1.1 Introduction to business & Management

**Business:** Decision making organization

* Inputs: resources, raw materials
* Outputs: Good/Services

*Functional Areas*

* Human Resources: manage personnel of organization
  + Training, planning, dismissal
* Finance & Accounts: manage organization money
  + Avoid corporate taxes, inform financial position (investors/shareholders)
* Marketing: advert.

*Functions:*

1. Product
2. Price
3. Promotion: mass media
4. Place

*Operation:*

* **Revenue:** Net income

*Price of product x #sold*

* **Production Cost:** Cost of producing product

*P.C. / # of products*

**Business Sectors:**

1. Primary Sector – extraction, harvesting, conversion
2. Secondary Sector – manufacturing/constructing
3. Tertiary Sector – provide services to population

tourism, restaurants, helps labor force

1. Quaternary Sector – intellectual knowledge

MEDCs: requires high education

\*INTERDEPNDANT

**Sectorial Change**

National input + employment 🡪 shift from one sector to another

* **Industrialization:** shift from primarily agriculture to a manufacturing of good/services

*Factors for MEDCs*

* Higher house hold incomes

-Service demands & income levels increase

(If country develops: more restaurants, hair salons, etc)

* More leisure time
* Customers service
* Support service

**The role of entre & intra-preneurship**

**Entrepreneurship:** plans, organizes, manages a business

* Pays land, wages to labor & interest on capital
* Remains: profit

**Intrapreneurship:** entrepreneur as an employee

* Looks for business ideas
* Paid by org.

*Factors of production*

* Land
* Labor
* Capital
* Entrepreneurship

**Starting a Business**

*Reasons:*

* Autonomy – indepentant/no boss
* Financial Security
* Hobby
* Capital Growth
* Earning
* Transference & Inheritance

*Steps*

* *Write a business plan* – goals, objectives, executive summary, business, product, market, finance, personnel, marketing
* *Start –up capital* – loans
* *Business registration*- license, legal
* *Bank account*
* *Marketing*

*Start-up costs*

* Premises - building
* Mortgage deposit payment
* Legal & professional fees
* Market cost
* Human resources

*Problems*

* Lack of finance
  + Offering collateral
* Cash flow problems
  + Working capital lacks (money to run daily business)
* Established costumers base
* People managing
  + Hiring the right staff
* Legalities
  + Payment penalty fees
* Production problems
  + Over production: increase cost/waste
* High production cost
  + Paying machines, rent
  + No benefit from economies of scale
* Poor Location
* External influences
  + Economic impact

1.2 Types of Organization

**Private Sector:** controlled by private individuals

* Aim: make profit
* Cost production – sales revenue = profit

**Public Sector:** controlled by government

* Provide essential goods/services
* Health, care, education
* State-owned enterprise:
* Huge economies of scale
* Stabilizes economy 🡪 more jobs

**Profit-based organizations**

**1. *Sole Traders****:* runs & owns personal business

* Low capital start-up
* Unincorporated business: responsible for all loss

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| ***Advantages*** | ***Disadvantages*** |
| Few legal formalities | Unlimited liability (debts) |
| Profit taking | Limited source of finances |
| Own boss | High risks |
| Personalized services | Workload and stress |
| privacy | Unlimited economies of scale |
|  | Lacks continuity |

***2. Partnership***

* Profit-seeking business by 2+ persons
  + Ordinary partnership: max 20
* **Silent partners –** investors not actively running business but with financial stake
* **Deed of partnership-** legal contract: financed by all members, roles/obligations, profit is split

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| ***Advantages*** | ***Disadvantages*** |
| Financial Strength | Unlimited liability |
| Specialization & labor division | Lack of continuity |
| Financial privacy | Long decision-making |
| Cost-effective |  |

***3. Companies***

* Owned by shareholders: individuals who invest $ for capital
* **Joint-stock companies:** shares of business held by numerous entities
* **Incorporate business:** company has own legal rights & duties
  + Limited liability – shareholders not responsible for debts
* **Flotation:** business sells all/a part of its business to shareholders (investors)
  + Causes initial public offering: listed on stock exchange

*Types of liability*

* **Private limited company:** shares sold to private family/friends
* **Public limited company:** advertise & sell to publish
  + Via stock exchange – individuals invest to become minor shareholders

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| ***Advantages*** | ***Disadvantages*** |
| Raising profit | Communication problems |
| Limited liability | Added complexities |
| Continuity | Compliance Cost – cost of stock exchange |
| Economies of scale (less financially risky) | No privacy |
| Tax benefits: corporate | **Bureaucracy –** decisions made by state officials (gov.) |

*Taxes*

* **Income Taxes:** tax paid by individuals depending on financial income
* **Corporate Taxes:** tax paid by companies

**For-Profit Social Enterprises**

* **Social enterprises** 
  + Maximize improvements in human & environment
  + Minimize profits for shareholders

***1. Cooperatives***

* Owned & ran by employees
* All have a vote

a) Consumer cooperative

* costumers buys good/service from the co-operation

b) Worker cooperative

* offer works with small financial investments – bookstore, cafes)

c) Producers cooperatives

* people engaged in farm, fishing, forestry
* support each other to market their products

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| ***Advantages*** | ***Disadvantages*** |
| Incentives to work | Di-incentives effects: low salaries |
| Democratic system | Limited sources of finance |
| Social benefits | Slow decision-making |
| Public support | Limited promotional opportunity |

**2. Microfinance Providers**

* Financial service for small business
* Females/low incomes
* Eradicate poverty

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| ***Advantages*** | ***Disadvantages*** |
| Accessibility – initiates financial independence | Limit finance – no banking service, loans |
| Job creation | Limited eligibility |
| Social well being –gives education & health |  |

**3. Public – Private partnership**

* Gov. +private sector 🡪 provide good/services

**Non-Profit Social Enterprises**

* Surplus revenue: used for social change
  + Not its main goal
  + Reward to investors/owners risking $
  + Retain in business

**1. NGO’s**

* Private sector
* Runs to benefit others
  + **Operational NGO`s:** establishes with objectives/purpose
  + **Advocacy NGO’s:** aggressive approach to raise awareness

**2. Charities**

* Voluntary support
* Raises funds of individuals/org.
* Paid for services/voluntary basis

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| ***Advantages*** | ***Disadvantages*** |
| Social benefits (financial support) | Bureaucracy |
| Tax exemptions | Dis-incentive effects – lack of profits |
| Tax incentives for donors | Charity frau |
| Limited liability | Inefficiencies |
| Public recognition & trust | Limited sources of finance (donations) |

1.3 Organizational Objectives

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| ***Vision Statement*** | ***Mission Statement*** |
| Outlines org. aspiration | Simple declaration of purpose & values |
| What we will be? | What’s our business? |
| Long-term | Med/long term |
| Quantities | qualitative |

* **Aims:** long-term goals
  + Purpose & direction of org.
* **Objectives:** short/med target
  + Specific
* **Strategies:** plans of action to achieve aims & objectives
  + **Operational strategies:** day to day method, improve efficiency
  + **Generic strategies:** affect business as a whole
  + **Corporate strategies:** long-term goals

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| ***Tactical Objectives*** | ***Strategic Objectives*** |
| Short-term goals | Long-term goals |
| SURVIVAL: avoid economic recession, competition | Profit maximization: dividends  -part of profit is distributed to shareholders/owners |
| Sales Revenue Maximization:  -selling as much as possible with no loss (thus high profit) | Growth – increase in sales revenue |
|  | Market standing: lots of total sales of product |
|  | Image and reputation |

**The need for changing objectives**

* **Internal Factors:** control of org.
  + Corporate culture: shared attitude, beliefs
  + Type & size of org.: higher bonus/profit
  + Private v.s. public sector: profit max 🡪 provide services
  + Age of business: survival 🡪 growth
  + Finance: if it can grow or not
  + Risk profile: ambitious objectives
  + Crisis Management: falling productivity, liquidity fails
* **External Factors**
  + State of economy: booms/slumps
  + Gov. constrains: laws that minimize profit
  + Pressure Groups: ethics, ruin image
  + New tech.: new business opportunities

**Ethical Objectives**

* Moral principles
* Organization actions that are morally correct

*Avoid:*

* Financial dishonesty
* Env. Neglect
* Consumer exploitation
* Exploitation of workforce
* Supplier exploitation

***Corporate social responsibility (CSR):*** companies integrate social & environmental Concerns in their operations with stakeholders

* **Self-interest attitude:** generate profits for owners & gov.
  + Sorts social problems – employment,, tax
* **Altruistic attitude:** unselfish 🡪 donates $
* **Strategic attitude:** socially responsible to help become more profitable

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| ***Advantage*** | ***Disadvantage*** |
| Improve image | Compliance cost |
| Increase customers loyalty | Lower profits |
| Cost- cutting (e.g. reducing packaging) | Stakeholders conflict –limits profit max. |
| Improve staff morale/motivation | Ethics are subjective |

Improve staff:

*-Fair employment*

*-Community work*

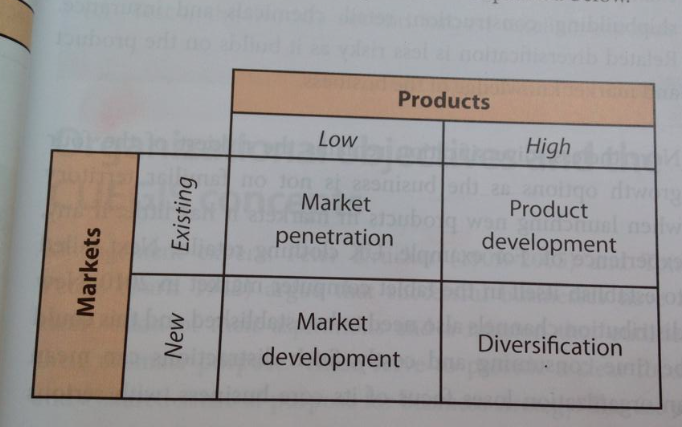
*-Accurate info on lave*

*-Fits laws and regulations*

**SWOT**

* ***Strength –*** market dominance, corporate image, value for money (price to quality)
* ***Weakness –***limited sources of revenue, high production cost, liquidity, competitors prices, limited finance
* ***Opportunities* –** external possibilities: economic growth, trade liberalization (free trade agreement + no taxes to import/exports 🡪 cheaper production & selling more), tech., new markets
* ***Threats* –** inflation, economic downturn, pressure groups, competition

**The Ansoff Matrix**



* **Market Penetration**
  + Sell existing products on existing markets
  + Minimize market research expenditure
  + Complete rival prices
* **Product Development**
  + Sell new product on existing markets
  + Product extension strategies: more demand
  + Brand develops
* **Market development**
  + Sell existing products in new markets
* **Diversification**
  + New products in new markets
  + Becomes a:
    - **Holding company:** owns other business/shares (parent company)
    - **Subsidiary:** company controlled by holding company
  + *Two Categories:*
    - **Related Diversification:** wants new customers within same company
    - **Unrelated diversification:** new products on untapped markets

***Organizational Objectives***

* S - pecific
* M - easurable
* A - easurble
* R - ealistic
* T – ime constrained

1.4 Stakeholders

**Stakeholders:** person /org. interest & affected by a business

* **Internal Stakeholders:** members of organization (employees, managers, directors)
  + *Employees:* strive for better pay, produce goods & services forsale
  + *Mangers & directors:* aim profit maximization
    - Oversee daily operations
    - Executives elected by shareholders to direct business
  + *Shareholders:*invest money by purchasing its shares
    - Maximize divide (higher profit)
    - Capital gain (rise in share price)
* **External Stakeholders:** not part of a business but have an interest/involvement
  + Customers: market research
  + Suppliers: raw materials, maintenance
  + Pressure Groups: place demands on org.
    - **Boycotting:** not buying the product 🡪 adverse publicity
    - **Lobbying:** demand to gov.
    - **Public relation:** positive publicity for awareness
    - **Direct action:** mass protest
  + Competitors: rival business of an org.
    - Remain competitive
    - Produce new products
    - Benchmark performance: compare key indicators
    - Key performance indicators: progress towards strategic goal, market share figures, turnover (the one that sells it faster)
  + Government
    - Check on unfair business
    - Corporate taxes
    - Safety & health
    - Lowers interest rates/taxes: create employment & investment

**Stakeholder conflicts**

* Can’t meet all needs of all stakeholders
* Remuneration: pay for work/service

*Key issues:*

* Type of org.
* Aims & objectives
* Source & degree of power – being replaced by competition

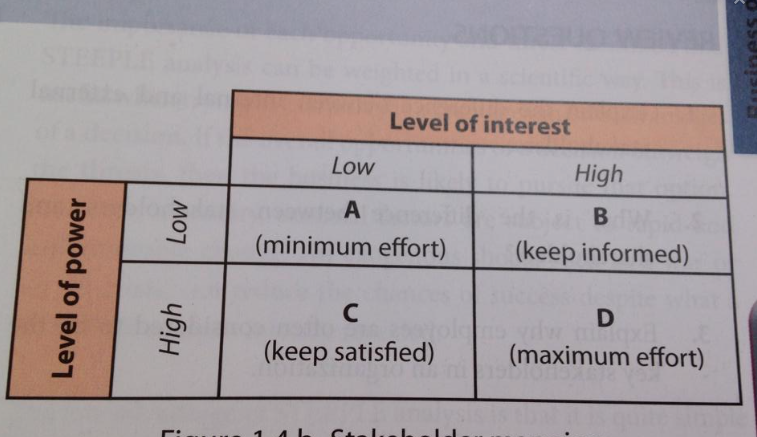
*Mutual benefits*

* Addressing need of employees & managers
  + Productive workforce
  + Lower staff turnover
  + Improve profits

*Stakeholder & CUEGIS*

* CUEGIS: change, culture, ethics, globalization, innovation & strategy
* Business can’t fulfill aims of ALL stakehlders

**Stakeholder Mapping:**



1.5 External Environment

**STEEPLE:** Social, technological, economic, environmental, political, legal & ethical

* Affect all business
* Can’t control any person or organization (external factors)

**Opportunities:** external factors give a chance for business (lower tax rates)

**Threats:** external factors damage business (oil crisis)

1- Social

* Support for environment + protection
* Flexible labor force
* Multiculturism – more choice
* Social pressure groups – more ethical
* Demographic changes
* Language – creates opportunities

2- Technological

* Advance tech – improve productivity
* New working places – internet (home)
* Cost a lot
* Loose jobs (distraction)
* Price transparence: accessibility of the order flow of a particular stock

3-Economic

1. ***Control Inflation***

Consumption Price Index (CPI): calculating inflation

* Inflation: rise of prices
* Cause: excessive aggregate demand (more demand for product 🡪 product has higher price), high production cost, value of currency
* Effect: higher consumption, investment, gov. spending, international trade

1. ***Reduced unemployment***

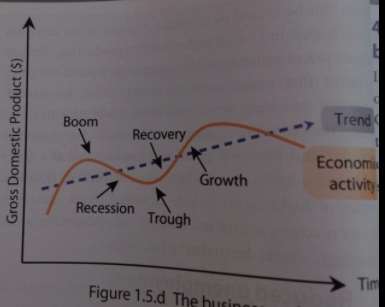
* Unemployment 🡪 poverty & high crime levels 🡪 increase tax payers 🡪 gov. spends on welfare for unemployed 🡪 low international competiveness
* Gov. Lowers corporate taxes & interest rates 🡪 encourage business

*Types of unemployment*

* **Fractional:** change of jobs
* **Seasonal:** reoccurring changes in demand
* **Technological:** labor saving tech.
* **Regional:** unemployment rates in regions
* **Structural:** demand of product falls
* **Cylical:** lack of economic demand – price is too high

1. ***Economic Growth***

* GDP: change in economy’s total output value per year



*Business Cycle*

1. Boom: high economic activity, low unemployment
2. Recession: fall in GDP, high unemployment, low investment, falling export
3. Trough: bottom of recession, last decline
4. Recovery: GDP recovers from trough

*Barriers for economic growth*

* Lack of infrastructure: transport, communication

*Recovery*

* Cost Reduction – cash flow: better suppliers, cut light/energy
* Price reduction
* Non-pricing strategies
* Branding
* Outsourcing: overseas

1. ***Healthy international trade balance***

🡪Records value of country’s export earning & import expenditure

* Balance: not a high export earning
* Balance **exchange rate:** value of domestic currencies in foreign currencies
* *Higher E.R* 🡪 *higher export prices*
* *Lower E.R.* 🡪 *price advantages for domestic firms*
* *Imbalance E.R.* 🡪 *limit accuracy on exporting*
* **Protectionist measured:** gov. policy safeguarding domestic businesses *(business in home country & pay tariffs)*

*Solution:*

**Protectionist measures:** gov. policy to safeguard domestic business from foreign competitors

* **Tariffs -** tax to be paid on imported products 🡪 domestic firms price advantage
* **Quotas –** quantities limit on value/volume import
* **Subsidies –** financial aid by Gov. to business 🡪 reduces cost of production 🡪 competitive advantages
* **Embargos –** physical bans on international trade (countries)
* **Technological & safety standards:** regulations on imported products 🡪 raises production cost on foreign countries

4- Environmental

* **External cost:** cost incurred by society, not people

-Impact reputation

5- Political

* **Stability –** taxation & interest rate policies
* **Laissez-fair government –** gov. intervenes as little as possible in economic affairs
* **Interventionist (opposite):** adopts free market 🡪 legislation + policies 🡪 manages economy (sets prices) 🡪 influences domestic economy/business activity 🡪 healthy competition
  + Deflationary fiscal policy: reduce aggregate demand (demand of the GDP of a country to reduce price 🡪 inflation and economic activity)

Fiscal Policy: the way the gov. handles economy (interest rate, exchange, inflation, regulations)

* + - **Deflationary monetary policy:** regulation of money supply & interest rate by a bank to control inflation and stabilize country (more business activity)

-Limit the amount of $ in the market 🡪 prices not as high

*Higher Interest Rate= more demand on currency, more investors*

* + - **Expansionary fiscal policy:**

-taxes reduce: less to gov., more to business

-public sector spending increase: business receive more money 🡪 they produce what the gov. needs

* + - **Deregulation:** remove gov. rules & regulations (bureaucracy) 🡪 no business activity constrains & increase in competition
    - **Corruption**

6- Legal

*Common legislation affecting business*

* **Consumer protection legislation:** Law for false/misleading product descriptions
* **Employee protection legislation:** prose interest & safety of workers (anti discriminate, equal pay, health, safety, min. wage)
* **Competition legislation:** 
  + Anti-competitive practices prohibited
  + Protect consumers/small business from firms with monopoly power

*Monopoly power:* single company owns nearly all the market

7- Ethical

*Good Quality:*

* Min. wage
* Good working conditions
* No mislead market
* No corrupt suppliers

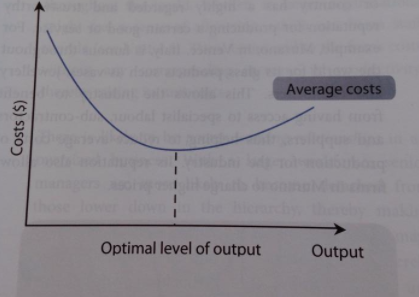
**External social audits:** reports on ethical & social stance of business

External Env. & CUEGIS concept

* Helps decision making on:
  + Potential cost
  + Market planning
  + Business proposition (expand)
  + Investment

**Firms Gearing:** extent to which business relies on external borrowing (interest rate)

1.6: Growing & Evolution

**Economies of scale: lower** avg. cost of production as firm operates on larger scale

* + Productive efficiency
  + Cost advantage: more profit

**Average cost (AC):** cost per unit of output

*🡪 Total cost (TC) / output quantity (Q)*

* **Average fix cost:** total fix cost/Q
* **Average variable cost:** AVC / Q

**Internal economies of scale:** That occurs in firms & has control

*Lowering avg. cost of production by:*

* **Technical economies:** use machinery to mass produce their product
* **Financial economies:** 
  + Larger firms are less risky 🡪 lower rates of interest for borrowing $
  + Smaller firms: struggle for external finance 🡪 higher interest rate
* **Managerial economies:** divide roles of management
  + Sole trader becomes🡪 group divides roles

-Gerente

* **Specialization economies:** division of labor of work force

-McDonalds: cortar tomates

* **Marketing economies:** if bigger business 🡪 publicity is same advert in lots of countries
* **Purchasing economies:** buying bulk resources (bigger 🡪 discount)
* **Risk-bearing economies:** conglomerates: minimize risk (have other different business)

-interbank: plaza vea, inkafarma, etc.

**External economies of scale:** benefits outside business

* Technological progress
* Improved transportation network: ensures deliveries
* Skilled labor: government aided training programs, education facilities

**Internal diseconomies of scale:** higher unit costs as firms size increases

* Managers lack control & coordination
* Poorer working responsibilities: damadged communication, avg. cost of production increases
* Slack: get bored of repetitive task – low efficiency
* Bureaucracy increase: lack communication
* Complacency: reduce productivity

*Solution:* Franchising – licensed granted by company to trade using firms name, logos, product brands & trademarks (names)

**External diseconomies of scale:**

* Increase market rents: too many business on certain area – unit cost raise
* Offer higher wedges/financial reward:

*Organizations*

*Size of a business measured by:*

* **Market share:** firms sales revenue as % of industries total revenue
* **Total revenue:** value of firms annual sales turnover per time period
* **Size of workforce:** employees
* **Profit:** value of firms profit per time period
* **Capital employed:** value of firms capital investment for business to function

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| ***Large*** | ***Small*** |
| Brand recognition | Cost control – the cost of opening a new place is not worth it (extra borrowing, control problems) |
| Brand reputation | Financial risk |
| Value – added serviced | Gov. aid – grants/subsidies/training |
| Lower prices – economies of scale | Local monopoly power |
| Greater choice | Personalized services – devote to customers |
| Customers loyalty | Flexibility |
|  | Small market size – low competition |

* *Optimal size:* depends on structure, cost, aims & objectives
* *Growing allows:* more profit, financial resources & economies of scale

**Internal (Organic) Growth**

* Business grows using own capabilities/resources
* Increase sales revenue & scale of operation

*Effects*

* Change prices
* Promotion
* Better products
* Placements – greater distribution
* Offer preferential credit – buy now pay later
* Increase capital expenditure: investment
* Improve training
* Provide value of money –quality vs paid

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| ***Advantage*** | ***Disadvantage*** |
| Control & Coordination | Diseconomies of scale – higher cost production |
| Inexpensive – retained profits from low capital | Re-structure |
| Corporate culture | Dilution of control & ownership – shareholders now decide |
| Less risky | Slower growth |

**External (Organic) Growth**

1. **Mergers & acquisitions**

*Merger:*

* 2 business integrate 🡪 1 larger market & economy of scale

*Acquisition:*

**Takeover:** company buys more than 50% 🡪 becomes owner of the company

* Horizontal Integration: combining firms to operate on same industry

*Gloria buys Laive*

* Vertical Integration: business at different stages of production have same end

*Buys suppliers/Clients 🡪 Gloria: buys vacas & wong*

* Lateral Integration: firms with similar operation but no competition

*Cineplanet: buys popcorn & movies*

* Conglomerate Integration: integration of completely distinct market business

*Interbank: owns Bembos, Cineplanet, Seguros*

*Reasons:*

* company lacks fund for internal growth
* small rivalry, financial crisis
* low profit & share price: easy target

*Effects*

* Redundancies – job loss
* Conflict / culture clash
* Low control

**2. Joint Ventures**

* 2+ business split costs/risk/control & rewards for a business project

Advantages

* + Synergy: greater outcome
  + Spreading costs & risks
  + Entry to foreign markets
  + Relatively cheap
  + Competitive advantages
  + Exploitation of local knowledge
  + High success rate

**3. Strategic alliance**

* 2\* cooperation in business venture remain independent 🡪 work for mutual benefit

Advantages

* + Gain synergies
  + Added value service
  + Wider distribution

Stages

* + Feasibility study: investigate, rational objectives
  + Partnership assessment
  + Contract negotiation
  + Implementation

**4. Franchising**

* *Franchisor* (parent company) receives *license fee & royalty payment* (commission) from *franchisee* (purchaser) to trade/distribute firm’s name logo, brand & trade marks

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| ***Advantage*** | ***Disadvantage*** |
| Rapid & cheap growth of franchisor | Risk to damaged reputation |
| National/international presence | Slower than M&A’s |
| Low risk of un-success | Regulated by franchisors qualities standards |
| Low start-up cost | Franchisee pays high revenue percentage of franchisor |

Role & Impact: GLOBALIZATION

**Globalization**: growing integration/interdependence on worlds economies

* Increase competition
* Customers expectation/base
* Economies of scale: global market & risk-bearing economies
* Greater location of choice
* External growth opportunities
* Increase finance source

\*\* risk-bearing economies: the larger the firm – the more risks & investments it can make

**Multinational Companies Growth**

* Organization operations in 2+ countries
* Intensify globalization
* Head office on home town

*Transnational company:* regional head offices

Reasons to MC:

* Increase customers base
* Cheaper production cost – inexpensive labor
* Economies of scale
* Protectionist of policies are avoided – tarriffs, quotas, restrictive trade practices

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| ***Advantage*** | ***Disadvantage*** |
| Create jobs | Cause unemployment |
| Boost GDP through consumption expenditure | Profits are repatriated (Sent to home country) |
| New skills & tech | Social responsibility |
| Competition | Competitive pressures – forced to raise $ |
|  | Takeover domestic business |

**Growth & Evolution: CUEGIS**

* Greater profit & sustainable competiveness
* Cultural, change, globalizations

*Strategies*

* Have a good reputation
* Unique selling point
* **Branding**
* **Economies of scale**
* **Diversification –** sell new products in new markets
* **Brand acquisition -** buy brands
* **Demerging –** sell part of a business
  + Diseconomies of scale is avoided
  + Sustain operations
  + Avoid raising unit cost