COURSE PURPOSE

**Course Purpose:**

This course aims at equipping students with knowledge that will enable them to understand and appreciate the nature, structure and workings of the contemporary business organization.

By the end of this course the student should be able to:

I Differentiate between the needs and wants of a society and explain how these are satisfied through business activity.

2] Explain the process of starting a business.

3] Describe the difference between the public and private sectors of an economy and explain their differing objectives.

4] Explain the role and qualities of an entrepreneur.

5] Explain the role of corporate social responsibility in social development.

**CHAPT 1: INTRODUCTION TO BUSINESS STUDIES**

**Introduction to Business Studies**

**Definition of Terms**

1. **Needs:** Comprise of those things that human beings feel they cannot do without eg food, shelter, clothing, education.
2. **Wants:** Forms of human needs that improve on their wellbeing but which they can do without. Eg Television
3. **Choice:** Occurs when a consumer is faced with two competing needs that force him to make a decision on which need to satisfy first. The consumer is forced to prioritize the needs in their order of preference.
4. **Opportunity Cost:** The cost of the foregone benefit after the consumer has opted to satisfy one need in preference to the other.
5. **Basic Economic Problem:** Refers to the fact that human needs are unlimited while the means to satisfy them are limited. This implies that people are not able to satisfy all their needs and therefore they have to make a choice between competing needs.

Basically, all humans have **needs** and **wants**. Needs are things we **can't** live without, while wants are simply our desires that we **can** live without. We all have **unlimited wants**, which is true, since all of us want a new car, new PC, new phone etc. that we actually do not need to live. Businesses produce **goods** and **services** to satisfy needs and wants.

Although we have unlimited wants, there are not enough **resources** for everyone. Resources can be split into 4 **factors of production**, which are:

1. **Land**: All natural resources used to make a product or service.
2. **Labour**: The effort of workers required to make a product or service.
3. **Capital**: Finance, machinery and equipment required to make a product or service.
4. **Enterprise**: Skill and risk-taking ability of the **entrepreneur**. **Entrepreneurs** are people who **combine** these factors of production to make a product.

**The economic Problem**

The economic problem results from **limited resources** and **unlimited wants**. This situation causes **scarcity**, when there are not enough goods to satisfy the wants of everybody. Because of this, we will have to **choose** which wants we will satisfy (that will be of more benefit to us) and which we will not when buying things. For any choice, you will have to would have obtained if you didn't spend that money. For example, you would have got a book if you didn't buy the pen, or you would have a burger if you didn't buy chips. Basically, item that you didn't buy is the **opportunity cost**. Make sure that the opportunity cost isn't higher than what you bought. **Opportunity cost**: the next best alternative given up by choosing another item.

**Definition of Business**

A business refers to an activity undertaken with the aim of making a profit.

Business organizations consist of a person or group of people who come together to pursue specific commercial objectives within a specified environment. All organizations require a high level of co-ordination and control.

**Factors to consider when starting a business**

1. Ease of formation: It should be easy to start a business
2. Sources of financing
3. Limited liability: The business must be legally recognized (registered) so as to protect the assets of the owners.
4. Direct relationship between ownership, control and management
5. Continuity and Stability
6. Flexibility of operations
7. Ease of protection and maintenance of business secrets

Business can also be defined as the activity of making, buying, or selling goods or providing services in exchange for money. A business is an [organization](http://www.businessdictionary.com/definition/organization.html) or [economic system](http://www.businessdictionary.com/definition/economic-system.html) where [goods and services](http://www.businessdictionary.com/definition/goods-and-services.html) are exchanged for one another or for [money](http://www.businessdictionary.com/definition/money.html). Every business requires some [form](http://www.businessdictionary.com/definition/form.html) of [investment](http://www.businessdictionary.com/definition/investment.html) and enough [customers](http://www.businessdictionary.com/definition/customer.html) to whom its [output](http://www.businessdictionary.com/definition/output.html) can be sold on a [consistent](http://www.businessdictionary.com/definition/consistent.html) basis in [order](http://www.businessdictionary.com/definition/order.html) to make a [profit](http://www.businessdictionary.com/definition/profit.html). Businesses can be privately owned, not-for-profit or state-owned.

**Objectives of Business**

All businesses have aims or objectives to achieve. Their aims can vary depending on their type of business or these can change depending on situations. The most common objectives are:

1. **Profit:** Profit is what keeps a company going and is the main aim of most businesses. Normally a business will try to obtain a *satisfactory level of profits* so they do not have to work long hours or pay too much tax.
2. **Creation of value**: Business create/add value by creating **utility**. Utility is the ability of a product to satisfy human wants.

**Classification of Utility**

1. Form Utility: Created through processing or manufacturing
2. Time Utility: Through warehousing. Storing goods till demand arises
3. Place Utility: Bridging geographical gap between producers and consumers
4. Possession Utility: through exchange process
5. **Growth:** Growth can only be achieved when customers are satisfied with a business. When businesses grow they create more jobs and make them more secure when a business is larger. The status and salary of managers are increased. Growth also means that a business is able to spread risks by moving to other markets, or it is gaining a larger market share. Bigger businesses also gain cost advantages, called economies of scale.
6. **Survival:** If a business does not survive, its owners lose everything. Therefore, businesses need to focus on this objective the most when they are: starting up, competing with other businesses, or in an economic recession.
7. **Service to the community:** This is the primary goal for most government owned businesses. They plan to produce essential products to everybody who need them.
8. **Employment creation**
9. **Satisfy customer needs**
10. **Pool resources and skills so as to achieve specified objectives**
11. **Utilize locally available resources**

**Functions of Business**

The common activities that a business undertakes are:

1. Marketing
2. Production and Operations Management
3. Administration
4. Finance

These business objectives can conflict because different people in a business want different things at different times.

**Stakeholders:**

Stakeholders are a person or a group which has interest in a business for various reasons and will be directly affected by its decisions. Stakeholders also have different objectives and these also conflict over time.

Stakeholders include the following:

|  |  |
| --- | --- |
| **Stakeholder** | **Objectives** |
| Owners | * Profit, Return on Capital * Growth, increase in value of business |
| Workers | * High salaries * Job security * Job satisfaction |
| Managers | * High salaries * Job security * Growth of business so that they get more power, status and salary |
| Customers | * Safe products * High quality * Value for money * Reliability of service and maintenance |
| Government | * Employment. * Taxes. * National output/GDP increase. |
| Community | * Employment. * Security. * Business does not pollute the environment. * Safe products that are socially responsible. |

**Business Systems**

A system refers to a set of interlinked activities that produce a desired result. A business can be viewed as a system consisting of different subsystems which are linked together to achieve specified objectives.

A business is an open system, is connected to and interacts with its environment. It takes inputs from the environment and through various organizational activities, converts into outputs.

The management must therefore be very sensitive to the changes in the environment. Sensitivity to the environment is enhanced through environmental scanning which enables the management to correctly position the organization in its environment.

This can be diagrammatically represented as:

**Conversion**

Eg

Information process, technical systems

**Inputs**

Eg

Labour, Raw materials, time

**Output**

Eg

Products and services, environmental impact etc

**Importance of Systems Approach**

1. Draws attention to the dynamic nature of organizations
2. Creates an awareness to the management about systems that must be integrated
3. Focuses managers attention to positioning the organization in its environment