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

---

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.
