on your hands!

People need to know:

- what needs to be changed;
- why the change is necessary;
- what needs to be done;
- how it will happen;
- how they can do their bit;
- what the perceived benefits of the change are; and,
- how they will know if the change has been successful.

Reactions to change

Change is, by its very nature, threatening. As Blanchard and Waghorn point out, even if everyone else is going through the same change, people feel alone. People who have been kept informed, however, and who feel that they have some measure of control over their own destiny, are less likely to react badly to change. It should be stressed that change is intended to liberate and empower, not enslave and punish. People should be aware that the change is for a specific reason, not just change for the sake of change. People should also not be subjected to too much change at once – there is only so much they can take.

Barriers to change

Perhaps the biggest barrier to change is fear; people are afraid of what they don't know and don't understand. Any situation that induces fear will prompt the reaction of fight or flight. Since it is unlikely that people will be able to swap jobs quickly (flight) they will most likely become disruptive and unhelpful to the change process (fight). The alternative flight response is absenteeism, so be alert for increases in this area; it is a good 'problem' barometer and can tell you a lot.

Alternative barriers, in the form of 'but we've always done it like this' or 'you don't know what you're talking about' are fight reactions prompted by fear. Involve people in the process, keep them informed, listen to their opinions and take them seriously (never ridicule someone, especially in front of others) and you should be able to overcome the problem.

Counselling

Counselling can be a very useful tool to offer to staff struggling to cope with change, particularly if the change is major and personal, like redundancy. In counselling, you are trying to encourage the other person to voice their feelings and to work out a solution for themselves. It is a supportive process, non-judgemental and personal.

Training

A well planned and timed training programme can be a vital tool in helping people to cope with changes to working practices, for example. Remember, however, that there is no point in training people in something new too far in advance of the actual change, particularly if there will be no opportunity for them to practice; by the time the change occurs, they will have forgotten what it is that they learned.

When arranging training to help people to accept and adapt to change, make sure that it does not just gloss over the surface. Give them the full picture to help them to understand and encourage group discussion sessions to get them to air concerns and questions.

Monitoring and evaluating the benefits

Whatever we do, we should monitor and evaluate so that we are able to assess the difference that the action we have taken has made.

What should I monitor?

To get good results from the process of monitoring and evaluation, you must first decide what it is that you should measure. Ask yourself:

- What was the objective of the change?
- Where will the change be noticed?
- Could any other factors have an influence on this area?

Perhaps the objective of the change you have implemented was to reduce the level of bad debt.The effect of the change will be noticed in the days' sales outstanding, which should fall as a result of the changes you have implemented. Other factors which may have an influence and which must be taken into account could include the economic climate or the knock-on effect of any previous collection activity.

If the results are disappointing, then we should investigate further to find out why – perhaps the wrong action was taken initially, or was implemented incorrectly – and then take steps to correct the shortfall in performance. If the action we have taken has brought about positive results, then we should investigate to see if things could be improved still further. Either way, it is important that staff are kept informed of the results. Perhaps they can suggest refinements to the process; perhaps the published results of evaluation will be a motivator.

Stress

It has been said that the only bodies without stress are dead ones. We need stress – the problems arise when we have more or less stress than we are comfortable with.

Change is one of life's major stressors and any kind of change that occurs in our lives will induce some degree of stress. What matters is the degree to which it affects us and how we handle it.

When someone complains of being 'stressed' it is an indication that something negative is happening, something is wrong in their life. Stress only has a positive effect if it can be worked off rather than allowed to build up in the body. Negative effects of stress can be the result of not having a chance to release a stress response that is too strong or that lasts too long and the effects show up in four ways in particular:

- low energy;
- poor performance;
- poor health; and,
- unsuitable behaviour.

The incidence of stress in the workplace is a major consideration. In Britain, at least 40 million working days are lost each year due to the effect of stress. The cost of stress-related illness to the medical and social services is an estimated £55 million annually [28]. Stress, as you can see, is a major problem.

[28] Alix Kirsta, *The Book of Stress Survival*, Thorsons, 1992.

Signs of stress include:

- short temper;
- clumsiness;
- changes in breathing rhythm;
- cold hands and feet;
- sweating;
- nervousness;
- lack of concentration; and,
- a tendency to over-react.

Look out for them in your customers, your colleagues and yourself.

Dealing with your own stress is something that you should make a conscious effort to do. There are many methods – yoga, exercise, meditation – and you should experiment to see what works for you.

Here is a quick and simple technique you can use to help yourself relax and which people will not even notice you doing:

- Establish a rhythm of breathing in deeply and then breathing out.
- Once you are comfortable with this, tense a group of muscles as you breathe in and relax them as you breathe out. Tense and relax the following groups, in order:
  - jaw;
  - hands and arms;
  - stomach; then,
  - legs and feet.
- Never force your breath, and stop if you begin to feel dizzy.
- After you have finished, try to remain aware of how it feels to breathe smoothly and rhythmically.

Conclusion

Change is uncomfortable, difficult both to accept and to deal with – and a fact of life. We cannot avoid change, and so it makes sense for us to make the best of it. Planning to implement change in the best possible way and understanding why it makes us feel awkward are both steps towards coping with change positively. As with all things, it is important that we learn from our experiences; we must beware of repeating mistakes and of being too afraid of making them to make the change. Communication is perhaps the key to success; keep talking, keep discussing and keep explaining. With good planning and hard work, change really can be a positive experience.

reading list

Reading list

Total Quality Training
Brian Thomas, McGraw-Hill, 1992.

Managing Change
Colin Carnall, Routledge, 1991.

The Book of Stress Survival
Alix Kirsta, Thorsons, 1992.

Handbook of Management (3rd Edition)
Denis Lock (Ed), Gower Publishing Company Ltd, 1992.

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chapter twenty three

Business planning

The information in this chapter relates to Key Role A: Manage Activities

chapter twenty three: Business planning

The information in this chapter relates to Key Role A: Manage Activities

MCI3

MCI3 – recommended reading.

MCI4

MCI4 – recommended reading.

MCI5 – Operational

MCI5 – Operational – recommended reading.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Create a shared vision and mission to give purpose to your organisation.
2. Define values and policies to guide the work of the organisation.
3. Formulate and gain support for objectives and strategies to guide the organisation.
4. Develop measures and criteria to evaluate your organisation's performance.
5. Explain the causes of success and failure in organisational strategies.

The changing world

We live in a changing world and, arguably, the change we face has never been so great. Rapid change, whether technological or economic, makes it far more difficult to predict the future, and yesterday's solutions are unlikely to work with tomorrow's problems. In turn, this uncertainty means that it is difficult for anyone to set out where they expect to be in five or ten years' time. This raises particular difficulties for businesses.

Perhaps all this suggests that the last thing businesses should do is plan, but unless businesses want continually to jump from one opportunity to another – like street traders who sell wrapping paper at Christmas, ice-creams in summer and lighters at other times – they need to have a direction and a framework. Those businesses that have a clear vision and a clear sense of purpose will be the ones who can spot the opportunities that they can exploit to most advantage. Vision and purpose set the direction; the businesses that are most effective match their competencies and resources to the opportunities. The way in which the competencies and resources are applied provides the framework.

Objectives

The aim of this chapter is to help you think about directions and frameworks and encourage you to plan – without stifling your enterprise, imagination and opportunism. It will enable you to:

- understand and conduct a PEST analysis;
- understand the planning cycle;
- define purpose and vision;
- specify and plan to meet business objectives; and,
- understand scenario planning.

PEST analysis

One way of doing this is to undertake a PEST analysis[29] Every business needs to consider a range of external forces in order to take decisions. For many people imagination is very limited and is coloured solely by their own experience and personal beliefs which can lead to wish fulfilment or a refusal to see reality or recognise the critical changes which are happening. It can also lead to grabbing short-term solutions which, if they do not exacerbate problems, certainly ignore the longer term. In the business world pressure is often applied to take decisions quickly acting on judgement and instinct rather than careful analysis.

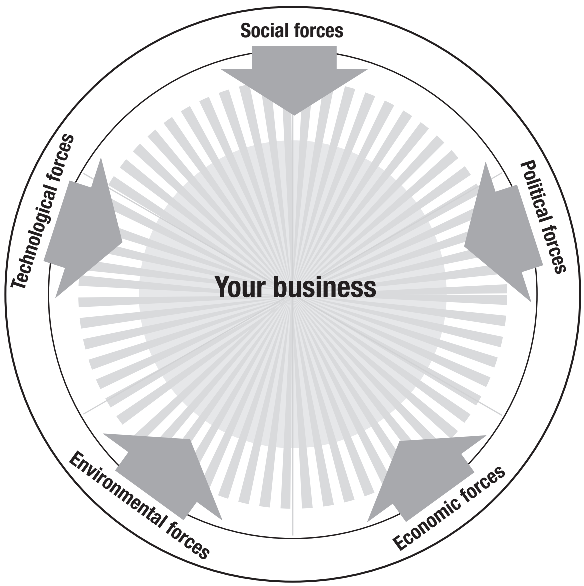

Figure 32: PEST analysis

There are many driving forces in the external environment that might impact on your business. These can be categorised as:

- social;
- technological;

[29] This is sometimes known as a STEEP analysis, adding an extra E for the environment. Bob Garratt refers to PPESTT analysis, adding an extra physical (that is, environment) and an extra T for trade forces.

- economic;
- environmental; and
- political.

Social forces

Social forces include, for example, changing demography, education etc. The population in western Europe is relatively static, but the age bands are changing. The number of older people, for example, is growing rapidly.

Within developed countries there is emerging a recognisable trend of people becoming more independently minded and critical with increased emphasis being placed on the free choice of the individual. One impact of this is that authority such as that of employer, government, sovereign, church or parent is no longer accepted without question. Individuals are more conscious of their rights and often more determined to stand up for them. The spate of customer charters is one response to this and recognises that individuals are increasingly exercising their rights as customers. Today, employees, particularly young people, are intolerant of close, hierarchical supervision. They want to be empowered to take responsibility for their own tasks, often working in small, well qualified teams. Companies are finding they can work very effectively in this way. In addition, the younger generation are growing up in a global culture rather than the more restrictive and isolated cultures of earlier generations.

Many businesses now believe location is less important than it once was. Modern communications make it easier to buy and sell abroad and so people are increasingly likely to base themselves where they want to live rather than where they have to work.

This willingness to do business abroad is likely to grow fast because of people's experience of travelling – and often of studying or working – abroad in much larger numbers than any previous generation. The world is becoming smaller and activities like the Internet mean that English is increasingly the dominant language. Music Television (MTV) is offering a western culture to many more people. What effect might this have? Will English speakers become less inclined to learn other languages? Or will it matter less? Remember that the Germans say 'I will sell to you in any language, but I will only buy from you in German'.

Combine the liberation from location with the changes in 1990s lifestyles and values towards a greater emphasis on a balanced life – and is it too fanciful to imagine some clients locating where they can indulge their non-work interests? Students already expect to make greater use of computers – both for research and communication. Will this change the way that students study, perhaps spending more time away from school or university? Will it make school work more research oriented? What differences will come about as a result of them having to pay for tuition?

Consider population trends. Demographic market features may need to be included in your customer profiles, perhaps together with education bands and income distribution. What will be the effect of rapid population growth in, for example, China or India?

What do you think of your customers' concerns, motivations and attitudes regarding, for example, environmental issues, ethical issues, local issues, etc? What are their aspirations? Consumers are becoming increasingly concerned about the integrity and values of the businesses from whom they buy. Whilst this may, on the face of it, have less impact on the smaller business, be aware of the possible implications if you find yourself in a supply chain which serves larger businesses.

Technological forces

Technological forces are changing dramatically quickly. What effects will this have on your production, marketing and distribution plans? Depending on your market, technology might either raise or lower entry barriers for competitors – or completely change the industry as, with the Swiss watch industry.

It is reckoned, for example, that human scientific effort in 1992 alone was equal to all the scientific effort prior to 1960.[30] Think back 10 or 15 years. Did you work on a personal computer? No. There were fewer than 10,000 PCs on the world's desktops a decade ago. By the turn of the century, there will be over 180 million. Intel claims that since 1974, when the microprocessor first became available commercially, some 12 billion have been sold. Not only is their speed and computing power increasing dramatically, but also they're being used to control an extremely wide variety of functions. A BMW bought today has more computing power than the Apollo 11 moon rocket.

Ten years ago, how did you communicate with people? Via fax or electronic mail? Today, billions of dollars in commerce is conducted around the globe over fibre-optic cables. More and more people are gaining access to e-mail. This makes communications within businesses far easier too – it means all your staff can talk to you at any time. A company called Cisco make electronic switches for information and communication technology systems. Ten years ago they hardly existed – today they have a market capitalisation bigger than General Motors. John Doerr, a particularly successful American venture capitalist states that during the 1980s, Silicon Valley was the site of the 'largest legal creation of wealth in the history of the planet'. In the UK, the telecom industry now employs twice as many people as the motor industry. Many now argue that advances in information and communication technology will be one of, if not *the* key, driving forces over the next ten years or so. These advances will impact on many other activities. They enable companies to act more globally – for example moving work around the world in order to achieve best value for money. Many more

30 John Wybrew, in *Changing Patterns of Employment*, *Trends Affecting Small Business and their Implications*, Livewire, 1992.

businesses, even small businesses, will find it easier to work across borders. This, in turn, may impact on distribution and supply arrangements and on greater liberalisation of world trade. But it may also be affected by changing consumer values and by consumers also benefiting from better communications – will consumers be willing to buy, say, footballs from factories in Asia exploiting child labour?

There has been an explosion of information. The last 30 years, for example, have seen a doubling of the information accumulated worldwide during the previous 5,000 years. And it's becoming ever easier to access – perhaps overwhelmingly so. The Internet and use of CD-ROMs is having a major impact on the transmission of information. Whilst there is little sign of it yet, we can expect reductions in the use of paper and far greater use of electronic transmission. *The Economist* now makes back issues available both on the Internet and on CD-ROM. Organisations like Key Note make all their market research reports available on CD-ROM. This makes them far easier to send through the post – and far easier to use. But what are the implications for printers? And for libraries? And will all the graphic designers be able to move fast enough to the new medium? As Bill Gates has said, 'One thing about this revolution that's different from the PC revolution is that we think it's even bigger than the last one. And a lot of companies that will be huge players are ones you haven't heard of or that don't exist yet'.[31]

The impact of information and communications technology is seen by everyone – and is coming into many more homes through rapid expansion of the Internet. But there are other new technologies which are advancing rapidly and which will have a major impact. These include, for example, ceramics (especially for use in high temperature applications such as car engines), robotics (leading to even less jobs in large manufacturers), fibre optics (creating opportunities for narrowcasting and interactive television), biotechnology, genetic engineering and improved healthcare (leading to longer life expectancy and a greater demand on the welfare state in all western countries).

31 Bill Gates, *Wired*, 1994.

Advancing technology may also speed up the pace at which earlier technologies become obsolete, either because those technologies are no longer serviced or because everyone feels pressure to keep up with the pace of change (look at how the Pentium microprocessor displaced the 486, or the 486 the 386).

The way you structure your office might change, utilising advances in technology, because people are often away from the office, but with likely social consequences. Digital Equipment, for example, engages in 'hot desking' where staff can come in and use a desk, phone and computer – but there is an assumption that no more than half of the staff will be in at any one time. If lots of people are working out of the office, does the office need to become more of a meeting place, offering more social interaction? Video conferencing is already in use to reduce the need for travelling to meetings. This is likely to increase substantially as the technology improves and the cost reduces.

Economic forces

Economic forces include the effects of inflation, interest rates, tax rates, exchange rates and the Euro. Even governments have difficulty predicting what is likely to happen to these – and they try to control them! Nevertheless, they will have a major impact on your business, especially if you need to borrow a large proportion of your working capital, or if you are selling overseas.

The business environment is being transformed by global pressures. The Single European Market already has a population of 340 million people and a combined GDP of £2.5 trillion, larger than the USA and nearly twice that of Japan. Think of all those potential customers – and it will expand further during the next ten years.

Large cities can have a big impact on the economy. London, for example, is now estimated to have a GDP of $236bn – bigger than Belgium, Sweden and Austria – and nearly 20 per cent of the UK's GDP.

Even large companies can have a major impact on the world economy. The world's top ten companies each have a turnover in excess of $100bn. General Motors' turnover is $160bn. Compare that to Britain's GDP of $1.3trn and they're not far behind and considerably higher than most countries' GDP.

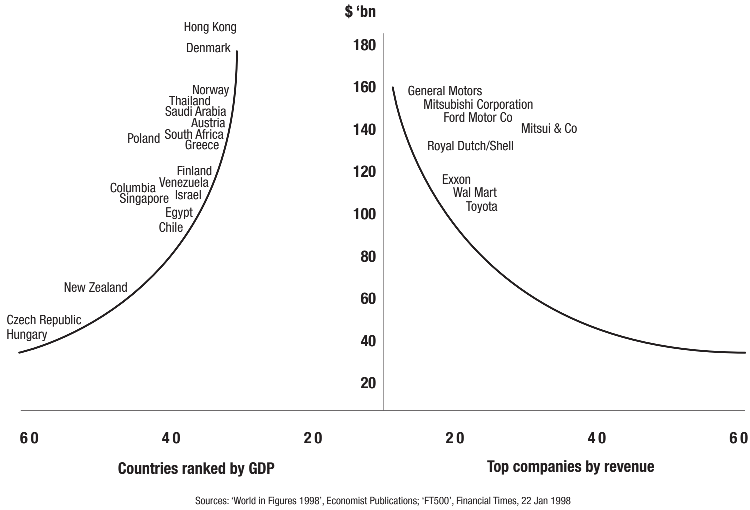

Figure 33: Global economic forces

Not surprisingly, companies can also have a big influence locally. Take Nissan for example. At their plant in Washington, Tyne and Wear, they have invested over £1.5bn and directly employ 4,000 people. But they have 55 suppliers located in the north east who collectively employ a further 25,000 people. And those suppliers have suppliers.

Much of the increase in the world economy over the next 30 years will occur in the developing world. Yet 94 per cent of SMEs in the UK do not export. Of those that do, only four per cent export more than ten per cent of their total output. Unless your business is a local service business, you will undoubtedly face increasing competition from the rest of the EC. British companies have to compete for business in this global marketplace, selling and operating abroad and facing the growing competition of others in their home market. To succeed they must be as efficient as the best – which means reducing costs, and organising for utmost effectiveness. They must also offer a quality product or service. Increasingly discriminating consumers are putting much more pressure on all business to deliver high quality at low prices. Businesses must become more innovative to do this effectively.

What is happening further afield? African states are beginning to open their markets. China's economy is growing rapidly with a growth rate over ten per cent per annum. On a purchasing power parity basis it now has the world's second largest economy. By 2010 some believe it will be the world's largest economy. Uruguay, Paraguay, Brazil and Argentina have created a common market called Mercosur adopting a common business language of Portuguese, creating a market of over $700bn and a combined population of over 200m people.

Labour costs in central Europe and in the Third World will continue to be substantially lower than in the west – providing opportunities for low cost sub-contracting but also for overseas competitors potentially to undercut you.

By the middle of the 21st century a large part of the world's economy may well operate as a single market perhaps even with a single currency. Competition will increase, even in niche markets.

Think about the following:

- Interest rate trends for the next 12 months and how they will affect your cash flow and profitability.
- The sensitivity of your markets to interest rate fluctuations? Will customers buy less if interest rates rise, for example?
- Inflation rate for the products or services you sell and for the goods and services your business consumes and their impact on sales and profits.

- Exchange rate movements (even if you don't import directly, you may still be affected).
- Can increased costs be passed on to your customers without a marked effect on sales?
- Is your market(s) price sensitive?
- Is the economy prosperous: is expenditure stable, growing or declining?
- Unemployment trends amongst your customer groups.
- Who employs your customers and what is their financial state?
- Disposable income changes correlated with sales.

Are there factors very specific to your business? If you make maternity wear, what is happening to the birth rate? What will be the effect of women working longer before starting a family? Are there new markets into which you might diversify? Is your market growing or contracting or static? How many competitors do you have? What new markets are opening up?

Leisure is becoming an increasingly important part of people's time, but it is also providing many more business opportunities. The music industry in the UK is estimated to be worth £2.5bn – versus £2.4bn for the water industry.

Environmental forces

Environmental forces are becoming increasingly important as more people consider the consequences of continually interfering with the ecological balance of nature. As a result, governments are legislating more to protect the environment and demanding less pollution. Some are introducing special requirements, for example, demanding that all packaging must be recycled. Whilst meeting such requirements inevitably means a higher up front cost, there may be a long-term pay off as businesses waste less and meet consumer demand more closely.

There may also be opportunities to help other businesses meet their requirements.

Food safety and nutrition are likely to become even bigger issues than they are now. There is growing concern over the effect of intensive farming on the environment, and a greater desire for organic produce.

Identify the consumer or environmental pressure groups that might influence your markets. Are you aware of any plans in the offing for new housing, commercial, road transport and other developments that will affect your markets and/or product distribution?

Political forces

Political forces most obviously include government legislation forcing businesses to comply, for example, with health and safety, or employment, or data protection requirements. These impose costs, but often also provide opportunities.

For most of the 20th century the world appeared quite simply to be divided into two major forces for development. On the one hand there was capitalism with its class society, a concentration of private ownership companies and the free market operating. On the other hand, there was socialism, with its classless society, state ownership, powerful trade unions, nationalisation of companies and overwhelming control through central planning. The Third World as it became known was a diversion for the two systems, capitalism and communism to fight over – territories to perpetuate the best and worst of each.

Then came *Perestroika* in the Soviet Union, the end of the threat of the Cold War, Solidarity's victory in Poland, reunification of Germany – the collapse of Communism in eastern Europe followed by great political and social unrest and uncertainty in many former communist countries and alliances. The end of the Cold War set free a wide variety of nationalist sentiment which had been suppressed for many years and as in the former Yugoslavia may result in regional conflicts causing great destruction. In other areas, economic uncertainties have replaced the threat once posed by military force.

A vacuum has been created in many instances with the collapse of one system followed by a rush to import ready-made solutions from the other system in the West. The emerging democracies in central and eastern Europe are all eager to join the European Union which will probably become less of a Union as a result and more of a Community.

The enormous market thus created will provide many more opportunities – for export, for import, for sub-contracting, for joint ventures, for technology transfer etc.

The reduction of the threat of global warfare will create opportunities and challenges. The spread of free market economies has brought east and west to the point where they face the same kind of economic and social problems. Environmental and welfare issues and concerns will increasingly have an impact through legislation and consumer pressure providing both constraints and opportunities for business.

The importance of planning

Any of the above factors could impact upon your business and need to be incorporated into the business planning process. The best businesses see business planning as a continuous activity setting both long-term and short-term goals and objectives. Both are important, as is regular monitoring to determine if goals and objectives are being met. At regular intervals it might be helpful to write down the results of that planning process into a business plan: a defined course of action for the business.

Where a business is on top of its planning, it becomes a very straightforward process to summarise the different elements into a written plan for a third party such as a bank. In the same way that a balance sheet gives a snapshot of the current financial position, a business plan should give a snapshot of the planning process.

Effective planning allows you to be more pro-active and less reactive – to concentrate more on fire prevention than on fire fighting.

Seven steps to effective planning

As with everything, it helps, to take a step-by-step approach. Look at the list below to identify the steps necessary to effective planning.

1. Vision

Your vision of the results to be achieved. What should be accomplished? Where does this fit into the 'big picture'?

2. Inventory

Your assessment of the situation. What might help or hinder your efforts?

3. Challenge

You accept the challenge and define and set the goals. Without goals, things drift. Without them people are 'task-orientated' rather than 'results-orientated'. Your goals should be realistic, long, medium, and short-term, breaking the bigger objectives into smaller, more manageable pieces, and lead into one another. Realistic goals form the basis of realistic control and realistic self-assessment.

4. Timetable

Work out a definite programme, including a plan of action. Goal setting is only one step; in addition to goals, you need a workable plan of action – with deadlines. Follow-up plans and programmes can ensure forward movement towards your target.

5. Overheads

The estimated cost of your budget, in terms not just of cash but also of time and materials.

6. Roll it out

Implement the plan and commit to the achievement of the goals.

7. You are here!

Keep checking on how far you have travelled down the route to your goal. Concentrate on essentials in your follow-up process, focus on where or what you want to be – the 'should be' – rather than where or what you are – the 'as is'. Good planning gets you from 'as is' to 'should be'.

As you plan, whether at strategic or operational level, you will find that there are four key steps as shown in the figure.

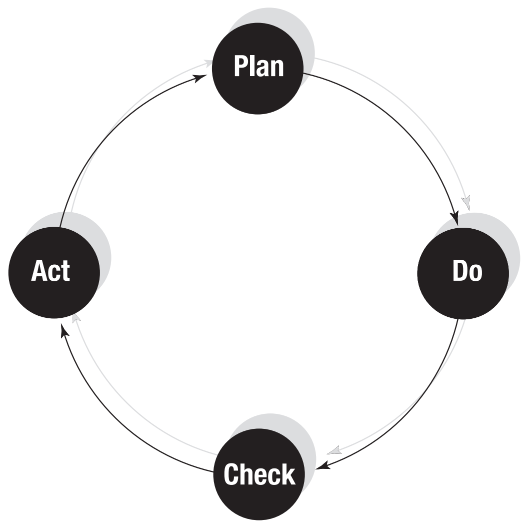

Figure 34: Developing a business idea

Firstly, you need to do some analysis – of the environment, of the market place, of your competitors, etc. Then you are in a position to make a choice. The next step is to implement that choice. You will need to review progress and then, if necessary, you can exercise control.

Purpose and vision

In determining and implementing a strategy for the business, we can set this out slightly differently. An analysis and review of the external environment, combined with your own values and expectations, will help you to develop a purpose and a vision.

Purpose defines 'what the business does'. It is an explanation of 'the business that we are in' which guides the activities of the business and defines the key customers. Vision, or goals, define 'where the business is going'. It is a statement of desired competitive position outlining challenging but achievable goals with defined timescales. All businesses have a purpose. For some, it is simply to make money. Others define activities and customers. Defining a purpose is a pre-requisite for effective planning.

Developing a strategy

So, your purpose defines what you do and your vision defines where you want to be. The next step involves the setting of strategic objectives that will enable you to achieve your vision.

If it helps, use a travel analogy, think of the vision as the destination and the strategic objectives as the overall direction and means of travel. There is a need to manage the direction in which you are travelling. The Japanese call it *hoshin kanri* – direction management. Of course the strategy must be flexible, but without some long-term objectives you will not be able to manage your direction any more than a rudderless boat.

Setting SMART objectives

To be successful, objectives should be SMART:

S pecific;

M easurable;

A chievable;

R ealistic; and,

T imebound.

To achieve SMART you need to ask yourself the following questions:

- What, exactly, do I want to achieve? (Be specific – simply stating that you want to be 'better' at something isn't enough.)
- How will I know when I have been successful? (By being specific initially, you ensure that progress is measurable.)
- Is this possible? (Take advice if necessary. If you want to become a marathon runner but currently can't run for a bus, you need external advice – in this instance, from your doctor – before you can be sure it is possible.)
- Is this realistic? (Take it one step at a time – you aren't going to run your marathon this year. Also, check that your goal is compatible with other objectives; if, say, you wanted to win the lottery and yet didn't want to spend money on gambling, you would have two incompatible objectives.)
- When do I want to achieve this by? (Set yourself a final target date – but break down the task into steps and set a date for completion of each of those, too. This will help you to review progress.)

If it helps try the method out on something you might wish to achieve in your everyday life; perhaps you are planning a holiday in France and wish to learn a little of the language. If so, your objectives might read as follows:

S pecific – I am going to master conversational French so that I know the basics of the language by the time I go on holiday.

M easurable – I will know when I have been successful because I will be able to converse comfortably with my partner, who is fluent in the language.

A chievable – I already know some words and phrases; there is no reason why I should not build on this ability.

R ealistic – I accept that there is not enough time to achieve fluency; however, I believe I have set my sights accurately bearing in mind the time I have available per week to study, my current level of ability and the date of my holiday.

T imebound – I am going on holiday in four months time; I wish to achieve my objective two weeks before that date, which gives me two weeks to consolidate my learning.

You see how easy it can be to set strategic objectives! In life we normally skip over the process: I've got time to learn some French, I'll give it a go. In business, however, it can help to set down your objectives on paper. This focuses the mind and by having a timescale in which to achieve the objective(s) means that you must make a start. Writing down the objectives will give you a framework against which you can measure progress; if you do choose to write them down, do not allow rigidity to replace flexibility – it is always better to bend than to break.

For the short-term it helps to set operational objectives which provide milestones towards achieving the strategic objectives. For these to be effective there is a need for performance measures and targets. This enables the business to monitor both its performance and also its external environment and to exercise control. Exercising control effectively requires the business to be able to measure its activities, to compare its activities with pre-determined criteria and to be able to adjust its activities in order to achieve the desired results. Adjusting the activities will be a simpler process if the business has already put in place contingency plans. If you are cold you shiver, but then you do something to keep warm. In the same way, businesses need to be continually monitoring both themselves and also the environment in which they are operating and, in response, modifying their objectives, their plans and their budgets as necessary. At regular intervals, part of the corrective action will include modifying both operational objectives and strategic objectives.

Effective planning

When you are planning to meet your objectives you must set priorities within your established goals. When you are prioritising the steps you must beware of:

- doing the most interesting work first;
- doing the easiest work first; or,
- doing things 'in order' – ie first in, first out.

Instead, evaluate each task in the light of how important its completion is in moving you closer to your goals, as well as how urgent the completion of the task is with regard to your deadlines.

It might help to evaluate tasks if you use a scoring system.

Make a list of your tasks and classify each as high (H), medium (M) or low (L) importance and urgency. Score the classification as follows:

Important	Urgent
H = 3	H = 6
M = 2	M = 4
L = 1	L = 2

Doubling up the 'urgent' score means that something which is of low importance but high urgency takes precedence over something of high importance but low urgency. This will help you to do things in such an order as to avoid missing deadlines.

Have a look at the example below:

Task	Importance Rating Score		Urgency Rating Score		Total score	Priority
A	L	1	L	2	3	6
B	H	3	L	2	5	5
C	H	3	M	4	7	2
D	L	1	H	6	7	3
E	M	2	H	6	8	1
F	M	2	M	4	6	4

Comparing the scores of the tasks makes it easy for you to put them into priority order, although if two or more items seem the same (as with the two 7s) you will either have to re-evaluate them or else make a decision as to which takes precedence.

Remember to re-evaluate the classification of unfinished tasks every week (or every day, if you need to). Something that is quite important, but not at all urgent, when you add it to the list might remain important but become extremely urgent if it is put off for a fortnight.

Monitoring and review

Once you have decided on your course of action and begun to implement it, you then need to monitor progress and, if necessary, take corrective action.

In many cases, the implementation phase will be easy – or at least will appear easy. If you are installing a new machine then you will know whether it is working correctly. But don't forget that installation is only part of implementation. If you expect a certain level of work to ensure that the machine pays for itself, you will also need to monitor sales, machine utilisation, etc. In other words, it is the whole project that you have to monitor.

Some decisions, such as choosing not to register for VAT or not to become a company, may need periodic review. The facts on which the original decision was based may have changed – turnover may have increased requiring registration for VAT; profit retained in the business may have increased, prompting incorporation.

Monitoring can often be reduced to defining appropriate figures or ratios and then keeping an eye on them. These might include financial ratios, or quality measures, or customer satisfaction figures, or machine utilisation figures, or sales income, or value added per employee.

Taking corrective action

If you discover that you are veering off course then you need to consider what corrective action is required to put you back on course. This takes you back to the planning cycle and may involve setting new, SMART objectives.

Scenario planning

Scenario planning can be used both to look generally at what might happen in the environment (for example, the effect on the economy if the government changes) and to help you think specifically about your own business and its position within the market place.

Scenario planning is a way of helping businesses to organise what they already know or can easily discover about the possible environment in which they will be working, say, five years ahead. It helps to add a framework to the process of strategic thinking.

Shell UK Ltd, in particular, has pioneered the use of scenario planning. Always remember, though, that scenarios are not forecasts – they simply reflect one possible way in which the future might emerge. It makes sense, therefore, to consider two or three scenarios, that is, two or three views of the future. Shell are particularly proud of one scenario, set out in 1984. The price of oil was $28 a barrel; one scenario envisaged oil falling to $16 a barrel by April 1986. With some pushing, Shell executives devised plans to address this possible scenario. As it happened the price of oil did fall: from $27 in January 1986 to $17 in February and just $10 in April. The fact that Shell had already considered what to do helped considerably during that period.[32]

Another story from Shell, told by Peter Schwartz,[33] demonstrates the effectiveness of scenario planning. In 1983, Yuri Andropov had just come to power in the USSR. Ronald Reagan and Margaret Thatcher continued to reiterate their Cold War rhetoric. Mikhail Gorbachev was an obscure official in the Communist Party. Shell was reviewing demand for North Sea gas and considering whether to develop the Troll gas field. The platform and associated equipment would cost over $6bn and sell natural gas to the whole of Europe. The other potential supplier of natural gas was the Soviet Union – and they could provide it far cheaper. For obvious reasons, the Europeans had agreed informally to limit supplies from the Soviet Union to 35 per cent of the market. Shell were concerned, however, that it would take a long time and

32 Arie P. de Geus, *Planning as Learning*, Harvard Business Review, March-April 1988.

33 Peter Schwartz, *The Art of the Long View*, Century Business, 1991.

cost a great deal of money to develop this new gas field.To be worthwhile, Shell needed a decent return on their investment – and to get that return, they needed decent sales.What, they asked themselves, might affect those sales?

The planners therefore asked under what circumstances might there be a change to the artificially imposed limit on the USSR of a 35 per cent market share. In other words, what might make the USSR change sufficiently for the West to reduce or remove the limit.The planners concluded that a failing Soviet economy might force the USSR to change away from its rigid system.The planners also concluded that the Soviet economy was failing.

One of the scenarios they developed (the Greening of Russia) postulated Gorbachev achieving power, massive economic and political restructuring, opening to the west, declining tension in the west, and major shifts in international relationships.

It is important, however, to remember two things. Firstly, Gorbachev did not cause the changes in the USSR; his achievement of power was a symptom of the underlying causes. Secondly, Shell did not forecast that this would happen. It was simply one possible view of the future, which they used in their decision making process. As with the fall in oil prices, this was not a forecast. It was prepared to help Shell understand the environment in which they operated and what might stimulate major changes.

When preparing scenarios, Shell build in sufficient milestones in order to identify which one is unfolding. In other words, what will be the key developments within each scenario? The milestones will assist in recognising which scenario is occurring.This is essential if it is to be an effective tool in your planning process.

Scenario planning can be used effectively by small businesses as well as large ones. Peter Schwartz, in *The Art of The Long View*, explains that the key is to define the driving forces, the predetermined elements and the critical uncertainties all of which have considerable overlap.

The ideal scenarios are prepared to help with a key decision, as with Shell's question about investing in the Troll gas platform, or whether you should start a business or launch a new product. You need, therefore, to consider the driving forces appropriate to your decision. Driving forces might include demographics, level and cost of imports (of competing products), changing technology, etc. Schwartz looks for driving forces under the five categories mentioned in the PEST analysis: society, technology, economics, politics and environment.

Predetermined elements are those that can be predicted accurately because they change very slowly (such as demography), are tightly constrained or are already in the pipeline. For example, if you are selling to people aged 18-25 (like night clubs, say) then you are targeting a declining market – but the size of the market and the way it will change is known in advance. Similarly, the consumption of items such as food only changes slowly.

Critical uncertainties need to be explored carefully. Your actions will depend on the 'what ifs' you pose. What if... consumers have more disposable income? (Less DIY? More DIY?) What if... costs of transmitting local television by cable fall dramatically? (Scope for more local TV? Use of TV by narrow interest groups?) What if... local authorities put more of their services out to private businesses? If, for example, interest rates rise what effect will that have on mortgages and, in turn, on dispensable income? Will customers be likely to stop spending on certain non-essential items – like paying others to do repairs, painting and decorating? Or will they be less likely to move – and spend more on repairs, painting and decorating? Will they do more themselves – increasing the level of DIY sales?

What will the effect be, for example, of increasing numbers of cars on Britain's roads? One outcome might be that the Chancellor keeps on putting up the price of fuel, resulting in people buying much smaller, more economical cars. This will make it harder for them to carry bulky items (say, for all their DIY purchases), so there may be opportunities for cheap, efficient, local transport businesses. Another outcome might be that people spend even more time stuck in traffic jams and look for better in-car hi-fi systems. Or more people may decide to abandon their cars in favour of public transport.

Scenario planning helps businesses to build models of the future, which reflect the real world and which are shared and accepted by the business's management team. As you might expect, if the key members of staff, usually the management team, are involved in researching and preparing the scenarios, it is more likely that there will be mutual ownership. Furthermore, the preparation will be particularly helpful in identifying key features in the business environment, including opportunities and threats. Do not develop too many scenarios. Aim for no more than two or three. Give them names so that you can refer to them easily. Scenarios will help you to replace uncertainty with understanding. An external facilitator may be helpful both in preparing the scenarios and in developing responses. If possible, involve some of your key stakeholders – perhaps a major customer. Do they share your analysis?

Once you have prepared your scenarios you will need to consider how your business will respond. What opportunities and threats are posed by each of the scenarios? How should you address each of those? How do you want to position your business in the external environment? What can you do now to achieve that? Define your responses dependent on the milestones. And then watch for the milestones.

Do try to prepare some scenarios – keep them basic if you like. Do not worry if you prepare scenarios that do not eventually come to pass; as you practise identifying driving forces, predetermined elements and critical uncertainties, watch how the future compares to your options. Then you will become more skilled at scenario planning.

The most difficult part in using scenarios is determining the critical uncertainties and then using them to help you decide how your business should respond. One way is to follow these six steps, developed by Oliver Sparrow,[34] one of Shell's scenario planners:

- Seek a shared understanding of the important features that influence the business and develop a model of how things work.
- Rank the features for their importance to the business.
- Distinguish the factors over which the business can exercise choice.
- Build a map which defines the options open to the business (vision, unique selling point, competitive positioning, what business are we in etc?).
- Define and prioritise the work needed in order to decide between those options.
- Set up a mechanism to deliver.

The process is 'soft' but the focus must be 'hard', with clear steps and concrete end products.

Conclusion

Implementing your plan, monitoring progress against defined performance measures and taking corrective action completes the plan, do, check, act cycle. Having defined your strategic objectives, you will need to choose appropriate short-term operational objectives and performance measures. Many of these will be financial, but you will also need to keep a close eye on customer satisfaction and staff satisfaction.

If possible, monitor just a small number of measures. Whilst monitoring performance is absolutely essential, it also distracts you from your real purpose. If the business deviates too far, then you will need to take corrective action to bring it back on course.

[34] Oliver Sparrow, *Management Options*, Shell 1993.

Those who plan, invariably complete tasks and achieve goals in less time and with greater success than those who do not. The time saved by planning can be used wisely to achieve more and to keep moving forward towards your goals.

reading list

Reading list

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

Make Your Business Grow – Take a Strategic Approach
David Irwin, International Thompson Publishing, 1998.

The Art of the Long View
Peter Schwartz, Century Business, 1991.

Building Your Business
David Irwin (Ed), Thorogood, 1998.

Part Seven

Financial matters

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chapter twenty four

Understanding financial statements

chapter twenty four: Understanding financial statements

The information in this chapter is recommended reading for everyone - it will help you to understand the business and to have a clearer idea of the current state of play.

Understanding finance

Managers today need to be able to understand finance. Leaving everything to the accountant may be easy, but isn't realistic or practical. The basics of finance are worth the effort involved in learning and understanding; the information you can glean about the business can be invaluable.

Objectives

Effective control requires effective planning and target setting but it also requires an understanding of financial statements and an ability to interpret the figures. This chapter explains:

- profit and loss accounts;
- balance sheets;
- cash flow statements; and,
- the relationship between the financial statements.

Financial statements

There are three basic financial statements, which describe the activities and financial state of any business:

- The *profit and loss account (P&L)*[35] shows how a business performed over a specific period and reveals the total revenue and total expenditure related to that period.
- The *balance sheet* summarises the state of a business at a specific date. Balance sheets are linked by a P&L, which covers the period between the two dates.
- The *cash flow statement* summarises cash receipts to and cash payments from the business. A forecast of cash flow is one of the most important management accounting tools. It provides an estimate of the business's cash requirements for the next trading period.

Accounting simply follows the money flowing within, to, and from a business. It is important to remember that the accounts reflect the finances of the business, not of the owner(s).

Source of funds	Application of funds

It is often helpful to split up funds within a business to show sources and applications. Sources show from where the money has come; applications show to where the money has gone. Until a few years ago, British balance sheets showed finance or *liabilities* (sources) on the left and *assets*, (applications) on the right. (The rest of Europe and the US reverse the columns to show sources on the right and applications on the left.) As you will see later, balance sheets now tend to be set out in a single column. It can, however, still be helpful to think about sources and applications in separate columns.

35 Terms in this section that appear in italics may be found in the glossary at the end of the section.

In double entry book keeping every financial transaction requires two entries, normally with each entry in a different ledger and mirroring one another. In other words, as will be illustrated shortly, the sources and applications need to balance.

Profit and loss account

A profit & loss account (P&L) shows what happened in a business, in terms of sales, other income and expenditure, during a specific period. All businesses have to prepare a profit and loss account at least once each year, as part of their annual accounts. In that case the P&L covers a year's activities. However they can be prepared for any period of time.

The P&L shows:

- the revenue (that is, the income of the business) for the period;
- the expenditure for the period;
- how much profit there was (after deducting all the allowable expenses from the revenue); and,
- how the profit has been divided.

Source of funds	Application of funds
Revenues	Expenses

The largest and often the only source of funds to a business, on a regular basis, is the revenue produced by sales. A large proportion of the revenue is applied to cover the business's expenditure.

The sales figure reflects the revenue from actual sales of products or services during the period, excluding VAT; it does not reflect the cash received from customers since some payments may still be outstanding or have been deposited in advance. (N.B. For businesses registered for VAT, the output tax (ie VAT on sales) is exactly equal to the input tax (ie VAT on purchases) plus the tax handed over to the government. In other words, VAT in plus VAT out exactly balances, with no benefit or deficit to the business.)

Businesses may not receive cash for their sales until 30 or 60 days or even longer after the sale is made. The sale is recorded immediately on the profit and loss account, although the cash is not available for use by the business until it is received. Expenditure on overheads is usually recorded immediately on the P&L, but it must be recorded for the accounting period to which it relates. Businesses may not actually pay for goods or services until well after they have been provided. This is known as *accrued* expenditure. Some payments, however, may represent pre-payment. For example, rent or insurance, paid in advance, may partly relate to the current period and partly to the following period.

Direct costs, sometimes known as cost of sales, are the costs that can be directly attributed to the production of a particular product or service. The direct costs will clearly vary depending on the level of production. In other words the direct costs should reflect raw materials, direct labour and sub-contract costs in the product or service actually sold during the period. There may be stock purchased during the period that was not consumed; this will be shown on the balance sheet but not charged to the profit and loss account. Similarly, stock may have been consumed during the period but purchased in an earlier period.

Suppose you purchase raw materials worth £1,000. You now have stock worth £1,000 but you have not yet incurred expenditure that can be shown on the P&L. You then turn those raw materials into a finished product. As long as the products remain unsold, you will still have a stock value for them and not show expenditure on the P&L. As soon as you sell a product, however, you immediately record both the income for the product and the raw material's cost. Subtracting the direct costs from the revenue gives the *gross profit*, also known as the *contribution*, because it contributes towards paying for the overheads (and once the overheads are all paid, it contributes to profit).

Source of funds		**Application of funds**	
Revenues		**Expenses**	
Sales	10,000	Raw materials and overheads	8,000
		Retained earnings	2,000
	10,000		10,000

The example shows revenue from sales of £10,000. Raw materials and overheads require expenditure of £8,000 which leaves a net profit of £2,000, which for the moment has been retained in the business. Now look at the example of Young & Co Brewery plc. Sales of £72m in 1993/4 produced a gross profit, or a contribution, of nearly £50m.

for example

Young & Co Brewery plc
Profit & Loss Account for the year ended 2 April 1994

	£'000	£'000
Sales		72,300
Raw materials	15,000	
Excise duty	7,700	
		22,700
Gross profit		49,600
Employment costs	21,900	
Depreciation	4,000	
Other operating costs	15,800	
		41,700
Profit before interest and tax		7,900
Interest payable		2,700
Profit before tax		5,200
Tax		1,700
Profit after tax		3,500
Dividends		2,000
Retained earnings		1,500

The *gross profit margin* is simply the gross profit divided by sales and usually expressed as a percentage. The overheads are deducted from the gross profit to give the *net profit*, sometimes referred to as profit before interest and tax (PBIT) and sometimes as trading profit. In turn, the net profit margin is the net profit divided by sales and expressed as a percentage. For Young & Co, the gross profit margin is 68 per cent and the net profit margin is 11 per cent.

If you have set up a company, or if you are a manager in any business, then your salary, together with the salaries of all your staff, will be treated as expenses. However, if you are self-employed (as a sole trader or a partner) the money available to you is the profit, ie the revenue less all the costs. You will need to draw money out from the business on a regular basis. Remember that your *drawings* are simply an advance against profit. You are taxed on all the profit. For the purpose of calculating costs, however, it makes sense to treat your drawings and any income tax as *overhead costs*.

Note that some businesses show the deduction of interest, particularly for long-term loans, after calculating profit. This can be particularly helpful since it makes it easier to calculate return on *capital* and draw conclusions about the business's performance. If you decide to show interest after the net profit do not forget to include it as an overhead in your costing and pricing calculations.

Depreciation is always charged to the profit and loss account to show that the use of fixed assets is one of the costs of generating income. It is an allocation of the cost of the fixed assets over their useful, or income generating, lives. Depreciation does not involve the receipt or payment of cash; it is a book entry. It is important, however, that money is put on one side. Otherwise you may not have the resources available when you do need to replace the equipment.

Capital introduced by the owners, loans and loan repayments are not shown on the profit and loss account since they do not represent income or expenditure.

Matching revenues and costs

The concept of accruals often confuses, though in fact is quite simple.

Let us consider sales. Sales income is not the same as cash received. A sale is normally recorded at the time that the goods are dispatched or service provided, irrespective of whether the customer has paid.

In VAT terms, this is the tax point. If a sale has been effected, but no cash has yet been received, the monies owing will be shown on the balance sheet as a debtor. All the sales during the period are summarised as income in the profit and loss account.

For long-term contracts, especially in the construction industry, some businesses treat work in progress as work done and show it as income on their profit and loss account. In this case, care needs to be taken only to count the income once. The total work done is, therefore, equal to invoiced sales less the opening work in progress brought from the previous period plus the closing work in progress carried forward to the next period.

It is only the raw materials that go into the work done that are recorded as materials consumed; that is, cost of sales. The closing stock from one period will be the opening stock for the next period. The materials consumed equals the materials purchased, plus the opening stocks brought down from the previous period, less the closing stocks carried forward to the next period. The cost of sales is shown on the profit and loss account but the stock is shown on the balance sheet until it is consumed.

Similarly overheads are charged to the profit and loss account according to when the resources are used, not when cash is paid. For example, rent of £12,000 for a two-year period could be paid in advance; the profit and loss account for the first year will include rent of £6,000 as only that amount is attributable to the first period. The balance will be a prepayment. There may also be some accrued expenses. The overhead costs incurred are the overheads paid for, plus the opening prepayments brought down, less the closing prepayments carried forward, less the opening accruals brought down, plus the closing accruals carried forward. The balance sheet shows prepayments and accruals as current assets and current liabilities respectively.

Appropriation account

It is normal at the bottom of a P&L account to show an *appropriation account*; that is, an explanation of how the profit is divided. Profit can be divided in just three ways: to the shareholders or owners (as *dividends* or drawings); to the government as tax; or, it might be retained in the business (to use as working capital or to buy equipment or other assets). It should be noted, however, that interest is usually shown on a P&L as a deduction from net profit, though is regarded as expenditure for all practical purposes.

Balance sheet

Source of funds	Application of funds
Liabilities	Assets

What a business owns (its assets) is always equal to what it owes (its liabilities). It is the liabilities that are used to finance the business. The starting point for every business is zero.

Imagine that you put £10,000 into a business. That £10,000 is effectively owed to you, but it is also used to finance the assets of the business. Initially it might be held as cash in the bank; that is, an asset. If the business then spends £7,000 on equipment, it has fixed assets of £7,000 and cash in the bank of £3,000, still totalling £10,000.

Source of funds		Application of funds	
Liabilities		**Assets**	
Owners	10,000	Cash in bank	3,000
		Equipment	7,000
Total finance	10,000	Total assets	10,000

A balance sheet is a financial 'snapshot' that summarises the assets and liabilities of a business at a specific point in time. It is simply the summary of the balances from each of the ledgers referred to earlier. All businesses have to prepare a balance sheet at least once each year as part of their annual accounts, but a balance sheet can be prepared at any time. It incorporates how much the business owes to suppliers and how much is due from customers. It reflects assets such as equipment and vehicles used in the business, the level of stock and the amount of capital you have invested in the business.

The balance sheet shows:

- How much capital is employed in the business. (How much is the business worth and from where has the capital come?)
- How quickly assets can be turned into cash. (How liquid is the business?)
- How solvent the business is. (What is the likelihood that the business might become insolvent?)
- How the business is financed. (Where does the finance come from and how much of it is debt?)

Let us look at an example, once again using figures from Young & Co Brewery, in the sources and applications format used so far.

for example

Young & Co Brewery plc
Balance sheet as at 2 April 1994

		£'000			£'000
Capital and Reserves			Fixed assets		153,100
Share capital	7,800				
Share premium account	1,500				
Revaluation reserve	87,100				
Retained earnings	20,400				
		116,800			
Loans					
Long-term loans	29,000				
Deferred taxation	3,300				
		32,300			
Current liabilities			Current assets		
Short-term loans	3,400		Stock	4,000	
Trade creditors	2,800		Debtors	5,500	
Other creditors	7,500		Cash	200	
		13,700			9,700
Total finance		162,800	Total assets		162,800

In this business the owners (ie the shareholders) have bought shares which at par were worth nearly £8m. Some investors, however, paid a premium to the company totalling £1.5m. Buildings owned by the company have been revalued since their acquisition. This has resulted in the creation of a reserve fund of £87m, which represents the difference between acquisition price and the value at the date of the revaluation. Lastly, it has retained earnings of over £20m.

There are long-term borrowings of £29m (and deferred taxation of £3m, which is effectively on loan from the government) and short-term liabilities of nearly £14m.

All of this has been used to finance fixed assets with a valuation of £153m and current assets of nearly £10m.

Now let us look at each of the terms in turn:

Fixed assets are generally assets with a life longer than one year. For most businesses, all the fixed assets will be tangible assets such as equipment and buildings. The cost of tangible fixed assets is depreciated over the expected lives of the assets; it is quite common to see the original cost of tangible assets together with their accumulated depreciation shown on a balance sheet.

Fixed assets may also include intangible assets such as goodwill or expenditure on research which has been capitalised. It is now regarded as good practice to write these off as quickly as possible; ideally, they should be written off as expenditure immediately. It is, however, not always possible to write off goodwill in one go without making the balance sheet look sick although lenders will always ignore goodwill. Research and development costs for contracts which are firm and which will last more than one year may be capitalised and depreciated over the term of the contract.

for example

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Example

You buy a newsagency with a net worth of £30,000 and an annual profit of £50,000. You agree to pay £75,000. This represents purchase of the assets of £30,000 and goodwill of £45,000.

Current assets and current liabilities usually have a life of less than one year. Current assets include stock, work in progress, debtors, cash at bank, etc. *Debtors* (known in the US as receivables) represent the amount of money owed to the business by its customers. Current liabilities include creditors, overdrafts, loans due within one year, money owed under hire purchase agreements, any amounts owed in VAT or tax, etc. *Creditors*, sometimes called trade creditors (and payables in the US), represent the amount of money owed by the business to suppliers. The creditors' figure is largely, usually, the money specifically owing for raw materials and sub-contract costs. Loans falling due in more than one year are usually shown separately. You may prefer, however, to show all loans as current liabilities. For small businesses this will generally give a better idea of the business's performance.

Accountants always used to prepare balance sheets in the two-column style shown previously. It is more normal, these days, to show the balance sheet as a single column. There are advantages with both methods.

The total assets of the business are the fixed assets plus the current assets. In the first illustration, note that is the total of the right hand side of the figure. (Note that total assets also equals the left hand side; that is owners' funds, plus long-term loans, plus current liabilities.)

Net current assets, also known by accountants as *working capital*, is simply the difference between current assets and current liabilities. This should be positive, otherwise the business may not be able to meet debts as they fall due. In the example, it is negative and is known as net current liabilities. The term, working capital, can be slightly confusing since the amount of working capital needed by the business will vary. Remember that the balance sheet is only a snapshot – and the business needs access to the maximum likely difference.

for example

Young & Co Brewery plc
Balance sheet as at 2 April 1994

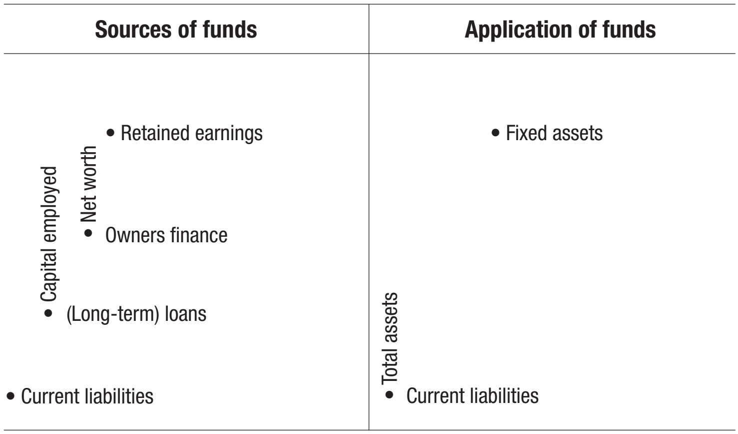
		£'000
Fixed assets		153,100
Current assets		
Stock	4,000	
Debtors	5,500	
Cash	200	
	9,700	
Current liabilities		
Short-term loans	3,400	
Trade creditors	2,800	
Other creditors	7,500	
	13,700	
Net current assets (liabilities)		(4,000)
Total assets less current liabilities		149,100
less: long-term loans		32,300
Net assets		116,800
Capital and reserves	7,800	
Share premium account	1,500	
Revaluation reserve	87,100	
Retained earnings	20,400	
Net finance		116,800

The example shows the creditors falling due after more than one year deducted to show the net assets of the business. This will probably only include bank loans and HP payments due in more than 12 months. Deducting this figure from the net current liabilities gives the net assets of the business.

The net assets should be equal to the total capital and reserves, that is, the *net worth*, sometimes known as *net finance* or the *equity* of the business. This comprises the money introduced by the shareholders or owners and the retained earnings. Normally, for a small business, the reserves are simply the retained profits. The term is often misunderstood: reserves show where the money came from, not how it has been used. It may exist as cash in the bank, but more likely it will have been used to buy more equipment or to add to working capital, that is, to finance stock and work in progress. On balance sheets in this book, we will use the term retained earnings in an effort to avoid any misunderstanding.

The net worth, together with any long-term loans, is called the *capital employed*. The distinction between total finance (which equals total assets) and capital employed is that the capital employed excludes all short-term liabilities. Look again at the two column balance sheet. Note that moving current liabilities to the right hand side leaves capital employed on the left equal to net assets on the right. Current liabilities include short-term loans and overdrafts. Since for smaller businesses short-term borrowing tends to be a large proportion of total borrowing, we would suggest that all borrowing is included when calculating capital employed.

Balance sheet summary



The figure summarises from where the money comes, which can only be three sources:

- retained earnings, that is, profit which has been generated by and retained within the business;
- equity introduced by the owner(s); and,
- loans (whether from the bank or effectively, from creditors).

Cash flow statements

A cash flow statement simply shows all the receipts to and payments by the business. Cash flow statements for historical periods usually show what happened for a year, though as with other statements they can be prepared for any period. The cash flow statement shows how money flowed into and out of the business during the period and relates the profit and loss statement to the balance sheet. In particular, it shows by how much the working capital in the business increased or decreased and highlights the reasons for the changes. It does not show the amount of working capital available – that is on the balance sheet. Remember that a cash flow statement only shows cash in and cash out, so non-cash items such as depreciation are ignored.

Source of funds	Application of funds
Receipts	**Payments**

It sometimes seems strange to people who are not accountants that a business can be profitable and yet be short of money or running an overdraft. It must be remembered that profit and cash are not the same. You will recall that the profit and loss account matches revenues and expenses for a specific period though the revenues accrued for that period may not all have been received nor the expenses all paid. If, for example, a business receives cash of £5,000 in respect of sales and has to pay out £6,000 in expenses, then it will have to borrow £1,000 from the bank (or from the owners), even though the level of sales may, in reality, be far higher.

Source of funds		Application of funds	
Receipts		**Payments**	
Debtors	5,000	Wages	3,000
Bank loan	1,000	Cash purchases	3,000
	6,000		6,000

A typical example taken from Young & Co Brewery is shown opposite.

for example

Young & Co Brewery plc: Statement of cash flow

	Notes	£'000	£,000
Net cash inflow from operating activities	a		12,300
Returns on investments and servicing of finance			
Interest received		0	
Interest paid		(3,000)	
Dividends paid		(2,000)	
			(5,000)
Taxation			
Corporation tax paid		(1,400)	
Tax paid			(1,400)
Investing activities			
Payments to acquire intangible fixed assets			
Payments to acquire tangible fixed assets		(4,800)	
Receipts from sales of tangible fixed assets		300	
Other		(100)	
			(4,600)
Net cash inflow before financing			1,300
Financing			
Issue of ordinary share capital			
Receipts from new borrowings	b	(15,000)	
Debenture issue costs	b	300	
Repayments of borrowings	b	14,600	
Net cash inflow from financing			(100)
Increase in cash and cash equivalents	c		1,400
			1,300

It may not be immediately obvious how some of the figures in the cash flow statement have been derived, so the annual accounts will usually also have some notes to explain and reconcile the figures. As can be seen, Young & Co's working capital has increased by £1.3m. Cash has improved by £1.4m and the stock position by £1m, but the debtors' position has deteriorated by £0.5m.

for example

Notes to the cash flow statement

a. Reconciliation of operating profit to net cash inflow from operating activities

	£'000
Operating profit	7,900
Depreciation	4,000
Profit on disposal of fixed assets	
(Increase)/decrease in stocks	1,000
(Increase)/decrease in debtors	(500)
Increase/(decrease) in creditors	
Net cash inflow from operating activities	12,300

b. Analysis of changes in financing during the period

	Short-term	More than	Total
	£'000	£'000	£'000
At beginning of period	7,700	26,300	34,000
Repayments of borrowing	(2,600)	(12,000)	(14,600)
Net proceeds from new borrowings		14,700	14,700
Movement in bank overdraft (see note c)	(1,800)		(1,800)
At the end of the period	3,400	29,000	32,400

c. Analysis of the balances of cash and cash equivalents as shown on the balance sheet

	1994	Change	1993
	£'000		£'000
Cash at bank and in hand	100	(400)	500
Bank overdrafts	(2,300)	1,800	(4,100)
	(2,200)	1,400	(3,600)

Cash flow statements can be used to keep an eye on competitors. For example, if firms are spending more on capital equipment than their depreciation charge suggests, they may be expanding. If their working capital has increased it may simply be because of inflation, or poor control of stocks or debtors, or might point to expansion. If working capital decreases, it might be because of a contraction in business, or a trading loss, or it might be because control of stock and debtors has improved. If working capital has decreased, it may lead to problems of *liquidity*.

Cash flows are particularly helpful to businesses, however, when they are used as forecasts. They can then be used to summarise targets and to monitor performance.

Interpreting accounts

Ratio analysis can be immensely helpful in interpreting the financial position of any business. Ratios can also be used to set targets and to measure performance. Added value analysis will give a feel for the wealth being created by the business.

Earlier we explained how to read the main financial statements of a business. However, it is only when you start to analyse the figures that they begin to reveal a true picture of the business.

Ratio analysis

Many people find it difficult to look at a profit and loss account or a balance sheet and derive a full picture. As a result, ratios are often used to interpret accounts. A ratio is simply a relationship between two numbers. They indicate how a business is performing and also provide indications of trends and patterns. They can be compared to the same ratios in previous years' accounts and the accounts of other businesses operating in a similar environment. Ratios are published for many business sectors, which can be used as a comparison (these are sometimes referred to as Industry Norms[36]).

For convenience, the ratios described have been split into five somewhat arbitrary groups:

- Profitability – how good is the business as an investment?
- Solvency – how near is the business to bankruptcy?
- Liquidity – the amount of working capital available.
- Efficiency – how good is the management of the business?
- Staff performance and productivity ratios.

Profitability

The most important objectives for the business and, arguably therefore, the most important ratios, are those concerned with profitability. You will want to ensure that your gross profit is sufficient to cover all your overhead costs, and your drawings if you are self-employed, and to generate an additional profit to retain within the business to reinvest and to provide additional working capital. You will also need to generate sufficient cash to repay any loans that might be outstanding. As well as defining levels of profit in absolute terms it is usual to look at profitability as a ratio of profit to sales.

Gross profit margin is one objective that should be set at the outset of the business and then closely monitored.

$$\text{Gross profit margin} = \frac{\text{gross profit}}{\text{sales}} \times 100\%$$

If your gross profit margin starts to drop you might be paying too much for raw materials or you might be having to discount your sales price too much to achieve sales. Many businesses also set a target for net profit margin. This ratio uses profit before interest and tax (PBIT).

[36] See for example figures produced by Centre for Interfirm Comparisons or ICC Business Publications.

$$\text{Net profit margin} = \frac{\text{PBIT}}{\text{sales}} \times 100\%$$

If you are self employed, rather than a company employee, the net profit is shown before drawings are deducted. In order to compare your business with others it might make sense for you to deduct drawings to give your trading profit and use that figure to calculate the ratio. Obtaining published accounts for your competitors can reveal a great deal about their performance. Whilst it is often difficult to determine their gross profit margin, it is relatively easy to discover their net profit margin. You can use this to benchmark your performance also. It should be noted that bankers may prefer to use profit after tax in calculating this ratio. Remember, therefore, the importance of knowing what figures are used if you expect to compare ratios from different sources.

If you save money at the building society or have investments in quoted companies, you will be interested in the return that you make on your money. This is usually expressed as a percentage of the amount invested, say, ten per cent. In the same way, profitability ratios show how good your business is as an investment. Furthermore, both lenders and third party investors will want to know the overall return on capital, as an indication of the security of the investment as well as an indicator of how well the business is performing, by giving a comparison with what could have been achieved had the same sum of money been saved or invested on the Stock Market. Accountants and banks, depending on their preferences, may look at return on equity (RoE); return on capital employed (RoCE); return on invested capital (RoIC); or, return on total assets (RoTA).

Whilst these are all slightly different ratios they are all, in some way, looking at the return on assets. It is important, however, to be clear which figures are being used to derive the ratio and to be consistent, otherwise comparisons will be meaningless. In calculating ratios where one of the figures is a balance sheet item, you should use the average for the period covered by the profit and loss account. Published accounts always show the previous period's figures for comparisons. If, for any reason, this is not possible, using the figure on the available balance sheet will give an approximation.

$$\text{RoCE} = \frac{\text{PBIT}}{\text{CE}} \times 100\%$$

Capital employed (CE) was defined earlier. Remember that it is suggested that capital employed is defined to cover all loan finance.[37]

The return to the owners can be determined by looking at the return on equity (RoE). RoE gives the owners the opportunity to compare their return with what they might achieve if they invested their money elsewhere,[38] so it is normal to use profit after tax (PAT).

$$\text{RoE} = \frac{\text{PAT}}{\text{NW}} \times 100\%$$

We can apply the alternative methods suggested to the Young & Co P&L account and balance sheet.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100\% = \frac{49{,}600}{72{,}300} \times 100\% = 69\%$$

$$\text{Net profit margin} = \frac{\text{PBIT}}{\text{Sales}} \times 100\% = \frac{7{,}900}{72{,}300} \times 100\% = 11\%$$

Note that capital employed is equal to equity (116,800) plus long-term liabilities (32,300) plus (as suggested above) short-term loans (3,400), which gives 152,500, so:

$$\text{RoCE} = \frac{\text{PBIT}}{\text{CE}} \times 100\% = \frac{7{,}900}{152{,}500} \times 100\% = 5\%$$

$$\text{RoE} = \frac{\text{PAT}}{\text{NW}} \times 100\% = \frac{3{,}500}{116{,}800} \times 100\% = 3\%$$

37 This definition is consistent with that used by Datastream, a major provider of company financial information in the UK.

38 Note that Datastream adds deferred tax and subtracts intangible assets from the net worth figure in calculating RoE.

If you do not know the tax position, or if you want to relate RoE to other ratios of return on capital, you could use PBIT instead of PAT.

Solvency

If the net worth of the business becomes negative, that is the total liabilities exceed total assets, then the business has become insolvent. In other words, if the business closed it would not be possible to repay all the people who are owed money. Allowing a company to become insolvent is an offence, so you should take care to watch the figures closely. One ratio that gives an indication of *solvency* is the *gearing*. Many businesses, as they grow larger, do choose to set a gearing objective.

Gearing is normally defined as the ratio of debt (ie loans from all sources including debentures, term loans and overdraft) to the capital employed. The higher the proportion of loan finance, the higher the gearing.

$$\text{Gearing} = \frac{\text{total borrowing}}{\text{equity} + \text{total borrowing}}$$

Ideally, the gearing should not be greater than 50 per cent, although it often is and particularly for new, small businesses. If cash flow is stable and profit is fairly stable, then you can afford a higher gearing. It may be worth noting that banks frequently include the overdraft facility rather than the actual level of overdraft being used when they calculate gearing.

Equity investors, who will not have to contribute to losses, will want gearing as high as possible to benefit from the leverage effect of a RoCE higher than the cost of borrowing money. Conversely, lenders worried about the opposite leverage effect and the ability of a business to pay its interest charges, will want the gearing as low as possible.

In addition to watching the gearing, bankers will also want to be satisfied that you will be able to pay the interest on their loans. They particularly look, therefore, at how many times your profit exceeds their interest.

$$\text{Interest cover} = \frac{\text{Profit before interest and tax}}{\text{Interest}}$$

If this is more than 4 it is very good. If it is less than 2 it may indicate potential problems if interest rates rise.

Look at the figures for Young & Co again.

$$\text{Gearing} = \frac{\text{Loans}}{\text{CE}} \times 100\% = \frac{35{,}700}{152{,}500} \times 100\% = 23\%$$

Although capital employed is a balance sheet figure, it is the gearing at a specific time that is important. You should, therefore, simply take the equity and debt figures from the most recent balance sheet.

$$\text{Interest cover} = \frac{\text{PBIT}}{\text{Interest}} = \frac{7{,}900}{2{,}700} = 2.9 \text{ times}$$

Liquidity ratios

A business should always have enough current assets (eg stock, work in progress, debtors, cash in the bank and so on) to cover current liabilities (eg bank overdraft, creditors and so on). Liquidity ratios indicate the ability of the business to meet liabilities with the assets available. The current ratio shows the relationship of current assets to current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

This ratio should normally be between 1.5 and 2. Some people argue that the current ratio should be at least 2 on the basis that half the assets might be stock. If it is less than 1 (ie current liabilities exceed current assets) you could be insolvent. A stricter test of liquidity is the quick ratio or acid test. Some current assets, such as work in progress and stock, can be difficult to turn quickly into cash. Deducting these from the current assets gives the quick assets.

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

The quick ratio should normally be around 0.7-1. To be absolutely safe, the quick ratio should be at least 1, which indicates that quick assets exceed current liabilities.

Some people and banks in particular find it helpful to calculate the 'defensive interval'. This is the best measure of impending insolvency and shows the number of days the business can exist if no more cash flows into the business. As a guide, it should be 30-90 days, though it is industry prone.

The daily operating expenses are best determined from the cash flow statement – take the total payments for the year and divide by 365. If a cash flow figure is not easily available, you can make an approximation by taking figures from the profit & loss account – take total payments, add interest and deduct depreciation – and make a stab at adding net loan repayments estimated from the balance sheet.

$$\text{Defensive interval (days)} = \frac{\text{Quick assets}}{\text{Daily operating expenses}}$$

Look again at the figures for Young & Co.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}} = \frac{9{,}700}{13{,}700} = 0.7$$

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}} = \frac{5{,}700}{13{,}700} = 0.4$$

$$\text{Defensive interval} = \frac{\text{Quick assets}}{\text{Daily operating expenses}} = \frac{5{,}700}{63{,}100\ /\ 365} = 33\ \text{days}$$

(Note that daily operating expenses has been estimated here as cost of sales (£22,700) plus overheads (£41,700) less depreciation (£4,000) plus interest (£2,700).)

Efficiency ratios

Efficiency ratios provide a measure of how much working capital is tied up, indicate how quickly you collect outstanding debts and pay your creditors and show how effective you are in making your money work for you. They show how good is the management of the business. You will be particularly keen to monitor how quickly your debtors pay you.

$$\text{Debtor's turnover ratio} = \frac{\text{Sales}}{\text{Average debtors (ex VAT)}}$$

Ideally use the average debtors for the period. An approximation is given by dividing the sales by the debtors at the end of the period. Dividing this ratio into the days of the year gives the average collection period in days.

$$\text{Average collection period} = \frac{365 \text{ x debtors (ex VAT)}}{\text{Sales}}$$

Tight credit control is essential. Keep the collection period as short as possible. Many businesses aim to operate on 30 days, but often find it is worse than that.

Monitoring how long it takes to pay your suppliers is as important as knowing how long your customers take to pay you. If suppliers have to wait too long, they may withdraw credit facilities.

$$\text{Creditors' turnover ratio} = \frac{\text{Cost of sales}}{\text{Average creditors (ex VAT)}}$$

$$\text{Average payment period} = \frac{365 \text{ x creditors (ex VAT)}}{\text{Cost of sales}}$$

It is normal to use cost of sales in calculating the average payment period when comparing your business with others. However, you may need to approximate by using the sales figures unless you can determine the cost of sales of your competitors.

Stock will increase in time of expansion and decrease in times of contraction. For some businesses, such as wholesalers and some retailers, a high stock turnover ratio is essential in order to make any profit. A low stock turnover could indicate the presence of slow moving stock, which may be a problem that you will need to address.

$$\text{Stock turnover ratio} = \frac{\text{Cost of sales}}{\text{Average stock}}$$

It is often helpful to know the stock holding period.

$$\text{Average stock holding period} = \frac{365 \text{ x stock}}{\text{Cost of sales}}$$

A fruit shop, for example, would expect an average holding period of no more than a couple of days – otherwise the fruit will deteriorate and sales will be lost. A bookshop, on the other hand, might have a stock turn of just three to four and a holding period of around 90-120 days.This is because it needs to carry a very high level of stock in order to give sufficient choice to its customers. Holding stock for too long has serious implications for the amount of money that the business has tied up in stock.

A measure of how hard the assets of the business are being made to work is given by the asset turn or capital turnover. Ideally, use the average total assets for the period.

$$\text{Asset turn} = \frac{\text{Sales}}{\text{Average total assets}}$$

Some accountants use net assets when calculating this ratio and some use current assets so take particular care when other people are quoting asset turn. For a large British company the asset turn is typically 1.1.[39] A profitable company would typically have an asset turn of 1.3-1.5. Note that:

Net profit margin x asset turn = ROTA

A net profit margin of around 10 per cent, combined with an asset turn of 1.4, would give a return on total assets of 14 per cent.

Look at the figures for Young & Co.

$$\text{Average collection period} = \frac{365 \times \text{debtors}}{\text{Sales}} = \frac{365 \times 5{,}500}{72{,}300} = 28 \text{ days}$$

$$\text{Average payment period} = \frac{365 \times \text{creditors}}{\text{Cost of sales}} = \frac{365 \times 2{,}800}{15{,}000} = 68 \text{ days}$$

$$\text{Stock holding period} = \frac{365 \times \text{stock}}{\text{Cost of sales}} = \frac{365 \times 4{,}000}{22{,}700} = 64 \text{ days}$$

$$\text{Asset turn} = \frac{\text{Sales}}{\text{Total assets}} = \frac{72{,}300}{162{,}800} = 0.44$$

[39] Ciaren Walsh, *Key Management Ratios*, FT/Pitman Publishing, 1993.

Controlling costs

Keeping costs under control is absolutely essential if the net profit margin is to be maintained – or increased. It will help to consider costs both in absolute terms as well as a percentage of sales revenue. The objective should be to restrict them to a maximum percentage once again. These figures can be compared year on year and against competitors if they are turned into ratios. For example:

$$\frac{\text{Selling costs}}{\text{Sales}} \quad \text{or} \quad \frac{\text{Administration costs}}{\text{Sales}} \quad \text{or} \quad \frac{\text{Production costs}}{\text{Sales}}$$

Relationship between ratios

As you might expect, all these ratios can be related to one another, building up into a ratio tree. The ratios on the left hand side are concerned with profitability and cost ratios; those on the right hand side cover the liquidity and efficiency of the business.

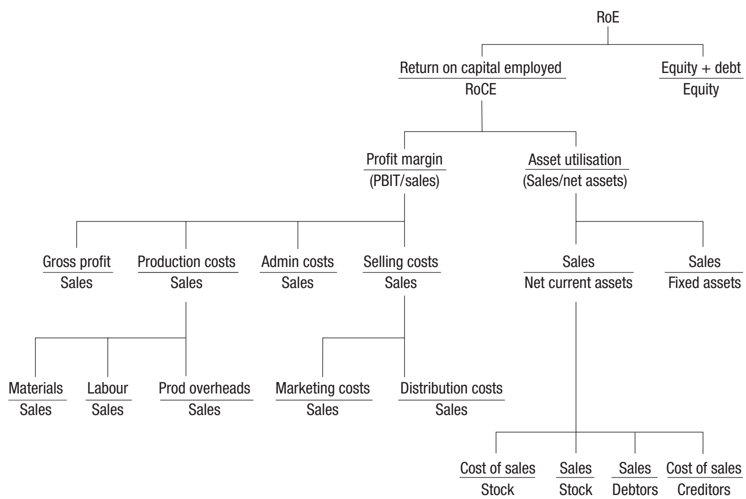


Figure 35: Relationship between ratios

Staff performance

Many businesses use ratios that show the overall performance of the business using the number of staff as the denominator rather than a monetary figure. Some common performance indicators are:

$$\text{Profit per employee} = \frac{\text{PBIT}}{\text{Number of employees}}$$

$$\text{Output per employee} = \frac{\text{Sales}}{\text{Number of employees}}$$

Compaq, for example, boasts that its sales in 1993 were equal to £450,000 per employee, up from £190,000 in 1991. Nintendo, in 1992, did even better. Its 892 employees achieved sales of £3.5bn and pretax profits of £800m. That is equivalent to sales of £3.8m/employee and profit of £1.5m/employee.

It may also be helpful to look at a measure of productivity which relates employment costs to sales:

$$\text{Productivity} = \frac{\text{Employment costs}}{\text{Sales}}$$

Industry averages

It is possible in many industries to discover the typical ratios for the sector. You could acquire the annual reports of a number of companies and calculate them for yourself, or else you can buy reports from the Centre for Interfirm Comparison (CIFC) or from ICC Business Publications Ltd. CIFC are commissioned by businesses, or sometimes by trade associations, to review typical ratios for a particular sector.

For a professional firm, eg solicitors, CIFC might start with, say, profit per partner. For a distribution business, they might isolate different costs to generate, say, cost per mile or cost per tonne.

In all cases, the overall objectives are:

- to provide comparisons with the performance of other businesses in a similar field; and,
- to provide an appropriate set of ratios which individual businesses can use to improve their own control.

If you cannot afford a CIFC report or there is not one available for your industry then look for ICC Business Ratios, often available from your local library. They produce reports looking at specific markets and provide a considerable amount of information on companies in the sector under review. They also publish Regional Company Surveys which give more limited information about more businesses.

Value added analysis

The price of the products (or service) that you sell equals the costs of the raw materials or services bought in plus the value that you have added. This added value equals the proportion of overhead costs attributed together with your profit. Note that the overhead costs in value added calculations are not the same as the fixed costs. The bulk of fixed cost items are, in fact, bought in, but the major element of added value is the work input by you and your staff.

The sales price of your product (or service) represents its value to your customers. The value added represents the amount by which your business has contributed to the creation of the country's wealth. That contribution is shared between four parties: the owners, the employees, reinvestment and the government (through taxes). A profit and loss account concentrates solely on the level of profit and is aimed at shareholders. A value added statement concentrates on the wealth creation and shows its distribution.

Added value can be used as a measure of efficiency. For example, value added per employee is sometimes used to measure the efficiency of labour. The ratio of value added to wages gives a measure of staff productivity. The ratio value added to capital employed gives an indication of capital productivity.

Published value added statements are still quite rare, though they are easy to calculate from published accounts. Some companies use them to demonstrate how large a proportion of their income goes to their employees and the government and how little to shareholders.

There are two methods of calculating the added value by a business, both of which, of course, should give the same answer. These are the subtraction method and the addition method. In the subtraction method, all the raw material and bought in service costs are deducted from the total sales. In the addition method, the employment costs, interest, dividend payments, tax, depreciation and retained profit are added together. Look back at the profit and loss account for Young & Co Brewery.

Calculate their value added. Now look at the figure below. Young's have around 1,580 employees, so each employee has added value of £26,000.

for example

Young & Co Brewery plc **Added value**	**£'000**	**%**
Subtraction method		
Sales during year	72,300	100
less: Raw materials etc.	15,000	21
All services bought in	15,800	22
Value added	41,500	57
Addition method		
Employment costs	21,900	53
Interest	2,700	7
Dividends & profit share	2,000	5
Tax	1,700	3
Beer duty	7,700	19
Depreciation	4,000	10
Profit retained	1,500	3
Value added	41,500	100
Number of employees (FTE)	1,580	
Value added per employee	26	

As can be seen from the example, half the added value goes in employment costs and a further 22 per cent to the government.

Value added analysis can be used on a customer by customer basis. In a sense this is the same as looking at the gross profit per job. If fixed overheads are being allocated fairly, it is very easy to see the level of net profit on each job – and perhaps to decide whether to take on a particular contract. For example, you may be more willing to undertake a job at a finer net profit margin for a regular customer than you would be for a one-off enquirer.

Choosing appropriate objectives

When you consider your strategic objectives and your annual business plan, you will want to define the objectives in financial terms (as well as marketing, quality and people terms). If a key objective is to make money, then it is essential that one of your targets defines return on capital. If you are in manufacturing, then you are likely to have an investment in capital that is high compared to sales turnover (and, consequently, a low asset turn).

You will probably want to set a target for return on equity. If you are self-employed, and if part of the reason that you are in business is to create a job for yourself, or because you do not want to work for someone else, it is unlikely that you will be discouraged by a low return on your investment. It probably makes more sense, in that instance, to monitor the return on capital employed, which clearly needs to be greater than the cost of your loan. Achieving this will provide you with good ammunition when you are negotiating with potential lenders or investors. Achieving your desired RoCE is a long-term, or strategic, objective.

Service businesses are not as likely to have so much capital tied up in fixed assets, though increasingly service businesses do find that they need heavy investment in information technology.

They may also have capital tied up in premises. If you run a service business, you may think that it makes more sense to use staff performance ratios rather than profitability ratios (such as sales for employee and net profit for employee) rather than profitability ratios based on capital returns.

To achieve the desired return you will need a target for net profit, so you will also want to set and monitor sales targets closely and ensure that you are achieving both the volume and the value targets. Achieving these targets, and keeping costs within their targets, will ensure that you achieve the return on capital or the staff performance targets that you have set.

In setting financial objectives, you are committing yourself to a certain standard of performance. Monitoring the ratios suggested is straightforward if you have a computerised accounting package – though identifying what corrective action to take if the actual results differ from the targets may not be so clear.

Simply setting targets is insufficient by itself. You will also need to prepare financial forecasts, which show how you might achieve those targets – and some may take time to achieve. You might decide, for example, to set a target of 15 per cent return on capital employed by the end of the third year from now. However, that might require an annual increase of gross profit margin, which in turn might require an annual increase in sales of, say, 20 per cent.

Conclusion

An understanding of the financial statements will be a valuable asset in controlling the business. Using ratios to set targets and then to monitor performance will assist you to know, at all times, the financial position of your business. Ratios can be used to monitor whether you are on target in relation to sales as well as in keeping control of costs. They can also be useful in making comparisons with competitors and your own previous performance.

Not every business will wish to use all the ratios explained in this book, though all will benefit from keeping a close eye on:

- gross profit margin; and,
- net profit margin.

If the business achieves these, it will almost certainly keep within its cost targets and achieve its return on capital targets.

Monitoring payment days, collection days and stock turn will help you keep an eye on working capital requirements, which in turn will keep you within your borrowing limits.

reading list

Reading list

Financial Control for Non-Financial Managers
David Irwin, Pitman Publishing, 1995.

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

Finance and Profitability
David Irwin (Ed), Thorogood, 1998.

Key Management Roles
Ciaren Walsh, FT/Pitman Publishing, 1993.

chapter twenty five

Financial planning and forecasting

The information in this chapter relates to Key Role B: Manage Resources

chapter twenty five: Financial planning and forecasting

The information in this chapter relates to Key Role B: Manage Resources

MCI3

MCI3 – recommended reading.

MCI4

MCI4 – recommended reading.

MCI5 – Operational

If you are studying for either of the MCI5 NVQs, the information in this chapter will help you to:

1. Obtain sufficient and suitable financial resources for the business.

2. Provide realistic workarounds where resources desired are not received in full.

3. Effectively review the generation and allocation of financial resources.

Achieving financial balance

Every business needs money – for capital investment and to provide working capital. Some people have enough money to invest everything themselves that the business requires; others have nothing and expect to borrow everything. Some recognise the need to raise equity from third parties. Banks are cautious and want to lend as little as possible – and expect to see a modest level of gearing. Money from different sources has different costs – partly reflecting the different risks. How do you identify the best source? And how do you achieve a reasonable balance between different sources?

Project North East believes that business success is built on continuous planning. That does not mean writing or updating the sort of business plan you might prepare for the bank, but rather thinking carefully about opportunities and about matching your resources to exploit those opportunities. That requires careful market research, sales forecasting and financial forecasting. Financial forecasts are, quite simply, your forecast of how your business will perform financially over, say, the year ahead.

Preparing forecasts will help you to assess your likely sales income, costs, external financing needs and profitability. Financial forecasts are essential if you need to raise money from a third party, but forecasts also provide you with the means to monitor performance on, for example, a monthly basis and thereby exercise effective financial control – arguably the second most important management function in running a business.

Objectives

The aim of this chapter is to consider capital investment, sources of business finance and financial forecasting. It will enable you to:

- understand how money is used within a business;
- review the different ways in which finance can be provided;
- see how funds are matched to needs;

- understand costing and pricing;
- use *break-even* analysis as a way of setting sales targets;
- understand financial forecasting; and,
- assess working capital requirements.

The balance sheet of any business shows from where the finance has come (and in what proportion) and how it has been used. Now let us look briefly at how money flows within the business.

The working capital cycle

In the production process a business takes raw materials; it adds value by turning those materials into a saleable product; and then it sells and dispatches the product to a customer. At each stage it may have stocks of raw materials, or of work in progress, or of finished goods.

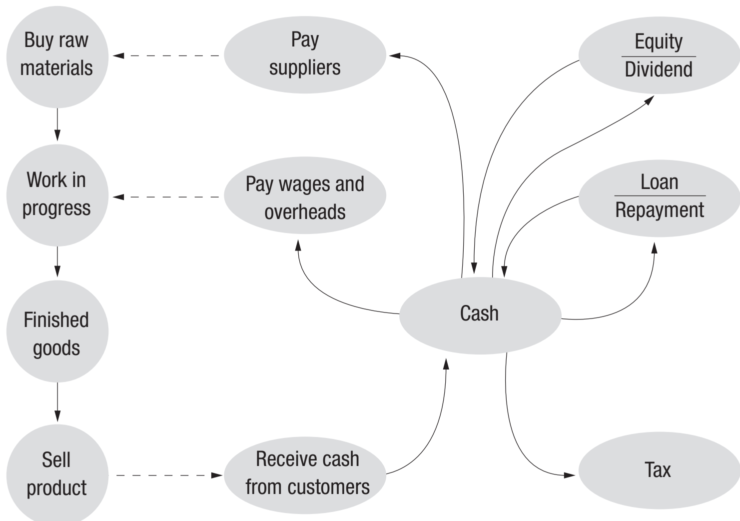


Figure 36: The working capital cycle

Following the cash is often more complicated than following the products! You may not pay immediately for what you buy. But you will need to ensure that you have sufficient funds available when payment falls due. You will need to cover your stock, which includes raw materials, work in progress and finished goods, and all your labour and overhead costs until such time as you receive payment from your customers. (Even if you are a service-based business you may well hold raw materials or have what is effectively work in progress.) Once you deliver those goods (or services) to your customer then you have sold them. But you may not be paid for some time. The eventual payment releases cash, which can be used to pay your suppliers, to pay the fixed costs and to provide a profit. The money tied up in this way is known as 'working capital'.

It can be difficult to control working capital. Sometimes businesses discover that there is considerable demand for their product. They buy more stock, make more goods, sell more products – all apparently at a profit. But then they discover that their customers do not pay soon enough whilst their suppliers are demanding payment. In other words, their working capital requirement has grown, but their actual growth in working capital has failed to keep pace with their growth in sales. This is known as *over-trading*.

A business is solvent if it has sufficient assets (cash, stock, debtors, fixed assets) to cover its liabilities (loans, creditors, etc). However, a business also has to be able to meet its debts as they fall due. If it doesn't have sufficient cash, or sufficient assets that can quickly be turned into cash (often known as liquid assets), then it may be regarded as insolvent. Trading when knowingly insolvent is an offence, so care must be taken.

If sales are relatively stable, and if collection and payment periods are stable, there will be an equilibrium between current assets and current liabilities. If customers suddenly pay more slowly, or suppliers suddenly demand faster payment, or your sales start to increase, then the business will require an increase in working capital. Businesses can sometimes use their retained earnings to provide this additional working capital requirement but, if that is insufficient, the overdraft facility may need to be increased.

Funding working capital

Unless there is sufficient equity in the business (whether introduced as capital invested or as retained profit), working capital is generally funded by trade creditors and an overdraft facility. The disadvantage of an overdraft is that it is repayable on demand. You will also have to pay an arrangement fee, but you will only pay interest on the outstanding balance. Whilst the interest rate may be higher than for a term loan the overall cost may, therefore, be lower. The bank may also seek a personal guarantee and/or a charge over stock. The size of overdraft required clearly depends on the working capital requirement and has to be agreed at least annually with your bank manager.

The current assets less the current liabilities shown on the balance sheet is the business's working capital. But the balance sheet is only a snapshot of the business. Your cash flow forecast, therefore, gives a more accurate figure. Even this, however, is prone to error. Receipts may be delayed by two or three weeks, pushing up the requirement in the middle of a month, for example, though this may not be reflected in month end figures.

Some businesses, such as retail or mail order, are cash positive. In other words, they receive cash for their goods straight away but do not have to pay their creditors for 30, 60 or even 90 days. These businesses can usually fund their working capital solely from trade creditors. For most businesses, customer payments will be made after supplier invoices become due. As a rule of thumb, aim for minimum working capital of a month's average sales multiplied by the number of months it takes to collect payment. If you want to be more accurate, then use the procedure opposite.

Determine average number of weeks raw material is in stock	**2**
Deduct: credit period from suppliers in weeks	(**-4**)
Add: average number of weeks to produce goods or service	**1**
Add: average number of weeks finished goods are in stock	**1**
Add: average time customers take to pay	**9**
Total	**9**

If sales for the year are estimated at £208,000 then the maximum working capital required is 9/52 x 208,000 = £36,000. It would be more accurate to use the cost of sales (direct and fixed) rather than the full selling price, but the above will give a sufficient approximation. If your business is growing, then your overdraft requirement will grow at the same rate.

An alternative method of financing working capital, at least in part, is factoring or invoice discounting. There are a number of factoring agents who will take your invoices and give you a proportion of the total, around 80 per cent, immediately. The balance is paid (less the factor's commission) when the customer pays. Factoring is therefore an expensive way of speeding up cash flow for small businesses, but larger businesses may reduce their administration costs by this method. Generally, factoring agents expect businesses to have sales of at least £30,000 per month.

Funding capital assets

Loan finance

Capital assets are usually defined by their life and require medium or long-term finance. Equipment and machinery is usually financed over three to seven years if loan finance is required, or else by equity. Agreements should ideally be over the life of the asset but most banks will exercise caution. Leasing and hire purchase may also be appropriate for financing medium-term assets. In the case of buildings which have a long life, say 60 years plus, long-term finance in the form of a mortgage may be available, though usually for no more than around 75 per cent of the total requirement. Interest on loans is tax deductible.

Equity

Established companies may be able to raise long-term debt as a debenture or convertible loan stock, which normally receives a fixed rate of interest and is repayable in full at the end of the term. Debentures sometimes carry options to turn them into shares.

Equity, or shareholder capital, is the money introduced into a business by the proprietor(s) and anyone else willing to invest capital in the hope of getting a future return. If it is a company, then the equity is introduced in exchange for shares. If the business does well, the directors declare a dividend each year. If it does very well, it may be floated on the Alternative Investment Market or the Stock Market, in which case the original share holdings will become valuable. Often though, shareholders' capital will be locked into the small business. Dividends are paid from profit after tax. In practice, Advance Corporation Tax is deductible from dividend payments.

Let's look at a simple example:

Imagine that you have £1,000, which you deposit in a building society account that pays five per cent interest. You do not reinvest the interest. At the end of five years your deposit, ignoring inflation, is still £1,000. You now have a total of £1,250 giving an internal rate of return (IRR) of five per cent.

Now suppose that you invest your £1,000 in shares quoted on the Stock Market. Each year you receive a dividend of three per cent of your investment (though in fact most companies aim to increase the dividend each year in order to give a roughly constant yield). In addition, if you choose wisely, you will have a capital gain. Let's assume that, at the end of five years, you sell your shares for £2,000. So now your total return is £2,150 giving an internal rate of return of 17 per cent.

External investors will be looking at their possible IRR if they invest in your business and are usually looking for at least 35 or 40 per cent. As you can see from the example above, however, most of the return comes when investors sell their shares. This clearly has implications for you and needs to be considered before bringing in an external investor.

There are effectively just three ways for investors to get their money – through selling back to the original owners (that is, you), through a trade sale, or through a flotation.

Leasing

It is often possible for businesses to buy equipment on hire purchase, leasing or lease purchasing. Lease companies will not have the same concerns about gearing as the banks. They will, however, be interested in your cash flow and whether you can afford the repayments. The equipment will remain the property of the leasing company; you have the legal right to use the equipment for the period of the lease assuming, of course, that the lease payments are up to date. At the end of the lease, the equipment reverts to the leasing company, although it is often possible to buy the equipment for a small sum.

Grants

There are several sources of grant aid that should be investigated should you be starting in business and, particularly, whenever you are buying equipment. This may be treated as income, showing on the profit and loss account and, perhaps, increasing the profit and thus the retained earnings. Alternatively, the grant may simply increase the owners' funds shown on the balance sheet and is effectively an increase in reserves.

Relative costs

One of the considerations in choosing between types of finance will be the cost of each.

As was mentioned earlier, external investors will expect a dividend and may expect to get a further return by selling their shares in due course, and will typically be looking for an overall return of 35-40 per cent. However, the annual dividend requirement may only be five per cent of the investment. The rest of the return will come from selling the shares or floating the company and may not have to be found by the business itself.

Loan finance, depending on your negotiating ability and available security, may cost from base plus two per cent to base plus seven per cent. Interest, however, is tax deductible, so the cost when compared to equity is lower, though not as low as five per cent.

Lastly, there is also a cost involved in using retained earnings. This time it is the opportunity cost – the return that you might make if you invested that money somewhere else. An appropriate comparison might be the best deposit rate you can find, or the return you might get if you invested in a different company.

Given the gearing requirement of bankers, you cannot simply choose to use exclusively loan finance. It is necessary therefore to seek a balance. It is also essential, for long-term business success, for the business to achieve a return on capital employed that is greater than the cost of the finance.

Costing and pricing

Although accountants define costs in several different ways, there are, effectively, just two types of cost. The first cost is that which is directly attributable to the product or service. Direct costs include, for example, raw materials and sub-contract work. If you make desks, for example, the cost of wood will be a direct cost. Within reason, the cost will be the same for each desk, no matter how many desks you make. When you make a sale the income first has to cover the direct costs relating to that sale. Whatever is left is called *gross profit* or contribution.

All other costs are overheads. These include, for example, staff salaries, marketing, rent, rates and insurance. They also include depreciation; that is, an allowance for wear and tear on capital equipment. Overheads are often called fixed costs because, generally, they are fixed for the business. Interest is often regarded as a deduction from net profit rather than an overhead cost. You need to include it as an overhead in your costing calculations, even though it varies with the size of your overdraft or loan. If you are self-employed, you will take drawings from the business. Whilst, strictly speaking, drawings are an advance against profit, include drawings (and an allowance for income tax) as an overhead when calculating total costs.

The contribution is so-called because it contributes towards covering the overhead costs. Each sale generates a contribution. When enough contributions have been made, and all the overhead costs are covered, they start to contribute to net profit.

The price at which you sell your product or service clearly needs to exceed the total costs of providing it. But the price should also reflect what the market can stand. If you are selling a differentiated product or have adopted a strategy of market focus then you may also be able to charge a premium price. If you are pursuing a cost leadership strategy you will need to be ruthless in keeping your costs down and under control.

In calculating your price you will need to follow a number of steps:

- estimate your likely sales for a period, say, one year;
- calculate the total direct costs and divide by the sales volume to give direct costs per unit (say per product or per hour of service);
- calculate your total overhead costs and divide by the sales volume to give overhead costs per unit;
- add direct costs per unit and overhead costs per unit to give total cost per unit; and,
- add a further profit margin (to allow for reinvestment etc). If necessary, add VAT as well.

You now have a first stab price. How does that compare with your competitors? Will customers buy at that price? Do you need to reduce costs? Can you achieve a higher profit margin?

What happens if you fail to achieve sales at the determined price? Remember that the overhead costs are fixed, so if sales fall the overheads will be spread over fewer items and the unit cost effectively increases. The converse is also true. Increasing the volume of sales means that the overheads are spread over more units, so the unit cost falls. This means that you can, if you choose, reduce the price. And reducing the price might increase your level of sales. It's a fine balancing act. Let's look at this in a slightly different way.

Break-even analysis

Once you know your costs and estimated selling price, you are in a position to calculate how many products, or hours of your time, you need to sell to break-even, that is, to cover exactly all your costs. Ideally, of course, you will have a sales target well above your *break-even point*.

The easiest way to calculate the break-even point is to draw a graph. Show sales by volume on the horizontal axis. The vertical axis represents money – either costs or income. First show the overhead costs. This will be a horizontal line since these costs are, generally, fixed for all volumes of production. In the example, the overhead costs represent £750.

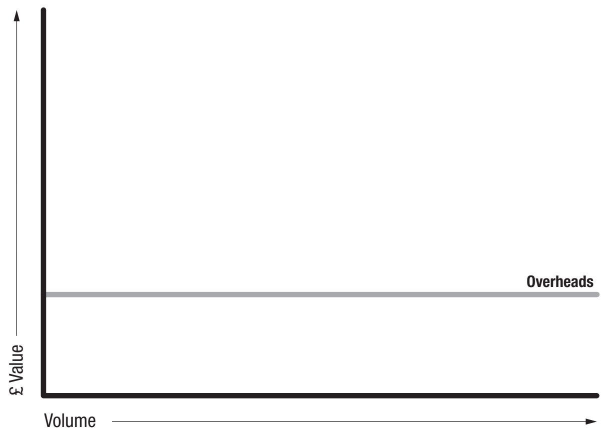


Figure 37: Calculating the break-even point (Step 1)

The direct costs can then be added to the overhead costs to give total costs for a given volume of output. A line representing total costs can be plotted on the graph. In the example, the direct cost per unit is £2.50. For 500 units the total direct cost is £1,250. Adding this to the overhead cost gives a total cost of £2,000 for a volume of 500 produced.

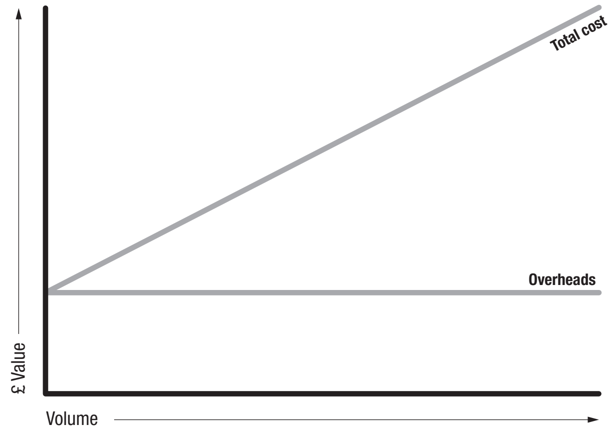


Figure 38: Calculating the break-even point (Step 2)

The sales income can then be plotted to show how much income will be generated for a given volume of sales. Remember that sales income starts at zero for zero sales. In the example, the unit sales price is £5, so if all 500 units are sold the business will generate £2,500. (As we will see later, direct costs are only 'charged' to the profit and loss account when a sale is made – but if you make more products than you can sell you will require more working capital to fund the additional direct costs until such time as you can sell them.)

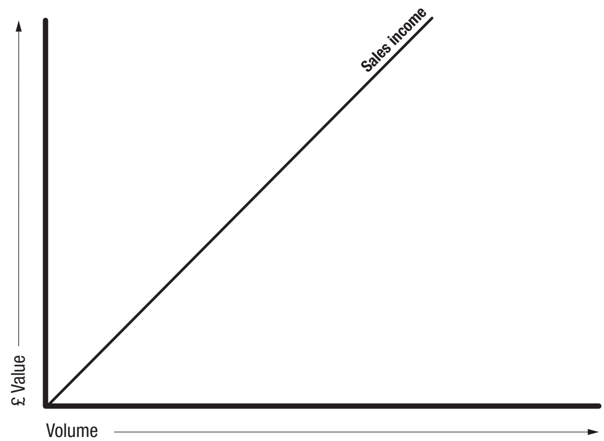


Figure 39: Calculating the break-even point (Step 3)

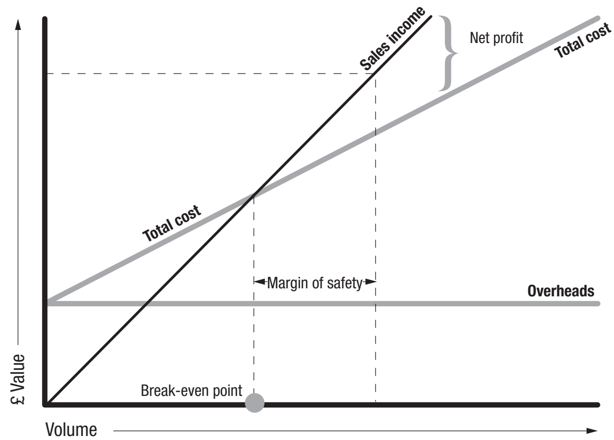


Figure 40:A single break-even chart

The graphs can now be combined into a single break-even chart.The point where the sales income equals the total cost shows the break-even point. A higher price will achieve break-even with fewer sales. A lower price may attract more customers,but will require higher sales to break-even.The further above break-even that a business can operate, the greater its *margin of safety*.

Use break-even sales volume to set monthly and annual sales figures. It can be helpful to plot targeted sales and actual sales on a graph in order to monitor progress regularly. If the business does not achieve its targets you will need to take remedial action.

Financial forecasts

Once you have an idea of your likely costs and an idea of how much you need to sell to make a profit you are in a position to prepare financial forecasts.There are three basic financial statements (the profit and loss account (P&L), the cash flow statement, and the balance sheet) that describe the activities and financial state of any business.These can be prepared on an historical basis – to show how a business performed during a defined period – or as forecasts – as estimates of how the business will perform in the future.

Businesses often start by forecasting their cash flow and then aim to derive other forecasts from it. It makes more sense, however, to start by forecasting the income and expenditure of the business – which will indicate whether or not you will make a profit. Then worry about when money will be received or paid out – to discover if you will have enough cash when it is needed. Income and expenditure is summarised in a profit and loss account.

You will also need to look at your likely sales for, say, the year ahead. This needs to relate back to your market research and to previous performance. The direct costs can then be estimated (usually as a percentage of sales) to give gross profit.

The next step is to estimate the likely overheads. Deducting these gives an operating profit forecast. If the net profit is too low you will either need to assess whether you can achieve higher sales or whether you can reduce the overheads.

When preparing your forecasts, remember to allow for increased costs, for instance, due to inflation or future pay awards. If you do need a loan, then you will also need to allow an amount for loan interest. If you use equipment, remember to allow for depreciation. Whilst depreciation is not included in the P&L, you may need to allow for the replacement or repairs of machinery, so you may wish to include a contingency.

The P&L forecast will show whether you are likely to achieve your first key financial requirement: making a profit.

Preparing cash flow forecasts

In preparing your forecasts, you will need to think carefully about all your costs, about your price and likely sales at that price and about the timing of both receipts and payments.

As mentioned earlier, the first forecast that you set out should ideally be a profit and loss account – summarising the income and expenditure for, say, the year ahead. You might choose to do this monthly or just annually. The P&L is important from the point of view of demonstrating profitability; over the very short-term, however, the key requirement is to generate cash and to know the business's working capital requirements. This can best be done by preparing a cash flow forecast which should set out all the information, month by month, regarding cash inflows and outflows. The cash flow forecast should include:

- receipts of cash from customers;
- payments for raw materials;
- payments for all other expenses;
- drawings and wages;
- capital expenditure;
- capital, loans or grants introduced;
- loan repayments;
- VAT receipts and payments (if VAT registered); and,
- tax payments.

All of these items should normally be shown separately and should be shown in the month in which the money will be paid into, or paid out of, your business.

VAT

VAT is tax paid on the value added at each stage of delivery of a product or service. It is a method whereby businesses act as tax collectors for the government. If you are registered for VAT, by submitting a VAT return you can claim back what you have paid in VAT, and hand over what you have collected.

You must register for VAT if your turnover is over the threshold, currently £45,000. Businesses with a turnover of less than £300,000 can submit one annual return; otherwise returns must be submitted quarterly. Note that this will affect your cashflow if you make large purchases, say, of capital equipment. You may want to time your purchases to minimise the delay before you get your VAT refund.

Not all goods are taxable – for example, insurance, some education and training, and postal services are exempt. If items are VAT-able, then, ignoring VAT on fuel, there are two rates – standard (currently 17.5%), and zero rated. Zero rated items are different from exempt items.

It is only necessary to register if your output is taxable. If you register for VAT, you will be able to recover VAT on all your purchases including materials, capital equipment and overheads. You will, however, have to charge VAT on your sales. The difference between what you collect and what you pay out in VAT is passed on in due course to Customs & Excise. There is more paperwork involved if you are VAT registered – you need tax invoices showing your VAT number, an analysed VAT account, and VAT return forms. It may, however, be advantageous to register voluntarily if your sales are below the turnover limit, because the VAT paid on purchases can be reclaimed. It is also possible to reclaim VAT on capital equipment, raw materials, and stocks bought before registration, provided the business still owns them.

If you are selling to businesses that are VAT registered, it is likely to be more attractive for you to register. If you are selling to the general public, then probably it will be preferable not to register. This is, however, an area where you should seek professional advice.

For businesses with a modest turnover, and which demonstrate profitability in the year, it is normal only to forecast one year ahead, with a monthly cash flow. Larger businesses, especially those seeking equity investments and/or which do not show profitability in the year, may need to prepare forecasts for two or three years. The first year cash flow is usually shown monthly, the second year quarterly and the third year just a single annual figure.

Cash Flow Forecast

	Jan	Feb	Mar	Apr	May	Jun
SALES						
Chairs	10,000	11,000	12,000	15,000	15,000	15,000
RECEIPTS						
Debtors	2,000	4,200	7,600	11,700	12,900	14,100
Owners	5,000					
Loans	15,000					
VAT	350	735	1,330	2,048	2,258	2,468
TOTAL	22,350	4,935	8,930	13,748	15,158	16,568
PAYMENTS						
Raw materials	3,000	3,300	3,600	4,500	4,500	4,500
Wages and NI	2,500	2,500	2,500	2,500	2,500	2,500
Rent	500	500	500	500	500	500
Rates	200	200	200	200	200	200
HLP	100	100	100	100	100	100
Telephone	500			500		
Insurance	1,000					
Advertising	1,500		1,500		1,500	
Stationery	500					
Travel etc	100	100	100	100	100	100
Bank charges			100			100
Loan repayments		500	500	500	500	500
Interest		140	140	140	140	140
Professional fees	1,000					
Repairs						
Drawings	1,000	1,000	1,000	1,000	1,000	1,000
Tax						
Equipment	12,000					
VAT	3,255	595	910	893	1,068	805
VAT to C & E	0			(2,345)		
TOTAL	**27,155**	**8,935**	**11,150**	**8,588**	**12,108**	**10,445**
BALANCE	(4,805)	(4,000)	(2,220)	5,160	3,050	6,123
CUM BALANCE	(4,805)	(8,805)	(11,025)	(5,865)	(2,815)	3,308

NB*: May be some rounding error*

Jul	Aug	Sept	Oct	Nov	Dec	TOTAL	*Accruals*
15,000	17,500	17,500	20,000	20,000	10,000	178,000	
15,000	15,500	16,000	17,250	18,500	17,250	152,000	26,000
						5,000	
						15,000	
2,625	2,713	2,800	3,019	3,238	3,019	26,600	
17,625	18,213	18,800	20,269	21,738	20,269	198,600	
4,500	5,250	5,250	6,000	6,000	3,000	53,400	
2,500	2,500	2,500	2,500	2,500	2,500	30,000	
500	500	500	500	500	500	6,000	
200	200	200	200	200	200	2,400	
100	100	100	100	100	100	1,200	
500			500			2,000	
						1,000	
1,500		1,500		1,500		9,000	
						500	
100	100	100	100	100	100	1,200	
		100			100	400	
500	500	500	500	500	500	5,500	
140	140	140	140	140	140	1,540	
						1,000	
						0	
1,000	1,000	1,000	1,000	1,000	1,000	12,000	
						0	
						12,000	
1,155	936	1,199	1,155	1,330	543	13,843	
4,008			4,848			6,510	
16,703	**11,226**	**13,089**	**17,543**	**13,870**	**8,683**	**159,493**	
923	6,986	5,711	2,726	7,868	11,586	39,108	6,248
4,230	11,216	16,928	19,654	27,521	39,108		

It is often helpful when preparing cash flow forecasts initially to ignore any finance that is available from the bank or other lenders. The cash flow forecast then shows the true position of the business. It can then be used to decide if the budget is viable and can be adjusted to reflect the true position and to assess the total funding requirement.

If you do not have sufficient money of your own, then you will need to seek loan finance or an equity investor. Most small businesses simply look for loan finance. Aim to match the term of the loan to the life of the asset for which it is required. It would be normal to look for a short-term loan, for example, to purchase equipment, or a long-term loan to purchase premises. You will also need to buy stock and pay overheads whilst awaiting payments from your customers. The money required for these very short-term requirements is called working capital and is typically funded by an overdraft.

When preparing your cash flow forecast, you may like initially only to include personal investment or loan finance for fixed assets and to ignore funds for working capital. The worst cumulative deficit will then give an indication of your total working capital requirement. Of course, the amount that you need to borrow can be reduced if you have more available to invest yourself.

If you have a term loan, the capital repayments will not figure in your profit and loss account – they are not a business expense – although the interest portion of the repayments will be charged as an expense. However, the repayments do need to be included in your cash flow forecast.

Balance sheet

As we mentioned earlier, the money in a business can only come from three sources:

- capital introduced by the owner(s);
- loans (whether from the bank or, effectively, from creditors); and,
- retained earnings; that is, profit which has been generated by and retained within the business.

That money is used to finance the assets of the business.

Current liabilities include creditors, overdrafts, loans due within one year, money owed under hire purchase agreements, any amounts owed in VAT or tax, etc. In larger businesses, loans falling due in more than one year are usually shown separately. You will, however, have a better idea of your business's performance if you show all loans as current liabilities.

Current assets less current liabilities shows your working capital requirement. Since the balance sheet is merely a snapshot, however, it may be better to deduce your working capital requirement from the cash flow forecast.

The net assets are always equal to the capital introduced plus reserves; that is, the *net finance*, sometimes known as *net worth* or the equity of the business.

The net finance, together with any long-term loans, is called the capital employed. Since for smaller businesses short-term borrowing tends to be a large proportion of total borrowing, all borrowing should be included when calculating capital employed.

Sensitivity analysis

It is important to know how sensitive your forecast is to changes. Sensitivity analysis looks at 'what if?' questions. What happens to your cash position, for example, if sales fall by 10 per cent? What happens if your main supplier increases raw material prices by 12 per cent? Sensitivity analysis is particularly used by financial institutions when considering propositions for a loan. If your business is particularly susceptible to small changes, then you probably do not have a sufficiently large profit margin. You will thus be less likely to receive the loan required. You may find it difficult to cut costs. You may not be able simply to increase prices to improve your margins – that might deter customers. Are there other ways in which you can push up the margins – by increasing output, for example?

Having undertaken your sensitivity analysis, you may need to review elements of your forecast. Sensitivity analysis can help in making decisions. You may want to consider, for example, the effect of increased raw material, labour or overhead costs; of reducing prices, with constant volumes, to counteract competitors; or reducing volumes, with constant prices, due to over optimistic forecasts. Furthermore, if you are about to spend a large sum of money on equipment, you may want to look ahead several years if at all possible.

Including a sensitivity analysis in your business plan will demonstrate that you have thought about some of the potential risks – and that is half way to avoiding them.

Conclusion

Some readers of your business plan will regard the financial forecasts as the most important component. It is where you summarise the expected income, dependent on your market research, and where you set out your expected costs. The forecasts need to demonstrate that the business is viable and that there is a sufficient margin of comfort to allow for fall in demand or increase in costs. Take care to prepare your financial forecasts as accurately as you can. Then compare your actual results with your forecasts and, if necessary, take corrective action at an early stage to keep yourself on course.

reading list

Reading list

Financial Control for Non-Financial Managers
David Irwin, Pitman Publishing, 1995.

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

Financial Management Handbook (3rd Edition)
Philip Vale (Ed.), Gower Publishing Company, 1988.

Finance and Profitability
David Irwin (Ed), Thorogood, 1998.

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chapter twenty six

Budgets

Budgeting

Setting a budget

Types of budgeting

Presenting the information

Conclusion

Reading list

The information in this chapter relates to Key Role B: Manage Resources

chapter twenty six: Budgets

The information in this chapter relates to Key Role B: Manage Resources

MCI3

MCI3 – recommended reading.

MCI4

MCI4 – recommended reading.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Negotiate and agree budgets with the relevant people.
2. Formulate and present budget proposals in line with organisational requirements.
3. Disseminate information related to budget decisions to the appropriate people.

MCI5 – Strategic

MCI5 – Strategic – recommended reading.

Budgeting

Some form of budgetary control is essential to all businesses. In essence, it is the process of controlling available resources to achieve pre-agreed targets – the operational plan. Budgeting should not be seen – or used – as simply a cost-cutting exercise, identifying areas where savings may be made. It is the management process that orders all areas of the business to work in harmony so that the over-arching objectives may be met.

Objectives

The aim of this chapter is to introduce you to the process of budgeting. It will help you to:

- know what to take into account when setting budgets;
- know in which areas budgets should be set;
- consider different methods of budgeting; and,
- prepare and present information effectively.

Once the financial objectives have been set, it is possible to prepare and agree a budget. A budget should relate the overall plan in figures. It is different from a forecast in the sense that the plan, and therefore the budget, sets minimum requirements, whereas a forecast is usually an expectation of what is likely to happen. You might choose to budget for sales of £180,000 and use this figure in calculating your likely expenditure, profit and so on. Based on your market research, however, you predict sales of £200,000, and set a target of £220,000, in order to stretch your sales force. If all your costs are covered by the budgeted figure, then you will make a greater profit if you achieve the forecast and a still greater one if you achieve the target. (Whilst this is an important distinction, in practice for many businesses the forecast and budget will be the same.)

Setting a budget

The starting point for budgets and financial forecasts is the setting of strategic and operational objectives. A key set of operational objectives each year should cover sales targets. Normally, budgets are only set for the short-term. Most small businesses will find it sufficient to set budgets for the next financial year and little further. For start up businesses, clear and realistic budgeting is one of the first things potential funders will look for in a business plan.

A budget is not a forecast. Whilst it clearly has to be based on forecasts, it is your target. In setting sales targets, and a budget, you are committing yourself to perform to a certain standard. If budgeting and financial forecasting is going to be an effective tool for your business, you need to ensure that your accounting system is capable of monitoring your financial performance against the targets. You will then be able to monitor progress and take corrective action where necessary.

When setting budgets, there are three questions to ask:

- How much money do I expect to have?
- How much money do I expect to spend?
- What has happened previously?

Past history can give you an indication of what to expect – or what to beware of – this time around. How accurate has previous budgeting been? Do hidden costs spring up and catch you by surprise? If so, you can make provision for them in this budget.

You also need to be informed as to what is happening elsewhere in the company. For example, if you are in charge of an admin team, what staffing increases are being planned elsewhere and how might this impact on you? If six new customer service staff are to be employed to cope with the increased business that is expected to be generated by the planned marketing drive, will you need an extra body (and an extra PC) to cope with increased customer correspondence? Always look at the big picture and ask yourself,'What does this mean for me?' Areas to look at include:

- cost of staff, both currently employed and planned;
- cost of any new equipment;
- cost of training (not forgetting travel and/or accommodation);
- travelling expenses; and,
- office overheads.

Budgeting stages

The stages your budgeting goes through are:

- gather the necessary information (past history, charges and prices, and so on);
- collate this into a plan;
- gain agreement and/or authorisation;
- implement the plan;
- monitor progress; and,
- investigate and analyse variances.

When variances come to light, you must understand what has caused them and decide what action, if any, is necessary. Is this something you can affect, or is this something you just have to live with?

If a variance is caused by a supplier putting up prices, can you negotiate a discount? Can another supplier perhaps give you a better price? There again, with better housekeeping, can you absorb the price increase by reducing usage or wastage?

The starting point for budgets is the sales forecast – how many products at what price, where and when? This can be turned into a sales budget. The budget commits the business to at least perform to that standard. It should therefore be achievable but challenging. Once the sales budget has been prepared it is possible to produce a production budget (direct costs) and a resources budget (overhead costs). These can be considered to give a cash budget, a capital budget and a budgeted profit and loss account.

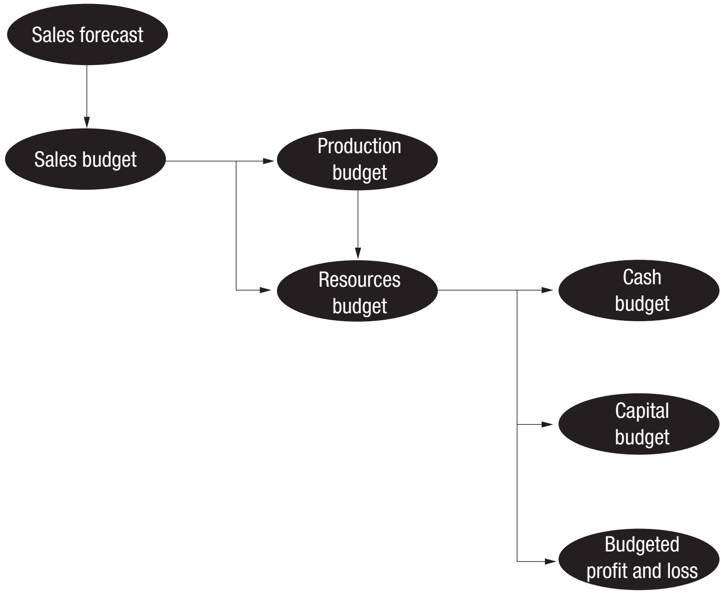

Figure 41: Budgets derived from the sales forecast

It is important that management and staff all participate in the budget setting exercise; this will help in ensuring that everyone 'owns' the targets and understands why expenses have to be controlled.

Allocating responsibility

Part of the exercise of involving staff can be to allocate individual responsibility. For example, your sales budget can be split between staff either equally or at differing levels, depending on experience and other responsibilities.

The sales budget

The sales budget should set out the number of units that you might be able to sell at a given price broken down by product, area, timing, etc. The sales budget is required to provide overall targets; you will need it to prepare the other budgets.

Volume: Product A

	UK	Europe	USA	Total
Qtr 1	1,000	350	150	1,500
Qtr 2	1,000	350	150	1,500
Qtr 3	1,000	350	150	1,500
Qtr 4	1,000	350	150	1,500
Total	4,000	1,400	600	6,000

A budget by volume is shown above. Normally, sales should be shown on a monthly basis for the year, although in this case the sales budget has been summarised into quarters. The table below shows the budget transferred into values, assuming a price of £51 per unit.

Volume: Product A

	UK	Europe	USA	Total
Qtr 1	51,000	17,850	7,650	76,500
Qtr 2	51,000	17,850	7,650	76,500
Qtr 3	51,000	17,850	7,650	76,500
Qtr 4	51,000	17,850	7,650	76,500
Total	204,000	71,400	30,600	306,000

Production budgets

Once the sales budget has been determined, you are able to prepare a production budget.This budgets for the costs that vary with the level of production.These are mostly just the direct costs. Don't forget to include sub-contract and direct labour costs if appropriate to your business.The materials usage budget, sub-contract budget and direct labour budget should reflect the sales budget, including any discounts that you anticipate may be necessary to achieve that level of sales. For larger businesses, it may be helpful to forecast labour requirements by type of labour.This will assist in identifying surplus or shortfalls. If you use sales people working on commission, their commission is usually shown as a direct cost (though their retainer, if they have one, would be a fixed cost). Discounts are usually shown in the budget as a direct cost (even though in reality a discount is simply income foregone).

If there are other variable costs, such as electric power consumption, these should also be assessed to give a total production budget.

Materials usage budget: Product A

	Units	£
Qtr 1	1,500	37,200
Qtr 2	1,500	37,200
Qtr 3	1,500	37,200
Qtr 4	1,500	37,200
Total	6,000	148,800

The materials purchase budget

If you have a manufacturing business, the next step after the sales budget is to look at the raw materials holding and ordering requirements. An example is shown below:

Materials purchase budget

	Ordered	Consumed	Balance
Opening balance			8,000
Qtr 1	40,000	37,200	10,800
Qtr 2	40,000	37,200	13,600
Qtr 3	40,000	37,200	16,400
Qtr 4	40,000	37,200	19,200
Total	160,000	148,800	19,200

If there are likely to be delays receiving raw materials after ordering them you will need to hold sufficient raw materials to cover production for the typical period of delay. This ties up working capital so your target should be to keep raw materials to a minimum.

Purchasing policy should be reviewed regularly to ensure that you are obtaining value for money from suppliers and that you are paying the lowest possible price consistent with the quality desired.

You may be able to identify possible discounts or rebates, which can also be built into the materials budget. Once raw materials have been issued to production they become work in progress. Work in progress, valued at least at the cost of the raw materials that are now in production, is often shown on the balance sheet – though arguably it has no value until there is a product capable of being sold. If the manufacturing process is a long one, then the value added at each stage (labour, resources, etc) also has to be financed until the product is sold, so this increases the working capital requirement.

When preparing the production budget, remember to watch for the number of machine hours available, the number of labour hours available, etc. If you exceed your capacity you may have problems. On the other hand, you do not want expensive machinery lying idle. So you should also look at your utilisation rates – if they are too low, can you increase them, perhaps by increasing sales or introducing new products?

The overheads budget

Once the production budget has been prepared the other costs need to be calculated. If you are in manufacturing, it is likely that these will represent a relatively small proportion of the total costs. On the other hand, if you are running a service sector business, it is likely that the overheads will represent a very high proportion or, indeed, all of the cost. If you have decided to use ratios that assess costs as a proportion of sales, then it makes sense to build up your overheads budget using the same cost groupings. Don't forget to include overhead costs which appear 'below the line' such as interest or drawings.

In the example, the overheads budget is shown for the business, not by product. You may, if you choose, aim to allocate the overheads to each product or you may prefer to retain overheads as a single budget. You will, however, have to ensure that the price for each product makes a reasonable contribution to the overheads.

Overheads budget

Production		
Salaries	205,000	
Premises	11,000	
Administration		216,000
Salaries	35,000	
Insurance	2,000	
Other	2,000	
		39,000
Marketing		33,000
Distribution		36,000
Interest		25,000
		349,000

The production cost budget

You are now in a position to pull together the production budget and the overheads budget into a single production cost budget. If you have more than one product, then you will have a production budget for each product. You will also have variable overheads to add for each product. There is no need to split fixed overheads across products at this point since you are trying to determine the total costs. On the other hand, if some of the costs have been collected on a product or a departmental basis, then it probably makes sense to keep them separate at this stage, provided they are all included.

The capital expenditure budget

If you expect to spend large sums on capital equipment, then you need to set a budget and determine likely timing for those purchases. This is essential information if you are to prepare an accurate forecast. If you do not have all of the cash available to buy equipment then you will need to negotiate a loan. You will need to include the cost of borrowing (ie interest) and depreciation in your overheads budget. You will need to know the repayment schedule for your cash flow forecast.

If you decide to lease equipment, make sure that you read all the small print. While the selling is carried out by your supplier, the leasing is done by a finance company. Usually the conditions are more favourable for them than for you. On the other hand, the lessor usually has a responsibility to ensure the equipment keeps working even if the supplier can no longer support you.

Types of budgeting

When setting your budget, there are a number of techniques that you can use – two are outlined below.

Incremental budgeting

Incremental budgeting is a process of taking last year's figure and adding a bit on for inflation or whatever, or even taking a bit off, due to perhaps, downsizing. We can look at this in simple terms, as follows:

for example

Example: Incremental budgeting

Jane is planning a night out with friends. Last month they went out and visited two pubs and a nightclub. Jane took £30, but ran out of money and had to walk home.

This time they are planning to go to the same places, so Jane decides to take £40 to be sure of being able to afford a cab home.

What do you think of Jane's budgeting intentions? On the face of it, it seems quite sensible. But it doesn't take into account the fact that Jane bought a couple of extra rounds, due to induced generosity, or that she gave a £10 note in the pub but got change from £5 – or even that she lost £5 or £10.

So, if Jane is more careful with her money this time, she could come home with £15 still in her pocket. That £15 had to come from somewhere, so at some point she has made a false economy in order to put the cash into her budget for the night out.

Conversely, if one or two of her friends bought an extra round last time, or she paid for a round of drinks with £5 and received change from £10, she could still run out of cash!

The incremental approach to budgeting is still quite common, and indeed may be the one you choose. If you do use this method, however, bear in mind the potential problems as illustrated above.

Zero-base budgeting

With zero-base budgeting, you begin with no preconceptions. In principal, zero-base budgeting begins with the assumption that the function for which the budget is being prepared does not exist. In practise, however, it is generally based on the 'survival' level of expenditure as identified by (say) the department manager. This is the benchmark. Any requested expenditure above this level must be justified.

for example

g

Example: Zero-base budgeting

Jane is preparing the budget for the administration team that she runs. She identifies her 'survival' level as herself plus two staff, each of whom will need a computer and an amount of stationery.

Jane is aware, however, of planned activity within the company that will impact upon her area. Consequently she requests an additional member of staff, computer and stationery allowance.

Once she has calculated the cost of this, she must justify the additional expense. This is done by describing the planned activity and estimating the impact it will have on her area.

This activity will be justified not only in Jane's budget, but also in the budget of the manager whose intent it is to boost activity. If it is refused in his budget then, since they are dependent on one another, it will be refused in Jane's, too. The converse is also true; if the activity goes ahead, Jane will get her extra resource.

Without such justification it is possible that one area's request would be granted whilst the other was refused, resulting in either frantic activity or over-manning. Zero-base budgeting makes it easier to see the full cost of planned changes across the board.

So, with zero-base budgeting, units of cost are compared with units of benefit. It is possible that a need will exist for alternative budgets to be prepared, to compare the effects of alternative courses of action that may be followed – for example, do you continue to finance your own marketing, or do you contract it out? Do you employ a staff trainer directly, or do you buy in external training?

A major benefit of zero-base budgeting is that previous inaccuracies are not carried forward (as in the incremental budgeting example) but all costs are challenged and justified.

Presenting the information

As we have seen, the preparation of budgets requires the collection of data. This data will be used to justify the projected expenditure. Consequently it must be presented in a manageable way in order that your case receives the attention it deserves.

It is a good idea to follow the format of a report or business plan, presenting first a summary and then backing it up with the hard fact, subjective information and forecasts that formed your final proposal.

Making the information easy to read and accessible increases your chances of success. People will not go to great lengths to attempt to unravel a complicated or unwieldy document.

The various departmental budgets should all be pulled together to produce a master budget. This would include a budgeted (projected) balance sheet and a budgeted profit and loss, from which useful ratios (eg the current ratio) could be produced.

It is a good idea to prepare a budget file or manual, containing all of the budgetary figures. This information should be easily accessible to all relevant people within the organisation, giving them the big picture rather than the more restricted view they would have if they had access only to their own figures.

Monitoring

It is important that progress is monitored regularly to see if the budget is being adhered to. Effective monitoring depends on prompt information. Month end figures must be produced without delay, certainly within one to two weeks. Reforecasting (redrawing the budget in the light of experience and new information) should be conducted at least quarterly, if not monthly.

Conclusion

People are often apprehensive about budgeting. Perhaps in the past they have suffered as a result of poor budget preparation or seen the process used as a cost-cutting initiative. However, budgetary control is an essential management tool. It helps the organisation – and the people within it – to achieve their overall objectives. Be prepared to spend time on your budgeting.

Whatever you do, do not just pull your figures out of the air – gather information, prepare forecasts and base your proposal on justifiable evidence. That way you greatly increase your chances of success.

reading list

Reading list

Planning to Succeed in Business
David Irwin, Pitman Publishing, 1995.

Financial Control for Non-Financial Managers
David Irwin, Pitman Publishing, 1995.

Budgeting for Non-Financial Managers
Iain Maitland, Pitman Publishing, 1995.

Finance and Profitability
David Irwin (Ed), Thorogood, 1998.

chapter twenty seven

Financial control

The information in this chapter relates to Key Role B: Manage Resources

chapter twenty seven: Financial control

The information in this chapter relates to Key Role B: Manage Resources

MCI3

MCI3 – recommended reading.

MCI4

If you are studying for the MCI4, the information in this chapter will help you to:

1. Seek suggestions from other people and take into account past experience and future plans when making recommendations for expenditure.
2. Present recommendations in line with organisational procedures.
3. Monitor expenditure against pre-set budgets.
4. Identify variances promptly and deal with them appropriately.
5. Keep complete and accurate records, in line with organisational requirements.

MCI5 – Operational

If you are studying for the MCI5 in Operational Management, the information in this chapter will help you to:

1. Seek suggestions from other people and take into account past experience and future plans when making recommendations for expenditure.
2. Present recommendations in line with organisational procedures.
3. Monitor expenditure against agreed budgets.

4. Identify variances promptly and deal with them appropriately.

5. Keep complete and accurate records, in line with organisational requirements.

6. Evaluate proposals for expenditure against agreed criteria and within agreed timescales.

7. Evaluate proposals for expenditure against realistic and achievable costs and benefits.

8. Where proposals are submitted, you provide sufficient support and advice to ensure that they are effective.

9. You accept those proposals that support the organisation's aims.

10. You justify your acceptance or rejection of proposals and provide feedback to those who submitted them.

MCI5 – Strategic

If you are studying for the MCI5 in Strategic Management, the information in this chapter will help you to:

1. Evaluate proposals for expenditure against agreed criteria and within agreed timescales.

2. Evaluate the proposals for expenditure against realistic and achievable costs and benefits.

3. Where proposals are submitted, you provide sufficient support and advice to ensure that they are effective.

4. You accept those proposals that support the organisation's aims.

5. You justify your acceptance or rejection of proposals and provide feedback to those who submitted them.

Financial control

Every business must make a profit in order to survive; financial control is a major contributory factor to business survival. For many managers, exercising effective financial control is, at best, seen as a mystery and, at worst, not even considered. Yet monitoring a small number of important figures can ensure that you retain complete and effective financial control.

Objectives

This chapter is intended to help you put in place that financial control: to ensure that you are estimating costs accurately and then keeping them under control, to ensure that you are charging and/or paying the right price and to ensure that you can collect money owed to you and can pay your bills as they fall due. Its objectives are:

- to demonstrate how effective financial control assists in the management of the organisation in which you work;
- to show that control can be achieved through simple documentation; and,
- to suggest financial indicators for inclusion in your strategic objectives.

Achieving control

Good financial results will not arise by happy accident. They will arise by realistic planning and tight control over expenses. Remember that profit is the comparatively small difference between two large numbers: sales and costs. A relatively small change in either costs or sales, therefore, has a disproportionate effect on profit.

Case study: Katie's Kitchens, target v performance

	Budget	Change	Actual
Sales	750,000	-10%	675,000
Less: Direct costs	375,000	+8%	364,500
Gross profit	375,000	-17%	310,500
Overheads	280,000	+10%	308,000
Net profit	95,000	-97%	2,500

Look at what happens if there are a number of relatively small changes. This business was budgeting for a high level of net profit, but a decrease in sales, and an unexpected increase in raw material costs of eight per cent (even allowing for a reduction in raw material usage due to reduced sales) and an increase in overheads of ten per cent reduces the profit to just £2,500 – a reduction of 97 per cent!

You must watch your costs/prices and margins very carefully at all times since small changes in any of these areas can lead to substantial changes in net profit. Control can then be exercised by comparing actual performance with budget. To do this, you will need to produce:

- a financial plan, agreed as being achievable by all concerned; and,
- some means of monitoring performance against the plan.

Since there will always be differences between the actual and the plan, you need some form of control. Beyond a certain organisational size, control can only be exercised by delegation; the human aspect of control is, therefore, important.

Why keep records?

Accurate record keeping is required if you are to be effective in monitoring performance against budget. Other reasons why you will need to keep accurate records are:

- there is a legal obligation to do so;
- any shareholders may want accounts;
- the VAT inspectors will need them;
- the Inland Revenue will require them;
- potential suppliers may require them;
- you will need to report accurate figures to your line manager;
- you will need to identify areas of possible concern; and,
- you will need to investigate and explain variances (under or overspends against your budget).

Accounting records will need to be detailed enough for you to be able to say at any one time what the financial position is; ie how much cash is in the business or the budget? How much do you owe? How much is owed to you? How big is the overdraft (or overspend)? How long could bills be paid for if cash stopped flowing in? What is the profit margin?

Financial control will be poor if there are no clear objectives and there is a lack of knowledge of the basic information necessary to run a business or a department successfully. A lack of appreciation of the cash needs for a given rate of activity and a tendency to assume that poor results stem from economic conditions or even bad luck will only exacerbate the situation.

Accounting centres

One way of delegating financial responsibility is to set up a system of accounting centres. Where businesses make a range of products, putting each into a different accounting centre makes it easier to determine which of the products are profitable. Some costs (eg factory rent) are more difficult to allocate, so may be recorded in a holding account and then split between products. Indirect costs could be allocated by the proportion of sales represented by each product (by volume or cost) for example, or by proportion of machine time used, or by some other appropriate method.

This split will give an indication of the profitability of each product, but you should beware of ceasing sales of a particular product because of low profit or loss – the costs currently charged to that accounting centre would have to be redistributed among those remaining, so necessitating increased sales of those products.

for example

eg

Example: Peter's progress

Peter is production manager in a company that manufactures a range of floor cleaners. Each has its own cost centre and Peter, whose team is responsible for the manufacture of vacuum cleaners, wants to know how his team is performing against industrial floor cleaners and carpet sweepers.

(Annual figures, all costs in £'000s)

	Vacuum cleaners	Industrial floor machines	Carpet sweepers
Sales	3,000	2,000	1,000
Direct costs	1,000	700	500
Indirect costs	600	600	600
Profit	+1,400	+700	-100

Peter can see that while he is doing well, carpet sweepers are making a loss. Ceasing production, however, would mean that the indirect costs would have to be split between the remaining two products, thus reducing their profitability.

There are four possible levels of financial responsibility with appropriate targets and control requirements:

- **revenue centre** – staff only have responsibility for income (eg a sales department in a department store). Staff have sales targets and income is measured and compared against them;
- **cost centre** – staff have responsibility for keeping costs within set targets, but do not have to worry about where the money comes from (eg an NHS Trust department);

- **profit centre** – staff have more responsibility and control and will agree targets of profitability and absolute levels of profit (eg a division within a larger company). Control will be achieved through monitoring performance as measured by the profit and loss account; they are unable, however, to invest in new equipment; and,
- **investment centre** – the staff have authority over investments and the use of assets (eg a subsidiary company) although the holding company would typically need to approve major investment. Targets would focus on return on capital, and control would be through monitoring performance measured by the complete accounts.

The operating statement

Combining the revenue, direct costs and overhead costs enables you to prepare a monthly operating statement. This records income and expenditure (as does the profit and loss account), not receipts and payments. It may ignore some items such as depreciation or bad debts. It should, however, give a close approximation to the actual profit and loss account. Each month, you should compare your actual performance with your forecast both for the month and, ideally, for the year to date. If you have a computerised accounting package, this will be a very simple task. The example below shows budget, actual and variance. Note that it also shows different costs as a percentage of sales price. If you set targets for each of these, they will quickly show up in a report like this (see over).

Operating statement (month six)

	Month					Year to date				
	Budget		Actual		Variance	Budget		Actual		Variance
Sales revenue	4,000	100%	4,400	100%	400	24,000	100%	18,000	100%	(6,000)
less: direct costs										
Materials	1,500	38%	1925	44%	(425)	9,000	38%	7,000	39%	2,000
Sub-contract		0%		0%	0		0%		0%	0
Total direct	1,500	38%	1,925	44%	(425)	9,000	38%	7,000	39%	2,000
Gross profit	2,500	63%	2,475	56%	(25)	15,000	63%	11,000	61%	(4,000)
Less: overheads										
Production	1,200	30%	1,300	30%	(100)	7,200	30%	5,850	33%	1,350
Administration	200	5%	200	5%	0	1,200	5%	1,200	7%	0
Marketing	300	8%	400	9%	(100)	1,800	8%	1,800	10%	0
Distribution	300	8%	250	6%	50	1,800	8%	1,500	8%	300
Total overheads	2,000	50%	2,150	49%	(150)	12,000	50%	10,350	58%	1,650
Net operating profit	500	13%	325	7%	(175)	3,000	13%	650	4%	(2,350)

Particularly note the gross profit margin.You will quickly discover the profit margin required to cover all your fixed costs. Newsagents, for example, work on a margin of 16-22 per cent; fashion shops might expect 40-50 per cent; manufacturers might aim for 60-80 per cent depending on the product. If the gross profit margin is falling, it could be a sign of trouble. Has wastage increased? Has the cost increased? Service businesses with no, or very low, direct costs, will have a very high margin and may not find this such a helpful figure to watch. Instead, they might find it helpful to monitor actual sales and compare the figure with the monthly break-even point.

Contribution by product line

An alternative to the operating statement is to look at contribution by product, though many people prefer the former format with or without the overhead analysis.

Looking at contribution by product will help you to assess whether individual products are profitable. In order to calculate contribution accurately, all the variable costs need to be deducted though, in practice, defining variable costs is a good deal more difficult than it first appears.The effort of allocating overhead costs by product will probably involve too much administration for a small firm.

for example

William's widgets

William's only variable costs are material costs, so it is very easy to calculate the contribution, which you should note is the same as the gross profit figure in the operating statement.

William's widgets: contribution by product line

	Budget (year to date)					Actual (year to date)				
	Sales revenue	Variable materials	Variable labour	Variable other	Contrib.	Sales revenue	Variable materials	Variable labour	Variable other	Contrib.
Product A	18,000	7,200			10,800	22,000	8,800			13,200
Product B	13,000	4,300			8,700	10,000	4,250			5,750
Product C	13,000	4,300			8,700	9,000	3,950			5,050
Product D	15,000	5,000			10,000	14,000	6,000			8,000
	59,000	20,800	0	0	38,200	55,000	23,000	0	0	32,000

The contribution goes first towards covering the overhead costs and then towards profit. Every product or service must therefore make a positive contribution or else it should be discontinued, unless there has been a positive decision to sell as a loss-leader.

The cash flow statement

The operating statement shows the net trading profit but does not give any indication of the liquidity of the business. It is therefore worthwhile also preparing a monthly cash flow statement. If, at the beginning of each year, you prepare a cash flow forecast with columns for forecast and actual for each month, preparing this statement will be relatively easy. The cash flow statement reflects when money is received or paid out and includes items such as drawings, VAT or tax, which are not regarded as trading expenses. The cash flow statement is often the easiest financial statement to produce, because all the figures should be readily available from the cash book.

Managing the net cash flow can be more important in the short-term than managing the net profit, because it allows for the timing of receipts and payments as well as for the amounts.

Aged debtors

Some form of aged debtors report will be produced by most computer systems. Usually the debt will be listed for each customer. This is one of the most useful reports available and is often the prime reason for installing a computerised accounting system.

	Current month	30 days	60 days	90 days	over 90 days	Total	
This month	8,000	4,800	1,200	100	0	14,100	
Last month	9,000	3,400	900			13,300	
Analysis of debtors							
Debtors	Current month	30 days	60 days	90 days	over 90 days	Total	Credit limit
J Bloggs		2,800				2,800	3,000
D Smith	500		200	100		800	1,000
Crumbs Ltd	5,000	2,000				7,000	10,000
Ballyhoo	2,500		1,000			3,500	5,000
	8,000	4,800	1,200	100	0	14,100	

Even if you do not have a computer, you should easily be able to derive a list of aged debtors from your sales ledger. Calculate the average debt collection period. Has it got better – or worse? Are your customers paying promptly? Clearly, a reduction in the collection period will improve your cash flow.

Aged creditors

Normally people are more concerned with getting their money in than paying out on time. However, payment outside of the terms of credit can lead to bad feeling and disruption of supplies. This report can serve as a check on the work of the accounts payable department to ensure that payments are being made within a reasonable period but not too early! An extension in the credit period taken will obviously improve your cash flow, but you need to beware of upsetting your suppliers. Conversely a reduction in the credit period will have a detrimental effect on your cash flow.

	Current month	30 days	60 days	90 days	over 90 days	Total	
This month	5,000	7,000	500	0	0	12,500	
Last month	4,000	3,000	2,000			9,000	
Top ten creditors							
Creditors	Current month	30days	60days	90days	over 90days	Total	Credit limit
Richard Harvey	1,000	1,500				2,500	3,000
Tinker & Wood Ltd		500	500			1,000	2,000
Vehicle Supplies Ltd	4,000	2,000				2,000	10,000
Matsupplies		3,000	1,000			7,000	5,000
	5,000	7,000	1,500	0	0	13,500	

As with the debtors, you should review your payment period regularly. You will wish to ensure that you maximise the period of borrowing from your suppliers, because that is cheaper than borrowing from the bank, whilst staying within your agreed terms of trade.

Stock

It is very easy to tie up too much working capital in maintaining high stock levels, so monitor the total amount of stock that you are carrying and aim to keep it as low as possible, commensurate with keeping sufficient raw materials to keep production going and sufficient finished goods to satisfy your customers.

As with sales and direct costs, stock should be monitored on an individual product basis.

Stock	Month Budget	Actual	Year to date Budget	Actual
Start of period	2,000	1,900	2,000	2,000
Purchases	1,500	3,375	9,000	8,350
Stock used	1,500	1,925	9,000	7,000
End of period	2,000	3,350	2,000	3,350
Average	2,000	2,625	2,000	2,675

Do you know what the turnover ratio should be for your business? If not, find out.

Capital expenditure report

This report will prove most useful if there is a continuing programme of building works or major capital expenditure on equipment. Building projects are almost invariably late and overspent. A report such as this, prepared monthly or quarterly, at least alerts management on a regular basis to potential problems.

For most small businesses this will probably be unnecessary, but do not forget to include all capital expenditure in your cash flow.

Labour turnover report

If your business employs large numbers of staff it makes sense to look at labour turnover and at rates of sickness and absence. A high labour turnover figure can be significant because it may indicate dissatisfaction with working conditions or management. High labour turnover can be expensive in retraining staff.

The balance sheet

Once the figures are available for the analysis described above, you are in a position to prepare the balance sheet.

Some items may fluctuate considerably from month to month. Others, for example the fixed assets, will show little change. If changes in stock and work in progress are slow, it may be preferable to check the actual levels less frequently, say, quarterly or annually. You should, however, be able to calculate a value for stock and work in progress.

Unless you have computerised your book-keeping, you may decide to prepare this report less frequently than monthly. In that case, you must prepare an alternative monthly report that at least shows the cash available, the total debtors and the total creditors. These three figures enable you to calculate the current ratio and the quick ratio.[40]

Review the figures with your staff

Earlier we suggested that the relevant staff should be involved in drawing up the budget for your business and that they should be encouraged to feel responsible for keeping costs under control. If they are to do that effectively they should get copies of the figures as soon as they are available. In addition, however, you should have regular financial review meetings, particularly for staff with financial responsibilities. You should ensure that you meet regularly to review the variances together to decide what action, if any, needs to be taken and, crucially, to decide who should be taking that action.

It is equally important, if everything is on target, to praise staff for achieving the plan. It is a frequent complaint that managers are quick to criticise but never give praise, so seize the opportunities when they present themselves.

[40] For more information on ratios, see Chapter 24, *Understanding financial statements*.

Management information systems

If your financial control is going to be effective you need to regularly analyse your actual performance figures and compare them both against the plan and, perhaps, against your performance historically.

One easy way of comparing actuals and budgets is through variance analysis.[41] Usually, only a few figures need to be watched regularly to achieve effective control. Using a computer based spreadsheet will assist with all your analysis requirements.

Having a suitable management information system (MIS) is a pre-requisite for effective monitoring. Although it might sound daunting, an MIS can be extremely simple. An MIS is simply a set of procedures set up by you and your staff to ensure that data about the business is collected, recorded, reported and evaluated quickly and efficiently. That information is then used to check the progress of the business and to control it effectively.

For most small businesses, there are likely only to be a few key elements.

- **Marketing monitoring** – are you achieving your sales targets measured both by level of sales and market share? How full is your order book? Are customers paying the right price?
- **Production** – how does the level of output compare with the level of sales? What is the percentage of rejects? How does the actual cost compare with the standard cost?
- **Staff monitoring** – are the staff being effective? Are they satisfied and motivated?
- **Financial control** – are you meeting your financial targets?

You will need proper systems in place to ensure that:

- you keep careful track of everything bought by the business, especially if the person ordering is not the person who pays the bills;
- you record everything sold by the business and that everything is properly invoiced, especially if the person doing the selling is

41 For more information on variance analysis, see Chapter 10, *Reviewing the current position.*

not the person who raises the invoices or chases customers for payment;

- there is an effective stock control system which records incoming raw materials and compares them against purchase orders, monitors progress through the production stages if appropriate and records the dispatch of finished goods; and,
- all payments and receipts are recorded to ensure that bank balances and overdraft limits are kept within agreed levels.

Computerised accounting packages and spreadsheets make it relatively straightforward to record data and present it in a format that is easily understood. It still requires discipline to ensure that the data is collected, but making an effort will be rewarded through the improved understanding that you will have of your business.

The key to an effective management information system is to ensure that you only monitor a small number of figures and that those figures relate back to the strategic objectives and the operational objectives that you have set for your business.

If other people need to see the figures, then ensure that they get them speedily. If your system of financial control is to be successful, you need to have the figures quickly available after the end of each month.

Use of spreadsheets

A spreadsheet package is particularly useful in preparing cash flow forecasts together with the associated profit and loss account and balance sheet. Once budgets have been set and the forecasts prepared, it is possible to look at effects of changes in sales or costs (ie perform a sensitivity analysis). If you don't think your budget is completely realistic, it is extremely easy to change a few of the figures.

A wide range of spreadsheet packages are available that can speed up preparation of financial forecasts and give considerable help in the analysis of actual results giving speedy comparisons with budgets. Well-known packages include Lotus 1-2-3 and Microsoft Excel. In addition to calculating figures rapidly, a good spreadsheet will also enable you to produce graphs quickly and accurately. Once set up, you only need to enter new data each month. It is very easy, however, to get so carried away that you produce far more information than you require. Remember the earlier point about concentrating on just a few key variables. Then use the computer facilities to assist in their preparation. Hard work is still required to prepare the figures initially. Do not fall into the mistake of assuming they must be correct because the computer says so.

Using the figures

Once you have gained a picture of the operating position of your business, you need to use the figures to assess your performance and, where necessary, to take corrective action.

Amongst smaller businesses, many fail to introduce a proper financial control system though increasingly they are being encouraged to put in place such a system. Sadly, however, too many of those then fail to use the figures to keep control of their business. Hopefully, by the time you have read this far, you will not only appreciate the importance of using the figures but will also have already got a feel for the most important figures to monitor. As you look at financial statements more frequently you will find that understanding the figures becomes considerably easier.

We will now summarise the key areas where you will need to focus your attention.

Sales and costs

Whilst it is essential to set targets for profitability (such as net profit margin and return on capital employed) and to monitor progress towards achieving those targets, it may not be immediately obvious what needs to be done to get back on track if there is a variance.

Review your order book regularly. Three key figures to monitor are:

- value of orders placed in a given period;
- value of production completed; and,
- sales invoiced.

Do you have enough orders of sufficient size for your next trading period? Is your level of gross profit high enough? If the answer to either of these questions is no, you need to market your business to win some extra business. If that is unsuccessful, you need to look at whether you can cut the costs incurred by the business until orders pick up again. Use the ratio of costs to sales.

If there are substantial differences in sales or costs, and if it appears that you will not be able to take action which gets you back on target, then you will need to prepare a revised budget and, in particular, identify whether you will still be making a profit and whether you will have sufficient working capital to cope with your revised forecast.

It is also essential to act quickly if debtors and creditors should stray too far from target, as this will affect the business's liquidity and, probably, its overdraft.

Debtors

If your business is sending out sales invoices, then a tight grip must be kept to ensure the debtors' position is both known and acceptable.

Your sales ledger clearly shows all your outstanding sales invoices. Review them regularly, preferably on a weekly basis but at the very least on a monthly basis. If any customer is slow in paying you, chase them hard. There is no hard and fast rule about the length of credit that you can give customers, but 30 or 60 days is normal in many business sectors. In some it is considerably longer. If the level of debtors rises this could be because your sales are increasing or because your debtors are taking longer to pay. Ensure that you define in your terms of trade how quickly you expect debtors to pay and then try to ensure that they stick to it.

Much invoicing is still left until the end of the month with consequent disastrous results on cash flow. Issue all sales invoices as soon as possible after the work is done; the sooner they are issued the sooner, in general, they will be paid and your business will receive the money. This can then be used to pay for more goods or reduce your overdraft, thus saving bank interest. The timing of invoices can have a substantial effect on cash flow. No matter what your stated credit terms, most businesses tend to pay at the end of the month following invoice date. It makes sense therefore, if possible, to raise and date invoices at the end of a month rather than at the start of the next month. If a customer is paying net monthly, an invoice dated 31 March would be paid on 30 April whereas a 1 April invoice would not be paid until 31 May. If you are not paid within your agreed collection period, issue a statement. Some businesses get into the habit of never paying until a statement arrives. If you do not regularly send out statements, mark on your original invoice that statements will not be issued.

Creditors

Keeping control of the money you owe others can be done in a similar fashion to the way you control money owed to you. Review all the bills you have to pay at least monthly.

Do not upset your suppliers by delaying payment for too long, otherwise they may withdraw your credit facilities. It takes time to build up a good track record with suppliers, but when you do, working on credit becomes easier. To gain the most benefit, however, you need to take the maximum amount of credit possible without abusing the terms agreed with your suppliers.

As with debtors, the timing of purchases can have a substantial effect on cash flow. If your suppliers' terms are payable by the end of the month following invoice date then it is better to have an invoice dated, say 1 May than one dated 30 April. Some companies deliver goods in the last week before a month end, even if the order was placed for the following week! If your stock levels allow, you should try not to place orders for the last week of a month, and if your supplier delivers early you should not accept the goods until your required delivery date.

You need to take particular care to ensure your PAYE and VAT payments are made on time, otherwise you could incur substantial penalties.

If you are controlling your debtors and creditors carefully then you will also be controlling the business's working capital carefully. There are two possible scenarios. In one, you need an overdraft to cover costs until the debtors pay; in the other you have money in the bank. Many businesses hover around a zero balance sometimes needing an overdraft and sometimes being in credit.

If you find yourself, however, with a substantial overdraft or with a substantial credit balance you might wish to do something about it, such as investing the surplus cash or raising term loans.

Cash management

Do you have large sums of money simply sitting in a current account? Is it likely to be there for long? If you do have substantial cash balances, make it work for you. All the banks have special arrangements for putting large sums on deposit – frequently directly on the sterling money market. Interest rates are often within a couple of percentage points of the bank base rate. In general, the longer the period for which you are prepared to tie up your money, the better the rate of interest that can be obtained.

Clearly, it makes sense not to become too illiquid by tying up all your spare cash for too long. If you are likely to need some or all of your cash quickly, do not put it into long-term investments. Most banks can make arrangements to transfer excess bank balances to a deposit or investment account automatically and vice versa. This can increase investment income whilst keeping cash available to use.

You could also, of course, look at whether you should be investing some or all of your cash back into the business. Should you be upgrading equipment? Are there opportunities for expansion? Are there new business opportunities? How do you get the best return on your money right now? Once again, it might be prudent not to invest all of it in this way but to keep at least some for expanded working capital requirements.

If sales increase, debtors will also rise. But, unless you can find the increased working capital requirement from retained earnings or by increasing the level of creditors, you will need to increase your overdraft facility. Keep your bank informed well in advance. If they won't help then you may find yourself in the position where you have to turn down extra work – or negotiate a suitable deposit or agree staged payments.

You may wish to look at factoring or invoice discounting to speed up the receipt of the money you are owed, though there is a cost associated with both of these.

If you have a 'hard-core' overdraft, it would make sense to convert into a term loan repayable over, say, three or five years or even longer. Loans have the advantage that they cannot be recalled at will and it may be possible to negotiate a fixed rate of interest on a loan. Overdrafts usually require to be renewed at least once each year incurring bank charges and always have a variable rate of interest. The banks all have penal rates of interest for unauthorised overdrafts, so you need to take particular care not to exceed your facility.

Cash management also requires a careful look at your cash flow forecast for the previous, the current and the following months. At the end of each month, use the column headed 'actual' on your cash flow forecast to fill in your actual performance. Does this indicate a need to take corrective action? Are there implications for future cash flow? Can you time payments after your receipts? Will you remain within your overdraft facility? Or do you need to arrange extra provision?

Remember that if you do foresee difficulties it is better to advise your bankers before they arise rather than burying your head in the sand and perhaps waiting for the banks to contact you. If you take positive action in this way it will demonstrate to the bank that you are actually in control, and may favourably affect their options. Similarly the banks have business advisers who may be able to assist you. It is obviously better to obtain assistance as a prevention rather than a cure.

Stock control

Do not allow your stock levels to grow too large and watch for dead stock. If you have too much stock, you will be taking up too much storage space. Can you reduce it and use the space more productively? If your current ratio is static and your quick ratio is falling, you may have a problem with stock. Is this because sales are falling? Or are you buying too much raw materials? Or is your work in progress too high? If you do have obsolete stock or stock movement problems, you either need to write it off or turn it into cash as quickly as possible. Possible cut-off problems include accepting deliveries just before the end of the month or not invoicing until the beginning of the next month.

Improving capital efficiency

The only ways in which you can make your capital work harder is either by increasing the asset turn – that is, achieving a high level of sales with no additional capital – or by increasing the gearing – increasing the use of borrowed funds as a proportion of capital employed. If you have expensive capital equipment, are you maximising its output? You do not want expensive equipment lying idle since it doesn't generate income, but it still depreciates. If there is demand for your products, can you introduce a system of shift working? Can you sell spare capacity to another business? Would you be better off selling the machine (or not buying it in the first place) and sub-contracting the operation for which the machine is used?

Keeping tight control on creditors will keep down the level of working capital required and, thus, the total assets.

Improving staff efficiency

Efficiency is usually a measure of a volume of activity. Do you believe that your staff are working as efficiently and effectively as possible? Are there ways in which you can improve that efficiency? Possible indicators of problems amongst staff are high labour turnover ratios and high levels of sickness absence.

One way is to encourage more competition between staff, perhaps with performance bonuses and prizes. There is always the danger, however, of sabotage. What you require is to encourage the development of a team spirit, so that everyone pulls together for the good of the business. Perhaps a performance bonus based on total results might be appropriate. In this case, however, watch out for those not pulling their weight. Whilst they might be carried by the other staff initially, they will quickly cause resentment.

Would different machines improve efficiency? Do you regularly ask your staff for their suggestions? Do they see their work merely as 'a job' or something they want to do? Take an interest in career development. Provide training and development opportunities. Encourage further training, even if it is not directly related to their work. Undertake regular appraisals. Praise staff when they do well. This is at least as important, and maybe more so, than criticising poor performance, and can even be as effective as a wage increase.

Lastly, keep all your staff well informed about the business's objectives, its performance and its progress. Do not spend all your time sitting behind a desk in an office with the door closed. Talk regularly to all your staff. Let them see that you are committed and they will try harder also. Your objective should be to build morale and maintain a happy workforce.

Conclusion

It is important to seek and retain a balance between equity and debt. Many businesses get started with a high level of debt and then find difficulty raising further finance because their gearing is too high. Keep a close eye on your total financial requirements – and aim to keep a reasonable balance. Remember that you must aim for a return on capital employed which is greater than the cost of the money – whether equity or debt. And do not be afraid of seeking equity from third party investors. If such an investment helps the business to grow quicker than it otherwise might, whilst the investor will benefit, you will benefit even more.

reading list

Reading list

Financial Control for Non-Financial Managers
David Irwin, Pitman Publishing, 1995.

Finance and Profitability
David Irwin (Ed), Thorogood, 1998.

Glossary

Glossary

Accruals	Expenditure which has been incurred but not yet paid for.
Appropriation account	The part of the profit and loss account which explains how the profit has been divided or appropriated.
Assets	Goods, resources and property belonging to the business.
Balance sheet	A statement showing the assets and liabilities of a business at any particular moment in time.
Break-even point	The point at which the income from sales exactly equals all the costs of the business.
Capital	The finance supplied by the proprietors of a business in order to acquire the resources (assets) with which to operate.
Capital employed	The equity and all the debt of the business.
Cash flow statement	This shows how money flowed into and out of the business during the year and relates the P&L to the balance sheet.
Contribution	The amount contributed by a sale is the income generated by that sale less the direct cost of producing that product.
Creditors	Those to whom money is owed for goods, cash, services, etc. Customers who owe money are often described as trade creditors to differentiate them from other creditors such as the bank. They are usually shown separately on the balance sheet.
Current assets	Assets in a cash or near cash state (eg cash, debtors, stock).
Debtors	Those who owe money for goods or services supplied by the business.
Depreciation	An allocation of the cost of the fixed assets over their useful, or income generating, lives. It is charged to the profit and loss account to show that the use of fixed assets is one of the costs of generating income. Depreciation does not involve the receipt or payment of cash; it is simply a book entry.
Direct costs	Sometimes known as cost of sales, they are the costs that can be directly attributed to the production of a particular product or services such as raw materials, direct labour and sub-contract costs. The direct cost will be the same for each unit but will vary depending on the level of products or services actually sold during the period.

Dividend A payment made from profit after tax to the owners of a company.

Drawings If you are self-employed as a sole trader or partner you will draw money from the business at regular intervals. Known as drawings, this is an advance against profit. Remember that you are taxed on the profit, not on your drawings.

Equity The equity in a business is the (shareholders') capital introduced by the owners, together with any retained earnings.

Expenses A general term which can mean all the costs of a business, but normally used to signify overhead expenses (as opposed to direct costs).

Fixed asset An asset which has a life of longer than one year such as land, buildings, furniture, machinery, etc.

Fixed costs Costs which, generally speaking, are fixed for the business for a reasonable length of time, and not dependent on the number of units produced. These include, for example, rent, rates, salaries, etc.

Gearing A measure of debt as a proportion of total finance (ie debt plus equity).

Gross profit Normally regarded as the sales income less the direct costs. For many small businesses this will be the same as the contribution.

Gross profit margin This is simply the gross profit divided by sales and usually expressed as a percentage.

Liabilities The combined debts owed by a firm, company, etc.

Liquidity A measure of the working capital or cash available to a business to enable it to meet its liabilities as they fall due. Liquidity ratios include the current ratio and the quick ratio (also known as the 'acid test'). Note that a business can be profitable and still run out of money if it holds too much stock or allows customer credit periods which are too generous.

Margin of safety The margin of safety describes the point above break-even at which the business is operating. The greater the margin of safety the less sensitive the business will be to falls in sales or increases in costs.

Net current assets The difference between current assets and current liabilities. This should be positive, otherwise the business may not be able to meet debts as they fall due.

Net finance	See net worth.
Net profit	See operating profit.
Net worth	Also known as net finance. Total assets less total liabilities. In other words, it is the money introduced by the shareholders or owners together with the retained earnings sometimes known as reserves.
Operating profit	The actual profit made by the business after the deduction of all expenses. Remember that if you are self-employed, your drawings are not regarded as an expense, whereas wages for your staff, and yourself if you are director of a company, are expenses. Tax is not regarded as an expense.
Overhead costs	All those costs which are not direct and which, generally speaking, are fixed costs.
Over-trading	The situation that occurs when a business is selling more products or services than the working capital facilities can cope with.
Profit and loss account	A summary of all the income and expenditure for a defined accounting period.
Reserves	Profits retained within the business. The term is often misunderstood: reserves show where the money came from, not how it has been used. It may exist as cash in the bank, but more likely it will have been used to buy more equipment or to add to working capital, that is, to finance stock and work in progress.
Revenue	The income generated by the business for a specific period.
Solvency	A measure of a business's ability to pay its bills as they fall due. If it cannot pay, then it is insolvent. A negative net worth indicates that a business is insolvent.
Turnover	Net sales income, that is, total sales less allowances.
Working capital	Defined by accountants as the difference between current assets and current liabilities. In practice, this figure will vary over the year so the minimum working capital requirement is the maximum difference that occurs during the period.

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