

Business Management

Business Decision Areas II:
Financial Management *and*
Human Resource Management

Revised Student Notes
and Activities

[HIGHER]



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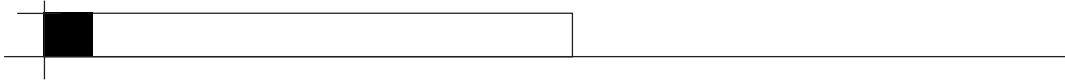
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CONTENTS

Section 1: Financial Management	
Student Notes	5
Student Activities	29
Solutions to Activities	46
Section 2: Human Resource Management	
Student Notes	55
Student Activities	100
Solutions to Activities	117



SECTION 1**Financial Management****The role and importance of financial management**

The efficient management of finance is vitally important to the success or failure of an organisation. The influence of the financial function is important because it has to:

- ensure that there are adequate funds available to acquire the resources needed to help the organisation achieve its objectives;
- ensure costs are controlled;
- ensure adequate cash flow;
- establish and control profitability levels.

Consequently, the care and planning of the financial needs of an organisation are as necessary as the planning for operations, marketing, human resources and administration.

One of the major roles of the finance department is to identify appropriate financial information prior to communicating this information to managers and decision-makers, in order that they may make informed judgements and decisions.

In the following sections a number of key financial concepts that assist management in decision-making will be developed. These are:

- cash flow;
- financial statements and reporting;
- financial analysis (i.e. ratio analysis);
- budgetary control.

Cash-flow management

Cash-flow management is all about the movement of money (cash) in and out of a business. **Liquidity** – the ability to have, or have access to, sufficient cash, or near cash assets to meet the everyday commitments of running an organisation – is vital for the short-term survival of the organisation. It is important that cash inflows (money coming into the business) are *greater* than cash outflows (money spent by the business), perhaps as important as the overall profit level of the organisation.

Many businesses go into liquidation and close down because of the lack of sufficient cash to meet commitments, *not* because of lack of profits. It is therefore vital that a business keeps a record of its cash flows and uses it to monitor and control inflows and outflows of money. A business will use a Cash Flow Statement (Cash Budget) to make projections into the future. They will use this to ‘manage’ their cash and as a basis for decision making, e.g. whether or not there will be sufficient cash to purchase fixed assets.

Cash budgets record the movements of cash *in* and *out* of an organisation. This can be summed up as follows:

IN Cash comes from (sources)	OUT Cash goes to (applications)
profits sale of fixed assets sale of stock decreases in debtors capital introduced loans received increases in creditors	losses purchase of fixed assets purchase of stock increases in debtors drawings or dividends paid loans repaid decreases in creditors

A worked example of a cash budget is available on page 23.

Financial information

Financial Statements

In order that financial data can be communicated, items of a similar nature are gathered together and reported in standard Financial Statements.

These statements are:

- The Balance Sheet
- The Trading Profit and Loss Account

These statements provide information relating to a particular aspect of the organisation's activities during a trading period – most commonly one financial year.

The Balance Sheet

This is a statement that shows the assets of an organisation (what it owns) and its liabilities (what it owes to others) at a particular point in time. Although it is generally drawn up at the end of an accounting period as part of the preparation of the Final Accounts, a Balance Sheet can be drawn up at any time from the outstanding balances on the organisation's ledgers.

In particular the Balance Sheet shows:

- the value of the organisation's assets, for example premises, vehicles, machinery, equipment, stock, debtors, bank account balances, cash, etc.
- the liabilities of the company, for example capital, creditors, bank loans, etc.
- the equity of the company, for example share value, reserves, etc.

A typical Balance Sheet for a Limited Company would look like this:

Jeff Capes Haulage Contractor Ltd – Balance Sheet as at 31 August 2006

	£	£	£
Fixed Assets (1)			
Premises			130,000
Machinery			30,000
Vehicles			<u>19,000</u>
			179,000
Current Assets (2)			
Stock	27,000		
Debtors	13,000		
Bank	<u>7,000</u>	47,000	
Less Current Liabilities (3)			
Trade creditors	8,000		
Dividends	2,000		
Tax	<u>2,000</u>	<u>12,000</u>	
NET CURRENT ASSETS (4)			<u>35,000</u>
(Working Capital)			
NET ASSETS (5)			<u>214,000</u>
(Capital Employed)			
Financed by:			
Issued share capital (6)			105,000
Reserves from Profit and Loss Account (7)			<u>29,000</u>
Shareholders' Interest (8)			<u>134,000</u>
(Shareholders' Funds)			
Add Long-Term Liabilities (9)			<u>80,000</u>
			<u>214,000</u>

Both sides of the Balance Sheet should agree

Notes on the Balance Sheet:**(1) Fixed Assets**

Items owned by the organisation that will generate income, such as property, equipment, furniture, vehicles, etc. Without these assets the organisation would not be able to operate.

(2) Current Assets

Items owned by the organisation that will be used up, sold or converted into cash within 12 months. They include stocks, debtors, bank balances and cash itself.

(3) Current Liabilities

These are debts owed to outside organisations that must be repaid in the short term, usually in less than 12 months. They include creditors (suppliers), bank overdraft, dividends due to shareholders and taxation.

(4) Net Current Assets (Working Capital)

The amount by which the total value of current assets exceeds the total value of current liabilities.

It should always be the case that the value of current assets is greater than the value of current liabilities. If this is *not* so, then the organisation may be facing serious cash flow problems. The only way that it could then repay its short-term debts would be to incur more debt, or to sell some of its fixed assets, thereby reducing its ability to continue operations at their present level.

(5) Net Assets (Capital Employed)

Net fixed assets + net current assets. This shows the net value of the firm once short-term debts have been repaid.

(6) Issued Share Capital

Money put into the organisation by the owners or shareholders. In return for their investment they receive *dividend* payments (a share of the profit), the amount being in proportion to the size of their shareholding.

(7) Reserves from Profit and Loss Account

These are profits retained by the organisation after the payment of dividends to the shareholders and after provision has been made for all other current liabilities. Organisations will use these profit reserves to finance expansion at some later date.

(8) **Shareholders' Interest (Shareholders' Funds)**

All of the issued share value (ordinary and preference shares), all reserves, retained profits and any other reserves.

(9) **Long-Term Liabilities**

Debentures or other long-term loans such as mortgages where the debt repayment is *not* due within the next 12 months.

The Balance Sheet of a Sole Trader or Partnership will be laid out in a very similar format, as shown below:

Balance Sheet for Yule Arn, Christmas Decoration Suppliers, as at 28 February 2006

	£'000	£'000	£'000
Fixed Assets			
Buildings		1,000	
Vans		<u>200</u>	1,200
Current Assets			
Stock at End	25		
Debtors	10		
Bank	150		
Cash	<u>50</u>	<u>235</u>	
Less Current Liabilities			
Creditors		<u>15</u>	
Working Capital			<u>220</u>
Net Assets (Net Worth)			<u>1,420</u>
Financed by:			
Owner's Capital at start (1)	760		
Add Net Profit (2)	<u>55</u>		
		815	
Less drawings (3)		<u>10</u>	
Owner's Capital at end (4)			<u>805</u>
Add Long-Term Liabilities			
Loans (Mortgage)			<u>615</u>
			<u>1,420</u>

Both sides of the Balance Sheet should agree

Notes on the Balance Sheet for the sole trader or partnership

- (1) **Owner's Capital at start**
The value of the owner's investment at the start of the accounting period + any retained profits accrued in previous trading periods.
- (2) **Profit**
The value of net profit taken from the Profit and Loss Account.
- (3) **Drawings**
The value of resources that are withdrawn from the organisation by the owner(s) for their private use. These can be taken in the form of cash, goods or services.
- (4) **Owner's Capital at end**
The value of the owner's capital at the end of this financial period.

Trading Profit and Loss Account

This is an historical review of the revenue (income) and expenditure of a business for the previous financial year. The account can be divided into two distinct sections.

1. **The trading section** of this account compares the value of sales to the customer with the value of the sales at cost price. The main activity of any organisation involved in trading is the purchase of goods and the subsequent selling on of those goods to the customer at a higher price. The difference between the **Sales Value (turnover)** and the **Cost of Sales** is the **Gross Profit**.

Items that may appear in the trading account include:

- Sales (sometimes shown as Turnover)
- Purchases
- Returns Inwards (sales returns)
- Returns Outwards (purchase returns)
- Carriage inwards (the cost of bringing stock into the shop/warehouse)
- Warehouse rent (this is part of the cost of sales as it is a charge against the storage of stock)
- Stock at the start of the trading period
- Stock at the end of the trading period.

In fact the Trading part of the Trading Profit and Loss Account details *any item* that relates to the sales or the cost incurred when making those sales.

Let us look at a worked example:

From the following balances at 31 August 2006, extracted from the books of the sportswear shop 'Jogging Along', prepare a trading account.

	£
Sales	104,285
Purchases	45,628
Returns Inwards (sales returns)	531
Returns Outwards (purchase returns)	135
Stock at Start (1 September 1998)	5,432
Stock at End (31 August 1999)	6,102
Carriage Inwards	365

Trading Account for Jogging Along for year ended 31 August 2006

	£	£	£
Sales			
Sales (turnover)			104,285
Less returns inwards			<u>531</u>
			103,754
 Less Cost of Sales			
Stock at start		5,432	
Add: Purchases	45,628		
Carriage inwards	<u>365</u>		
	45,993		
Less returns outwards	<u>135</u>		
		<u>45,858</u>	
		51,290	
Less stock at end		<u>6,102</u>	
		45,188	
			<u>45,188</u>
 GROSS PROFIT			 <u>58,566</u>

2. **The profit section** of the Trading Profit and Loss Account calculates the final profit or loss that an organisation has made over a financial time period. It starts with the Gross Profit figure from the Trading Account, and lists any items of additional revenue raised by the organisation as well as any expenses incurred by the organisation *not directly linked to trading*.

Items that will appear in the Profit and Loss Account include:

- discounts received
- commission received
- profit on the disposal of assets (things of value that the firm owns)
- expenses such as – wages
 - carriage outwards (dispatching goods to customers)
 - rent
 - rates
 - insurance
 - advertising
 - bad debts allowance
 - depreciation (the appropriation of the cost of an asset over its economic lifetime)
 - telephone
 - stationery
 - any other general expense.

Let us look at a worked example:

From the following balances at 31 August 2006, extracted from the books of the sportswear shop 'Jogging Along', prepare a Trading Profit and Loss Account.

Trading Account for Jogging Along for the year ended 31 August 2006

	£	£	£
Sales (1)			
Sales (turnover)			104,285
Less returns inwards			<u>531</u>
			103,754
 Less Cost of Sales (2)			
Stock at start		5,432	
Add: Purchases	45,628		
Add carriage inwards	<u>365</u>		
	45,993		
Less returns outwards	<u>135</u>		
		<u>45,858</u>	
		51,290	
Less stock at end		<u>6,102</u>	
		45,188	
			<u>45,188</u>
 <i>Profit and Loss Account starts here:</i>			
 GROSS PROFIT (3)			 58,566
 Less expenses: (4)			
Wages	26,390		
Carriage Outwards	560		
Rent	4,400		
Rates	1,400		
Insurance	600		
Advertising	2,000		
General Expenses	1,354		
Telephone	<u>460</u>		
			<u>37,164</u>
 NET PROFIT (5)			 <u>21,402</u>

Notes on the Trading Profit and Loss Account

- (1) **Sales or Turnover**
The revenue from selling goods and/or services.
- (2) **Cost of Sales**
Costs associated directly with the production/purchase of goods or services. (NB: Warehousing costs are traditionally shown in the Trading Account.)
- (3) **Gross Profit/Loss**
This is the difference between Sales revenue and Cost of Goods Sold. This money has arisen directly from the trading activities of the organisation.
- (4) **Expenses**
All additional expenses incurred by the organisation, for example administration, distribution and selling expenses are listed here.
- (5) **Net Profit**
This is the amount of money the organisation has left once all expenses have been deducted from the sales revenue received. (In Partnerships and Limited Company final accounts the Net Profit figure is given *before* tax charges have been deducted. Such charges will be recorded in a Profit Appropriation Account, where the users of financial information will be able to see exactly what has happened to the profits of a business.)

The interpretation of Trading Profit and Loss Accounts and Balance Sheets

All public and private companies are required to provide financial statements (final accounts) at the end of each trading period. These accounts are of interest to the Inland Revenue, which uses the information to determine the tax payable by the organisation.

Sole traders, partnerships and private companies are not legally required to make public their final accounts, although many are forced to provide these when attempting to borrow from banks or other financial institutions. However, Public Limited Companies, which obtain money by issuing shares, are legally obliged to publish their final accounts.

Many people, including rival companies, investors, lenders and trade union representatives, use the information contained in published accounts.

Careful study of final accounts can provide an enormous amount of information about the performance of an organisation. For example, it is possible to examine the Trading Account and discover more than just the Gross Profit figure. By interpreting the data available and making comparisons with figures for previous years, or with similar organisations, or by analysing the relationship between different figures, it is possible to find the real indicators of the future success and financial security of an organisation.

The types of questions that can be answered by interpretation of the final accounts include:

Interpretation of Trading Profit and Loss Accounts

- Was this year's trading result good or bad, compared with last year or with a rival company?
- Has the Gross Profit improved this year, compared with last year?
- Are we making efficient use of our stock?
- Does our Net Profit figure compare favourably with those of other organisations in the same industry?

Interpretation of Balance Sheets

- Do we have enough working capital to avoid cash flow problems?
- Are we making enough use of available trade credit?
- Is our level of debtors comparable with that of our industry competitors?

Ratio Analysis

Purposes of interpretation

In order to offer long-term security, most if not all organisations must be able to demonstrate certain characteristics or attitudes towards each of the following themes:

- **PROFITABILITY**
Is the organisation earning more than it is paying out?
- **LIQUIDITY**
Does the organisation have enough money to pay its bills?

- EFFICIENCY

Is the organisation making the best use of its resources?

Managers obtain information about each of the above from careful interpretation of the final accounts using a variety of different **accounting ratios**, a process commonly referred to as **ratio analysis**. Not surprisingly, the ratios to be used are selected according to the theme being investigated.

Uses of Ratio Analysis

1. To compare the current year's performance with that of previous years;
2. To compare the performance of the organisation with those of similar organisations;
3. To interpret information in order to identify why differences occur and how best to improve performance in the future;
4. To use the information for forecasting/budgeting;
5. To assist in the decision-making process.

Limitations of Ratio Analysis

1. Information contained in final accounts is historical – it happened in the past;
2. Like must be compared with like – any comparisons made must be with firms of similar size and in the same type of industry;
3. Findings may not take into account external factors, such as a recession or the effects of inflation;
4. Findings do not reflect the implications or effects of new policies;
5. Using different methods of stock valuation can result in different VALUE figures from company to company or from time period to time period;
6. Unless looking at %age figures, the impact of inflation is not reflected in comparative figures;

As indicated above, different ratios are selected for use, according to the theme to be investigated. The following ratios are described under the headings of **Profitability**, **Efficiency** and **Liquidity**.

Profitability ratios

1. *Gross Profit margin*

Purpose: to measure the percentage of profit earned on the trading activities of the organisation; to measure how many pence Gross Profit is earned out of every £ of sales.

Used by: managers/directors, comparing year on year and with other similar companies.

Limitations: no comment can be made unless trends over different time periods, or comparisons with other similar organisations are made.

Improvements: to improve the Gross Profit margin the organisation can either cut the costs of production, or increase the selling price to the consumer.

$$\text{Formula: } \frac{\text{Gross Profit}}{\text{Sales (Turnover)}} \times \frac{100}{1}$$

2. *Profit Mark-up*

Purpose: to measure the percentage added to the cost of goods sold to calculate their selling price.

Used by: managers/directors, comparing year on year and with other similar companies.

Limitations: no comment can be made unless trends over different time periods, or comparisons with other similar organisations are made.

Improvements: to improve the Profit mark-up the organisation can either cut the costs of production, or increase the selling price to the consumer.

$$\text{Formula: } \frac{\text{Gross Profit}}{\text{Cost of Goods Sold}} \times \frac{100}{1}$$

3. *Net Profit margin*

Purpose: to measure the *overall Profit* of the firm after all expenses (trading and operational) have been taken into account. To measure how many pence net profit is earned out of every £ of sales.

Used by: managers/directors/current investors/Inland Revenue, comparing year on year and with other similar companies.

Limitations: no comment can be made unless trends over different time periods, or comparisons with other similar organisations are made.

Improvements: to improve the Net Profit margin the organisation must reduce the proportion of expenses paid out of every £1 of turnover.

$$\text{Formula: } \frac{\text{Net Profit}}{\text{Sales (Turnover)}} \times \frac{100}{1}$$

Efficiency ratios

Return on Capital Employed

Purpose: to measure the percentage return on the capital invested in the business.

Used by: managers – how useful is the capital employed in generating profits? Current investors – what rate of return is being given on capital invested? Potential investors – is the return from this company better/worse than from other companies?
(Comparisons year on year and with other similar companies.)

Limitations: this ratio uses *historic costs* of the business's assets. If asset values are inaccurate then the capital employed figure will also be inaccurate.

$$\text{Formula: } \frac{\text{Net Profit before interest and tax}}{\text{Capital Employed}} \times \frac{100}{1}$$

For the purposes of this course we will use the 'Capital at the Start' figures to calculate 'Return on Capital Employed'.

NB: Students should note that there are a number of accepted ways of calculating the 'Capital Employed' figure. They may come across these at a later date in other courses or textbooks. What is essential is that once *one* method has been chosen, it is used consistently throughout all of the subsequent calculations to make sure that like is being compared with like.

Liquidity ratios

1. *Current Ratio (also called the Working Capital Ratio)*

Purpose: to measure whether the business has sufficient current assets to cover payment in full of current liabilities. Has the firm enough 'working capital' to meet all short-term debts? Compares assets that will become liquid in less than twelve months with liabilities that fall due in the same time period.

Used by: managers/directors/banks and other lenders, comparisons year on year and between companies.

Limitations: there is no ideal ratio, though it is commonly accepted that this ratio should be greater than 1:1. (Some businesses prosper with a ratio of less than this.)

<p>Formula: $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ shown as something : 1 e.g. 2.1 : 1</p>

2. *Acid Test (Quick) Ratio*

Purpose: to measure if the company has sufficient liquid assets to cover current liabilities, if required. To assess if the company is suffering from a cash flow problem.

This ratio excludes the value of stocks in its calculation, as it can be quite difficult to dispose of stocks in the very short term. Further, even if stocks could be disposed of immediately, the business could no longer continue as it would have no stock left to trade with.

Used by: managers/directors/banks and other lenders.

Limitations: if a business has a slow stock turnover, the acid test ratio should, ideally, be greater than 1:1. With a fast stock turnover, the ratio can be less than 1:1 without causing alarm. When making an assessment, the trends over a number of years, and within the industry, should be considered. Further, one should not be too pedantic about this ratio without considering the nature of the organisation being looked at. For example, many supermarkets operate quite successfully with an acid test ratio of less than 1:1.

Formula: $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}}$ shown as something : 1 e.g. 2.1 : 1

Budgetary control

A budget is a statement of *future* expectations. It covers a specified time period e.g. a month, a quarter or a year. It is normally expressed in financial terms but other types of measurement can be used (e.g. an overtime budget may be expressed in hours). Budgets can be used for a number of different purposes, including:

- To monitor and control the activity of an organisation – this is because actual figures can be compared against those set in the budget. This provides a check that what has happened is in line with expectations about what should have happened. It also enables the organisation to ensure that spending is kept within prescribed limits.
- To gain information – budgets enable organisations to find out how well they are performing.
- To set targets for performance – employees are required to keep within the limits set by the budget.
- To delegate management authority – managers can use budgets to control the degree of freedom which employees are given.

Cash Budgets (Cash Flow Statements – see page 6)

A Cash Budget is a very common type of budget and it can be used to illustrate how budgets work.

The information contained in a Cash Budget represents *estimated figures* of the cash position of an organisation over a given period of time, and is used to highlight potential shortages or surpluses of cash resources that *could* occur, allowing management to make the necessary financial arrangements. They are used to monitor, control, and obtain or present information as follows:

- To monitor the progress or performance of the organisation as a whole, or individual departments or sections within the organisation. This assists with planning and decision making.
- To assess and demonstrate the validity of a business project and form part of the information package or Business Plan presented to a financial lender (bank, investor, etc.) in order to help secure the required finance.
- As part of a Business Plan which would be drawn up by a new business prior to starting up; or by an existing business prior to expansion.
- To provide the business with a tool for comparison of budgeted with actual results obtained from other financial statements.

Aligned with the use of a spreadsheet/accounting package in a PC, the consequences of these changes on the final cash balance can be projected over the given time period by altering one or several variables within the budget. Negative cash balances alert the firm to arrange overdraft facilities from the bank in advance. Expected surpluses allow the organisation to arrange short-term investments of money. Expected surpluses can also allow planning for investments such as new equipment or machinery.

Cash Budgets are normally set out as follows:

Predicted Cash Budget for Mrs Sue Preme

Time Period	Month 1 April £ (000)	Month 2 May £ (000)	Month 3 June £ (000)
Opening Balance (1)	100	105	115
Add Income (2)			
Cash Sales	20	40	30
Receipts for Credit Sales	<u>35</u>	<u>30</u>	<u>20</u>
Total Income	55	70	50
Total Funds for the Period (3)	155	175	165
Less Expenses (4)			
Purchases	14	18	20
Payments of Credit Purchases	2	3	4
Petrol	4	5	8
Administration	5	7	5
Wages	20	22	23
Rent	<u>5</u>	<u>5</u>	<u>5</u>
Total Expenses (5)	<u>50</u>	<u>60</u>	<u>65</u>
Closing Balance (6)	<u>105</u>	<u>115</u>	<u>100</u>

Notes on the Cash Budget:

(1) **Opening Balance**

The money that the organisation has at the start of the time period.

(2) **Add Income**

Both cash sales and receipts from debtors are recorded as outstanding accounts are paid.

(3) **Total Funds for the Period**

The total amount of cash available to the organisation each month.

(4) Less Expenses

All individual expenses involving the movements of cash are identified, including payments made for credit purchases.

(5) Total Expenses

The estimated total amount that will be spent during the month.

(6) Closing Balance

Total income for the period minus total expenses for the period. The closing balance of one time period becomes the opening balance for the next time period.

Cash Budgets and their importance to the role of management

We can see just how useful Cash Budgets can be as a management tool.

Management function:

Plan

Look ahead and set aims and strategies. Management may base decisions on projected Cash Flow figures.

By identifying where cash is being spent and where it is being earned, management can plan to borrow, either to finance short-term cash flow problems or to finance long-term expansion.

Organise

Make arrangements for all the resources of the organisation to be in the right place at the right time and in the right quantities. Quite obviously such resources have to be financed, and management must be able to ensure that it can afford the resources it requires and takes full advantage of bulk purchase discounts, trade credit and other financial incentives.

Command

Tell subordinates what their duties are.

It is essential for the efficient running of the organisation that each department is given a budget for expenditure on routine requirements. Each department must also know its limits when making one-off requests for additional finance for specific jobs, projects or capital expenditure.

Co-ordinate Make sure everyone is working towards the same aims and that the activities of individual workers fit in with the work of other parts of the organisation.

Financial reports and summaries from each department will allow management to keep a clear overview of the operation as a whole. It may be that surpluses in one department can be used to offset short-falls in another.

Control Measure, evaluate and compare results with plans, and supervise and check work done.

Using Cash Budgets as a measure of performances or progress gives management a tool that records quantifiable data that is the same for each department.

Delegate Make subordinates responsible for tasks and give them the authority to carry them out.

This can involve delegating responsibility for holding, recording and spending departmental budgets or project budgets to the departmental manager or project leader. It can even be done simply by giving a cashier full control of, and responsibility for, her/his own cash point or till.

Motivate Encourage others to carry out their tasks effectively, often by introducing team-work, empowerment, worker participation in decision-making and other non-financial methods. This can come from appropriate delegation where the individual(s) feel(s) trusted and empowered because of being responsible for finance within their area of control.

Using financial information

Managers and owners of businesses will use financial analysis to assist them:

- in reviewing past performances and in assessing how far planned results were achieved;
- to use the above information to assist in planning future business development and decide upon action to be taken to achieve new targets.

Managers will use internal financial statements to review the progress made over a given period of time, or to look at changes in the composition of assets, liabilities and funding. However, one set of statements for one time period is of very little value in assessing whether or not the company is doing well.

In order to assess the real performance of the business financial statements will be *compared* and *contrasted*:

- within the same company over different time periods;
- between similar companies in the same line of business over the same time periods.

Without such comparisons, financial statements, such as the Trading Profit and Loss Account and the Balance Sheet, on their own, give very limited information about any business. Without analysis of the information contained within the statements, no true understanding of the business's real performance can be made.

Users of financial information

Central to the work of an accountant is the provision of information that can be given to interested parties to assist them in making decisions.

Managers

Firstly, require measures of profit to *evaluate* the effects of past decisions and how well they achieved the organisational goals, and as a *guide* assist in the decision-making process for the next financial period.

Secondly, they need to know the patterns of cash flows, both historical and current and to be able to *predict* and *maintain* liquidity and credit worthiness.

Thirdly, they need to have detailed information about the organisation's assets and liabilities to assist in the *control* of them.

Fourthly, management will use financial information to control the actions of employees. The information required by the management team is more detailed and is required more frequently, than by any other user group.

Employees

Take an increasing interest in the financial affairs of the organisations that employ them. Although the ability to pay has not been *accepted* fully as a criterion for wage settlements, in recent years there has been increasing use of company and industry profit figures in wage negotiations. Many wage settlements are now also linked to productivity (and thereby profit) improvement.

Trade unions

Representing groups of employees, trade unions will use financial information to try to negotiate the 'best deal' for their members, in terms of pay and working conditions. Unions are vociferous in condemnation of high salary increases for senior management and low wage settlements for workers. They also have influence in the political sphere, having a close association with the Labour Party, and may use/ provide financial information to support their, or the Labour Party's aims.

Investors and potential investors

Will want to use information on past performance and the present financial position of an organisation in order to attempt to *predict* future returns on capital invested. They will also use accounting information to *assess* the performance of the management team.

Creditors

Both short-term (suppliers) and long-term (institutional and individual lenders) have an obvious interest in assessing the amount of security for the debt owed to them. They will be interested in the organisation's ability to generate funds to repay capital amounts outstanding *and* to repay, on a regular basis, any interest owing. Creditors will also want to know the extent and priority of any other liabilities.

Government and government bodies

These institutions must be provided with certain information *by law* regarding the financial position of an organisation – even a sole trader must provide a record of profit and expenses to the Inland Revenue for taxation purposes. The requirements for companies will normally be laid out in the Companies Act.

Economists

Use accounting data as a basis for their research and to provide information for the planning and prediction of industry, as well as national and international economic performance. Much of their research is used by government (and the opposition parties) to assist in policy-making decisions for the business community as a whole.

The general public

Have, in recent years, taken an increasing interest in the effects of business activities. Members of wider society such as environmentalists, want to know about issues such as monopolistic profits, harmful and dangerous products, pollution, unfair/offensive advertising and foreign control. In terms of Public Limited Companies much of this information can be found in the published accounts and reports – which must be made available, on request, to members of the public.

Limitations of financial analysis

- Financial statements are *historic*. The information may be out of date by the time it is available for analysis.
- Using different methods of stock valuation can result in different *value* figures from company to company or from time period to time period.
- Unless looking at percentage figures, the impact of inflation is not reflected in comparative figures.
- There can be international variations in accounting standards.
- Valuing *intangibles*, such as 'goodwill' is subjective, not objective.

Financial statements only include quantifiable data. Important points not included in financial data:

- Morale/staff turnover
- Product portfolio
- Abilities/skills/experience of staff
- Research and development/new product development
- Technological sophistication of product/production process
- Competition/size/share of market
- Marketing techniques used
- Organisation structure
- Social concerns/duties

Student Activities

Students are not required to prepare financial statements for assessment purposes but doing so may help them to understand the underlying concepts. It would be possible, therefore, to omit those parts of activities which ask that financial statements be prepared. Students can be given the answer to this part of the activity and asked to do the questions which involve interpreting the financial statement concerned.

Activity 1

The students should invite a guest speaker to come to talk to them about the importance of cash flow to a business. This activity could be tackled in several ways.

- (a) It could take the form of a presentation from the guest with the opportunity for the class to ask questions at the end of the talk.
- (b) It could be a question and answer session, with the students having a set of prepared questions to put to their guest. If this option were chosen, it would be advisable to send the questions to the speaker in advance to give him/her time to prepare responses.
- (c) It could be tackled as a role-play where the students take on the role of owners of a small business and prepare budgeted accounts, which they then ask the guest to appraise for them. This option might be particularly appropriate if the students were involved with Young Enterprise activities – they could then use their company's financial information.

Questions that might be appropriate to ask include:

- Why is it important to keep a record of cash flows?
- What problems can arise if these records are not accurate and up-to-date?
- Can this be done using information technology?
- What is the purpose of a projected cash flow statement?
- Why would a business prepare one?
- Who would want to see a projected cash flow statement?
- How could it be used to assess the viability of one course of action against another?

Suggested alternatives for guest speaker:

- Local bank manager
- Local Scottish Enterprise organisation
- Financial advisor from local Chamber of Commerce
- Independent financial advisor
- Independent small business advisor
- Any business owner
- A financial manager from a local business.

Activity 2

- (a) What is a Trading Profit and Loss Account?
- (b) Why would a business prepare such an account?
- (c) When would a business prepare such an account?
- (d) In your own words explain what you understand by the following accounting terms found in a Trading Profit and Loss Account:
 - Sales or Turnover
 - Cost of Goods Sold
 - Gross Profit
 - Net Profit
- (e) Give three examples of Expenses that you might find in a Trading Profit and Loss Account.

Activity 3

- (a) What is a Balance Sheet?
- (b) Why would a business prepare such an account?
- (c) When would a business prepare such an account?
- (d) In your own words explain what you understand by the following accounting terms found in a Balance Sheet:
 - Fixed Assets
 - Current Assets
 - Current Liabilities
 - Working Capital
- (e) What does the 'Financed By:' section of the Balance Sheet represent?

Activity 4

From the Final Accounts of 'B Swift' complete the following table.

- (a) Say what information each of the ratios will give you.
- (b) Calculate each of the ratios for both years.

Ratio Name	What information this ratio gives you	
	2004	2005
Gross Profit Margin		
Net Profit Margin		
Profit Mark-up		
Return on Capital Employed		
Current Ratio		
Acid Test Ratio		

Trading Profit and Loss Account For B Swift Year Ended 31 May 2004		Trading Profit and Loss Account For B Swift Year Ended 31 May 2005	
Sales	£ 4,335	Sales	£ 5,334
Less Cost of Goods Sold		Less Cost of Goods Sold	
Opening Stock	485	Opening Stock	300
Purchases	2,900	Purchases	3,210
	3,385		3,510
Less Closing Stock	300	Less Closing Stock	250
Gross Profit	3,085	Gross Profit	3,260
Less Expenses		Less Expenses	
Rent	240	Rent	300
Lighting	150	Lighting	180
General Expenses	60	General Expenses	80
	450		560
Net Profit	800	Net Profit	1,514

Balance Sheet for B Swift as at 31 May 2004	£'000	£'000	£'000	£'000	£'000	£'000
Fixed Assets						
Premises			2,450			2,450
Motor Vehicles			1,000			1,000
			3,450			3,450
Current assets						
Stock	300			250		
Debtors	1,200			800		
Bank	1,654			3,850		
Cash	40			54		
		3,194			4,954	
Less Current Liabilities						
Creditors		1,538			1,784	
Working capital			1,656			3,170
Net Worth			5,106			6,620
Financed By:						
Capital at the start			4,306			5,106
Add Net Profit			800			1,514
Capital at the end			5,106			6,620

Activity 5

Mr Getit runs a small greengrocer's business. He has an appointment with his bank manager, Mr Flint, and is hoping to persuade Mr Flint to lend him £17,000 to buy a new transit van. He has prepared both this year's final accounts and a projected set of final accounts for next year, which are based on the inclusion of the loan and the purchase of the van. He has also included for information the ratios calculated from these accounts.

The students should role-play this Activity with one taking the part of Mr Getit and the other that of the bank manager, Mr Flint.

The challenge

Can Mr Getit put forward convincing enough arguments to persuade Mr Flint to lend him the money he needs?

Trading Profit and Loss Account		Trading Profit and Loss Account	
For Willie Getit		For Willie Getit	
Year ended 31 July 2004	Year ended 31 July 2005		
Sales	28,794	£	£
Less Cost of Sales			
Opening Stock	3,719		
Purchases	18,803		4,166
	22,522		25,995
Less Closing Stock	4,166		30,161
	18,356		3,955
Gross Profit	10,438		26,206
			14,774
Less Expenses			
Rent	854		1,050
Insurance	105		115
Heating and Lighting	422		435
Wages	5,506		5,500
	6,887		540
Net Profit	3,551		7,640
			7,134

Activity 6

Case Study: Jack Jones

A year ago Jack Jones decided to start up a new business called DIRECT which involved selling household items by mail order. Jack had been made redundant from a well-known insurance company where he had worked for the past 20 years and thought that he could use his redundancy money to build up a nest egg so he could retire in seven years' time. He had made enquiries into the mail order business and thought that this was a very profitable area as he was told that he could make a 50% Gross Profit margin on all goods sold.

Jack did all the necessary research and produced a projected Profit and Loss Account and Balance Sheet.

He had £22,000 to invest and did not need to borrow any money. He found suitable premises in the town centre and had brochures printed and sent out by a local marketing company. Jack did not intend to hold goods in stock; instead he would order them from his supplier and receive them within 7 days. The goods would then be sent out to the customers and payment should be received within 28 days from the date of order.

At first Jack had to pay his supplier cash, but after a 6 month period, if his account had worked satisfactorily, he would receive twenty-eight days' credit. Jack employed one person to help out with administrative duties. Initially business was slow, but after a major advertising campaign things began to take off. Jack decided to distribute brochures more frequently and this helped to improve sales.

Jack negotiated a deal with his supplier whereby he could receive an extra discount on goods if he bought them in bulk, and so he started to hold some of the more popular items in stock. When Jack received a statement from the bank showing that he had become overdrawn he was surprised, and he was even more disappointed when he compared the actual Profit and Loss Account and Balance Sheet against his original projections.

Questions:

- (a) Identify three groups of people who would be interested in the financial accounts of DIRECT.
- (b) Jack produced a Profit and Loss Account and a Balance Sheet for his business. Explain what each of these statements attempts to show.
- (c) Jack’s accountant produced ratios for the ACTUAL Profit and Loss Accounts and Balance Sheet.
 - (i) Complete the table below by calculating these ratios based on Jack’s original projections and make a comparison against the actual figures.
 - (ii) Explain to Jack what each of the ratios tells him about the performance of the business.

Ratio	Projected Accounts	Actual Accounts
Gross Profit Margin		66.29%
Net Profit Margin		6.06%
Return on Capital Employed		7.27%
Current Ratio		7.04:1
Acid Test Ratio		3.85:1

- (d) From your examination of the financial information available, assess the performance of DIRECT. What advice would you give to Jack in order to improve the performance of his business?

<u>Projected</u>	£	£	£	£	£	<u>Actual</u>	£	£	£
Profit and Loss Account						Profit and Loss Account			
Jack Jones for year ending 31 December 2004						Jack Jones for year ending 31 December 2005			
Sales					30,000	Sales			26,400
Less Cost of Sales					13,000	Less Cost of Sales			8,900
Gross Profit					17,000	Gross Profit			17,500
Less expenses						Less expenses			
Rent and Rates		4,000				Rent and Rates		5,000	
Heating/light/power		700				Heating/light/power		700	
Telephone		850				Telephone		900	
Post/Packaging		900				Post/Packaging		1,300	
Printing		1,200				Printing		2,500	
Advertising		1,000				Advertising		2,000	
Motor Expenses		1,200				Motor Expenses		1,500	
Water Rates		350				Water Rates		350	
Depreciation		450				Depreciation		450	
Insurance		1,200				Insurance		1,200	
					11,850				15,900
Net Profit					5,150	Net Profit			1,600

Projected					Actual			
Balance Sheet for					Balance Sheet for			
Jack Jones					Jack Jones			
As At 31 July 2004					As At 31 July 2005			
		£	£	£		£	£	£
Fixed Assets					Fixed Assets			
Fixtures and Fittings	1,500	150	1,350	1,500	Fixtures and Fittings	1,500	150	1,350
Motor Cars	3,000	300	2,700	3,000	Motor Cars	3,000	300	2,700
			4,050					4,050
Current Assets					Current Assets			
Stock	2,000			4,300	Stock	4,300		
Debtors	2,200			4,400	Debtors	4,400		
Bank	10,500			800	Bank	800		
		14,700					9,500	
Less Current Liabilities					Less Current Liabilities			
Creditors		600			Creditors		1,350	
Working Capital			14,100		Working Capital			8,150
Net Assets			18,150		Net Assets			12,200
Financed By:					Financed By:			
Capital at the start		22,000		22,000	Capital at the start		22,000	
Add Net Profit		5,150		1,600	Add Net Profit		1,600	
			27,150					23,600
Less Drawings			9,000		Less Drawings			11,400
Capital at the end			18,150		Capital at the end			12,200

Activity 7

- (a) What is a Cash Budget?
- (b) Give three ways in which a cash budget could be used for INTERNAL monitoring and control.
- (c) Who, outside the business, might want to see a cash budget and for what reasons?
- (d) The Alpha Bett Soup Kitchen Company Ltd intends to invest in new machinery to update their tinned soup production line. They have asked you to prepare a cash budget for them for the first three months of this year and have provided you with the following information.
1. The opening cash balance for the year is £8,600
 2. Cash sales are expected to be

January	£28,000
February	£29,000
March	£36,000
 3. Credit sales are expected to be

January	£32,000
February	£28,000
March	£29,000
 4. Purchases are expected to be

January	£18,000
February	£41,000
March	£42,000
 5. Wages are expected to be

January	£4,000
February	£3,800
March	£5,200
 6. Overheads are expected to be

January	£2,400
February	£1,700
March	£3,100
 7. Investment in new machinery 1 February
£20,000

Activity 8

Knights Out Babysitting Service is run by husband and wife team Lance and Gwen Knight. They started up their company in April this year to provide what they feel is a much needed professional babysitting service to the town of Camelot.

They did not have their own transport and were paying out 25% of what they charged their customers in public transport and taxis. Lance and Gwen decided to buy a second-hand car. They were convinced that not only would this reduce the cost of their transport to 10% of total sales, but it would also let them take on more work, as they would be far more flexible than they had been.

They found a car that they liked and went to visit their bank manager to ask for a loan of £3,000 to buy it. He asked them to prepare a cash budget for the first four months of their operations to prove to him that they could finance the loan repayment.

After some research Lance and Gwen came up with the following information.

1. Sales in Cash:

April	May	June	July
£1,800	£1,820	£2,200	£2,660

2. Sales on Credit:
25% of cash sales paid one month in arrears

3. Materials (toys, crayons, videos, etc.):

April	May	June	July
£50	£80	£130	£60

4. Wages:
40% of total sales per month (i.e. 40% of cash and credit sales)

5. The loan of £3,000 from the bank will be received in June.

6. Purchase of the car, costing £4,000, will be made in June.
Transport costs fall to 10% of sales in June and remain at that level.

7. Loan repayments of £200 per month start on 1 July.

8. Their bank balance on 1 April was £1,100.
- (a) Prepare a cash budget for the first four months of operations for Knights Out.
 - (b) In your opinion, should the bank manager grant the loan? Justify your answer.
 - (c) What problems might arise for Lance and Gwen and what possible action could they take to reduce the risk of these problems?

Activity 9

Case Study: Keltic Jewellery

Jill Golding and Peter Martin are partners in a thriving jewellery business in Glasgow. Jill recently saw a shop for lease in Edinburgh and has persuaded Peter that they should acquire it in order to expand the business. The expansion will mean that the partners will need to arrange a sizeable loan with their local bank. The manager has no doubts about their existing business. However, she would like to assess the likely financial future of the new venture in Edinburgh. She has asked for a Cash Flow Statement to be produced for the first trading year before she will approve the loan.

Jill and Peter have approached you with the following information and asked you to produce a Cash Flow Statement for the first year of operation of this new business venture. The shop is expected to open in January.

1. Cash sales are expected to be £1,000 in the first month, rising to £1,600 in each of the next two months. From April to July sales are expected to be 20% higher than they were in March. From August to November sales will remain steady at £2,500 per month and in December they will increase by a further 20%.
2. Purchase of materials will be 40% of sales and suppliers will allow one month's credit.
3. Jill and Peter will introduce new capital of £7,500 in January and it will be spent immediately on fixtures and fittings.
4. The loan will be introduced in two stages, £7,000 in January and £7,000 in March.
5. A £3,000 lease will be payable in January and solicitors' fees for negotiating this will amount to £400.
6. Fuel costs will amount to £300 per quarter, and the first payment will be in March.
7. £150 will be spent on advertising every two months starting in January.
8. Wages are expected to be £900 per month.

9. £75 is to be put aside each month for building repairs and maintenance.
10. Jill and Peter will purchase a van in February for £4,000.
11. Loan repayments of £200 per month will start in January.
12. £100 per month is anticipated for stationery and administrative expenses.
13. Motor expenses will be £600 in the month of purchase of the van and £100 per month thereafter.

Solutions to Activities

Activity 1

The solution – or at least the information gained – in this Activity will depend on the way that the Activity is carried out.

Activity 2

- (a) This is an historical review of the revenue (income) and expenditure of a business for the previous financial year. The account can be broken into two distinct sections.
- (b) To record all income from trading (sales less cost of goods sold) and expenditure in general operations to calculate the total Net Profit (or Loss) made in one financial year. To assist in assessing the efficiency of the company in terms of generating profit using assets that the organisation owns.
- (c) At the end of a financial year.
- (d)
 - The amount of money received from the sale of goods or services.
 - The cost of buying in raw materials and any other production costs made before goods or services are put on sale.
 - The amount of money made by the company when the cost of the goods or services sold is taken away from the money received from that sale.
 - The amount of money that the organisation is left with after all other expenses have been deducted from Gross Profit.
- (e)
 - Electricity
 - Advertising
 - Rent
 - Wages
 - Heating and lighting
 - Motor expenses
 - Rates
 - Insurance

Activity 3

- (a) This is a statement that shows the assets of an organisation (what it owns) and liabilities (what it owes to others) at a particular point in time.
- (b) To assess the total value of the organisation
- (c) Although it is generally drawn up at the *end of an accounting period* as part of the preparation of the Final Accounts, a balance sheet can be drawn up at any time from the outstanding balances on the organisation's ledgers.
- (d)
- Fixed Assets (items of value that the organisation owns) which do not change in the short term and are used in the provision of goods or services, for example premises, vehicles, machinery, equipment.
 - Current Assets will change in the short term – perhaps even daily – and can easily be turned into cash, for example stock, debtors, bank account balances, cash, etc.
 - Money that is owed by the organisation in the short term – for example for supplies bought on credit, or a bank overdraft – often repaid within one month.
 - The difference between the current assets, which can easily be converted into cash, and the current liabilities, the short-term debt of the company.
- (e) The equity of the company, for example share value, reserves, etc – where the money that the organisation has used to buy its assets has come from.

Activity 5

The final solution to this activity will depend on the persuasive powers of Mr Getit. However, this information should be of help:

- Sales have increased substantially.
- Gross Profit margin is down slightly – suggesting an increase in the cost of goods sold.
- Stock turnover seems to have increased – there is more starting stock and less closing stock in the projected accounts although stock purchase is significantly higher.
- Expenses are higher, reflecting the payments for the loan which are higher than the previous rent figure and the addition of motor expenses from using the van.
- Net Profit margin has improved by over 5%.
- This has happened despite the fact that the Profit mark-up has decreased by 3%.
- Has this reduction in Profit mark-up had any influence on the £12,000 increase in sales?
- The current ratio has improved, however this reflects a reduction in creditors rather than an increase in current assets (these are slightly lower in the projected accounts).
- Is Mr Getit taking full advantage of trade credit available?
- The acid test ratio has greatly improved. The reduction in creditors has been matched by a substantial increase in debtors.

Activity 6

- (a) Jack himself
 Potential partners and/or investors
 Providers of finance – banks, creditors, etc.
 Tax authorities.
- (b) The Trading Profit and Loss Account shows how the Gross Profit is arrived at and calculates Net Profit after all expenses have been deducted.

The Balance Sheet shows the assets and liabilities of a business at a particular point in time.

(c) Ratio	Projected Accounts	Actual Accounts
Gross Profit Margin	56.67%	66.29%
Net Profit Margin	17.17%	6.06%
Return on Capital Employed	23.41%	7.27%
Current Ratio	24.5:1	7.04:1
Acid Test Ratio	21.1:1	3.85:1

- (d)
 - The actual figures show that the business is not performing as well as expected.
 - Sales are lower, but expenses have increased and so have drawings.
 - One of the reasons for the increase in expenses is the additional advertising because of poor sales at the start of the year.
 - Jack’s Return on Capital Employed figure is slightly higher than what he would get if he had invested his money in a bank or building society savings account, and he is managing to earn a living from his business.
 - His Working Capital Ratio is very high because of the large amounts of stock he is holding and because of a high debtors figure.

- This might result in cash flow problems and bad debts arising in the future.
- Poor management and control seem to be the main problems of this business and these must be looked at carefully.
- Jack should prepare a projected Cash Flow Statement for the next year and regularly (monthly) monitor actual income and expenditure against the projected figures.
- He must investigate why expenses such as rent and postage and packaging are higher than he anticipated and should try to keep a stricter control over these.
- He must also look to reducing his high debtors figure and should be less willing to offer sales on credit.
- He may have to consider taking legal action to recover money owed – bearing in mind that this will incur additional (legal) expenses.
- Jack must make sure that he has enough cash to pay for the purchased stock.
- He should also make sure that he doesn't hold high levels of stock for long periods as this ties money up unproductively and there is the risk of stock deteriorating.

Activity 7

- (a) A Cash Budget is a recording of the flow of cash into and out of an organisation, commonly prepared on a monthly basis for a period of months.
- (b) It clearly identifies where cash income comes from.
It clearly identifies where within the organisation cash is being spent and the levels of spending.
It allows actual performance to be monitored against projected performance.
It can be used to highlight cash flow problems.
It can be used to plan expenditure.
It can be used to arrange short-term finance to cover short-term cash flow problems.
- (c) A financial lender – to assess whether or not the organisation will be able to meet repayments.

***The Alpha Bett Soup Kitchen Company
Cash budget January to March 2005***

	January	February	March
	£	£	£
Opening Balance	8,600	44,200	34,700
Cash Sales	28,000	29,000	36,000
Credit Sales	32,000	28,000	29,000
Total Funds	68,600	101,200	99,700
Less Expenses			
Purchases	18,000	41,000	42,000
Wages	4,000	3,800	5,200
Overheads	2,400	1,700	3,100
New Machinery		20,000	
Total Expenses	24,400	66,500	50,300
Closing Balance	44,200	34,700	49,400

Activity 8

***Knights Out Babysitting Service
Cash Budget for April to July 2005***

	April	May	June	July
	£	£	£	£
Opening Balance	1,100.00	1,387.50	2,098.75	2,248.75
<i>Add Income</i>				
Sales	1,800.00	1,820.00	2,200.00	2,660.00
Credit Sales		450.00	455.00	550.00
Loan from Bank			3,000.00	
Total Funds	2,900.00	3,657.50	7,753.75	5,458.75
<i>Less Expenses</i>				
Materials	50.00	80.00	130.00	60.00
Wages	900.00	910.00	1,100.00	1,330.00
Transport Costs	562.50	568.75	275.00	332.50
Loan Repayments				200.00
Capital Expenditure			4,000.00	
Total Expenses	1,512.50	1,558.75	5,505.00	1,922.50
Closing Balance	1,387.50	2,098.75	2,248.75	3,536.25

(b) Yes the bank manager should grant the loan.

- The firm is taking in enough revenue to repay the loan comfortably.
- Sales revenue has increased as expected.
- The bank manager should ask for a second cash budget, or a nine- or twelve-month projection, as July and August are holiday months where it may well be that sales revenue would rise in any case. Perhaps a four-month projection is not a sufficiently long period of time on which to base a decision like this.

(c) • A reduction in sales during the autumn period as families start to spend less in the approach to the Christmas holiday period.

• A seasonal pattern to their sales revenue.

• This could be reduced by advertising the services they offer, stressing the quality service that they provide and the flexibility they can offer to parents by having their own transport. (Any appropriate answer is acceptable.)

Activity 9: Keltic Jewellery Cash Budget

	January	February	March	April	May	June	July	August	September	October	November	December
	£	£	£	£	£	£	£	£	£	£	£	£
Opening Balance	0	3,175	-1,500	4,635	4,540	4,167	3,644	3,271	3,628	3,303	3,428	3,403
Add:												
Sales	1,000	1,600	1,600	1,920	1,920	1,920	1,920	2,500	2,500	2,500	2,500	3,000
Loan	7,000		7,000									
New Capital	7,500											
Total Funds	15,500	4,775	7,100	6,555	6,460	6,087	5,564	5,771	6,128	5,803	5,928	6,403
Less Expenses												
Purchases		400	640	640	768	768	768	768	1,000	1,000	1,000	1,000
Fixtures	7500											
Fuel			300			300			300			300
Advertising	150		150		150		150		150		150	
Lease	3,000											
Wages	900	900	900	900	900	900	900	900	900	900	900	900
Solicitors Fees	400											
Maintenance	75	75	75	75	75	75	75	75	75	75	75	75
Van Purchase		4,000										
Stationery/Admin	100	100	100	100	100	100	100	100	100	100	100	100
Loan Repayments	200	200	200	200	200	200	200	200	200	200	200	200
Motor Expenses		600	100	100	100	100	100	100	100	100	100	100
Total Expenses	12,325	6,275	2,465	2,015	2,293	2,443	2,293	2,143	2,825	2,375	2,525	2,675
Closing Balance	3,175	-1,500	4,635	4,540	4,167	3,644	3,271	3,628	3,303	3,428	3,403	3,728

SECTION 2**Section 2: Human Resource Management****The role and importance of Human Resource Management**

Irrespective of the size or objectives of an organisation, the most valuable resource it possesses is its workforce. Without workers who are both efficient and effective, the long-term success of an organisation cannot be assured. The human resource of an organisation is its entire workforce – from managing director to part-time cleaner. Each person is employed to perform specified functions which play their part in the overall success or failure of an organisation.

It is the human resources employed by an organisation which generate wealth through the provision of services or the production of goods. Consequently, just as machinery and buildings need to be protected if they are to work properly, time and care must be taken if an organisation is to secure and retain the human resources that it requires. It is the responsibility of the Human Resource Management department to devise and implement the organisation's policies and strategies for managing its human resources in a way that will satisfy both the objectives of the organisation and the objectives of the human resources it employs.

Human Resource Management (HRM) refers to that part of an organisation's activities designed to attract, train, develop and maintain an effective workforce.

Human Resource Management is a relatively new term and has only come into use over the last 20 years or so. Traditionally, the function of dealing with employees was described as Personnel Management. Many organisations, in fact, continue to use this term.

In many cases, Human Resource Management and Personnel Management are used to mean the same thing. For example, some organisations which continue to use the term 'personnel department' describe its work as 'managing the human resources of the

organisation'. Despite this, HRM is often seen as different from Personnel Management:

- HRM takes a more strategic view than Personnel Management. It is concerned with making sure that the management of people fits in with the strategic objectives of an organisation and, like all other departments' is also involved with deciding what the organisation's strategy should be. In the past, personnel departments often played no part in deciding strategic objectives.
- HRM is more integrated than Personnel Management. It is responsible for bringing together all the elements of managing human resources and making sure that they fit together in a coherent way. Traditionally, the various elements undertaken by a personnel department were seen as separate tasks. As a result, they were often carried out in isolation; for example, new employees would be recruited without any consideration being given to their future training and development.

Overall, therefore, HRM differs from Personnel Management in that it takes a much more strategic and integrated approach, although the activities it performs are much the same. This is why the terms are often used interchangeably. In this text we shall use HRM because it is becoming the more widely used term.

The HRM function within organisations

The range and nature of the skills and specialisms available within the Human Resource Management function of an organisation depend on a number of factors. These include:

- the size of the organisation;
- the nature of the labour force employed by the organisation;
- the status of the HRM department in the organisation;
- the values and expectations of senior management.

Normally all but the smallest organisations will have their own specialist Human Resource Management department. However, the management of the human resources of the organisation is not carried out solely by the HRM department. Line managers, such as team leaders, have responsibility for the activities of the workforce and work closely with them on a day-to-day basis. As a result, they undertake a range of Human Resource Management activities. The extent of these varies

between organisations, but examples of HRM activities that line managers might undertake include:

- drawing up job descriptions,
- selecting new staff,
- training (e.g. induction training for new staff),
- performance appraisal,
- planning future staffing requirements,
- handling grievances,
- implementing HRM policy, e.g. equal opportunities (line managers are expected to be aware of all legal requirements affecting HRM).

Human Resource Management, therefore, is a central component in the duties of all managers irrespective of their job title or functional responsibility.

The HRM department in an organisation is likely to fulfil a number of different roles:

The executive role

Here, the HRM department is seen as the 'expert' in matters relating to Human Resource Management and makes decisions about what should be done in this area. For example, the HRM department will ensure that organisational policies are developed in line with legal requirements, will decide to produce information booklets on training, etc.

The audit role

In this capacity, the HRM department monitors organisational activities to ensure that HRM policies are being properly implemented by all concerned.

The facilitator role

This role requires the HRM department to facilitate the work of other managers in the organisation and help them to acquire and use the skills, techniques and attitudes that they need to make sure that HRM policies are implemented throughout the organisation. For example, team leaders could be given training to help them respond to, and deal with, complex relationships between team members that may involve HRM issues such as grievances, equal opportunities, human resource planning, etc.

The consultancy role

In this role, the HRM department provides advice and guidance to managers at all levels on matters to do with the management of people.

The service role

This requires the HRM department to be the provider of useful information on HRM matters. This is most important in times of change when the organisation needs to make sure that it is up to date with what is happening, for example with changes in legislation on issues like equal opportunities, or with developments in HRM practice or 360-degree feedback.

The activities of the Human Resource function

The Human Resource function can be seen operating at 3 levels of management – *strategic*, *tactical* and *operational*.

Strategic activities

Strategic activities are concerned with long-term planning. In order to achieve corporate objectives it will be necessary to:

- formulate personnel policies that clearly state how things will be done across the organisation as a whole;
- devise guidelines for the implementation of policy;
- ensure that the work of the HRM department helps to achieve corporate goals, i.e. defining corporate culture, and cultivating and communicating this culture to employees.

Tactical activities

Tactical (or advisory) activities refer to the provision of attainable pathways which when followed will enable an organisation to achieve its strategic objectives. Tactical activities include:

- Human Resource planning;
- recruitment of particular groups of staff;
- staff training and development;
- promoting effective industrial relations.

Operational activities

Operational activities refer to the ways in which policy is implemented on a day-to-day basis. For example, in order to implement a tactical activity such as 'a programme for staff training and development', it may be necessary to carry out the following operational activities:

- identify what the training needs are;
- invite employees to indicate their willingness to participate in training;

- select the most suitable applicants;
- arrange absence cover for trainees;
- develop training materials and deliver these.

The elements of Human Resource Management

HRM covers a range of activities that can be described as the ‘elements’ of Human Resource Management. They include:

- Human Resource planning;
- recruitment;
- selection;
- training and development;
- employee relations;
- development and monitoring of policies and procedures relating to human resources, e.g. discipline, grievance, appraisal, health and safety, terms and conditions of employment;
- maintenance of personnel information and record keeping.

Each will be discussed in turn.

Human Resource planning

Human Resource planning is the term used to describe a planned approach to each of the following activities:

- analysing current employment trends within the context of organisational needs;
- forecasting potential future staffing requirements for all departments within the organisation;
- forecasting potential future supply of workers with the appropriate skills;
- forecasting potential labour turnover – i.e. the rate at which staff will leave the organisation;
- planning how best to satisfy and motivate employees;
- planning how to develop a particular organisational culture so that the organisation can utilise its workforce to best effect;
- planning how best to support staff training and development;
- planning processes to release surplus staff as necessary.

Overall, therefore, Human Resource planning is concerned with planning all aspects of the organisation’s staff requirements.

For planning purposes, human resources can be categorised under 4 broad headings:

- newly appointed staff;
- potential staff for the future;
- existing staff;
- departing staff.

Each of these categories requires decisions to be made by the managers involved. Some examples of HRM decisions are given below:

Newly appointed staff may require:

- induction and/or future training;
- a contract setting out terms and conditions.

Potential staff recruitment requires:

- successful recruitment and selection procedures;
- good advertising.

Existing staff benefit from:

- performance appraisal;
- opportunities for promotion/career development.

Departing staff expect:

- appropriate retirement arrangements;
- easily understood grievance procedures.

Human Resource planning must be flexible so that it can react to changing organisational objectives as well as external factors such as:

- changes in the market;
- technological developments;
- levels of competition;
- population trends (demographic trends);
- trends in trade union membership;
- government legislation.

Changing pattern of employment within organisations

It is important to see the HRM function within organisations in the context of the current business environment and the changing pattern of employment within organisations.

In the UK today over 26 million people – more than 70 per cent of the working-age population – are in work. This is a relatively high rate of employment compared with many other European countries, although below the levels of Japan and the USA. The UK is also notable for providing a wide range of opportunities to fit work around personal and family circumstances, and has been relatively successful at supporting the increased labour supply of women. The employment rate in the UK has varied considerably over the economic cycle – reflecting the swings in output there have been over the last 20 years, and the relatively low costs of hiring and firing workers.

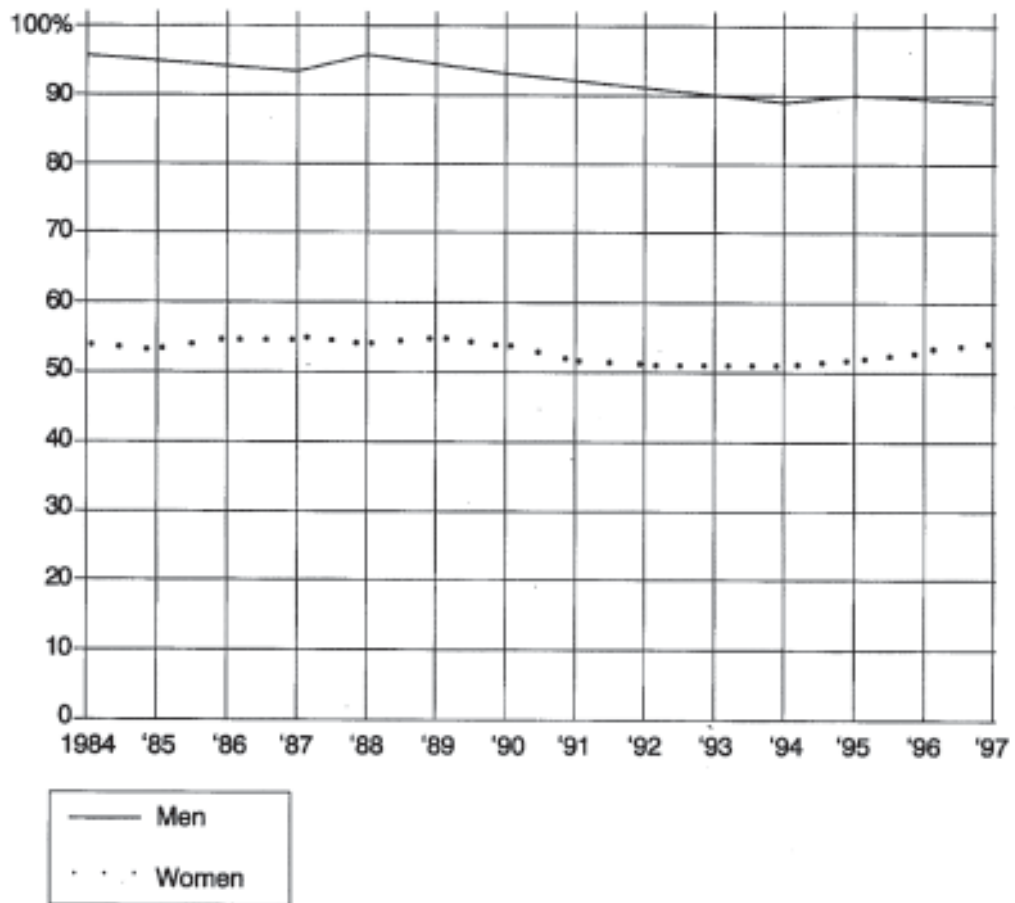
In recent years there have been changes in the way the British workforce has been made up.

- We can see from Graph 1 that the percentage of men in full-time employment has fallen, while for women it has largely remained the same.
- In Graph 2 we can see that there has been a significant increase in the number of men working part-time, whereas the number of part-time women has been relatively constant.
- Graphs 3 and 4 show that among both men and women there has been an increase in temporary fixed period contract work and temporary agency work.

What does this tell us about the UK workforce? Why are these changes taking place? What, if any, are the implications for an organisation and its Human Resource Management?

Graph 1

Changes in the % of working men and women in full-time employment:
Spring 1984 – Spring 1998

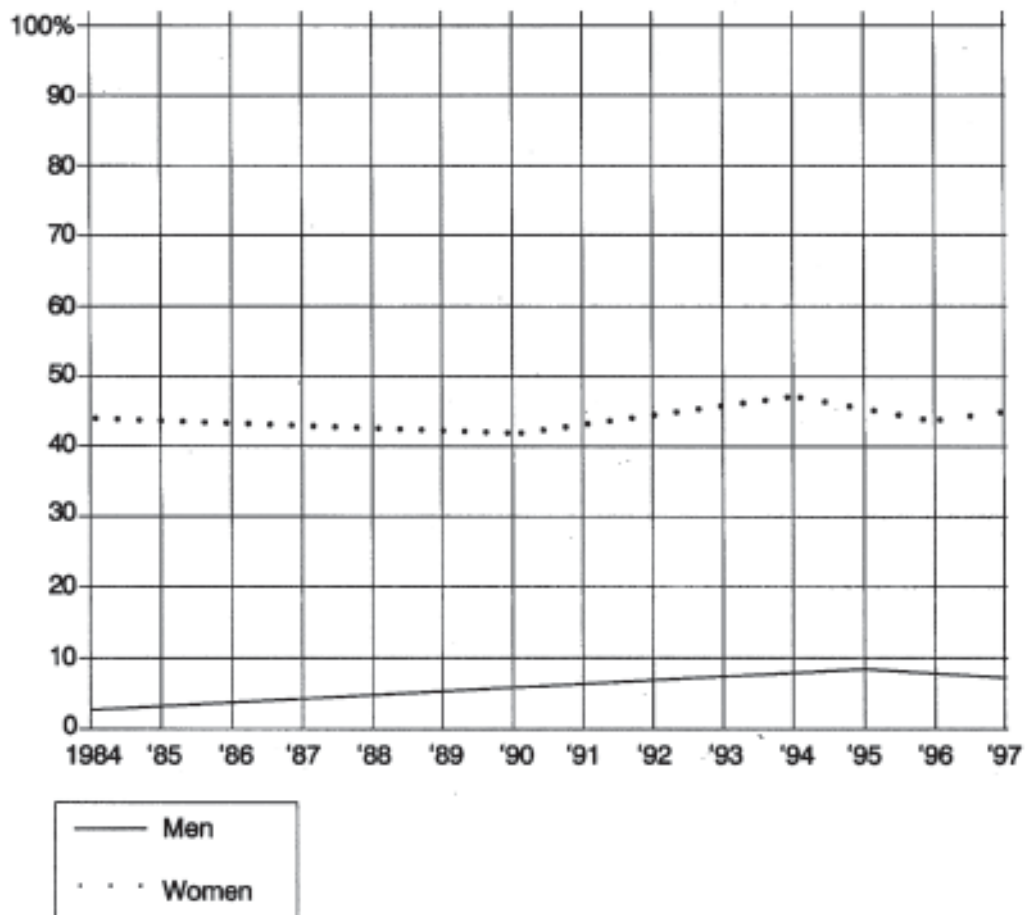


Adapted from UK LEF Spring Quarter's Historical Supplement
Labour Market Statistics (National Statistics Office)

Graph 2

Changes in the % of working men and women in part-time employment:

Spring 1984 – Spring 1998

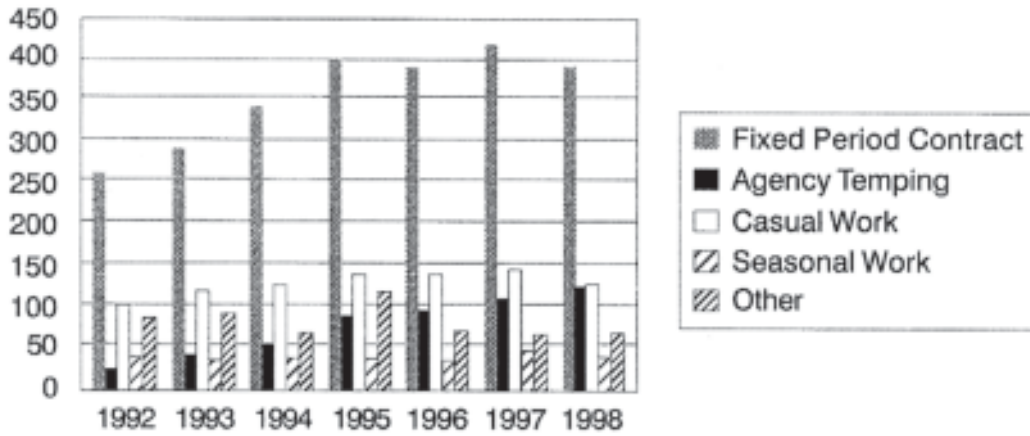


Adapted from UK LEF Spring Quarter's Historical Supplement
Labour Market Statistics (National Statistics Office)

Graph 3

Temporary Employees by Category – Male – (thousands)

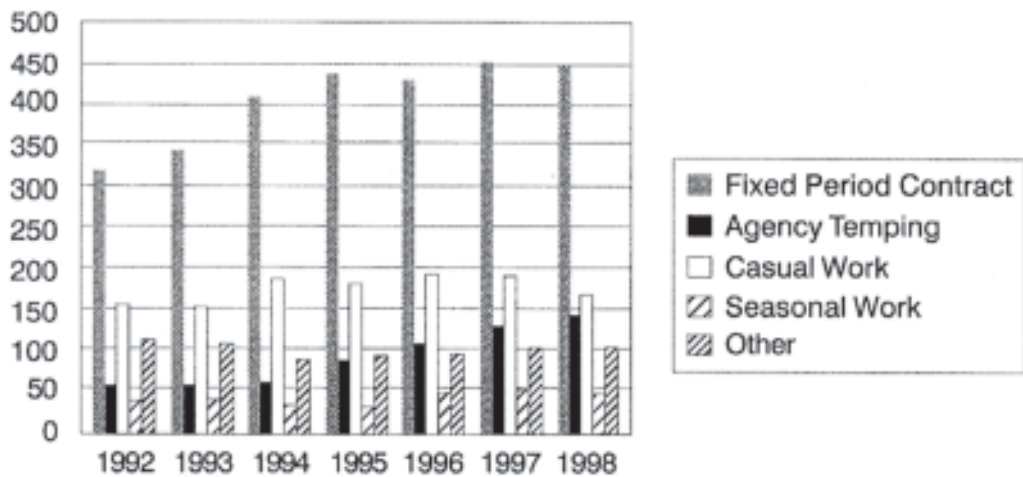
Spring 1992 – Spring 1998



Graph 4

Temporary Employees by Category – Female – (thousands)

Spring 1992 – Spring 1998



Source UK LEF Spring Quarter's Historical Supplement
Labour Market Statistics (National Statistics Office)

The workforce

Although there has been a considerable fall in unemployment in the last five years, many of those returning to work have done so on a part-time or contract basis. In many instances this is all that is on offer in the workplace with employers reluctant to commit themselves to permanent contracts with employees.

There have been changes in the demographic make-up of the working population, with semi-skilled male workers recording the highest numbers of long-term unemployed.

Overall employment rates have remained broadly constant, but in the labour market the participation of women has grown dramatically. This is one of the most important economic and social trends that took place in the late 20th century. The fact that the labour market has absorbed these new workers is a great success story for the UK economy. The growth in female employment has been particularly strong amongst those of child-bearing age. It is no longer the case that the usual pattern of female labour supply is to leave the labour market while their children are growing up.

There are some other important long-term trends – in particular, we can identify the effects of technological development on the demand for skills and the increased globalisation of the economy. There are social and demographic changes that impact on the labour market – particularly the growing participation of women, and changes in household composition.

There has been a significant change in the sectors of the economy recruiting staff. The area of growth has been the tertiary or service sector. There have been large numbers of jobs created in the tourism and call centre industries. These, by their very nature, are often part-time, temporary or seasonal and attractive to women workers.

The number of men employed in manufacturing industries, such as engineering, has declined. Traditional heavy industries, like coal, steel and shipbuilding, that used to be important providers of jobs for men, no longer play a significant role in the British economy.

Due to the economic climate of general recession, both in the UK and worldwide, in the 1970s and 1980s, many companies downsized and reduced levels of middle management. This was seen as a good way to cut costs and to increase efficiency. The vast majority of these

permanent posts had been held by men. More recently, firms have found themselves understaffed and with a relatively inexperienced workforce. They have recalled a number of their former employees – but now they employ them on a fixed-term, or project, basis.

The nature of work is also changing. While average hours worked have not changed a great deal in the past 20 years, traditional working patterns – based around the 9 to 5 ‘job for life’ – have become less common. More diverse working practices have developed. These have taken a number of forms, including:

- **Part-time work.** Today, about 25 per cent of employees are in part-time employment, compared to about 20 per cent in 1981. This is a long-standing trend. In most cases, the decision to take part-time employment is voluntary. Only about one in 8 part-time workers takes a part-time job because they could not find full-time employment.
- **Variable hours.** More than half of all employees in the UK now work variable numbers of hours from week to week (compared with a third in 1984), either because they work varying amounts of overtime, or because their basic hours of work are flexible.
- **Temporary work.** The number of employees in temporary work increased by 43 per cent between 1990 and 1997. This includes those on fixed-term contracts, seasonal, casual or agency work. It is not clear whether this is part of a long-term trend and, at just over 6 per cent of employees, the extent of temporary work in the UK remains well below the EU average of 11 per cent.
- **Self-employment.** The number of self-employed has increased considerably from about 1.9 million in 1979 to over 3.3 million today. The self-employed now represent about 13 per cent of those in employment. Self-employment is an important element of the flexible labour market, both because it often offers a route for some individuals out of unemployment and low pay, and because it can be a source of new jobs for others.

Only 10 per cent of workers in the UK now work a ‘standard’ 40-hour week, compared to 25 per cent in Germany and 45 per cent in France and Italy. The move away from ‘standard’ contracts has been a long-standing trend, a particular feature of the UK, and a defining feature of the labour market in the late 20th century. All the signs are that many of these trends will continue. When the labour market is healthy, and individuals have good overall job prospects, this diversity in work allows

people to match their working practices to their particular circumstances. It can be an important factor in ensuring high employment rates, even for those with family and other commitments. However, some people do not have good job prospects (due, for example, to a lack of suitable skills), and for them the choice of employment opportunities may be very constrained.

These changes in traditional patterns of employment have led some writers like Charles Handy to argue that there are now three different types of workforce employed in any organisation. They are:

- ***the core workforce*** – this is made up of people who are essential to the business. It includes managers, skilled workers and technicians who do the work that gives the organisation its particular expertise. Because they are essential, the organisation gives them good terms and conditions of employment (e.g. permanent contracts, good pay) to encourage them to stay with the company.
- ***the flexible labour force*** – these are people who are employed on a part-time or temporary basis to help out the core workforce, for example to cope with peaks in activity. They are cheap because they have lower rates of pay than members of the core workforce. They can also be taken on only when they are needed and not employed at all when there is no demand for their services.
- ***contractors*** – these are people/businesses who provide goods and services which the organisation does not wish to provide for itself. These include cleaners, consultants, component suppliers, etc. Because they are not a permanent part of the workforce, they are less expensive – for example, the organisation does not have to pay for pensions, holiday entitlement, etc.

Implications for the organisation

Such non-traditional types of employment have several advantages for the organisation:

- the organisation only employs people who contribute directly to **core** activities – that is, those activities that provide a source of revenue;
- it saves on salaries;
- it saves on office space;
- it reduces or even removes requirements to pay sickness benefit, holiday pay, to make pension contributions, and to make redundancy payments;
- it reduces the amount the organisation makes in National Insurance contributions;

- it allows the organisation to be flexible and quickly responsive to its market place in terms of staffing numbers.

But it also has several disadvantages for the organisation:

- there may need to be more spent on recruitment and selection;
- there may be staff shortages in certain sectors of the organisation;
- employees are less likely to be wholly committed to the organisation;
- there may be an increased need for training (especially induction training) – much of this may bring little or no long-term benefit to the company as the turnover of employees is high;
- there is a lack of continuity in personnel. Clients and customers may feel uncomfortable dealing with the organisation if there is constant change.

Recruitment and selection

These are the processes through which the Human Resource Management function of an organisation will try to attract and select the right people to fill vacancies. Strictly, recruitment and selection are two distinct processes, but they are usually carried out together.

Step 1

The first step in this process is to decide that there is a vacancy in the organisation. This may have come about because of a worker leaving, or because an extra worker is needed. In a small business this may be a very simple matter, as the owner or senior manager is likely to know exactly what is needed in the way of numbers of workers and the jobs that each worker has to do. However, in large organisations it can be a much more complicated process requiring a lot of liaison between department or section heads and the Personnel Department. It may even mean the senior management team or board of directors has to be consulted and agree that the vacancy exists before Personnel can go ahead and begin the recruitment and selection process.

Step 2

Decide exactly what the job involves. Only then can there be an efficient process of attracting suitable applicants and selecting the right person for the job. This often involves a methodical process of job analysis and from this analysis drawing up a job description and a person specification.

Job analysis

This is a study undertaken to identify the main features of a job. Normally these include:

- physical requirements and tasks;
- mental requirements and tasks;
- skill requirements and specific skill tasks;
- areas of responsibility;
- areas of accountability;
- the physical environment in which the job occurs;
- any hazards specific to the job.

Job description

A job description is exactly what it says – a document that gives a description of the job that the individual appointed will do. This will be written up after the job analysis has been carried out and usually includes the following features:

- the job title;
- the relationship this post has with other jobs in the organisation;
- the overall purpose of the job – what is supposed to be achieved by the post holder;
- the main duties and responsibilities of the post holder – the key tasks that he/she will have to carry out;
- the authority that the post holder will have
 - (a) over others,
 - (b) in decision making;
- the resources available to the post holder, for example
 - (c) financial,
 - (d) human,
 - (e) equipment,
 - (f) work area;
- the location of the post holder during the average working day;
- the qualifications required by any individual in this particular post.

On the next page there is a job specification (job description) for an Engineering Support Assistant with the BBC. This was obtained from their Internet web site at:

<http://www.bbc.co.uk>

BBC RESOURCES SCOTLAND

Job Specification

Job Title: Engineering Support Assistant

Department: Operations

Reports to: Engineering Support Manager

Job Purpose: To provide a range of administrative, clerical, and financial support within the Engineering Support section of Resources Scotland. This section provides an electronic, electrical, and mechanical engineering maintenance and support service across a wide range of broadcast equipment and facilities.

Principle Accountabilities/Main Duties:

To provide Engineering Support Manager and his supervisory staff with a range of clerical & administrative support.

This will include:

monthly effort reporting
annual leave records
sick absence records and reporting to HR as required
maintain diaries
arrange meetings and organise facilities required

deal tactfully with customers, suppliers and the public as a representative of the BBC

ensure maintenance of comprehensive equipment records and implement new procedures to ensure smooth running of the broadcast maintenance and support operation

produce reports and management information as required

procurement of equipment and spare parts across a wide range of broadcast equipment and facilities. This will entail dealing with a wide range of manufacturers and suppliers and sourcing of items at best prices, progress chasing and checking invoices against deliveries

raising of invoices for provision of goods and services which are outwith current Service Level Agreements

to operate computer software applications such as SAP business management system, Service Management System, MS Access databases, etc. and to act on information provided by these systems

ensure confidentiality and discretion is maintained on both personnel and business matters.

Duties to be carried out in a safe manner taking account of current statutory and BBC, Health and Safety regulations.

Training Requirements:

Health & Safety – Manual Handling, DSE Awareness, Fire Awareness

Other – Customer Service.

Person specification

This document sets out in more detail the type of **person** needed for the post. Very often a person specification lists 'Essential' qualifications and attributes that anyone doing the job must have and also 'Desirable' ones that the organisation would prefer the post holder to have.

This is often drawn up using the 7-point plan devised by Professor Alec Rodger of the National Institute of Industrial Psychology. The model is set out as follows:

1. *Physical Make-Up*
What is required in terms of health, strength, energy and personal appearance?
2. *Attainments*
What education, training and expertise is required?
3. *General Intelligence*
What does the job require in terms of thinking ability and general mental effort?
4. *Special Aptitudes*
Are there any special skills required for this particular job?
5. *Interests*
What personal interests could this individual have that would be relevant to the job?
6. *Disposition*
What kind of personality should the post holder have?
7. *Circumstances*
Are there any special circumstances that the job requires of the candidate?

Not all organisations will stick absolutely to the 7-point plan. Frequently a 5-point plan is used. But this too sets out broadly the same criteria. Sometimes a person specification can be quite brief – on other occasions it can be quite detailed.

Here is the person specification for the Engineering Support Assistant with the BBC. This was obtained from their Internet website at:

<http://www.bbc.co.uk>

Person Specification:

A good level of general education is required, preferably to Higher grade.

Good organisational and administrative skills and a practical approach to problem solving.

An interest in working in an engineering environment and gaining a degree of understanding of the technology involved in broadcasting.

Computer keyboard skills, with experience of MS Office suite of applications including Access database.

An understanding of basic financial procedures. Experience of SAP business software is desirable.

Good interpersonal skills are required.

The ability to work effectively and co-operatively within a small team and deal tactfully with staff, customers and external organisations.

Ability to work independently for periods, making decisions within the job content.

An appreciation of the objectives of the Resource business as well as awareness of the needs and aspirations of programme makers.

Step 3

This is the stage at which the organisation decides from where it is going to attract its applicants. These are called 'sources of recruitment' and can be internal or external.

Internal sources

Applicants may come from within the organisation itself. This may result in promotion for a worker who has previously been in a junior post. It may just be a change of jobs for an individual within the workforce – or even a change in location for a current employee, for example from an office in Dundee to an office in London.

Many organisations select from internal applicants, especially where the post holder can be offered promotion. This offers a number of advantages to the organisation.

- Firstly, the applicant is known to the organisation, as is the quality of work they do in their present post.
- Secondly, the organisation may have invested in this employee in terms of training. It is then able to benefit from this investment, as the individual is able to take on a different job.
- Thirdly, the individual will be aware of the culture and rules of the organisation and know what is expected of employees. This can considerably reduce the costs of filling the vacancy as it removes the need for induction training.

External sources

It may be that the organisation decides to recruit externally in order to fill its vacancies. There are several ways it can go about this.

Firstly it can advertise in local or national newspapers or in specialist publications. Such advertising allows the Personnel Department to target specific sections of the population.

For example, it is unlikely that a shop assistant in Dundee, looking for a different job in the retail trade in the town, would look in the *British Medical Journal*, whilst a doctor might. He or she is more likely to look in the local daily paper, the *Dundee Courier* or the *Evening Telegraph*. By the same token, a teacher would look in the *Times Educational Supplement* which will list ALL teaching vacancies throughout the country, as well as other vacancies in all aspects of education, but would also check the local daily paper.

A further benefit from advertising in the press is that many newspapers have specific recruitment days when they advertise vacancies, or have separate recruitment sections – perhaps in their Sunday paper, as *Scotland on Sunday* and *The Observer* do. People looking for employment learn which publications carry which kinds of jobs, and on which days of the week, making targeting vacancies even easier.

Organisations may use specialist recruitment agencies such The Melville Craig Group or The Reach Consultancy. Such outfits specialise in finding the right new personnel for other organisations. They often undertake the whole process of recruitment and selection advertising, scrutinising and selecting on behalf of their clients. Otherwise they may only advertise and scrutinise applications before passing the most likely ones on to their client.

It is up to the client organisation to specify the extent of the role of such specialists, but there is a fee for such services – and this can be considerable. For example, an organisation could be charged 10% of the first year's salary of a marketing manager who is to be paid £40,000 per year. This makes the fee £4,000. However, the growth in both number and size of such recruitment specialists suggests that many organisations would rather outsource this function and that they find considerable cost benefits in doing so.

** It must be remembered that not all workers an organisation needs will be permanent staff. Where temporary staff are needed, the organisation may use recruitment agencies. Normally the workers are recommended by the agency, but are actually employed by the organisation. However, in May 1999 the UK government recommended that employment agencies take responsibility for these employees themselves – becoming far more accountable and having to provide a far more thorough checks of qualifications and references.

The organisation could use government agencies such as the Department for Education and Employment to provide applicants. This department offers assistance via its Employment Services section. Employment Services Direct is a telephone help line. There are also Job Centres, where prospective employees can find out about jobs advertised and can be scrutinised, prepared for and sent out to interview. Recently a new website containing job vacancies that individuals can apply for has been established. There is also the Careers Service, which, as well as offering advice to individuals, especially those moving from education to employment, sometimes also carries information about current vacancies within organisations in its geographical area.

There is a range of government-sponsored training initiatives, including Skill Seekers and New Deal, aimed at providing training opportunities for school leavers and longer term unemployed who wish to return to work. These may provide new recruits for organisations and have the benefit of financial backing from the government for training offered to these individuals.

One drawback for organisations taking this route to find prospective recruits is that there can be a stigma attached to using such services – both for the employer and the prospective employee. However, this is quite unjustified and many extremely good staff have been recruited to organisations via the government's employment schemes.

The purpose of recruitment is to find possible recruits and get them interested in the organisation. Hence, at this point, the recruitment process is complete. Providing that all the various stages have been carried out properly, the organisation should expect to receive a number of applications from people who are capable of doing the job.

Step 4

This step covers the whole selection process. The role of selection is to take these applicants and to choose from them the person or persons most suitable for the job(s) to be filled. It is important to remember that the process works both ways – just as the organisation is making an assessment of the job applicant, the candidate too is trying to get as full a picture as possible of the job and the organisation so as to be able to decide whether he or she would want to work in it.

There are several methods of selection which an organisation can use to choose a suitable person(s). They include:

- application forms, including letters of application and telephone applications;
- interviews;
- psychological tests;
- aptitude tests.

For most jobs, more than one method will be used. However, the actual methods of selection used for any particular job will depend both on the organisation and on the nature of the job.

Letters of application and application forms

The purpose of an application letter or form is to let the organisation know which, if any, applicants for a job are worth seeing and talking to.

If it accepts 'open' letters, it may find it difficult to identify quickly the information about the candidate that it is interested in, and separate that out from all the other details the applicant has chosen to include.

Some organisations prefer not to receive handwritten letters – they may have trouble deciphering some people's writing. However, it is not uncommon for an organisation to want at least part of the application in the candidate's handwriting, especially if it believes, as a number of American companies do, that handwriting is a guide to character.

To get round these problems, many organisations design their own application forms which they send out to people interested in the jobs they want to fill. When applicants complete these forms, the organisation then has the same information, in the same order, for all applicants – name, age, address, qualifications, previous work experience, etc. It is much easier to sift through these and pick out the most likely suitable candidates.

Many organisations include space in their applications forms where the candidate is invited to explain why he/she is interested in the job and what special qualities he/she could bring to it. Some of these forms are quite long and complicated, and ask for a lot of information.

There are organisations, such as shops and fast food outlets, who invite applications for jobs by telephone. Because of the nature of this type of recruitment, it is vital that the person taking the call (and, for that matter, the person making it) is very clear about what information is wanted at this stage. A checklist of questions can be invaluable.

First steps in selection

When applications have been received, it is usual to divide them into 3 categories:

1. Seems to be suitable – should be invited for interview.
2. Possibly suitable – invite for interview if there are not enough applicants in Category 1.
3. Unsuitable – send polite letter of rejection and thank applicant for interest in the job and the organisation.

If there are a large number of suitable applicants, it may be necessary to sub-divide them. A short list (that is, the names of all those being seriously considered) might commonly total 3 to 6. This gives the organisation a reasonable spread of suitable candidates, but does not exceed a manageable number to be interviewed.

However, there may be circumstances in which an organisation (particularly a large one with a well developed training programme) wants to interview more people, for example from among a year's graduates.

In either case, it is often necessary to conduct more than one round of interviews, and gradually to reduce the list of candidates to only the best and most suitable, before making a final choice.

Interviews

To give each applicant an equal chance, and to avoid time-wasting, interviews should, as far as possible, follow a set procedure. Arrangements should be agreed by everyone concerned. These will include:

1. Date, time and place for interview.
2. A room or an area should be made available where candidates can wait.
3. Are candidates to be shown round the organisation's premises? If so, who is going to do this?
4. Will candidates be offered something to eat and drink? If so, have the appropriate arrangements been made?
5. How much time will be allowed for interviewing each candidate? How much time will be allowed between interviews?
6. When will candidates be told whether or not they have been successful? Who will tell them?
7. Will candidates be reimbursed with the cost of attending the interview?
8. Have all the applicants been informed about these arrangements?

The selection interview is by far the most common technique used for selection purposes. However, unlike most other management techniques, it is used just as often by amateurs as by professionals – in the selection of staff everybody is deemed capable! Few managers and supervisors carry out selection interviews regularly; many of them have received no formal training, but most will wish to be involved in the selection of staff for their own department or section.

Research has shown that selection interviews are frequently neither reliable nor valid. By this we mean that, in many instances, the conclusions of the interviewers are different and that an interview itself does not necessarily measure the suitability of the candidate for the post, but instead measures the ability of the interviewee to interview well.

There are 2 main causes for poor interviews:

1. lack of training in interviewing technique;
2. lack of adequate preparation for the interview.

As with so many tasks, the better the preparation, the better the final result. The hallmark of a good interview is a lively exchange of relevant facts and impressions between the interviewer and the candidate, which enables the interviewer to decide if the candidate is suitable, and which enables the candidate to decide if he/she still wants the job.

Interviews can be held on a one-to-one basis, on a two-to-one basis or in the form of a panel interview (at least three interviewers but possibly as many as ten). Panel interviews are always hardest for the candidate, as they will find it difficult to feel at ease in such a formal situation.

It is important that the candidate does his/her homework and finds out as much as he/she can about the company. This will mean that they are better able to answer questions in a way that is relevant to the job they are applying for. It also means that they can prepare, in advance, any questions that they might want to ask the interviewers at the end of the interview. A poorly prepared candidate is less likely to be successful.

Candidates and interviewers must also be aware of the 4-minute rule. This suggests that impressions made in the first four minutes of meeting a person are likely to be the strongest and longest lasting. So the candidate must try to impress from the very start – when he/she is invited into the room for the interview. On the other hand, interviewers should be wary of relying too heavily on first impressions as they may not give a true picture of the candidate.

One factor that will make a great impact on an interviewer (or panel) is the appearance of the candidate. The candidate must remember that he/she is being interviewed not only to see if they have the skills and knowledge required for the job, but also to see if they will fit in with the organisation as a whole – including the corporate image of the organisation. It is unlikely that a candidate who turns up in jeans and a tee-shirt will be successful in an interview for a trainee bank clerk. By the same token, someone arriving for an interview as an outdoor education instructor may be very appropriately dressed in tracksuit and trainers.

The 'good' interview

An interview is most likely to be useful and productive if the interviewer follows these rules:

1. Be open-minded and unbiased towards all the candidates.
2. Be prepared:
Get hold of all available information about the job(s) to be filled, and about the candidates (study the completed application forms/ letters of application);
Arrange the interview room, and ensure there will be no interruptions (people coming into the room, telephones ringing, etc.);
Plan the interview – what questions are you going to ask and why?
3. Welcome the interviewee:
After first introductions and courtesies (for example, inviting the candidate to sit down), thank the candidate for coming;
Briefly outline the interview procedure you will be following;
To help to put the candidate at ease, start by asking straightforward, easy, non-threatening questions.
4. Control the interview:
Ask the sort of questions that will get the information you want;
Introduce more 'open' questions to expand on the information already given on the application form;
Tactfully, but firmly, stop the interviewee talking too much (he/she is likely to be nervous);
Do not let the conversation stray off the subject;
Keep an eye on the time.
5. Supply information:
Answer the candidate's questions about the job and the organisation;
Tell the candidate what the next step in the selection process will be.
6. Close the interview:
Thank the candidate again for coming and exchange the other usual courtesies.
7. Follow-up:
Write up your notes about the candidate as soon as he/she has left;

Grade or rank each candidate in terms of suitability;
 Get the administrative procedures under way for telling the candidates whether they have been successful or not, that you want to interview them again, etc.

Interviews are most useful for assessing the personal qualities of an individual. They help to answer questions such as 'Is this candidate likely to be able to fit into our organisation, team or environment?' and 'Has this particular candidate any special personal characteristics that give him/her an advantage over his/her rivals?'

They also provide an opportunity to discuss a candidate's previous experience and its relevance to the job concerned.

Interviews are less useful for assessing the technical ability of candidates. Nor are they a particularly good way of determining the future potential of a candidate. It is possible also that interviewers may get a false impression of a candidate. For these reasons they are often supplemented by psychological, aptitude and/or attainment tests.

Psychological tests

A number of different types of psychological test can be used, including:

- ***Intelligence tests***

These are standard tests against which results can be measured and compared. They are designed to measure thinking ability.

- ***Personality tests***

The aim of these is to identify an individual's principal personality traits (for example, is someone an extrovert or an introvert?). They are likely to be most useful for jobs where particular personality characteristics may be important, for example, sales representatives may require an outgoing personality. Examples of common personality tests are the Eysenck Personality Inventory (EPI) and the 16PF developed by Cattell.

- ***Other psychological tests***

These can take a variety of forms. For example, testers may use such tools as a series of inkblots and ask the candidate to state what these represent to him/her. These types of tests are restricted in their usefulness because of problems associated with their validity.

- ***Aptitude tests***

These are basically tests of innate skills, for example mechanical ability, clerical ability, manual dexterity, numerical ability, etc.

- ***Attainment tests***

These test the depth of knowledge or grasp of skills learnt in the past – usually at college or at school, for example word processing speeds.

These forms of supplementary testing are probably most useful where there is a large number of candidates, or where an organisation requires a large number of recruits each year, for example where younger employees/apprentices are being sought. Apart from attainment tests, they remain relatively little used. It is becoming more common, however, for organisations (especially large ones) to use a range of selection methods in what is known as the 'assessment centre approach'.

It is important to remember that the entire process of recruitment and selection is a costly and time-consuming business, but, when purchasing the human resource of an organisation, it is worthwhile getting it right for this, the most valuable of all assets.

Training and development

This is increasingly seen as a very important aspect of Human Resource Management and many HRM departments have a separate training and development section responsible for this area of work.

Training means that employees are taught new skills or ways of improving skills they already have. Staff development involves developing staff so that they have the skills and competences to cope with all aspects of the job that they do, now and in the future. In many ways, training and staff development involve much the same activities. Staff development, however, is usually seen as being more long-term and based on an agreed development plan. This may well cover a number of shorter-term training events.

Costs and benefits of training and development

Costs

- **Financial cost** – the cost of the course itself plus travel and subsistence costs.
- **Training staff** – if the organisation employs people to operate a training and development service, run training courses, etc., it will have to pay their salaries, provide accommodation for them, etc.
- **Loss of output** – when people are away from their job, for example to attend a training or development activity, they will not be producing any output. In some cases, the organisation may have to employ someone else on a temporary basis to fill in for employees who are away.

Benefits

- **Flexibility** – employees who possess a wide range of skills and capabilities are more flexible, so introducing new systems of operation or new products or services is likely to be easier.
- **Promotion of change** – training and development may make it easier for an organisation to introduce change. This, in turn, may help it to remain competitive.
- **Upgrading skills** – the changing environment faced by many organisations means that workers of all kinds must regularly update and improve their skills, for example, in ICT.
- **Improved employee satisfaction** – training and development may help the workforce to become better motivated because they will have the chance to make use of a wider range of skills. This may also help their promotion prospects.
- **Improved image for the organisation** – a good training and development programme may help an organisation to attract new members of staff. It may also reduce accident rates and help the organisation gain a good reputation with customers, for example, if employees have undertaken a programme of customer care training.
- **Motivation and productivity** – an organisation with a satisfied, well-motivated workforce may well perform more effectively than one where this is not the case.

Overall, an organisation is likely to undertake training and development if the benefits are thought to be greater than the costs. One of the problems is that the costs of training are easy to measure, but it is not always so easy to put a money value on the benefits. In some cases, therefore, it may not be easy to justify training and development. British organisations have been accused of not doing enough training and

development with the result that, as a whole, the UK workforce is less skilled than that of other countries, particularly those of our main international competitors.

Types of training and development

Training and development can take many different forms. Some of the main ones are:

- **Induction training** – this is given to new recruits to the organisation and is designed to make them aware of the requirements of the job and to give them information about the organisation. It also provides an opportunity to put new employees at ease and to introduce them to their colleagues, etc. Some organisations run special induction courses that may have a number of sessions spread over several weeks. In other cases, actual induction may be fairly brief but new employees are given a mentor to help them through their first few days.
- **On-the-job training** – as its name suggests, this is training which takes place while employees are actually carrying out their job. It can cover a number of different activities. For example, a worker may watch another more experienced worker doing the job (known as ‘sitting next to Nellie’); they may be helped and guided through new work and advised and helped on how to improve (known as coaching, because the process is similar to that used in sport); or an employee may go round different departments learning what each one does (a process that is often used for new young managers).
- **Off-the-job training** – this takes place away from the employee’s place of work and can take several different forms, such as going to college to gain a recognised qualification; attending a special vocational course run by a college, university or other training provider; or participating in a course run by the organisation itself (known as ‘in-house’ courses).
- **Staff development** – this has been mentioned before. It is usually based on a plan agreed between members of staff and their line manager, although some organisations have standard plans which several employees may follow, such as management development programmes. Staff development may well involve a combination of on-the-job and off-the-job training. Development plans are normally agreed on an annual basis and updated each year.

- **Appraisal** – this is a report on how well an employee is progressing. It is usually carried out at regular intervals (normally once a year) by the employee's line manager. The process may require the completion of an appraisal form by both parties which is then followed up with a formal interview. It is important that the employee does not feel that they are on trial, otherwise an element of distrust/resentment can enter the process. The appraisal may highlight training needs and the potential of an employee for possible promotion. A successful appraisal may determine if an employee will receive a bonus or be moved up the payscale.

Employee relations

Employee relations refers to ways in which employers deal with their employees, either collectively as a group or as individuals. Industrial relations is that part of employee relations which involves dealings between employers and trade unions. The term 'employee relations' is relatively new and is associated with the use of the phrase 'Human Resource Management'. In the past, dealing with employees was seen solely in terms of dealing with trade unions, and industrial relations was often a major part of the work of traditional Personnel Departments. Industrial relations is still important, especially in organisations where trade-union representation is strong, but it is now more common to see it within the broader context of employee relations.

The main areas covered by employee relations policies are:

- **Trade union recognition** – i.e. whether trade unions should be recognised and, where they are, which should be accorded recognition;
- **Collective bargaining** – i.e. how discussions with trade unions should take place: should they be centralised (e.g. covering a whole organisation or a number of organisations) or decentralised (e.g. take place at each workplace);
- **Employee relations procedures**, such as discipline, grievance, redundancy;
- **The employment relationship** – i.e. the terms and conditions of employment (which could be agreed in several ways: individually by each employee, collectively for all employees, or for specific groups of employees);
- **Participation and involvement** – i.e. the extent to which an organisation is prepared to allow the workforce to participate in decisions that may affect them and how this will be done.

The main institutions in employee relations

ACAS

The mission of ACAS (the Advisory, Conciliation and Arbitration Service) is 'to improve the performance and effectiveness of organisations by providing an independent and impartial service to prevent and resolve disputes and to build harmonious relationships at work'. It operates in a number of ways:

1. *By preventing or resolving employment disputes*

ACAS believes that the best way of improving industrial relations is for employers and employees to work together to solve problems *before* they develop into full-blown disputes and confrontation. Through workshops and joint working parties, ACAS's experienced staff can help organisations avoid industrial relations problems.

Under employment law, ACAS has a statutory duty to try to obtain an agreed settlement of a complaint that an individual has made or could make through an industrial tribunal. This could come under the heading of unfair dismissal, equal pay for equal work, sex discrimination or racial discrimination.

2. *By conciliating in actual or potential complaints before industrial tribunals*

Where parties agree to conciliation by ACAS, a conciliation officer is assigned to the case. This officer will explain tribunal procedures, outline the legal aspects of the case and generally help the parties to be aware of the options open to them.

3. *By providing information and advice*

ACAS operates a nationwide network of public enquiry points. These deal with queries on almost all employment matters, including rights and obligations under employment law. The service is available, free of charge, to any individual or organisation.

4. *By promoting good practice*

ACAS organises conferences and seminars on current employment and industrial relations issues. It also runs self-help workshops for small organisations at which employment policies and procedures

can be discussed. There is usually a charge for these. ACAS also produces a range of publications offering practical guidance and advice on employment practices and industrial relations.

Employers' associations

These are organisations that represent the views and interests of companies within one sector of industry. They are financed by subscriptions from members, and are formed to provide their members with certain services especially related to their business. Some of the better known employers' associations include the Newspaper Society and the Engineering Employers' Association.

Such associations provide a range of services:

- As a pressure group they influence (or try to influence) government in the setting of taxes and the passing of employment, consumer and business laws.
- As a collective research organisation they can produce both product and market research for their members. This works out less expensive per member and is often far more comprehensive than if members were to carry out the research independently.
- They act as a public relations voice for the industry as a whole (as the Meat Marketing Board has done in recent years to try to counter the effects of the BSE crisis).
- They can provide a negotiating team to meet trade union representatives in negotiating pay, working conditions and other employment related matters.

The CBI (Confederation of British Industry) is an employers' association that has members from many different industries. Its counterpart is the TUC (Trades Union Congress), the official body representing British trade unions.

Employee organisations

Trade unions

Trade unions are organisations that represent people at work. Their purpose is to protect and improve people's pay and conditions of employment. They also campaign for laws and policies that will benefit working people.

Trade unions exist because an individual worker has very little power to influence decisions that are made about his or her job. By joining together with other workers, there is more chance of having a voice and

influence. In recent years many smaller unions have merged so that they can increase their membership and their influence.

All sorts of jobs and industries are covered by trade unions. Some unions represent people who do a particular job or work in a specific industry – for example, the National Union of Mineworkers (NUM), as its name suggests, represents miners. The EIS (Educational Institute of Scotland) represents some of Scotland's teachers.

Other unions include a mixture of people in different jobs and sectors. The biggest union in Britain – The Transport and General Workers Union (TGWU) represent people working in a range of different occupations and industries in the public and private sectors.

Trade unions are democratic organisations and are accountable to their members for their policies and actions.

The TUC is the collective voice of all of its member unions, just as the CBI is for employers.

Professional associations

These represent diverse 'professional' occupations such as doctors (British Medical Association), the police (Police Federation), even footballers (Professional Footballers Association) etc. In some cases they perform a similar function to Trade Unions and represent their members in bargaining for pay and improved terms and conditions of employment. Professional associations may also be involved in setting and maintaining standards and qualifications required to belong to a particular profession, e.g. the British Medical Association insists on certain qualifications before admitting doctors to its membership.

Processes in employee relations

Three main processes are used in maintaining relationships between employees and employers. They are:

- *Negotiation* – where employers and employees discuss matters of mutual concern and come to an agreement on what should take place. The essence of this process is that both parties must agree to the final outcome. Negotiation usually involves bargaining and compromise.
- *Consultation* – where organisations discuss matters of mutual concern with their employees and listen to the views expressed.

However, the final decision lies with the organisation and there is no obligation to come to any agreement. In making its decision the organisation may or may not take account of the opinions of its employees.

- *Arbitration* – where employers and employees decide that a decision will be made by an independent, neutral arbitrator. Both parties agree to accept the decision whatever it may be. This process usually involves both parties putting their case separately to the arbitrator, who may also collect other relevant evidence. This often happens when negotiations have broken down and employers and employees have failed to agree on the matters under discussion.

The processes of negotiation and arbitration can be illustrated by looking at collective bargaining. This used to be very common in the United Kingdom and is still important in some sectors, particularly where publicly funded organisations are involved. In other sectors, it has been replaced with discussions at a more local level.

Collective bargaining

In the nineteenth century workers used to negotiate their own pay and conditions with their employers. *Collective bargaining* occurs when workers allow the union to negotiate on their behalf. Negotiations can be with an individual employer or an employers' association.

The process usually begins with each side stating its position – the employer makes an offer of a wage increase, or an alteration in conditions of employment; the union, on behalf of the employees, makes its wage claim, or may object to an alteration in working practices. The two sides then negotiate. Each understands that the other's opening position is not necessarily its final position. There is room for negotiation, and a compromise will be needed before the two sides reach agreement.

The representatives from each side may go back to their colleagues to discuss what is on offer. If the employer's offer is seen as fair, the union representatives will recommend that their members accept. If the union's claim is seen as reasonable, the employer's negotiators will recommend that it should be met.

Negotiators often get to know each other well. Often they will be sent back to negotiate further and, if both sides have judged the situation skilfully, a compromise is reached. It is in the interests of both employers and employees that, if possible, negotiations have a positive outcome, since:

- Lack of agreement may ultimately result in industrial action;
- It may also result in a breakdown of morale and trust between managers and workers – in the long term this is harmful to the organisation.

Occasionally, the two sides cannot agree. In these cases the union may decide to take industrial action. This can take many forms, including:

- *Work to rule*
Here the workers do *only* what they are contracted to do – this has the effect of reducing efficiency and output and usually means that ‘extra’ work – such as overtime – is not done at all.
- *Sit-in*
Here the workers may occupy their own place of work and will prevent any production from taking place.
- *Strikes*
These are seen as the very last resort by any trade union. The ultimate weapon a worker has against his employer is to withdraw his labour altogether. But this action will usually only be taken if everything else has failed.

In several well-publicised cases strike action has failed to ‘get a result’ for the trade union in question. This reduced the willingness of employees to take part in strike action, especially if the loss of wages during the strike was not followed by their claims being met.

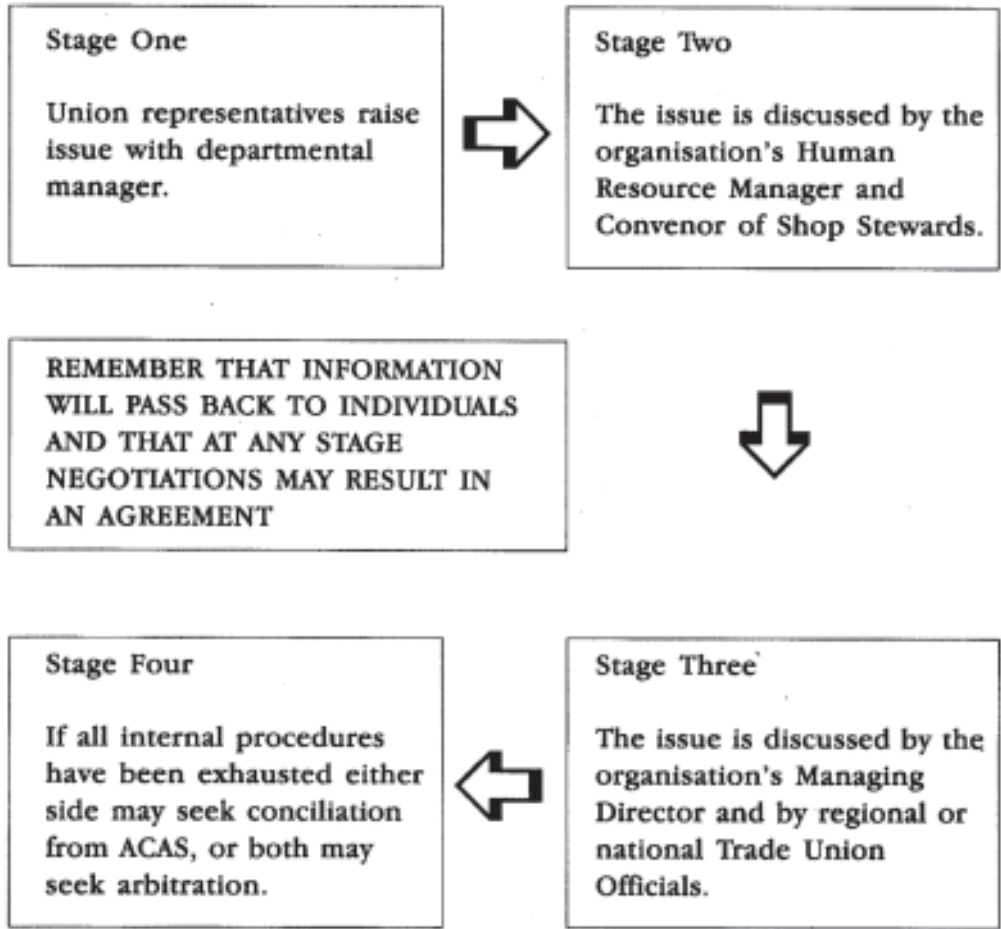
There are strict laws which unions have to follow when they take industrial action. A strike is only called as a last resort. Strikes are often in the news but are rare. Both sides have a lot to lose. Employers lose sales, customers and income because of interruptions to production or services. Employees lose their salaries and may find that their jobs are at risk.

If employment disputes occur, ACAS can help by offering conciliation. Conciliation is voluntary and attempts, through discussion and negotiation, to enable the parties in dispute to reach their own agreement. ACAS conciliators have no power to impose, or even recommend, settlements.

Where conciliation cannot resolve a dispute, the two sides may ask ACAS to provide arbitration. An independent arbitrator or board of arbitration will examine the case for each side and make an award.

Sometimes the parties to a dispute ask for the help of an independent third party to mediate and make recommendations for a settlement or to suggest a basis for further discussion. If so, ACAS can help by appointing a mediator.

Diagram representing the stages in collective bargaining in an organisation



Management of employee relations

A key concern of Human Resource Management is to create a favourable employee relations climate, i.e. one in which the 2 main parties (employers and employees) maintain good working relationships. This has led to a number of attempts to find ways in which this can be done successfully.

Works councils

In Germany, these councils consist entirely of workers' representatives and have legal rights of access to information from management on a wide range of topics. Councils also have the legal right to joint decision-making on all matters pertaining to employees and levels of manpower.

Such councils are not liked in much of UK industry as it is felt that they are too powerful. Management tends to distrust and resent them. However, some larger firms have developed such councils with considerable success, as they tend to operate alongside the trade unions.

The Rover car company was one of the first British manufacturing organisations to introduce a workers' council – largely as a result of it being taken over by the German firm BMW.

The introduction of the Social Chapter of the Maastricht Treaty means that workers' councils will *have* to be introduced in all medium- to large-sized businesses.

Development and monitoring of human resource policies and procedures

To an extent, this element of HRM can be seen as part of employee relations. Organisations have to develop procedures to ensure that employees are aware of what is expected of them at work and how their performance will be measured. In some cases, employers are legally obliged to develop suitable procedures.

The main HRM procedures relate to:

- *Appraisal* – where the performance of employees is reviewed at regular intervals (e.g. six months, a year). Normally, this involves a discussion between the employee and his/her line manager on the

extent to which objectives set for the period concerned have been achieved. It can involve a rating of the employee's performance against agreed criteria. In some cases, appraisal is referred to as a 'performance review'. The HRM department would be expected to develop and give advice on procedures to ensure that appraisal is conducted properly and fairly.

- *Grievance* – a procedure which sets out what employees should do if they are aggrieved at something that has happened to them in the organisation, for example if they think they have been badly treated.
- *Discipline* – the procedure to be followed if an employee is in breach of the organisation's rules of behaviour, for example unauthorised absence, stealing from the employer. The disciplinary procedure will specify what constitutes a disciplinary offence, what action may be taken and by whom. Normally, it requires several stages to have been completed before an employee can be dismissed (such as verbal warning, first written warning, final written warning, etc.). The number of stages involved usually varies depending on how serious the breach of discipline is.
- *Health and safety* – this procedure sets out matters like the organisation's health and safety policy, what safety precautions should be taken, what should be done in the event of an accident, etc.

Personnel information and record keeping

A key element of HRM is maintaining records of personnel. By doing this, the HRM department is able to:

- find out information about employees in the organisation;
- monitor the work of the HRM department;
- provide information which the organisation can use in the development of strategy;
- provide advice to line managers and others in the organisation.

Most organisations nowadays maintain personnel records in a computerised format. The extent of employee information varies between organisations but the following records are normally kept:

- basic employee data, e.g. address, employee number, National Insurance number, etc.;
- training, e.g. courses attended, qualifications obtained;
- absence, e.g. because of sickness;

- applicants for posts, e.g. to comply with equal opportunities legislation;
- holidays;
- wages and salaries, e.g. pay scale, method of payment, bonuses;
- labour turnover;
- occupational health.

Legislative requirements

There is a considerable amount of legislation relating to the employment and treatment of people at work. An increasing amount of this legislation emanates from the European Union (e.g. Directive on Working Hours). It is normally the task of the Human Resource Management function to make sure that the organisation obeys all aspects of the legislation. This covers a number of tasks, including:

- making sure that all HRM policies and procedures take account of all relevant legislation, e.g. discipline procedures and unfair dismissal legislation. In some cases, the legislation itself demands that the organisation develop a suitable policy (e.g. on health and safety);
- ensuring that HRM policies and procedures are updated in line with changes in legislation;
- providing training for line managers and others on the responsibilities that legislation imposes upon them;
- monitoring the organisation's performance to check that legislative requirements have been met (e.g. recording applications for jobs to ensure that the organisation is providing equal opportunities).

Some of the main legislation which HRM departments must take account of is summarised below.

Legislation

Health and Safety at Work Act 1974 (HASWA)

This combines, but does not replace, much of the previous legislation such as the Factories Act 1961 and the Offices Shops and Railway Premises Act 1963, and fills in areas that were not previously covered by health and safety control. It imposes a wide range of general health and safety duties on all employers as well as on employees and the self-employed. These include:

Employers' duties

It is the duty of the employer to ensure, as far as is reasonably practicable, the health, safety and welfare at work of employees. Matters to which that duty extends include in particular:

- the provision and maintenance of plant and systems of work that are, so far as is reasonably practicable, safe and without risk to health;
- making arrangements for ensuring, so far as is reasonably practicable, safety and the absence of risks to health in connection with the use, handling, storage and transport of articles and substances;
- the provision of such information, instruction, training and supervision as is necessary to ensure, so far as is reasonably practicable, the health and safety at work of employees;
- the maintenance of any place of work under the employer's control in a condition that is safe and without risks to health, and the provision and maintenance of means of access and egress from it that are safe and without such risks, so far as is reasonably practicable;
- the provision and maintenance of a working environment for employees that is, so far as is reasonably practicable, safe, without risk to health and adequate as regards facilities and arrangements for their welfare at work.

The phrase 'so far as is reasonably practicable' comes up again and again throughout the Act. This means that a calculation must be made in which the question of risk is placed on one side and the cost involved in taking the measures necessary for alleviating the risk (whether in money, time or trouble) is placed on the other.

If, when this cost-benefit exercise has been carried out, the risk is very small but the cost involved is very high, it is not 'reasonably practicable' to take the steps necessary to control the hazard. However, it must be noted that if the risk is a clearly established one (for example, the exposure to asbestos dust), then it is likely that even the most expensive measures would be felt to be reasonably practicable.

The employer's duties are defined as extending:

- to all employees in the course of their work,
- to the general public,
- to anyone (other than employees) working on their premises, for example contractors.

Safety representatives and committees

Employers are under a further duty to provide for the appointment of a safety representative and committee in accordance with the Safety Representatives and Safety Committee Regulations Act 1977 and Offshore Safety (Protection from Victimisation) Act 1992. These representatives have the general role of consultation with their employers to promote health and safety in the workplace, and must be allowed, without loss of earnings, any time off necessary to perform this role. They can inspect the workplace, either regularly on an agreed basis, or after giving notification of intent in writing, and may make recommendations to their employers on any aspect of health and safety at work.

Employees' duties

It is the duty of all employees while at work:

- to take reasonable care for the health and safety of themselves and of others who may be affected by their acts or omissions at work; and
- as regards any duty or requirement imposed on their employer or any person or under any relevant legislation, to co-operate with him or her so far as is necessary to enable that duty or requirement to be performed or complied with;
- not intentionally or recklessly to interfere with or misuse anything provided in the interests of health, safety or welfare in pursuance of any of the relevant health and safety legislation;
- to carry out their duties in accordance with the training or instructions given to them by their employer to ensure compliance with legal requirements;
- to report any dangerous situations in the workplace or any shortcomings in the arrangements for health and safety.

The Trade Union and Employment Rights Act 1993 gives the employee the right not to be dismissed for any of the following:

- taking appropriate steps to protect either themselves or others in circumstances of serious or imminent danger;
- performing health and safety responsibilities designated by their employer;

- leaving a dangerous part of the workplace if there is believed to be some serious or imminent danger which could not be averted and refusing to return whilst the danger persists;
- bringing a reasonable health and safety concern to their employer's attention in the absence of a representative or relevant safety committee;
- performing functions as employer-acknowledged health and safety representatives or as committee members.

Sex Discrimination Act 1975 (amended by the Sex Discrimination Act 1986 and Employment Act 1989)

The act makes sex discrimination (against either females or males) unlawful in full- or part-time employment, training and related matters. Discrimination against married persons on the grounds of marriage is also dealt with. The act also applies to discriminatory advertising, and includes trainees – such as those on Government Training Schemes. It makes amendments to the Equal Pay Act 1970.

Discrimination to which the Act applies:

- sex discrimination against women,
- sex discrimination against men,
- discrimination against married persons in employment,
- discrimination by victimisation,
- discrimination against applicants and employees,
- sexual harassment,
- equal pay,
- discrimination against contract workers,
- discrimination in partnership agreements,
- discrimination in trade unions and employers' organisations,
- discrimination against trainees undergoing vocational training offered by qualifying bodies.

Special areas which receive particular attention:

- discriminatory practices in the work place,
- discriminatory advertising,
- instructions to discriminate,
- pressure to discriminate,
- aiding unlawful acts,
- liability of employers and principles if the legislation is broken.

General exceptions:

- any requirements designed to protect women in relation to pregnancy,
- in relation to sport,
- for purposes of national security,
- where accommodation is for one sex only,
- charities may be exempt from the Act.

Race Relations Act 1976

This Act replaced the Race Relations Acts of 1965 and 1968, modifying and extending anti-discrimination legislation provided by them. The main features affecting employment are:

- job applicants, employees and trainees on government schemes who are discriminated against can claim for compensation from an industrial tribunal;
- indirect discrimination and victimisation are now covered by this Act;
- the rule which allowed employers to discriminate in order to keep a balance of races amongst their employees has been repealed;
- shop stewards and others acting on behalf of a trade union are no longer personally liable if they discriminate against union applicants or members;
- the Race Relations Board has been replaced by the Commission for Racial Equality.

Unlawful discrimination

As regards job applicants it is unlawful for employers to discriminate (because of race or religion) in:

- recruitment arrangements,
- terms offered within a job,
- not offering the job at all.

As regards existing employees it is unlawful for employers to discriminate in:

- terms of employment,

- opportunities for promotion, transfer, training or any other employee benefit,
- the withholding of such benefits,
- dismissal on grounds of race or religion.

As with the Sex Discrimination Acts it is unlawful for bodies such as trade unions, partnerships, professional organisations, training bodies and employment agencies to discriminate on racial grounds.

Employment protection

Much of the legislation is concerned with the legal situation of persons who are *not* in work, as far as individual rights are concerned (for example those who are on maternity leave, sick leave or who have been dismissed).

The major Acts covering employee protection are:

1. The Employment Protection (Consolidation) Act 1978
2. The Employment Act 1988
3. The Wages Act 1986
4. The Trade Union Act 1984
5. The Trade Union Reform and Employment Rights Act 1993
6. The Offshore Safety (Protection Against Victimisation) Act 1992

The above legislation gives employees the right to:

- written particulars of employment,
- a minimum period of notice,
- not be unfairly dismissed,
- receive redundancy payments (minimum levels are set down in the appropriate Acts),
- maternity leave and re-instatement after such leave,
- protection from discrimination at work,
- time off work (for such things as medical appointments, etc.),
- seek recourse by means of industrial tribunals should any of the above rights be infringed.

Industrial tribunals

Originally established under the Industrial Training Act 1964, they were set up to provide a cheaper and less complex approach to employment legislation issues. Each tribunal is made up of a chairperson (who has to be legally qualified) and two other people. Procedures are less formal

than courts of law and an individual bringing a case does not incur court costs. The jurisdiction of industrial tribunals includes a whole range of items which fall under the broad umbrella of 'employment protection', but in particular deals with claims for unfair dismissal, maternity provision, equal opportunities and discrimination.

The Employment Appeal Tribunal hears appeals on 'points of law' arising from industrial tribunals. These are presided over by a High Court judge.

Further appeals can be made to the Court of Appeals, then to the House of Lords and, finally, to the European Commission

Student Activities

Activity 1

Read the advertisement and then answer the questions which follow.

MURRAY MANSIONS

NEEDS YOU

**If you are hard working, fun loving and out-going
this might be the challenge for you.**

Our superior family hotel needs
A TRAINEE FRONT OF HOUSE MANAGER

If you feel you could cope with anything
– learn new skills
– gain new qualifications

If you would like to earn a STARTING salary of
£10,000

– get all your meals whilst on shift
– live in first class staff accommodation

Write for details and an application form, or submit your CV to:
Mrs C Murray, Murray Mansions, Room 145

1. What sector of the economy does Murray Mansions belong to?
2. (a) Using the web-site below, write a paragraph to show that you understand the importance of the hotel and catering industry to the Scottish economy.

<http://www.scotland.gov.uk/>

** You will have to use the 'search' facility once you get into The Scottish Office or Scottish Parliament sites to find statistics on tourism in Scotland. You should get enough information if you search for 'tourist board statistics'. There may be two or three sites to visit to make sure that you get enough information.

- (b) If you do not have access to the Internet visit your local tourist information centre and ask if they can provide you with information on visitor figures for the last five years.
3. Why does the hotel and catering industry employ such a large number of part-time and casual staff?
4. Who could be described as 'core' staff in the hotel and catering industry?
5. Visit the Gleneagles Hotel web-site and list as many jobs as you can that there would be found throughout the complex.

<http://www.gleneagles.com/>

6. Write a letter of enquiry, telephone or visit a nearby hotel and ask the manager how many different jobs there are in the hotel and what their titles are. Find out from the hotel how many of their staff are part-time and how many full-time. Also find out the number of female employees and the number of male employees.

Activity 2

Based on the advertisement for the Trainee Front of House Manager complete the following tasks.

Task 1

Construct a Job Description for the above post (see the example on page 70).

Use your own knowledge of the hotel and catering trade and of business management as well as any additional resource material you may wish to access from the class or school library.

Task 2

Construct a Person Specification for this post (see the example on page 72).

What characteristics and personal traits do you feel that the post-holder should possess? Which of these are *essential* and which do you think are only *desirable*? Would you insist on experience or minimum qualifications?

Task 3

Complete a Curriculum Vitae for yourself in reply to this advertisement.

Please follow the suggested format set out on the next page. This document is for you to keep and should be up-dated as appropriate.

CURRICULUM VITAE

NAME:

PERSONAL STATEMENT: [A paragraph that sets out your key characteristics and why YOU are the right person for this position]

ACADEMIC QUALIFICATIONS:

Standard grades (Subject and level of pass)

Higher grades (Subject and level of pass)

Modules

WORK EXPERIENCE:

[In reverse chronological order – most recent job first]

HOBBIES AND INTERESTS:

ANY ADDITIONAL QUALIFICATIONS WHICH MIGHT BE RELEVANT:

Clean driving licence, First Aid Certificate, Coaching qualifications, etc.

ADDRESS:

[Your postal address]

REFEREES:

[Name and address of at least one person who would give you a reference in support of your application]

Task 4

Write a formal letter of application for the job at Murray Mansions.

It should be checked for spelling and grammar, and be laid out in the correct manner of a formal business letter.

REMEMBER

If you know and use the name of the person you are writing to, finish with 'Yours sincerely'; if you use 'Sir or Madam', finish with 'Yours faithfully'.

Task 5

Fill out the application form that follows giving your details in the appropriate places.

APPLICATION FORM FOR MURRAY MANSIONS

Name:		Title:	
Address:			
Postcode		Telephone Number:	
Marital Status:		National Insurance Number:	
Qualifications:			
Standard Grade	Higher Grade	Other	
Present Employer:		Job Title:	
Name and Address:		Job Description:	
Salary:		Period of Notice required:	

Task 6

As a class:

1. Select a team (a maximum of three students) to conduct the interviews.
2. Pick ONE application from each class member – except those elected to be the interviewers. Look at all of the applications you have received for this post and identify those that you consider should be given an interview.
3. State WHY these applicants stand out.
4. Draw up a list of three to four candidates for interview.

Task 7

Now that you have an interview panel and a number of candidates to interview, plan, prepare and conduct interviews for the vacant post. Remember the seven steps to take to ensure a 'good interview'.

Task 8

1. Examine and compare the various methods you have used to apply for the post of Trainee Front of House Manager – CV, letter and application form and a *written* presentation to the Human Resource Manager.

Discuss the various methods you used, identifying which YOU think is best and which YOU consider the company should insist upon applicants using. Justify your reasons for this choice and the reasons for rejecting the other methods.

2. From the class experience in interviewing the prospective candidates, write a report for the Human Resource Manager discussing the advantages and disadvantages of using an interview to select the successful applicant.
3. What other forms of selection could be used?
4. Identify TWO that might be appropriate in this instance and suggest how they might be of particular help.

Activity 3

Human Resource Management is also about training, developing and maintaining an effective workforce.

Task 1

Construct a training programme for the successful applicant for the job at Murray Mansions.

Remember this is a trainee position. Think what MIGHT be required in terms of training and how the training might be conducted. What might be a major benefit to the post-holder of attaining qualifications? Would this need to be identified in the job description? If so, would you grade responsibilities of the post to match qualifications, and what sort of 'reward' would you use?

** It may be very helpful to contact a local college or university to find out what training is available for individuals in the hotel and catering industry.

Task 2

Split the class into two groups. One should argue FOR an on-going training programme for all staff in any organisation and the other AGAINST such training. At the end of the debate, decide who has presented the more powerful arguments.

Activity 4

Visit the ACAS web-site and answer the questions below. You will find ACAS at:

<http://www.acas.org.uk>

All of the information you need can be found in ACAS publications.

- (a) What does ACAS stand for?
- (b) What are the four main aims of ACAS?
- (c) Outline how it hopes to achieve each of these aims.
- (d) Where can you contact ACAS for more information?
- (e) In preventing and resolving collective disputes, ACAS may assist in the formation and running of a joint working party. What exactly is this?
- (f) In providing information ACAS suggests that people contact one of their enquiry points for a free and confidential service. What types of employment issues can they give advice on?
- (g) ACAS provides individual conciliation in cases which are, or could be, the subject of complaints by individuals to industrial tribunals about alleged infringements of employment rights. What employment rights does ACAS have a duty to conciliate in?

Activity 5

- (a) Visit the UNISON web-site on <http://www.unison.org.uk>

List the various membership benefits that the union offers.

- (b) Visit the TUC web-site on <http://www.tuc.org.uk>

Go to the 'links' page and open the link with 'TUC affiliated unions'.

Visit a number of the web-sites and see if the benefits offered to members are similar to those offered by UNISON.

Go into Congress House (click on 'enter building').

Click on the web-site 'about the TUC' and then on 'about trade unionists today'.

How many trade union members are there in the UK?

How many are in full-time positions?

How many are in part-time positions?

What percentage of trade union members are male?

What percentage of trade union members are female?

Are there any regional differences in membership numbers?

In which regions is membership highest?

In which regions is membership lowest?

What percentage of union membership comes from professional, associate professional or managerial occupations?

** As an alternative exercise for those students who do not have ready access to the Internet invite a trade union shop steward or representative in to talk to the class. The questions asked could follow those above.

(c) Based on your findings above write a report outlining how an old-fashioned trade union might change its marketing mix to attract members in the new century.

Activity 6

Read the two articles 'EIS partnership plea on pay' and 'Fudge, fiasco and disaster – but please let us join in' and answer the questions below.

EIS 'partnership' plea on pay

THE OUTGOING president of the Educational Institute of Scotland has given the clearest signal yet that the union is preparing for a last-gasp negotiated settlement on a revised pay and conditions structure.

Addressing the union's annual conference in Perth yesterday (Thursday), Moira McCrossan called on ministers, employers and unions to shift their entrenched positions to reach a deal.

The EIS backed much of the Government's agenda, including its emphasis on social inclusion, Ms McCrossan said.

'I am not suggesting we should abandon our conditions of service or that teachers alone should bear the responsibility of delivering social inclusion.

'But if we are urging genuine partnership on the Government and a commitment to listen, we must be prepared to examine our own sacred cows and consider whether or not they still serve us well.'

She warned: 'If the millennium negotiations founder, the Government may well be able to drive through its modernisation agenda in the teeth of teacher opposition. Eventually teachers may fulfil whatever new responsibilities are enforced, grudgingly without commitment or ownership.

FUDGE, FIASCO AND DISASTER – BUT PLEASE LET US JOIN IN

THE Educational Institute of Scotland should amalgamate with the Scottish Secondary Teachers' Association to stop secondary teachers getting a raw deal, a senior SSTA figure says.

Peter Wright, Lothian area secretary and a member of the SSTA's executive, is the most senior figure in the union to urge amalgamation for some time.

Mr Wright, speaking entirely in a personal capacity, decided to make his move on the eve of this weekend's annual EIS conference, which regularly revisits the issue. The institute's Renfrewshire association will again try to commit delegates to a merger.

Supporters will not, however, be basing their arguments on Mr Wright's premise. He claims the EIS, as the largest union, has led secondary teachers into a series of 'disasters, missed opportunities and own goals'.

The list includes introduction of a 'flawed' Standard grade curriculum, the Higher Still 'fiasco', a successive 'fudge' of pay settlements, the

'unnecessary and irrelevant' target-setting exercise, the 'mess' of compulsory modern languages – for which teachers get the blame – and the Inspectorate's 'curriculum change by diktat' in S1 and S2.

Mr Wright contrasts the secondary experience with that in the primary sector where the EIS represents most teachers. This unity helped primaries resist 'the horrors of national testing on the English league tables model'.

Official SSTA policy has been to support amalgamation but only if there is a separate secondary sector within a federal EIS structure. The model is the EIS's further education section – although it complains constantly about its lack of autonomy from the main body.

The EIS with 50,000 members to the SSTA's 7,000, has never shown serious interest in any overtures. Mr Wright suggests some EIS figures oppose unity because it would threaten their power base. But he says that it would actually strengthen the EIS as well as the position of secondary teachers.

accord with the Government's intentions, differing only in terms of detail.'

Ms McCrossan argued that the EIS had won the battle over post-16 curricular reform, describing the solution agreed in the Higher Still Liaison Group as 'a model of reasonableness on all sides'.

Source: *TES Scotland*, June 1999

Ms McCrossan is suggesting that the EIS should try to reach a deal with ministers and employers.

- What does she suggest the EIS, as teachers' representatives, might bring to the proposals at present under discussion?
- How does she suggest the union members might be losers if the negotiations break down?

(c) Who will be the ultimate losers if teachers take industrial action?

In the second article, Peter Wright, Lothian area secretary of the SSTA is urging an amalgamation of the EIS and the SSTA.

(a) What does Mr Wright accuse the EIS of?

(b) How might the merger of these two unions benefit the members?

Activity 7

Contact your local Chamber of Commerce or Rotary Club and ask a representative to come to talk to the class about local employers' associations and groups.

The students should compile a list of questions they might want to have answered. The ones listed below may give the class a starting point:

- How many employers' associations are there in this area?
- What do you have to do to join an employers' association?
- What benefits are there for individual employers?
- Are membership numbers higher or lower now than they were ten years ago?
- Why do you think these changes have taken place?
- What does your organisation offer to an employer?
- What does an individual have to do to join your organisation?

Activity 8

During the second week of June 1999 it was reported that the previous year had seen the lowest recorded number of days lost through industrial disputes since records began.

Discuss.

This activity could be tackled by the individual student preparing a report or talk, or could be carried out as a whole class discussion. Adequate preparation and research time should be allowed for this activity.

Students might find it helpful to carry out a PESTEC analysis, using the table below, when preparing their responses to this statement.

	Trade Unions	Employers
Political		
Economic		
Social		
Technological		
Environmental		
Competitive		

Activity 9



Study the four pictures above.

- (a) Who is responsible for health and safety in the workplace in each of the four pictures?
- (b) What are the main health and safety duties that each of the different employers would have?
- (c) What are the main health and safety duties that each of the different employees would have?
- (d) Make up a poster outlining the rules for Health and Safety at Work in an office.

Activity 10

This female engineer represents the changing face of British industry. Women are to be found in all types of occupations and at all levels in the various organisations they work in. Equal Opportunities legislation states that all employees should have an equal right to training, opportunities for promotion and an equal rate of pay for work of an equal value to their employer.

Discuss.

Activity 11

Research needs to be done in order to answer the following questions. Sources of information may include:

<http://www.tuc.org.uk>

<http://www.acas.org.uk>

Citizens' Advice Bureau

Local library

Textbooks on employment legislation or Human Resource Management such as:

- *Personnel Management* (4th Edition), G A Cole, Letts

A trade union representative

- (a) What is a 'contract of employment'?
- (b) When should an employee be given a contract of employment?
- (c) What information would such a contract contain?
- (d) Why is it important that an employee has a contract of employment?
- (e) What happens if an employee is not given a contract of employment?

Solutions to Activities

Activity 1

1. The tertiary sector.
2. Fastest growing sector of the economy. Largest single employer (as an industry). Brings in money (foreign tourist revenues) to the economy. 16% of Scots employed in the industry.
3. Traditionally jobs such as waitressing and cleaning rooms have been seen as women's work. The hours offered often suit women with young children. Many students also want to work part time. Part-time workers can be paid at a lower rate and are often paid only for the actual hours they work. It is easy to get rid of part-time staff like these if the business is quiet, but it is also usually easy to increase staff numbers – even at short notice – for special events.
4. Bar staff, waitresses/waiters, chefs and housemaids.
5. Bar staff, waitresses, waiters, chefs, cooks, cleaners, housemaids, pot washers, dishwashers, reception staff, accountant(s), green-keepers, golf professionals, shop staff, grooms, riding instructors, beauticians, therapists, hairdressers, fitness instructors, marketing manager, function manager, managing director, etc.
6. Solution will depend on individual student.

Activity 2

The solution to all of the tasks in this activity will depend on each individual student and on the class group involved.

Activity 3

Task 1

Each individual student is likely to come up with different variations for their training programme. It should, in general, cover basic training in all aspects of hotel management and might include day release or block release courses, depending on the information the student can get from the local FE and HE centres.

** It may be that the student assumes that the successful candidate already has an HND or degree qualification, but there would still be a requirement for additional on-the-job training.

Induction Training

Four-week familiarisation in all departments - house-keeping

- restaurant
- bar
- function suites
- reception
- book-keeping, wages
- stock ordering
- kitchen.

Working on the job with section head to gain experience in each department and overall familiarity with hotel.

Commencement of day-release course at local college – as soon as term starts. The one day at college will be treated as a working day.

Gaining qualifications may lead to a salary increase, or to another job in a larger hotel. This may be in the job description – as a requirement of the post.

The most usual reward would be a salary increase.

Task 2

The response to 'is an on-going management training programme useful?' will largely depend on the individual student. However, acknowledged benefits include:

- fosters teambuilding,
- enhances corporate identity,
- develops friendships,
- improves communication,
- builds trust,
- develops initiative skills,
- reduces workplace stress,
- may identify leadership potential,
- may highlight unknown strengths or weaknesses.

For the individual benefits include:

- builds self confidence,
- allows strengths to come to the fore,
- teaches leadership skills,
- may assist with overcoming fears,
- teaches new skills,
- builds friendships.

For the organisation benefits include:

- increased motivation in the workforce,
- increased teamwork,
- increased loyalty,
- improved communication skills.

Activity 4

(a) The Advisory, Conciliation and Arbitration Service.

(b) To:

- prevent and resolve employment disputes;
- conciliate in actual or potential complaints to industrial tribunals;
- provide information and advice;
- promote good practice.

(c) ***Preventing and resolving employment disputes***

ACAS believes that the best way of improving industrial relations is for employers and employees to work together to solve problems before they get out of hand and develop into confrontation. By means of workshops and joint working parties ACAS's experienced staff can help organisations steer clear of industrial relations problems.

If employment disputes occur, ACAS can help by offering conciliation. Conciliation is voluntary and attempts through discussion and negotiation to enable the parties in dispute to reach their own agreement. ACAS conciliators have no power to impose, or even recommend, settlements.

Where conciliation cannot resolve a dispute, the two sides may ask ACAS to provide arbitration. An independent arbitrator or board of arbitration will examine the case for each side and make an award.

Sometimes the parties to a dispute ask for the help of an independent third party to mediate and make recommendations for a settlement or to suggest a basis for further discussion. If so, ACAS can help by appointing a mediator.

Promoting the settlement of individual rights disputes

ACAS has a statutory duty to try to promote an agreed settlement of certain complaints which an individual has made, or could make, to an industrial tribunal under employment protection legislation.

Complaints in which ACAS can conciliate include unfair dismissal, equal pay, sex and race discrimination.

Where the parties agree to accept ACAS conciliation, a conciliation officer will be assigned to their case. This officer will explain tribunal procedure, outline the law relating to the case and generally help the parties become aware of the options open to them.

Providing information and advice

ACAS operates a nationwide network of public enquiry points which deal with queries on almost all employment matters, including the rights and obligations arising out of employment law. The service is available to any individual or organisation free of charge.

Promoting good practice

ACAS organises conferences and seminars on topical employment and industrial relations issues. For small businesses ACAS also runs self-help workshops where employment policies and procedures can be discussed. Unlike the other services provided by ACAS, which are free, there is a charge for conferences, seminars and small firms workshops.

ACAS also produces a range of publications offering practical guidance and advice on employment and industrial relations topics.

(d) *On the internet:*

<http://www.acas.org.uk>

or by telephone:

Public Enquiry Points

Most offices are open from 9.00am to 4.30pm weekdays (some office times may vary).

Birmingham: (0121) 456 5856
 Bristol: (0117) 946 9500
 Cardiff: (01222) 761126
 Fleet: (01252) 811868
 Glasgow: (0141) 204 2677
 Leeds: (0113) 243 1371
 Liverpool: (0151) 427 8881
 London: (0171) 396 5100
 Manchester: (0161) 228 3222
 Newcastle upon Tyne: (0191) 261 2191
 Nottingham: (0115) 969 3355

or by mail:

Midlands Region

Warwick House, 6 Highfield Road, Edgbaston, Birmingham
 B15 3ED

Anderson House, Clinton Avenue, Nottingham NG5 1AW

Northern Region

Commerce House, St Alban's Place, Leeds LS2 8HH

Westgate House, Westgate Road, Newcastle upon Tyne NE1 1TJ

North West Region

Boulton House, 17-21 Chorlton Street, Manchester M1 3HY
Cressington House, 249 St Mary's Road, Garston, Liverpool
L19 0NF

South and West Region

Regent House, 27a Regent Street, Clifton, Bristol BS8 4HR
Westminster House, Fleet Road, Fleet, Hants GU13 8PD

London, Eastern and Southern Areas

Clifton House, 83-117 Euston Road, London NW1 2RB
39 King Street, Thetford, Norfolk IP24 2AU
Suites 3-5, Business Centre, 1-7 Commercial Road, Paddock Wood,
Kent TN12 6EN

Scotland

Franborough House, 123-157 Bothwell Street, Glasgow G2 7JR

Wales

3 Purbeck House, Lambourne Crescent, Llanishen, Cardiff CF4 5GJ

Head Office

Brandon House, 180 Borough High Street, London SE1 1LW

(e) *Joint working parties*

A joint working party (JWP) is not a negotiating body but a group of employer and employee representatives working together to devise and implement practical solutions to specific problems. A JWP will:

- adopt a structured problem-solving approach;
- define the problem(s) to be tackled;
- collect and analyse information;
- evaluate options;
- select and implement agreed solutions.

ACAS staff, who will often chair the working party, will help the members identify and clarify the issues to be considered, examine the various options for resolving the problem(s) and develop constructive solutions.

(f) *Information and advice*

ACAS provides information and guidance on a wide range of employment and industrial relations matters. It does this primarily through a network of public enquiry points. Anyone can contact an ACAS enquiry point. The service is free, confidential and impartial. Enquiry point staff can deal with many employment related matters including:

- continuity of employment,
- contracts of employment,
- deductions from wages,
- disability discrimination,
- discipline and dismissal,
- equal pay,
- holidays and holiday pay,
- hours of work,
- itemised pay statements,
- lay-offs, short-time working and guaranteed pay,
- maternity rights,
- race discrimination,
- redundancy,
- rights to notice,
- sex discrimination,
- time off for public duties,
- trade union matters,
- transfer of undertakings,
- written statements of terms and conditions.

(g) *Employment rights in which ACAS has a duty to conciliate:*

- unfair dismissal (including the right to return after maternity absence),
- disability discrimination,
- equal pay,
- sex discrimination,
- racial discrimination,
- guaranteed payments,
- suspension on medical grounds,
- time off for ante-natal care,
- offer of alternative work before being suspended on maternity grounds under health and safety regulations,
- remuneration when suspended on maternity grounds under health and safety regulations,

- time off for public duties and for trade union membership and activities,
- time off in the event of redundancy to look for work or arrange for training,
- written statement of reasons for dismissal,
- itemised pay statements,
- certain matters concerning redundancy consultation,
- action short of dismissal on grounds of trade union membership and activities or non-membership,
- certain matters concerning the transfer of undertakings,
- unauthorised deductions from payment to employer,
- redundancy selection,
- exclusion or expulsion from trade union membership,
- unjustifiable discipline by a trade union,
- unauthorised or excessive deductions from trade union subscriptions,
- refusal of employment/service of an employment agency on the grounds of being, or not being, a union member,
- breach of employment contract,
- Sunday working (shop and betting workers in England and Wales only),
- suffering a detriment – health and safety cases.

Activity 5

- (a) Most people join a union because they want protection at work – help with pay and conditions of service, legal or health and safety advice or representation in case things go wrong at work. That's what we're here for. UNISON negotiates on pay and working conditions at every level – local, regional and national. But we also do a lot more. Being a UNISON member gives you a range of benefits and unbeatable deals.

UNISON Holiday Club offers great discounts on flights worldwide, the best prices on ferry travel or cruising and easy booking from your home by telephone. Our own holiday centre in lovely, unspoiled Devon – that's Croyde Bay. With comfortable chalets, nightly entertainment and friendly staff, it's a great way to get away.

Britannia Building Society has been providing UNISON members with special offers on mortgages and saving schemes for three decades.

As UNISON members, you are our privileged customers, enjoying special offers and a loyalty bonus scheme.

UIA Insurance – A mutual company that is part of UNISON, UIA offers exclusive insurance to UNISON members.

Frizzell offers unbeatable value on motor insurance, personal loans and independent financial advice.

Your own UNISON credit card is available now. Offering variable repayments on a realistic credit rate which you choose, this credit card has no annual fee and a 3 month introductory rate of just 9.9% APR.

Simplitax can check your tax rates for you and there are no charges unless you get a tax refund! Phone free on 0800 783 9564 for details. If you need help filling out a tax return, we can help at reasonable rates.

Britannia Rescue offers up to 20 per cent discount for UNISON members so cover starts from just £28.80 a year.

The UNISON-endorsed Health Cashplan not only pays you cash when you are ill, but also meets the aims and values of UNISON and supports the NHS. Medicash is a not-for-profit organisation

which pays back over 80 per cent of contributory income every year to members in cash benefits.

UNISON Welfare is a registered charity providing help to members and their families in times of financial hardship or personal difficulties.

Professional indemnity insurance of up to £1 million for all members with main employment in the NHS is just one more benefit of joining UNISON.

- (b) The AEEU Research Department produces a series of well-written guides covering a wide range of issues, from workplace bullying to part-time worker rights, and much, much else besides. We also provide full training for shop stewards and representatives and back them up with a highly experienced – and successful – Legal Department. To build on our record, we have recently established an Equal Opportunities Committee with 18 elected members bringing a wide range of experience and working backgrounds to push this agenda forward. The message from the AEEU is loud and clear – if your rights are being abused ‘Don’t Put Up With It!’

Our quarterly magazine is always full of campaign news and settlements, conference debates, training courses, health and safety advice, legal advice and new publications from the Research Department. There are regular features showing members at work and underlining how a positive approach from the Union brings positive benefits to our members.

Last but not least, the AEEU has negotiated a comprehensive range of home and leisure offers – insurance of all kinds, discount loans, offers from the Holiday Club, and many other money-saving deals. There really are so many benefits of membership of the AEEU.

As well as negotiating pay and conditions BIFU provides a wide range of extra services for members.

We provide individual representation and legal support for members who need help. Membership Services offer you savings on shopping, holidays, motoring and financial services.

We’ve just launched a network for young members.

BIFU Education provides a range of courses free to all members including assertiveness training, computer skills, your rights at work, how to get involved in BIFU... and runs LearnDirect – a distance learning programme.

We publish a bi-monthly magazine for members, *BIFU Report*.

BIFU members have privileged access to a wealth of information on work-related issues provided by our Research Department. Members will be given a password to enter the virtual Research Department in October.

Legal services

BIFU membership entitles you to free representation for problems at work. We bring in £3million a year for members through settlements and legal awards. Many are involved in accidents at work or develop industrial injuries like RSI (Repetitive Strain Injury).

Others need representing at a tribunal or just need legal advice on their employment. We have trained, professional staff to help you. We use experienced solicitors with offices around the country.

Your first step if you need help should be to contact your local BIFU Rep, Seconded Rep or your Area Organiser. See our Need help? section.

Our Legal Service covers injuries from road traffic accidents and we now have a 24-hour hotline to help you with non-work legal problems too. For information e-mail us.

Discount shopping.

Savings of up to 12.5% on ABTA bonded holidays with BIFU's Travel Club.

Mail order book service.

Discounted car purchase scheme, discounts on RAC and Green Flag rescue services and savings on car rentals.

Home and contents, car, travel and personal accident insurance. Savings and investments, mortgages, loans, retirement and family protection.

BIFU credit card.

Will making.

Save up to 20% on your gas bills with Union Energy.

Young members

The aim of BIFU's Youth Network is to be a fun, informal and accessible forum for young people (30ish and under) to meet and tackle issues that affect them at work and in the union.

One of the Network's main tasks is to challenge the way BIFU traditionally does things, and look at new ways to make the union more accessible, more relevant and more attractive to young workers.

It's part of the new 'organising' approach initiated by the TUC – which is about empowerment of individual members to give them ownership of their union and the work it does.

The best people to campaign on issues are those who are directly affected. The more members who get involved, the stronger the union will be. BIFU runs local education courses especially aimed at younger members. Contact your Area Office for details.

The Youth Network is holding a national conference in Birmingham in October. Local members of the Network run events around the country. If you'd like more information email us and we'll be in touch.

If you're being harassed or discriminated against, we can help.

BIFU has a team of racial and sexual harassment counsellors, a Lesbian and Gay Network, a Gay and Lesbian Helpline and a Disablement Advisory Committee. For more information e-mail us.

Your membership entitles you to free legal representation to fight unfair practices in the workplace.

We support individual members who feel they are being discriminated against or harassed and BIFU campaigns on the wider issues with Government and employers.

We're calling for anti-discrimination laws to cover lesbians and gay men in all aspects of life.

We campaign against age discrimination.

We fight for equal pay for work of equal value and campaign for full-time rights for part-time workers.

We're calling on the Government for comprehensive and enforceable laws to prevent discrimination against people with disabilities.

Members on the Committee have disabilities and DAC leads the union's campaign on the issues affecting our members with disabilities. They run an annual seminar for members on disability issues.

We provide information and newsletters in braille, large print and *BIFU Report* on tape.

We give members with disabilities free joint membership of the National League of the Blind and Disabled.

** The solutions to this will depend on the web-site information the students access.

All figures and percentages are from the Labour Force Survey in Autumn 1996.

There were just under 6.9 million employee union members – 31% of all employees.

Of these, 5.8 million worked full time and 1.1 million worked part time. Over a third, 35%, of all full-time employees were union members, as were 20% of all part-time employees.

Just under 3.8 million male employees and just over 3.1 million women employees, were members. Men made up over half, 55%, of all employee members while women accounted for 45%.

There were clear regional variations in unionisation rates. High rates were recorded in the North of England (42%) and in Wales (41%), while in the South-East of England excluding Greater London only 23% of employees were members.

High unionisation rates were also recorded in the North-West (38%), Scotland (36%) and Yorkshire and Humberside (35%).

Trade union and staff association membership is heavily concentrated in managerial, professional and associate professional jobs – 41% of all employee members.

The most highly unionised jobs were *professional* and *associate professional* occupations. Over half (52%) of all employees in *professional* occupations (which include teachers, doctors, lawyers and scientists) were union members. The average union density figure for employees in *associate professional* occupations (which include nurses, social workers and technicians) stood at 47%.

(c) The types of answer looked for here should include:

- lose the cloth cap/working man's image,
- target women,
- target young people,
- target those living in South-East England,
- make unions seem more 'professional' – like professional associations,
- target part-time employees,
- target contract workers,
- offer discount membership rates,
- offer additional services, such as:
 - holiday clubs,
 - legal representation in matters outwith the work place,
 - favourable rates for loans, insurance, saving schemes,
 - discounted car hire,
 - discounted shopping (by producing a union card acceptable in certain shops),
 - low interest rates for mortgages,
 - favourable early retirement packages.

Activity 6**Article 1**

- (a) Genuine partnership;
Identification of ideas that are ill thought out and educationally unsound.
- (b) The government will drive through its modernisation agenda and teachers will have to fulfil whatever new responsibilities are enforced without commitment or ownership.
- (c) Students.

Article 2

- (a) That it has 'led secondary teachers into a series of disasters, missed opportunities and own goals'.
- (b) The larger the union the more powerful it is likely to be as it represents a much larger percentage of the total workforce.

A larger union may also be able to negotiate even more favourable conditions for additional services such as:

- discounted membership rates,
- holiday clubs,
- legal representation in matters outwith the work place,
- favourable rates for loans, insurance, saving schemes,
- discounted car hire,
- discounted shopping (by producing a union card acceptable in certain shops),
- low interest rates for mortgages,
- favourable early retirement packages.

Activity 7

The solutions to this activity will depend on who the speaker is and what questions the students ask.

Activity 8

	Trade Unions	Employers
Political	Changes in legislation – ballots before strike action can be taken, requirement to inform employers, time limits between ballot and action.	Distancing of Labour Party trade unions and Trades Union Congress. The end of the union block vote to influence (make) Labour Party policy.
Economic	Low interest rates, low inflation, low unemployment.	Increased willingness for part-time and job-share positions among women. Low inflation.
Social	Acceptance of home-working and greatly increased numbers of women in the workplace.	Acceptance (even if reluctant) by many workers that permanent posts are a thing of the past. Willingness of workers to move and re-train and change careers.
Technological	Greater efficiency through use of computerised systems in all sectors of the economy. Numerous job losses as a result. Fear that industrial action will lead to more job losses as machines are brought in to replace workers.	Increased speed of decision-making. Increased ability to improve quality control. Increased competition in the workplace. Increased need to continue to invest in capital equipment in order to remain competitive.

Activity 9

- (a) Everyone pictured there. The employers. Other workers.
- (b) Employers' Duties

It is the duty of the employer to ensure, as far as is reasonably practicable, the health, safety and welfare at work of employees. Matters to which that duty extends include in particular:

- the provision and maintenance of plant and systems of work that are, so far as is reasonably practicable, safe and without risk to health;
- making arrangements for ensuring, so far as is reasonably practicable, safety and absence of risks to health in connection with the use, handling, storage and transport of articles and substances;
- the provision of such information, instruction, training and supervision as is necessary to ensure, so far as is reasonably practicable, the health and safety at work of employees;
- the maintenance of any place of work under the employer's control in a condition that is safe and without risks to health, and the provision and maintenance of means of access and egress from it that are safe and without such risks, so far as is reasonably practicable;
- the provision and maintenance of a working environment for employees that is, so far as is reasonably practicable, safe, without risk to health and adequate as regards facilities and arrangements for their welfare at work.

The phrase 'so far as is reasonably practicable' comes up again and again throughout the Act. This means that a calculation must be made in which the question of risk is placed on one side and the cost involved in taking the measure necessary for alleviating the risk (whether in money, time or trouble) is placed on the other.

If, when this cost-benefit exercise has been carried out, the risk is very small while the cost is very high, it is not 'reasonably practicable' to take the steps necessary to control the hazard. However, it must be noted that if the risk is a clearly established one (for example the exposure to asbestos dust), then it is likely that even the most expensive measures would be felt to be reasonably practicable.

The extent of the duties:

1. To all employees in the course of their work;
2. To the general public;
3. To anyone, other than employees, working on their premises (for example contractors).

(c) Employees' duties

It is the duty of all employees while at work:

- to take reasonable care for the health and safety of themselves and of others who may be affected by their acts or omissions at work; and
- as regards any duty or requirement imposed on their employer or any person or under any relevant legislation, to co-operate with him or her so far as is necessary to enable that duty or requirement to be performed or complied with;
- not intentionally or recklessly to interfere with or misuse anything provided in the interests of health, safety or welfare in pursuance of any of the relevant health and safety legislation;
- to carry out their duties in accordance with the training or instructions given to them by their employer to ensure compliance with legal requirements;
- to report any dangerous situations in the work place or any shortcomings in the arrangements for health and safety.

(d) The solution to this task will depend on each individual student. It may be that they will want to tackle this from two different points of view.

- They may choose to identify the main principle outlined above in a set of rules.
- It may be that they choose to identify hazards in the office environment in a picture-based poster.

Activity 10

The solution to this activity will depend on the student group and the discussion they have. However, such discussion should be based on economic social and legislative arguments. Statements such as ‘a woman’s place is in the home’ should be backed up by the consequences of lack of care for children or the costs of state provision of pre-school childcare or nurseries.

Activity 11

- (a) A contract of employment is the agreement made between an employer and an employee regarding the terms and conditions of that employment. Such a contract applies to *most* employees – although there are some excepted occupations such as Crown servants, registered dock workers and some merchant seamen.
- (b) Within thirteen weeks of starting work.
- (c) The contract of employment should contain the following information:
- the title of the job/position,
 - specific rules and duties relating to the job,
 - the employee’s scale or rate of pay,
 - when (s)he will be paid (monthly, weekly, etc.),
 - the normal hours to be worked,
 - the availability and rate of pay for any overtime worked,
 - holiday entitlement,
 - arrangements in the event of sickness (notification, sick pay, etc.),
 - any pension scheme arrangements,
 - the terms of notice required by both parties,
 - the procedures in place for voicing grievances,
 - the procedure in place if disciplinary measures are to be taken against the employee.
- (d) So that *both* parties to the contract are clear about their obligations and responsibilities should any disputes arise.
- (e) It may be that the employee loses some legal rights as (s)he may be seen to be working under a ‘contract *for* services’ – in other words as an independent contractor – rather than a ‘contract *of* service’ – as an employee.