Business AS checklist

Chapter	Studied	Tested	Revised
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Business and its structure

Enterprise

> The primary purpose of business owners and managers is to add values to resources while meeting people's needs. (Maximizing products might not be of primary concern)

Definitions:

- Opportunity cost:
    - Next best alternative given up when a choice is made.
- Added value:
    - Additional value gained at each stage of production.
    - Difference between the selling price of the products sold by a business and the cost of materials that it bought.
- Fundamental economic problem:
    - Resources are scarce but wants are unlimited.
- Business:
    - A business is an organization that uses resources to meet the needs of customers by providing a product or service that they demand.
- Business activity:
    - Activity or process that adds value to resources and making them more desirable to customer.

Factors of production:

> Resources required by business to be able to operate and produce goods or services.

- Land:

    - Land refers to all the natural resources that can be used in process of production.

- Labour:

    - Labour refers to all the human input into the proceess of production.
    - Also referred to as human capital or intellectual capital.

- Capital:

    - Capital refers to the human-made aids that can be used in the process of production.
    - It isn't limited to money and includes equipment, machinery, and factories.

- Enterprise:

    - Enterprise refers to organization that brings together other factors of production to produce products.

Dynamic Business environment:

> Business environment is constantly changing. A successful business is able to adjust to these changes.

- Changes include:
  - New competitors
  - Legal changes
  - Economic changes
  - Technological changes
- Reasons why some business succeed:
  - Good understanding of customer needs
  - Efficient management of operations
  - Flexible decision-making to adapt to new situations
  - Appropriate and sufficient sources of finance
- Reasons why some business fail:
  - Poor record-keeping
  - Lack of cash
  - Poor management skills

Types of business based on operational area:

- Local business:
  - Operate in small, well-defined parts of a country
- National business:
  - Have branches or operations across a country
- International business:
  - Sell product in more than one country but established in one
- Multinational business:
  - Have operations or established base in more than one country

Entrepreneurs and Intrapreneurs

> Entrepreneur is the individual who takes a risk in combining the factors of production to create a business. Entrepreneurs face the consequences if their plan fails but Intrapreneurs create business as part of a company and the company deals with the loss.

- Qualities of successful entrepreneurs and intrapreneurs:
  - Innovation
  - Commitment and self-motivation
  - Multi-skilled
  - Leadership-skills

- Self-confidence and an ability to bounce back
    - Risk-taking

- Challenges faced by entrepreneurs:

    - Lack of business opportunity:
        - no new idea
    - Obtaining sufficient capital
    - Cost of good locations
    - Competition
    - Lack of a customer base

Business risk and uncertainty

> A business project can be analysed in terms of reward to risk ratio.

- Every potential business idea has some level of uncertainty associated with it. This means every business will have risk.

- Types of risk:

    - External risk:
        - Change in economy
        - Change in competitors' behavior etc.
    - Internal risk:
        - Entrepreneur's understanding of the market is not good enough
        - Hiring wrong people

	Low Risk	**High Risk**
Low Reward	Safe projects with low returns.	High risk with low rewards, generally unattractive.
High Reward	Ideal scenario: low risk and high rewards, though hard to find.	Interesting but risky; suitable for entrepreneurs confident in potential rewards.

- An ideal project has low risk and high reward.
- To go ahead with any venture, the expected rewards must justify the risk involved.

Entrepreneurs and Government

- Entrepreneurs are good for country and its economy as they:

    - create jobs and help keep unemployment low
    - earn money and pay taxes
    - create competition in market which is good for consumers as it is likely to lead to better service.(price and quality)
    - are involved in innovation

- Government can help entrepreneurs by providing:

- access to advice and information
- funding such as grants
- legal protection for new ideas (patents)

Business plan

> A business plan is a written document that sets out key aspects of a business ideea.

- Its key elements are:
    - Outline of owners, their background and experience
    - An overview of business idea and its products
    - An analysis of market condition and position of business within the market
    - Outline of how business is to be promoted
    - Estimate of sales
    - financial section
    - deetails of human resource requirements
- Benefits and limitations of business plan:
    - Planning can help:
        - identify issues early
        - track progress
        - co-ordinate among departments
    - Planning cannot predict every possible issue
    - Therefore, plans must be reviewed and changed regularly to keep them relevant and competitive.
    - A good plan is useful only if it is implemented properly

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Business Structure

Economic sectors

> Business can be classified into 4 broad categories based on type of product or service:

- Primary sector:
    - This sector is made up of acquiring or extracting raw materials.
    - For eg: mining, agriculture, fishing etc.
- Secondary sector:
    - This sector manufactures and asseembles products using raw material.
    - For eg: Construction, car manufacture etc.
- Tertiary sector:
    - This sector provides services that are intangible.
    - For eg: Retailers, transportation business, financial services etc.

- Quarternary sector:

    - This is a subset of the tertiary sector that are based on knowledge and skills of employe.
    - For eg: Information service business. (consultancies, research organizations etc)

Public and private sectors:

- Private sectors are owned by private individuals.

- Public sectors are owned by government.

- If a government takes control of a private sector business, it is called nationalization.

- If a government sells one of its organizations to the private sector, this is called privatisation.

- Typically, the government is likely to run organizations:

    - that have strategic importance to the country such as defense.
    - that provide essential services like energy, water supply etc.
    - that involve merit goods (whose benefits may not be fully appreciated by individuals)

- Benefits of private sector:

    - they focus on profit which leads to production of demanded and quality goods.
    - their focus on profit leads to efficient use of resources.

- Benefits of public sector:

    - they focus on what is beneficial for the society rather than what is profitable.
    - they will not try to exploit or mislead customers.

Business ownership

- Sole traders:

    - When individuals run a business of their own, they are known as `sole traders`.

    - Most entrepreneurs start as sole traders or in partnership.

    - Plumbers, decorators, window cleaners and hairdressers are often sole traders.

    - Being a sole trader has following advantages:

        - can make own decisions
        - can respond quickly to changes in market
        - direct contact with market
        - easy setup

    - It also has some disadvantages:

        - limited sources of finance
        - heavy reliance on your own ability
        - may work long hours

        - subject to **unlimited liability**

> Unlimited liability occurs when an individual or groups of individuals are personally responsible for all the actions of their business.

- Partnerships:
    - If individuals join with other people and set up a business together, this is known as partnership.
    - Advantages:
        - share resources, ideas and workload
        - more sources of finance than sole traders
        - cover for each other duirng hard times
    - Disadvantages:
        - Share profits
        - Disagreement may arise
        - unlimited liability

> A company is a business organisation which has its own legal identity and limited liability.

> Limited liability means that investors can lose the money they have invested into the business but their personal possessions are safe.

- Private limited companies:
    - Private limited comparies are owned by shareholders and the owners can place restrictions on who the shares are sold to in the future.
    - Owners of shares in private limited companies cannot advertise their shares for sale; they have to sell them privately.
- Public limited companies:
    - Public limited companies are owned by shareholders but, unlike private companies, restrictions cannot be placed on the sale of their shares.
    - Shares in pulic limited companies can be advertised in the media.
- Franchises:
    - A franch occurs when one business (the franchisor) sells the right to use and sell its products and services to another business(the franchisee).
    - KFC, McDonald's etc are well known franchise.
- Co-operatives:
    - Co-operatives businesses are owned and run by and for their members, whether they are customers, employees or residents.
    - Types:
        - Employee co-operatives: employees are part owners

        - Community co-operatives: community for local service
        - Retail co-operatives: independent stores come under one brand name.

- Joint ventures:

    - When two or more businesses work together for one common project(product or service) but do not formally join together all their activities.
    - Its benefits are:
        - businesses can share skills, resources, expertise and experience which can benefit both
        - they can collaborate on mutually beneficial project
    - Its challenges are:
        - division of contribution and profit
        - difficulty in decision making
        - different views on whether and how to end the venture

- Social enterprises:

    - These are businesses whose primary interest is not to make a profit but help the society in some way.

> It is possible to change the legal structure of a business after it has been set up but it must fulfill the reqrirements of new structure and go through necessary process.

Size of business

> There isn't one universal measure of business size.

- Profit isn't a measure of business of business size.

- Business size can be measured in many ways:

    - Turnover(revenue)
    - number of employees
    - value of assets
    - market value of business (eg. value of all its shares)
    - other indicators such as no. of branches.

Business growth

- The size of business can change over time. Business growth is a common objective of any business.

- There are two broad categories of business growth:

    - Internal or organic growth
    - External or inorganic growth

Internal growth

- If a business grows by expanding its existing operations, this is called internal or organic growth.

- It can be done in different ways like trying to improves sales in existing markets for existing products, developing new products, finding new markets etc.

External growth

- If a business grows by buying up another business or joining with another businesss, or combining with another business, this is called external growth.

- It is also called integration, merger and sometimes a takeover.

- In case of merger, there is mutual agreement beetween businesses to join together but takeover is often unilateral(one sided).

- Takeover is often done by acquiring majority of another company's shares.

- There are different forms of integration:

  - Horizontal: when two businesses are of same production process at same stage. For eg. a car manufacture company acquiring another car manufacture company.
  - Vertical: when two businesses are of same production process but at different stage. Backward vertical integration occurs when a business joins with a supplier; forward vertical integration occurs when a business joins with a business closer to the customer.
  - Conglomerate diversification: when two businesses are of different sector. For eg: When a car manufacturer joins with a food company.

Business objectives

> Objective means taget. A good objective includes what the target is, how to measure success, and when is the outcome desired.

- i.e. A good objective should be target-specific, quantifiable, and time-specific.

- Objectives can be corporate objectives, departmental objectives, or individual objectives.

Business objectives in the private sector

- Profits and profit maximization:

  - This is done by increasing the difference between sales revenue and total costs.
  - Approaches can be increasing sales, reducing cost or increasing selling price.

- Growth

- Survival:

  - This objective is common for entrepreneurships.
  - Other businesses can have this as key objective during times like intense competition or recession, time of crisis like pandemic etc.

- Cash flow

  - A cash cycle is the time between outflow of cash and inflow of cash.
  - For most business, cash flow is essential to be able to pay debts on time or acquire resources.

- Diversification:

  - Increasing range of unrelated goods and services.
  - or, providing wide range of goods and services.
  - This allows business to spread its risk.

Business objectives in the public sector

- Providing a service to the community

  - Example: NEA(Nepal Electricity Authority), NOC(Nepal Oil corporation), government schools, healthposts etc.

- Financial objectives

  - In many situations, public sector organizations are expected to at least cover their operating costs, to avoid needing financial support from the government.
  - This isn't applicable to every case.

- Development of relatively poor regions

Business objectives of social enterprises

- Social objectives:

  - Providing employment
  - Improving facilities
  - Profit is frequently reinvested to help to meet their social objectives

- Ethical objectives:

  - These are objectives based on moral principles.
  - use of sustainable products
  - not advertising falsely
  - providing quality products

Corporate Social responsibility

> Some businesses may accept obligations beyond the legal minimum to society, this type of behaviour is known as CSR.

- John Elkington suggested that business' performance should be measured by examining its profit, its treatment of people, and its impact on the planet. This is known as the triple bottom line and it encourages sustainable production.

Mission statement, aims, objectives, strategy and tactics

- A mission statement sets out the overall purpose of a business. It is determined by owners of a business and represents why the business exists.

- An aim is a long-term goal that determines the objectives that an organization sets itself. Aim is often represented qualitatively and not as numerical targets.

- Strategy is the long-term plan to achieve the objectives of a business.

- Tactics are the short-term actions needed to implement strategy.

Role of objectives in states of decision-making

- Decision making involves:

    - Setting the objective
    - Gathering information which depends on objectives
    - Selecting a suitable strategy based on information gathered
    - Implementing the strategy
    - Reviewing

- Decision making starts with setting objectives and is driven by it.

- Both internal and external factors might cause business objectives to change.

> Ethics may influence business objectives and activities.

SMART objectives

- Specific

- Measurable

- Agreed

- Realistic

- Time-specific

- Example: To increase profits by 25% over the next four years is a good objective whereas to do better is a bad objective by comparision.

Stakeholders in a business

> Stakeholders are peoples that are involved in and affected by a business.

Internal and External stakeholders

- Internal stakeholders are part of the business like owners and employees
- External stakeholders operate outside the business and include suppliers, customers, the government and the community
- Each of the stakeholder groups will have their own objectives.

Shareholders:

- Shareholders are people who own part of a business by investing in it.

- A person might become shareholder for following reasons:

    - Shareholders receive dividends. Dividends are money that is paid is paid out of profits to shareholders.
    - Shareholders can influence business policy.
    - All companies must have an annual general meeting (AGM) to which the shareholders are invited and provided a copy of company's annual report.

- Any business decision can have impact on shareholders. The level of impact depends on type of shareholder. For example: the community might not be affected as much as shareholders when the company profit decreases.

- Stakeholders have different aims that affect business decisions. A business needs to be accountable to its stakeholders. Some accountability comes from legal responsibilities to their stakeholders and some reponsibility comes from the companies view. Based on shareholder concept, owners are regarded as key business objective. Based on stakeholder concept, businenesses believe that it is better in the long term to treat stakeholders well.

- Conflict might arise from stakeholders having different aims and objectives as it might not be possible to please all of them. A business may have to juggle different demands and compromise on occasion. As business objectives change, the way stakeholders are treated may change as well. Businesses should try their best to satisfy as many stakeholders as possible.

Human Resource Management

Human resource management

> Human resource management(HRM) comprises the acquisition, training, motivation and reward of human resources within the business.

- Human resource management is the process of making the most efficient use of the organization's employees.

Purpose and role of human resource management.

> The main purpose of HRM is to achieve organisational objectives, such as growth and increased profitability by enhancing organisational performance.

- All elements of HRM, if implemented fully and operated properly, fulfill the needs of individual as well as of the organisation.
- Outcome of a sucessful HRM policy could be motivated and creative employees who are committed to the firm and who do not seek to leave. Under such sitution, a business should incur lower recruitment costs and enjoy higher level of productivity and a reduction in faulty products.
- Businesses differ in their interpretation of HRM. Some see it as a confirmation of value of employees while others view employees as simply another resourcee to be used as effectively as possible.
- Two key reasons exist to highlight the importance of HRM within business:
    - Nature of workforce has changed and greater use of part-time and peripheral workers is seen currently.
    - Changes in organisational structure and use of techniques such as delayering and development of empowered teams. Delayering is reduction in the number of levels of hierarchy within an organisational structure.

Workforce planning

- A workforce plan (human resource plan) means assessing the current workforce and actions necessary to meet the business' future labour needs.
- Role of workforce plan:
    - They help businesss to deal with changes by ensuring they have right employees.
    - They help businesses to prepare for changes in workforce such as introduction to new production-line machinery.
- Workforce plans are designed to take proactive monitoring and not simply a reactive one.

Labour turnover

- Turnover is measure of proportion of a workforce leaving their employment. It is calculated as percentage of a business' workforce that leaves a business over a given period of time.
- The formula for turnover is given by:

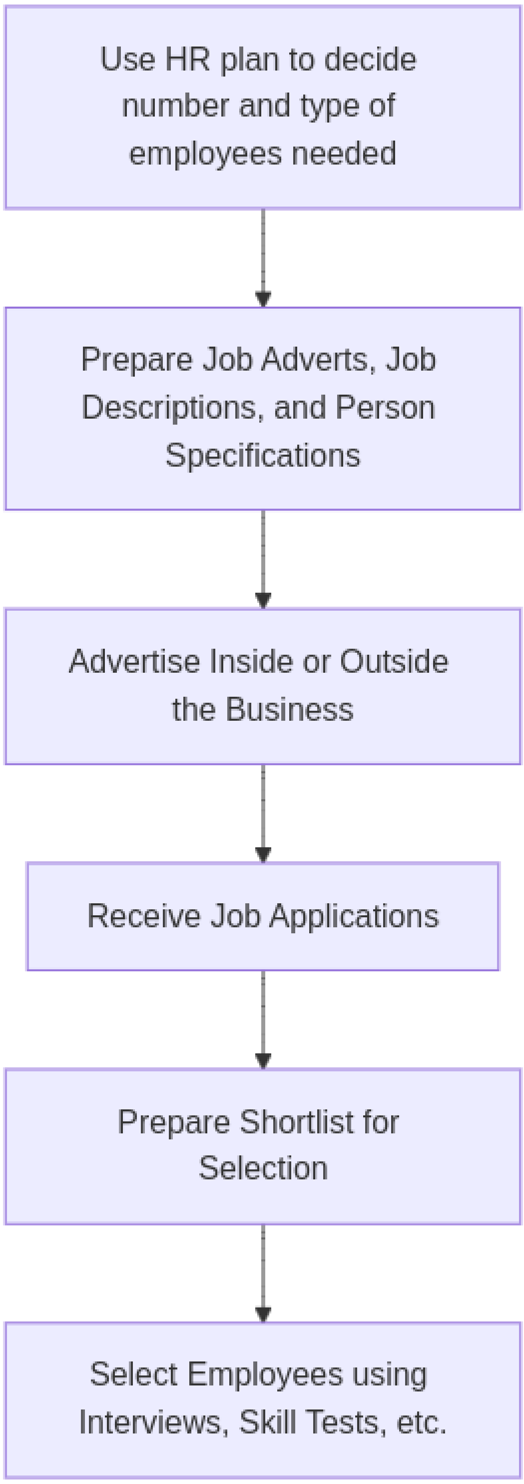
$$\text{Turnover} = \left(\frac{\text{Number of staff leaving during the year}}{\text{Average number of staff}}\right) \times 100$$

- Some level of turnover is inevitable. This has positive effect of being able to recruit employees to bring new ideas into a business.
- High level of labour turnover results in additional costs to recruit and train new employees. A business might need to increase pay in order to reduce the level of labour turnover.
- A business also suffers if labour turnover is too low. For example: in creative industries such as marketing, it is often helpful for business to have a stable and steady rate of turnover.

Recruitment and selection

> Recruitment and selection is the process of filling in organization's job vacancies by appointing new staff.

- The process of recruitment involves the following steps:
  - Use HR plan to decide number and type of employees needed
  - Prepare 1) Job adverts 2) Job descriptions 2) Person specifications
  - Advertise inside the business (internal recruitment) or outside the business(external recruitment)
  - Receive job applications
  - Prepare shorlist for selection, matching applications and person specifications
  - Select employees using interviews, skill tests etc.



> Job descriptions list the duties and responsibilities associated with a particular job.

- A job description might contain the following information:
    - The title of the post
    - Employment conditions
    - Some idea of tasks and duties
    - The key aims and responsibilities of the job
    - Where the job fits into the organization
- A job description is likely to form the basis of the employment contract.

> An employment contract is a legal agreement between an employer and an employee setting forth the terms and conditions of the employment arrangements.

> Person specification outlinese the skills, knowledge and experiencee necessary to fill a given position successfully.

- Person specification might include following information:
    - Educational and professional qualifications required
    - Character and personality needed
    - Skills and experience wanted.

Methods of recruitment

- A number of options are available for recruitment:
    - Job advertisements
    - Online recruitments
    - Employment agencies

Internal and external recruitment

- Internal recruitment offers following benefits:

    - Candidates are familiar with business and its culture
    - They might not require induction training
    - It provides employees with opportunities for promotion
    - It avoids cost of external advertisement
    - Selection is easier as more is known about the candidates.

- However, due to limited pool of candidates, skills and experience may be insufficient.

Selection

- There are various methods of selection:
    - Curriculum vitae, resumes, and application forms
    - Interviews
    - References
    - Testing
    - Asseesment centers

Redundancy and dismissal

> Dismissal is disciplinary action taken against an employee in the form of termination

> Redundancy takes place when an employee is dismissed because a job no longer exists.

- Redundancies can have following reasons:

    - A business closes down
    - The job of some employees are replaced by new technology
    - A business moves some of its operations overseas

- Redundancy can be voluntary or involuntary. A company offers voluntary redundancy near to time of retirement.
- In case of involuntary redundancy, certain procedure must be followed based on law of country. This might include redundancy pay.

> Dismissal is a more general term than redundancy. A dismissal might be due to underperformance, long term illness, misconduct, or some substantial reason such as imprisonment.

Morale and welfare

- Employee welfare is a broad term covering a wide range of facilities that are essential for the well-being of a business' employees
- Employee morale is the satisfaction felt by employees within the workplace
- Work-life balance refers to the obligations placed on employees by employers that determine the amount of time that employees spend on work-related activities.
- HRM can play a central role in developing and improving the morale and welfare of employees. Recruiting people with the intention of developing their skills and improving their performance throughout a long-term relationship is at the heart of what is called 'soft' human resource management.

Diversity and equality in the workplace

> Diversity, in an employment context, refers to recognising the differences between individual employees and also the differences that may exist between groups of employees.

> Equality is the circumstance in which all people are equal, particularly in relation to rights and opportunities in the workplace.

Training and development

> Training is a process whereby an individual acquires job-related skills and knowledge.

> Development refers to activities designed to increase employees' skills, education, knowledge and abilities in the workplace.

- Types of training:
    - Induction training: This training is intented to introduce an employee to the business including important policies, layout of workplace, new colleagues, and basic duties of the job.
    - Off-the-job training: This involves training outside the workplace, at a college, university or some other training agency.
    - On-the-job training: This form of training doesn't require the employee to leave the workplace. They learn from experienced employees through observation and work shadowing.

Benefits of co-operation between management and the workforce

- Benefits to employers:

- Helping to develop a strong employer brand
  - Enhancing employee morale
  - Improving the business' corporate image
  - Strengthening competitiveness

- Benefits to employees:

  - Financial benefits
  - Job security
  - The possibility of greater participation in decision-making

Trade unions

> A trade union is an organisation of workers established to protect and improve the economic position and working conditions of its members through collective bargaining.

- Collective bargaining is negotiation between employers and representatives of employees, normally trade union officials.

- Goal of trade unions include:

  - Maximising pay
  - Achieving safe and secure working conditions
  - Attaining job security
  - Participating in and influencing decisions in the workplace.

Motivation

> Motivation describes the factors that arouse, maintain and channel behavior towards the goal.

- Organization with huge work force possess high level of motivation tend to show the following characteristics: -Low level of absenteeism -Low level of labour turnover -Good relation between manager and employees -high level of labour productivity

Motivation theories:

- Motivation theories can be classified into two perspectives:
- Content theories
- Process theories

Content theories:

> It consider what motivates people. The content theories can be divided into three schools of though.

Scientific school

Key Ideas:

- Motivation is an external factor achieved through money.

- Employees should be closely supervised and paid piece rate.

Taylorism:

- Study the work process to determine the most efficient production method.
- Observe and time the best workers in these methods.
- Train the remaining workers to the same standard.
- Implement differential pay rates and close supervision to increase productivity.

Taylors approach reduced inefficiency and productivity so business did not need as many employees. His ideas resulted in strikes and other forms of industrial action by dissatisfied workers.

Human relation school:

Key Idea:

- This brought sociological theory into management and accepted that employees could be motivated by meeting their social needs.

- Hawthorne effect:

    - it is based on research conducted at western electric companies harthrone plant .
    - it showed that employees were responding to the level of attention they were receiving as part of the investigation and working as a group

Neo-Human relation school:

Key idea:

- it highlighted the importance of fulfilling phycological needs to improve employe performance

Maslow's hierarchy of needs:

- The hierarchy of needs is a theory that employees have successive requirements that can be fulfilled through work:
    - Physiological needs: food, water, shelter, and clothing.
    - Security needs: safe and secure working environment.
    - Social needs: contact and friendship with other employees.
    - Esteem needs: achievement, recognition, and self-respect.
    - Self-actualization: to fulfill one's potential completely.

Frederick Herzberg's Two-Factor Theory:

- This was the result of a study designed to test the view that people face two major sets of influences at work.

- Hygiene or Maintenance Factors: Related to the environment of work

    - Company policy and administration
    - Supervision of employees
    - Working conditions

    - Salary
    - Relationship with fellow workers

- Motivators: Related to the job itself and can be used to motivate

    - Personal achievement of goals and targets
    - Recognition of achievement
    - Interest in work itself
    - Responsibility for greater and more complex duties
    - Personal growth and advancement

> Herzberg's crucial finding was that hygiene factors do no lead to motivation but without them employees may be dissatisfied.

David McClelland's Theory of Needs:

- Argued that an individual's motivation depends upon their needs, which are determined by their experiences.
- Identified three types of motivational needs:
    - Achievement motivation
    - Authority/power motivation
    - Affiliation motivation

Process theories

> examine the process of motivation and are concerned with 'how' motivation occurs.

Victor Vroom's expectancy theory.

> Vroom argues that motivation depends on empoloyees' expectations of the result of their efforts.

Vroom's model consists of three major elements:

- Expeectancy: Confidence that employees may have in their ability to complete a particular task Expectancy leads to better performance.
- Instrumentality: Belief that completion of a particular task will lead to desired outcome. Intrumentality leads to outcome/reward.
- Valence: Strength of a person's desire to achieve a specific outcome. It refers to personal objectives.

Motivation methods in practice

Financial motivators

- Taylor saw pay as the primary motivating factor for all workers and supporteed the use of piece rate

- Maslow saw pay as a reward which permitted employees to meet the lower needs on their hierarchy

- Herzberg saw pay as a hygiene factor and a possible cause of dissatisfaction

- **Time based pay**: Payments based on the number of hours worked. Simple but may lead employees becoming clock-watchers.

- **Salary and wages**: Salaried workers are not normally required to work a set number of hours, though their contract may state a minimum of number of hours.
    - Salaries: expressed in annual terms and paid monthly
    - Wages: usually paid weekly and workers are required to be at work for a specified number of hours. They are paid a higher rate for overtime.

- **Piece-rate**: Employees are paid according to the quantity they produce. It may lead to increased productivity but may cause decrease in quality.

- **Bonuses and commission**: Bonuses are additions to pay linked to individual or team peerformancee measured against target. Commission is the payment for the quantity that is produced by an individual employee.

- **Profit sharing**: It is a reward system under which employees receive some part of the business' profits. Profits are paid to employees in thee form of cash or company shares.

- **Performance related pay(PRP)**: Under PRP, employees are paid for their contribution to the organization, rather than their status within it. The problem with PRP is performance is often difficult to measure, feeling of dicrimination, and businessees not putting sufficient funds.

- **Variable pay**: It is a more flexible schemee where potential rewards for star employees are greater.

- **Fringe benefits**: Extras that employees receive as part of their reward package. Sometimes referred to as perks.

Non-financial motivators

- **Job redesign**:
    - Job enrichment occurs when employees' jobs are redesined to provide then with more challenging and complex tasks, which is also called vertical loading. Job enlargement, also called horizonal loading, increases number of similar task instead of increasing complexity of task.
- **Employee empowerment** : providing greater control over their work life.
- **Teamworking**: Breaking producttion into large units insted of relying on division of labour.
- **Training and development**
- **Employee participation**: Involvement of employees in process of decision making. It can be done in form of quality circles, work councils, employee shareholders, and autonomous work groups.
- **Promotion and status**

Management

> Management is planning, organizing, directing and controlling all or part of a business interprise.

Functions of management

- The four principal functions of management are:
    - Planning

    - Organizing
    - Directing
    - Controlling

Planning:

> Evaluating the company's current status and where it would like to be in the future.

- establishing objectives or targets
- gathering forecasts of key data
- making plans for functional areas
- estimating the likely resources needs

Organizing

> Determining the internal organizational structure, establishing and maintaining relationship, as well as allocating necessary resources.

Directing

> Motivating and communicating

Controlling

> Setting standards using the company's objectives and evaluating and reporting performance.

Henri Fayol's theories of management

> Henri Fayol was a French mining engineer who developed a theory of business administration.

- He established fourteen key principles of maagement and five primary functions which supported his fourteen principles.

Fayol's fourteen principles

- Division of work
- Authority
- Discipline
- Unity of command
- Unity of direction
- Subordination of individual interests to the general interest
- Remuneration
- Centralization
- Scalar chain
- Order
- Equity
- Stability of tenure of personnel
- Initiative
- *Esprit de corps*: Team spirit

Fayol's functions of management

- Planning
- Organising
- Commanding
- Co-ordinating
- Controlling

Mintzberg's roles of management

> Ten roles, three categories

- Interpersonal management
  - Figurehead: represent their colleagues.
  - Leader
  - Liaison: Communicate with internal and external contacts.
- Informational management
  - Monitor: Search for relevant information.
  - Disseminator: pass on valuable information to others in the organization.
  - Spokesperson: Represents and speaks for their organization.
- Decisional management
  - Entrepreneur: plan and initiate change.
  - Disturbance handler: Deal with unexpected and crisis.
  - Resource allocator
  - Negotiator

Contribution of managers to business performance

- Some are:
  - Setting suitable objectives
  - Allowing subordinates to work to their full potential
  - Making good quality decisions

Styles of management

- Based on how much managers `listen to` their staff:
  - Autocratic: managers control information and make decisions alone.
  - Paternalistic: Managers take decisions in what they believe are the best interests of their subordinates.
  - Democratic: Information is shared and team members participate in decision-making.
  - Laissez-faire: Subordinats are free to make their own decisions.

> There is not a single perfect style of management. Best managers adopt a style suitable to the circumstance.

Douglas McGregor's Theory X and Theory Y

> He classified managers into two categories based on what they believed.

- Theory X managers believe workers were motivated solely by money and had no real desire to work.
- Theory Y managers believe that workers seek satisfaction from employment and not just money, wish to contribute,and willing to commit.
- McGregor did not believe in the views expressed by Theory X managers.

Marketing

The nature of marketing

> Marketing is the process of identifying, anticipating and satisfying the needs of customers in a mutually beneficial exchange process.

- Marketing is:
    - exchange process: business offers goods and usually gets payment in return.
    - mutually beneficial
    - aims to identify and anticipate customer needs.
    - aims to delight customers

Importance of marketing

- Marketing is ongoing process since business is dynamic and customers' needs change over time.

- Effective marketing will increase customer satisfaction, which means the customers:

    - are more likely to come back
    - are more likely to recommend
    - may be more willing to try new products by the business
    - may become loyal to product and less likely to switch

- Marketing objectives:

    - Sales targets
    - Market share
    - Brand awareness

> Marketing objectives will be linked to the overall objectives of the business. An objective should be quantifiable and include a time element.

- Marketing will discuss and negotiate with operations, finance and human resource departments. By doing this, it influencees what is produced, how many are produced, the range of products offered, and the price at which products are sold.

Demand and supply

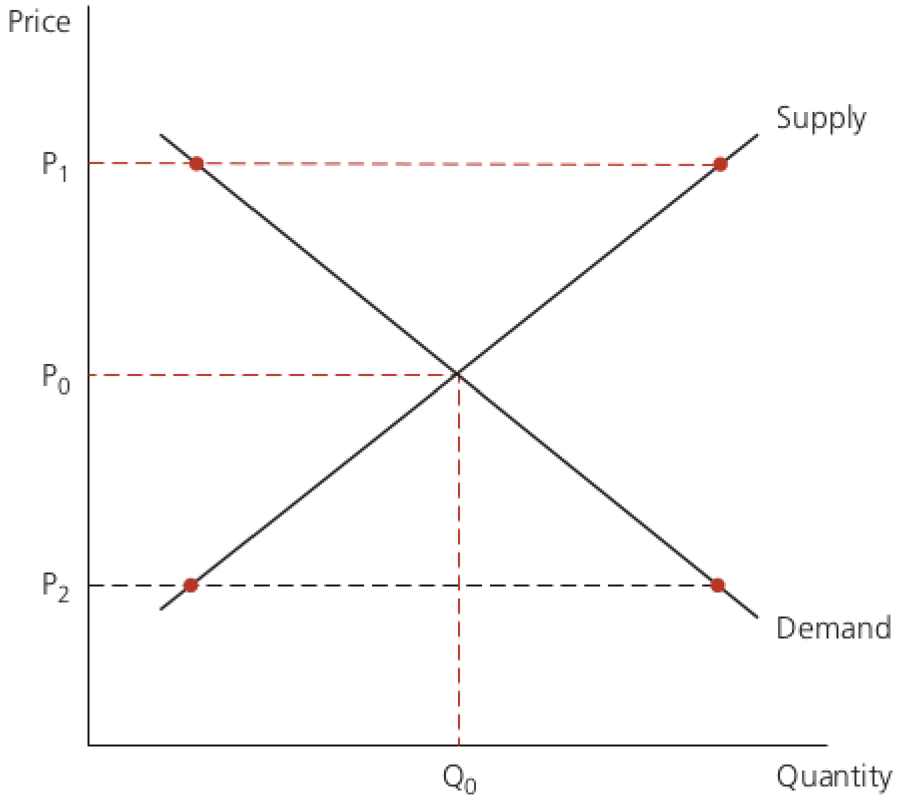
> Demand refers to how much customers are willing and able to buy at a given price in a given period of time. Supply is the quantity of a particular product that firms are willing and able to sell at a given price in a given period of time.

- A supply curve shows supply at each and every price and demand curve shows demand at every price with all other factors unchanged.

- Supply will depend on:

- The number of firms producing
- The time period
- Technology
- Costs (including effect of government subsidies, taxes)

- Demand will depend no:
  - Income of buyers
  - The price of rivals' products
  - The price of complementary products
  - marketing activities



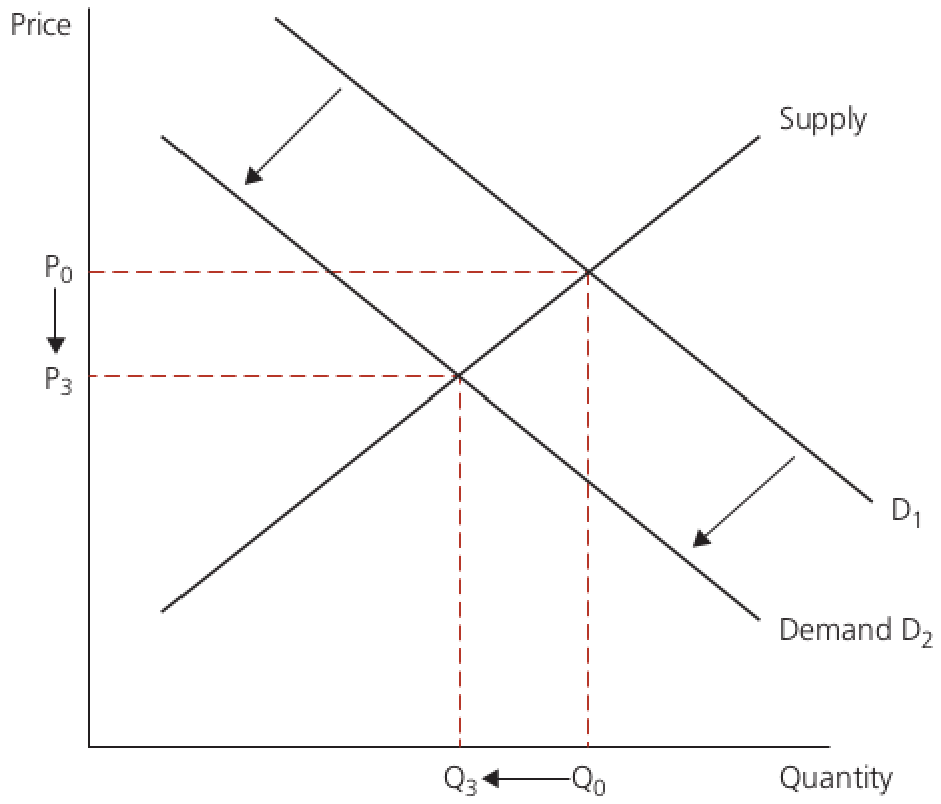
- If quantity demanded and supplied is equal and there is no incentive to change, this is known as market equilibrium and the corresponding price and quantity are called equilibrium price and equilibrium quantity.

Effect of change in demand and supply on equilibrium

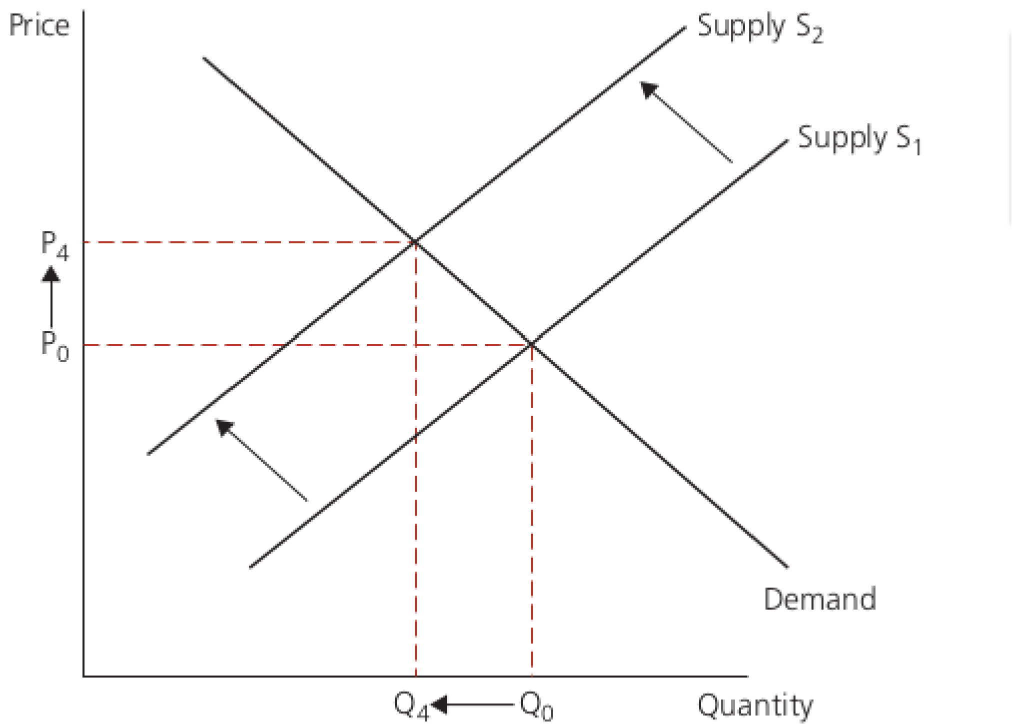
- Change in price leads to movement along curves and change in conditions will lead to shift in curve.

- If demand conditions change and there is a decrease, the quantity demanded at each prive will shift demand inwards. At the old price, there is now excess supply and this leads to fall in the price. As the price decreases, this decreases the quantity businesses will supply and increases the quantity demanded until a new equilibrium is reached.

- Effect of decrease in demand:



- Effect of decrease in supply:



- Effects of shift in supply and demand

Change	Equilibrium price	Equilibrium quantity
Increase in demand	Increases	Increases
Decrease in demand	Decreases	Decreases
Increase in supply	Decreases	Increases
Decrease in supply	Increases	Decreases

Markets

Consumer and industrial markets

- In customer markets, the customer buys the product and it is consumed.
- If a business is selling products directly to the customers who will consume them, this will involve business-to-customer marketing(B2C).
- When you are seelling products to be used in the production proceess for other products, this is known as producer or industrial market. When one business is marketing its products to another business to buy, this is known as business-to-business marketing(B2B).

Local, national and international markets

Customer orientation versus product orientation

- A customer-oriented(or market led) busineess bases its decisions on customers' needs. By being customer oriented, a firm should be able to ensure that the product or service it provides matches its customers' needs.
- Product-oriented (or product-led) business focuses more...

Marketing Research

> Market research involved gathering and analysis of data that is relevant to your marketing

- The purpose of market research is to understand more about the customers of a business and the main features of the market as whole to make better marketing decisions.
- Main features include:
    - size of market
    - growth of market
    - competitors

Primary Research and Secondary Research

- In primary market research, you have to gatheer new data for a specific purpose.

- Primary research can be railored precisely to your own needs but can be quite expensive and time consuming.

- In primary research you need to make sure that you:

    - Don't lead people into giving you the answers you want
    - Choose a representative group of people
    - ask enough people enough questions

- Primary data can be gathered by observation surveys focus group and test marketing

- Secondary market research uses data that already exists. It is paticularly useful for general information on the economy, the market and on competitors.

Sampling

A sample is a group of people that is intended to represent the overall population. The sample should be big enough to be representative of the whole market.

- There are three sampling methods:
    - Random sample
    - Stratified sample: Based on particular proportion to match target population's characteristics.
    - Quota sample: Based on particular proportion which may or may not reflect the target population

Market research data

- Qualitative and Quantitative market research are two different approaches to market research.

- Qualitative research is based on the opinions, values, and beliefs of people.

- Quantitative research is based on statistical measures and requires relatively large samples.

- While analysing market research results, a business needs to consider validity and reliability. Also, source, dates, and units need to be paid attention to.

> Knowing Pie-chart, line-graph, bar chart is required.

The marketing mix

> Marketing mix is the combination of elements that influence a customer's decision on whether or not to buy a product.

- Elements of marketing mix:
    - Price
    - Product
    - Place
    - Promotion
- It can bee extended to feature people(customer service), physical environment, and process.

Products

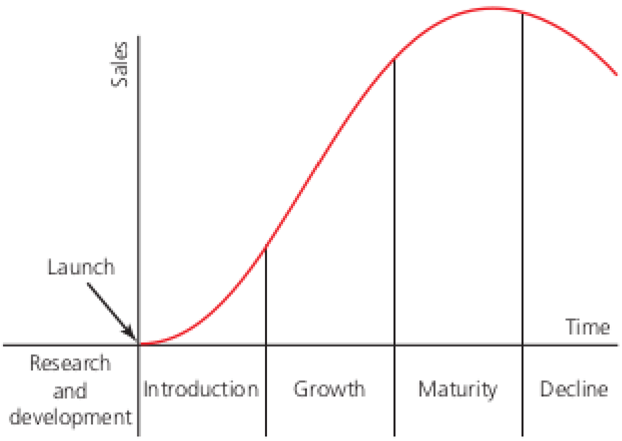
- Products are tangible goods whereas services are intangible.
- The tangible attributes of products refer to the physical aspects of product.
- The intangible aspects of a product refer to aspects that cannot be touched but can still be important to customers. For example: brand and its key values, guarantee, servicing etc.
- Product differentiation occurs when the benefits of your product are perceived as clearly different from competitors' product.

Product Portfolio Analysis

> Product portfolio analysis occurs when a business examines the position of all of its products in terms of their relative market share and market growth.

Product life cycle

- The product life cycle traces the stages of a product over its life.

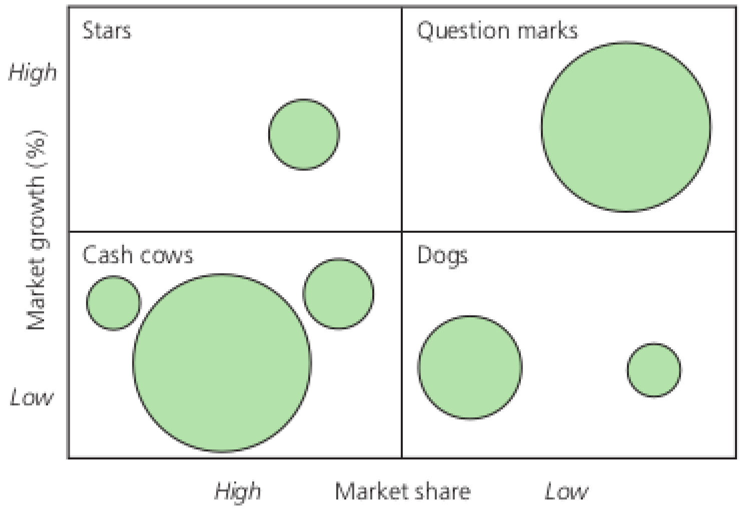


▲ **Figure 3.20** The product life cycle

- Managers may use the product life cycle model to identify which stage a product is in at a given moment and then adjust the markeeting mix accordingly.
- A firm may try to prevent the sales of a product going into decline using extension strategies.
- Extenstion strategies include:
  - Increasing the usage of product
  - Encouraging more frequent use of product
  - Reducing price
  - Adapting the product
  - Introducing promotional sales
  - Changing image of product
- Product life cycle model is valuable because it highlights the fact that marketing activities have to be adjusted at different stages in the development of a product.

Boston Matrix

> The Boston Matrix is a method of product portfolio analysis that examines the products of a business in terms of their market share and the market growth.



- Each circle in boston matrix represents one particular product or service. The size of the circle representing turnover of the product.
- The firm's products can be classified into:
    - Cash cows: Products that have high market share but are selling in a slow-growing market. These products can be used to finance other products.
    - Question marks (or 'problem children'): Products that have a small market share of a fast-growing market.These products need protecting and extensive marketing as they usually have uncertain future.
    - Stars: Products that have large market share of a rapidly-growing market. Money must be spent to ensure they retain their position.
    - Dogs: Products that have low market share in a slow-growing market. A firm may want to get rid of these products unless it thinks it can improve its sales.
- To summarize:
    - Dog products may be sold off or production and sales halted.
    - Star products maybe invested in to maintain their position.
    - Cash cows may be 'milked' to provide funds.
    - Question marks may be protected.

Pricing Methods

> The price of a product can have a major influence on its appeal and whether or not customers think it is good value for money.

Factors determing the price of a product

- **The type of product**
- **The cost of producing a unit**
- The ability of customers to pay

- **The demand for a product**
- The sensitivitty of demand to price changes
- **Competitors**
- Pricing points
- The objectives of the business
- The stage in the product life cycle
- The rest of market mix

Pricing methods for new products:

- Competive pricing: similar to competitors
- Penetration pricing: low price to enter market
- Price skimming: high price while entering marketing
- Price discrimination: different price for same product
- Dynamic pricing: different price based on demand
- Cost based pricing: Cost + some profit
- Psychological pricing: Psychological effect.

Promotion methods

> Promotion refers to the ways in which business communicate about their products.

- Purposes of promotion include:
    - Informing customers
    - Persuading them
    - Reassuring buyers
- Objectives of promotion:
    - to increase sales
    - to increase the market share
    - to position the product relative to competitors in minds of customers

The promotional mix

> The promotional mix refers to the combination of ways in which a business can communicate with its customers.

- Its elements are:
    - Advertising promotion
    - Sales promotion
    - Personal selling
    - Direct promotion
    - The role of branding
    - The role of packaging
    - Digital promotion
- Choosing the right promotional mix depends on:

    - Nature of product
    - Marketing expenditure budget
    - Available options

Place(channels of distribution)

> Distribution of good or service refers to the way in which the ownership of it passes from the producer to the consumer.

Different distribution channels are:

- Zero-level channel: Good or service passes directly from producer to consumer without any intermediaries. For eg. dentists, accountants, and plumbers have zero-level channels.
- One-level channel: There is one intermediary. For example: Retailer buys the product from the manufacturer and sells it to the consumer.
- Two-level channel: There are two intermediaries. For example: a wholesaler buys from manufacturer and sells it to retailers, who sells to the final customers.

The choice of distribution channel depends on Access to markets, desired degree of control, and costs.

The nature of distribution outlet itself can have an impact on the buyihng experience. Distribution outlet is where the product is actually sold.

Internet and marketing

The impact of internet on market research and the marketing mix includes:

- Data: Gather and analyse data in large scale
- Price: Can be adjusted
- Promotion
- Distribution
- Product: Some products can be digital
- People: Communication is easier and faster
- Process: convenient
- Physical evidence: Physical design is less significant.

Operations management

The nature of operations

> Operations management oversees the planning, co-ordination and control of the transformation process, turning resources into outputs.

- There are many different transformation process:
  - Changing characteristics of materials, information, or customers.
  - Changing the location of materials and information.
  - Changing the ownership of materials.
- The effectiveness of a business depends a great deal on the quality and cost of operations process.
- Effective operations:
  - means the business is doing right thing
  - means the business is doing what it does at a low cost
  - leads to more sales and profits
- Output of a business is the total amount produced in a given time period.
- Operations will involve management of its factors of production: Land, labour, capital and enterprise.

Stages of the transformation process

- The operations process involves different stages including:
  - Producing the initial idea, prototyping and testing
  - designing the best method of production
  - Deciding on levels of inventory which should be held
  - Ensuring production goes according to plan
  - Delivering to next stage in the process
  - Handling recall of products if necessary

Efficiency, effeectiveness, productivity and sustainability

- Effectiveness refers to degree to which operation is successful in producing desired result.
- Efficiency refers to ability to accomplish a task with the minimum expenditure of time and resources.
- Productivity is one measure efficiency that measures the output relative to inputs used.
- Sustainability refers to ability to maintain or improve the performance of operations over the long term.

Labor productivity

- Labor productivity specifically measures the output per person.

- Techniques:

  - Increasing number of hours worked.
  - Training.
  - Investment in equipment and technology.
  - Changing the way work is done.
  - Motivating employees.

- Employees resist to higher productivity because:

  - they don't want to work longer or harder
  - they don't want to learn new skills
  - they fear that higher productivity levels may lead to job losses
  - they feel it is unfair that they are producing more unless they receive higher rewards

Sustainability

- Becoming sustainable involves:

  - Using resources that are not being used, such as recycled materials
  - Using fewer resources generally
  - Recyling and reusing resources more
  - Reducing negative impact of business' activities on the environment.

- Implication on business:

  - Need to reconsider what is produced
  - Need to reconsider how products are produced
  - Need to reconsider packaging.

- Benefits:

  - Good for environment and society
  - may attract customers, employees and investors
  - may avoid negative comment in the media
  - may be mandated by law now or in future

Capital-intensive and labour-intensive operations

> Capital intensive operations involve a relatively large proportion of machinery and equipment relative to other resources. For eg: car manufacturing, oil refining etc.

- Advantages:
  - Can produce high volumes
  - Output can be standardised and consistent
  - May be able to produce continuously
- Disadvantages:
  - Can be expensive to set up
  - High fixed costs increasing break-even output
  - Can be difficult to customise products to individual customer needs

> Labor intensive operations involve a relatively high proportion of people compared to other resources.

- Advantages:
  - Production may be flexible to customer needs
  - Less expensive to set up than buying equipment
  - Employees can use skills and initiative to be creative
- Disadvantages:
  - May take time to train staff with necessary skills
  - Product may vary in consistency and quality
  - Volumes produced may be low

Operations methods

- There are different types of operation methods. Some are:
  - Job production: one-off, unique, tailor-made items
  - Batch production: Items move as a group from one stage of the process to another
  - Flow production: Items move continuously from one stage of the production process to another
  - Mass customisation: Large-scale production with the flexibility to produce a number of different models

> Changing from job to batch to mass production will depend on the nature of demand and will require investement in capital equipment.

Inventory management

> Inventory refers to the stocks/product held in a business, such as materials and semi-finished goods.

> Inventory refers to products that the business owns but will use up during the operations process.

Managing inventory

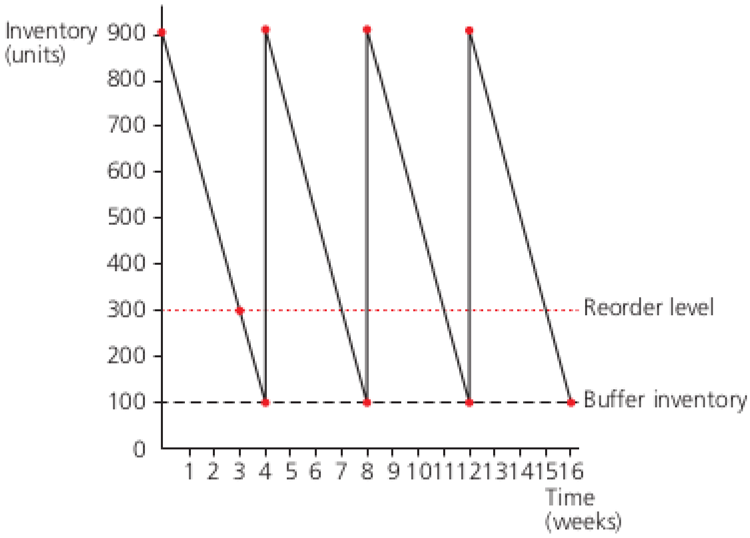
Types of inventory include: - Raw materials - Work in progress(semi-finished goods) - Finished products - General supplies

- Costs of holding inventory:
  - Costs of storage
  - Opportunity cost
  - Security costs
  - Risk of depriciation

> The benefits of holding inventory are that you have products ready when you need them, and if there are any delays or breakdowns in the process you can continue to operate.

Inventory(stock) control charts

> Inventory control charts can highlight how much inventory is being used up, how much to reorder and when.



- **Buffer inventory** is the minimum amount of inventory a business wants to hold just in case of problems.
- The **lead time** is how long it takes from ordering the supplies from a supplier to them arriving at the business.
- The **reorder level** is the amount of inventory left at which a business needs to place an order so that the new inventories arrive before the business goes below its buffer level.
- The **reorder quantity** is the amount ordered each time.

> Inventory control requires decision on how much inventory to hold which requires trade-off between the costs of holding the inventory and the problems that might occur if inventory is not held.

- Buffer inventory depends on:
  - Rate at which inventory is generally used up
  - Warehousing space available
  - The nature of product
  - Reliablity of suppliers
  - Suppliers' lead time

> Effective inventory management involves making sure that the business does not have too much or too little inventory.

Supply chain management

> Supply chain refers to all the different stages involved in making, distributing, and selling a good or service, beginning with the material through to the production of parts, through to the distribution and sale of the product.

> Supply chain management involves managing the flow of goods and services, and includes the different processes that transform raw materials into final products.

- Effective supply chain management can lead to:
  - Lower costs
  - Fewer mistakes

- Greater co-ordination
- Better-quality supplies
- Less time between orders and delivery

Just in time

> Unlike Just in case (JIC) approach in which businesses hold inventory just in case there are problems with suppliers or there is increase in demand, Just in Time(JIT) approach involves producing only when they know they can actually sell the items.

- Advantages:
  - Flexibility
  - Reduced costs
  - Waste minimization/Lean production
- Disadvantages:
  - Requires reliable suppliers and availability
  - Firm is vulnerable to action taken by employees
  - Extra reordering
  - Problems if suppliers fail to deliver on time
- Running a JIT system requires:
  - Excellent relationships with suppliers
  - Reliable employees
  - A flexible workforce
- Introducting a JIT production involves:
  - investment in machinery which is flexible
  - training multi-skilled employees
  - change in employees contract
  - building relationships with suppliers who can produce just in time as well.

Capacity utilisation and outsourcing

> Capacity is the maximum amount of output a firm can produce at a given moment with its existing resources and it depends on the number and quality of its factors of production.

> Capacity utilisation measures the existing output relative to the maximum.

$$\text{Percent Capacity} = \left(\frac{\text{existing output over a given time period}}{\text{maximum possible output over a given time period}}\right) \times 100$$

- Higher levels of capacity utilisation are desirable because they spread the fixed costs of a business over more units.

- Methods of improving capacity utilisation are:
    - do nothing: if this is temporary issue
    - renew its marketing activities to boost demands
    - reduce the level of capacity: Rationalisation
    - subcontract for other firms
- If levels of demand relative to capacity is high, a firm can:
    - Start a waiting list
    - increase prices
- If there is capacity shortage:
    - do nothing
    - expand capacity
    - outsource

Outsourcing

> Outsourcing occurs when the business uses other producers to undertake some of its operations

- It enables a business to:
    - use the specialist services of other business
    - benefit from lower costs
    - increase capacity
- When outsourcing, a business should consider:
    - the impact on costs
    - the impact on quality
    - reliability of delivery
    - the response of the existing workforce

Finance and Accounting

Business finance

- An asset is any item owned by a business that can generate an income for the enterprise.
- Capital is the money invested into a business either by its owner or by organizations such as banks.
- Non-current assets are assets that a business expects to hold for one year or more. For eg. property and vehicles.

Need for business finance

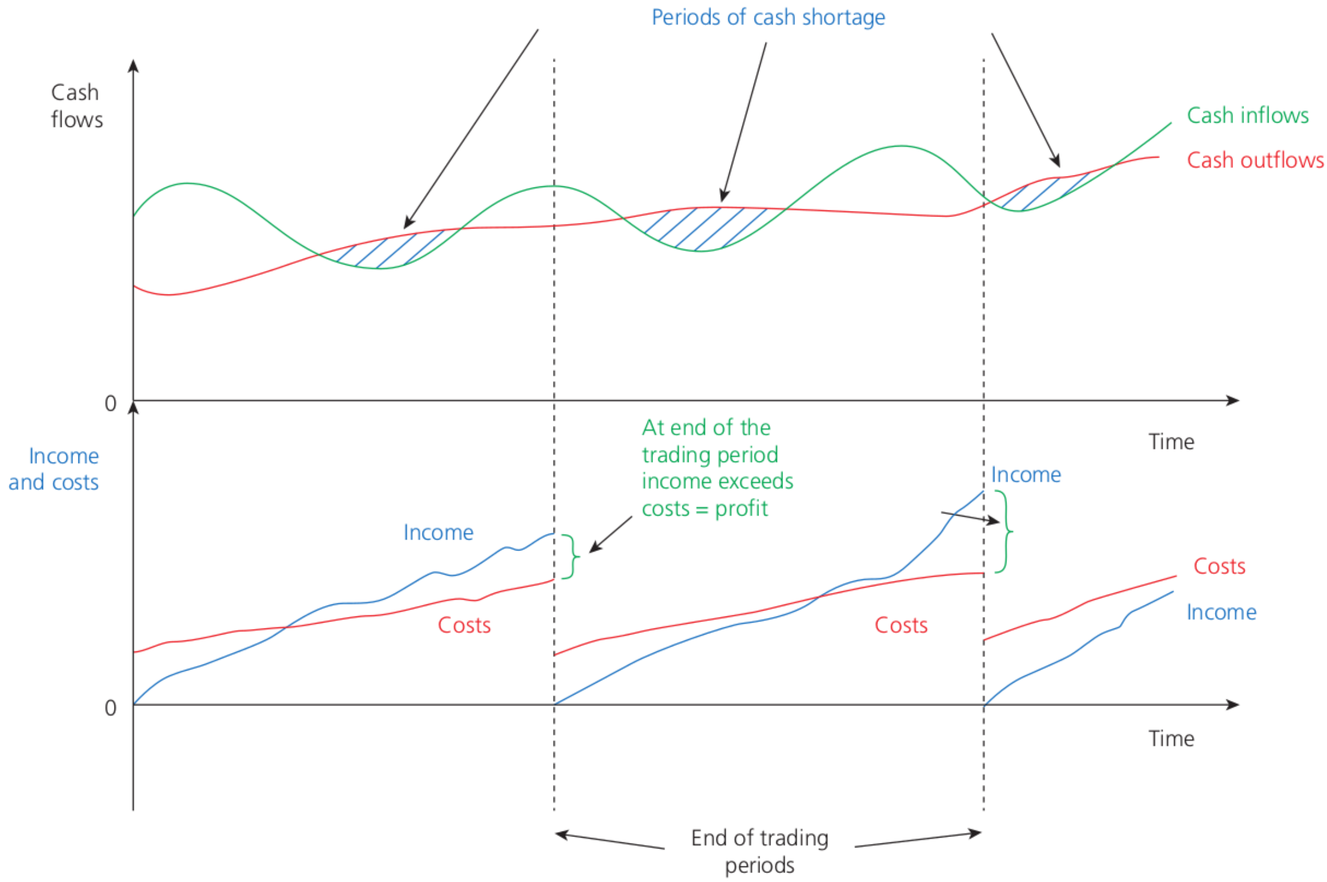
- There are three major circumstances when a business needs to raise finance:
    - When it is first started:
        - Start-up finance or capital
        - Purchasing non-current assets
        - Cash to start trading
        - To fund its market research and promotion
    - When it grows:
        - To buy additional non-current assets
        - To hire and pay for new staff
        - To buy additional supplies of groceries
    - To survive:
        - When first established
        - When facing a crisis

Short and long term sources of finance

- Short term sources of finance are needed for limited period of time, normally less than 1 year. It includes internal sources like working capital and retained profits and external sources like overdrafts.

- Long term sources of finance are those that are needed for longer period of time. It includes internal sources like retained profits, sold off assets, sell and lease back and external sources like bank loans, venture capital etc.

Difference between profit and cash:



- Profit is the surplus of sells revenue over total cost
- Just because of business is profitable, it doesn't mean that it will hold large sums of cash or even enough cash
- Reasons are:
    - Business may sell large amount by offering customers long time to pay
    - Business might hold large amount of inventory (jeweler)
    - Business may have paid for non-current assets
- A profitable business may find it self short of cash and possibly unable to settle its bills as they fall due.

Business failure:

- Lack of finance is a common causee of business failure.
- Insolvency exits when a business's debts or liabilities exceed the assets available to pay them
- In such cases a business is declared insolvent although the process might differ:
    - Bankruptcy: it occurs when a business is judged unable to pay its debts by a court of law. When bankruptcy is declared property and savings of business is sold and money raised is shared between creditors.
    - Administration and liquidation: Administration is a process available to a company to protect it self while it attempts to pay its debts and escape insolvency. An administrator is appointed for this. The process of selling assets for cash is called liquidation. Liquidation can be compulsory or voluntary.

Working capital

- Working capital is the cash a business has for its day to day spending.
- Working capital is what remains of a business' liquid assets once it has settled all its immediate debts.
- Trade payables is the amount of money owned by a business for goods and services that have been received but not paid for.
- Trade receivables is the amount owed by business customers for products that have been supplied but not paid for.
- To improve working capital position a business can:
  - Delay it's trade payables
  - Require that Its trade receivables are paid by its customers within a shorter time period

Revenue expenditure and capital expendituree

- The expenditure carried out by a busineess can be divided into:
  - Revenue expenditure: the purchase of items such as fuel and raw materials that will be used up within a short amount of time
  - Capital expenditure: spending on non-current assets
- A statement of financial position is a financial statements that records the assets and liabilities of a business on a particular day at thee end of accounting period. It was previously called a balanced sheet.
- An income statement is a financial statement showing a business' sales revenue over a trading period and all the relevant cost incurred to generate that revenue.

Sources of finance

- The form of ownership or legal structture is a major influence on the sources of financee that are available to a business.
- Possible sources of finance for different legal forms are:
  - Sole trader: owners saving, bank, suppliers, government grants and loans
  - Partnership: partners saving, bank, suppliers, government grants and loans.
  - Private limited company: suppliers, banks, government grants and loans, venture capital institutions, private share issues
  - Public limited company: suppliers, banks, government grants and loans, venture capital institutions, public share issues, via the stock exchange

Internal and External sources of finance:

- Sources of finance can be divided into:
  - Internal sources of finance:
    - Owners investment
    - Retain earnings
    - Sales of unwanted assets
    - Sale and lease back
    - Working capital
  - External sources of finance:

        - Government grants
        - Crowd funding
        - Micro finance
        - Trade credit
        - Debt factoring
        - Mortgages
        - Bank loans
        - Leasing and higher purchase
        - Bank overdrafts
        - Venture capital
        - New partners
        - Debentures
        - Share capital

- Factors affecting sources of finance:

    - Cost of sources of financee
    - Flexibility
    - The need to retain control
    - The use to which finance is put
    - The level of existing debt

> While selecting source of finance, managers must consider business' financial situation, reputation, legal structure, and environment.

Forecasting and managing cash flows

- Cash is a business' most liquid asset - it is notes and coins as well as funds held in the business.

> A cash flow forecast is a document that records a business' anticipated in-flows and out-flows of cash over some future period, frequently ove year.

		January	February	March
1 Cash in	Cash sales			
	Credit sales			
	Total inflow			
2 Cash out	Raw materials			
	Wages			
	Other costs			
	Total outflow			
3 Net monthly cash flow	Net monthly cash flow			
4 Opening and closing balances	Opening balance			
	Closing balance			

- All cash flow forecast should contain the following elements:
  - Cash in
  - Cash out
  - Net monthly cash flow
  - Opening and closing balance
- Two main reasons why business might forecast cash flow are:
  - To support applications for loan
  - To help avoid unexpected cash flow crisis
- If managers can identify cash flow problems before they occur through the use of the cash flow forecast they are able to take remedial actions to prevent the problem occurring
- Although the use of cash flow forecast can help businesses to plan and manage their finance the process does involve a degree of uncertainty
- Forecasting cash inflows and outflows accurately can also be difficult
- A cash flow forecast may need amending for two reasons:
  - Inflows differ from the forecast
  - Outflows differ from the forecast
- Methods of improving cash flow:
  - Reducing cost
  - Inprove management of trade receivables and payables
  - Debt factoring

- Short term burrowing
- Sale and lease back
- Leasing
- High purchase

Costs

> Costs are expenses that a business has to pay to engage in its trading activities.

- Revenue is the income of the business receive from selling it's goods or services
- Type of costs:
  - Fixed cost: it do not change when a business alters its level of output
  - Variable cost: variable cost alter directly with the level of forms output
  - Total cost: it is the sum of total fixed cost and total variable cost Assuming that all cost are either fixed or variable
  - Direct cost: it can be related to production of the particular product and vary directly with the level of output
  - Indirect cost : indirect cost are over heads that cannot be allocated to the production of particular product and relate to the business as a whole

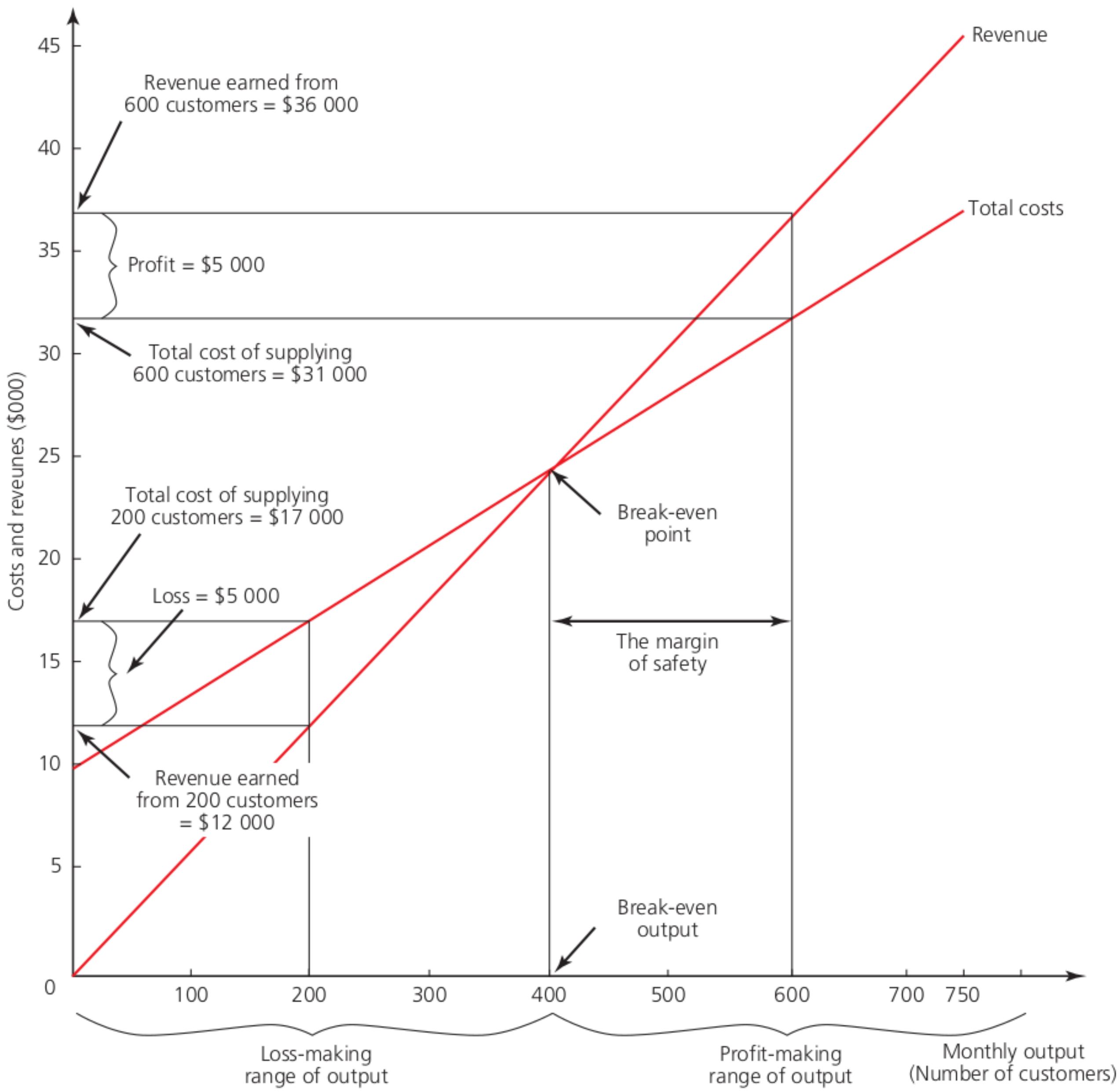
Approaches to costing

- There are two approaches that can be taken:
  - Full costing: It allocates all the cost of production for the whole business. These costs are absorbed into each output unit this is also known as absorption costing.
  - Contribution costing: the use of contribution is based on classifying cost as fixed or variable. Contribution can be defined as the difference between sales revenue and variable cost of production. Contribution has two potential uses:
    - To pay fixed cost incurred by business
    - Remaining is profit

Use of cost information

- Calculating average marginal and total cost: Cost and pricing decision
- Using cost to monitor and improve performance:
  - To calculate profit, special order decision

Break even analysis:



- Breakeven output is the level of output or production at which a business generates enough revenue to cover all it's cost of production.
- A breakeven chart can be used to show the margin of safety
- The margin of safety measures the quantity by which a firms current level of sales exceeds the level of output necessary to break even

Budgets

> Budgets are financial plans.

- Types of budgets are:
    - Sales revenue or income budgets
    - Production or expenditure budgets
    - Profit budgets

- Benefits of budget are:

    - It allows managers to ensure that a business does not overspend.
    - It allows senior managers to direct extra funds to important areas of the business.
    - It can be used to motivate employees. Employees can gain satisfaction from given responsibility for a budget.
    - Sales revenue budgets can also be used as targeets for employees, possibly as part of the appraisal process.
    - Information on expenditure budgets allow senior managers to examine those areas of a business that manage costs effectively.

- Drawbacks of budget are:

    - If a business indents that a significant proportion of its employees should manage budgets then training will be required.
    - Allocating budgets fairly and in the best interests of the business is difficult.
    - Budgets normally relate to the current financial year only and are short-term in nature.

- Uses of budget:

    - Allocating resource
    - Controlling and monitoring a business
    - Measuring performance

Approaches to budgeting

Incremental budgets

- Previous budget is used as basis and small percentage change may be made to allow for alterations.

- Incremental budgets work well for stable business environment where changes are predictable.

- Shortcomings:

    - It can encourage overspending by managers.
    - Managers may change the data to show efficient management or need for more budget.
    - It does not encourage risk-taking.

Flexible budgets

- It is a budget designed to change along with the sales volume or production levels.

- A budget holder is responsible for the use and management of a particular budget.

Zero budgets

- Zero budgets exist when budgets are automatically set at zero and holders have to argue their case to receive any funds.

- Advantages:

    - It avoids budgets creeping up each year.

    - It helps firms adjust their spending as the relative importance of areas within the firm changes.

- Drawbacks:

    - Zero budgeting is effective for setting expenditure budgets but not for sales budgets.
    - Budgets might be allocated according to negotiating skills of managers rather than genuine needs.

Variances

- Variance refers to dissimilarity betweeen budget figures and actual figures.

- Categories:

    - Favorable variances: When variance will result in business enjoying higher profits.
    - Adverse variances: When variance leads to firm's profits being lower than planned.

- Adverse sales variance can be controlled by:

    - Improving company image
    - Cutting prices
    - Seeking new markets
    - Updating range of products
    - Increasing advertising and/or promotions

- Adverse production variance can be controlled by:

    - Cutting wage or increasing labor productivity
    - Seeking cheaper raw materials
    - Reducing waste
