



# Unit 7: Business Decision Making

## Delivery guidance

This unit gives learners the opportunity to apply their knowledge and understanding of business concepts and processes, gained in other units, to formulate business decisions and solutions.

Making business decisions will require learners to analyse, interpret and compare business data drawn from a range of sources. They will need to consider business risks and will learn how to evaluate the costs and benefits of a range of solutions to a business problem.

It is suggested that you introduce learners to an appropriate business decision-making model which can be used when approaching scenarios requiring a business decision. In general, decision-making models will tend to identify the following stages:

1. Identify the issue/problem/opportunity
2. Gather the information together
3. Analyse the situation
4. Develop a set of possible options
5. Evaluate the different alternatives available
6. Select the preferred option.

During the course of the unit, the learners must therefore be encouraged to develop their own decision-making skills. These skills are identified in Figure 1 and each one is expanded on in this Delivery Guide.

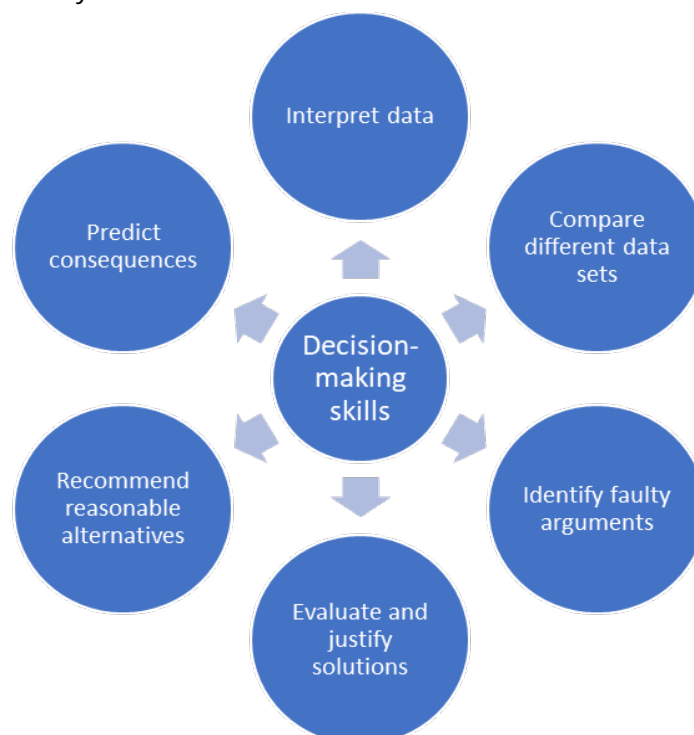


Figure 1: Decision-making skills

Learners will be required to interpret data in the set assignment. This may involve identifying trends and relationships between key variables and using this data as part of their final business decision. The data presented in the set assignment may cover a wide variety of business operations and activities, and will not be restricted to financial data. Production levels, market share, labour turnover and the outcome of customer satisfaction surveys are just a few of the variables which a business may need to take account of when making business decisions. When interpreting business data, learners should be aware of any risks they identify, since these will need to be accounted for when they make their final decision.

Learners should analyse a business's performance, viability and any potential risks, and should be encouraged to compare data and information from different sources. Highlighting relationships between variables and identifying trends is a key skill that learners need to develop. There may be instances in which the learners will find it useful to analyse data from a business to produce some simple management information; for example, calculating average profits over a period of time and comparing these profits to the industry average. Similar calculations could be performed on a wide range of business data. Learners should steer clear of making generalisations on the basis of figures for one year. They should also develop the skills to enable them to analyse financial statements. For example, if a statement of financial position is presented in the set assignment, learners would be advised to consider such aspects as liquidity, net current assets and the level of non-current assets. Well-prepared learners would be able to use the data in the statement of financial position to calculate net current assets and the current ratio, and to identify how liquidity may be affected by the level of inventory – this may be identified as a potential risk in the decision-making process.

Making business decisions involves evaluating risks. Learners can do this by trying to predict events which may occur in the internal or external business environment and their impact on a business. In this respect, learners must be able to consider possible changes in the market, such as social trends and wider economic changes that impact on a business. If the material presented in the set assignment includes business forecasts relating to cash flow or predicted profits, learners must use their skills to identify how these forecasts map against other information presented in the case study. Once again, this will form part of the risk analysis.

Learners must develop the skills to identify a faulty argument – in other words, one which is based on an inaccurate, weak or flawed rationale. Such arguments are often presented by entrepreneurs seeking business finance to support the development of a new product or to support the growth of an established business. Learners should be encouraged to look critically at businesses that have made decisions in the real world that have not been successful. In doing so, learners should review the rationale of the decision when it was first formulated, and the arguments presented at the time the decision was made; they may be able to distinguish some of the reasons the decision was not a success. They should consider whether over-optimistic forecasts were made by the business. They should also look at the assumptions made in relation to market, social and economic trends at the time the decision was made.

In reaching a business decision, it is good practice for learners to show that they have considered a range of reasonable alternatives which all meet the objectives of the business. Each of these alternatives should be supported by a business case and a risk analysis. This will form the basis of the final element of decision-making skills acquired during the course – the ability to evaluate and justify their own solution to a business scenario.



In presenting their decision, learners must ensure that:

1. it is based on a rigorous analysis of the quantitative and qualitative data and management information presented in the set assignment, identifying trends, opportunities and threats both internally and externally
2. it takes account of a business's aims and objectives
3. it identifies and evaluates the risks associated with their decision
4. they have analysed how these risks can be managed and controlled
5. they propose a set of actions that could be taken by a business to mitigate against financial or other types of losses in the event of the risk materialising.

From these decision-making skills, we can distil three key elements which form the basis of the approach the learners should take when reading through the material presented in the case study:

- Analyse – Learners will be required to interpret and identify relationships in a specific business scenario presented in the set assignment, and identify key trends and relationships.
- Assess – Learners may be required to weigh up the positive and negative aspects of a situation and give their conclusions in the form of a business decision.
- Evaluate – Learners will be required to come to a reasoned judgement from their assessment of a set of alternatives.

It follows from this that there may be some circumstances in which there is no specific 'correct answer' or, in this case, 'correct decision'. This can sometimes be difficult for learners to grasp since, based on their experience, their work is traditionally assessed on the basis of 'correct' responses. You should therefore actively encourage your learners to compare and contrast their own decisions with those of their peers, and to critically evaluate the decisions recommended by others. Your role should be as the critical friend, pointing out faulty arguments and identifying those areas which have not been considered. You should consider whether learners have successfully identified business risks. Furthermore, you should encourage learners to use relevant business terminology so that they become more confident in formulating their decisions in relation to specific business objectives.

## **Approaching the unit**

You can use a range of delivery methods in this unit, such as:

- discussions – class and small group discussions on the appropriateness of business decisions in a range of different contexts
- individual or group presentations – covering the rationale for a business decision
- case studies illustrating how business decisions are made in the real world
- video clips showing how entrepreneurs assess and evaluate business risks.

Group work and paired activities should be encouraged, but you must ensure that individual learners are given appropriate activities which prepare them for the requirements of the controlled activity.

You can involve local employers in the delivery of this unit by inviting them as:

- guest speakers
- members of the audience for learner presentations where they can give feedback
- providers of work experience for learners, and of business materials as a basis for case studies and exemplars.

## Delivering the learning aims

For learning aim A, you should introduce learners to the concept of the entrepreneur and how business ideas are developed, taking into account social, economic and market trends. The notion of innovation is an increasingly important aspect of business activity, with many large and established businesses promoting the concept of intrapreneurship – in other words, encouraging the development of a skill set within their own employees which enables them to suggest new ways of doing things to achieve the business's strategic objectives. Those businesses engaged in developing technology are particularly active in this field. Learners should also be made aware that the development of business ideas does not solely focus on product innovation. Indeed, some of the most successful 'innovations' have resulted in changes to business *processes* – for example, how the business interacts with its customers.

Key to understanding the decision-making process is the need for a business to clearly articulate its aims and strategic objectives. Although the bottom line is always likely to be central to the outcome of all business decisions, many businesses are now taking a more long-term view of their relationship with their customers and other key stakeholders. For example, businesses are increasingly taking account of their corporate social responsibilities, and making business decisions which may not have an immediate positive financial impact in the short-term but can have a positive long-term impact on reputation and brand. These socially responsible decisions can result in increases in customer loyalty, retention and market share.

Business decisions may also have an impact on business ownership and structure. For example, business growth and the need for additional finance may require a change of ownership. A sole trader, for example, may decide to form a partnership, while a private limited company may determine that the interests of the business are best served by becoming a public limited company. Learners must be aware of the reasons for the change in ownership and the implications for the ownership and control of the business.

Similarly, some business decisions may require a change in the structure of a business. A business merger, financial difficulties, new product innovation or a change of ownership may all result in a change of structure. Learners must be able to formulate a rational argument for a new organisational structure, based on the prevailing business conditions and a business's strategic objectives moving forward.

Any changes to the structure of a business will involve the engagement of the functional areas – human resources will be involved in recruiting staff (in the case of business expansion) or reducing the workforce (in the event of financial difficulties or a change in strategic objectives, such as the rationalisation of the product portfolio). Similarly, in the event of restructuring or business growth, the finance and production functions will need to take account of such aspects as leasing or buying and procurement practices. Quality evaluation systems will be particularly important to the production function to ensure that defective products do not enter the supply chain. However, most businesses are now keenly aware that the quality function should encompass all



aspects of a business's practices, systems and operations, with the customer being regarded as the heart of the quality system.

In order to measure and assess the outcome of a business decision and evaluate the risks associated with the decision, learners must understand the critical role played by management information, and the key distinction between data and management information. Essentially data is the raw facts and figures which need to be *processed* in order to produce management information. Decisions cannot be made on the basis of data – processing the data gives the *information* which managers in the functional areas can use in the decision-making process.

In formulating their business decisions, learners will need to be familiar with a range of different business models (including Porter's Five Forces Analysis, 5Cs analysis, Ansoff Matrix, Boston Matrix and product life cycle). For example, a case study which involves decisions relating to a business's product portfolio may involve the application of the Ansoff Matrix, while a decision relating to the direction of business growth may reference the Boston Consulting Group Matrix.

Learners should also be aware that business decisions are not taken in a vacuum. Decision makers must take account of the prevailing laws and regulations which influence such decisions. For example, a new industrial process may fall foul of health and safety legislation, whereas new product development will have to take account of legislation relating to consumer rights and protection.

New products entering the market and existing models at different stages in the product life cycle will require a business to formulate a marketing plan which will fully exploit the sales potential of the product. Learners must therefore know the elements of, and be able to apply, the extended marketing mix in different business scenarios.

Making business decisions will always require access to information. In this unit, reviewing and interpreting business data forms the basis of the content of learning aim B. Learners must become familiar with data presented in a variety of formats – from basic tables to measures of dispersion, including the interpretation of standard deviation measures. Learners must be able to show that they understand what the data is showing. They must analyse the data to identify trends, establish relationships between variables and identify the impact of the data on a business. Learners must also use the data to identify and evaluate business risks and draw valid conclusions, which should be incorporated into their recommendations.

Learners should have gained knowledge and understanding of financial statements from other units they have covered on the programme. It would, however, be worthwhile familiarising them with the information contained in a statement of comprehensive income, a statement of financial position and the format of a cash flow statement. These elements are covered in learning aim C, the focus of which is the interpretation of the main financial statements. Learners will need to be able to calculate ratios relating to profitability, liquidity and efficiency. They will also need to be able to use the results of their ratio analysis to evaluate such aspects as a business's current performance, the main influences on its current performance and the risks to which it is exposed. Learners will need to be able to make recommendations on which aspects of its performance a business needs to focus on.

Decisions relating to costs and pricing require learners to apply and interpret break-even analysis in order to determine the margin of safety. Contribution analysis can also be applied to decisions relating to costs and prices.

Some business decisions may require access to significant investment in capital equipment. Learners must be familiar with investment appraisal techniques in order to determine the returns on the initial capital outlay.

Learners should complete case studies and business scenarios that enable them to differentiate between a business that is performing well, or above expectations, and a business which is facing significant risks despite its current acceptable level of performance. Additionally, learners should gain experience of dealing with business situations which involve a consideration of different options such as growth, diversification, a merger with a business rival, expansion into an overseas market or the development of a new product requiring additional business investment.

The focus of learning aim D is on evaluating business risks and presenting business decisions. Learners should understand that business risks are not only those which impact on direct financial implications of a business decision; legal and reputational risks can have a significant indirect impact on a business's financial status. Learners should be familiar with how to conduct both a SWOT and STEEPLE analysis using a given set of data and qualitative information which will be given in the set assignment. Having assessed and evaluated the business risks associated with a business decision, learners must be able to analyse the impact on the business if the risks materialise. This aspect of 'What if' analysis is closely associated with sensitivity analysis – in other words, how exposed is a business to changes in its internal or external environment, and what actions does it plan to take in the event that the decision leads to unintended, unplanned or unforeseen consequences?

Finally, learners must be able to present their decision in a given format, using business software and incorporating acceptable business terminology in an appropriate context. For example, the learner may be required to produce a written report along with a set of presentation slides.

Formal business reports should be prepared using established business conventions, including:

- a title
- an introduction highlighting the purpose of the report
- an executive summary comprising the decision which will be presented for discussion and an overarching rationale for the decision reached
- a series of numbered sections which present the business decision and the associated analysis and business risks
- a set of conclusions and recommendations.

A business presentation should be made up of a series of related slides. Each slide should cover a particular aspect or theme and comprise a maximum of six or seven bullet points. Simple graphics can be used in the slides, but the use of distracting animations should not be encouraged. Speaker notes should be presented in a bullet point format and not in continuous text.



## Assessment model

Learning aim	Key content areas	Recommended assessment approach
<p><b>A</b> Examine the business principles and practices that determine business decisions</p>	<p><b>A1</b> Business ideas and objectives</p> <p><b>A2</b> Purpose and structure of a business</p> <p><b>A3</b> Business practices and operations</p> <p><b>A4</b> The use of business models to aid decision making</p>	<p>This unit is assessed through a Pearson Set Assignment.</p>
<p><b>B</b> Review and interpret business data and information</p>	<p><b>B1</b> Sources for data collection and their presentation</p> <p><b>B2</b> Techniques to analyse data effectively for business purposes</p>	
<p><b>C</b> Formulate decisions and solutions to business problems</p>	<p><b>C1</b> Analysis and interpretation of financial projections</p> <p><b>C2</b> Analysis and interpretation of financial statements</p> <p><b>C3</b> Creation and interpretation of a break-even chart</p> <p><b>C4</b> Interpreting the outcome of investment appraisal</p>	
<p><b>D</b> Prepare business documents to present business decisions</p>	<p><b>D1</b> 'What if' scenarios and sensitivity analysis</p> <p><b>D2</b> Contingency plans</p> <p><b>D3</b> Use IT skills to create appropriate documentation</p>	

## **Assessment guidance**

This unit is internally assessed using a Pearson set assignment. The assignment is set by Pearson and marked by tutors. Learners may need to research their local environment to collect data to support their response. If this is the case, they are permitted to take notes and bring them back to the centre. Research time may be accounted for in the time requirement for the assignment.

Learners must work independently and must not be given guidance or feedback on the completion of this work. The set assignment must be completed under supervised conditions. The supervised assessment period is three hours.

Two set assignments for this unit are available each year and are valid for one year only. Tutors are not permitted to create their own assessments for this unit.

Learners may be expected to analyse a business's internal data, as well as information relating to the factors present in the business's external environment. Learners will be required to consider alternative ways of achieving a business's strategic objectives or addressing a specific issue relating to a business's performance, its business operations or its immediate tactical plans. They should take into account an evaluation of business risks.

Learning aims A, B and C will be assessed through a comprehensive analysis of all the options under consideration which show in-depth understanding of business decision making. Learners will be required to analyse a set of quantitative and qualitative data to reach a business decision. They will present their decision in a formal written report, along with an accompanying set of presentation slides and speaker notes, using presentational software.



## Getting started

This gives you a starting place for one way of delivering the unit, based around the recommended assessment approach in the specification.

<b>Unit 7: Business Decision Making</b>
<p><b>Introduction</b></p> <p>Begin by introducing the unit to learners through a group discussion identifying the scope of the unit and how it relates to other units in the BTEC International L3 Qualifications in Business and in Enterprise and Entrepreneurship.</p>
<p><b>Learning aim A: Examine the business principles and practices that determine business decisions</b></p> <ul style="list-style-type: none"><li>• Start by looking at the ways in which business ideas are formulated. For example, learners may be able to give examples of purchases they have made of new products that have recently come onto the market. They could then discuss how these products meet a specific market need.</li><li>• This could lead on to a discussion about current economic, social and market trends, and how these trends affect specific products, specific industries or businesses in general.</li><li>• Learners could start to identify some of the risks inherent in bringing a new product to market, and how these risks can be evaluated and managed.</li><li>• Ask learners to classify businesses in the local area/town on the basis of ownership, control and finance, and consider the aims and objectives of different types of businesses. Learners could identify influences on these local businesses and how they might respond to these influences.</li><li>• Learners might find it useful to research the structure of different local businesses and compare and contrast the features of each of the structures.</li><li>• A guest speaker could be invited to give a presentation to the group identifying some of the key themes covered in this aspect of the unit. For example, a local entrepreneur could talk about the route to market for their product or service, or a more established business owner could describe the risks faced by their business and how it responds to such risks.</li><li>• Case studies could be used to help the learners gain experience of using business material. For example, learners could be asked to consider the advantages and disadvantages of certain methods of business finance which could be used in different business scenarios, such as the acquisition of capital equipment or to support business growth.</li><li>• Give a presentation on the factors taken into account when making operational decisions. Learners could research a local, national and international business. They should look at how each business has made decisions.</li><li>• Give a presentation on management information systems (MIS). Ask learners to review the management information generated and required by the main functional areas of a business – for example, the management information required when introducing a new product to the market.</li><li>• Give a presentation on quality processes, and have learners investigate different types of quality systems and their features. You could extend learning by asking learners to</li></ul>

research examples of the impact on a business of failings in its quality systems.

- Lead a discussion on the impact of current laws and regulations on business. Learners could then research the implications of laws and regulations for a business, and the risks inherent if the laws and regulations are not adhered to. Divide the learners into small groups, with each group researching the laws and regulations applied to businesses operating in a specific sector of the economy – for example, catering, construction, transport and health services.
- Give a presentation on business models, then ask learners to apply business models in a range of different business scenarios – for example, product portfolio, direction of business growth, market forces. Learners could suggest appropriate strategies to address the aims of businesses operating in specific markets.
- These strategies might then link into the application of the extended marketing mix, and the preparation of an outline marketing plan for a specific product.

### **Learning aim B: Review and interpret business data and information**

- Learners should be given the opportunity to classify the sources of different types of business data and their characteristics. This could be done via a group discussion culminating in a mind map.
- Learners should revisit the role of management information that was covered in learning aim A. Ask them to complete a series of exercises that enable them to distinguish between data and management information, clearly drawing the distinction on the basis of business decisions. This could be done for each of the main functional areas.
- Give a presentation on the interpretation of business data. Learners should then practise interpreting business data presented in a variety of formats. For example, they could be required to work out the mean, median and mode from a tabulated data set, and draw appropriate conclusions.
- Extend learning by asking learners to use comparative benchmark data to draw conclusions about the relative performance of a business operating in a specific sector of the economy.
- Give a presentation on the concept of extrapolation in the forecasting of business trends using linear trend lines (calculations will not be required) and ask learners to examine trends.
- Concepts such as standard deviation, frequency distribution and the correlation coefficient should be applied in relation to business performance, benchmarks and operating practices, which can then be used to identify appropriate recommendations and business decisions. You could use case studies from a range of businesses of different sizes and ask the learners to work in small groups to use statistical techniques to look at data published by these organisations.

### **Learning aim C: Formulate decisions and solutions to business problems**

- Start by getting the learners to prepare a cash flow forecast, a statement of comprehensive income and a statement of financial position. This would give them the opportunity of consolidating the knowledge and skills they have developed in other units in the programme.
- Learners should become familiar with the content of a cash forecast and a sales forecast, and be able to analyse them in the context of other relevant information. For example, they

should be able to comment on how realistic the forecasts are in respect of future trends and be able to identify any issues of concern. Sales forecasts should also be based on current and target market share, with the latter taking into account a business's current market position.

- Give a presentation on how to extract relevant data from the financial statements to calculate profitability, efficiency and liquidity ratios. The results of ratio analysis should then be used to comment on a business's current position and identify the actions it could take to improve its performance. As with all other aspects of this unit, ratio analysis should be used by learners to identify any potential risks faced by a business and how these identified risks can be reduced. Learners could work individually or in small groups to look at case studies from a range of businesses.
- Remind learners about how break-even charts are constructed, and the different classifications and behaviour of costs. Give a presentation to teach different methods of analysing a break-even chart to predict consequences.
- Extend learning by leading a class discussion during which learners could suggest and justify solutions relating to changes in costs, price, contribution and the margin of safety.
- Learners should practise using cost, output and price data to calculate the contribution margin. Give them practice exercises to calculate the contribution margin in different business scenarios and suggest ways in which the contribution towards fixed costs can be improved.
- Learners must understand what is meant by non-current assets and their impact on the statement of financial position.
- Give a presentation on investment appraisal. Ask learners to consider the use of different investment appraisal methods to determine the costs and benefits of a proposed acquisition.

#### **Learning aim D: Prepare business documents to present business decisions**

- Start with a presentation on the classification of business risks and their impact on the business. Lead a discussion on risk management strategies and plans for business organisations, looking at a range of businesses from different sectors.
- Recap SWOT and STEEPLE analysis, then give learners practice exercises which require them to prepare both analyses. They could use case studies from local organisations or invent their own business idea. The outcome of each analysis should be used to identify both the opportunities and risks associated with the business's operations.
- Give a presentation on contingency planning. Learners should then practise preparing contingency plans – a tabular format is acceptable, covering such aspects as:
  - risk identified
  - impact on the business
  - potential cost
  - actions to be taken to alleviate loss
  - management responsibility.
- You could extend learning by asking learners to use these headings to carry out individual research looking at how well-known companies have responded when something has gone wrong.

- Give a presentation on the format required by the set assignment. Learners should practise writing business reports in an acceptable format and practise using presentational software to prepare presentations.



## Details of links to other relevant units/qualifications

This unit links to:

- Unit 3: Business Finance

### Resources

In addition to the resources listed below, publishers are likely to produce Pearson-endorsed textbooks that support this unit of the BTEC International Level 3 Qualifications in Business. Check the Pearson website (<http://qualifications.pearson.com/endorsed-resources>) for more information as titles achieve endorsement.

### Textbooks

- Coupland-Smith, H, Phillips, J, Richards, C, Summerscales, A and Smith, J – *Pearson BTEC National Business Student Book* (Pearson, 2016) ISBN 9781292126241. Includes chapters on exploring business and developing a marketing campaign. Suitable for all learners.
- Phillips, J, Richards C, and Smith, J – *Pearson BTEC National Business Student Book 2* (Pearson, 2016) ISBN 9781292126258. Includes a chapter on business decision making. Suitable for all learners.
- Jakubowski, S, Sutherland, J and Sutherland D – *Revise BTEC National Business Revision Guide* (2016) ISBN 9781292150123. Includes a chapter on business decision making. Suitable for all learners.
- Jakubowski, S, Parry, C, Sutherland, J and Sutherland, D – *Revise BTEC National Business Revision Workbook* (2016) ISBN 9781292150116. Includes a chapter on business decision making. Suitable for all learners.

### Websites

- Tutor2U has a useful website containing a wealth of information on business-related topics, including teacher-prepared presentations on specialist topics.
- The Business Balls website can be found by searching online for 'BusinessBalls'. It contains a wealth of information on business-related topics.
- There is a helpful website which can be found by searching online for 'business case studies'. It contains a series of real-life case studies covering a range of business decisions taken in different scenarios and contexts.

## **Videos**

- There is a useful video about decision making in organisations. It can be found by searching YouTube for 'Decision-Making in Organisations'. It considers a US-model for looking at decision making in business.
- A further video on decision making can be found by searching YouTube for 'Decision Making in Management'. It gives an overview of the decision-making process.
- There is a helpful video looking at real-life examples of good and bad decisions in business. It can be found by searching YouTube for 'Decision-making in business Jan 2014'.

*Pearson is not responsible for the content of any external internet sites. It is essential for tutors to preview each website before using it in class so as to ensure that the URL is still accurate, relevant and appropriate. We suggest that tutors bookmark useful websites and consider enabling students to access them through the school/college intranet.*