



Reviewing Business Performance

- In order to ensure that a business is managing it's activities effectively it must review it's performance
- This will
 - Ensure objectives are met
 - Avoid future problems
 - Identify necessary changes
- There are 3 areas that need to be reviewed:



Solvency



Profitability



Legal Compliance

Solvency



- Solvency refers to:

“Whether a business has sufficient cash to pay it's outstanding debts”

- This is monitored using **cash flow**
 - This is a financial document comparing cash inflows and cash outflows

- To ensure solvency a business will need to monitor
 - **Cash levels**
 - **Debt levels**

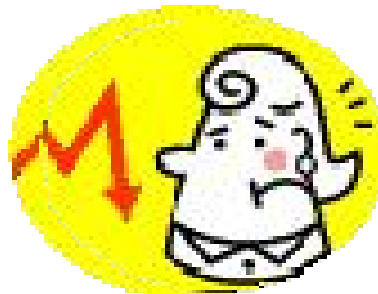
- It is worth noting that a business can have cash – yet still be insolvent!





Profitability

- Profit is an obvious means by which business performance can be monitored
- The business owners will be interested in both:
 - **Profit**
 - Total Revenue – Total Costs
 - **Profitability** (sometimes called the **profit margin**)
 - Often calculated in terms of a percentage of sales revenue
 - ◆ E.g. a business sells a product for £100 that cost £70 to make. The profit margin would be 30%
- Clearly changes in profitability and/or profits may result in changes to the way in which resources are managed





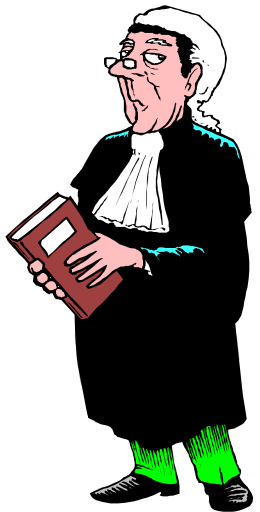
Legal Compliance

- Businesses must operate within the law
- Failure to do so may result in:
 - Increased costs (legal costs and fines)
 - Bad publicity
 - Leading to loss of sales
 - Making it difficult to recruit workers
- Within the UK there are 2 types of law:

Criminal Law
This deals with the relationship between the state and the individual. This area of law usually involves the police.



Civil Law
This deals with the relationship between two parties, and can involve tribunals. This is the type of law that businesses are concerned with, as it deals with breakdowns in communication





Civil Law & Businesses

- Civil law can be administered in a number of ways:

- **The European Union**

- Often issues directives which apply to the UK

- **UK Government**

- May pass laws that businesses must abide by

- **“Watchdogs”**

- Administer law in certain industries, ie OFCOM, OFWAT



- Businesses are largely affected by 3 areas of civil law:

- Competition Legislation

- Employment Legislation

- Consumer Protection Legislation



Competition Legislation

- This type of legislation is designed to prevent large firms exploiting customers

- The main laws are:

- Monopolies and Trade Practices Act 1948
- Restrictive Trade Practices Act 1956
- Monopolies and Mergers Act 1965
- Fair Trading Act 1973
- Restrictive Practices Act 1976
- Competition Act 1980

- Together these laws create The Competition Commission

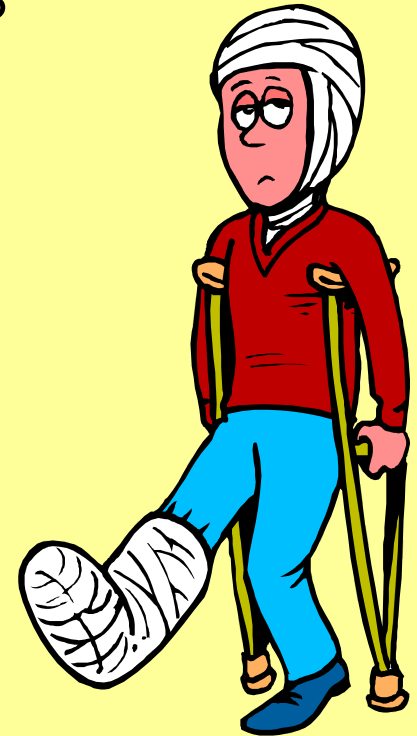




Employment Legislation

● Designed to protect workers, the main laws are:

- Office, Shops and Railway Premises Act, 1963
- Redundancy Payments Act, 1965
- Factories Act, 1961
- Equal Pay Act, 1970
- Health and Safety at Work Act, 1974
- Race Relations Act, 1976
- Equal Pay (Amendment) Act, 1983
- Trade Union Act, 1984
- Data Protection Act, 1984
- Sex Discrimination Act 1975, 1986
- Employment Act 1980, 1982, 1989
- Trade Union Reform and Employment Rights Act, 1993
- Disability Discrimination Act, 1995
- The Working Time Regulations, 1998
- The National Minimum Wages Act 1998

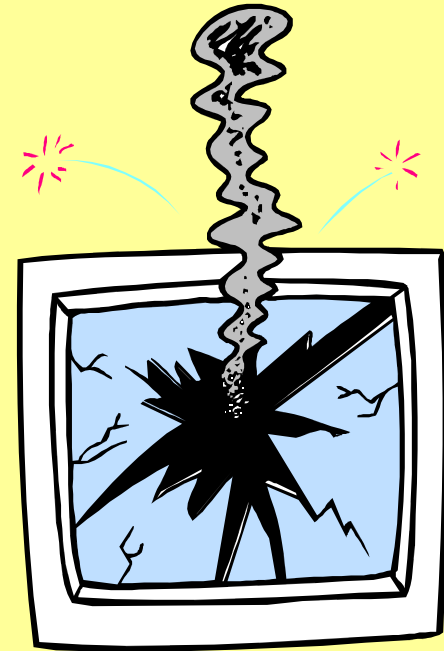




Consumer Protection Legislation

- Designed to protect workers
- This type of legislation will impact largely on marketing
- The main laws are:

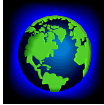
- Weights and Measures Act 1951
- Trade Descriptions Act 1968
- Unsolicited Goods Act 1971
- Consumer Credit Act 1974
- Consumer Safety Act 1978
- Sale of Goods Act 1979
- Supply of Goods and Services Act 1982
- Consumer Protection Act 1987
- Food Safety Act 1990
- The Sale and Supply of Goods Act 1994
- Distance Selling Regulations 2000
- The Sale and Supply of Goods to Consumers Regulations 2002





Showing Legal Requirements Have Been Met

- The EU provides product directives for certain products
- Manufacturers of these products are required to show that their products meet these standards by showing the CE Mark:



- This is a formal declaration that the products meet the stated legal standards
- Businesses can either:
 - Self-declare products themselves – which should be backed up by testing
 - Have the product tested by a recognised independent body





Identifying Areas for Improvement

- Identifying areas for improvement is an ongoing job
- Department managers are often responsible for this
- Ways of identifying areas include:
 - Undertaking market research
 - Monitoring complaints
 - Listening to staff
 - Analysing quantitative data, including financial data
- Once areas have been identified they may be improved by:
 - More or better quality staff training
 - Modifying or launching new products
 - Introducing new technology

