

The Foundations of business

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1 Learning Objectives

This note will find the answers for the following learning objectives:

- Describe the concept of stakeholders and identify the stakeholder groups relevant to an organization - SEC 3.
- Discuss and be able to apply the PESTEL macro-business-environment model to an industry or emerging technology - SEC 5.
- Explain other key terms related to this chapter including entrepreneur, profit, and revenue - SEC 2.

2 Business

A **business** is any activity that provides *goods* or *services* for consumers for the purpose of making a *profit*. A **good** is any tangible product; however, some consider softwares as goods, where this is an ongoing discussion and is undecided. A **service* is any intangible products.

An **entrepreneur** are those who take the risks and reap the rewards associated with starting a new business enterprise.

2.1 Revenues vs Profits

Revenue is the funds received in exchange to its goods and services. **Profit** is what is left after paying all the bills. High revenue does not mean positive profit, where some companies can have extremely high revenue but negative profit.

2.2 Types of Businesses

There are four types of businesses:

- *Goods Business*: Apple is such.
- *Services Business*: Hotels are such.
- *Goods and Services Business*: Car dealerships are such.
- *Non-Profit Business*: Many Colleges and the American Red Cross are such.

2.3 Business Participants

There are three main participants in a business:

1. **Owner:** He starts the business and supports it with resources.
2. **Employees:** Hired by the owner to achieve the businesses goal.
3. **Customers:** People who are sold the business's products to generate profit.
Both owners and employees depend on them, as a business's goal is to satisfy them.

3 Stakeholders

Stakeholders are people who hold legitimate interest in a business's success or failure and the policies it adopts. They can include customers, vendors, employees, landlords, bankers, and others. See *fig 1* for extra details.

Not all stakeholders *agree* with each other. For example, slenders are more likely to appreciate high profit margins that ensure the loans they made will be repaid, while customers would probably appreciate the lowest possible prices. Pleasing stakeholders can be a real balancing act for any company.



Figure 1: Business Stakeholders

4 Functional Area in Businesses

Functional area is the number of activities needed by to operate a business, and they are:

4.1 Management

Management is the act of *planning for, organizing, leading, and controlling* a companies resources to achieve its goals. *Managers* are people who are responsible for the work performance of others. Example of managers are: administrators, human resources, and head engineers.

4.2 Operations

Operations involve with the transformation of resources into goods and services. The operators have the responsibility of ensuring the products high quality. Example of operators: manufacturing, project manager, quality manager.

4.3 Marketing

Marketing involves identifying what customers needs and designing such product. They decide the features, price, quality, promotion, and delivering methods of the product. Furthermore, they manage the relationship between the business and its customers. Example of marketers: Produce research, communications, sales, etc.

4.4 Accounting

Accounting involves providing accurate, relevant, and timely financial information. They measure, summarize, and communicate financial and managerial information and advise managers on financial matters. There are two types of accountants:

- *Financial accountants* prepare financial statements to help users, both inside and outside the organization, assess the financial strength of the company.
- *Managerial accountants* prepare information, such as reports on the cost of materials used in the production process, for internal use only.

4.5 Finance

Finance involves planning for, obtaining, and managing a company's funds. Example of finance careers in business: Auditor, Budget Analyst, etc.

5 PESTEL

A business can be affected by its internal environment, called **micro-environment**. It involves anything that a business can exert control on. Furthermore a business can be affected by its *external environment*, called **macro-environment**. It involves anything a business cannot exert control on. For example, COVID-19 is a macro-environment problem.

PESTEL is a tool for business to analyze the external environment in which an industry or company operates.

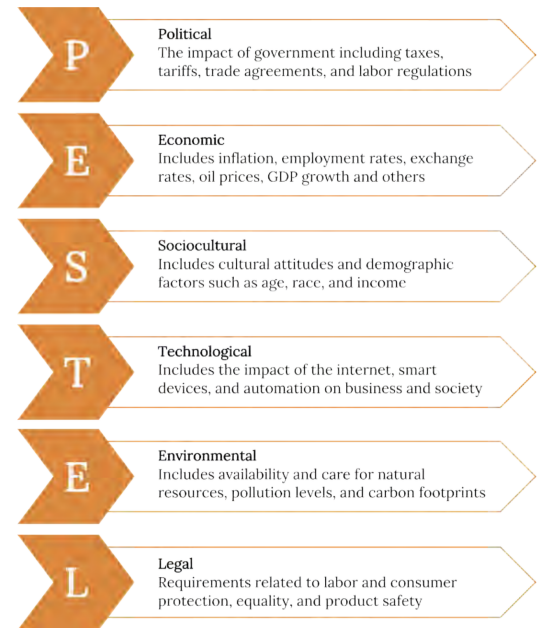


Figure 2: PESTEL Analysis