CHAPTER 1 : BUSINESS AND IT'S ENVIRONMENT (AS & A LEVEL)

Purpose of business activity

Business is a major economic activity. It can be defined as the production of goods and services needed by people in this world to meet their basic needs. Its purpose is to identify and satisfy the needs and wants of the people with the overall aim of earning profit. To produce the goods and services the business will be using scarce resources(resources that are limited in supply)

Economic resources(Factors of production)

Business enterprises are established where entrepreneurs combine productive resources (factors of production) to produce an output. These four factors can be categorised as

Land: All natural resources provided by nature such as fields, forests, oil, gas, metals and other mineral resources. It includes renewable and non-renewable resources. The reward for land is rent

Labour: The people who are used produce goods and services. Labour is rewarded with a wage/salary

Capital: Finance, machinery and equipment needed to produce goods and services. NB there is also intellectual capital which refers to the intelligence of the workforce. It refers to the ability of the workforce to develop new ideas, find new solutions to problems and spot business opportunities. The reward for capital is interest

Enterprise: The skill and risk taking ability of the person who brings together all the other factors of production together to produce goods and services. Usually the owner or founder of a business. In return the entrepreneur will make a profit (or a loss)

Division of labour / Specialisation

Because there are limited resources, we need to use them the most efficient way possible. Therefore, we now use production methods that are as fast as possible and as **efficient** (costs less, earns more) as possible. The main production method that we are using nowadays is known as **specialization**, or division of labour.

"**Division of Labour** is when the production process is split up into different tasks and each task is done by one person or by one machine

Specialisation: is when a person, firm or economy concentrate only on the tasks it is best at.

Pros:

- Specialized workers are good at one task and increases efficiency and output.
- Less time is wasted switching jobs by the individual.
- Machinery also helps all jobs and can be operated 24/7.

-repeating the same job can make the worker more skilled
-the business can enjoy economies of scale

Cons

- Boredom from doing the same job lowers efficiency.
- No flexibility because workers can only do one job and cannot do others well if needed.
- If one worker is absent and no-one can replace him, the production process stops.

-Breakdown of a machine at one stage will affect all successive stages

-Use of machines may lead to unemployment

Goods and services

Goods –are divided into consumer and capital goods

i. **Consumer goods**: these are the tangible goods which are sold to the general public. This include durable and non durable goods. Durable goods such as machinery, garments and mobiles can last for a longtime while non durable goods such as edible things soon become damaged.

ii. **Capital goods**: they are physical products, manufactured specifically to be sold to other industries for production of other goods and services like commercial vehicles.

Services: They are non tangible products for the public to satisfy their wants. They could be commercial or personal services. Commercial services include banking, insurance, transportation which are done on a large scale. Personal services are one to one services such as hair dressing, teaching, lawyer etc

NEEDS AND WANTS

NEEDS- are the things that we cannot survive without
-The basic human needs can be classified as:
(a) Social -entertainment
(b) Physical -food, warmth, shelter
(c) Status -sense of achievement, good job, large house etc
(d) Security -privacy, steady job, secure homes etc

WANTS-: are the things that we can survive without e.g cell phones, radios, jewellery etc Human wants are unlimited but the resources to satisfy them are limited in supply. This gives rise to the basic economic problem

Nature of economic activity

The nature of economic activity is that there are limited resources to satisfy unlimited wants. Due to the limited resources everyone has to make choices (individuals, businesses, governments)

Economic Problem

We have unlimited Needs and wants and there are limited resources. In economic terms we say the resources are scarce. Scarcity refers to the fact that people do not and cannot have enough income, time or other resources to satisfy every desire. Faced with this problem of scarcity, human beings, firms and governments must make a choice.
Problem of choice: businesses must make a choice on how to use scarce resources to fulfil their wants. Business must choose on whether to use labour or capital to produce their products. The business must also choose the types of goods to produce. When something else is chosen, it means something else is given up (sacrificed). Thus choice leads to opportunity cost.
Opportunity Cost-: this is the next best choice given up in favour of the alternative chosen from two choices. E.g If a business has a choice of purchasing new machinery and new premises. If the business chose to buy new machinery because of its greater utility, then the premises will be the opportunity cost.

Concept of creating / adding value

Creating Value: the increasing the differences between the cost of purchasing bought-in materials and the price the finished goods are sold. To add extra features to a product and the customer is willing to pay more after the value has been added.

Added value
-refers to the difference between the selling price of a product and the cost of the raw materials used to make it.

Ways of adding value

There are different ways through which businesses can add value to their products and services.

Creating a brand: Brands represent quality and sometimes status. Consumers are prepared to pay more for products which have a strong brand attached to it. Why does a pair of Nike sell costlier than its counterpart Puma, though the cost of production may not be much different.

Advertising: Through advertising the business can create a strong brand loyalty among its customers and in the process charge more for its goods or services.

Providing customised services: Business providing better quality personalised services to their consumers add more value. Consumers are willing to pay a little extra for customised services

Providing additional features: A product or service with additional features or functionality can make the consumers pay extra. This is very often seen in different version of a car model. Toyota has 12 versions of its Innovation model. The basic engine and build is the same, but the price increase as additional features are added.

By offering convenience: Consumers love convenience. If you get a product or service without much effort then you might happily pay a premium for it. For example, free home delivery of your weekly grocery.

Benefits to a business of adding value

There are a number of benefits a business derives through adding value to its products or services.

First of all, it can **charge more to its customers**. This leads to more profitability for the business in the long run.

A business can **differentiate itself from its competitors**. By adding more value to its goods or services a business can stand out among its competitors as producer providing superior or premium quality.

A business can save the cost on advertising and other promotional activities once it has created a perception of high quality and brand loyalty among its customers. Thus, adding value helps **cost cutting in the long run**.

Business environment is dynamic

- Business environment is divided into two categories and these include the internal and external environment. Internal environment refers to the operating environment of the business. Elements of the internal environment are controllable and these include the firm's organisational structure, leadership and management style, organisational resources, vision, mission, organisational culture. External environment is divided into market and macro environment. Challenges from this environment are not easy to control. This environment is dynamic i.t its elements keeps on changing. Some of the elements includes the Physical environment, Global/ International environment, Political environment, Economic environment

NB Business environment is dynamic (ever changing) and the businesses must adapt to the challenges and formulate strategies to cope with these challenges

What a business needs to succeed

Labour- the business requires different types of workers i.e skilled, unskilled, temporary or permanent etc

Land.- the business requires the site for buildings. The business also need renewanle and non renewable resource to produce goods

Capital- the business is need of money to buy factories and machinery

Customers- these are economic agents which then purchases products made by firms

Suppliers- the business will get raw materials or other services from other businesses

Government-the government will provide roads, school, law and order and the business will benefit in one way or the other

Why business fail early on (Why 9 out of 10 small businesses fail?)

Lack of experience

Many a report on business failures cites poor management as the number one reason for failure. New business owners frequently lack relevant business and management expertise in areas such as finance, purchasing, selling, production, and hiring and managing employees.

Insufficient capital (money)

A common fatal mistake for many failed businesses is having insufficient operating funds. Business owners underestimate how much money is needed and they are forced to close before they even have had a fair chance to succeed. They also may have an unrealistic expectation of incoming revenues from sales

Poor location

Whereas a good business location may enable a struggling business to ultimately survive and thrive, a bad location could spell disaster to even the best-managed enterprise.

Poor inventory management

Poor inventory management might lead to too much of cash being blocked as stock. Excess stock also brings in additional cost burden of maintaining it and the risk of getting obsolete or damaged.

Over-investment in fixed assets

Blocking too much of cash in fixed assets can again pose danger for the business and can contribute to business failure.

Poor credit arrangement management

Business might take too much of debt and might find it difficult to service them. Poor credit management, forward planning and cash flow problems might contribute to it.

Personal use of business funds

Owners of small business usually don’t differentiate between business funds and their own funds. The risk of utilizing business funds for personal use by the owner might lead to cash shortage for the business.

1.1.2 THE ROLE OF THE ENTREPRENEUR

Who is an entrepreneur?: *An entrepreneur is an individual who organizes and operates a business or businesses, taking on financial risk to do so.*

A more technical definition of entrepreneur is ‘a person who brings together the factors of productions to produces goods and services.’ It is one of the factors of production.

Characteristics of successful entrepreneurs

Self motivation

They are also often very passionate about their ideas that drive toward these ultimate goals and are notoriously difficult.to.steer.off.the.course.

Positive attitude

There might be initial hurdles and failures in ventures. A successful entrepreneur learns from his mistakes and does not get dismayed by initial failures. He always sees the light at the end of the tunnel and continues with his journey. Positive attitude also helps in making a strong team which might be very instrumental in the ultimate success of the venture.

Risk taker

"nothing ventured, nothing gained". Successful entrepreneurs are risk takers who have all gotten over one very significant hurdle: they are not afraid of failure.

Excellent leadership qualities

A successful entrepreneur must have excellent leadership qualities. It earns the trust and respect of his team by demonstrating positive work qualities and confidence. They foster a positive environment and then proliferates these values through the team.

Innovator

Successful entrepreneur are innovators and usually have an ‘out of the box’ approach to solving problems. They usually identify gaps in consumer demands or needs which have been ignored for long. They welcome change and are consistently innovating with the changing demand patterns.

Dependable

Successful, sustainable business people maintain the highest standards of integrity because, at the end of the day, if you cannot prove yourself a credible business person and nobody will do business with you, you are out of business. Therefore, a successful entrepreneur should have **Strong sense of basic ethics and integrity.** In short, he should be dependable.

Resourceful

Most new businesses have limited resources such as money, information and time. Successful entrepreneurs figure out how to get the most out of these resources. They are masters at stretching a dollar and making a few resources go a long way.

Communicators

A successful entrepreneur must be a good communicator. Excellent inter-personal and networking skills go a long way in business success.

Achievement oriented

Successful entrepreneurs are achievement oriented. They value accomplishment and the intrinsic rewards that go along with achieving difficult goals.

Role of business enterprises in the development of a country

Business enterprises provide employment
They pay taxes
They increase the GDP of the country
They satisfy the needs and wants of the people
They bring foreign currency if the products are sold outside the country
Reducing poverty levels

Major challenges faced by entrepreneurs

- Identifying successful business opportunities
- Sourcing capital
- Determining suitable location
- Competition from established firms
- Building customer base

1.1.3 SOCIAL ENTERPRISE

SOCIAL ENTERPRISE

Refers to a business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximising returns to owners. **Social enterprises are businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas.**

THE RANGES AND AIMS OF SOCIAL ENTERPRISES

Basically these are the characteristics of social enterprises

They operate for the well being of the society
Making profit is not the main aim
Main aim is to solve social problems faced by people

Profit is kept to provide more services
They normally provide education and health
Generate the majority of their income through trade

Triple bottom line

Social enterprises have three main objectives. These aims are often referred to as the triple bottom line. Triple bottom line is used to measure the performance of a business:

a. Economic (Profit)
b. Social (People)
c. Environment (Planet)

Benefits of Social Enterprises

Social enterprises produce higher social returns on investment than other

On one hand, they produce direct, measurable public benefits. A classic employment-focused social enterprise, for example, might serve at least four public aims:

- **Fiscal responsibility:** It reduces the myriad costs of public supports for people facing barriers, by providing a pathway to economic self-sufficiency for those it employs.
- **Public safety:** It makes the community in which it operates safer, by disrupting cycles of poverty, crime, incarceration, chemical dependency and homelessness.
- **Economic opportunity:** It improves our pool of human capital and creates jobs in communities in need of economic renewal.
- **Social justice:** It gives a chance to those most in need.

1.2 BUSINESS STRUCTURE

1.2.1 ECONOMIC SECTORS/ THE LEVELS OF BUSINESS ACTIVITY

-There are millions of businesses around us. Business can be categorised in three broad categories or stages.

Primary Sector

It is the first stage of production. All those businesses which are related with extraction of raw material from Mother Nature such as mining, fishing, farming, and quarrying are known as Primary Sector businesses. Raw materials that are extracted are send to the secondary sector.

Secondary Sector

They convert raw materials into finished or semi-finished goods. All businesses which manufacture and process the raw materials which can be used by the end consumers are known as Secondary Sector businesses. These include building, construction, compute assembly, shoes factories, textile factories etc.

Tertiary Sector

Whereas all the businesses which provide services and assist both the primary and secondary sector businesses can be classified as Tertiary sector businesses. These include transportation, insurance, hospitals, educational institutes, showrooms etc.

A business may exist in all the three sectors also. For example. British Petroleum has its own Oil wells and it extracts raw oil, this is primary sector activity, this oil is converted into petroleum and other by products. This is secondary business activity. After processing the oil into useable product BP sells it to end consumers through its network of Petrol pumps. This comes under the tertiary sector.

1.2.2 BUSINESS STRUCTURE

Differences between Private and Public Sector

Private Sector

This sector comprises businesses owned and controlled by individuals or groups of individuals. Such businesses are commonly found in the free market economy. Their main aim is to make profit through the sale of private goods. Examples of business found in the private sector include:

i) Sole trader
ii) Partnership
iii) Private Limited Companies
iv) Public Limited Companies
v) Co-operatives

SOLE TRADER

Refers to a business in which one person provides permanent finance and, in return, has full control of the business and is able to keep all of the profits. It is owned by one person. However the owner may employ other people. Examples are hair salons, bus operators, grocery stores etc.

Formation: No legal formalities are required

Ownership: owned by one person

Legal status : The business is not a recognised as a legal person. It is referred to as an unincorporated business

Liability : The owner of the business suffer from unlimited liability. If the business fails the owner may loose personal possessions (personal property)

Continuity : The business come to an end when the owner dies

Tax Issues: it does not pay corporate taxes, but rather the person who organized the business pays personal income taxes on the profits made, making accounting much simpler

Advantages

1 –easy to form (less capital and legal requirements)
2 –owner has direct control of the business (makes decisions that best suit his/her conditions
3 –all profits go to the owner

4 –enjoys major exemptions from Government legislation
5 –no double taxation
6 –has personal contact with both customers and employees
7 –easy to terminate

Disadvantages
1 –unlimited liability
2 –can raise little capital
3 –limited management expertise
4 –poor quality decision making
5 –difficulty in attracting qualified employees
6 –lack of continuity when the owner dies

2 Partnerships

-a business owned by at least two but not more than twenty people. The partners agree to carry on business together, with shared capital investment and , usually, shared responsibilities. To enter into a partnership, partners can have a verbal agreement or otherwise write a Partnership Deed/Agreement which is a document setting out the following details:

a) amount of capital contributed by each member
b) salaries/wages to be paid to each member
c) rights and obligations of the partners
d) procedure for partnership dissolution) profit/loss sharing ratio
e) Name of firm - includes the name of the business entity.
f) Date of writing - includes simply the date that the contract was written.
g)Duration of partnership - includes how long the partnership should last. It is automatically assumed that the death of one of the contracting parties breaks the contract, unless otherwise stated.
h)Business to be done - includes exactly what will be done in this partnership. This section should be very particular to avoid confusion and loopholes.

Formation: fewer legal formalities are involved

Ownership: owned by at least two to a maximum of twenty partners

Legal status : The business is not a recognised as a legal person. It is referred to as an unincorporated business

Liability : The partners suffer from unlimited liability. If the business fails the owner may lose personal possessions (personal property)

Continuity : The business come to an end when the key partner dies

Tax Issues: it does not pay corporate taxes, but rather the partners who organized the business pays personal income taxes on the profits made, making accounting much simpler

Advantages
1 –easy to form (same as sole proprietor)
2 –more capital available
3 –diversity of skills and expertise
4 –quality decisions are made
5 –personal contact with employees and clients
6 –risk is spread over a number of people
7 –relative freedom from government control
Disadvantages
1 –unlimited liability i.e all of the owner’s assets are potentially at risk
2 –disagreements may easily lead to winding of the business
3 –all partners responsible for the acts of each other
4 –lack of continuity when the key partner dies or become insane
5 –profit/loss sharing ratio not necessarily equal
6-the partnership often face intense competition from large firms
7-the owner , by taking on a partner, will lose control of the business

Limited companies

Also known as **Joint stock companies**. These are businesses where a number of owner(shareholder) pool in their resources to do a common business and to share the profits and losses proportionally.

In a limited company, the debts of the company are separate from those of the shareholders. As a result, should the company experience financial distress because of normal business activity, the personal assets of shareholders will not be at risk of being seized by creditors. Ownership in the limited company can be easily transferred, and many of these companies have been passed down through generations.

General features of Joint Stock Companies / limited Companies
1 –separate legal entity
2 –shareholders have limited liability
3 –owners are called shareholders (buy shares)
4 –shareholders receive dividends as payments
5 –the Board of Directors manages the affairs of the company
6 –the company is governed by Memorandum and Articles of Association
7 –shareholders hold Annual General Meetings (AGMs)

NB: A **share** is defined as a certificate confirming part ownership of a company. This certificate also entitles the shareholder the right to dividends. **Shareholder-** a person or institution owning shares in a limited company

a)Private Limited Companies
Refers to a small to medium-sized business that is owned by shareholders who are often member of the same family. This company cannot sell shares to the general public. They have two but not more than fifty shareholders. The right to transfer shares is limited. The business should submit financial statements and auditors reports to the Registrar of Companies

Formation: There are complex legal formalities. Two documents should be drafted by the founders of the company and these documents include the memorandum and articles of association

Ownership: owned by at least two to a maximum of fifty shareholder

Management and Control: it managed and control by the board of directors

Legal status : The business is recognised at law as a legal person. It is referred to as an incorporated business

Liability : The shareholders enjoy limited liability. If the business fails the shareholders' personal assets cannot be taken. They only lose the capital they have invested in the business.

Continuity : There is continuity

Tax Issues: there is double taxation. The shareholders pay tax on their incomes and the business also pay corporate tax

Advantages
1 –shareholders have limited liabilities
2 –more capital can be raised
3 –greater status than an unincorporated businesses
4 –easy to transform into public limited companies
5 –do not have to publish annual accounts in the press

Disadvantages
1–not easy to form (up to six months)
2–has to fill complex tax forms
3–cannot raise capital through the stock exchange
4- quite difficult for the shareholders to sell shares

b) **Public limited companies**
-a large business, with the right to sell shares to the general public. The share prices are quoted on the national stock exchange. They have at least two shareholders to no maximum limit. Shares are freely transferable. The public can be invited to subscribe to shares and debentures through a prospectus. Can only start business after complying with all the requirements of the Companies Act. Annual accounting reports (financial statements) are supposed to be published in the press. Must keep a register of investors and directors' shareholding

Formation: There are more complex legal formalities. Three documents should be drafted by the founders of the company and these documents include the memorandum of association, articles of association and the prospectus

Ownership: owned by at least two to no maximum limit of shareholder

Management and Control: it managed and control by the board of directors

Legal status : The business is recognised at law as a legal person. It is referred to as an incorporated business

Liability : The shareholders enjoy limited liability. If the business fails the shareholders’ personal assets cannot be taken. They only lose the capital they have invested in the business.

Continuity : There is continuity

Tax Issues: there is double taxation. The shareholders pay tax on their incomes and the business also pay corporate tax

Advantages
1 –easy to raise capital through floating shares on ZSE
2 –can operate on a large scale
3 –unlimited life
4 –employees can become shareholders-increases loyalty
5 –managers and directors have room to work independently therefore prove their expertise in their areas of specialization
6-shareholders enjoy limited liability
Disadvantages
1 –difficult to form
2 –files always open for inspection by members of the pubic
3 –decisions take time to make due to large size of the company
4 –no personal touch between employees and customers
5 –conflict of interest-shareholders are usually interested in expanding the business

5 Co-operatives
-Is an association of persons united voluntarily to meet common economic, social and cultural needs. Usually members join together to purchase or sell goods that they cannot afford individually.

Main features
1 –formed by people who want to work together
2 –is voluntary
2 –members make equitable contributions
4 –risks and benefits are shared equally
5 –are democratically controlled
6-the name ends with Co-op

Formation
Members should have a common goal. These members will then draft the constitution and the management committee is elected usually at an annual general Meeting

There are different types of co-operatives:

Housing cooperative
Retailers' cooperative
Worker cooperative
Consumers' cooperative
Agricultural cooperative

Advantages

- It is easy to form e.g any ten adults form a co-operative

- No legal formalities are involved
- Membership is open to everyone
- Members enjoy limited liability
- Members get goods and services at reasonable prices
- There is continuity
- Surplus is shared amoung members
- State patronage (government provides special assistance to the co-operatives to enable them to achieve their objectives successfully
- They are usually tax exempted

Disadvantages

- unable to raise large amount of financial resources
- It is managed by members who may be lacking the required management skills
- Can be affected by conflict since it is an association of people from different social, economic and academic background
- Absence of rewards discourage the members to put maximum effort in the society

Franchising

Refers to an agreement where one party (the franchisor) grants another party (the franchisee) the right to use its trade mark or trade name as well as certain business systems. The franchisee sells the franchisor's product or services, trades under the franchisor's trade mark or trade name and benefits from the franchisor's help and support.

In return, the franchisee usually pays an initial fee to the franchisor and then a percentage of the sales revenue. The franchisee owns the outlet they run. But the franchisor keeps control over how products are marketed and sold and how their business idea is used.

Well-known businesses that offer franchises of this kind include: Pizza, Bata, McDonalds, Nandos etc

Contractual Obligation

- A franchise agreement should be drafted and signed by both parties. This is a legal contract in which the franchisor gives the franchisee the right to use the business's trade mark.
- The franchisor is not allowed to open a similar business nearby
- It must specify the franchise fee as well as monthly royalty payment
- The agreement lays out details of what duties each party needs to perform
- It also state the duration of the franchise contract

Advantages to the franchisee

- Franchisee benefit from pre-opening support e.g site selection, design, financing
- Franchisor assist in training staff
- Franchisor advertise goods on behalf of the franchisee (saves money)
- Franchisee enters into an existing market which increases the chances of business success.
- Risk is reduced and is shared by the franchisor.
- Relationships with suppliers have already been established.

Disadvantages to the franchisee

- The franchisor might go out of business, or change the way they do things.
- The franchise agreement usually includes restrictions on how you run the business. You might not be able to make changes to suit your local market.
- The franchisee must pay initial fee and continuing fees to continue to use the trade mark
- The franchisee cannot sell goods from other suppliers
- Breach of contract can result in a penalty charge

Advantages to the franchisor

- It's a source of income to the franchisor (royalties received)
- Risk of the business is spread amoung different franchisees
- A network of outlets gives the business a far better chance of success

Disadvantages to the franchisor

- Other franchisees could give the brand a bad reputation.
- Franchisor must provide the franchisee with on-going support which then requires constant research
- Setting up a franchise requires a lot of money

Joint Ventures

It occurs when two or more businesses agree to work closely together on a particular project and create a separate business division to do so. Joint Venture is not a long term business relationship but a short term relationship based on a single business project. The business is not a separate legal entity. Once the joint venture has met it's goals, the entity ceases to exist. An example include Sonny and Ericson formed Sonny Ericson to produce handsets.

Joint Venture Agreement Should cover:

- The parties involved
- The objectives of the joint venture
- Contributions made by each party
- Dispute resolution procedure
- How the joint venture is terminated
- Non-disclosure agreements
- Day to day management

Advantages

- Provide companies with the opportunity to gain new capacity and expertise
- Allow companies to have access to new technology
- Access to greater resources, including specialised staff and technology
- Sharing of risk with a venture partner

Disadvantages

- The business failure of the partner would put the whole project at risk
- Styles of management and culture might be so different that the two teams do not blend well together
- The parties don't provide enough leadership and support in the early stages
- Errors and mistakes might lead to one blaming the other for mistakes

Strategic Alliances

A strategic alliance is an agreement between two companies that have decided to share resources to undertake a specific, mutually beneficial project. A strategic alliance is less involved and less permanent than a joint venture. The main purpose is to allow two organisations, individuals or other entities to work toward common or correlating goals. Unlike a joint venture, firms in a strategic alliance do not form a new entity to further their aims but collaborate while remaining apart and distinct.

Examples of Strategic Alliances

An agreement with a Local University- finance is provided by the business to allow new specialist training courses that will increase the supply of suitable staff for the firm

An agreement with a supplier- to join forces in order to design and produce components and materials that will be used in a new range of products.

An agreement with the competitor- to reduce the risk of entering a market that neither firm currently operates in.

Holding Companies

Refers to a business organisation that owns and controls a number of separate businesses, but does not unite them into one unified company. They are not a different legal form of business organisation, but they are an increasingly common way for business to be owned.

Family Owned Businesses

Refers to businesses that are actively owned and managed by at-least two members of the same family. Decision making is influenced by multiple generations of a family related by blood.

Strengths of family business

- **Stability-** family positions typically determines who leads the business and as a result, there is longevity in leadership. Family leaders stay usually stay in the positions for many years until a life event such as illness, retirement or death results in change
- **Commitment-** since the needs of the family are at stake, there is a greater sense of commitment and accountability. The family owners often show dedication in seeing the business grow, prosper and get passed on to future generations. This level of dedication is almost impossible to generate in non-family firms
- **Flexibility-** you won't hear "Sorry but that's not my job description". In a family business, family members are willing to wear several different hats and to take on tasks outside of their formal job on order to ensure the success of their company.
- **Long term outlook-** non family firms think about hitting goals this quarter, while family firms think years, and sometimes decades, ahead. This 'patience' and long term perspective allows for good strategy and decision making
- **Decreased costs-** family members working at family businesses are willing to contribute their own finance to ensure the long term success of the organisation. This could mean contributing capital or taking a pay cut. This advantage comes in handy during economic down turns, where it is necessary to personally suffer in order for the firm to survive.

Weakness of family businesses

- **Family conflicts-** deep seated, long lasting bitter fights and quarrels can affect every single person within the firm and can draw divisive lines. These conflicts are usually difficult to solve and result in a premature ending of the business.
- **Unstructured governance-** governance issues such as internal hierarchies and rules, as well as the ability to follow and adhere to corporate laws, tend to be taken less seriously at family businesses. There is little interest in setting clear and formal business practices and procedures and this situation can lead to inefficiencies
- **Tunnel vision-** there lack of outside opinions and diversity on how to operate the business. Family members are given jobs for which they lack the required skills, education and experience. This has got far- reaching effects on the success of the business.
- **Issues of fair remunerations can be 'a can of worms'-** the issue of wages and salaries can be a highly sensitive subject. The question is how the pie is going to be divided. Paying family members and dividing the profits amoung them can be a difficult affair. Many people usually feel that they are underpaid and family members too. We have family members who comments like this, 'uncle Jack sits around and gets more than I do'

Public Sector

Refers to all the businesses that are owned by the government on behalf of the public. They can be district councils or public corporations. They are established by an Act of Parliament. They are corporate bodies with a separate legal entity -they are managed by a Board appointed by the Minister -the Minister can be questioned by parliament over activities of the corporation

Advantages

- They provide important goods and services at reasonable prices
- Provide employment to the majority
- Implement government policies e.g charge low prices to reduce inflation
- They are a source of income to the government

Disadvantages

- They are inefficient and very wasteful due to the lack of profit motive
- They tend to provide poor quality goods and services due to the absence of stiff competition
- Lack of motivation amoung workers leads to inefficiency
- They suffer from excessing political interference

Public Sector and Private Sector contrasted

Usually the aim of public sector business is to provide services to the community. For example if the transport system is owned by the government and it is running a bus service to an interior village and it is not getting enough customers, the government might still continue it as its main objective is to provide service and not to maximise profits. Whereas private sectors business give priority to profits and may end the service if it does not find it profitable to run the service.

Secondly Public sector strives to create employment whereas Private sectors main aim is to become efficient and cut cost and in this process they might cut jobs.

Public sector business usually locates in regions where there is underdevelopment so as to create jobs and income for local population. Private sectors might not keep these things in consideration and will look for external economies of scale.

Privatisation involves selling state-owned assets to the private sector

Advantages of Privatisation

1. Financial Resources

The main advantage of privatization is to generate financial resources for the government in order to generate resources disinvestment of public sector enterprises.

2. Optimum Utilisation of Resources

It has been observed that the public sector has failed in the optimal use of national resources. The private sector may success in the optimum use of resources by maintaining efficiency.

3. Fostering Competition

Most of the public Enterprises enjoy the status of monopoly. It results in inefficiency and losses. Privatization creates a situation of competition for public Enterprises and they are forced to improve their efficiency.

4. Reduce Fiscal Burden

Privatization reduces the fiscal burden of the state by relieving it of the losses of the public enterprise and reducing the size of the bureaucracy.

5. Economic Democracy

Privatization helps to control government Monopoly. It helps to attract more resources from the private sector. It emerges economic democracy by private participation in Economics sphere.

6. Better Industrial Relations

Privatization may increase the number of workers and the common man who are shareholders. This could make the Enterprises subject to more public vigilance.

7. Reduction in Political Interferences

The process of privatization reduces political interferences in the public sector enterprises by giving more representation to the private sector in the management of Public Enterprises.

8. Reduction in Bureaucracy

Public Enterprises become synonyms bureaucracy. They can be made from bureaucracy by the process of privatization.

9. More Productivity

The private sector can improve productivity by maintaining efficiency in its operations.

Advantages and Disadvantages of Privatization

Disadvantages of Privatisation

1. Problem of Price

The government usually want to sell the least profitable Enterprises, those that the private sector is not willing to buy at a price acceptable to the government.

2. Opposition from Employees

Disinvestment tends to arise political opposition from employees who may lose their jobs, from politicians who fear short-term unemployment consequence of liquidation of cost reduction by private owners, from bureaucrats who stand to lose patronage and from those sections of the public who fear that national assets are being concerned by foreigners, the rich or a particular ethnic group.

3. Problem of Finance

In the developing countries under the developed capital market sometimes makes it difficult for the government to float shares and for individual buyers to finance the large purchase.

4. Improper Working

The main disadvantage of the private sector is that it has fallen much short of what this sector is capable of or what it has achieved in some other countries. The private sector is not interested in cost reduction and quality production.

5. Independence on Government

There has been an excessive Regulation and control of the private sector by the government. This has prevented and competition from becoming a generalized phenomenon of the economy.

6. High-Cost Economy

Another problem with the private sector is that its cost, in general, are large and the price of products are unduly high.

7. Concentration of Economic Power

The private sector emerges Monopoly and the concentration of economic power in the hands of few.The private sector operates on the principle of maximization of the Monopoly profits. It is harmful to consumers and society as a whole.

8. Bad Industrial Relations

An unfortunate aspect of the private sector is the recurrence of industrial disputes which

9. Widespread Sickness

The private sector Industries such as Textiles, engineering, Chemicals, iron, and steel and people are suffering from the problems of industrial sickness.

1.3 Size of business

The businesses are classified as small, medium and large businesses. Thus the businesses are compared using their sizes..

Importance of Business Size

Stakeholder	Importance
Government	-the government may want to give assistance to small firms -The government may want to charge different tax rates to different firms
Investors	-they may want to compare with its close competitors -they want to know how safe it is to invest in a given business
Customers	-customers may prefer to deal with large forms since they are the most reputable and are less likely to cease production in the near future
Workers	-workers also want to be employed in large firms since they are concerned about job security
Banks	They use business size to determine the maximum loan they can give to the business

1.3.1 Measurements of business size

In the world around us there are some businesses which are small and some are big. But how do we categorize these businesses as big or small. We can consider the following factors:

- **The number of employees:** Small business employ fewer workers than large businesses since they operate on a small scale. European Classifications of business into small , medium and large firms is shown in the table below

Business category	Number of employees
Small/ micro	10 or fewer
medium	11-50
Large	0ver 50

However the method is not suitable if one business uses capital intensive method of production. i.e business which use more machinery and technology may have few employees but they still might be big. Example Microsoft has less employees but still it the biggest business on earth.

- **The amount of capital invested:** Big business have large capital investments in form of properties and equipment owned. All these properties are bought capital employed. Capital employed refers to the total value of all long-term finance invested in the business. However this method is not appropriate when one firm uses a labour intensive method. A business which might not use a lot of investment in machinery and investment in properties may still be big. Take the example of software companies and consultancy firms like McKenzie & Co.
- **The sales turnover:** Bid firms have a very high sale turnover than small firms. They have a good reputation, they have more outlets and they can afford to advertise their products. However a business may be going through a bad phase and may not have huge sales does it make the business small? On the other hand large sales turnover may be seen for a small business that sells small but high value items e.g an artists may sell CDs for a dollar each but to over a million fans
- **Market capitalisation:** refers to the total value of shares issued by the company. A higher market capitalisation applies to big firms.

Market capitalisation= current share price x total number of shares issued

However this method is appropriate when one firm is not operating on the stock exchange. Stock exchange markets are very volatile and share prices change every day does it alter the size of the business every day?

- **Market share:** Big firm have a higher market share than small firms. Market share is usually measured as a percentage. Market share refers to the sales of a business as a proportion of total market sales.

  Market share = (total sales of a business/ total sales in the market) X 100

However a business may not be a market leader but still may be huge whereas if the market is itself very small, a major market share won't make a business big.

NB: One cannot use measure business size by its profits because profit depends on too many factors not just the size of the business

Conclusion: So while deciding the size of business as big or small a combination of factors needs to be considered.

What is a small business?

A small business is a business that is independently owned and operated, with a small number of employees and relatively low volume of sales.

Different countries have slightly different description for a small business.

For example, in United States a business have less than 100 employees is considered as a ‘small business’, whereas it is under 50 employees to qualify as a ‘small business’ in European Union.

In Australia, a small business is defined as 1-19 employees.

Small businesses are normally privately owned corporations, partnerships, or sole proprietorships.

Apart from number of employees other criteria for classifying a business as ‘small’ are:

- Amount of capital employed
- Annual Sales turnover
- Value of assets

Importance of small business in the economy

As we all know that small firms are important for the economy.

- **Create jobs:** Small businesses employes majority of the workforce in any country.
- **They can grow to become big:** Every business starts small. These small business today will become bog firms tomorrow
- **Small businesses are flexible and respond easily to changes in demand:** they are owned by one or two individuals hence they are more flexible and adaptable in day-to-day operations
- **Small firms often cater to local demands:** local or regular customers can place their individual orders. Small firms provide niche products and services which a larger firm might overlook.
- **In difficult economic times, such as a recession,** small business can be an important source of providing employment.
- **Improves efficiency in the economy**: Small firms provide competition to larger firms through providing customised goods and services.
- **Give informal credit:** they offer credit facilities to well-known customers
- **Boost economic growth:** they increase the production of goods and services in the economy. Thus the Gross Domestic Product (GDP)of an economy will increase.

Disadvantages of small firms

- **Lack of capital:** they don’t have enough capital to stock enough goods
- **They sell inferior goods:** they operate usually in the rural communities where they sell poor quality goods and sometimes expired food items
- **Managed and run by employees who are less skilled:** small businesses lack the resources to hire skilled and experienced personnel

- **Risk of failure is high:** customers are unwilling to buy from small firms and the skilled employees are reluctant to join small firms
- **Difficult for them to raise finance:** small business often struggle to get loans from financial institutions and this will stifle business growth

Small businesses face the following problems

- Under capitalisation
- Poor debt management
- Lack of managerial skills of the owner
- Cannot retain experienced staff
- Usually find it difficult to attract skilled staff
- Poor stock management

How can small business survive?

Small firms survive by being different (product differentiation). They can survive by

- Segmenting the market by income. They can target niche market segments of high income customers, position their product as a 'premium brand' at a high 'premium price' eg Morgan sports cars
- Small firms have the advantage of being able to respond quickly to change - they do not have the bureaucratic procedures often a feature of large firms where decisions are made only after endless meetings. This means they can be quick to exploit new market trends.
- The Internet also allows small firms direct access to consumers, by passing intermediaries. The web gives small firms the opportunity of international marketing.
- Small independent firms can join together to form a buying group to negotiate discounts on joint orders.
- Small firms can survive by selecting a premium niche and offering an exclusive brand' that exactly meets the customer requirements of their target segment. They will need to be totally customer orientated.
- Keep well documentation for accounts receivable financing when unexpected expenses arrive.

Business and Economic structure

Economic System refers to the way a country decides what to produce, how to produce and for whom to produce. There are three groups which make up an economic system, and these are individuals, firms and the government. There are also three types of economic systems and these are:

i. Free market economy/ Capitalist/ laissez faire
ii. Command/ Planned economy
iii. Mixed economy

Free Market Economy

Refers to an economy where economic resources are owned largely by the private sector with very little state intervention. The central thought of this system is that it should be the producers and consumers who decide how to utilise the resources. Thus, the market forces decide what to produce, how much to produce and for whom to produce.

Features

- All resources are privately owned by people and firms.
- Profit is the main motive of all businesses.
- There is no government interference in the business activities.
- Producers are free to produce what they want, how much they want and for whom they want to produce.
- Consumers are free to choose.
- Prices are decided by the Price mechanism i.e. the demand and supply of the good/service.

Advantages

- **Free market responds quickly to the people's wants**: Thus, firms will produce what people want because it is more profitable whereas anything which is not demanded will be taken out of production.
- **Wide Variety of goods and services:** There will be wide variety of goods and services available in the market to suit everybody's taste.
- **Efficient use of resources encouraged:** Profit being the sole motive, will drive the firms to produce goods and services at lower cost and more efficiently. This will lead to firms using latest technology to produce at lower costs.
- **There is consumer sovereignty:** that is, a market economy allocates scarce resources according to consumers' wants. "The consumer is king". P Samuelson

Disadvantages

- **Unemployment:** Businesses in the market economy will only employ those factors of production which will be profitable and thus we may find a lot of unemployment as more machines and less labour will be used to cut cost.
- **Certain goods and services may not be provided:** There may be certain goods which might not be provided for by the Market economy. Those which people might want to use but don't want to pay may not be available because the firms may not find it profitable to produce. For example, Public goods, such as, street lighting.
- **Consumption of harmful goods may be encouraged:** Free market economy might find it profitable to provide goods which are in demand and ignore the fact that they might be harmful for the society.
- **Ignore Social cost:** In the desire to maximise profits businesses might not consider the social effects of their actions. There is a lot of environmental degradation.

The centrally planned economy

-an economy where the economic resources are owned, planned and controlled by the state.

Centrally planned economies are characterised by:

a) Government ownership of the means of production.
b) Government provision of goods and services.
c) Production is for use rather than for profits.
d) Non-price rationing mechanisms, that is, goods are distributed according to need and not ability to pay.
e) Government control and planning is through a central planning board credited to control coordinate and plan all economic activities.

Advantages

a) It is sometimes suggested that centrally planned economies are likely to have greater equality in the distribution of income and wealth. The government will provide grants to the need e.g the old age pensions, unemployment benefits

b) There is provision of public and merit goods. Public goods are directly produced by the government e.g defence, street lighting. There government will also provide subsidies to firms that produce merit goods e.g education and health

c) It is claimed that centrally planned economies are likely to be far more stable than market economies. Prices are kept under control and thus everybody can afford to consume goods and service.

d) The production and consumption of demerit goods which impose relatively large social costs on society can be eliminated or prevented. The government use laws to prevent the production of demerit goods like tobacco and alcohol.

Disadvantages

a) There is nobody who has power over the government such that even if it fails, it is answerable to nobody.

b) Where there are no incentives, people are not motivated to work.

c) Without competition producers will be inefficient and produce poor quality goods. As result, resources will be utilized inefficiently.

d) Complications in planning for the whole economy arise, that is, planning is a difficult task and there are too many stages of decision making - bureaucracy or red tape.

e)Poor quality goods due to lack of stiff completion.

Mixed Economy

A **mixed economy** is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately-owned and state-owned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. This system overcomes the disadvantages of both the market and planned economic systems.

Features

- Resources are owned both by the government as well as private individuals. i.e. co-existence of both public sector and private sector.
- Market forces prevail but are closely monitored by the government.

Advantages

- **Producers and consumer have sovereignty** to choose what to produce and what to consume but production and consumption of harmful goods and services may be stopped by the government.
- **Social cost of business activities may be reduced** by carrying out cost-benefit analysis by the government.
- As compared to Market economy, a mixed economy **may have less income inequality** due to the role played by the government.
- **Monopolies** may be existing but **under close supervision** of the government.

Business Growth

Refers to an increase in the scale of operations, expanding production and increasing the sales and profit of a firm

Reasons why a business want to grow:

- **To increase profits-** the chances of business success rises when the business grows both internally and externally
- **To reduce risk-** business growth where the business introduces new products that are totally different from the existing ones lowers the risk of failure
- **To dominate the market-** a business which is a market leader has the power to set prices
- **To reduce costs-** increasing the output leads to the enjoyment of economies of scale. Economies of scale refers to the cost saving advantages enjoyed by a business as a result of large scale operations.
- **To fulfil the objectives of the management-** it can be a planned move by the management to spread the wings of its business into new markets.

Types of Business Growth

i. **Internal Growth (AS-LEVEL)**
ii. **External Growth (A-LEVEL)**

Internal Growth

Expanding the business from within by using its own internal resources. It involves expanding the business through increasing the number of employees, increasing production of existing products, opening new outlets and increasing quantities of goods sold. It is also referred to as **organic growth**. An example of internal growth is where a retail business open more shops in towns and cities where it previously had none.

Advantages of internal/organic growth

- It can be financed through internal funds e.g returned profits
- Less risky than taking over other businesses
- Allows business to grow at a more sensible rate

- Builds on a business' strengths

Disadvantages of internal/organic growth

- Slow growth and the shareholders may prefer more rapid growth
- Growth achieved may be dependent on the growth of the overall market
- Harder to build market share if the business is already a market leader
- The business can be affected by liquidity problems (cash problems)

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External Growth

Refers to growth achieved through integration i.e mergers and takeovers. Integration can occur between two firms in the same or different industries. Integration leads to rapid expansion which might be essential in a competitive and expanding market.

TYPES OF INTEGRATION/ MERGERS

a)Horizontal Integration: it occurs when two firms which are in exactly the same line of business and at the same stage of production process joined together. It is the joining of competitor or rival firms ie firms selling the same types of goods e.g OK supermarket and TM supermarket

Advantages

- It reduces the risk of failure
- To enjoy economies of scale
- Eliminates competition
- To have more power over suppliers
- Easy to manage as compared to conglomerate mergers
- To strengthen financial base

Disadvantages

- Managerial problems will set in when the business become very big
- Previous relations with suppliers or distributors of one firm might suffer
- Horizontal integration leads to monopoly and higher prices

b).Vertical Integration

It occurs when two firms in the same industry but at different stages of the production process join together to form one business. For instance, a firm in a primary sector joins with another in the same industry but in the secondary sector. Vertical integration can be forward or backward

i)Forward Vertical Integration: it occurs when a business joins with another which is in the same industry but at a next stage in the production process ie joining with a customer of existing business. A car manufacturer joining with a retailer (showrooms) Thus a firm in the secondary sector joining with another firm in the tertiary sector.

Advantages

- Greater control over promotion and pricing of the products
- Eliminate the profit margin expected by the firm in the next stage of the production process
- Increases the capital base

Disadvantages

- Lack of experience in this sector of the industry
- Lack of control over the suppliers
- Management problems may set in

ii)Backward Vertical Integration: occurs when a business joins with another business which is operating at a previous stage of a production process. The business joins with another which used to be the supplier e.g retailer merging with the manufacturer. This is a movement from tertiary sector to a secondary sector

Advantages

- Give greater control over the quality, price and delivery times of the supplier
- Eliminates the profit margin demanded by another supplier
- Increases profitability of the business

Disadvantages

- Lack of experiences of managing a supplying company
- Supplying business may become complacent due to having a guaranteed customer
- Lack of control over the customers

c).Conglomerate/ Diversification Mergers: this integration is between firms in completely different lines of business or industries. A firm will be trying to explore different opportunities to minimise or diversify risk. Eg a car manufacturer joining with a hotel business.

Advantages

- Reduces risk of losses
- Profit margins can be increased due to other businesses
- Market share can be increased

Disadvantages

- Risk of failure might increase due to lack of experience in the new market
- Entry problems might occur

- If the business is new then it's difficult to lower down the prices as compared to established firms

REASONS FOR MERGERS

- **Expectations of higher profits:** synergies usually increases the profitability of the new business formed. Synergy- literally means that the whole is greater than the sum of individual parts. It means that the two businesses when they merge, their profitability, efficiency and effectiveness would increase to more than the combined profitability of the separate businesses
- **To reduce competition**: the new business formed won't waste a lot of money on promotion and other adverting programmes
- **Easy and quick way to expand**: businesses can easily increase their market share in a short period of time
- **To enter international markets:** local business can join with foreign business so that it will be easy for local to penetrate foreign ground.
- **Asset striping:** to get access to an asset of a rival firm at lower price. The asset stripper aims to buy another company at a market price lower than the firm's total asset price. After grabbing the asset, the business will then sell-off profitable parts of the business and shuts down the unprofitable parts of business
- **To comply with the law:** legislations usually in the financial sector may require business to join in order to comply with the minimum capital requirements

NB de-mergers occurs when a business sell off a significant part of its existing operations. A company choose to break-up to raise cash to invest into the remaining sector. Another reason could be to concentrate its efforts on a narrow range of activities. Last but not least, to avoid costs and inefficiencies when a firm is very large.

Take overs

Refers to the assumption of control of another (usually smaller) firm through purchase of 51% or more of its voting shares or stocks. It occurs usually on public limited companies because their shares are traded openly and anyone can buy them. When a takeover is complete, the company that has been bought loses its identity and becomes a part of the buying company. The buying company is known as the acquirer (bidder) and the company which is bought is known as the target

Why some business stay small?

- **Type of industry the business is operating:-** in some industries it is not viable for the firms to expand since they will be offering personal services e.g hair dressing, plumber, car repairs etc If they were to grow too large, they would find it difficult to offer the close and personal service demanded by customers
- **Market size:-** the number of customer will determine the size of the firms. If the number of customers is small, the businesses in that industry will remain small.
- **Owner's objectives:** some owners prefer to keep their firm small. Owners sometimes wish to avoid the stress and worry of running a large firm.

1.6 External influences on business activity

External environment factors

PESTEL analysis stands for "Political, Economic, Social, and Technological, Environmental and Legal analysis". It is a part of the external analysis when conducting a strategic analysis or doing market research and gives a certain overview of the different macro-environmental factors that the company has to take into consideration.

1.6.1 Political and legal

A range of political decisions can help to determine the business environment. For example, many countries operate minimum wages which can result in businesses paying increased costs for labour. Additionally, businesses face a variety of laws which constrain many of their activities including the emission of noxious gases and contributions to employees' pensions

How government controls business activity?

Governments control the business activities is many ways both direct and indirect. We have already covered government's economic policies. However, government can control business activities in a more direct way. These are as follows:

a)Controlling what to produce

In order to safeguard the interest of the community government may ban or limit the production of certain goods and services. For example, selling of guns, explosive and dangerous drugs are illegal in many countries. Moreover, Goods which harm the environment are also totally banned or strictly controlled in many countries, e.g. aerosol cans that use CFCs which has been banned because of their damaging effect on the ozone layer.

b)PROTECTION OF WORKERS

DISMISSAL

- Occurs when an individual is fired from a job due to indiscipline or insubordination
- An employee is dismissed totally from the job if the employer feels that the employee's behaviour is unreasonable

- However the reason for dismissal should be fair
- When the employee is dismissed due to his/her own fault then no financial benefit is given

REASONS FOR DISMISSAL

- In ability to do the job
- Continuous negative attitude towards work
- Deliberate destruction of an employer's property
- Bullying of other employees

UNFAIR DISMISSAL

- Occurs when a female member of staff is dismissed for falling pregnant
- Occurs when a worker is dismissed on a discriminatory reason e.g race, gender, religion or political affiliation
- Employee being fired for being a member of a certain trade union
- When no warnings were given before hand

UNFAIR DISMISSAL AND THE LAW

- If a worker is unfairly dismissed, he/she can report to the Employment Tribunal, Labour Court or Trade Union etc
- The business can be asked to give the person his/her old job and to pay some financial damages to the victim

<u>REDUNDANCY</u>

- Occurs when the employer has to lay off employees in-order to save costs
- When a job is no longer required, thus the person doing that job becomes unnecessary through no fault from his/her side
- Employees made redundant will be given compensation for the loss of income
- When firms are retrenching workers, they usually use the 'Last-in-First-out (LIFO) method

REASONS FOR REDUCING SIZE OF THE WORKFORCE

- To save money by employing less workers
- When the product made by employees is no longer required i.e decrease in demand for the product
- When the business is now using machines (automation)
- In the mining sector when minerals are exhausted (finished)

<u>UNFAIR DISCRIMINATION</u>

- The practice of unfairly treating a person or group of people differently from other people
- In the work place it occur when workers are discriminated on the basis of gender, race, political orientation, religion, culture, language etc

UNFAIR DISCRIMINATION AND THE LAW

a) Gender Discrimination Act- people of different genders must have equal opportunities
b) Race Relations Act-people of all races and religions must have equal opportunities
c) Disability Discrimination Act-it must be made suitable for disabled people to work in businesses
d) Equal Opportunities Policy-that is what everything is all about

<u>HEALTH AND SAFETY AT WORK</u>

- Laws protect workers from dangerous machinery
- The business must provide safety equipment and clothing eg overalls, safety shoes, helmet, gloves etc

- The business should ensure that there is adequate ventilation (fresh air to the room) and lighting
- Should provide hygienic conditions and washing facilities
- Provide breaks in the work timetable

WAGE PROTECTION

- The employee must be aware of how frequently wages are paid
- The employee must be aware of what deductions will be made from his or her wage e.g income tax, pension
- Must be aware of the basic salary
- The business has got the responsibility to the employees fair wages
- The government usually set a minimum wage to protect workers from unscrupulous employers.

N.B A **minimum wage** is the lowest remuneration that employers may legally **pay** to workers. Equivalently, it is the price floor below which workers may not sell their labour services

ADVANTAGES OF A MINIMUM WAGE

- Prevents strong employers from exploiting unskilled workers who could not easily find work
- Encourages employers to train unskilled employees to increase efficiency
- Encourage more people to look for jobs (it reduces voluntary unemployment)
- Low paid workers can now spend more . i.e improvement in their standard of living

DISADVANTAGES OF A MINIMUM WAGE

- Increases costs and prices of finished goods
- Employers who cannot afford these wages might make employees jobless
- Higher paid workers will demand higher salaries so that the previous salary gap is maintained.

c)Consumer Protection legislations

Most of the countries have consumer protection laws aimed at making sure that businesses act fairly towards their consumers: A few examples are

Weight and Measures Act: goods sold should not be underweight. Standard weighting equipment should be used to measure goods.

Trade Description Act: deliberately giving misleading impression about the product is illegal.

Consumer Credit Act: According to this act consumers should be given a copy of the credit agreement and should be aware of the interest rates, length of loan while taking a loan.

Sale of Goods Act: It is illegal to sell products with serious flaws or problems and goods sold should conform to the description provided.

d)The law and business competition

Restrictive practices done by firms

- Refusal to supply a retailer if they do not agree to charge the prices determined by the manufacturer
- Full-line-forcing- is when a major producer forces a retailer to stock the whole range of products from the manufacturer
- Market sharing agreements and price fixing

- Predatory pricing-when a firm tries to block new competitors by charging very low prices for certain goods

Government attempt to encourage and promote competition between businesses by passing laws that:

- Investigate and control monopolies through anti-merger policies
- Limit or outlaw uncompetitive practices between firms
- control the entry of imports
- promote inventions through enacting patent laws and copyrights

Benefits of free and fair competition

- Wider choice of goods and services than when just one business dominates a market
- Lower prices
- Quality goods

e)Law and the environment

Social Audit

-a report on the impact a business has on society. This can cover pollution levels, health and safety record, sources of supplies, customer satisfaction and contribution to the society.

1.6.2 Economic factors

These include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and the extent to which a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy

Government macroeconomic objectives:

- Economic growth
- low and stable inflation
- stable exchange rates
- transfer of wealth
- low unemployment

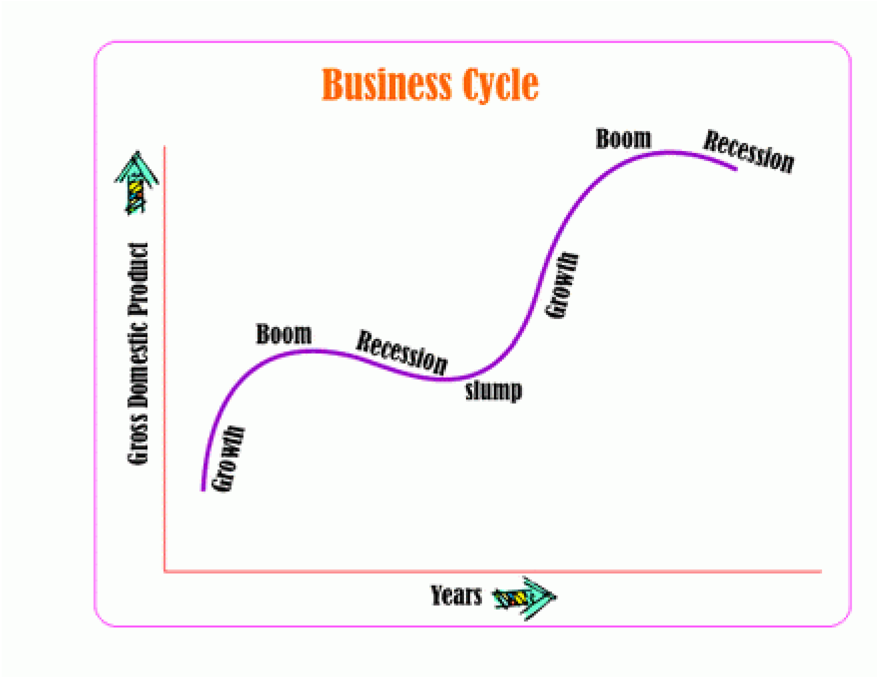
a)Economic Growth

-refers to the increase in the amount of goods and services produced per head of the population over a period of time. Or an increase in the capacity of an economy to produce goods and services compared from one period of time to another. The level of economic activity is determined using business cycles

Gross Domestic Product (GDP)- refers to the total value of goods and services produced within an economy in a year. The economy is said to grow when its GDP is increasing. Problems arise when a country's GDP fall.

Business Cycle

The **business cycle** or **economic cycle** refers to the fluctuations of economic activity about its long term growth trend. The cycle involves shifts over time between periods of relatively rapid growth of output (recovery and prosperity), and periods of relative stagnation or decline (contraction or recession). These fluctuations are often measured using the real gross domestic product.



There are four main stages in a trade cycle or business cycle.

Growth	A period where the real GDP start to increase again from a slump. it is also known as the recovery stage GDP is rising Unemployment is falling Business are experiencing rising profits 'Feel good' factor among the people as their incomes are rising.
Boom	Refers to a period of very fast economic growth with rising incomes and profits Results from too much spending. Economy experiences rapid inflation Factors of production become expensive
Recession	refers to a period of six months or more of declining real GDP. it is also known as the downturn which results from too little spending. GDP is falling Demand in the economy will fall leading to closure of firms and high unemployment Business cannot expand since they will be making losses
Slump	a very serious and prolonged downturn can lead to a slump where real GDP falls substantially and the house and asset prices falls High level of unemployment. Business will rapidly close down creating serious consequences for the economy.

Benefits and Problems of high economic growth rate to an economy.

Advantages

- It increases levels of tax revenue which the government can spend on public services
- Increases employment opportunities for the people

- Businesses experience higher sales and profits
- Improvement in the standards of living (more goods and services for consumption)

Disadvantages

- It leads to the depletion of natural resources
- Can lead to resource shortages
- Decrease in current consumption

Polices used by the government to promote economic growth

i. Lowering interest rate to promote investments
ii. Increasing government expenditure to boost aggregate demand in the economy
iii. Reducing taxation
iv. Providing subsidies to firms

b)Low and Stable Inflation

Inflation is defined as the persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money caused by an increase the supply of domestic currency and credit beyond the proportion of available goods and services. Over the long term, inflation erodes the purchasing power of your income and wealth. This means that, as you save and invest, your accumulated wealth buys less and less. High rate of inflation leads to lower purchasing power for consumers resulting in lower demand for goods and services. Moreover, a higher inflation rate will make business uncompetitive in the international market leading to lower sales for the business.

How to measure Inflation

- Every month the Government surveys prices and generates the **current consumer price index** (CPI)
- This allows the government to compare current figures with past figures
- Consumer basket is established (a sample of goods which are usually bought by people and this goods have a direct impact on the people's standards of living)
- Weight are assigned to the goods to reflect the importance of each good in the consumer basket
- A base year is also established. This a year where there is low/no inflation. The CPI in the base year is usually 100
- If the current CPI is 120 then the inflation rate will be 20% in comparison with the inflation rate which prevailed in the base year.

Formula:

Inflation rate = $(CPI_1 - CPI_0)/CPI_0 \times 100$

Causes of Inflation

Demand-Pull Inflation: This inflation occurs when the government / consumers / business try to purchase more output than the economy is capable of producing. Thus inflation results when the macro economy has too much demand for available production.

Major drivers of demand pull inflation

- Unnecessary printing of more note and coins by the central bank
- Excessive government expenditure
- Supply shortages

Policies to designed to solve demand –pull inflation

- Reduce government expenditure and increase taxation (fiscal policy)
- The central bank must raise interest rates and reduce the supply of notes and coins in the economy (monetary policy)
- The government to work on supply bottlenecks

Reducing demand –pull inflation and the impact on businesses

- High interest rates will discourage investments
- Aggregate demand will fall and the firms may decide to relocate to other countries
- Businesses may begin to offer less expensive goods

Cost-Push Inflation: Cost-push inflation is inflation due to decreases in supply, primarily due to increases in production cost

Major drivers of cost-push inflation

- Increase in wages
- Increase in the world price of imported raw materials
- Lower exchange rate pushing up prices of imported raw materials
- Increase in the cost of production

Policies to designed to solve cost-push inflation

- High exchange rate policy (revaluation of domestic currency)
- Discourage high wages by limiting trade union powers
- Come up with cheaper local resources
- Reduce indirect taxation
- Provide subsidies to firms

Reducing cost -push inflation and the impact on businesses

- High interest rates will discourage foreign direct investments
- High exchange rate will make exports less competitive on the world markets
- Workers become less productive when the wages are reduced

Business strategies in period of inflation

- Try to reduce labour costs
- Avoid excessive borrowing
- Sale goods on cash basis
- Reduce the credit period to customers
- Avoid unnecessary expansion programs

Deflation

Refers to a fall in the average or general price level of goods and services. The purchasing power of money will be increasing. Thus one dollar will be buying more goods today than it did yesterday. Deflation occurs when the inflation rate falls below 0%.This should not be confused with disinflation, a slowdown in the inflation rate. Inflation reduces the real value of money over time.

Business strategies in period of inflation

- Sale goods on credit basis
- Borrow more money for expansion
- Increase the repayment period to credit customers

c)Unemployment

Refers to a situation where people who are able and willing to work cannot find a job. It only caters for people in the working population who are willing and able to work.

Formular:

Unemployment rate = unemployed / labour force x 100/1

Labour force/ economically active group = 15 years to 64 years

There are a number of types of unemployment:

- Structural unemployment
- Cyclical unemployment
- Frictional unemployment

Structural unemployment

- Occurs when the economy changes and industries die out e.g important industries like the mining and secondary industries
- It also due to changes in the consumer tastes and expenditure patterns
- Structural unemployment can affect businesses in the local area

Solutions

- Training is needed to give the unemployed workers new skills
- The government to invest in declining industries

Cyclical unemployment

- Caused by the business cycle
- Unemployment which result from low demand for goods and services in the economy during a period of slow growth or recession
- Cyclical unemployment can lead to a decrease in sales meaning businesses need to look for new markets

Solutions

- Increase government expenditure and reduce taxation (fiscal policy)
- Increase the supply of notes and coins and reduce interest rates (monetary policy)
- Maintain a competitive exchange rate so that the demand for exports does not fall (exchange rate policy)

Frictional unemployment

- Caused when people are temporarily out of work as they are changing jobs. What it means is that the jobs are available somewhere in the country but it takes time for unemployed to for the unemployed to apply for the jobs, to attend interviews and to relocated to those areas. Frictional unemployment is not a problematic type of unemployment .

Solutions

- Improve the flow of information by setting up job centres or employment agencies
- Reduce the unemployment benefits

Effects of high unemployment

- Decrease in the output of goods and services in the economy
- Lower living standards for the unemployed
- Increase in social problems e.g crime and other social ills
- The government has to give the jobless people unemployment benefits
- The skills of the unemployed people become increasingly out dated

Inflation and Unemployment trade off

Reducing demand pull inflation will lead to cyclical unemployment and reducing cyclical unemployment will lead to demand pull inflation.

Stagflation

Refers to a period where there is a high rate of inflation and high rate of unemployment.

d)Stable Exchange Rates

Exchange rate refers to the value of a nation's currency in terms of another currency i.e. £1=$2. An exchange rate is set by demand and supply of a currency in a free market economy. In a command economy the exchange rate is determined by the government through its central bank.

Freely floating exchange rate

Refers to the exchange rate determined by the forces of demand and supply. Equilibrium exchange rate is determined where the demand for the currency is equal to the supply of the currency.

Factor determining the supply of foreign currency

- Foreign investors starting businesses in Zimbabwe
- Foreign tourists spending money in the country
- Foreign buyers of domestic goods and services (exports)
- foreign governments repaying loans obtained from Zimbabwe

Factor determining the demand for foreign currency

- Domestic firms or individuals buying foreign goods and services (imports)
- Domestic population travelling abroad
- Domestic people investing abroad
- Domestic government repaying loans abroad

Exchange rate fluctuations

The exchange rate can move up or down due to the changes in the demand or supply conditions. Thus the exchange rate can appreciate or depreciate.

Exchange rate appreciation: refers to a rise in the external value of currency measured by its exchange rate against other currencies. E.g from £1=$2 to £1=$4. The pound sterling had appreciated in value while the Zim dollar had depreciated in value

EFFECTS

- Imported raw materials becomes cheaper
- Demand may shift from local goods to foreign produced goods
- Can lead to balance of payments (BOP) surplus (exports become expensive and imports cheaper)

Exchange rate depreciation: refers to a fall in the external value of currency measured by its exchange rate against other currencies. E.g from £3=$2 to £3=$1. The pound sterling had depreciated in value while the Zim dollar had appreciated in value

EFFECTS

- Imports become cheaper and exports dearer
- Can lead to BOP deficit. A situation where imports exceeds exports
- External debt of the country will increase
- Local goods becomes less competitive in the domestic economy

Exchange rates create uncertainty because:

- If a deal is agreed in foreign currency firms may receive more or less than expected due to changes in exchange rates
- Changes to exchange rates can affect prices and sales overseas
- Competitors can respond in unexpected ways to exchange rate changes

Changes in the UK's interest rates will lead to changes in the exchange value of the pound.

- If interest rates rise the value of the pound will rise so the pound will now buy more US dollars, Japanese Yen, Euros etc.
- If interest rates fall the value of the pound will fall so the pound will now buy less US dollars, Japanese Yen, Euros etc

- If interest rates are higher than rates in other countries the UK will become more of an investment opportunity.

Investors will exchange their currency into sterling to invest it in UK banks to earn high rates of interest on their savings.

This will increase the demand for Sterling which will appreciate in value

If interest rates are lower than rates in other countries the UK will become less of an investment opportunity.

- Investors will exchange their currency from sterling to invest it in Foreign banks.
- They will withdraw £ in the UK to buy foreign currency.
- This means an increased supply of sterling will be available in the world's currency market causing the £ to depreciate

Balance of Payments Equilibrium

-the government must also aim to have balance of payments equilibrium. i.e exports should be equal to imports. Balance of Payments is a national account which records the movement of goods and services into and out of the country. It has two main accounts:

i. Current account: records the movement of goods and services between a country and all its trading partners
ii. Capital account: records the outflows and inflows of financial capital

BOP deficit

-occurs when the imports are greater than exports

Effects of a BOP deficit

- Depreciation of domestic currency
- Depletion of foreign currency reserves
- Foreign investors will be reluctant to invest in the country
- Rising external debt

Ways of correcting a BOP deficit

Tariffs: tax levied on imported goods to increase their prices and reduce their demand in the domestic economy. They are also known as customs duties

Quotas: physical limit on the quantity of goods to be imported

Embargo: total ban of the imports

Devaluation: a deliberate attempt by the government to reduce the external value of domestic currency

Subsidising local firms: this will make the production of domestically produced goods cheaper.

Macro Economic Policies

To achieve its objects the government will use macro economic policies. Macro economic policies are defined as the set of government rules and regulations to control or stimulate the aggregate indicators of an **economy.** These policies are designed to work on the whole economy

Fiscal Policy

Fiscal policy is the use of government spending and taxation to influence the economy. When the government decides on the goods and services it purchases, the transfer payments it distributes, or the taxes it collects, it is engaging in fiscal policy. The primary economic impact of any change in the government budget is felt by particular groups i.e A tax cut for families with children, for example, raises their disposable income. Discussions of fiscal policy, however, generally focus on the effect of changes in the government budget on the overall economy. The term "fiscal policy" is usually used to describe the effect on the aggregate economy of the overall levels of spending and taxation, and more particularly, the gap between them.

Government Budget/ National Budget = Tax revenue – Government spending

Government budget deficit- arise when the value of government spending exceeds revenue from taxation

Government budget surplus occurs when taxation revenue exceeds the value of government spending

Types of Fiscal Policy

Tight or Contractionary Fiscal Policy

Fiscal policy is said to be tight or contractionary when revenue is higher than spending (i.e., the government budget is in surplus) . The government will deliberately reduce its expenditure and raise taxation. The overall result will be a reduction in the level of aggregate demand so as to curb inflationary pressure and BOP deficits. This policy is usually used by the government when the economy is booming and is in the danger of overheating

Loose or Expansionary Fiscal Policy

loose or expansionary occurs when spending is higher than revenue (i.e., the budget is in deficit). The government will deliberately increase its expenditure and reduce taxation levels. Aggregate demand will increase hence national output and employment will increase. This policy is usually used by the government when the economy is in a recession

Impact of Fiscal Policy on businesses

- Direct taxes will affect consumers’ disposable income. Disposable income refers to income after tax
- Direct taxes also affect company profits
- Indirect taxes will increase retail prices of goods and the impact on either consumers or businesses will depend on the elasticity demand for each product
- Reduced government spending will affect businesses that provide goods and services directly to the government i.e firms that used to benefit from government tenders

Monetary Policy

Monetary policy is the process by which the monetary authority of a country controls the level of interest rates and the supply of money with the purpose of promoting stable employment, prices, and economic growth.

Type of Monetary Policy

Loose or Expansionary Monetary Policy

It occurs the government through its central bank increases the supply of notes and coins and lower the level of interest rate to increase the level of aggregate demand in the economy. An increase in money supply will decrease interest rates and investment is promoted. A rise in investments will increase aggregate demand in the economy hence national output and employment will increase. Expansionary monetary policy is used when the economy is in a recession

Tight or Contractionary Monetary Policy

It occurs the government through its central bank decreases the supply of notes and coins and raises the level of interest rate to decrease the level of aggregate demand in the economy. A decrease in money supply will increase interest rates and investment is discouraged. A fall in investments will decrease aggregate demand in the economy hence inflationary pressure is reduced. Tight monetary policy is used in a boom where the inflation rate is very high.

Impact of Monetary Policy on Businesses

- Interest rates affect the cost of borrowing to the businesses which then affect its profitability
- Interest rates affects consumer borrowing and this may lead to fall in demand for goods and services
- Changes in interest rates may affect the exchange rate which then affect the ability of firms to buy raw materials from outside.

Exchange Rate Policy

The government can also try to influence the economy by adjusting the external value of domestic currency. The government can choose to fix the exchange rate or to allow it to float (or to be determined by demand and supply factors) or to join a monetary union where member countries uses a common currency

Free Floating Exchange Rate

The exchange rate is determined by the operation of the price mechanism. The interaction of the demand for and supply of foreign currency will determine the equilibrium exchange rate.

Advantages

- Automatic correction of BOP disequilibrium.
- Reduces need for the foreign currency reserves
- May reduce speculation as the exchange rate move freely up or down

Disadvantages

- Fluctuating prices of imported raw materials and components, making costing of products difficult
- Fluctuations in export prices and overseas competitiveness, which lead to unstable levels of demand
- Uncertain over profits to be earned from trading abroad or from investing abroad.

Fixed Exchange Rate
An exchange rate that is determined by the government. The government will set an exchange rate then make an effort to support it to prevent the exchange rate from moving up or down.

Advantages
- Stable exchange rate provide a basis for business expansion
- Stability encourages increased trade

Disadvantages
- Large reserves of foreign currency are required to support the exchange rate
- There is no auto-correction of BOP deficit

Managed Float or Dirt Float Exchange Rate System
Refers to a situation where the exchange rate is allowed to fluctuate between the set exchange rate bands. Thus it is partly fixed and partly determined by market forces.

Joining a Common Currency or Currency Zone
An economy may join a monetary union which uses common currency

Advantages
- Planning is made easy since one currency is used
- No extra cost of converting domestic currency into foreign currency
- Comparison of prices from different countries becomes easy

Disadvantages
- Conversion costs from one currency to the common currency could be high in terms of dual pricing and the changeover of notes and coins
- Local central bank will lose its independence to control money supply

Impact on the Economic Environment

Positive effects
1) Job creation
2) Boost to the local economy –development of infrastructure e.g. roads, water, sewerage, communications, buildings etc
3) Increased tax income for the government
4) Increased income for the local people
5) Attraction of other firms into the area
6) Greater social cohesion

Negative effects
1) Expansion at the expense of rivals – unfair competition
2) There will be pressure on resources which may push up costs e.g. rent, rates, wages etc
3) Increase in external costs e.g. congestion, pollution and noise

Technological Environment
The technical environment in which business operates is subject to change and the successful organization is the one that is willing and able to adapt to these environmental changes. Technical

breakthroughs have a powerful effect on business. It is the combination of the right technology and marketing that leads to the communicational success of products.
-Technical changes can also cause changes in demand for a firm's products. For example, the introduction of colour TVs resulted in low demand for black and white TVs.
-Changing technology also results in changes in the processes of production and in the size and type of workforce required e.g. computerization of the office reduces the number of workers required but places government emphasis on skills and quality of staff. In factories, automation has reduced the skill element in the work.
-The technological element allows the manager to access more accurate data that enables him to plan better.
-The technical changes in transport have helped to lower the costs of moving goods and opening new markets. Until recently, it was not possible to move perishables from areas of production to areas of consumption without deep freezing.
According to Phillip Kotler, technology affects business in the following ways:
1) The accelerating pace of technical changes is bringing about fundamental changes in working life and shorter product life cycles.
2) Opportunities for innovation appear limitless. This entails new products, new Processes and new ways of working.
3) Increasing expenditure on R& D is not an option but is essential for modern business organizations.
4) The impact of technology can be very harmful to the society (global warming, nuclear power, toxic substance etc) thus there is need for greater regulation.
5) Continuous product improvement is essential, though minor and less risky changes are Preferred.

Social Environment
-include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an ageing population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).
-Businesses operate within society. It is of utmost importance that the manager is aware of the characteristics of the social element of the environment. The size and age distribution of the population, its standard of living, facilities for training and education, availability of housing and health care all affect business operations.
-A growing population is beneficial to firms in increasing the size of the potential market.
-Trends in the birth rate can affect business especially those in the health sector and early childhood education.
-Age composition of the population can assist businesses in niche marketing, that is, concentrating on a particular age group of the market.
-Lifestyles, values and benefits, and religious backgrounds are significant to businesses because of their impact on labour and the purchasing behaviour of people in the society.
-Increasing affluence has led to a more health-conscious society. This has led manufacturers of foods to face the challenge of producing more nutrition health foods.
-The population is also affected by migration. The negative impact of this has been brain drain as professionals like doctors; nurses etc are leaving the country for greener pastures in neighbouring countries and overseas.

Corporate Social Responsibility

Corporate social responsibility focuses on what an organization does that affects the society in which it exists. CSR refers to a set of policies designed to demonstrate the commitment of a business to the well-being of the society and others by taking responsibility for the impact of business decisions on all stakeholders. CSR commits a business to a way of operating that goes beyond what is required by law
-A socially responsible firm that operates in an ethical way has concern for the environment and undertakes philanthropic activity on behalf of the disadvantaged in the society.

Social responsibility programmes

- Making sure the employees receive fair treatment, fair wages, access to health and safety at work, fund training programmes
- Using environmentally friendly production methods
- Championing community programmes like infrastructural development
- Providing quality goods and services
- Treating other business partners fairly i.e embracing a fair and responsible approach to procuring and delivering goods and services

Arguments for Social Responsibility

1. The creation of a better social environment benefits both society and business.
2. To comply with the law
3. Social involvement creates a favourable image for the company.
4. Businesses have the resources to help solve social problems.
5. Businesses and society are interdependent.
6. Social involvement discourages additional government intervention.
7. it reduces the risk of negative publicity
8. To respond to the demands from stakeholders, particularly customers and pressure groups

Arguments against Social Responsibility

1. The primary task of business is to maximize profit by concentrating on commercial activities.
2. Social involvement results in higher prices to customers.
3. Company directors have a duty to shareholders.
4. Businesses lack the social skills to deal with the problems of society.

Social Auditing

This involves a business formally reviewing and accounting for the impact on society of its operations. It can include its impact on the environment, its effect on the local community, its attitude to such things as human rights and its attitude to stakeholders including employees. The business is now accounting to non-financial aspects of the business and deals with social matters that are not necessarily measured in financial terms

The role of Pressure Groups

These are also stakeholders to the businesses. Pressure groups refers to an organisation created by people with a common interest or aim who put pressure on business and government to change policies so that an objective is achieved. They include organisations such as the Friends of the Earth that have been set up to highlight and sometimes oppose developments that may cause changes to the environment.

International Examples of Pressure Groups

- Friends of the Earth
- **Green Peace:** campaigns for greater environmental protection by both businesses adopting green strategies and government passing tighter anti-pollution laws

- **Fair-trade Foundation:** aims to achieve a better deal for agricultural producers in low income countries
- **Jubilee 2000:** campaigns western governments to reduce or eliminate the debt on developing countries

The ways in which Pressure Groups use to achieve their objectives

- Publicity or campaigns through media i.e frequent press releases
- Demonstrations and meetings
- consumer boycotts: the consumers will stop buying a particular product for a long period of time
- lobbying the government to change the law or to put in place laws

How businesses are constrained by other Businesses

The businesses are also affected by the operations of other businesses. Thus the business rely on other businesses and its activities are greatly influenced by these businesses. E.g wheat farmer will be a supplier of a bread making business.

Challenges from the other businesses

- the supplier may only be able to supply a limited quantity at a given price
- the supplier may be facing difficulties
- the supplier will have some influence over the price the customer pays
- the lenders may place restrictions on the amount and use of finance

External Influences from a Demographic Change

Refers to a change in the human population in terms of age, gender, education and ethnicity etc. Ethnic- of or relating to races or large groups of people who have the same customs, religion, origin etc The demography of a country is important to businesses because it can help determine the best way to target products and marketing. It also has impact on manpower planning and other workforce issues

Young people	**Older people**
Usually buy • music • electronic including mobile phones • fashion clothes • entertainment	**Usually buy** • holidays and travel • properties with facilities for the elderly • health products • investments
On the job • lower cost • more flexible • likely to change jobs frequently • more innovative • more up to date • demand more training	**On the job** • more loyal • less likely to move • more experienced • more hard-working

Market Failure

Occurs when the market fails to achieve the most efficient allocation of resources. The resources are not allocated in the best possible manner. Public goods are not produced at all in a free market economy yet they give a lot of benefits to the society e.g defence and street lighting. Merit goods are under-produced of which they are equally important to the society e.g education and health. Demerit goods are products which are very harmful to the society yet they are over produced. E.g tobacco and alcohol

Market failure is thus caused by

- Abuse of monopoly power
- Lack of public goods
- Under provision of merit goods
- Overprovision of demerit goods
- Environmental degradation
- Inequality in distribution of wealth
- Problems of information

Forms of market failure

a)External Cost/ Negative externalities- these are spill over costs to the parties which are not directly involved in a market transaction. These are cost of economic activity that are not paid for by the producer or consumer, but by the rest of the community. The external costs are not reflected in the price of most commodities and as a result more of that product is consumed.

Examples of external costs

- Effects of air and land pollution
- Passive smoking
- Effect of water pollution

NB Goods that confers external cost to the society are overproduced. External costs are added to private costs we get social costs

SC = PC + EC

b) External Benefits/ Positive externalities

Arises when third parties gains from an economic activity for no payment. Such products are under produced and under consumed. E.g A horticulturalist can benefit freely from a bee-keeper nearby. If external benefits are added to private benefits we get social benefits (SB)

SB = PB + EB

Methods used to correct market failure

a) **Taxation-** to reduce the production of demerit goods the government can introduce indirect taxation. Indirect taxation increases the cost of producing goods and less of the product will then be produced
b) **Subsidies-** to encourage the production of enough merit goods the government must give subsidies to private firms. Subsidies reduces the cost of production and increases the supply of goods.
c) **Direct provision-** public goods cannot be produced by private firms since they are not profitable at all. The government will have to directly produce public goods like defence and street lighting
d) **Competition policies**- the government can investigate and act against monopolies. Anti-monopoly laws should be introduced.
e) **Regulation**- the government can impose fines on polluting businesses or impose strict limits on pollution levels
f) **Tradable Permits**-This gives each firm a quota of greenhouse gases that it can emit over a specified interval of time. Then the market takes over. Those polluters that can reduce their emissions relatively cheaply may find it profitable to do so and to sell their emissions permits to other firms. Those that find it expensive to cut emissions may find it attractive to buy extra permits

1.4 BUSINESS OBJECTIVES

Refers to stated, measurable targets of how to achieve business aims or the targets that must be achieved to in order to realise the aims of the business. Objectives can be seen as the more specific and quantifiable aims, designed to assist in the achievement of the goals identified in the mission statement. Objectives must state what the organisation is trying to achieve, how this can be done, when it must be done and how they will know that it has succeeded

Importance of business objectives

- They clarify to everyone what the business is working to achieve
- They aid in decision making and choice of alternative strategies
- They enable checks on progress and corrective action
- They provide means by which performance can be measured
- They motivate employees
- They can be broken down to provide targets for each part of the organisation
- They provide shareholders with a clear idea of the business in which they have invested
- They facilitate the resolution of conflict between departments

Objectives should be SMART

S- specific **M**- Measurable **A**-achievable

R- realistic **T**- time specific/ time framed

S-SPECIFIC: Objectives should be more precise. Having a bunch of vague statements isn't very helpful at all. You must make your project tangible by saying how you are going to go about it. For example, a hotel might have an objective of filling 60% of its beds a night during October. Thus the issue of accommodation is specific to Hotels. It answers the questions, 'What is to be done'. We quickly get to understand what the business is doing.

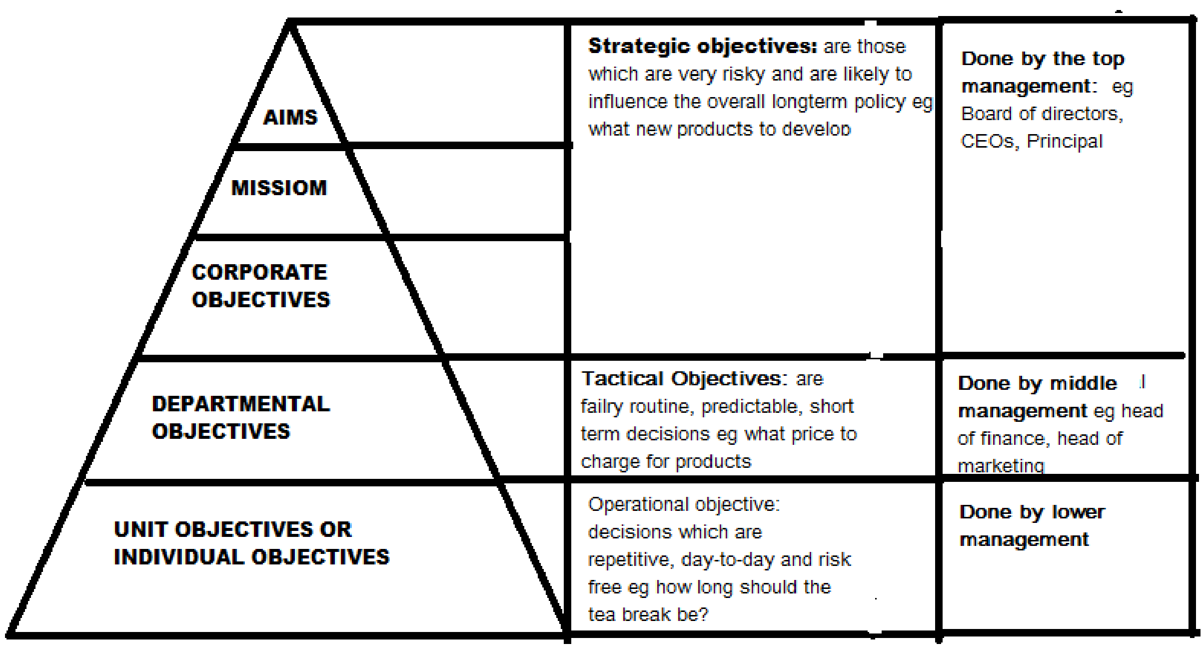
M-MEASURABLE: Define your objective using assessable terms. Express it in terms of quantities, frequency, quality, costs, deadlines etc. It refers to the extent to which something can be evaluated against some standard. E.g to increase monthly sale by 15%

A-ACHIEVABLE: It is pointless to have objectives that are impossible to achieve within the time period set. Achievable answers the questions, “Can a person do it”, “Can the measurable objective be achieved by the person?”, “Does he/she has the experience, knowledge or capacity of fulfilling the expectation?”,

R-REALISTIC/ RELEVANT: The objective should be challenging, but it should also be able to be achieved by the person using the available resources. Thus the objectives should be realistic when compared with the resources of the company and should be expressed in terms relevant to the people who have to carry them out. E.g a target of reducing cleaning materials by 15% to a cleaner.

T-TIME FRAMED: An objective should have end points and check points built into it. They must have a time limit of when the objective should be achieved. Time specific answers the question,”When it will be done?” e.g by the end of the month or by the end of the year

HIERARCHY OF OBJECTIVES



AIMS

Refers to a broad statement where a business wants to go in the future. Aims states what you want or your overall intention in the project. It is generally broader than an objective.

MISSION

A formal summary of the aims and values of a company. It explains the organisation's purpose, what it stands for and why it exists. It is a statement of the business's core aims, phrased in a way to motivate employees and stimulate interest by outside groups (or aims of the business in a motivating and appealing way)

Mission statement should explicitly state things related to its business, such as industry, products or services, employees, culture, customers and the adherence to things like quality, efficiency, pricing, social responsibility.

Examples of Mission Statements

FACEBOOK: to give people the power to share and make the world more open and connected
FORD MOTOR COMPANY: 'One team, one plan, one goal, one Ford'

Purpose of the Mission Statement

- Quickly inform groups outside the business what the central aim and vision are
- Help to guide and direct individual employees behaviour at work
- To motivate employees
- They help to establish in the eyes of other groups what the business is all about

CORPORATE OBJECTIVES

Refers to a detailed plan of a step you plan to take in order to achieve a stated aim. Mission statements and aims should be complemented with corporate objectives because they specific details for operational decisions and they are rarely expressed in quantitative terms. Thus aims and mission statements should be turned into objectives that are specific to the business that can be themselves be broken down into strategic departmental targets. Corporate objectives provide more details about the course of action or strategy to follow

Corporate Objectives include:

- Profit maximisation
- Profit satisficing
- Growth
- Increasing market share
- Survival
- Corporate social responsibility (CSR)
- Maximising shareholders value

a)Profit Maximisation: It is the main aim for most of private firms. Profit maximisation refers to the greatest positive difference between total revenue and total cost. Total revenue is obtained by multiplying price per unit and the total number of units sold. Profit is very important for businesses because it is used for rewarding the investors (owners of the business). Profit is also used for business expansion in the future (ie to finance internal growth)

Challenges faced by firms as they pursue this objective

- Maximising profit may encourage new competitors to enter into the industry and the chances for business success will be reduced
- This objective can conflict with that of mangers who aim to maximise sales
- Other stakeholders may give priority to other issues besides profit maximisation

b)Profit satisficing: the objective will be to achieve enough profit to keep the owners happy but not to maximise profits. This objective is pursued by owners of small businesses who wish to have more leisure time. The business will be satisfied by making a certain level of profit.

Challenges faced by firms as they pursue this objective

- The business won't be having money to grow in the future
- The business may lack funds to implement social responsibility programmes

c)Growth: growth involves increasing the operation of the business expanding to other regions or countries. It is also measured by the number of employees, number of products sold etc. Growth benefits managers in terms of higher salaries. Growth helps the business to avoid takeovers. Furthermore, the business will benefit from economies of scale and it becomes more appealing to new investors.

Challenges faced by firms as they pursue this objective

- Rapid growth can lead to diseconomies of scale e.g financial diseconomies; managerial diseconomies etc
- Growth can lead to lower short term returns to shareholders since it can be achieved through lowering prices

d)Increasing market share: market share refers to the proportion of a company's sales to the total sales in the market. Eg Your company sales **60** toys in a month and there are a total of **100** toys sold in a month. Thus your company has **60%** market share. Market share is related to business growth. Thus increasing market share indicates that the marketing mix of the business is proving to be more successful than that of its competitors. Increasing market share reflects to the firm as a brand leader (customers will be loyal to certain brands offered by the firm)

e)Maximising Shareholders Value: It is an objective usually for public limited companies. Management will be concerned about increasing the company's share prices and dividends paid to shareholders. Thus the interests of shareholders will be considered as first priority. Increased shareholders value is achieved through profit maximisation

Challenges faced by firms as they pursue this objective

- The objective conflicts with the objectives of other stakeholders

f)Corporate Social Responsibility (CSR): refers to a set of policies designed to demonstrate the commitment of a business to the well-being of society and others by taking responsibility for the impact of business decisions on all stakeholders. Some businesses have objectives which are based on their beliefs of how one should treat the environment and people. CSR applies to those businesses that considers the interests of society by taking responsibility for their decisions and activities on consumers, employees, communities and the environment. Some business activities are very damaging to other stakeholders. Thus governments and some international organisations like European Union (EU) must ensure that businesses take responsibility of their actions on people and the planet

Benefits of being socially responsible

- The business can be given government contracts/ tenders
- The business can easily attract highly skilled and experienced personnel
- Business will gain public acceptance and reduced risk of negative publicity
- Employees committed to the same values
- Customer loyalty

Challenges faced by firms as they pursue this objective

- It conflicts with the profit maximisation objective
- Time is wasted on social responsibility programmes
- The business won't have enough money for expansion
- Greater criticism and loss of loyalty if things go wrong

Departmental Objectives

Ford Car Company's main aim is to become the largest car maker in the world and each department must have some means of helping the company achieve that. Departments like product designing, production and the marketing department will have different roles to play to help Ford achieve its main aim. For a car manufacturing business, the departmental objectives may include:

Product design: produce designs for a new range of cars that will appeal to the family car market **Production**: improve production processes to increase production and reduce costs **Marketing:** Create a marketing mix in order to increase sales volume by say 15% per year

Individual Objectives

These are the objectives set for an individual in an organisation. They are basically day-to-day objectives or targets for each person. This helps ensure that each individual knows what they need to do to achieve departmental objectives. Individual objective are important for the appraisal of each and every employee.

<u>Relationships between Mission, objectives, strategy and tactics</u>

Mission and Objectives

Mission statements and objectives provides the basis and focus for business strategy ie The long-term plans of action of a business that focus on achieving its aims. Without a clear objective, a manager will be unable to make important strategic decisions. The setting of clear and realistic objectives is one of the primary roles of senior management. Before strategy for future action can be established, objectives are needed. Thus setting mission and objective gives a business a sense of purpose and direction

Strategies and Tactics

Mission statements and objectives alone cannot guarantee business success. They have to be developed into actual courses of action known as strategies and tactics.

Strategy: is a plan setting out how a business as a whole will achieve its overall long-term objectives. For example the business objective of a car manufacturer could be, “To manufacture 4 million cars by 2018.” The strategies to achieve such an objective could include:

- Increasing efficiency
- Building a new factory
- Designing new models of cars

For strategies to work well in the business they need to be complemented with tactics. At tactic is a short-term plan for day-to-day operations of a business with the aim of contributing towards the overall strategy. For example, in order to achieve productivity improvements the workforce might get prizes for the teams that make the biggest improvements to productivity.

NB Tactics refer to a short-term course of action for the day-to-day management of a business for trying to meet part of an overall strategy

Business Decision making.

Objectives not only give a sense of direction to a business, they are essential for making decisions. Without setting relevant objectives at the start of this process, effective decision making for the future of the business becomes impossible.

Stages in the decision making process

- **Set objectives**: it is impossible to make decisions in the future if the objectives are not clear or if they are non-existent.
- **Identify and analyse the problem**: managers make decisions to solve a problem. It is imperative that you must understand the problem before finding a solution for it, otherwise, you might make a wrong decision.
- **Collect relevant information:** gather data about the problem and possible solutions. It is always important to analyse all possible solutions to find which one is the best
- **Analyse/Evaluate all options :** consider the advantages and disadvantages of each option or possible solution

- **Make the final decision :** make a strategic decision. Select the best option with more advantages and few disadvantages
- **Implement a decision:** this means that the manager must see to it that the decision is carried out and is working according to plan
- **Review and evaluation of the decision:** review its success against the original objective. If the decision didn't work, then a corrective action must be done for the objectives to be achieved

How and why objectives might change over time

- **Change in owners' priority:** the owners shift from one object to the next as time unfolds
- **Change in market conditions:** in a recession the business may aim for survival
- **Change in size of the business**: owners' objective could be growth in early stages and then profit maximisation as the business becomes well established
- **Change in management:** when new management comes in, they can introduce new changes which could be new objectives
- **Change in competitor behaviour:** the business can change its objectives in responses to changes made by the competitors
- **Change in legislation:** a change in government laws can force a business to come up with new objectives in a new environment

Translation of objectives into targets and budgets

This statement simply means a process by which objectives are translated into targets and budgets. Thus corporate objectives should be broken down into individual targets. Target or key performance indicators (KPIs) refers to a detailed operational objective for a specific area of a business to be achieved by a specific date. Once targets have been set for individuals or groups they can be monitored and adjusted to increase the chances of achieving overall objectives, and can be used as a motivational tool. Communication is very important to make the employees aware of the business objectives. Targets can also be used in the budgeting process. A budget refers to a plan expressed in financial terms for targets to be achieved, financial resources to be made available. Employees must be involved in the setting of targets. Unrealistic targets will, however, lead to unobtainable and misleading budgets.

Advantages of targets

- Employees will be motivated to work harder
- Productivity of employees and managers will improve
- Encourages team work which then reduces mistakes at the business
- Managers will always be in touch with employees and this helps employees to meet deadlines
- Help managers to identify problem areas
- An easy way to translate corporate objectives into individual and other subsidiary objectives

Disadvantages of targets

- Can be demotivation especially if they cannot be achieved or an employee fails to achieve them. There can be many reasons for failing to reach a target.
- Can dehumanise a job. People are treated like machines rather than as humans

- Can lead to ‘blame culture’
- Difficult and expensive to monitor

Importance of Budgets

- Reviewing past activities
- Controlling current activities i.e helping the business to stick to the objectives
- Planning for the future

COMMUNICATION OF OBJECTIVES AND THEIR LIKELY IMPACT ON THE WORKFORCE

Targets in business have been a valuable management tool for a long time. In 1945, Peter Drucker developed the idea of Management By Objectives (MBO). This is a method of managing staff by defining objectives for individuals members derived from the overall objectives of the business.

How ethics may influence business objectives and activities

Business ethics refers to moral guidelines that govern business decisions and business behaviour. These are rules and guidelines on staff behaviour that must be followed by all employees’. Employees must behave in a morally acceptable manner. Some managers operate their business along strict ethics rules, they want their employees to do the right thing. Business ethics apply to all aspects of business conduct ad are relevant to the conduct of individuals as well as the entire organisation. Ethics involves the choice that people make and sometimes ethical issues are covered by legislation. A code of ethics should be drawn up

Differences between business ethics and code of conduct

Business ethics

- Making the business gains in a proper manner
- Avoiding discrimination on staff and stakeholder groups
- Not linked to political parties
- Being fair to all who have business relationships with the company
- Protecting the environment

Code of Conduct

- Upholding the principal of honesty and fairness
- Protecting the properties and reputation of the business
- Conducting business in the best interest of the owners
- Behaving appropriately at all times towards others

Unethical business activities

- Buying supplies from businesses that use child labour
- Exploiting suppliers in poor countries by demanding and paying low prices
- Lending to people and businesses who will struggle to repay the loans
- Wilful selling of harmful products to the people
- Not paying a fair wage
- Avoiding paying tax

- Polluting the environment
- Newspapers prying into people's private lives
- Target advertisements for sweet at children
- Getting business secrets from competitors
- Encouraging top employees to move from a competitor
- Paying bribes to get contracts
- Failure to give correct or accurate information
- Testing cosmetics products on animals
- Over charging tourists

Benefits of acting ethically

- The business will be offered with government contracts
- The business may attract qualified and experienced staff
- The business may get more customers
- Avoiding expensive court cases on ethical related crimes

Challenges of acting ethically

- Charging lower prices leads to lower profits
- Paying fair wages in harsh economic environments may raise wage costs and this reduces the firm's competitiveness
- Not taking bribes may lead to lower sales
- Disposing of waste material can be costly to the business

Business objectives in the private sector and public sector

Private Sector

- To earn high profits
- To maximise wealth of shareholders
- To fulfil needs and wants of the people

Public Sector

- To create employment
- To operate even if no profit is generated
- To provide certain products such as electricity, transport, defence etc
- To provide goods and services at affordable prices

Objectives of Non-profit organisations

- To provide services to members
- To provide employment
- Operating for the welfare of members e.g schools, hospitals
- To eliminate poverty in communities

Conflicting Objectives

Often time two or more objectives will clash and we call these conflicting objectives

Common conflicting objectives

1. **Clash between key stakeholders**: owners of a company's objectives may clash with those of managers or employees. Owners may want the business to minimise costs while employees may demand for a pay rise. Another example is that of growth versus profit. Thus achieving higher sales in the short term, probably by cutting prices, will lead to a reduction in short term profits

2. **Clash between short term and long term objectives:** a business may decide to accept lower cash flows in the short term whilst it invests in new products, plants or equipment

3. **Clash between environment and profit**: for example if a company wants to reduce its pollution contribution, it will need to spend a heavy proportion of its profits.

1.5 Stakeholders in a business

Refers to individuals or groups interested in the activities of the business. Stakeholders are interested in a business for various reasons and will be directly affected by its decision or by its performance. Examples of stakeholders include owners(shareholders); managers; employees; customers; suppliers; lenders; government; local community and special interest groups(pressure groups). Stakeholders use a variety of information for decision making purposes, and the information that is available to stakeholders will depend on whether the stakeholder is an internal or external stakeholder.

Internal Stakeholders

Are those that are directly affected by the business's performance. They are also known as primary stakeholders. They have a large influence on how the company is run. For example the company's owners will take part in important business decisions. Managers and employees also influence the company's day to day operations by various business decisions that they make.

External Stakeholders

Are individuals or groups that are not directly affected by the business's performance. These parties are not directly involved in decision making and other business affairs and, therefore, may or may not be affected by the company's decision or operations. External stakeholders include the government entities, the general public, competitors, customer, pressure groups politicians, analysts, stock brokers, potential investors etc For example, government entities such as internal revenue will use business's information for assessing tax payments; potential investors will use the information to make investment choices, media will use them for public awareness purposes, and analysts and stockbrokers will use them to advice clients or potential investors.

Differences between stakeholders and shareholders

Shareholders: hold shares in the company. They own part of the business

Stakeholders: They have an interest in the company. They do not own part of the company unless they are shareholders

Stakeholders Theory/ Stakeholders Concept

An idea that business should not only focus on shareholders' interest but should consider interest of all stakeholders e.g managers, suppliers, customers, employees, government and pressure groups (eg environmental lobbyists)

Roles, Rights and Responsibilities of Stakeholders

Stakeholder	Roles	Rights	Responsibilities
Suppliers	-supply goods and services -to allow the business to offer its products to its own customers	-to receive payment in time -to be treated fairly by those powerful customers	-to supply the goods and services in time and in good condition.
Customers	-buy goods and services from sellers -provide revenue to sellers	-to receive goods and services that are not harmful to their health -to be compensated when a problem occurs	-to pay for the goods received in time -avoiding false claims -honesty i.e stealing
Employees	-provide manual and mental effort to the business -produce goods and services	-to be treated fairly -to be paid a wage described in their contract of employment to be allowed to join a trade union	-to be honest -have the necessary skills and experience required -to perform any other duties delegated -to observe the ethical code of conduct
Lenders	-to provide loans to the business	-to be repaid on the agreed date -to receive interests on loans	- provide agreed amount of money on the agreed date for the agreed time period
Local community	-provide local services and infrastructure to the business	-to be consulted about major changes e.g expansion plans -impose fines on businesses that operate illegally	-to co-operate with the business on expansion and other plans -to provide services such as public transport
Government	-pass laws to control business activities -promote economic stability	-to take licences of businesses that operate outside the law -ban the sell of illegal goods and services	-to treat businesses fairly -to prevent unfair competition -to establish trading links with other countries

STAKEHOLDERS AND THEIR OBJECTIVES

Stakeholders	Who they are	objectives

Owners	-invest capital in the business and get profits from the business	-maximise profits -growth of the business
Workers	-employees of the business who give in their time and effort to make a business successful	-job security -job satisfaction fair wages for their effort
managers	-employees of the business who manages a business -they lead and control the workers to achieve organisational goals	-high salaries -job security -status -growth of business
customers	-these are the people who buy the goods and services of the business	-safe and reliable products -value for money -to receive after sale services
Government	-manages the economy -collect tax from businesses -monitors the working of businesses in the economy	-successful businesses -employment to be created -more tax revenue -laws being followed
The community	-community refers to all the people who are directly or indirectly affected by the actions of the business	-they expect more jobs -environmental protection -social responsible products -ethical business practices
Suppliers	-people or organisations who provides the business with inputs	-to get a fair price for their goods and services -long term contracts -prompt payments
Banks /lenders	people or organisations who provide the business with funds	-interest and principal to be paid -growth of credit industry

IMPACT OF BUSINESS ACTIVITIES ON STAKEHOLDERS

Business decision/ activity	Impact on: Employees	Local community	Customers
Expansion of the business	✓ More job and career opportunities. ✗ More complex lines of communication after expansion.	✓ More jobs for local residents and increased spending in other local businesses. ✗ External costs caused by increased traffic and loss of green fields for amenity use.	✓ Better service provided by bigger business with more staff. ✗ Larger business could be less personal and therefore offer inferior customer service.
Takeover of a competing firm (horizontal integration)	✓ The larger business may be more secure and offer career promotion opportunities. ✗ Rationalisation may occur to avoid waste and cut costs – jobs might be lost.	✓ If the business expands on the existing site, local job vacancies and incomes might increase. ✗ Rationalisation of duplicated offices or factories might lead to closures and job losses.	✓ The larger business may benefit from economies of scale, which could lead to lower prices. ✗ Reduced competition could have the opposite effect – less customer choice and higher prices.
New IT introduced into production methods	✓ Training and promotion opportunities might be offered. ✗ Fewer untrained staff will be required and those unable to learn new skills may be made redundant.	✓ Local businesses providing IT services could benefit from increased orders. ✗ Specialist workers may not be available locally, so more staff may need to commute.	✓ More efficient and flexible production methods might improve quality and offer more product variety. ✗ IT reliability problems could cause supply delays.

Table 4.2 Potential conflicts of interest between stakeholder groups

How and why a business needs to be accountable to its stakeholders

Benefits to the business for being responsible to customers

- The business will benefit from customer loyalty
- The business will enjoy good publicity when customers give word of mouth recommendations to others
- Good customer feedback which helps to improve further goods and services

NB: customer focus: customers should be the business's top priority. Paying a lip service to customers' concerns may lead to loss of good image and even legal action

Way in which a business can become responsible to customers

- Business must offer quality goods
- Businesses to offer well designed and durable goods
- To sell goods at reasonable prices
- Businesses not to take advantages of vulnerable customers e.g high-pressure selling tactics

Benefits to the business for being responsible to suppliers

- Benefits from supplier loyalty
- Suppliers may be willing to open credit lines
- Suppliers will be prepared to meet deadlines and requests for special orders

Way in which a business can become responsible to suppliers

- Prompt payments to suppliers

- Giving suppliers clear guidance on what is required
- Offering suppliers long-term contracts
- Buy stock regularly

Benefits to the business for being responsible to employees

- There is employee loyalty
- Low labour turnover
- The business can easily attract highly qualified staff'
- Employees will be motivated and their productivity will increase

Way in which a business can become responsible to employees

- Business to provide training opportunities
- To give employees fair wages
- Involve employees in decision making
- Give employees fringe benefits e.g company house, company car etc

Benefits to the business for being responsible to community

- Local communities are more likely to accept some of the negative effects caused by business operations
- Local councils often give contracts to business with a record of good behaviour towards the community and its environment

Way in which a business can become responsible to community

- Offer secure employment
- Avoid adverse environment effects such as pollution
- Employing local people

Benefits to the business for being responsible to the government

- Business may receive valuable government contracts
- Business may benefit from government subsidies
- Licences to set up new operations are more likely to be awarded to business that meet their responsibilities

Way in which a business can become responsible to government

- Obeying government laws
- Paying taxes in time

  Declare all incomes to the government generated by exporting businesses