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(Unit 1.1) an Introduction to Business Management

The nature and role of business

A business aims to meet the need and wants of individuals or organisations through

- creating a product
- creating a service

Businesses are systems

- A system is a set of connected parts working together to make a complex whole to achieve a puropose.

A system follows the following plan:

Input:

The input is all resources needed to create the project

- Physical resources
- Financial resources
- Human resources

Process:

most businesses use 4 types of processes

- HR
- Marketting
- Finance
- Operaions management

Output:

there are two main types of outputs

- Goods
- Services

Feedback:

it is an important factor in a system, and is often overlooked. it happens when output becomes an input

- Negative feedback
- Positive feedback

Sustainability

sustainability is meeting the needs pot the present without hurting the future to meet those needs. It includes:

- Sociocultural sustainability (people)
- Environmental sustainability (planet)
- Economic sustainability (profit)

Sectors of The economy

- Primary
- Secondary
- Tertiary
- Quaternary

Primary: the primary sector involves goods and services involved in acquiring raw materials

Secondary: the secondary sector involves all the manufacturing that takes place in the business industry

Tertiary: the tertiary sector involves the supplying of goods and services to customers

Quaternary: the quaternary sector involves the data collection industry of business and evolved from the tertiary sector

Starting a business

a business has a chance to succeed when

- Skilled team of employees
- Enough funding
- marketing has been researched well
- Operations are efficient and resilient

- Success depends on the strengths and weaknesses of the business itself.
- The opportunities and threats of the external environment matter too. (SWOT)
- Success depends on (STEEPLE) factors

Entrepreneurship vs tntrapreneurship

Entrepreneur: an individual with talent, and the ability to take risks leading them to creating new organisations

intrapreneur: an individual employee buy a company who demonstrates an entrepreneurial mindset by thinking and developing new products or services for the company

Characteristics of entrepreneurs
- Risk takers
- Confident
- Innovative
- Sometimes self motivated

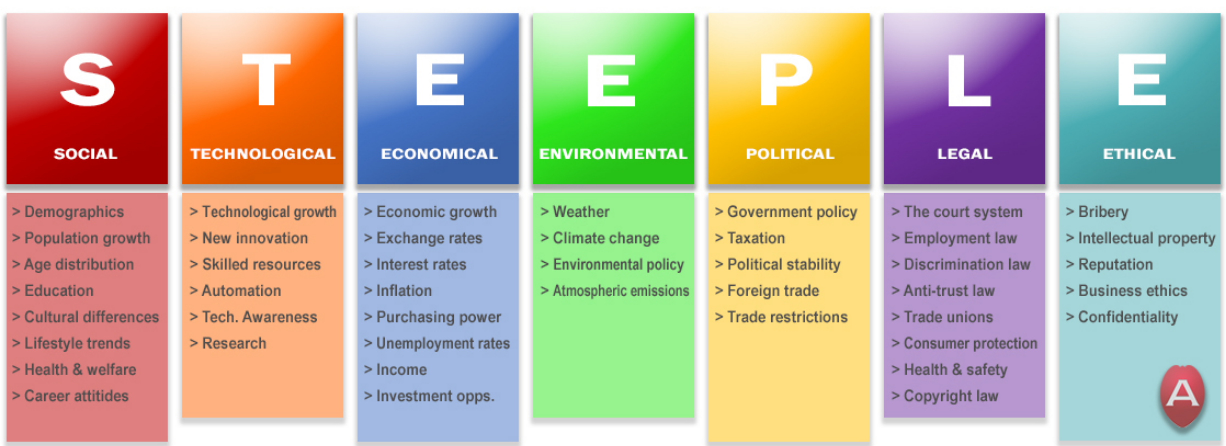
Reasons to start a new business
- New idea
- Passion to make change
- Marked need
- Earn a living
- More financial rewards
- Control
- Work life balance

Reasons not to start a new business
- Lack of funds
- Strong competition
- Market too small
- Unskilled employee
- Poor management
- Economic\ political events

Steps to start a new business
- Refine idea
- Prepare a plan
- Decide on a structure
- Register the business
- Find location
- Hire employees
- Get funding

SWOT Analysis

STEEPLE Analysis



What is a business plan:

- Tool to describe business
- Highlights important aspects
- Allows investors
- Inspires others

Evidence and data:
- Secondary research
- Primary research
- Qualitative data
- Quantitative data

(Unit 1.2) Types of business entities

The private sectors
- Owned and controlled by private individuals
- Decisions are taken by the owners
- They can be small businesses, owned and ran by one person, or huge MNCs operated by global shareholders

The Public Sector
- Organisations created and ran by the government
- Provide essential goods like healthcare, or education and emergency services like police, and fire services (non profitable)
- National governments are responsible for defence, transportation, and infrastructure
- Local governments also responsible for providing water, wastewater, and run the police and fire departments

Types of business organisations
For Profit commercial enterprise
- Sole traders
- Parterships
- For profit privately held company
- For profit publicly held company

Sole traders
- An individual who runs a business alone. There's little legal distinction between the individual and their business, and this form of org is easy to set up

advantages	Dis advantages
easy to set up	Unlimited liability
Profitable	Difficult finance
Fast decisions	Risk to fail
Personal service	High workload

Financial records remain private	Lack of continuity

Partnerships:

- The creation of a business with 2 or more individuals, or partners. They may set up a business where ownership is split equally between them.

It likely includes

- Amount of money put in by each partner
- Sharing profits and losses
- Roles and responsibilities
- Rules accepting new partners or existing partners
- Procedures to end partnership
- Sleeping partners

advantages	Dis advantages
easy to set up	Unlimited liability
More finance	Lengthy decision making
Greater Efficiency	Legal and financial responsibility
Financial records remain private	Lack of continuity

Privately held limited liability company (LLC):

- Privately owned company that has family or friends as share holders

advantages	Dis advantages
Control and ownership	Profits shared
More finance	Lengthy decision making
Limited liability	Shares can not be traded publicly to raise finances
Financials kept private	Expensive
	Privacy

publicly held limited liability companies

- in order for a private LLC to go public and wish to get larger financial capital, they undergo an IPO
- it is where a company sells a part or all of the business to external shareholders for the first time
- shareholders receive a portion of the profits received, or sometimes a dividend
- it is spread among g many more people then a private company
- If a private LLC decides to go public, they must publish their financial accounts to the public

- It can be taken over by other companies if they purchase all shares
- No limit to number of shareholder the company can have
- No legal obligation

advantages	Dis advantages
Finances	Profits shared
Risks	High costs
Separate legal identity	Loss of control
Limited liability	Accounts publicly available to public

Companies/corporation- private and public

a company is a larger organisation with either a sole trader, or partnership, and is usually owned by many individuals, or groups of individuals (shareholders)

If a share holder owns a single share, they have the right to
- Vote at meetings
- Receive a part of the companies profits

- When a business is incorporated, they become legal entities separate from their shareholders
- If the corporation has losses, owners cast lose more funds then invested
- If company becomes bankrupt, shareholders only have the assets of the corperation, not the owners possessions
- LL allows company to access easy finance compared to sole trader and partnernship
- Death of shareholder has no impact on the company

Cooperatives

they are an organisation that are run by the members, and are agricultural. It is a democratic company style
- All members are owners of the cooperative
- It is a form of partnership
- Aim to sell products as close to price as possible, while making profit

Examples:
- Financial cooperatives
- Housing cooperative
- Workers cooperative
- Producers cooperative

For-profit social enterprise:

a type of business that focus on social and environmental sustainability, while earning revenues

Private sector for-profit social enterprises

- Produces goods and services that are typically sold in markets for a price by for-profit businesses

Public sector for-profit enterprises

- Provides good and services that are provided by public sector like local municipality contracts.

Challenges for for profit enterprises:

- Funding
- Credibility
- Measuring impact
- Managing complex supply chains
- Reminding true to purpose

Non Profit Social Enterprise

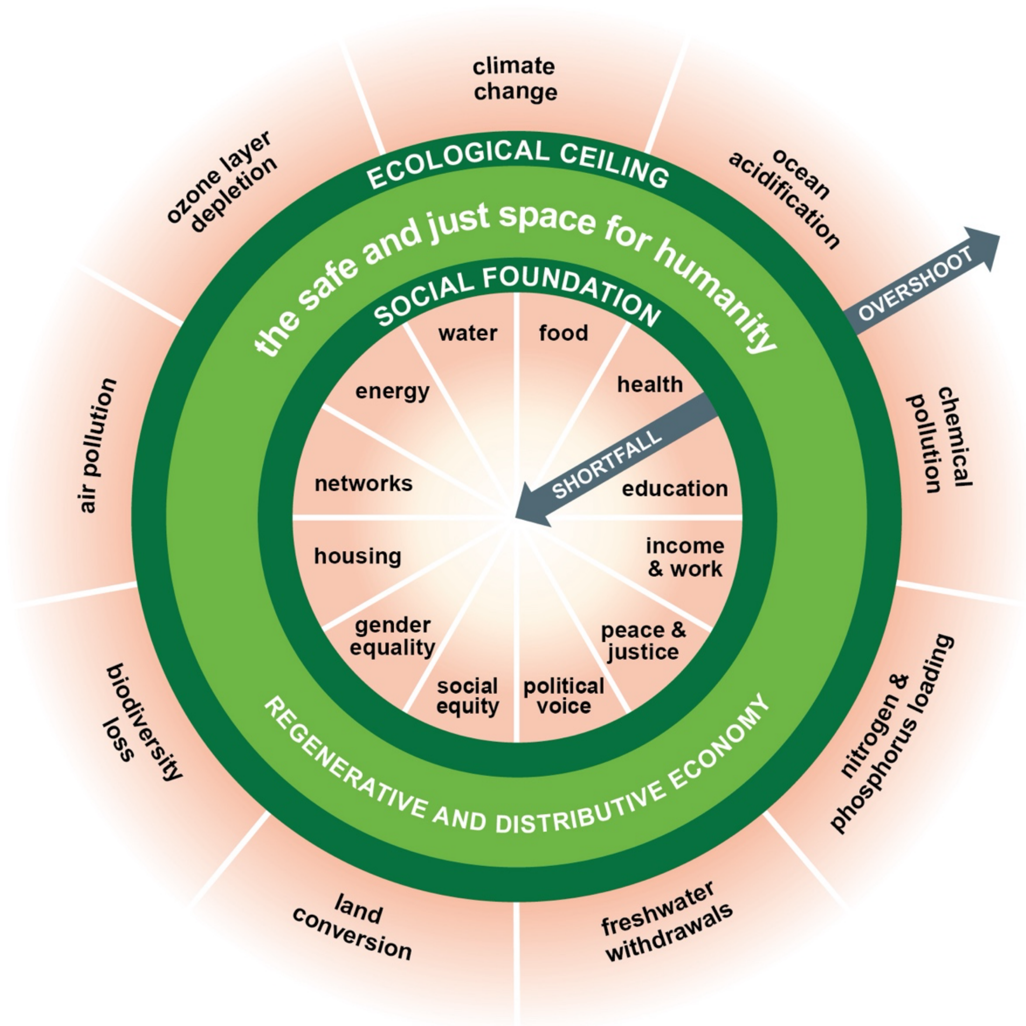
- Works to improve social outcomes
- May receive funding from grants or donations. Or may be involved in additional revenue generating activities like selling goods and services
- Any surplus of income generated is forced by law to be re invested into the business

In addition to benefits and challenges, non profits have:

- Limited liability
- All surplus re invested
- They don't pay tax
- May bring on volunteers
- May receive donations

Challenges

- Funding difficulties
- Difficult to recruit and retain
- Completion for grands and donations Amy be intense
- Significant paperwork involved



NGOs

a sub category of non profit social enterprises that have a mission to benefit society

- They are not controlled by the government, but can receive funding from them

(Unit 1.3) business objectives

Vision and mission statements:

A Vision Statement is a long term goal, a dream or an understanding of what the company should look like in the future

A mission Statement is more concrete and complements the vision. It states what the organisation currently does, in order to achieve the vision statement. It usually a short term goal as well

- both statements evolve over time, but changes are made usually after a serious discussion
- They must be carefully worded and taken seriously by management
- If a business does not live up to its vision and mission, it losses credibility in the eyes of customers and other stakeholders

Relationship between value and business objectives

value is any benefit experienced by a stakeholder connected to the organisation

- It comes In many different forms and can be created or received by multiple staekholders

Objectives:

- A business objective is an outcome a business aims to achieve. It can be stated through mission and vision.
- Objectives follow SMART criteria

- S- specific
- M- measurable
- A- attainabe
- R- relevant
- T- time focused

	Explanation
Specific	Should be clear and focused
Mesurable	Objectives easer to manage and fulfil
Attainable	Target should not be too difficult, or it can demotivate employees. It must be a feasible goal
Relevant	It should be relevant to fulfil mission and vision statements
Time focused	Time allocated should not be defined

3 Types of objectives:

- **Operational objectives**: the daily tasks performed by the business. They are set by employees or managers in the company
- **Tactical objectives:** they are the medium to short term tasks, set by the middle manager to meet the strategic objectives
- Strategic objectives: the medium to long term objectives which is set by the senior management team, such as CEOs, or CFOs. It Is the most risky, and is done to set the company ij the right direction

Growth and profits: protecting shareholder value

when a business has its main focus on making profits and prioritising shareholders: this involves objectives focused on growth

- When the business grows, it increases its unit for a lower cost (economies of scale)
- Some level of profit is needed for a business to succeed, however, when a company focuses on only growth and profit disregarding everything else, it is called value extraction. An example is paying employees below minimum wage

CSR (corporate social responsibility)

a corporation's contribution to society as well as the environment

- Phil trophy
- Activism
- Charity
- Supporting employee volunteers in external organisations

- Companies whom seriously implement CSR, are activity seeking ways to contribute and improve society

CSV (creating shared value)

creating shared value is addressing the societal needs and challenges with a business model. It goes beyond CSR, in the sense that they benefit society, but also benefit the company iyself at the same time

- It drives the next wave of innovation and productivity in the global economy
- Goes beyond philanthropy and CSR
- CSV = CSR + economic value

Ex: when a firm invests in a welfare program, it benefits society, but it also reduces the employee absences, and lost productivity

Principles of a circular economy

moving to a more sustainable system that is based on circular principles depending on how designers and manufacturers think.

- Eliminate waste and pollution
- Circulate prodcits and materials
- Regernate nature

Circular business model

Circular supply models:

- enables the business to reduce the raw material inputs, and replace them with bio based materials

resource recovery models:

- are closely related to circular supply models. They focus on the business collecting, sorting and proc ceasing the wasted material

product life extension model:

- focus on extending the time consumes use a product for

sharing models:

- You have old products being used occasionally, so why not share it with others while not using them

Examples of sharing models:

- Co-ownership
- Co-access

product service system models

- Involve selling the service for using a producing rather the selling it

There are 2 types of product service models:

- Product oriented service system
- User oriented service system

Limitations to circular business models

- Un developed systems for waste recovery
- Increase in bio based material
- Negative unintended consequences
- Rebound effects
- May not counter growth oriented businesses

- Do not address social issues

(Unit 1.4) Stakeholders

a stakeholder is any individual, or group who is affected or affects and organisation

Internal steak holders

- Anyone who is directly involved in the company, like managers, employees, and shareholders

Managers: set the aims and objectives, and making sure they are meet

Employees: people who work for a company.

Shareholders: are the owners of a company. They invest in a business un order to revise a return pin investment (ROI). They are concerned about the profitability

- Can be considered as external in large held companies
- They appoint board of directors that hire CEOs thus becoming internal stakeholders

External stakeholders

- Anyone who affects or is affected by. An organisation, but does not directly get involved in the company

they have less influence then internal steakholders

Customers: both individuals and other businesses that purchase products from an organisation

- Can be a driver for a company to change practices
- Research surveys showing customers would switch brands if a business violates their values

Suppliers: are the individual that sell goods and services to another organisation

- Want to be paid prices that are fair and reasonable
- Wish to maintain a stable business

Governments: regulate the organisations in order to protect public interest

- Depends on business to provide tax revenues and employment
- Governments are also customers

Labor unions: exist to protect lives of employees

- Have more resources to defend employees

Banks and financial institutions: lend organisations money so they invest and carry out operations

- Want to be sure the loas are paid back
- Monitor organisations financial health
- Companies may be able to renegotiate the payment schedule

Society: is affected by business behaviour

- When interests are not meet by business
- May step to hold businesses accountable for communities and the environment

Stakeholder aligment

is basically where stakeholders might benefit, if the company were to thrive and succeed

- Customers benefit from low prices, but notice business need to make profit
- Managers appreciate pay packages
- Shareholders want to receive higher dividends, but understand the business needs to thrive
- Stake holder interests are more long term then short term
- Economic sustainability
- Sociocultural sustainability
- Environmental sustainability

Stakeholder conflicts

a conflict that occurs between stakeholders and the business

Types of conflicts

- Managers and employees
- Shareholders and managers
- Shareholders and the government
- Local and Community shareholders
- Managers and unions
- Customers and suppliers
- Pressure groups and employees

Designing businesses for stakeholders alignment

- Designing manager compensation to align with long term performance of the business
- Designing more flexible work polices
- Community feedback

(Unit 1.5) Growth and evolution

is the expansion of a business from a revenue, profit, and number of employees

- Creates new opportunities to increase marksmen share
- Can bring risks

What is growth?

- Growth in sales revenue: Price x Quantity of products sold. Revenue = p x q

- Growth in profit: Increasing the amount of money left over after costs of production have been subtracted from revenues Profits = Total Revenue – Total Costs

- Growth in market share: increasing the percentage of a given market represented by company sales/ industry sales (x100)

- Growing impact: increasing the positive social and environmental consequences of the actions of the business.

- Growing a resilient business ecosystem: generating opportunities for other businesses to grow and to strengthen their relationships with a wide range of stakeholders, distributing more of the value of the business to them.

Advantages for growth:

- Economies of scale
- New markets lead to new customers which leads to more profits
- Influences prices
- Possible to reduce external risks
- Higher outputs
- Reduce rate of unemployment
- Improve living standards

Disadvantages

- cash flow issues
- Problems in quality
- Loss of control
- Hugh labor turnover
- Environmental issues
- Poor working conditions

Economies of scale

businesses producing more output purchase goods and services for a lower price then usual

Economies of scale and diseconomies of scale:

- economies of scale is where unit average cost of production decreases the more the output increases
- Diseconomies if scale is when the unit average cost of production increases the more the output increases
- Both have internal and external factors

Internal economies of scale:

cost reduction that can be achieved in the commonly when expanding its output

Purchasing economies of scale: lower costs of production when a business purchases a large bulk of products, and can negotiate for lower prices.

Marketing economies of scale: when cost of marketing campaign is spread over a larger quantity of output, lowering the average cost of campaign

Managerial economies of scale: when hiring a manager that is spread over a large output, so specialists can also be hired for lower costs

Examples of internal economies of scale:

Technical economies of scale: when a company invests in machinery, which allows a more efficient output, reducing the cost of production

Financial economics of scale: when a large company take s a larger loan, which has a lower interest

External economies of scale

cost saving that occur due to external factors in the industry or region that are not under control of the business

Examples of external economies of scale:

Infrastructure: a good form of Public transportation that allows workers to arrive on time, and increase productivity

Innovation: when an industry becomes significant for society. This allows the businesses to collaborate with research institutions to create new products, and reduce their research cost

Specializing: when the number of businesses in an industry increases, allowing for easier access for workers to find a job in that specific field. This can reduce costs of recruiting and training

Diseconomies of scales

an increase in average unit cost, due to difficulty of managing large operations

- external diseconomies of scale refers to the STEEPLE analysis as their factors

Internal diseconomies of scale

Managerial issues: lack of coordination creates inefficiencies and increases costs

Increase in size of workspace: due to the rapid growth of the company, it may complicate things, which requires more manages, meaning higher costs

Communication: when companies grow, it becomes more complex, there may be multiple levels of management// hierarchy, resulting in inefficient communication.

External diseconomies of scale

Limited natural resources: when a business growth, they need more inputs and resources, Lea adding to higher demand, and higher pricing of resources

Limited infrastructure: when industry/businesses expand, they require more infrastructure. This leads to building more roads, cutting trees, increasing containers and fill ships with products. This results in slower delivery times, and raise prices of production

Increased regulation: when business grows, it acquires more power, and will regulate new laws, this could lead to increased costs

Pollution: causing climate change, floods, droughts, storms, and fires, i\cost human lives, and damage resources, causing companies to slow down.

Internal growth

the expansion carried out by the organization itself

- ex: a restaurant who hires employees, or adds new tables to the restaurant itself

Benefits compared to external growth:
- less expensive
- Less risky
- Maintain more control
- Respects the companies values

Limitations:
- slower then external growth
- Can cause cash flow problems
- Internal growth can be limited

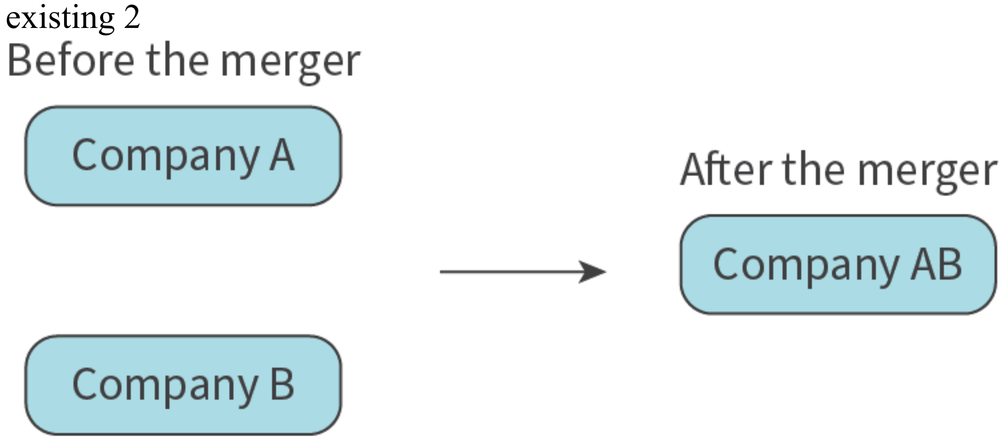
Strategies to grow internally:
- increase business production and gaining market
- Developing new products
- Finding new markets

External growth:

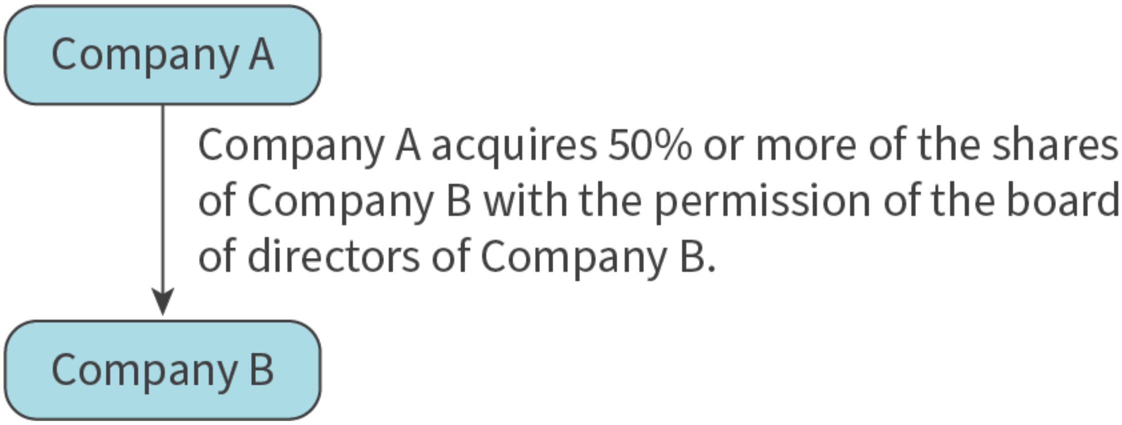
involves another organization/ company. Partnering with another business can allow companies to realize their strategic objectives more quickly and effectively.
- risks are greater, but rewards are much greater, such as increasing market share, and decreasing competition

Examples of external growth:

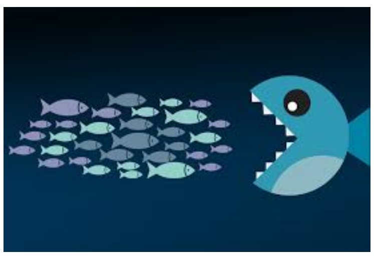
Mergers: when two businesses merge together to create a new business that replaces the existing 2



Acquisitions: when one company purchases another company with their permission. The primary company a becomes the Main company, while company b becomes the back up, or sub company

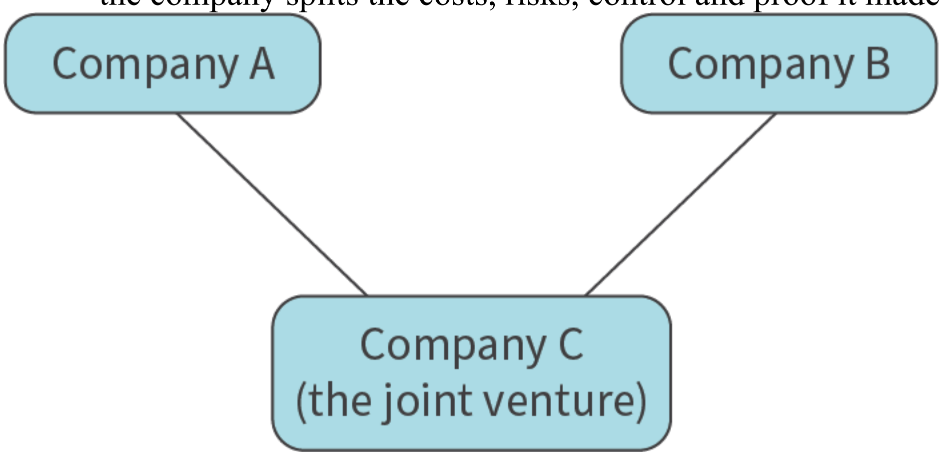


Hostile takeover: when one company purchases all the shares of another company without permission in order to retain power



Joint venture: a joint venture is a new company created from two or more businesses, that retain their specialties.

- the company splits the costs, risks, control and proof it made by the company.

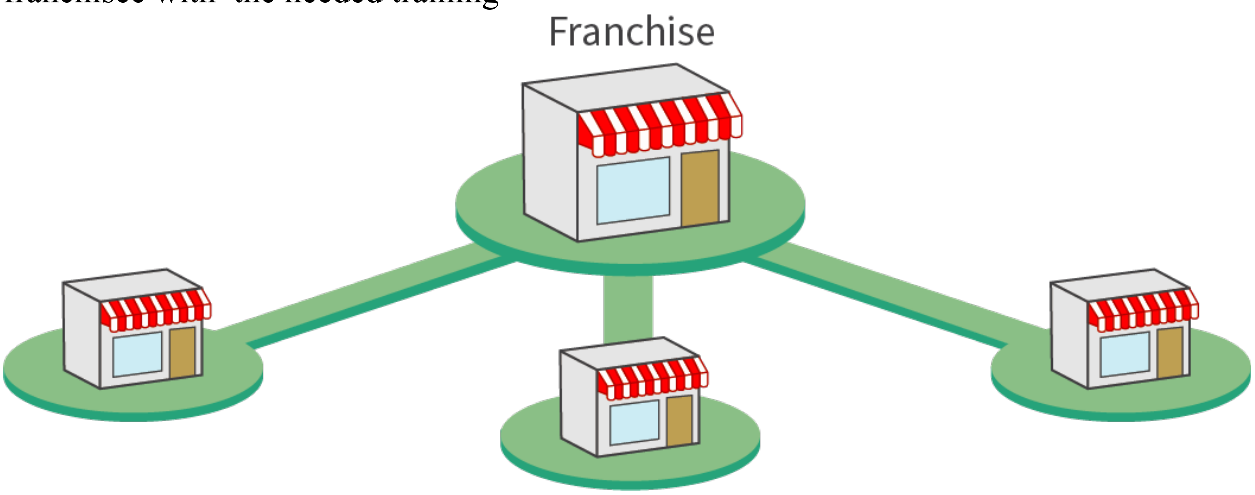


Strategic alliances: a situation where two or more businesses work together to achieve a common goal, but do not create a new company in the process.

- the members of the strategic alliance share the costs, and risks of the product or service developed
- Can be the first step to a later on joint venture or merger
- Loosest and least risky external growth

Franchising: a legal agreement, where a franchisee purchases the rights to use the name of the business and model of a franchiser. The franchisee pays for the franchise.

- must respect the norms and practices of the franchise. The franchisor provides the franchisee with the needed training



Reasons to stay small

- avoiding risk
- Small market size
- Limited access to source of finance
- Sustainability
- Strong social network

Disadvantages for small businesses:

- lower profits
- Access to finance is more difficult
- Trouble recruiting and retaining skilled employees
- Higher cost of production/ diseconomies of scale

Generative/ regenerative business practices

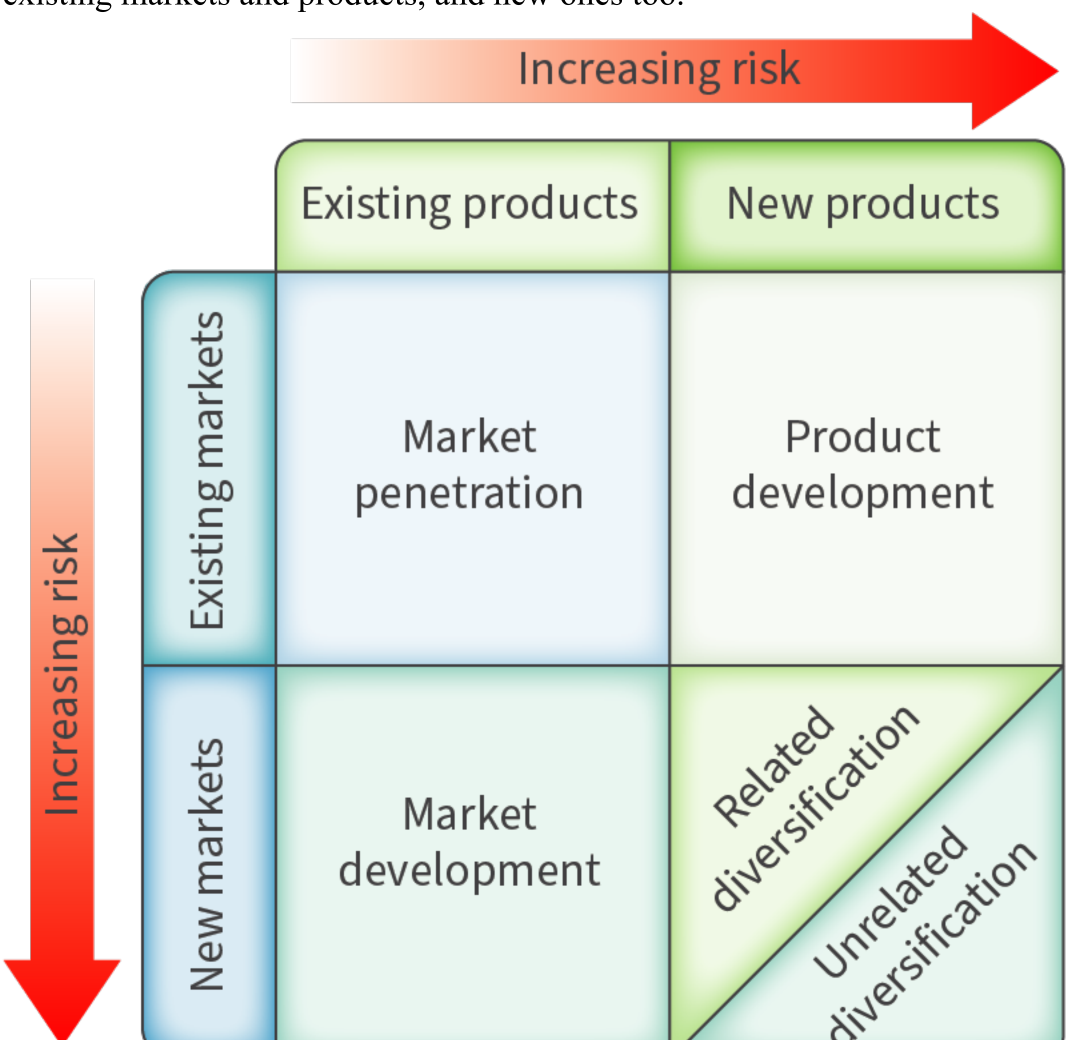
- growth doesn't have to be expanding size
- Some work to grow and develop the ecosystem
- Recreate opportunities for growth for steak holders

- Businesses who engage with their networks in this way are acting like nature/ biomimicry

Examples of generative/ refer Stive business practices
- a tech firm making its code open source
- A local bakery regularly offering free bread-baking classes for the community
- An MNC food company providing financial support for farmers
- A school offering empty classrooms free to non profit organizations who need space to run their programs

Ansoff Matrix

looks at growth potential in terms of market, and product, and considers both existing markets and products, and new ones too.



The market penetration: involves selling more of the same products to the same or similar types of customers

Product development: selling new products to an existing market, often to existing customers

Market development: selling existing products but to customers. It is also considered riskier than penetration.

Diversification: the riskiest if all, which involves selling new products to a new type of market, and new customers.

- related diversification is when a business decides to sell a new, but related item, like a menu item, to a new market.
- Unrelated diversification is when a business decides to sell a new, but unrelated item, to a new market. For example MC Donald's opening a hotel business chain, but they specialize in the food, and restaurants industry

Forcefield analysis

Uses:

- Graphic representation of something, that is easy to understand
- Helps develop an understanding of stakeholders

Limitations

- Requires weights for qualitative factors
- May be biased
- Putting stakeholders as retraining forces can cause conflicts

(Unit 1.6) Multinational Companies MNCs

Multinational companies

corporations that have their headquarters in one country and operate in at least 2 countries at the same time, outside from the home country

- FDI is the long term investment by MNCs in foreign countries
- Setting up factories in a new country requires 10% of share in a foreign company

They need to mindful of their business and profits, and but they have a duty to their employees.

Actions taken to fulfil the task depend on the legal laws of the country

The prescience of an MNC can have advantages and disadvantages for host countries

They should be able to minimise its waste, maintain a strong brand image, and contribute to its community and environment

Impact of MNCs on the host

- Way ahead of any competition
- Major ethical controversies arrive
- Many western MNCs have not maintained the same ethical standards abroad as the host
- MNCS can effect the host country positively or negatively depending on the way they enter the country

Reasons for growth

- Larger customer base
- Brand recognition
- Technology
- Tax incentives
- Avoiding trade barriers
- Cost of production
- Lack of regulation
- Spreading risks

Advantages of MNCs

- Better employment
- Better wages
- Wages can be spent on local economy
- Workers receive training and new skills
- Local businesses become direct suppliers to MNCs
- Governments benefit

Disadvantages of MNCs

- Pay minimum wages
- Search for weakly governed countries
- Exploit workers in poor condition
- They don't care about pollution
- MNCs demand for local goods and services
- Deplete host countries raw materials