Lecture 06 - Business Management

Business is an economic system in which goods and services are exchanged for one another or money, on the basis of their perceived worth.

Business Management

Business Management refers to the activities associated with running a business/organization, such as controlling, leading, organizing, and planning. The goal of business management is to create wealth for business owners by providing some value that consumers need. The process of business management involves

- Researching the market for profitable business opportunities,
- Developing strategies for marketing management, operations management, financial management and human resources management, and
- Implementing the strategies through planning, organizing, leading and control.

Form of business ownership

The three most common forms of business ownership are the sole proprietorship, the partnership, and the corporation.

Sole proprietorships

A **sole proprietorship** is a business that is owned (and usually operated) by one person. It is the simplest form of business ownership, and it is the easiest to start.

Advantages of Sole Proprietorships

- **Ease of Start-Up**. No contracts, agreements, or other legal documents are required to start a sole proprietorship, and there are no minimum capital requirements.
- **Retention of All Profits**. All profits earned by a sole proprietorship become the personal earnings of its owner. Thus the owner has a strong incentive to succeed.
- **Flexibility.** The sole owner of a business is completely free to make decisions about the firm’s operations. A sole proprietor can switch from retailing to wholesaling, move a shop’s location, open a new store, or close an old one.
- **Possible Tax Advantages.** The sole proprietorship’s profits are taxed as personal income of the owner. Thus a sole proprietorship does not pay the special state and federal income taxes that corporations pay.

- **Secrecy.** Sole proprietors are not required by federal or state governments to publicly reveal their business plans, profits, or other vital facts, so competitors cannot get their hands on this information.

Disadvantages of Sole Proprietorships

- **Unlimited Liability.** A sole proprietor is personally liable for all the debts of his or her business.
- **Lack of Continuity.** Legally, the sole proprietor is the business. If the owner dies or is declared legally incompetent, the business essentially ceases to exist.
- **Lack of Money.** Banks, suppliers, and other lenders are usually unwilling to lend large sums to sole proprietorships. The limited ability to borrow can prevent a sole proprietorship from growing.
- **Limited Management Skills.** The sole proprietor often is the sole manager—in addition to being the sole salesperson, buyer, accountant etc.
- **Difficulty in Hiring Employees.** The sole proprietor may find it hard to attract and keep competent help. Potential employees may feel that there is no room for advancement in a firm whose owner assumes all managerial responsibilities.

Partnerships

A **partnership** is a voluntary association of two or more persons who act as co-owners of a business for profit.

Types of Partners

- **General Partners.** A general partner is one who assumes full or shared responsibility for operating a business. General partners are active in day-to-day business operations, and each partner can enter into contracts on behalf of all the others. Each partner is taxed on his or her share of the profit. To avoid future liability, a general partner who withdraws from the partnership must give notice to creditors, customers, and suppliers.
- **Limited Partners.** A limited partner is a person who contributes capital to a business but is not active in managing it; his or her liability is limited to the amount he or she has invested. A limited partnership is a business co-owned by one or more general partners who manage the business and limited partners who invest money in it. A master limited partnership is a business partnership that is owned and managed like a corporation but taxed like a partnership.

The Partnership Agreement: Articles of partnership are a written agreement listing and explaining the terms of the partnership.

Advantages of Partnerships

- **Ease of Start-Up.** Like sole proprietorships, partnerships are relatively easy to form. Prospective partners do not need to consult an attorney; however, an attorney's advice and assistance may be helpful.
- **Availability of Capital and Credit.** Partners can pool their funds so that their business has more capital than would be available to a sole proprietorship.
- **Retention of Profits.** As in a sole proprietorship, all profits belong to the owners of the partnership.
- **Personal Interest.** General partners are very concerned with the operation of the firm—perhaps even more so than sole proprietors—because they are responsible for the actions of all other general partners, as well as for their own.
- **Combined Business Skills and Knowledge.** Partners often have complementary skills. The weakness of one partner in a certain area may be offset by another partner's strength in that area.
- **Possible Tax Advantages.** Like sole proprietors, partners are taxed only on their individual income from the business.

Disadvantages of Partnerships

- **Unlimited Liability.** Each general partner is personally responsible for all debts of the business, regardless of whether a particular partner incurred those debts.
- **Lack of Continuity.** A partnership is terminated if any one of the general partners dies, withdraws, or is declared legally incompetent.
- **Effects of Management Disagreements.** The division of responsibilities among several partners means that partners must work together as a team. If they begin to disagree about decisions, policies, or ethics, distrust may build and worsen over time.
- **Frozen Investment.** It is easy to invest money in a partnership, but it is sometimes quite difficult to get it out.

Corporations

A **Corporation** "is an artificial being, invisible, intangible, and existing only in contemplation of the law." Hence a corporation is an artificial person created by law, with most of the legal rights of a real person.

Corporate Ownership: The shares of ownership of a corporation are called its stock, and those who own the shares are called stockholders, or sometimes shareholders.

- A **close corporation** is a corporation whose stock is owned by relatively few people and is not traded openly.
- An **open corporation** is a corporation whose stock is traded openly in stock markets and can be purchased by any individual.

Forming a Corporation: The process of forming a corporation is called incorporation.

- **Where to Incorporate.** A business is allowed to incorporate in any state it chooses. An incorporated business is called a domestic corporation in the state in which it is incorporated. In all other states where it does business, it is called a foreign corporation.
- **The Corporate Charter.** A corporate charter is a contract between the corporation and the state, in which the state recognizes the formation of the artificial person that is the corporation.
- **Stockholders' Rights.** There are two basic kinds of stock: common stock and preferred stock. Each type entitles the owner to a different set of rights and privileges. The common stockholders may vote on corporate matters; preferred stockholders usually have no voting rights. Perhaps the most important right of owners of both common and preferred stock is the right to share in the profit earned by the corporation through the payment of dividends. A dividend is a distribution of earnings to the stockholders of a corporation. Other rights include being offered additional stock in advance of a public offering (pre-emptive rights), examining corporate records, voting on the corporate charter, and attending the corporation's annual stockholders' meeting.

Other types of business ownership

Various types of businesses are organized for special purposes. Among these are S-corporations, limited liability companies, government-owned corporations, not-for-profit corporations, cooperatives, joint ventures, and syndicates.

Strategic planning tools and approaches

Various business analysis techniques can be used in strategic planning, including SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats), PEST analysis (Political, Economic, Social, and Technological), STEER analysis (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors), and EPISTEL (Environment, Political, Informatics, Social, Technological, Economic and Legal).