

Volume 16 Number 1 September 2009

Using this issue

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Welcome to Issue 1 of BUSINESS REVIEW. Here are some suggestions about how you might develop further some of the articles in the main magazine.

Articles for AS Unit 1 — enterprise

‘Survival of the smallest’ by Naomi Birchall (p. 5)

This article is a useful background piece that can provide students with a context for the role of the small firm. It is a bit economics-y, with reference to economies and diseconomies of scale — but better students could only benefit from having some extra beef for their Unit 1 exams.

Possible follow-up

- Identify a recently started small firm, e.g. Scoop, an ice-cream company.
- Investigate the small firm, e.g. spend 10 minutes looking at the website: www.scoopgelato.com
- Outline two features of the business that are examples of flexibility.
- Outline two features of the business location that could help or hinder the firm’s success.
- Make a 100-word evaluation of the website, judging whether it leads you to believe that this business will be successful or unsuccessful in the next year or two.

‘Tea and cakes and rock and roll’ by Martyn Lucas (p. 24)

This short article gives a real sense of the psychology of the entrepreneur. It shows the passion, the drive and — dare I say it — the egotism involved.

Possible follow-up

- Identify four key qualities that mark Natalie Haywood out as an entrepreneur.
- Briefly explain why each entrepreneurial quality could be important in succeeding with a business start-up.
- Ask yourself how your own personality compares with Natalie. Which one of her entrepreneurial qualities do you think you can match most closely? Outline some evidence to support that view.

- Which one of her entrepreneurial qualities do you think you are furthest away from matching? Explain whether this would be a serious restriction on your ability to be an entrepreneur.
- Make a 100-word evaluation on whether this exercise has made you more or less convinced about whether you could be a successful entrepreneur.

Articles for A2 — the international context of business

‘Entering international markets’ by Paul Hoang (p. 8)

This syllabus-friendly article provides a terrific summary of the issues involved in expansion overseas. Students will love the examples of international branding errors (see Box 1) and will learn plenty about the strategies that can be adopted when attempting to expand overseas.

‘Expanding abroad: win or lose?’ by David Rees (p. 16)

This easily accessible article gives an idea of the motives and the ups and downs of internationally-based ‘market development’ (in the sense of Ansoff’s matrix). Fortunately the article never mentions Ansoff, so it remains accessible to students who have not yet encountered this piece of theory. But assuming that you use this article after teaching Ansoff, students could follow-up with the suggestion below.

Possible follow-up

- Read the article, then assess the moves by Tesco and Topshop in relation to Ansoff’s matrix.
- Explain why one company seems to be doing well and one doing badly.
- Explain why market development involves more risk than market penetration.
- Make a 100-word evaluation of whether Tesco is likely to eventually have success in America.

Other useful articles

‘Published accounts and ratios 2009’ by Ian Marcousé (p. 10)

This article is of value to AQA students now, and will be valuable for IB and CIE students from 2010, when their specifications incorporate the new accounting standards. The purpose of the article is to help staff get a handle on the new presentation of accounts, so that they are able to guide students towards it. In truth, many students will find this material daunting, so the article is best used in the classroom. The only possible follow-up would be to get students to re-read it at home. Beware of getting them to use real sets of accounts, which will raise far more questions than they settle.

‘Extension strategies at Walkers’ by Naomi Birchall (p. 34)

This is a super follow-up to the work we will all need to cover at some point on the product life cycle. Many AS students only tackle this in Unit 2, but the article is worth reading right away by A2 students. They need constant reminders of the difference between strategy and tactics.

Possible follow-up

- Explain the difference between an extension strategy and marketing tactics.

- Explain what Walkers' extension strategy was in 2008.
- Calculate Walkers' market share in 2007 and compare it with 2008 to help decide whether this extension strategy appears to have been successful.
- Write a 100-word evaluation of why the extension strategy appears not to have delivered sales increases for Walkers.

Books on the credit crunch

Professor D.R. Myddelton

I happened to mention to Ian Marcousé recently that I was writing a book about the credit crunch, so I had made it my business to read most of what had so far been written about it. He felt it might be useful for me to say which ten books I thought most highly of.

The first three are books written long ago, but are ones I would still recommend:

(1) J. K. Galbraith, *The Great Crash 1929* (1954). This is well known, and deservedly so as it is beautifully written ('tinged with grim humour' one critic wrote). As the title suggests, it focuses mainly on the stock market, and mainly on the year 1929.

(2) Lionel Robbins, *The Great Depression* (1934). This is a useful complementary volume to Galbraith. The stock market crash in the USA lasted from 1929 to 1933; and this book is about its economic effects in three countries: the USA itself, the UK and Germany. Especially valuable are its appendices, which comprise 36 pages of relevant statistics.

(3) Charles P. Kindleberger, *Manias, Panics and Depressions* (first edition 1978, third edition 1996). This third book is more general still, and also well-known. Some of the book's chapter headings suggest its continuing relevance today: 'Speculative manias'; 'Fuelling the flames: monetary expansion'; 'The emergence of swindles'; 'International propagation'; 'Letting it burn out and other devices'; 'The lender of last resort'.

The next seven books I want to mention are all more or less directly written in response to the 2007–09 credit crunch. Some of the sub-titles are perhaps a bit excitable, but each of these books has real merit, at least in parts.

(4) Philip Booth (ed.), *Verdict on the Crash: Causes and Policy Implications* (IEA, 2009). This is a collection of 17 essays on various aspects of the credit crunch, published by the Institute of Economic Affairs. Perhaps not surprisingly for a free-market think tank, most of the authors 'blame' governments and regulators; and the focus is on regulation: what went wrong and how can it be put right for the future.

(5) Viral V. Acharya and Matthew Richardson (eds), *Restoring Financial Stability: How to Repair a Failed System* (John Wiley, 2009). This book by a group of American academics takes a somewhat similar approach to the book above. A feature of the 18 chapters in this US-oriented collection is a number of very interesting charts and tables, over long periods of time.

(6) **Philip Augar, *Chasing Alpha: How Reckless Growth and Unchecked Ambition Ruined the City's Golden Decade* (Bodley Head, 2009).** Philip Augur writes with expert knowledge about the City. The bulk of Part 2 of this book explains how hedge funds, asset management, private equity and investment banking, respectively, work.

(7) **John P. Calverley, *When Bubbles Burst: Surviving the Financial Fallout* (Nicholas Brealey Publishing, 2009).** This is a new edition of a 2004 book about bubbles. Its central section contains a very good, detailed and up-to-date discussion of the housing market.

(8) **Paul Mason, *Meltdown: The End of the Age of Greed* (Verso, 2009).** Paul Mason is perhaps a bit too keen to gloat over the 'collapse of free-market capitalism' for my taste; but his three central chapters on deregulation and investment banks, subprime mortgages and the 'big freeze' are excitingly written (Mason is the BBC's *Newsnight* editor), with an abundance of specific statistics.

(9) **Gillian Tett, *Fool's Gold: How Unrestrained Greed Corrupted a Dream, Shattered Global Markets and Unleashed a Catastrophe* (Little Brown, 2009).** The title alone is a good read! This well-written book by a *Financial Times* columnist contains an expert discussion of credit derivatives and other innovations, and how they actually worked.

(10) **John Redwood, *After the Credit Crunch: No More Boom and Bust* (Middlesex University Press, 2009).** I would recommend this book for its first two chapters: 'The credit crunch' and 'Northern Rock', which contain some shrewd analysis. The later chapters roam over subjects much wider than the credit crunch, such as globalisation, energy policy and taxation.

Book reviews

***Cityboy: Beer and Loathing in The Square Mile* by Geraint Anderson (Headline, 2009, ISBN 9780755346189)**

A tale of excess, ego and arrogance, *Cityboy* chronicles the life of a young stockbroker as he works his way towards annual bonuses of £500,000 and the ubiquitous Porsche. Written in a down-to-earth style, *Cityboy* manages to convey many useful messages about the workings of companies and stock markets, while containing enough insight into the glamorous, alcohol-fuelled life of young stockbrokers to keep student readers happy.

Most interesting is the underlying moral debate about how money is made in the City and what earning such large sums does to young, twenty-something brokers and their families. *Cityboy* himself expresses discomfort with the system and what it drove him to become; a discomfort that was the eventual cause of his transition from broker to author. This element of the book (easily accessed in short sections that could be shared with a class) would provoke some useful classroom debate. It would also provide a useful starting point for teaching business ethics.

At the very least, *Cityboy* will provide teachers with plenty of useful anecdotes with which to spice up finance lessons and for students, an accessible introduction to the world of banking (though some teachers may judge the sex, drugs and rock and roll element a little too much). A tale of excess, ego and arrogance it may be, but

underpinning this is some pretty solid and insightful business studies written in a style that should appeal to teacher and student alike.

Denry Machin

***Margins of Error in Accounting* by D.R. Myddelton
(Palgrave MacMillan, 2009, ISBN 9780230219915)**

This is an interesting and useful book for teachers of business studies. Most will turn first to Chapter 6, entitled 'Creative Accounting', but the single most valuable concept in the book is the heading for Chapter 2: 'The Interim-ness of Accounts'. Here is a concept that can stay with us as teachers, and perhaps stick to better students.

Professor Myddelton points out that there are many uncertainties when drawing up the end-of-year accounts. Therefore, published accounts are always an interim statement. He focuses on two main issues: that the balance sheet is a day's snapshot, plus the issues relating to the year-end when finalising the revenues and costs associated with a profit and loss account/income statement. As he suggests, this is a much bigger problem for a construction company than for a supermarket. When you are building an office block, who is to say what the WIP is 'worth'?

The notion of 'interim-ness' is valid beyond the interpretation of financial statements. As, of course, is the notion of margins of error. Every price elasticity number is an interim figure, not a fact. The same is true of investment appraisal cash flows and calculations. Professor Myddelton's contribution is to assure those of us who are observers, not participants, in the accounting process that the same is true for companies. Therefore, every user of accounts, from shareholder through to supplier, must take huge care in their evaluation process.

The chapter on creative accounting provides useful definitions, together with explanations of the pressures that can lead to a 'stretching' of a 'true and fair view'. For most of us, though, the key section is the explanation of the how rather than the why. Here, the author's clarity is crucial in taking one through the overstating (and understating) of profits and the manipulation of the balance sheet. Usefully, the chapter does not end with plcs, as the role of accounting in politics and the public sector is also explored. From nuclear power to PFI hospitals, creative accounting has been a friend to governments every bit as much as to CEOs.

As many will be aware, Professor Myddelton is not only a distinguished accounting academic, he is also a keen supporter of business studies and economics A-levels. This shows through in the breadth of his vision. His writing is precise yet accessible far beyond the accounting profession. He also understands that 'quantifying something may not always be the most meaningful way of assessing it' (p. 8). For those who enjoy teaching this part of business courses, this book should be an enjoyable, educational read.

Ian Marcousé

***The Undercover Economist* by Tim Harford
(Abacus, 2007, ISBN 978-0349119854)**

Who makes most money from coffee shop coffee? How do supermarkets get you to spend more? Why is Africa poor, but China rich? Claiming to bring the power of economics to life, these questions and others are answered in *The Undercover Economist*.

Looking at familiar situations in unfamiliar ways, the book explains the fundamental principles of everyday economics. Avoiding the staid examples of traditional economics, the chatty prose of this book provides a modern and relevant bridge between the worlds of business and economics.

While perhaps more directly appropriate to those who teach economics, many of the examples would provide useful starting points for external influences, demystifying economics and starting with something students might care about — why it is so hard to find a good second-hand car for instance.

The Undercover Economist is an excellent addition to any departmental bookshelf and makes a good student prize. A genuinely funny, enjoyable and insightful read pitched at a good level for students and teachers of business studies.

Denry Machin