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How to use this book

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

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

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

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

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

**Get it right**
These are helpful tips and hints to give you the best chance of success.

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

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

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

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

At the end of the book you will find a glossary of the key terms highlighted in bold in the text.
1 Mission, objectives and strategy
1.1 The links between mission, objectives, strategy and the business functions

This section will develop your knowledge and understanding of:

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

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

Coca-Cola Company Mission
“Our mission is:
• To refresh the world in mind, body and spirit
• To inspire moments of optimism and happiness through our brands and actions
• To create value and make a difference.”

Nike’s Mission
“To bring inspiration and innovation to every athlete* in the world.
(*If you have a body you are an athlete.)”

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

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

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

Activity
Research the mission of a business of your choice. Why do you think this mission is of interest to employees? How might it affect the way employees behave?
An objective is a quantifiable target for the business. A business may have several objectives. For example, the mission may be to “connect the world”; the objectives may be to achieve a 20% market share globally in five years, to launch a new cloud storage system in three years and to increase users of its mobile app by 200,000 by next year. The objectives make it clear exactly what has to be done and when. While the mission statement expresses the big picture, the objective is more specific than the mission statement. The mission statement is supported by objectives.

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

**Specific**
- It should define exactly what is being measured

**Measurable**
- It should be capable of being measured

**Achievable**
- It should be possible to achieve the target; if the target is not realistic then employees will not be committed to them

**Relevant**
- It should be clear to everyone involved why the objective should be aimed for; understanding why motivates people to want to achieve their goals and understand the bigger picture

**Time specific**
- It should be clear when an objective needs to be achieved; this enables managers to plan properly for them

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**Case study**

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

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

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

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

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

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

www.jnj.com/credo/

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

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

- **Profit objectives**: Profit measures the extent to which revenue is greater than costs. This profit shows that the business is adding value through its activities. Profit is common measure of the success of managers. Profit is an internal source of finance which means that it can fund investment (as opposed to the company having to raise money externally through loans).

- **Cash flow**: Simply making a profit may not be enough; it may also be important to focus on the timings of payments. Imagine for example that many sales are on credit. This would count as revenue because the sales have occurred but the cash has not yet come in and so cash flow could be a problem. Managers may need to ensure the payment terms from customers and to suppliers are suitable to ensure the cash flow is acceptable.

- **Shareholder value**: A company is owned by its shareholders. Shareholders will want the managers to earn more because that way the owners will be happy with the way the business is being run. The shareholders will be interested in:
  - the share price – the higher the share price the greater the value of what investors own
  - the dividends paid; this is the financial payment to shareholders that usually occurs each year. The shareholders vote on the recommendations of the managers.

- **Growth**: Managers may want the business to grow. This shows they are being successful in making the business bigger, which is good for their own success. It may also make the business more powerful and a more well-known brand.

- A business may also have social objectives. These are targets set to improve society, investing in the local community to improve the quality of life and helping certain groups in society, e.g. employing those who have been in prison.

- A business might also have environmental objectives. For example, a business might aim to:
  - reduce the pollution from its factories
  - recycle to reduce waste.

Short termism vs long termism

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

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

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

- The pressure on managers from investors to generate returns quickly. This may be the case if shareholders are looking for the highest possible returns they can get and insist that managers deliver them. This is most likely in a public limited company where many investors may be looking for short-term financial rewards. The owners of public limited businesses are often other companies such as banks and pensions funds; these investors need to earn a return for their owners and so are looking for high dividends and/or share price increases. Managers of public limited companies may be forced therefore to find ways of boosting short-term rewards to investors.

- The desire by managers to achieve short-term gains. Many managers will be looking to do well in their job and to get promoted. They are often intending to move jobs within a few years and so want to achieve short-term gains. They will be less interested in very long-term projects because they may not be there to take the credit.

The effects of short termism

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

This may mean with short termism:

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

Strategy

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

All of these are different strategies.

A strategic decision usually involves:

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

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

Key term

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

**MISSION:**
- to be a global business

**OBJECTIVE:**
- to increase overseas sales by 20% in 3 years

**STRATEGY:**
- enter the Egyptian, Thai and Chinese markets in the next 3 years.

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

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**Business functions**

The functions of a business are:

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

**Strategy and functions**

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

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

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

To decide on the best strategy to achieve an objective, managers will assess the environment in which their businesses operate. They will look for positive developments that create opportunities for them and other changes that might create a threat for their business. The extent to which changes create an opportunity or a threat depends on the position of the business and its strengths and weaknesses. If, for example, a business is good at entering international markets and changes in trade agreements open up new markets this represents an opportunity; this would not be the case if the business was not good at entering overseas markets. If a business has high levels of debt then an increase in interest rate might be a threat; however, it would be less of an issue if there were not high levels of borrowing.

SWOT analysis involves an analysis of the:

- Strengths of the current position of the business.
- Weaknesses of the current position of the business.
- Opportunities for the business.
- Threats facing the businesses.

The strengths and weaknesses of a business refer to its internal position; what is happening within the business. The opportunities and threats are external to the business; they represent changes happening outside of the business itself.

SWOT analysis needs to be conducted regularly as conditions change. SWOT analysis can help select a strategy but managers must then implement it effectively.

**Figure 1.2: A SWOT analysis**
The need to consider stakeholder needs when making decisions

This section will develop your knowledge and understanding of:

➔ The need to consider stakeholder needs when making decisions.

Stakeholders

Stakeholders are any individuals or groups that are affected by the activities of a business. Imagine a big city shopping centre. The stores in the centre will have employees and owners and they will be affected by how well the businesses do. For employees the success of the business will affect if they have a job and the amount they are likely to earn. For the owners it will affect the profits of the business and their rewards on their investment. The success of one business will also affect the success of others. If one restaurant in the shopping centre does particularly well it may take customers away from other restaurants there. On the other hand the success of the restaurant may bring customers to the shopping centre and increase sales of other types of stores.

The success of the shops in the shopping centre will also affect other stakeholders such as:

• The local and national government. The businesses at the centre are likely to pay local and or national taxes. This will generate revenue for the government. They will also be expected to follow local and national laws. For example, this might affect when they open and what they are allowed to sell.

• The local community. The community around the centre will be affected by any congestion that is caused as people drive to shop there and park their vehicles. Any litter and waste that is created by shoppers and the shops themselves may also affect the community.

Key term

Stakeholder: an individual or group who has an interest in a business. They can be affected by a business decision and/or have their views considered as part of the decision.

▲ Figure 1.3: Examples of different stakeholders of a business
When making decisions managers may want to classify their stakeholders. This process is known as “stakeholder mapping”. Stakeholder mapping categorises stakeholders according to their power and their interest in the business. In Figure 1.4, the shareholders have a high level of interest and power. This is typical of many companies because shareholders will want to know what is happening in the business and will influence who the managers are. In this example the government is not particularly interested but is powerful because it can pass laws that affect the business. How interested the government is may depend on what sort of business it is (for example, it will be interested in manufacturers of defence equipment or large businesses that employ hundreds of thousands of people). Employees are shown as interested (because decisions affect their pay and job security) but not powerful. However, groups of employees arguing together can be more powerful than individuals. In this example the local community are not very interested or powerful, but this will depend on what the business does, for example, is the business creating congestion in the area? The position of different groups will vary from business to business and over time. For example, if a business was criticised for safety issues the level of government interest may increase. This means that stakeholder mapping is not a one-off activity.

Managers may treat the different stakeholders differently according to the category they are in.

- **Low interest, low power**: These stakeholders have little connection with the business and managers will not need to spend much time worrying about them.
• **High interest, high power:** These are very significant stakeholders. They care about what is happening in the business and they are able to influence the decisions as they have power. Managers will want to ensure these stakeholders are kept well informed and are listened to when making decisions.

• **High interest, low power:** These stakeholders are interested in what happens in the business but are not in a position to actually influence what is done. Managers may keep them informed but are not particularly concerned about what they think or do.

• **Low interest, high power:** These stakeholders have a great deal of influence but are not especially concerned about this business. Managers will want them to be happy with what is happening but they will not need regular communication as they are not that interested.

### Using the stakeholder map

By identifying the relative power and interest of a stakeholder managers can decide on the most appropriate way of dealing with that individual or group. Resources are always limited and therefore need to be used most effectively.

For example, managers will:

• Make little effort to communicate or please stakeholders that have little interest in the business and little power.

• Keep stakeholders who are very interested in the business but not very powerful informed about what is happening but not offer much else.

• Keep groups that are powerful but who have little interest in the business satisfied with what the business does; managers won’t particularly want these stakeholders to become interested.

• Pay a lot of attention to stakeholders who are powerful and interested and manage these critical relationships.

### Progress question

3 How might stakeholder mapping be useful to managers?
Stakeholder objectives

The typical objectives of stakeholders are shown in the table below:

<table>
<thead>
<tr>
<th>Stakeholder groups</th>
<th>Typical objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Employment, good earnings, good working conditions</td>
</tr>
<tr>
<td>Owners</td>
<td>Profits, higher dividends and an increase in the value of the business</td>
</tr>
<tr>
<td>Customer</td>
<td>Good quality, value for money</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Regular orders, payment on time</td>
</tr>
<tr>
<td>Community</td>
<td>Support of local community</td>
</tr>
<tr>
<td>Government</td>
<td>Payment of taxes, act in legal manner</td>
</tr>
</tbody>
</table>

Do stakeholders’ objectives coincide or clash?

At times the objectives of stakeholders may coincide; different groups may be working together towards the same targets. For example, if a business provides better quality products this might help sales and profits; this might then lead to more jobs and wages for employees and more rewards to the owners. More sales may mean more orders and profits for suppliers and more money circulating in the local and national community. Several groups can gain at the same time from more profits.

However, this may not always be the case; at times the objectives of stakeholders may clash. Paying employees higher earnings may reduce profits for investors. Paying suppliers on time may weaken the cashflow position of the business and reduced its value. Greater taxes for the government may mean lower profits for investors. Managers will be constantly balancing different demands from different stakeholders to find the best course of action.

Activities

Go back to your list of stakeholders of the business you know.

1. Think of two instances where there may be a conflict of interests between different groups.
2. Identify two instances where the interests of different groups may coincide.

Get it right

When writing about stakeholders you rarely need to consider every group. In any situation some stakeholders may be more important than others. Focus on the key groups in any situation.
Exam-style questions

**Explanation and analysis**

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

**Evaluation**

6. You have just become Chief Executive of a multinational that has been performing badly. Do you think it is a priority to review the mission statement? Assess the arguments for and against and make a judgement. (12 marks)
7. You want to change the strategy of your business. Do you think you should involve stakeholders in developing this strategy? Assess the arguments for and against and make a judgement. (12 marks)
The only textbook that fully supports the OxfordAQA International A2 Level Business specification (9625), for first teaching from September 2018.

- A thematic structure builds on the skills and knowledge already gained in previous study and prepares students for their next steps in employment or higher level education.
- Enhance students’ understanding of current business practice with international, real-life case studies, and contemporary topics and issues such as globalisation, digital technology and business ethics.
- Offer exam preparation support across a range of assessment styles, including short-answers, data response, essays and case studies.
- Build the skills required to evaluate business behaviour, and to examine and interpret the quantitative and qualitative data relevant to business decision making.

1.3 The need to consider stakeholder needs when making decisions

This section will develop your knowledge and understanding of: The need to consider stakeholder needs when making decisions.

Stakeholders

Stakeholders are any individuals or groups that are affected by the activities of a business. Managers rely on their stakeholders. The managers will want to consider the interests of these stakeholders when making decisions. The managers may need to look at how their stakeholders will be affected by the decisions they are making.

There are four categories of stakeholders: employees, customers, local and national government and general public. Each of these can be ranked according to their level of interest and their level of power.

- **High interest, high power**: stakeholders who have a high level of interest and power. For example, shareholders have an interest in the success of the business and will influence who the managers are. If the government is not particularly interested in the business but is powerful because it can pass laws that affect the business, this group will be high in power.
- **High interest, low power**: stakeholders who have a high level of interest but low power. For example, local and national government. The government is not particularly interested in the business but is powerful because it can pass laws that affect the business.
- **Low interest, high power**: stakeholders who have low interest but high power. For example, investors who have placed their money with a business and are interested in their return. These stakeholders will be interested in the success of the business as they will be affected by how well it performs.
- **Low interest, low power**: stakeholders who have little interest or power. For example, shoppers and the shops themselves may also affect the community.

When making decisions managers may need to classify their stakeholders. Managers know that a ‘stakeholder map’ helps them to categorise their stakeholders. The map helps them to identify who is interested and powerful, and how the stakeholders will be affected by the business.

**Progress questions**

1. Give three Stakeholders of your school or college. Explain why you have placed them in the positions you have.

**Stakeholder mapping**

*Figure 1.4: An example of a stakeholder map*

**Facilities and resources**

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