

Reasons for growing

As you learned in [Subtopic 1.3 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36846\)](#), growth is a common business objective. For some businesses growth creates new opportunities to increase market share and make more profit. However, expanding the business can also bring both risks and negative impacts in terms of environmental and social sustainability. This section analyses the reasons for growth as well as the positive and negative impacts resulting from the expansion of a business.



Figure 1. Growth is a common business objective.

Credit: boana, Getty Images

What is growth?

Growing a business means expanding the business. However, growth can be measured in different ways.

- **Growth in sales revenue:** increasing the money earned from selling the product; this is calculated by multiplying the prices of products by the number of products sold.

- **Growth in profit:** increasing the amount of money left over after costs of production have been subtracted from revenues.
- **Growth in market share:** increasing the percentage of a given market represented by a business's sales.
- **Growing impact:** increasing the positive social and environmental consequences of the actions of the business.
- **Growing a resilient business ecosystem:** generating opportunities for other businesses to grow and to strengthen their relationships with a wide range of stakeholders, distributing more of the value of the business to them.

There are a number of advantages and disadvantages of business growth. You will learn more about some of the global impacts of this growth in [Subtopic 1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36876\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36876), which explores [multinational companies \(MNCs\)](#).

Advantages of growth for a business

There are a number of advantages to growing as a business. For example:

- A business can achieve [economies of scale](#) to reduce costs. This will be explored further in [Section 1.5.2 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/internal-and-ext-economies-id-36866\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/internal-and-ext-economies-id-36866).
- As businesses grow, new customers and markets are reached, increasing market share, sales revenue and profit. A large market share can be obtained by using creativity to develop unique and desirable products for consumers. Additionally, companies can expand into new markets where there is a particular need for the product or service that the company is offering.
- Being a large business allows the company to influence the prices of products and services.
- Businesses that are able to grow are in a better position to face competitors and external changes in the business environment.

Larger businesses may be able to reduce risk and increase stability.

- Businesses that are growing often attract talented employees because they can offer good salaries, diverse experiences and opportunities for professional growth.



Figure 2. Growing businesses often attract talented, ambitious employees.

Credit: Nitat Termmee, Getty Images

Disadvantages of growth for a business

There are also some disadvantages of growth for a business. Some of these are caused by the increasing complexity and management problems that arise in larger organisations. For example:

- There may be problems with cash flow. In order to expand, a business may need a large amount of money, which can be difficult to obtain. Businesses may take out loans and then need to pay large interest payments for years to come.

- There may be problems with quality. Increased output, particularly if not well planned, can impact the quality of the product negatively. This can add to the costs of production and lower sales revenue.
- Related to the previous issue is the problem of loss of control of the business. As businesses grow, tasks and organisational structure become more complex.
- Finally, larger businesses may face higher labour turnover if human resources are not managed well. If a business grows and it does not recruit additional skilled workers, productivity and motivation of the current staff may fall and employees may decide to leave the business.



Figure 3. Growing too fast can cause declines in quality and control.

Credit: Westend61, Getty Images

Theory of Knowledge

When Google was first started, the company motto was 'Don't be evil' (<https://www.vox.com/recode/2021/2/16/22280502/google-dont-be-evil-land-of-the-giants-podcast>). This phrase was even included in the company's Code of

Conduct. Many people joined the company in its early days because they saw it as a pure force for good in the world.

However, as Google (now Alphabet) grew, the behaviour of the company changed, as did the public perception of it. The company faces legal battles associated with its size. Governments claim that the company has been stifling competition with its monopoly power and there are proposals to break it up. Others are upset with the company's lack of action around the spread of misinformation. Even inside its own walls, Google/Alphabet faces criticism of its handling of claims of inappropriate behaviour and its lack of diversity in the workplace.

This case raises a number of interesting questions related to the Theory of Knowledge concepts of ethics and perception. Here are some links to further information.

- [Does growth and increased power inevitably lead to unethical behaviour?](https://hbr.org/2019/04/the-psychology-behind-unethical-behavior)
(<https://hbr.org/2019/04/the-psychology-behind-unethical-behavior>)
- [Do our own perceptions of large, powerful organisations change as they grow? Why do we often root for the underdog?](https://freakonomics.com/podcast/nsq-ep-79-tktk/)
(<https://freakonomics.com/podcast/nsq-ep-79-tktk/>)

Advantages of growth nationally and globally

When companies grow, they impact the economy of their country and the global economy in various ways.

- Higher levels of output produced by companies generate more tax revenue for local and/or national governments. This money can be spent in the construction of schools, hospitals and roads and for providing useful services for the whole community.
- Higher levels of output also reduce the rate of unemployment and increase incomes. This can occur locally, but also globally through the supply chains of larger businesses. This can also create incentives for workers to have better jobs and education.
- Related to the previous point, higher income levels can increase consumption and improve living standards at both the local and global level.

Making connections

The IBDP Economics course focuses its attention on economic growth, which comes about when individual businesses grow.

Countries' economies will grow and shrink over periods of time. This is known as the business cycle and was discussed in [Section 1.1.6 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-swotsteeples-analysis-id-36834\)](#).

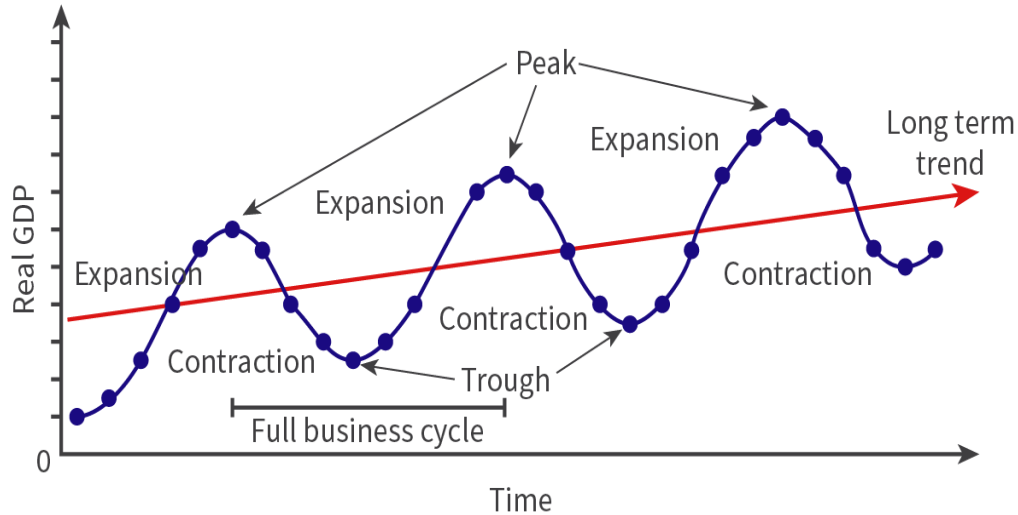


Figure 4. The phases of the business cycle.

Expansion, or economic growth, is one phase of the business cycle. This occurs when the businesses of a country produce more goods and services in one time period than in a previous one. It is usually measured by changes in the real gross domestic product (GDP).

Disadvantages of growth nationally and globally

Despite the benefits that growth can bring to the economy of a country or region, there are always some costs to be considered.

One such problem is the increased pollution that can arise when businesses grow. From carbon emissions to wastewater, particulate matter and destruction of biodiversity, there are many negative environmental consequences, both locally and globally, of business growth. A related issue is the increased use of natural resources, which may be non-renewable. This can have wide-reaching negative global impacts.

There can be negative impacts for people too. As businesses grow and achieve economies of scale, they may be able to replace workers with machinery, particularly where workers have low skill levels. Efficiencies like this will mean that the growth in employment will be slower. Finally, as mentioned above, as businesses grow and

become more complex, they may lose some control of their operations. Businesses with complex supply chains may not be able to monitor worker conditions and pay throughout the supply chain, resulting in exploitation of human labour.



Figure 5. One disadvantage of business growth is the cost of pollution in the external environment.

Credit: Pidjoe, Getty Images

Activity

Learner profile: Inquirers; Thinkers

Approaches to learning: Research skills (information literacy); Thinking skills (critical thinking)

Using the information in this section, construct a mind-map to help you recall and visualise the advantages and disadvantages of business growth for a business itself, and for the local/global social and ecological domains.