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Teacher view



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Notebook



Glossary



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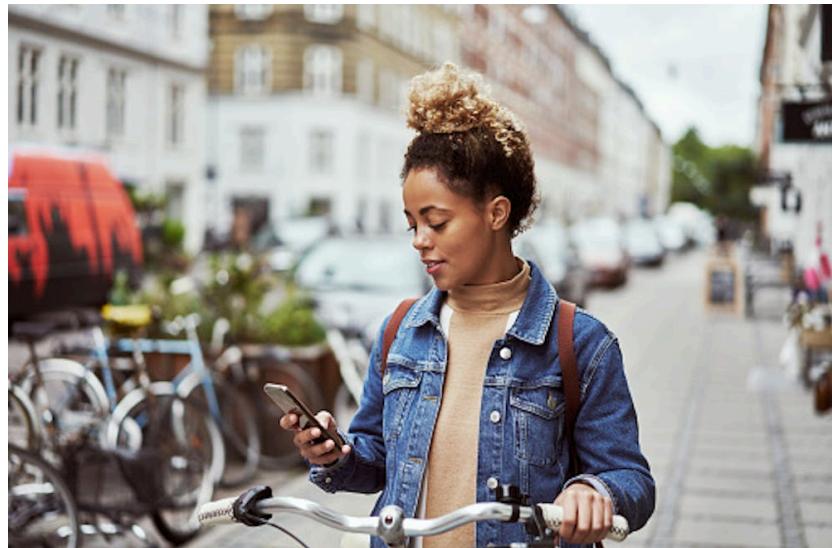
# The big picture

Take a moment to look at the things around you: the clothes you are wearing, the chair you are sitting on, the device you are using to read this text, even the food you are eating. All of these things were most likely designed, produced and delivered to you by businesses.

Business activity is all around us and we interact with different businesses every day. They are such a big part of our lives that it is easy to overlook their importance.

Look at **Figure 1** and answer the following questions:

- What type of businesses have provided the goods and services that you can see in this street scene?
- How many can you identify?



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## Figure 1. You engage with businesses every day.

Credit: pixadeluxe, Getty Images

Along with other groups in society, businesses meet basic human needs for food, housing, clothing, health, communication, and much more. They also solve problems. For example, with the help of governments, businesses were responsible for developing vaccines to protect human health during the COVID-19 pandemic.

Businesses must carry out their activities while protecting the environment and supporting human wellbeing both locally and globally. That is a big challenge! To do this, businesses need to be creative in coming up with ideas and organising resources to make useful products. They need to be willing and able to take the initiative to make a product that does not yet exist, or to influence a group of people to do things differently.

This subtopic will explore the nature and role of businesses in social and environmental contexts. It will also examine the rewards, challenges and opportunities of starting a new business.

### Concept

In this course, there are four main concepts: **sustainability, ethics, change and creativity**. You will find all these concepts in this first subtopic. Later subtopics may only focus on one or two of these concepts.

The key concepts for this course show how businesses can take a responsible role in the world to improve human wellbeing while respecting the condition of the planet.

### Learning objectives from the IBDP Business Management guide with assessment objective level:

- **Describe** the nature of business (AO1)
- **Distinguish** between the primary, secondary, tertiary and quaternary sectors (AO2)
- **Explain** the challenges and opportunities of starting a business (AO2)
- **Apply** a SWOT/STEEPLE analysis in a given context (AO2)
- **Apply** a business plan in a given context (AO2)



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1. Introduction to business management / 1.1 What is a business?

# The nature and role of business

The nature of business    The nature of business

The COVID-19 pandemic hit businesses hard. Many businesses had to close for months or stop their activities entirely. The situation highlighted the strengths and weaknesses of many businesses and we now have a better understanding of what it takes for a business to be successful.

The rapid change to the external environment (the environment outside the business) caused by the pandemic required businesses to be creative, to consider new questions of ethics, and to find ways to achieve economic sustainability.

Businesses that were flexible during the pandemic were able to survive, sometimes even thrive, during the uncertainty and disruption caused. Other businesses failed quickly, with negative impacts for their stakeholders. The cafe below, for example, was able to keep its business growing during the pandemic even though customers were not allowed inside. Can you think of other examples of businesses that were able to continue their work in this way?



**Figure 1.** Businesses that were flexible survived the pandemic.

Credit: doble-d, Getty Images



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A good example of how change can affect businesses differently is within the hospitality industry. Before the pandemic, some restaurants already had multiple ways of earning money. For example, some were able to sell prepared food for take-out or delivery. These restaurants were able to shift focus more quickly than those who only served fresh food to order for customers eating inside the restaurant.

Restaurants with strong ties to the local community were supported by their neighbours; people in the community wanted to keep the character and services of their neighbourhoods. It is important to note that flexibility and strong networks help maintain strong and healthy businesses.

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**Section**

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Feedback



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**Assign**

### Making connections

You can think of businesses as being in an ecosystem, like biological organisms. Strong ecosystems have resilience; they are able to survive a disruption in the ecosystem.

The topic of ecosystem resilience is very important in the IBDP Environmental Systems and Societies course. Like organisms in nature, businesses need to contribute to and be part of healthy ecosystems to thrive and to recover from disruptions.

This includes:

- in nature, developing strong networks among organisms. In business, developing strong networks among the people connected to the business;
- in nature, distributing nutrient stores. In business, distributing value among the people connected to the business; and
- in nature, supporting complexity and biodiversity. In business, understanding how complex business systems are and developing different business activities and stakeholders.

## Businesses are systems

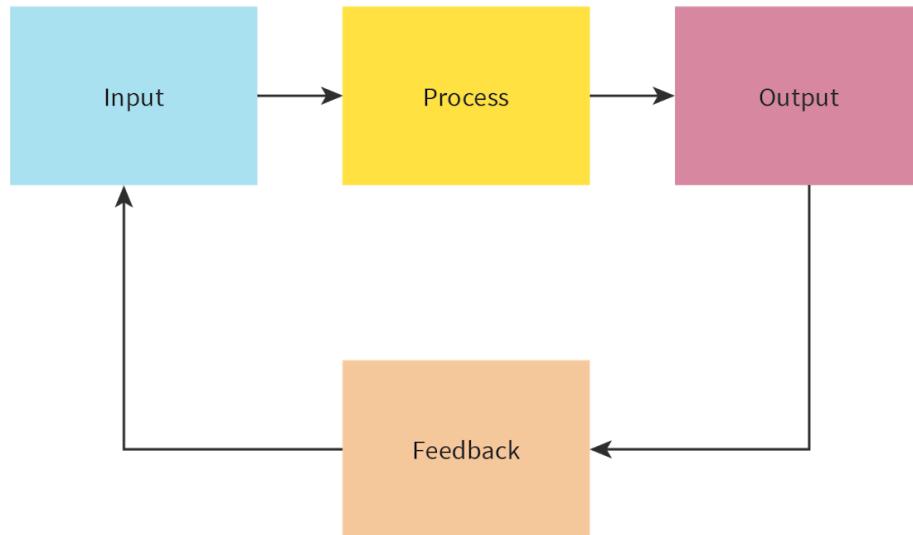
A system is a set of interconnected parts that work together to make a more complex whole to achieve a purpose. Systems have inputs, processes, outputs and feedback.

A business is an example of a system. You have learned about other examples of systems throughout your studies. For example, you have probably learned about the digestive system in biology, or a political system in social sciences.

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Systems are everywhere in the human and natural worlds and understanding them is important for everyone who wants to make change, including entrepreneurs who start businesses.



**Figure 2.** Systems have inputs, processes, outputs and feedback.

[More information for figure 2](#)

This flowchart represents a system with four main components: Input, Process, Output, and Feedback. Each component is depicted as a colored rectangle connected by arrows to indicate flow. The Input leads to the Process, which then directs to the Output. A Feedback loop flows back from Output to Input, but first passes through the Feedback component. Arrows show the sequence: Input to Process to Output, then Output to Feedback, and Feedback back to Input.

[Generated by AI]

## Activity

**Learner profile:** Inquirers

**Approaches to learning:** Research skills (information literacy)

Sketch the basic system diagram from **Figure 2** onto a sheet of paper. As you read the following text about inputs, processes, outputs and feedback, add information you consider important to your diagram to extend the mind map.



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## Inputs

The inputs of a business are all the resources needed to create a product. These resources belong to one of three categories:

- physical
- financial
- human

Physical resources include the raw materials and semi-finished goods that a business needs to produce its product. Raw materials include agricultural products like corn, timber, minerals like sodium, metals like aluminium, and crude oil. Semi-finished, or intermediate, goods have already been produced or processed in some way but are not consumer products. They may include inputs like steel that has been made from iron and can be used to make other products. Electronic components are another type of intermediate goods purchased by companies. These are included in products like phones and automobiles. Physical resources also include capital goods such as equipment and machines that will be used to produce other goods. These might include computers or robots used to build goods.



**Figure 3.** Physical resources include wool (raw material) and the weaving machine (capital good).



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Credit: hadynyah, Getty Images



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**Financial resources** are the funds needed to set up a business. They are also used to grow the business and keep it running. **Medium-term or long-term financing**, which usually involves large sums of money borrowed for a longer time, may be used to purchase the business's physical building, like a factory, shop, or office space.

Businesses may also need large sums of money to buy capital equipment like machinery, desks and computers. **Short-term financing** in smaller amounts may be used to pay for inputs that will be turned into products and sold by the business. This would include the products that a business has in storage, called **stock** or **inventory**, at a retail shop. Short-term financing could also be used for ongoing expenses like paying for electricity and employee salaries if the business is not yet earning enough money through selling its products.

**Human resources** are the people needed to run the business. They include managers and employees, as well as a more abstract element, called '**enterprise**'. Enterprise is the process of taking risks to combine the other resources to create a good or service.

## ⌚ Making connections

In the IBDP Economics course, resources are often referred to as factors of production and are named differently:

- land (natural resources)
- labour (human resources)
- capital (physical and financial resources)
- entrepreneurship

## Processes

Each business is unique. Businesses will combine their inputs in different ways to produce products. The process that a business uses to create its product will depend on the type of product, how and where it is sold, the number and skills of employees, the financing used, and the physical or intellectual work needed. The business will adapt these processes to react to change inside and outside the business.



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In general, most businesses have four broad types of processes. They are sometimes called business functions. These four processes provide the structure for this course. **Table 1** outlines these functions; each one will be discussed thoroughly in separate subtopics.

**Table 1.** The four main business functions or processes.

Function		Processes
Human resources management	 Credit: Tetra Images, Getty Images	Human resources management is the process that makes sure the business employs the correct number of skilled employees to produce and deliver its products. This process also involves ensuring that employees are treated ethically and in line with laws.
Finance and accounts	 Credit: echoevg, Getty Images	Financing and accounting processes ensure that the business has enough money to carry out its business activity over time.



Student view

Function		Processes
<b>Marketing</b>	 <p>Credit: Westend61, Getty Images</p> <p><a href="#">More information</a></p> <div data-bbox="536 653 953 1349"> <p>The image shows a woman standing next to a whiteboard filled with various sketches and diagrams. The whiteboard contains labeled branches like "Plan A" and "Plan B" leading to circles marked with "1. Marketing" and "2. Product." Below these sections, there are labeled arrows pointing to words such as "Web," "Print," and "TV &amp; Radio," indicating different media channels. A sketch of a house with a connecting line to the media channels is also visible. The woman is adding notes using sticky notes in different colors. This setup indicates a planning or brainstorming session, possibly for a marketing strategy. The background features a brick wall, suggesting a casual office environment.</p> <p>[Generated by AI]</p> </div>	<p>Marketing involves the process of selling the right product, at the right price, at the right time, to the right customers.</p>
<b>Operations</b>	 <p>Credit: Nastasic, Getty Images</p>	<p>All businesses have a core business process (making a product, constructing houses, selling clothes, growing crops, etc.). Operations refers to how this core activity is carried out. Operations must plan how and in what quantity goods and services are to be produced.</p>



## Outputs

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There are two main categories of business outputs:

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**Goods** are tangible, meaning they have physical characteristics and can be measured.

Examples include things like cupcakes, paper, tables and bicycles.

**Services** are intangible, meaning they cannot be touched or described by physical

characteristics. Services include things like education, health care, and music concerts.

In some cases, it is hard to distinguish between goods and services. For example, when you go to a restaurant you consume food, which is a good. But in a restaurant, you also experience services, like cooking and serving the food. When a plumber comes to your home, they will identify the problem and propose a solution, which is a service. But the plumber may also sell you a new sink, which is tangible and therefore a good. The real world does not always fit neatly into business management categories.

## Feedback

Feedback is an important part of a system, but feedback is often overlooked. Feedback, or feedback loops, happen when the output of a system becomes an input to the same system.

### 🔗 Making connections

Feedback loops are discussed in the IBDP Environmental Systems and Societies course. Negative and positive feedback loops are important concepts that originated in the sciences. They can also explain systems in other disciplines.

Feedback loops are everywhere, and you have likely experienced feedback during your studies. When you produce school work, you see a result and comments from your teacher. This information can be used the next time you complete an assignment to improve your work. It becomes feedback.

Another example is if you have had a fever. Your body sweats and evaporation carries heat away from your body to cool it. When your body temperature drops, you shiver to get warm again. The sweat and evaporation is the feedback that impacts your body to lower its temperature.

Both the feedback on your school work and your body's reaction to a fever are examples of negative feedback. Negative feedback occurs when the output feeds back into the inputs in a way that moves the system in the opposite direction. So, when you get feedback on your school work, it can help you change your work to improve it. When you sweat during a fever, it cools

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the body. Negative feedback helps keep systems stable and businesses use feedback from customers, suppliers, employees and the community to make improvements to the product or organisation. This can take processes in a new direction.

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Positive feedback, on the other hand, is reinforcing. It moves systems and processes in the same direction. You may have also experienced this in your studies. If the feedback on your school work is delivered badly, it could demotivate you and cause you to produce lower quality work in the future.

In the natural world, as polar ice melts, dark patches of water are formed that absorb more light. This warms the ice further, creating even more dark patches. In business, a positive feedback loop may occur when a business has poor financial results, like losses. As a result, the business may decide to lower spending on new equipment. This can cause a decline in the quality of the product and lower revenue, making the losses worse. Of course, the positive feedback loop can also move in the other direction: good financial results, more spending on equipment, more revenue leading to better results.

When learning about negative and positive feedback loops, you may think that positive means something good and negative means something bad. This is not the case with feedback loops. The terms are not value judgements about how good or bad a process is.

## Activity

**Learner profile:** Inquirers

**Approaches to learning:** Research skills (information literacy)

On a piece of paper draw four columns, as indicated below:

Inputs	Process	Outputs <i>(Consider more than just the T-shirt)</i>	Feedback

Watch the following TED-Ed video about the life cycle of a T-shirt. While watching, take some notes (in the table that you have created) on the inputs, processes, outputs and any possible feedback loops you see and hear about.



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## The life cycle of a t-shirt - Angel Chang



**Video 1.** The lifecycle of a T-shirt. Considering how and where the average T-shirt is made and its environmental impact.

## 3 section questions ^

### Question 1

Which of the following is **not** one of the three basic types of inputs into a business?

- 1 Creative resources
- 2 Physical resources
- 3 Human resources
- 4 Financial resources

### Explanation

The three categories of basic inputs into business are physical, human and financial resources. While some human resources will use creativity to develop products, creative resources are **not** one of the three basic types of inputs for a business.



### Question 2

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What is the name of the business input that refers to the money needed to start up and operate a business?

Finance



### Accepted answers

Finance

### Also accepted

Financial capital, Financial resources, financial resources, financial, finance, capital, Capital, Financial resource, financial resource, finances, Financial input, Financials, financials, Startup capital, financing, recursos financieros, startup capital, Finanzas, Startup Capital, financiero, Financiero, Recursos financieros, Finance resources, financial inputs, ressource financière, ressources financières, Ressources financières, Financier, financier, Financiación, Investment, A Startup Capital, Capital financiero, Capital., Capital\

### Explanation

All businesses need capital to finance investment and operations.

### Question 3

Name the general business management function that involves developing and selling products that meet customers' needs.

Marketing



### Accepted answers

Marketing

### Also accepted

marketing

### Explanation

Marketing involves selling the right product, at the right price, at the right time, to the right customers.

1. Introduction to business management / 1.1 What is a business?

# The Doughnut Economics Model

Tool: Circular business models      Tool: Circular business models



### Concept

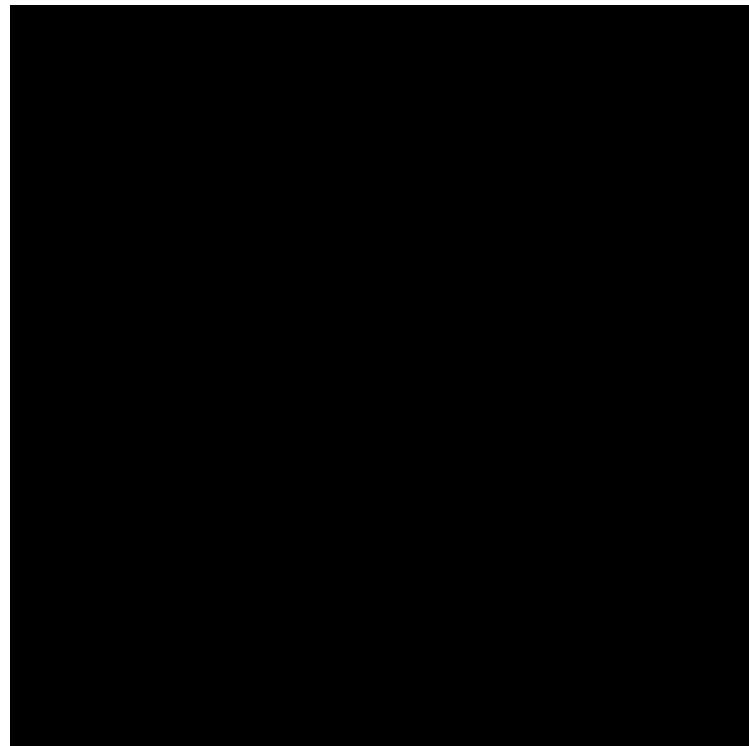
#### Sustainability

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Sustainability is “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987). Business decisions should consider their impacts on people, planet and profit (the “triple bottom line”).

- **Sociocultural sustainability (people):** businesses provide for human needs and are deeply connected with the communities they serve. They have a responsibility to support the wellbeing of all stakeholders.
- **Environmental sustainability (planet):** businesses should do more than minimise the negative impact of their activities on the planet. Instead, businesses should work to improve the ecosystems on which we all depend.
- **Economic sustainability (profit):** businesses/entrepreneurs are risk-takers and seek to make a profit and to continue their businesses. Sustaining business activity is especially important when businesses are providing for human needs, supporting the wellbeing of varied stakeholders in the community, and providing tax revenue to support public services.

The most important challenges now are related to meeting human needs in a way that respects the health of the planet. Businesses have a key role in these challenges. So, it is helpful for you to understand what we mean by human needs and a healthy planet. The Doughnut Economics Model (see **Figure 1**) is a framework for this.



**Figure 1.** The Doughnut Economics Model.

Credit: Kate Raworth [\(http://www.kateraworth.com/doughnut/\)](http://www.kateraworth.com/doughnut/), CC-BY 4.0 [\(https://creativecommons.org/licenses/by/4.0/\)](https://creativecommons.org/licenses/by/4.0/)



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An interactive is based on Kate Raworth's Doughnut Economics model. It represents a balanced approach to economic and environmental sustainability. The model has the inner ring which signifies social foundations necessary for human well-being, and the outer ring represents ecological limits that should not be exceeded to maintain planetary health. The outer ring of the Doughnut Economics Model is focused on the natural environment.

It includes climate change (atmospheric carbon dioxide concentration, ppm), ocean acidification (average saturation of aragonite(calcium carbonate) at the ocean surface, as a percentage of pre-industrial levels), chemical pollution (no global control variable yet defined), nitrogen & phosphorus loading (phosphorus and reactive nitrogen applied to land as fertilizer, millions tons per), freshwater withdrawals (blue water consumption, cubic kilometers per year), land conversion (area of forested land as a proportion of forest-covered land prior to human alteration), biodiversity (rate of species extinction per million species per year), air pollution (no global control variable yet defined), and ozone layer depletion (concentration of ozone in the stratosphere, in Dobson Units(DU)).

The inner ring emphasizes social foundation that includes water (population without access to improved drinking water: 9% in 2015 and population without access to improved sanitation: 32% in 2015), food (population undernourished: 11% from 2014 to 2016 ), health (population in countries with under-five mortality rate exceeding 25 per 1000 live births: 46% in 2015 and population in countries with life expectancy at birth of less than 70 years: 39% in 2013), education (adult population aged 15+ who are illiterate: 15% in 2013 and children aged 12-15 out of school: 17% in 2013), income & work (population living on less than the international poverty limit of \$3.10 a day: 29% in 2012 and proportion of young people aged 15-24 seeking but not able to find work: 13% in 2014), peace & justice (population in countries scoring 50 or less out of 100 in the Corruption Perceptions Index: 85% in 2014 and Population in countries with a homicide rate of 10 or more per 1000: 13% from 2008-13), political voice (population in countries scoring 0.5 or less out of 1.0 in the Voice and Accountability Index: 52% in 2013), social equity (population living in countries with a Palma ratio of 2 or more: 39% from 1995-2012), gender equality (representation gap between women and men in national parliaments: 5% in 2014 and worldwide earnings gap between women and men: 23% in 2009), housing (global urban population living in slum housing in developing countries: 24% in 2012), networks (population stating that they are without someone to count on for help in times of trouble: 24% in 2015 and population without access to the internet: 57% in 2015), and energy (population lacking access to electricity: 17% in 2013 and population lacking access to cooking facilities: 38% in 2013). Users gain details into the delicate balance between social needs and environmental sustainability.



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## Planetary boundaries / Ecological ceiling

The outer ring of the Doughnut Economics Model is focused on the natural environment. There are important natural systems that work together to keep the planet stable for life. These include fresh water, land and atmospheric systems, which you can see in the outer ring of the model. But humans are constantly disturbing these systems. If we disturb Earth's systems too much, we can cause permanent damage. This damage can make the planet unfit for life. The limits of these systems are called planetary boundaries, or the ecological ceiling (see **Figure 1**).

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The red areas of **Figure 1** show that we are already putting too much pressure on several of Earth's systems. These are in climate change, biodiversity, land use and nitrogen and phosphorus flows from fertiliser use in agriculture. You can hover over the diagram to find out more information about these pressures.

## 🕒 Making connections

If you are interested in learning more about planetary boundaries, the film Breaking Boundaries (<https://youtu.be/Gb6wQtNjblk>) gives an overview of the nine Earth systems. It also explains why protecting those systems is important for the stability of the planet and human life.

## Human needs / Social foundation

This pressure on Earth's systems comes from the production and consumption of goods and services to meet human needs and wants. Human needs, also called the social foundation, are represented by the inner ring of the Doughnut Economics Model in **Figure 1**. These include obvious needs such as food, water, and housing. But there are also human needs related to social interactions such as human networks, social equity, political voice, and work. The red areas of the inner circle in Figure 1 show where we are not meeting human needs globally. You can hover over these to find out more information.

You can see in **Figure 2** below that there is a lot of overlap between the Doughnut's inner circle and the social elements of United Nations Sustainable Development Goals (<https://www.un.org/sustainabledevelopment/sustainable-development-goals/>) (SDGs) which may be familiar to you already from other courses.

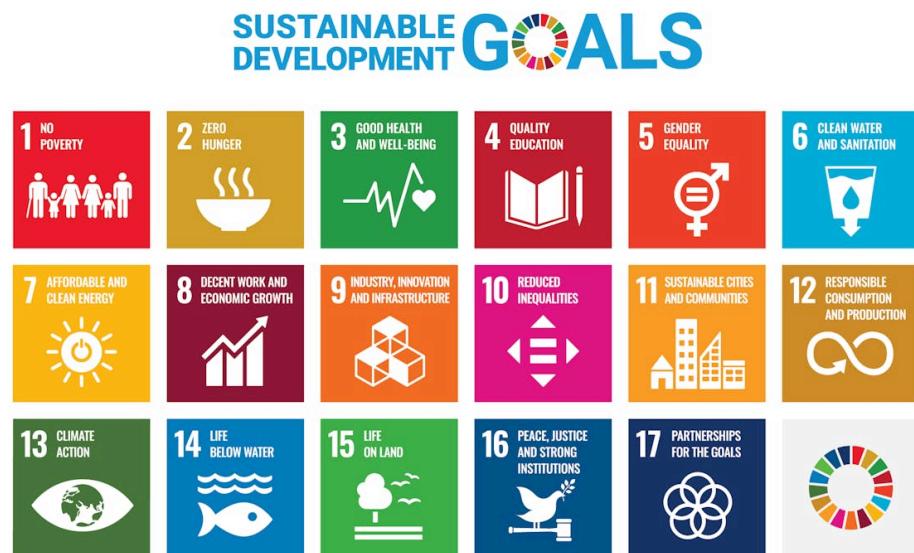
Can you link individual SDGs in **Figure 2** with the elements of the Doughnut's inner circle in **Figure 1**?



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**Figure 2. UN Sustainable Development Goals - SDGs.**

Source: [UN \(https://sdgs.un.org/goals\)](https://sdgs.un.org/goals)

More information for figure 2

The image displays icons representing the 17 UN Sustainable Development Goals (SDGs). Each icon is a colored square with the SDG number and a relevant symbol.

1. No Poverty: A red square featuring a family silhouette.
2. Zero Hunger: A yellow square with a bowl.
3. Good Health and Well-being: A green square with a heartbeat line and heart shape.
4. Quality Education: A purple square showing an open book and pencil.
5. Gender Equality: An orange square with gender symbols.
6. Clean Water and Sanitation: A blue square with a water glass.
7. Affordable and Clean Energy: A yellow square with a sun icon.
8. Decent Work and Economic Growth: A dark red square with a rising graph.
9. Industry, Innovation, and Infrastructure: An orange square with building blocks.
10. Reduced Inequalities: A magenta square with bidirectional arrows.
11. Sustainable Cities and Communities: An amber square with urban icons.
12. Responsible Consumption and Production: A brown square with an infinity loop.
13. Climate Action: A green square with a globe and eye.
14. Life Below Water: A blue square with waves and a fish.
15. Life on Land: A green square with a tree.
16. Peace, Justice, and Strong Institutions: A blue square with a dove on a gavel.
17. Partnerships for the Goals: A colorful circle surrounding a flower-like structure.



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## Getting into the 'Doughnut'

- 762729/o The goal is to meet human needs while respecting the health of the planet. It means getting into the safe space in the green area of **Figure 1**.

At the moment, we are not in that space. Globally we are not meeting human needs AND we are not respecting the health of the planet (see **Figure 1**). We are taking and using too many resources and not putting those resources to the best use in order to meet human needs. There is red inside and outside the Doughnut.

The Doughnut Economics Model in **Figure 1** shows the global situation but it is also possible to see how individual countries are doing in meeting human needs and respecting the health of the planet. The [Leeds Good Life](https://goodlife.leeds.ac.uk/national-trends/country-trends/#GBR) (<https://goodlife.leeds.ac.uk/national-trends/country-trends/#GBR>) project collects data for countries on human wellbeing and planetary boundaries. The project has created individual Doughnut Models for countries where you can also see trends over time. There you can see that no country is yet in the 'safe space' of the Doughnut.

### Activity

**Learner profile:** Inquirers

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

Access the University of Leeds Good Life project which collects data on the social foundation and planetary boundaries for many countries. See the relevant links below.

1. [Find your country](https://goodlife.leeds.ac.uk/national-trends/country-trends/#GBR) (<https://goodlife.leeds.ac.uk/national-trends/country-trends/#GBR>). What has happened to the social foundation and the country's pressure on planetary boundaries over time?
2. [Select two countries to compare](https://goodlife.leeds.ac.uk/national-snapshots/countries/) (<https://goodlife.leeds.ac.uk/national-snapshots/countries/>). Which country seems to be doing a better job at meeting the needs of all while at the same time respecting the health of the planet?

Businesses have a key role to play in helping us meet human needs while respecting the health of the planet. Meeting human needs is not just something that 'social enterprises' ([Subtopic 1.2](#) (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/)) should be doing.

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- All businesses should examine their products and consider whether they are really delivering something valuable to human beings.

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762729/o If a business is working to meet human needs, then it also needs to consider how to respect the health of the planet as it operates. This is not an easy task. Almost all products we consume require resources from the Earth and create waste, both of which disrupt natural systems. So, businesses need to be creative to find ways to leave the world in a better place than it was when they found it.

If you would like to hear more about the Doughnut Economics Model, the creator of the Model, Kate Raworth, explains it in the TED Talk below.

A healthy economy should be designed to thrive, not grow | Kate Rawo...



**Video 1.** Economist Kate Raworth explains the Doughnut Economics Model.



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## Activity

Consider a small business that you are aware of in your neighbourhood. Choose a format (writing, illustrations, video, photographs, audio or other) to explain some or all of the information from the following questions:

- What inputs are used in the business?
- What processes are used in the business?
- What outputs are used in the business?
- What feedback might further affect the business's inputs?
- How does the business need to be creative to serve its customers or stand out among its competition?
- What evidence have you seen of change in the business?
- What ethical issues or questions might the business face?
- What human need is being served by that business? To help you identify a human need, you could consider the social foundation of the Doughnut Model or the social SDGs.
- What impact does the business have on environmental sustainability? Again, you could consider the Doughnut Model to identify the planetary boundaries that might be affected.

## 3 section questions ^

### Question 1

What does the outer ring of the Doughnut Economics Model represent?

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1	Ecological ceiling		(/study/app/business-hl/sid-351-cid-762729/book/the-nature-and-role-of-business-id-36498/print/)

2 Human needs

3 Outputs from business systems

4 Inputs into business systems

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## Explanation

The outer ring of the Doughnut Economics Model represents Earth's ecological ceiling. These are the nine Earth systems that support human life. If we disrupt these systems too much, we risk destabilising the planet, making it uninhabitable. Human needs (social foundation) are represented in the inner circle of the Doughnut Economics Model. Outputs and inputs into business systems are not what is represented in this model.

## Question 2

Where does the list of human needs in the inner circle of the Doughnut Economics Model come from?

 Sustainable Development Goals



## Accepted answers

Sustainable Development Goals

## Also accepted

United Nations Sustainable Development Goals, SDG, SDGs, UNSDGs, UN SDGs, United Nations SDGs, UN Sustainable Development Goals, Metas de desarrollo sostenible, sustainability development goals, Sustainable Development Goal, sustainable goals, Objetivos de Desarrollo Sostenible, Objetivos de desarrollo sostenible, Objectifs de développement durable, desarrollo sostenible, metas de desarrollo sostenible

## Explanation

The inner circle of the Doughnut Economics Model represents human needs, or the social foundation. These have been taken from the UN Sustainable Development Goals (SDGs) that focus on social dimensions.

## Question 3

1 sustainability can be defined as "meeting the needs of all within the means of the planet".

## Accepted answers and explanation

#1 sustainability

### General explanation

There are a number of definitions of sustainability which may focus on social, environmental or economic sustainability. This definition (meeting the needs of all within the means of the planet) encompasses two of the three dimensions.

 1. Introduction to business management / 1.1 What is a business?

Student view

# The economy



Primary, secondary, tertiary, quaternary sectors

Primary, secondary, tertiary, quaternary sectors

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Think of an everyday object, such as a simple pencil. Can you think of the inputs, people and processes that go into making of a pencil? Rarely do we think about the complexity involved in making simple, everyday objects. The video below describes the complexity of making a pencil. See how many of the inputs and processes you thought of!

I, Pencil: The Movie



**Video 1.** The complicated and elaborate processes that go into making a simple pencil.

## What is the economy?

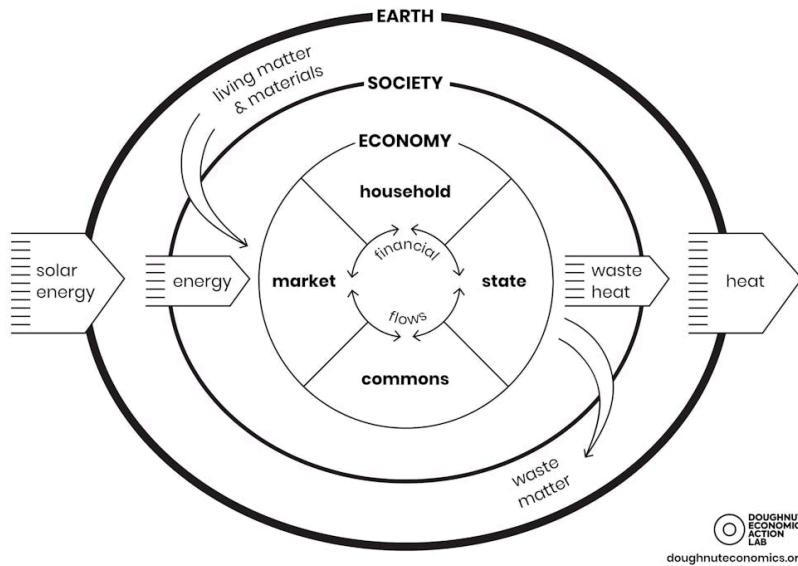
The example of a pencil is just one of many products that businesses produce in an economy. To understand the role of businesses in society, it is helpful to know what an economy is. The word ‘economics’ comes from the Greek philosopher Xenophon. It combines the word *oikos* (household) with *nomos* (rules or norms). So, economics is about managing a household. Nowadays we use the word *economy* to refer to a system for producing and distributing goods and services among a group of people. Businesses are part of that system.

Models can help us think about and understand how the economy works. You have seen models in your previous studies. For example, in science class, you may have seen a model of an atom. In economics, experts disagree about how to model an economy. This is because any model of an economy is a simplified version of reality. That means that the person making the model has to decide what information is included and excluded in the model.

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This book is focused on the role of business in serving people and the planet. So, we will use the embedded economy model highlighted in Kate Raworth's book *Doughnut Economics* (see **Figure 1**).



**Figure 1.** The economy is part of (embedded in) society. Society is part of (embedded in) the natural environment.

Credit: Kate Raworth and Marcia Mihotich. CC-BY-SA 4.0 (<https://creativecommons.org/licenses/by-sa/4.0/>)

More information for figure 1

The diagram is a circular illustration of the embedded economy model. At the outermost layer is "Earth," depicted by a large circle labeled as containing society. Inside the Earth circle is another smaller circle labeled "Society," which contains the "Economy." The economy is further divided into four quadrants: "household," "state," "commons," and "market." Each segment is connected by arrows indicating "financial flows." Incoming arrows represent inputs such as "solar energy" and "living matter & materials." Outgoing arrows illustrate outputs labeled "waste matter," "waste heat," and "heat." The diagram emphasizes the dependency of the economy on society and the natural environment.

[Generated by AI]

This model shows the natural environment, Earth, powered by energy from the Sun. The Earth contains all living things and human activity. Inputs of living matter and materials from the Earth are used by society and the economy to satisfy human needs and wants. Embedding both society and economy inside the natural environment is important. We need to understand that we are completely dependent on the resources from the Earth.

Student view

The centre of the model shows different systems and groups of people that distribute goods and services:



- **households** – important care services are provided between people with strong relationships. These goods and services are produced mainly with unpaid work;
- **state** – provides fundamental goods and services that everyone can access. These goods and services are provided often at no or a low price. They are funded mainly through taxes;
- **commons** – provides shared goods and services produced by society, or provides resources from Nature. People use and distribute goods, services and resources through self-organised systems. There is no payment; and
- **markets** – provides goods and services produced by businesses. Businesses produce and sell goods and services in exchange for money, for a price.

You can see that there are many ways to meet human needs and wants. There are many types of organisations that work to meet these human needs and wants, including businesses.

This course focuses mainly on markets and the state. But it is also important to recognise the key role of households and the commons in meeting human needs. When businesses work with the state, households and the commons, we can have healthier economies.

## Theory of Knowledge

In your Theory of knowledge course, you will discuss models and their uses and limitations. Models simplify reality. When we create models, we have to make choices about what to include and exclude in them. Experts often disagree about how to represent human and natural systems in models.

In the IBDP Economics course, a different model of the economy is used, called the circular flow model. This model creates different knowledge and, like all models, it has limitations. If you are taking the IB Economics course, it is interesting to compare the embedded economy model presented here and the circular flow model from the IB Economics course. You may learn about the choices that human scientists make when using models to create knowledge.

- How do the models we use in business management influence the knowledge we produce?

## Sectors of the economy

Another way of thinking about the economy is to focus on *what kinds of activities* are happening, and *what is being produced*. Economists identify four main sctors, or parts, of the economy.

## Primary sector

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The primary sector refers to the extraction, or production, of raw materials from the Earth. The primary sector includes agriculture, fishing, forestry, mining and drilling. For most of human history almost everyone worked in the primary sector, mainly agriculture. In the last two hundred and fifty years, many people have left the primary sector to work in other sectors.



**Figure 2.** Producing crops is an example of a primary sector activity.

Credit: ArtistGNDphotography, Getty Images

The short video below from *The Economist* describes the primary resources that are found in a smartphone. Notice how many resources and countries are involved in the production of these resources.

Where does your phone come from?



Student view

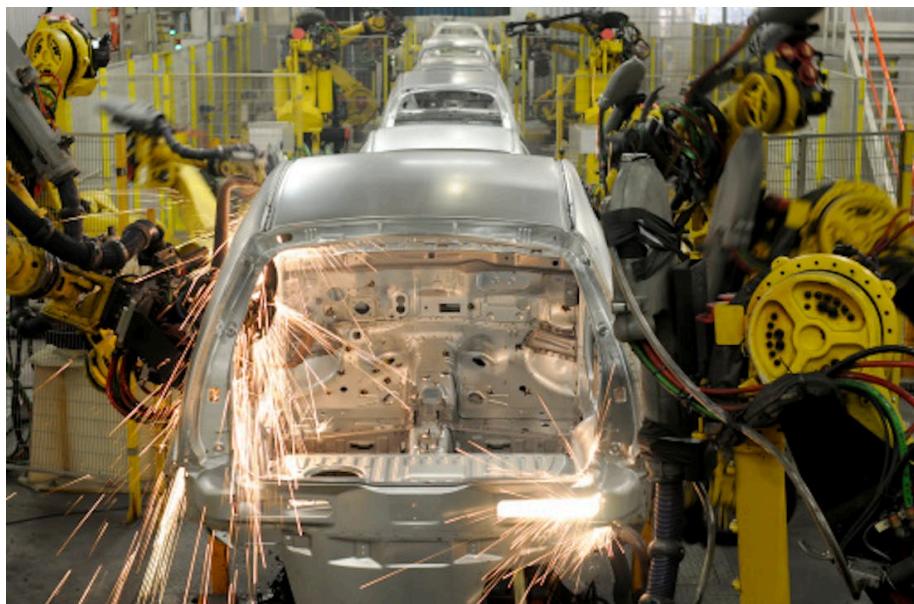


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## Video 2. Demonstrating each of the elements that make up a smartphone.

## Secondary sector

- The secondary sector refers to manufacturing and processing, where raw materials are made into products for sale. The biggest manufacturing businesses in the world include carmakers, electronics businesses that produce mobile phones, food processing companies, chemical businesses, and businesses in aeronautics and defence.



**Figure 3.** Producing cars is an example of a secondary sector activity.

Credit: RicAguiar, Getty Images

## Tertiary sector

The tertiary sector refers to any business that sells a service. The tertiary sector includes businesses that sell clothing and food, as well as education, healthcare, legal services, travel and transportation. Many, but not all, businesses in the tertiary sector are small. Large businesses in the tertiary sector include companies like Walmart, which sells a variety of goods, and banks.

Section

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Feedback



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**Figure 4.** Selling food in a restaurant is an example of tertiary sector activity.

Credit: d3sign, Getty Images

## Quaternary sector

The quaternary sector is a relatively new sector. It refers to services that focus on knowledge. As a service activity, the quaternary sector could be considered part of the tertiary sector. However, in the last fifty years, new businesses have started to focus on collecting, processing and selling information (or data). The quaternary sector also includes businesses that provide web-based services and many new kinds of media. Experts do not completely agree on exactly which activities are included in the quaternary sector. Some experts still classify these activities as a part of the tertiary sector.



**Figure 5.** The quaternary sector involves digital media and information services.

Credit: Jay Yuno, Getty Images



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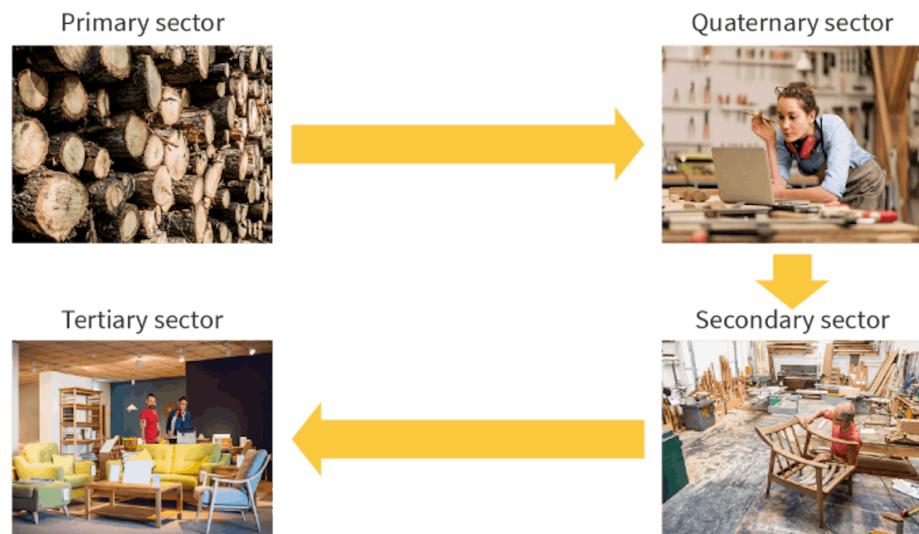


# Dynamic nature of sector activity

Overview

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Most products have passed through the primary, secondary, tertiary and perhaps quaternary sectors. The steps involved in creating products is called the supply chain. For example, the supply chain for producing a chair includes harvesting the timber (primary sector), using computer software to design the chair (quaternary sector), transforming the wood into the chair (secondary sector) and selling the chair in a shop (tertiary sector).



**Figure 6.** The supply chain for a chair may involve all four sectors.

More information for figure 6

The diagram illustrates the supply chain for a chair, involving four sectors: primary, quaternary, secondary, and tertiary. It features four main images connected by directional arrows, representing the process flow. The image at the top left shows stacks of cut logs labeled as 'Primary sector', indicating the harvesting of timber. A yellow arrow points right to an image of a person working on a laptop, labeled 'Quaternary sector', representing the design process using computer software. From there, a downward yellow arrow connects to an image of a workshop with a person working on wooden furniture, labeled 'Secondary sector', depicting the transformation of wood into a chair. Finally, a leftward yellow arrow points to an image of a furnished store front with people browsing, labeled 'Tertiary sector', indicating the retail process. This diagram effectively demonstrates the sequence and interaction between different sectors in the supply chain for producing a chair.

[Generated by AI]



Student view

Many businesses are only involved in a single sector. For example, a furniture store that buys finished chairs and sells them to the public is participating only in the tertiary sector. In contrast, a furniture maker that owns her own retail shop is participating in both the secondary

 and tertiary sectors.

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Businesses whose activities involve two or more sectors are described as integrated businesses.

For example, in the oil industry, large companies use digital technologies to help find and then drill for oil (quaternary and primary sector), refine it into usable products (secondary sector), and sell it in petrol stations (tertiary sector).

Firms in the same industry may take different approaches. For example, many automobile companies operate only in the secondary sector, manufacturing cars. The inputs are extracted and parts created by other firms, and the cars are sold by independent retailers. Tesla, however, has taken a different path and is, for example, creating its own batteries for its electric cars, and selling the cars in its own retail outlets.

Companies can also move in and out of different sectors over time. For example, when Apple began in the 1970s, it produced its own computers, and so was involved in the secondary sector. Apple has more recently outsourced production to other companies working in the secondary sector. On the other hand, the first Apple store was not opened until 2001. Prior to that, Apple's products were sold primarily through other retailers in the tertiary sector.



**Figure 7.** Apple moved into the tertiary sector later in the company's development.

Source: [Diegogo08](https://commons.wikimedia.org/wiki/File:Applemorumbi.jpg) (<https://commons.wikimedia.org/wiki/File:Applemorumbi.jpg>), CC BY-SA 4.0 (<https://creativecommons.org/licenses/by-sa/4.0/>), via Wikimedia Commons

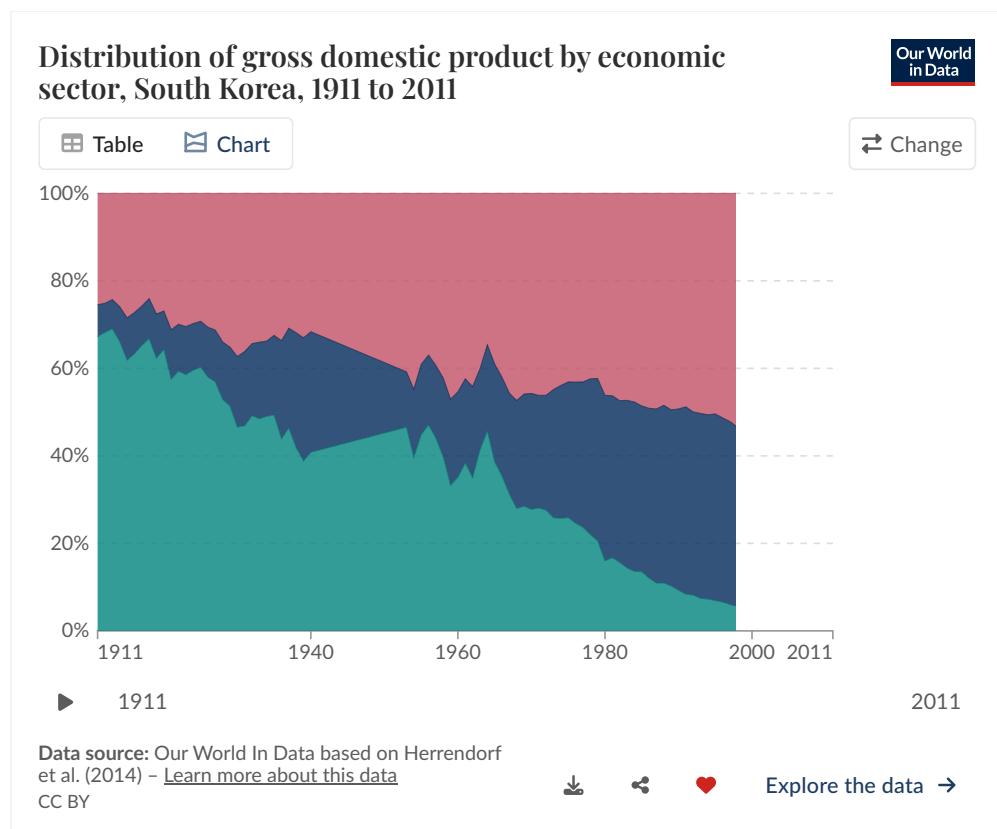
The resources of a country, and its stage of economic development, have an influence on which sectors dominate the economy. Over time, as countries' economies have grown and incomes have risen, the primary sector has declined as a share of economic activity. There has been an increase in secondary sector activity. Then, in many countries, there has been a decline in

secondary sector activity and increases in the tertiary and quaternary sectors. However, there are exceptions. For example, Saudi Arabia is a high-income country whose economic activity is still focused on the primary sector because of its large oil reserves. Some lower income countries, like the Maldives, may rely on tourism in the tertiary sector.

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## 🔗 Making connections

The IBDP Economics HL course goes into greater detail on the changes in sector activity over time, making links with the concept of income and elasticity of demand.



**Figure 8. Distribution of Gross Domestic Product by Economic Sector, South Korea, 1911 to 2011.**

🔗 More information for figure 8

An interactive graph represents the shares of GDP contributed by different economic sectors in South Korea from 1911 to 2011. It highlights the changing structure of the economy by showing how agriculture, industry, and services have evolved as a percentage of total GDP.

The x-axis represents the years, allowing users to track economic shifts over time. The y-axis displays the percentage of GDP, showing how much each sector contributes to the total economy. The interface consists of a stacked area chart, where each colored section represents a different economic sector: service, industry, and agriculture.

Agriculture ranges more than 60% in 1911, and it gradually decreases to 40% in 1960 and 2% in 2011. Industry ranges around 7% in 1911, and it increases to 43% in 2011. Services starts with 25% in 1911, and increases to 53% in 2011.

Users can hover over the graph to see exact percentages for each sector each year. A timeline slider allows users to track



shifts in the economy over decades.

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The table tab presents the share of GDP by the economic sector in South Korea over time. Users can compare the contributions of agriculture, industry, and services across different years by sorting and filtering the data.



## Case study

Fairphone [\(https://www.fairphone.com/en/\)](https://www.fairphone.com/en/) produces smartphones and was started in 2010. The business, based in the Netherlands, produces mobile phones with a circular business model. According to the [Ellen MacArthur Foundation](https://ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview) [\(https://ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview\)](https://ellenmacarthurfoundation.org/topics/circular-economy-introduction/overview), circular business models require a company to:

- design out waste and pollution;
- circulate products and materials; and
- regenerate natural systems.

You will learn more about circular business models in [Section 1.3.7](#) ([/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/](#)).



**Figure 9.** Fairphones.

Credit: Fairphone (<https://www.fairphone.com/en/>).



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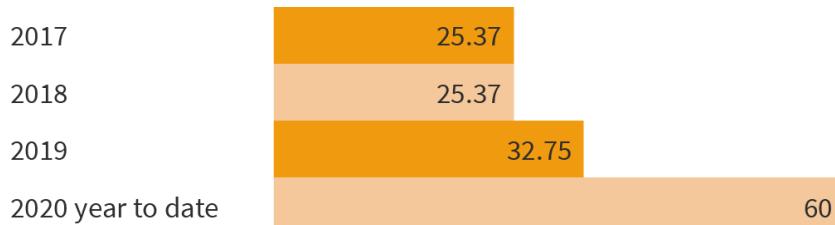
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Fairphone's smartphones are designed to minimise inputs and cycle materials to avoid e-waste. The phones are designed to be taken apart. Individual parts can be replaced if they are broken, or they can be upgraded if needed. Users can repair the phones and replace parts themselves. The business recovers old phones (also from other producers) from customers to recycle them. Fairphone also uses recycled metals and plastics.

Fairphone tries to get its primary sector inputs from suppliers who offer safe working conditions, where child labour is not being used and where local communities are benefitting from primary resource extraction (mining) activities. Fairphone is supporting other businesses to develop positive mining practices.

Socially, Fairphone works to support safe and fairly paid work. Environmentally, the company aims to reduce the negative ecological impact of mining activities. Where fair mining practices do not yet exist, Fairphone works with suppliers to develop them.

The company has been making progress in sourcing materials fairly (see **Figure 10**). The company has a target of 70% fairly sourced materials by 2023.



**Figure 10.** Percentage of fairly sourced materials in Fairphone's supply chain.

More information for figure 10

The bar chart displays the percentage of fairly sourced materials in Fairphone's supply chain from 2017 to 2020. Each year is represented on the Y-axis, with numerical values labeled on each bar. In 2017 and 2018, the percentage remained constant at 25.37%. In 2019, the percentage increased to 32.75%, and in 2020, it rose to 60%. The chart clearly illustrates a trend of increasing percentages over the years.

[Generated by AI]

In the secondary sector, Fairphone is supporting human development by demanding that all work in the supply chain is voluntary, clean and healthy, and that there is no discrimination in the workplace and living wages are paid. The company is minimising the inputs of hazardous and non-hazardous materials in its supply chain. Suppliers will “identify, track, manage, reduce, and control air emissions emanating from [their] operations” and will reduce greenhouse and other gas emissions, energy consumption and noise pollution.

99% of the phones that Fairphone sells are sold to private individuals, but business consumers are increasing. By 2020, the business had sold more than 300,000 phones and had a profit of 2 million euros. The phones are sold through Fairphone's

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own website and through retail partners (<https://shop.fairphone.com/en/where-to-buy>) in Europe.

#### Sources:

Supply chain engagement: From risk to impact (<https://www.fairphone.com/wp-content/uploads/2020/11/Supply-Chain-Engagement-2020-final.pdf>)

Fairphone Ways of Working Together ([https://www.fairphone.com/wp-content/uploads/2019/07/updated-Code\\_of\\_Conduct\\_WEB.pdf](https://www.fairphone.com/wp-content/uploads/2019/07/updated-Code_of_Conduct_WEB.pdf))

Fairphone finds market for responsibly sourced mobiles (<https://www.reuters.com/markets/commodities/fairphone-finds-market-responsibly-sourced-mobiles-2021-12-03/>)

Fairphone 4 review: ethical repairable phone gets big upgrade (<https://www.theguardian.com/technology/2021/oct/15/fairphone-4-review-ethical-repairable-phone-gets-big-upgrade>)

#### Questions

1. Outline **one** human need that Fairphone is meeting with its business. [2 marks]
2. Describe **two** of the sectors where Fairphone is operating. [4 marks]
3. Explain **one** way that Fairphone is acting responsibly towards people or the planet. [2 marks]

#### Question 1

Human beings have a need for **networks** that provide support, companionship and opportunities. Fairphones connect people with one another in these networks.

Human beings have a need for **education** to understand the world around them and reach their potential. Fairphones connect people with information to support life-long learning.

Human beings have a need for **income** to support their families and communities. Fairphone provides work for people in the primary sectors who extract resources and in the secondary sector to make the phones.

**Outline** is an AO1 level command term, requiring a brief account or summary.

- Only one point needs to be made. Other responses are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses.

#### Question 2

Fairphone is operating in the primary sector. The primary sector involves taking raw materials from the Earth. In this case, Fairphone is involved in mining the minerals used in its phones.



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Fairphone is also operating in the secondary sector. The secondary sector involves manufacturing and processing, where raw materials are made into products for sale. In this case, Fairphone is involved in producing phones where minerals and parts are assembled in factories to make a final product.

**Describe** is an AO1 level command term, requiring a detailed account. Describe what something is.

- Two sectors need to be described. You should write short separate paragraphs that each describe a sector (theory), and use information from the case study (example) to support the response.
- To achieve full marks, you must always include theory and application to the case study in your responses.

### Question 3

Fairphone is acting responsibly towards the people in its supply chain. This involves creating value for those who work for the company. The case study says that Fairphone is promoting human development by 'demanding that work in its supply chain is voluntary, clean and healthy, and that there is no discrimination in the workplace and living wages are paid'.

Fairphone is acting responsibly towards the planet in its supply chain. This involves using circular business models including recovering 'old phones (also from other producers) from customers to recycle them and using 'recycled metals and plastics'.

**Explain** is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- Only one point needs to be made. Other responses are possible and would be rewarded if appropriate.
- To achieve full marks, you must always include theory and application to the case study in your responses.

## 4 section questions ^

### Question 1

Which of the following statements is true?

- 1 Households are an important provider of care services between people with strong relationships and services are unpaid.

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- 2 The state provides products for fundamental human needs and is funded through payments in a price system.
- 3 The commons does not provide for any human needs or wants.
- 4 The market provides for human needs and wants and is funded through taxes.

### Explanation

Households provide many fundamental care services between people with strong relationships, through unpaid work. The state also provides fundamental products to people, but is funded through taxes, not through payments in a price system. The commons also provides for human needs and wants. The market provides for human needs and wants, but is funded through payments in a price system.

### Question 2

Name the economic sector in which manufacturing occurs.

Secondary



### Accepted answers

Secondary

### Also accepted

secondary, Secondary sector, secondary sector, secondary Sector, Secteur secondaire, sector secundario, secteur secondaire, secondaire, Secundário, Secundario, secundario, Secondaire, Secundaria, secodary, En el segundo sector, le secteur secondaire

### Explanation

The secondary sector includes activities such as manufacturing and construction that involve making and building things using inputs from the primary sector.

### Question 3

The  primary  sector includes activities like farming, fishing, and mining.

### Accepted answers and explanation

#1 primary

### General explanation

The primary sector involves harvesting food or extracting raw materials from the Earth.



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**Question 4**

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Name the economic sector that includes wholesale and retail stores.

Tertiary

**Accepted answers**

Tertiary

**Also accepted**

tertiary, Tertiary sector, tertiary sector, tertiary Sector, the tertiary, the Tertiary sector, the tertiary sector, the tertiary Sector, The tertiary, The Tertiary sector, The tertiary sector, The tertiary Sector

**Explanation**

The tertiary sector includes all distribution and service activities.

1. Introduction to business management / 1.1 What is a business?

## Starting a business

Entrepreneurship    Entrepreneurship    Starting up a business    Starting up a business

The failure rate for new businesses is high. However, you should not read too much into the statistics. A “failed” business is one that is no longer operating. This could be for a variety of reasons, only some of which are really failures.

Business success depends on the internal strengths and weaknesses of the business itself. The internal strengths and weaknesses have to do with the four business functions or processes we examined in [Section 1.1.1 \(/study/app/business-hl/sid-351-cid-762729/book/the-nature-and-role-of-business-id-36498/\)](#). These are human resources, financing, marketing and operations.

A business has a good chance of success when:

- there is a skilled and collaborative team of employees in place;
- there is enough funding to run the business;
- the marketing has been researched well; and
- the operations are efficient and resilient.



Student view



**Figure 1.** A skilled and collaborative team of employees can help a new business be successful.

Credit: Tom Werner, Getty Images

However, the opportunities and threats of the external environment matter too. Success or failure depends on changes in the sociocultural, technological, economic, environmental, political, legal and ethical conditions. Even if a business has strong internal factors, the business can fail where external conditions are very poor. The COVID-19 pandemic showed us just how embedded businesses are in their social and environmental context.

We will use two tools called SWOT and STEEPLE ([Section 1.1.6 \(/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/\)](#)) to understand the internal and external factors affecting the work of a business.

## Entrepreneurial mindset and skill-set

Despite the risks, many people start new businesses every year. People who start businesses are known as entrepreneurs. Entrepreneurs often say that starting a business is one of the most exciting and interesting things they have ever done.

Entrepreneurship requires creativity and passion to make change. Entrepreneurs seek out change and are willing to take risks. The skills of an entrepreneur and the skills of other changemakers in society are very similar. You would see entrepreneurs undertaking the same kinds of research and action as social and political activists, or local neighbourhood organisers.





- understanding communities and their problems;
- designing and planning solutions;
- taking action; and
- sharing and growing actions and ideas to increase impact.

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In fact, these are the same steps that you might have taken in school project work in the past. You might use these steps in Design or Art courses, or for upcoming CAS work in your IB Diploma Programme. This mindset and skill-set can be used for a number of important professional and personal goals. In addition to starting a new business, someone with this mindset and skill-set could also:

- create new products in an existing enterprise they work for (as an intrapreneur);
- solve a major social or environmental challenge, like improving urban housing or reducing urban air pollution; or
- improve their personal life, perhaps through a career change.



**Figure 2.** Post-it notes are an often-cited example of a product created through intrapreneurship at the company 3M.

Credit: Wissanu Phipithaphong / EyeEm, Getty Images

## ⌚ Making connections

There are a number of organisations offering online courses and materials that can help you develop entrepreneurial or changemaking skills. Here are a few to check out:



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- Acumen Academy (<https://acumenacademy.org/>) — online courses in social change and entrepreneurship offered by this social venture capital firm. Some



courses are free; others are offered for a low price.

- [YCombinator Startup School for Aspiring Founders ↗](https://www.startupschool.org/aspiring-founders)  
 (https://www.startupschool.org/aspiring-founders) — YCombinator is one of the world's most famous seed funding companies. The company has developed a course specifically for aspiring entrepreneurs.
- The [Youth Mayors Field Guide ↗](https://sites.google.com/uwcmaastricht.nl/youth-mayors-curriculum/home)  
 (https://sites.google.com/uwcmaastricht.nl/youth-mayors-curriculum/home) is a free resource, written for secondary students, that can help you with a changemaking project. The skills and tools are the same as for starting a business, and there are some business-specific tools.
- The [EU's Blues project ↗](https://eblues.eu/what-why-how-your-road-to-entrepreneurship/) (https://eblues.eu/what-why-how-your-road-to-entrepreneurship/) provides an online course for learning about entrepreneurship.
- The EU [Young Entrepreneurs ↗](https://www.erasmus-entrepreneurs.eu/) (https://www.erasmus-entrepreneurs.eu/) exchange program is an opportunity for young entrepreneurs to experience cross-border exchanges to learn from entrepreneurs in different countries.

## Reasons for starting a new business

Individuals start businesses for a number of reasons, sometimes more than one, as described in **Table 1**.

**Table 1.** Reasons for starting a business.

Reason	Explanation
New business idea	An entrepreneur may have a new idea for a product. This new idea can motivate them to start a business. This is what most people think of when they imagine entrepreneurs.
Passion to make change	Many entrepreneurs are good at identifying and understanding problems. They can also see opportunities for change. They may have a powerful sense of purpose in their work and are highly motivated. This inner drive to make positive changes can be quite addictive, resulting in entrepreneurs who regularly start new businesses. These are known as serial entrepreneurs.
Market need	Other entrepreneurs may see a need in a market. This is not necessarily about creating a new product or service. Instead, it is about fulfilling the needs of a group of people. For example, if a town does not have a car repair shop, a car mechanic could set up a business to serve that need.



Reason	Explanation
Earning a living	Some individuals set up a business simply to make money for themselves and their families. There may not be a suitable job for them from an existing business. So, they take action to create and run a business to support themselves.
Greater financial reward	Talented individuals may set up their own business to earn more money. This is often the case for qualified tradespeople like electricians, plumbers, and hairdressers, and professionals like accountants and lawyers.
Control	Some employees feel like they have no control over their work or their future in a large organisation. They may set up a business to have more control in their work.
Work-life balance	Some people want a better balance between work and their private life. They may want to set their own hours, or the freedom to choose projects they like. New technologies can make it easier to work from home and find this balance. However, it is important to understand that most entrepreneurs have to spend a lot of time with their business to make it a success.

## 🌐 International Mindedness

The main reasons for starting businesses will vary depending on the culture and economic conditions in a country. There are often many entrepreneurs in very low-income countries. This is more about necessity than choice. In some places, there are few job opportunities offered by businesses. So, to survive, people need to create businesses themselves.

You can read more about reluctant entrepreneurs in this excerpt ↗ ([https://www.business-standard.com/article/beyond-business/reluctant-entrepreneurs-111061100035\\_1.html](https://www.business-standard.com/article/beyond-business/reluctant-entrepreneurs-111061100035_1.html)) from the book Poor Economics by Nobel Prize winners Abhijit V. Banerjee and Esther Duflo.





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**Figure 3.** Seeking a better work-life balance is one reason that some people start a business.

Credit: Compassionate Eye Foundation, Getty Images

## Activity

**Learner profile:** Thinkers

**Approaches to learning:** Thinking skills (critical thinking)

Social scientists sometimes use the idea of push and pull factors to explain the reasons for people's decisions. You see this often in Geography courses.

- A push factor is a negative condition that makes people want to leave a particular situation.
- A pull factor is a positive condition that makes people want to enter a particular situation.

Examine the reasons given above for starting a new business. Which ones would you classify as push factors and which would you classify as pull factors? Which are both?

You may find it helpful to draw a quick table like the one below to record your thoughts:

Factor	Push?	Pull?	Both?	Explanation
	X	X	X	
New business idea				



Student view

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Factor	Push?	Pull?	Both?	Explanation
Passion to make change	X	X	X	
Market need				
Earning a living				
Greater financial reward				
Control				
Work-life balance				

## Challenges of starting a new business



×

Student view



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#### Figure 4. Lack of adequate funds is a common reason for businesses to fail.

Credit: federico cardaio, Getty Images

More information for figure 4

The image depicts a calculator with the display showing zero, a stack of euro banknotes, and a smartphone screen displaying a graph with a downward trending red line. The graph features a grid background resembling a typical financial or data chart. The combination of the calculator, currency notes, and graph suggests a financial theme, possibly indicating issues related to budgeting, financial loss, or economic decline. The red line graph points downwards, reinforcing the concept of decrease or failure in a financial context.

[Generated by AI]

Starting a new business is no easy task and new businesses face a range of challenges, as described in **Table 2**.

**Table 2. Challenges faced by new businesses.**

Reason	Explanation
<b>Lack of funds</b>	Perhaps the most common problem newly established businesses face is a lack of funds. While many entrepreneurs can predict the funds needed to start a business, they may underestimate the amounts necessary to sustain operations. This is especially true where the external environment is unstable.
<b>Strong competition</b>	New businesses may find it difficult to break into existing markets with strong competitors. Consumers may be loyal to established brands. Existing competitors may have lower costs of production and can charge lower prices than newcomers. A new business often has to offer something unique to attract customers.
<b>Market too small / no market</b>	Some entrepreneurs are focused too much on their product, and do not pay enough attention to whether there is a market for it. <u>Product-orientation</u> can work, especially if the business makes a product to fill a truly unrecognised need. However, most of the time entrepreneurs need to ensure that the market already exists for what they develop. This is called <u>market-orientation</u> .



Student  
view

Reason	Explanation
<b>Unskilled employees or lack of collaboration</b>	Recruiting qualified employees can be difficult, especially where there are labour shortages. Some potential employees do not like risk. In addition, it may not be totally clear what skills are needed in the new business, so the wrong people for the job may be hired. New businesses often have small teams; if they do not work well together, the business is likely to fail.
<b>Poor management skills</b>	Management skills can be a problem for new entrepreneurs who are often experts in their line of business, but less skilled at managing people and processes. They may make expensive mistakes before they realise that they need help.
<b>Economic, environmental or political shocks</b>	Rapid changes in the economy, natural environment or politics can impact a business. You will learn more about these factors in <a href="#">Section 1.1.6 (/study/app/business-hl/sid-351-cid-762729/book/tool-swotsteeple-analysis-id-36504/)</a> about the SWOT/STEEPLE analysis. Businesses have little control over these factors but they need to react quickly and flexibly to them. New and small businesses may not be as resilient to changing conditions.



## Activity

**Learner profile:** Thinkers

**Approaches to learning:** Thinking skills (transfer)

Which of the following challenges listed in the text above are:

- about the **internal** weaknesses of a business, related to the four main business functions or processes (human resources, finance, marketing, operations)?
- about the threats to a business from the **external** environment?

Draw the table below to help you record your ideas.

Challenge	Internal?	External?	Both?	Expla
X	X	X	X	
Lack of funds				
Strong competition				
No market or market too small for the product				

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	Challenge	Internal?	External?	Both?	Expla
	Unskilled employees or lack of collaboration	X	X	X	
	Lack of management skills				
	Economic, environmental or political shocks				

## Steps to start a new business

Entrepreneurs will all follow a similar process in order to get their business up and running, as described in **Table 3**.

**Table 3.** Steps to start a new business.

Steps	Explanation
Refine the idea	Entrepreneurs need to spend considerable time getting feedback on their ideas. This helps ensure that their idea is the best it can be, before spending time and money to set up the business. In some cases, new technology will need to be tried out. In other cases, more research needs to be done to ensure there is a market.
Prepare a business plan	A business plan is a roadmap and story that lays out how the business will get started and operate. You will study the parts of a business plan in <a href="#">Section 1.1.7 (/study/app/business-hl/sid-351-cid-762729/book/tool-business-plan-id-36505/)</a> .
Decide on a legal structure	The entrepreneur must choose a legal structure for the business. Will the entrepreneur be the only owner? Will there be a partnership? Should they set up the business as a corporation? The legal structure is related to who owns the business and what kind of value the business is bringing to society. You will study the different forms of organisational structure in <a href="#">Subtopic 1.2 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/)</a> .



Steps	Explanation
<b>Register the business</b>	In almost all countries, businesses must be registered with the government. This involves registration paperwork and getting permissions if necessary. The business may also need to file paperwork relating to how the business will be run. This will vary from country to country.
<b>Find a location</b>	Some entrepreneurs may be able to operate from home. Other entrepreneurs may use low-cost space in a hub for new businesses. These are sometimes sponsored by governments to support development of new businesses. These hubs may be places where entrepreneurs can meet up and share experiences and advice. Other entrepreneurs, like someone starting a restaurant, will need to find permanent and specialised space to set up operations.
<b>Hire employees</b>	Some entrepreneurs work alone, at least in the beginning. Others will need to hire staff to get started.
<b>Get funding</b>	Many entrepreneurs use personal savings to get their business started. But most entrepreneurs will need additional money, called financing. You will learn more about financing in <b>Subtopic 3.2</b> .

## Activity

**Learner profile:** Thinkers

**Approaches to learning:** Thinking skills (critical thinking)

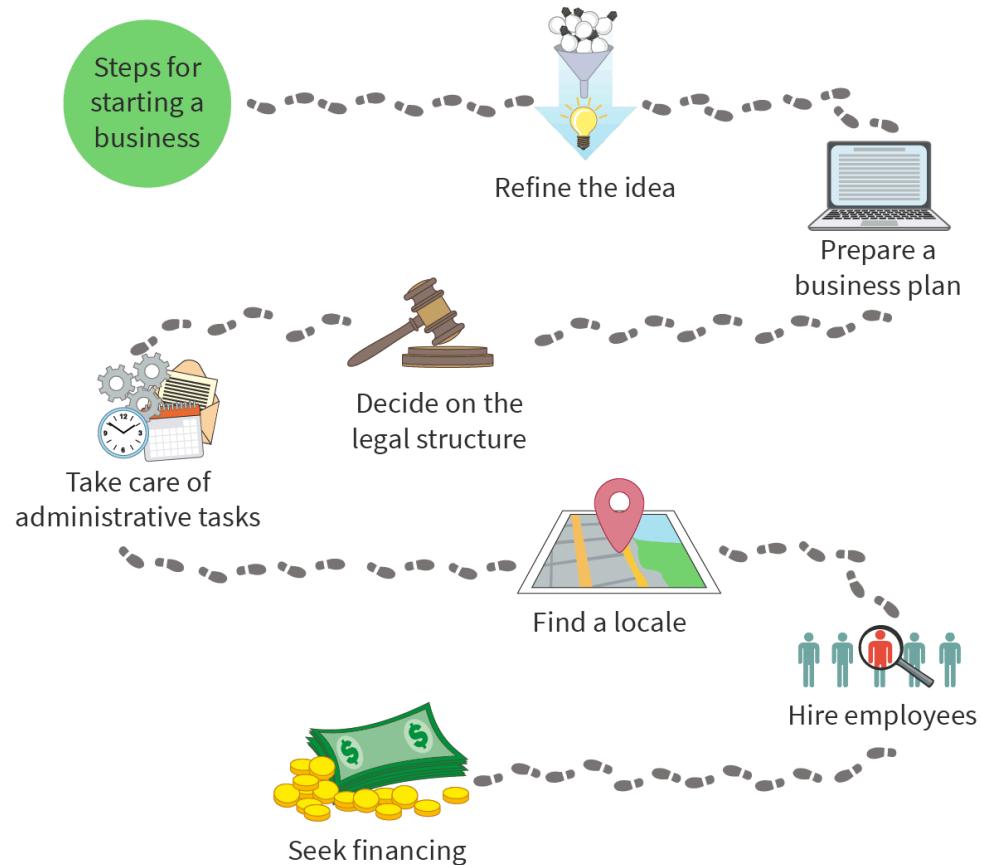
The steps to start a business that are listed in **Table 3** and illustrated in **Figure 5** are not necessarily the order that a particular business will follow.

- Can you think of a situation where the order of steps to start a business would be different?

Discuss this with a partner.



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**Figure 5. Steps to start a business.**

[More information for figure 5](#)

This flowchart illustrates the steps involved in starting a business, represented by icons and text arranged along a dotted path. The sequence begins with "Refine the idea," indicated by a funnel icon filtering ideas into a lightbulb, suggesting brainstorming or idea development. Next, "Prepare a business plan" is depicted with a laptop, implying the creation of a detailed roadmap for the business. The third step, "Take care of administrative tasks," shows a clock, gears, and documents, representing scheduling and paperwork management. Following this, "Decide on the legal structure" is marked by a gavel, symbolizing legal decisions related to the business. "Find a locale," represented by a map with a location pin, indicates the need to choose a business location. The subsequent step, "Seek financing," shows a pile of coins and banknotes, highlighting the requirement for financial support or investment. Finally, "Hire employees" is represented by a group of figures with one highlighted, indicating the process of recruitment.

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## 3 section questions ^



### Question 1

Student view

Which of the following is part of an entrepreneurial mindset and skill-set?



1 Seeking out change



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2 Avoidance of risk

3 Seeking conflict

4 Chaotic organisation

### Explanation

Entrepreneurs actively seek out change and create opportunities. They embrace risk, resolve conflicts and foster collaboration. Entrepreneurs need to have good organisational skills.

### Question 2

Which of the following is **not** a common reason to start a business?

1 Wanting to avoid working hard



2 Having a passion to make change

3 Having an interesting idea for a business or technology

4 Wanting greater control over work life

### Explanation

Entrepreneurs often have a passion to make change and new ideas to pursue. They also often enjoy having more control over the kinds of projects they work on. However, wanting to avoid working hard is NOT a common reason to start a business. Starting a business is very, very difficult.

### Question 3

Which of the following is a problem when setting up a business?

1 All of these are problems for setting up a business



2 Lack of funds

3 Difficulty recruiting qualified employees

Student  
view



#### 4 Strong competitors

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##### Explanation

Lack of funds, difficulty recruiting qualified employees, strong competitors, as well as a lack of management skills are common problems entrepreneurs face when starting a business.

1. Introduction to business management / 1.1 What is a business?

## Tool: SWOT/STEEPLE analysis

Tool: SWOT analysis    Tool: SWOT analysis    Tool: SWOT analysis    Tool: SWOT analysis    Tool: STEEPLE analysis  
Tool: STEEPLE analysis    Tool: STEEPLE analysis    Tool: STEEPLE analysis

SWOT is a simple tool for a business to analyse its internal strengths and weaknesses, and external opportunities and threats. A SWOT analysis can help a business understand its current position and identify strategies to improve the business.

Managers should conduct a SWOT analysis frequently. Businesses must understand and respond to the constant changes in the conditions they face.



### Concept

#### Change

Change is an act or process through which something becomes different. Businesses operate in a world with constant change.

Understanding change involves researching and responding to signals (feedback) in the external environment. Businesses need to adapt their goals and actions to respond successfully to internal and external changes.

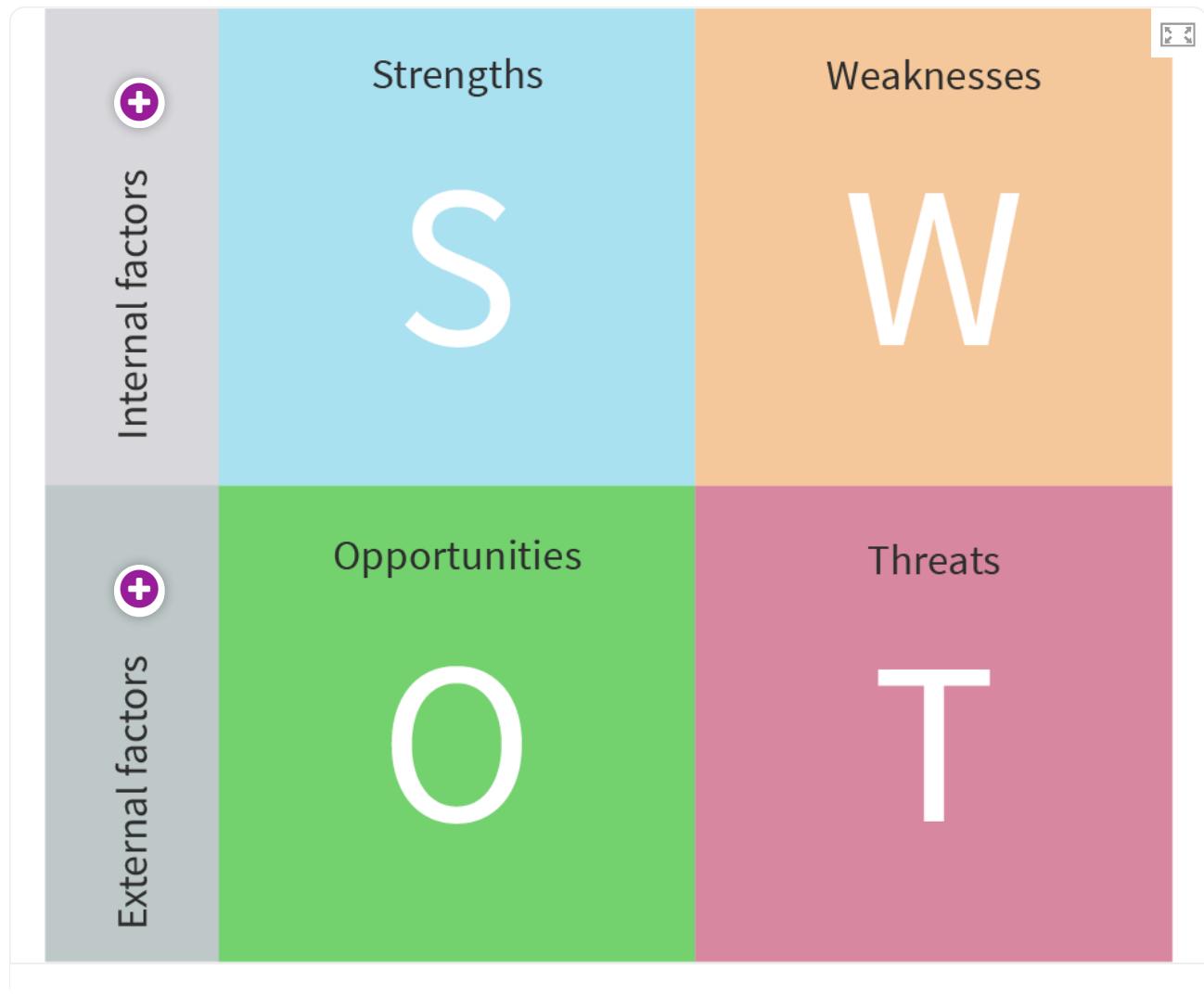
Click on the hotspots in **Figure 1** to see an overview of things businesses should consider when conducting a SWOT analysis.



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**Figure 1.** SWOT matrix.

More information for figure 1

The interactive SWOT analysis tool is structured into four distinct quadrants. Each quadrant represents the following key factors: strengths, weaknesses, opportunities, and threats. The layout categorizes factors as internal or external. Strengths and weaknesses fall under internal factors, while opportunities and threats are classified as external influences. On the left side of the interface, two plus symbols are positioned next to Internal factors and External factors. Clicking on these icons reveals informational pop-ups that guide users in analyzing relevant aspects. The internal factors pop-up prompts users to evaluate business performance based on four key functions: human resources, marketing, finance and accounts, and operations. Meanwhile, the external factors pop-up introduce the STEEPLE framework, which considers sociocultural, technological, economic, environmental, political, legal, and ethical influences on a business. To enhance clarity and usability, the interface employs a color-coded system: blue for strengths, orange for weaknesses, green for opportunities, and pink for threats. Each quadrant prominently features a large letter (S, W, O, or T) at its center, reinforcing the visual organization of the analysis. This interactive design enables users to systematically assess and categorize internal and external factors that impact business strategy and decision-making.



Student  
view



## Internal factors: strengths and weaknesses

Overview

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Every organisation is unique. There are many strengths and weaknesses that could be included in a SWOT analysis. One way to organise your thinking is to consider the internal strengths and weaknesses of a business in the categories of the main business functions or processes that you learned about in [Section 1.1.1 \(/study/app/business-hl/sid-351-cid-762729/book/the-nature-and-role-of-business-id-36498/\)](#). These functions or processes are listed in **Table 1**. They are a framework for you to think through case studies.

**Table 1.** Some examples of internal strengths and weaknesses organised by business function/process.

Business function	Example strengths	Example weaknesses
Human resources	Highly trained, skilled and educated staff; loyal, collaborative employees.	Poor management; unskilled, unqualified or unmotivated employees; conflict between employees.
Finance	Enough money for running and expanding the business; good relations with banks; strong growth of sales and profits.	Lack of money for running and expanding the business; declining revenues and profitability.
Marketing	Strong brands; loyal customers; unique products or services.	Low brand awareness and brand loyalty; products similar to those of competitors.
Operations	Modern facilities; efficient, low-cost production; high-quality products.	Outdated facilities; inefficient, high-cost production; poor quality products.

## External factors: opportunities and threats

External opportunities and threats refer to factors that are outside the organisation that it cannot control. Usually, external factors will be the same for a business and its competitors in the same industry and location.

An opportunity is any favourable external condition or trend that is beneficial for the business. For example, an opportunity for a business could be cultural changes that increase demand for a business's product.



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A threat is any unfavourable external condition or trend that harms the business. For example, international climate agreements that require countries to reduce CO<sub>2</sub> emissions are a threat to oil companies who cannot change their business quickly.

### ① Exam tip

The word 'opportunities' in SWOT is used differently than you may be used to.

Here you are not discussing strategies for the business like 'the business has an opportunity to develop a new product.' In the SWOT analysis, an opportunity refers to an external condition or situation that is favourable for the business.

As with the internal factors in the SWOT framework, it is helpful to have a framework to consider the external factors that can affect a business. The STEEPLE framework provides a useful way to remember factors to consider in your analysis. It stands for the following factors, which will be explained in more detail below:

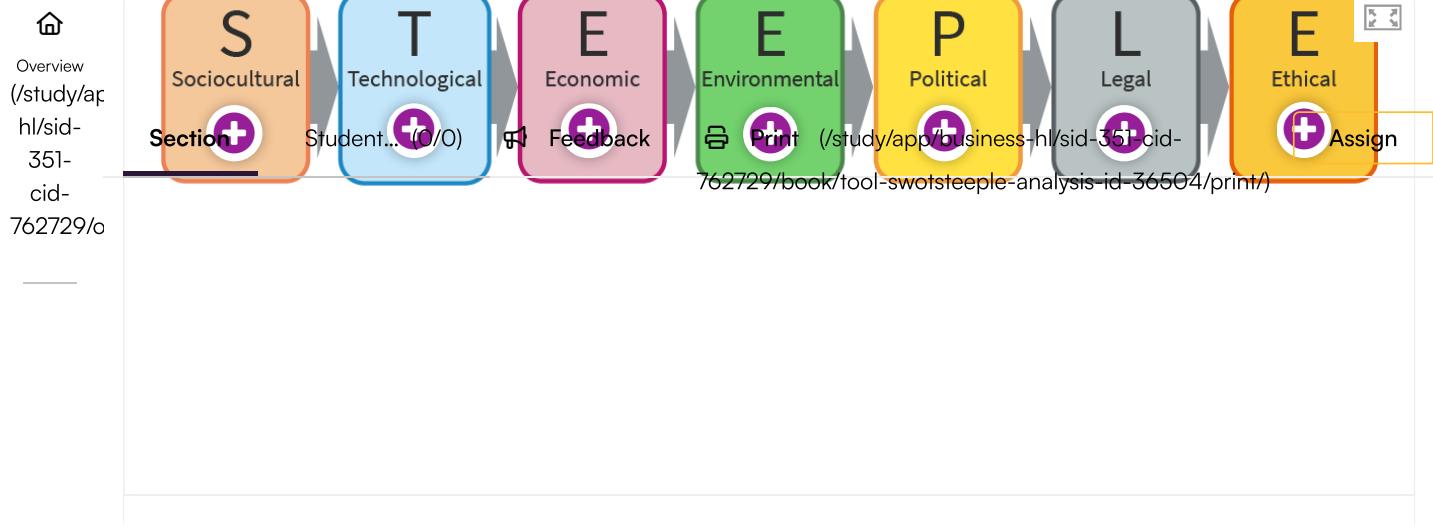
- Sociocultural
- Technological
- Economic
- Environmental
- Political
- Legal
- Ethical

These factors can affect markets for particular goods. They can reveal opportunities for businesses to provide for human needs. The factors can also be threats to a business if they negatively affect the demand for the products the business makes.

Click on the hotspots in **Figure 2** to see an overview of each of the STEEPLE factors.



Student view



**Figure 2.** Steeple factors.

[More information for figure 2](#)

An interactive visual represents the STEEPLE framework, which includes sociocultural, technological, economic, environmental, political, legal, and ethical factors. Each factor is displayed as a distinct colored block with its corresponding initial letter. Within each block, there is a plus symbol that serves as a hotspot. By clicking the hotspots, pop-up texts providing details about the specific factor appear. The interface is designed to help users explore different external influences on businesses and organizations.

Hotspot 1 in the sociocultural factors read, All the social or cultural characteristics that affect the market for a product or the operations of a business. This could include the age structure of the population or the dominant religion.

Hotspot 2 in the Technological factors read, The state of technology and infrastructure in a country or industry.

Hotspot 3 in the Economic factors read, Factors such as inflation, unemployment levels and the level and growth of incomes in the population.

Hotspot 4 in the Environmental factors read, Everything related to planetary boundaries (such as water, land, biodiversity, climate change) and the availability of natural resources for the business.

Hotspot 5 in the Political factors read, The state of the political systems in the country, including the stability of the government, who is in power and what their interests are.

Hotspot 6 in the Legal factors read, All laws that might affect the business. These could include labour laws, regulations on business processes and environmental protections.

Hotspot 7 in the Ethical factors read, Business behaviours that are considered to be 'good' or 'bad' in the national or global context.

This interactive enables students to develop a comprehensive understanding of the STEEPLE framework by exploring the key external factors that influence businesses and organizations. By engaging with the hotspots, students gain insight into how sociocultural, technological, economic, environmental, political, legal, and ethical elements impact decision-making, market dynamics, and business operations.





## Sociocultural factors

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Sociocultural factors are all the social and cultural characteristics of a region or country. These can include factors like the age structure (demographics) of the population. They can also include the way people live, like the health status and education of the population. Beliefs and values are also part of sociocultural factors. These factors will affect what people choose to buy and how they spend their time.

Businesses need to be aware of current and changing sociocultural conditions, so they can create products and solutions needed by people. Businesses also need to recognise when changing sociocultural factors threaten their business.



## Activity

**Learner profile:** Inquirer

**Approaches to learning:** Research skills (information literacy); Thinking skills (transfer)

Examine the choropleth map below which shows the median age by country. The age structure of a country can affect the demand for the products of a business.

The year for the map is set at 2025, but you can change the year to see past data or future estimates.

Hover over individual countries to see the median age in the year 2025.



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**Figure 3.** Median age by country, 2025.

### Questions

1. Identify a country with a median age above 50 years in 2025. State the country and its median age. [2 marks]
2. Explain why a business might consider the demographics of the country you identified in Question 1 as an external threat. [2 marks]
3. Identify a country with a median age between 14 and 20. State the country and its median age. [2 marks]
4. Explain why a business might consider the demographics of the country you identified in Question 3 as an external opportunity. [2 marks]

Note: these questions use exam command terms. A brief explanation of each command term is included in the answers below.

#### Question 1

Japan — median age in 2025 of 50.2 years.

**Identify** is an AO1 level command term, requiring an answer from a number of possibilities.



Student  
view



- To achieve full marks, the response should name a country and the median age using the data from the choropleth map.

### Question 2

Japan's high median age could be a sociocultural threat to a business. If a business is aiming to sell its product to a younger group, it might see weak demand for its product. For example, if a business in Japan produced baby clothes, it might find that the demand for its goods is weaker than it would like, because there are so many older people who have no need for baby clothes.

**Explain** is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- One mark is given for explaining that a business producing goods or services for a younger demographic may see weak demand.
- One mark is given for providing an example to support the idea.
- You may explain the issue differently or use a different example and still be awarded marks if the response is appropriate.

### Question 3

Niger — median age in 2025 of 15.3 years.

**Identify** is an AO1 level command term, requiring an answer from a number of possibilities.

- A different country could be identified as long as the median age is between 14 and 20 years.
- To achieve full marks, the response should name a country and the median age using the data from the choropleth map.

### Question 4

Niger's (or some other appropriate country) low median age could be a sociocultural opportunity for a business. If a business wanted to sell its product to a younger group, it could see strong demand for its product in Niger. For example, if a business in Niger was providing education for younger students, there may be high demand for its services.

**Explain** is an AO2 level command term, requiring a detailed account including reasons or causes. Explain *why*, explain *how*.

- One mark is given for explaining that a business producing goods or services for a younger demographic may see strong demand and/or high revenues.
- One mark is given for providing an example to support the idea.
- Students may explain the issue differently, or use a different example and still be awarded marks if the response is appropriate.





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## Technological factors

- 762729/o The state of current technology will affect what products a business offers its customers.
- Technology will also affect how a business operates. Businesses are constantly offering new products based on new technologies. Some of these products improve human wellbeing, like the development of COVID-19 vaccines using new mRNA technologies. Other products based on new or updated technologies may be less useful. These new technologies may be put into products by businesses to increase the chances that a customer buys a new product, even if they already own a product that is useful. For example, many new smartphones add new technology that adds little new value to the previous version. This is just to get customers to spend money again on a personal need that is already filled.

Businesses can also improve their production methods by using new technologies. For

example, 3D printing is a technological change that makes producing some goods faster and easier. We will examine technological changes for business in **Subtopic 5.9.**

Assign



Figure 4. The impact of 3D printing on business is just beginning.

Credit: Maciej Frolow, Getty Images

The technological factor in STEEPLE also includes a country's infrastructure. Infrastructure includes all the large-scale goods in an economy that make business possible. Infrastructure includes things like ports, road and railway networks, drinking water, communication and

Student view

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electricity systems. When these systems are well developed, they are opportunities for businesses. However, poor infrastructure can be a threat to businesses because they will not be able to produce and distribute their products very efficiently.

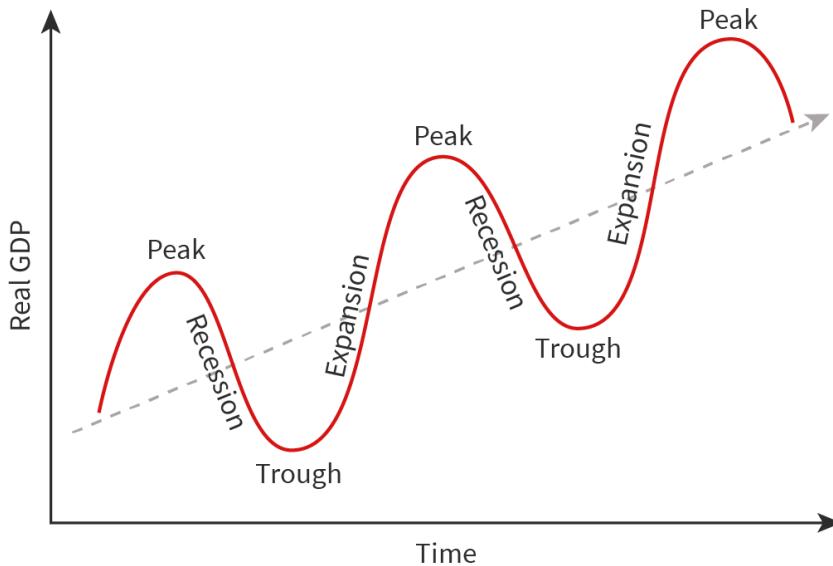
## Economic factors

Countries and regions have different economic conditions that will affect the demand for goods and services. For example, as incomes increase, demand for goods and services will increase. This is an opportunity for businesses. However, rising incomes also cause consumers to demand different kinds of products. These changing economic conditions will be an opportunity for some businesses and a threat to others.

There are cycles of gross domestic product (GDP) growth and decline. When GDP is growing, there is an expansion in the economy. A recession is when the GDP declines for a period of time, usually six months or more.

These cycles of expansion and recession are called the business cycle. The business cycle can have an impact on demand and business activity. During periods when the gross domestic product is growing, incomes will probably rise in the population and people will have more jobs. As a result, businesses may see increased demand for their products.

During recessions, when the overall value of everything that is produced declines, businesses may see weaker demand because of falling incomes and higher unemployment. Businesses need to be aware of these income changes to respond to the changing needs and wants of consumers.



**Figure 5.** The business cycle involves times of expansion and recession that can affect demand for the products of a business.



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More information for figure 5

The image is a graph illustrating the business cycle. The X-axis represents 'Time' and the Y-axis represents 'Real GDP'.

The graph shows a cyclical pattern with a red line indicating various phases.

1. Peak: The graph reaches a high point, labeled as 'Peak'.
2. Recession: Follows after a peak, indicated by a downward slope.
3. Trough: The graph reaches its lowest point, labeled as 'Trough'.
4. Expansion: Follows a trough, indicated by an upward slope.

This pattern repeats, indicating the cyclical nature of economies with peaks, recessions, troughs, and expansion phases.

The dotted line suggests the general upward trend over time.

[Generated by AI]

A video player interface with a play button in the center. The video title "Watch the video below to understand more about the business cycle." is displayed above the player. The video duration is 1:29. The Kognity logo is visible in the bottom right corner of the video frame.

**Video 1.** Exploring key phases and dynamics of the business cycle.

More information for video 1



Student  
view



Like rollercoasters, economies go up and down. The movement of economies over time is called the business cycle, which has four phases: growth, boom, recession, and slump. The business cycle illustrates the change in a country's gross domestic product over time. When a country's economy is growing, its output increases as more goods and services are produced. This in turn increases its GDP. This then increases demand for inputs such as labor and capital. However, when supply is limited, costs increase and prices go up, so customers buy less. When this happens, production falls, demand for inputs decreases, and countries' GDP and economies contract. Business cycles are affected by many different factors, not the least of which are global crises such as the COVID-19 pandemic. Governments implement a variety of economic policies to stop the business cycle from fluctuating too greatly and to prevent economies from slowing down. Because no one wants a bumpy ride.

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## ! Exam tip

You are not expected to define macroeconomic terminology in this course. However, you may see the terms below in case studies, so you need to know what they mean.

**Gross domestic product (GDP)** — the total monetary value of all final goods and services produced in an economy in a given period of time; represents the size of the economy

**GDP per capita** — divides total GDP by the population of a country

**Expansion** — when the total value of all goods and services produced within the borders of a country (GDP) is increasing

**Recession** — when the total value of all goods and services produced within the borders of a country is decreasing, usually for six or more months

**Inflation** — an increase in the general price level, usually expressed as percentage change

**Deflation** — a decrease in the general price level, usually expressed as percentage change

**Interest rate** — the cost of borrowing money; important for businesses because they may need to borrow money for business investments

**Unemployment rate** — the percentage of the labour force that is out of work but actively seeking employment at a given time

**Import** — goods brought into a country

**Export** — goods manufactured in a country and sold abroad

**Exchange rate** — the price of one country's currency in terms of another country's currency

**Subsidy** — government payment to businesses



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view

## Tax — payment from individuals or businesses to government



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## Environmental factors

Environment in the STEEPLE analysis refers to the natural environment. Many businesses rely on natural resources as inputs and changes in the natural environment can have a large impact on businesses. For example, a drought or severe storms may affect a farmer's ability to grow crops. Other industries that use water to produce their goods will also be affected like producers of paper, food processors, power producers, and clothing manufacturers.

Climate change is impacting businesses worldwide. Changing weather patterns, increased frequency of storms, floods, forest fires and droughts can all affect businesses. International climate change agreements like the Paris Agreement in 2015 will force businesses to reduce CO<sub>2</sub> emissions. These changes will create opportunities for some businesses, like renewable energy firms. However, these changes are a threat to other businesses, like those producing oil and mining coal.

Many countries are trying to protect biodiversity and respect planetary boundaries. These efforts may make it harder for businesses to get the resources they need to produce their products and may be a threat. Other businesses, like those in the cosmetics and pharmaceutical industries, see biodiversity as a potential source of resources for medical advances. The efforts to protect biodiversity and respect nature can be opportunities for those businesses.

Businesses also need to consider their waste production and air pollution. Many industries use plastics to package their goods but plastic waste dumped into the environment is a growing problem. All businesses are now exploring new forms and materials for packaging and ways to reduce plastic to address this problem.

Circular business models, which will be explored in [Section 1.3.7 \(/study/app/business-hl/sid-351-cid-762729/book/tool-circular-business-models-id-36523/\)](#), are one way to reduce the use of resources and waste. Countries are also forcing businesses to reduce air pollution because of its negative impact on human health. Businesses that pollute their natural environment will need to reduce pollution or face fines or closure.



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**Figure 6.** Air pollution is a major problem in many Indian cities due to emissions from coal-powered energy sources. Businesses need to reduce their air pollution.

Credit: Bloomberg Creative Photos, Getty Images

## Political factors

Politics has a huge impact on business decisions. Political parties have different ideas about how much government regulation there should be of businesses. They may also change laws at short notice, affecting business operations. When new political parties come to power, this can change the expectations of business. If the government is unstable, this can increase the risk for businesses too.

The increasing popularity of Green parties that favour greater protection of the natural environment can either be opportunities or threats for businesses, depending on what products are being produced and how they produce them. Businesses that focus on sociocultural and environmental sustainability will see that change as an opportunity. Businesses that exploit the environment or produce harmful products will see that change as a threat.



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**Figure 7.** Annalena Baerbock of Germany's Green Party; the Green Party signed a government coalition agreement in December 2021.

Source: Stefan Kaminski ([https://commons.wikimedia.org/wiki/File:Annalena\\_Baerbock\\_\(square\).jpg](https://commons.wikimedia.org/wiki/File:Annalena_Baerbock_(square).jpg)), CC BY-SA 4.0 (<https://creativecommons.org/licenses/by-sa/4.0>), via Wikimedia Commons

## Legal factors

Businesses must follow all laws and regulations. These laws may be made at a national, regional, or local level. Multinational companies must obey the law in their home country as well as other countries in which they operate. Businesses must be aware of changing laws so they can adapt their products and operations as needed. Some businesses try to influence the laws to their favour. This is called lobbying, and this practice has ethical impacts.

Businesses need to be aware of the laws that are relevant to their activities. Complying with laws is an ethical responsibility as well as a legal one. In addition, businesses can be sued in court by private individuals or groups, or prosecuted by governments, if they have harmed stakeholders or violated laws. Breaking the law can mean the end of the business itself.

## Ethical factors

Business activity should serve human needs and respect the health of the planet. Many businesses, however, have conflicts between the goals of business growth and profit and their social and/or environmental responsibilities. Ethics is a key concept of the course, and these ethical conflicts will be explored often in your class.



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## Concept



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## Ethics

Ethics refers to moral principles that govern the behaviour of a person or groups.

Businesses are often engaged in the question of 'what is the right thing to do?'. Ethical responsibilities in business come from the relationships and networks that are formed when business organisations are started.

The pressure from shareholders or owners to increase profits can cause businesses to make unethical decisions. This pressure may even lead businesses to develop and promote products that harm people.

Shortly before it developed one of the lifesaving COVID-19 vaccines, US company Johnson & Johnson was found to be a leading supplier of opioids that contributed to painkiller addiction and death in the United States. [The company has been ordered to pay hundreds of millions of dollars for its role in that crisis ↗ \(https://www.theguardian.com/us-news/2021/jul/21/us-opioid-settlement-state-attorneys-general-johnson-and-johnson\)](https://www.theguardian.com/us-news/2021/jul/21/us-opioid-settlement-state-attorneys-general-johnson-and-johnson).

Some companies that make harmful products, from cigarettes, sugary cereals, addictive social media apps and financial advice that allows companies to avoid paying their fair share of taxes, have ethical problems at the core of their business models.



**Figure 8.** Social media addiction has become an ethical issue for companies that run the platforms.

Credit: KARRASTOCK, Getty Images



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Even when their core business is not a problem, businesses can have ethical conflicts related to their impact on the environment or treatment of employees. These issues include poor working conditions, below-living wages and discrimination.

- 762729/o Multinational companies, in particular, face ethical conflicts issues. These companies have complex networks of suppliers and they are often not fully aware of labour practices in firms that supply their products. Some other companies avoid fully employing workers. Instead, they treat employees as freelance employees in the 'gig' economy. This allows them to avoid following some labour laws. They can also avoid paying social security taxes to governments. Uber is an example of a company that has engaged its workers this way. The company has faced several unfavourable court decisions (https://www.reuters.com/world/europe/dutch-court-rules-uber-drivers-are-employees-not-contractors-newspaper-2021-09-13/) about its labour practices in the past.

### ① Exam tip

When using the SWOT/STEEPLE tool, it is important to remember to clearly distinguish between internal factors and external factors.

The strengths and weaknesses part of the SWOT only refer to internal factors. The opportunities and threats part of the SWOT only refer to external factors.

It is a common mistake for students to confuse strengths and opportunities, as well as weaknesses and threats, so you need to be aware of this.

If you are interested in extending your understanding of SWOT, for example in the internal assessment, you may want to look at the TOWS matrix by searching for it online. This is not an official tool in the IB Business Management course, but it can be helpful.

### ⚙️ Activity

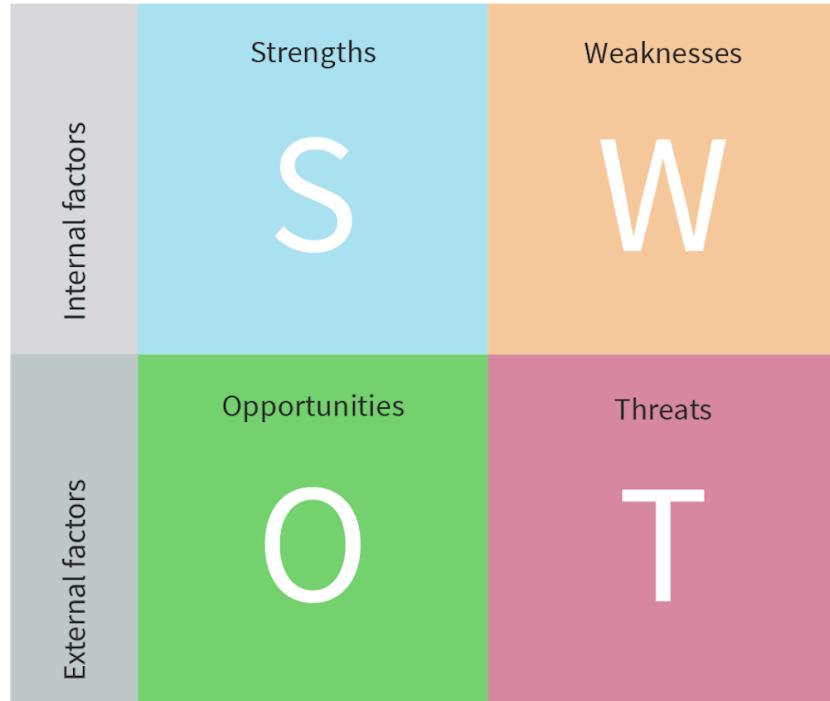
Imagine that you have set up a small farm near a large city. Multiple stakeholders are part-owners of the farm. Customers pay a membership fee to own a share of the harvest and they also pay for a weekly basket of fresh products from the farm and its partner farms in the region. A basket usually consists of seasonal vegetables and fruits, eggs and bread.

Link the following external factors that affect the farm with the appropriate areas of a SWOT matrix. There may be more than one possibility depending on your reasoning.

Be ready to explain and discuss, perhaps with a partner.



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**Figure 9.** SWOT matrix.

More information for figure 9

The image is a SWOT matrix diagram divided into four quadrants. Each quadrant represents a factor of the SWOT analysis: Strengths, Weaknesses, Opportunities, and Threats. The left side of the matrix is labeled "Internal factors" encompassing the Strengths and Weaknesses quadrants. The lower side of the matrix is labeled "External factors" encompassing the Opportunities and Threats quadrants. The top-left quadrant, labeled "Strengths," is shaded in blue. The top-right quadrant, labeled "Weaknesses," is shaded in orange. The bottom-left quadrant, labeled "Opportunities," is green. The bottom-right quadrant, labeled "Threats," is pink. Each quadrant contains an initial letter: 'S' for Strengths, 'W' for Weaknesses, 'O' for Opportunities, and 'T' for Threats. This structure helps in organizing and analyzing internal and external factors that impact an organization.

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## Question

Are the following external factors strengths, weaknesses, opportunities or threats?

1. The government has just agreed to provide financial support for farms in the region through subsidies.
2. A number of staff have complex family situations that can make them unreliable; you worry that some may quit.
3. There has been an outbreak of bird flu in the region.
4. There is an increasing number of restaurants in the city offering plant-based menus and who are looking for regional partners.
5. The climate in your region is experiencing more extremes. There is often flooding in winter and drought in summer.
6. You have very strong relationships with reliable suppliers of your inputs.

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7. There are issues with getting customers to pay on time for their weekly basket deliveries.
8. You have two talented volunteer graphic designers on your team who can develop eye-catching advertising materials.

1. Opportunity — external, political/economic
2. Weakness — internal, human resources
3. Threat — external, environmental
4. Opportunity — external, economic/sociocultural
5. Threat — external, environmental
6. Strength — internal, operations
7. Weakness — internal, financial
8. Strength — internal, marketing/human resources

Suggest one more strength, weakness, opportunity and threat to demonstrate that you understand how to classify these factors.

## Activity

**Learner profile:** Knowledgeable; Inquirers

**Approaches to learning:** Thinking skills (transfer), Research skills (information literacy)

Prepare a SWOT analysis for your school. This could either be:

- a quick exercise, where you organise information you know from personal experience or anecdotes, perhaps discussing with a partner or in small groups; or
- a longer investigation where evidence is gathered from a variety of primary and secondary sources to support the analysis, again perhaps done with a partner or in a small group.

1. Introduction to business management / 1.1 What is a business?

# Tool: Business plan



Tool: Business plan   Tool: Business plan   Tool: Business plan   Tool: Business plan

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# What is a business plan?

A business plan is a tool used to describe a business. This could be a new business, or an existing business that is making a large change. The tool is important for a business to think through the key aspects of its operations. A business plan helps people to believe in the entrepreneur (gives them credibility), reduces risk, and inspires others to join them.

## Activity

**Learner profile:** Risk-takers

**Approaches to learning:** Thinking skills; social skills; communication skills; self-management skills; research skills

An interesting long-term activity for you and your teacher would be to develop a business plan for a new business, either individually or in small groups.

You could work on the plan throughout the course, adding information as you learn about the main functions of business. Towards the end of the course, or at another suitable time, you could decide to pilot the business idea. You could also enter one of many entrepreneurship competitions that have sprung up around the world. Your teacher may have ideas about where to submit your idea.



**Figure 1.** A business plan is a key part of starting a new business.

Credit: andresr, Getty Images





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Like any piece of writing, a business plan must consider its purpose and audience. It is very likely that an entrepreneur will have several business plans that can be used for different situations.

There are a number of different purposes for a business plan that will help determine the format of the document and there is no one format for a business plan. Plans range from very informal to very formal depending on what the entrepreneur wants to achieve and who the audience is.

In the early stages, these plans may be very simple. A simple plan can be used for an internal working group that is developing the business idea. Later, these plans will be more formal as the entrepreneur seeks partners, funding, market recognition or attempts to grow their ideas.

## A business plan is a story, supported by evidence

Human beings connect with stories. We have what psychologists call a narrative bias. Narrative bias is an example of a heuristic, or mental short-cut that we use to understand the world quickly and easily. We like stories because they make sense of a complex world. Stories often provide an answer to the question, ‘why?’.

Successful business plans provide a story for the audience. An entrepreneur and their business plan needs to connect with people on an intuitive or emotional level first, to take advantage of this part of human nature.

### Theory of Knowledge

Understanding cognitive biases, also known as heuristics, is important for recognising flaws in thinking and judgement as we try to build knowledge and understanding of the world around us. You will likely learn about these cognitive biases or heuristics in your Theory of knowledge course.



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**Figure 2.** Telling a good story is key to a successful business plan.

Credit: Maskot, Getty Images

Storytelling, however, is not all there is to a business plan. Human beings often make decisions using intuition but they justify their decisions based on evidence and data. So, entrepreneurs need to provide both a story *and* evidence to win over their audience. A business plan must be able to prove that the business will be successful.

There are a number of different ways to gather evidence for your business plan.

Secondary research, also known as desk research, involves using evidence gathered by others. This information can be found in news articles, research journals, company and market reports, and other reliable sources. Research that is relevant to your business, but done by others, can save time and often involve expert analysis.

If possible, however, an entrepreneur should also do primary research. This involves creating new information. This information can be gathered by you through surveys, interviews, observations, focus groups, or other methods. Primary research can be more specific for a particular product or market. It is a good complement to secondary research.

The presentation of evidence in your business plan can take a number of forms. Complex quantitative data (numerical) is best presented in simple graphics such as line and bar graphs, pie charts, or scatter plots. Qualitative data, which involves descriptions or explanations from interviews, surveys, or other methods with open-ended response types, can sometimes be quantified and presented in graphic format. You can also present anecdotes or quotes from your research to support ideas.



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## Activity

**Learner profile:** Inquirers

**Approaches to learning:** Research skills (information literacy)

Explore the investigation tools in the [Youth Mayors Field Guide Toolkit](#) ↗

(<https://www.sites.google.com/uwcmaastricht.nl/youth-mayors-curriculum/toolkit>).

There are instructions for a great variety of primary research methods to help you with your business plan. If you want to learn how to do full research for a changemaking project or a new business, the guide provides an explanation of how to do this.

The guide also has a number of other helpful tools to explore, including a business plan template, budget template, advice for networking and pitching ideas, among others.



**Figure 3.** Data and evidence are vital to support your business story.

Credit: Tom Warner, Getty Images

↗ More information for figure 3

A businesswoman stands in front of multiple digital screens, pointing and presenting data. The screens display various types of data visualizations. One screen shows bar graphs, with data points arranged in columns, indicating different categories or time periods. Another screen presents pie charts, illustrating different segments and their proportions. There are also world maps with highlighted regions, suggesting geographic data distribution. Additionally, there are line graphs indicating trends over time, with axes labeled according to the data collected.

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Starting a new business is very risky, but carrying out good research can reduce risks. Market research will be explored in greater detail in **Subtopic 4.4**. However, other types of research must also be done. This includes researching legal structures for the business, product and operations research, costs, labour conditions and competition.

In addition, before developing a business plan for an audience, you need to know who the audience is. You also need to know their interests and expectations. This will determine what information you include (or exclude) in your business plan. The audience and their expectations will also affect the format of the business plan and how formal it is.

## 💡 Concept

### Creativity

Creativity involves coming up with new ideas. It also involves rethinking existing ideas from new perspectives. Businesses may show creativity in their use of inputs, business processes and outputs. They also demonstrate creativity when they solve problems. The business plan is a key area to show the creativity of a business.

## Elements of a business plan — The Golden Circle

The Golden Circle, described by motivation expert [Simon Sinek](https://simonsinek.com/) (https://simonsinek.com/), is a good way of thinking about the basic elements of a business plan. The Golden Circle includes the Why, How and What of the business. The Why always comes first. But the presentation of the What and the How is flexible in the business plan.

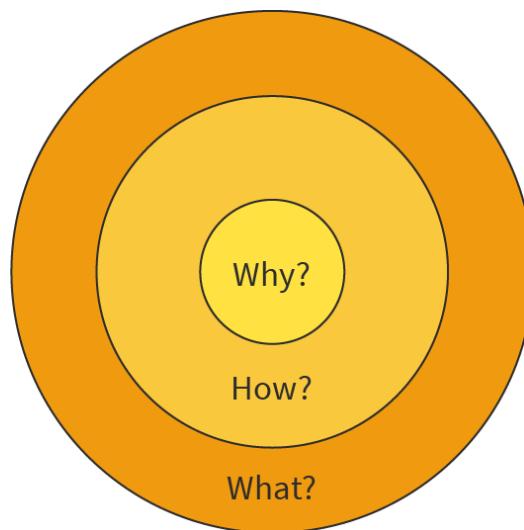


Figure 4. The Golden Circles.

🔗 More information for figure 4



The image is a diagram known as The Golden Circle, which consists of three concentric circles. The innermost circle is labeled 'Why?', the middle circle is labeled 'How?', and the outermost circle is labeled 'What?'. The design visually emphasizes the central importance of 'Why', suggesting that this should be the focal point before addressing 'How' and 'What'. This concept, developed by Simon Sinek, is used to explain the core elements of a business plan, where understanding the purpose ('Why') drives the methods ('How') and the outcomes ('What').

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## Why

First, it is important to consider the inner circle, the 'Why' of the business. This is the purpose of the business. The purpose is important for motivating the people who are working to start the business. It is also important to build a network of people around the business who can support it. The Why of the business satisfies the human need for stories. It provides a clear, shared understanding of the goal.

To articulate the Why of the business, the business plan will typically have a:

- vision and/or mission statement, which could also be expressed as a guiding question for the business; and a
- description of the problem you are trying to solve with your product.

## How and what

The 'How' elements of a business plan address the way you will produce your product. This could include information on the production processes. It will also include information on how the business will be set up and run.

The 'What' element of a business plan is about your product itself. What are the characteristics of the product you are offering?

Typically, the How and What of your business will be combined in several parts of a business plan (along with relevant sections of this course):

- Description of the solution to the problem you have described. This would include:
  - a product description (**Subtopic 4.5**)
  - the legal structure of the business ([Subtopic 1.2 \(/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36507/\)\)](#)

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- the human resources needed (**Subtopic 2.1 and Subtopic 2.2**)
- the location and facilities (**Subtopic 5.4**)
- the value that your product will bring and how your business will positively affect multiple stakeholder groups (Subtopic 1.4 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36525/)) and the environment. You will need to consider what positive impacts your business can have on the local and global scales in both the social and environmental domains (Subtopic 1.3 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36515/))
- Description of the market and competition or partners (social business) (**Subtopic 4.4**)
- Marketing plan (**Subtopic 4.2**)
- SWOT Analysis (Subtopic 1.1 (/study/app/business-hl/sid-351-cid-762729/book/the-big-picture-id-36497/))
- Cash flow forecast and budget (**Subtopic 3.7 and Subtopic 3.9 HL**)
- Sources of finance, or request for financing if appropriate (**Subtopic 3.2**)

**Figure 5** provides a sample structure for a business plan.



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- 1. Executive Summary**
- 2. Mission / Vision**
- 3. The Problem**
- 4. The Solution**
  - 4.1 Overview
  - 4.2 Value proposition
  - 4.3 Type of organisation
  - 4.4 Human resources
  - 4.5 Location
  - 4.6 Facilities
- 5. The Market (or social/partnership ecosystem if not a business)**
  - 5.1 Competition (Partners)
  - 5.2 Position in the market (Relationship with partners)
  - 5.3 Unique selling points (Value proposition)
- 6. Marketing / Communications Plan**
  - 6.1 Marketing / Communications objective
  - 6.2 Target market / Audience
  - 6.3 Marketing / Communications budget
  - 6.4 Market / Target audience research
  - 6.5 Limitations of market / Target audience research
- 7. SWOT**
  - 7.1 Strengths (internal)
  - 7.2 Weaknesses (internal)
  - 7.3 Opportunities (external)
  - 7.4 Threats (external)
- 8. Sources of Finance**
- 9. Budget**
- 10. Milestones**

**Figure 5.** Sample business plan structure.

 More information for figure 5

The image displays a structured layout of a sample business plan. It contains numbered sections and subsections, each with specific focus areas. The main sections include: 1. Executive Summary, 2. Mission / Vision, 3. The Problem, 4. The Solution, 5. The Market, 6. Marketing / Communications Plan, 7. SWOT, 8. Sources of Finance, 9. Budget, and 10. Milestones. Subsections under these categories detail specific components. For example, 'The Solution' covers overview, value proposition, type of organization, human resources, location, and facilities. 'The Market' discusses competition, market position, and unique selling points. 'SWOT' breaks down into strengths, weaknesses, opportunities, and threats.

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Student view

However, there are other ways of organising business plans. The Social Business Model Canvas [\(https://bmtoolbox.net/tools/social-business-model-canvas/\)](https://bmtoolbox.net/tools/social-business-model-canvas/) is a one-page summary specifically for social enterprises, which we will explore in **Subtopic 1.2. The Flourishing Business Model Canvas** [\(https://flourishingbusiness.org/flourishing-business-canvas/\)](https://flourishingbusiness.org/flourishing-business-canvas/) is another interesting format. This plan is even more oriented on the social and environmental context of a business.

As we mentioned before, there is no one structure or format for a business plan. You should choose a structure that makes sense for your business, its purpose and the audience. You may have several plans, of different lengths and formality depending on the context. Give it a try!

1. Introduction to business management / 1.1 What is a business?

## Terminology exercise

**Section**

Student... (0/0)

 Feedback

 Print

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**Assign**

**Check that you understand the terminology used in this subtopic by dragging the correct word into each space.**

Businesses react to \_\_\_\_\_ in the external environment by using \_\_\_\_\_ and \_\_\_\_\_ to meet human needs, while also considering \_\_\_\_\_ and \_\_\_\_\_ environmental, social, and economic \_\_\_\_\_.

Businesses are systems that use \_\_\_\_\_ and financial inputs, combining them through \_\_\_\_\_ to create \_\_\_\_\_. Businesses operate in the \_\_\_\_\_, extracting raw materials. They operate in the \_\_\_\_\_, combining resources to manufacture goods. And they operate in the \_\_\_\_\_, selling goods and services. Businesses also operate in the \_\_\_\_\_, processing information necessary for work in all the other sectors.

**Options:**

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 Check

Question: 1 of 2 questions



Student view



## Interactive 1. Terminology exercise: Understanding Key Concepts.

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# Checklist

[Section](#)[Student... \(0/0\)](#)[Feedback](#)[Print](#)

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[Assign](#)

## What you should know

By the end of this subtopic, you should be able to:

- define the following terms: (AO1)
  - primary sector
  - secondary sector
  - tertiary sector
  - quaternary sector
- describe the nature of business as a creative endeavour that responds to changes in the external environment and considers the ethical implications of its work (AO1)
- describe the role of business in meeting human needs and protecting the natural environment (AO1)
- describe the structure of the economy using the model of the embedded economy (AO1)
- distinguish between the primary, secondary, tertiary and quaternary sectors (AO2)
- describe the dynamic nature of business sector activity (AO1)
- explain the opportunities and challenges of starting a business (AO2)
- outline the steps involved in starting a new business (AO1)
- apply a SWOT/STEEPLE analysis in a given context (AO2)
- outline the elements of a business plan (AO1)
- apply a business plan in a given context (AO2)



Student view

1. Introduction to business management / 1.1 What is a business?



# Reflection

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## ⓘ Teacher instructions

The goal of this section is to encourage students to pause at the end of the subtopic and to reflect on their learning. Students can use the questions provided below to guide their reflection. The questions encourage students to look at the bigger picture and to consider how the subtopic's contents might have impacted the way they view the subject.

The following table shows you how each prompt aligns to the DP *Business management guide*:

Prompt #	Syllabus alignment
1	<b>Concept:</b> Change, Creativity, Ethics, Sustainability
2	<b>Learner profile:</b> Reflective
3	<b>Learner profile:</b> Thinkers
4	<b>Tool:</b> SWOT analysis, STEEPLE analysis

Students can submit their reflections to you by clicking on 'Submit'. You will then see their answers in the 'Insights' part of the Kognity platform.



## Reflection

In this subtopic you were introduced to the nature of business as a system that uses resources to produce goods and services.

Throughout this course, you will be asked to reflect on your views of business management practices in response to the knowledge you acquire. You can use the following questions to guide your reflection. If you click 'Submit', your answers will be shared with your teacher.



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Don't worry about your answers being well explained or scholarly. It is normal for someone your age to be developing their value system and opinions. Write what you can, with the information you have.

1. The conceptual understandings of this course centre around the following concepts: change, creativity, ethics, sustainability. How well do you understand these concepts in the context of business management? Which of the concepts would you rate as most important and why?
2. In [Section 1.1.4 \(/study/app/business-hl/sid-351-cid-762729/book/start-a-business-id-36502/\)](#), you were introduced to reasons for starting a new business. Which reason resonated with you? How does your upbringing and family history inform the reason for starting a business that seems most important to you?
3. Do you think the study of Business Management is similar to the study of Mathematics or Natural Sciences? What informs your opinion?
4. Is it possible to be objective when performing SWOT or STEEPLE analysis?

Once you submit your response, you won't be able to edit it.

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### Rate subtopic 1.1 What is a business?

Help us improve the content and user experience.



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