QUES. ANS 16/3/3

TOPIC 1: ENTERPRISE

1. THE NATURE OF BUSINESS ACTIVITY

Definition | Business: It is an idea of a person or a group of people who are working in an organized way to achieve a given target. These businesses usually have profit as their primary motive however there are several other objectives like social welfare, providing services etc.

1. Opportunity Cost

Definition: Opportunity costs is defined as the next best alternative forgone. People are forced to make choices due to the presence of the basic economic problem, which is there are limited resources and unlimited needs and wants which leads to the problem of scarcity. In simpler terms, the sacrifice by an individual or organization while giving preference to one product to the other is known as the opportunity cost of a particular decision. Remember that this is made by all economic decision makers: Consumers, businesses and government. Examples:

2 + 3
1, Defination
Explain opportunity cost with examples

1. Consumer – An individual has $1000 and he/she can either buy a laptop or a smart phone. If the individual chooses the laptop the smart phone becomes the opportunity cost.
2. Businesses – A business has $1million. It can either spend it on expansion to a new country or invest in research and development. If the businesses choose to invest it in expansion, the research and development becomes the opportunity cost.
3. Government – A government has two options either to build roads or building schools in the country. If the government chooses to build roads, developing schools would become the opportunity cost.

2. The concept of creating value V/s added value

Definition: Creating value is selling the product for a higher price than it was initially bought in. Added value is the difference between selling price of the finished good and cost of bought in materials. This can be done by providing better customer service, advertising, attractive displays etc. Businesses that tend to be more customer focused tend to create high value. It's not the same as profit.

Added value = Selling price – Cost of bought in material

Creating Value

- Brand Images
- Customer Service

help to create value.

2 marks → Defination

3 marks → 2 methods.

NO REAL LIFE EXAMPLES

3. Factors of Production

Definition: These elements are required to carry out a business activity are collectively known as the factors of production. These include:

Factor	Description
1. Land	It represents all the natural resources which are consumed during the business activity, e.g. plains, seas, mines etc.
2. Labor	The term refers to any kind of physical or mental human effort. E.g. carpenters, doctors, etc.
3. Capital • man and resources • Finance	Capital is not only the finance needed to set up the business and pay for its operations, but is also all the man-made resources used in production. These include capital goods, which are the physical goods used by industry to aid in the production of other goods and services, example: machines and commercial vehicles.
4. Enterprise • combined • Take risk • Innovate	This is the skill and risk-taking ability of the person who brings the other resources or factors of production together to produce a good or service. For example, the owner of a business.

inability of the bus. to cont. in operation

Business can fail due to internal and external reasons. Business failure is regarded as the

4. Why businesses fail? 5 – 8 marks

Reason	Description
1. Lack of working capital 5-6 chains	This is the capital needed for day-to-day running of the business. It is used to by inventories, pay off creditors and allows the business to give credit to its customers. If the business can't pay its day to day expenses, it might be forced to shut down. However business can avoid this by forecasting the future cash flows, keeping reserve funds and allowing smaller credit periods to customers.
2. Poor Management • Marketing • Accounting • Finance	The entrepreneur is usually skilled in one field and lacks experience in others. He/she might be a well-trained engineer but might lack management and communication skills. The best way to counter this problem is that an entrepreneur seeks training, hires skilled partners and seek management experience through employment.
3. Lack of record keeping	Most businesses collapse because they fail to record and maintain accurate business data. This includes business transactions, customers database, employee working hours etc.
External 4. Changes in business environment	A business might fail due to the dynamic changes in the business environment. These include political, economic, social and technological changes in the business environment.

• Bank loan • Updated marketing strategies

• Training workers • bring experienced workers • accurate record keeping

• Technology • govt. laws • competition

(ERP system) technology, govt. laws, competition. (MNC)

2. THE ROLE OF THE ENTREPRENEUR

Definition | Entrepreneur: An entrepreneur is an individual who combines the factors of production, assumes the risk and is an innovator. These individuals come up with a new business idea, arrange the investment and accept the risk. Example: Steve Jobs created Apple, Richard Branson, CEO of Virgin Group, Elon Musk, CEO of Tesla and Space X, etc.

2 marks defination

3 marks Question :- Breifly explain two qualities of an Entrepreneur

• They combine land/labour and capital and produce goods and services to satisfy the needs and wants of the consumer in a profitable manner

• Risk :- Since the business environments are uncertain chances are that the investment might not yeild returns due to failure of the product.

3) Innovate: entrepreneur usually come up with product and process innovation which not only satisfy the existing customers but also helps to create new solutions to existing problems.

TOPIC

1. Problems that a new business/entrepreneur faces: (3-5 marks). learn any 3

• consumer taste, less budget; time to take in the short-run

Problems	Description
1. Identifying successful opportunities	This happens when the entrepreneur is unable to find a sufficient demand for its product or service in the market which leads to low profitability. Solution:- Market research & look already successful market
2. Finance	When starting out entrepreneurs find it hard to obtain financing for their business. This is mainly due to lack of personal savings, no past business record or a weak business plan that is unable to convince a potential investor. Solution:- Rely on multiple sources of investment (Bank)
3. Location	Due to low financing and the objective of keeping costs low a business not be able to find a location that is close to the market resulting in low sales and hence lower profits. Sol:- Good location & drop shipping.
4. Competition • Existing • threat of new people.	A new business might face fierce competition from the current business since the current ones are financially and technologically superior. This problem can be countered if the new business presents a unique idea and a value chain that is difficult to imitate. Sol:- offer the better value proposition
5. Building a customer base	Some businesses have trouble building a customer base due to many competitors in the market. New businesses usually try to provide better value propositions like better good/service at a cheaper rate, better customer service etc. value proposition / offer products in market & are untapped (blue ocean strategy)

• More liability of markets

Start with def of business, drawbacks • business can become monopoly powers and exploit the labour and the customers. By underpaying labour colour. changing customers they are able to achieve the target

5-8 marks.

2. The role of business enterprise in the development of a business and a country

Role	Description
1. Creates employment • Labour.	Businesses employ people which reduces the unemployment in the country.
2. Economic Growth GDP increases.	Businesses generate taxes and variety of goods for individuals. The taxes can be used by the government to provide public goods.
3. Innovation and technological changes	New businesses come up with innovative ideas that adds to dynamism of an economy. Examples include Uber and Airbnb
4. Increase in exports Start	Increase in exports provide better international competitiveness for the country. Starts to strengthen currency, deficit starts to drop Balance of Payment

3. SOCIAL ENTERPRISE

Definition: A social enterprise can be defined as a business with primarily social objectives whose surpluses are reinvested in the business or the community, rather than providing profits for shareholders or owners. Examples include: KASHAF Foundation and Akhuwat in Pakistan. A social enterprise has a triple bottom line objective:

↳ business financial core.

1. Economic – Make profit and reinvest back into the business
2. Social – Provides jobs and support for locals
3. Environmental – Have sustainable environmental policies which helps to protect the environment.

–> Any

• Business result in environmental degradation because they need raw materials as source of economic activity.
• Some business get involved with immoral practice which involves activities like tax evasion, window dressing etc.

TOPIC 2: BUSINESS STRUCTURE

1. ECONOMIC SECTORS

There are THREE economic sectors in an economy:

1. Primary	This sector includes the extractive industries that acquire raw material from naturally available resources, e.g. agriculture, mining etc.
2. Secondary	It comprises of the manufacturing industries that convert raw material into semi-finished or finished goods. E.g. Textile industry.
3. Tertiary	This represents all kinds of services such as banking, retailing, etc.

Q. Briefly explain the differences in private and public sector.

The Public and Private sectors

Ans) Definition | Private Sector: This sector includes privately owned businesses with the main motive of profits. The businesses will make their own decisions about "What to produce, how it should be produced and what price to charge for it". Example of a private sector business, McDonalds, Nestle, Mobilink etc.

Definition | Public Sector: This sector includes businesses owned and controlled by the government. It operates for the welfare of the community and pursues profits as only a secondary motive. They are responsible to provided essential facilities to the masses and it will do so even it does not prove to be profitable. Usually services include, health, education, defense, utilities. A real-life example can be Pakistan Railways.

2. LEGAL STRUCTURES

1. Sole trader
2. Partnership
3. Private limited companies
4. Public limited companies
5. Franchises
6. Co-operatives
7. Joint ventures
8. Multinationals

P-1 -> usually definations
· Advantages / dis-advan

P2 -> popular essay topic.

one

1. Sole Trader

Definition: A business in which one person provides the finance and in return has the full control of the business and keeps all the profits. A sole trader has all of the risk due to unlimited liability, lacks separate legal status and lacks continuity. Unlimited liability means that the owner's personal possessions can be taken to pay off the debts if he defaults on a loan.

Advantages	Disadvantages
1. It is easy to set up since it has no legal formalities. 2. The owner enjoys complete flexibility in decision making and is not answerable to anyone. This also reduces chances of conflicts. 3. No profit sharing. Since he is the only one in the business profits do not need to be shared.	1. Unlimited liability, this mean that if the sole trader is unable to pay off business debts, the lender reserves the right to take his personal assets. 2. Lack of continuity, since the business does not have a separate legal status, when the owner dies the business comes to an end. 3. Workload is not shared which leads to longer working hours and the owner is unable to specialize in the area of expertise.

2. Partnership

Definition: A business in which two or more people coming together to own a business, usually to make a profit. These individuals invest capital and usually share responsibilities of running the business. A partnership has unlimited liability, lacks continuity and lacks separate legal status.

Advantages	Disadvantages
1. Partners can share the workload and help in specialization if different areas of business like marketing, operations, finance etc. 2. The business gets additional capital since every partner invests in the business. 3. Losses are shared between partners. This leads to spread of risk.	1. Unlimited liability, this mean that if the sole trader is unable to pay off business debts, the lender reserves the right to take his personal assets. 2. Lack of continuity, since the business does not have a separate legal status, when the owner dies the business comes to an end. 3. Profits are shared which leads to less return per partner. 4. There are chances of conflicts since partners might disagree on issues which can delay decision making. 5. Sole Trader might lose control of decision making if he/she forms a partnership

3. Private limited companies

Definition: A small medium-sized business that is owned by shareholders who are often members of the same family; this company cannot sell shares to the general public. Example: Lahore Grammar School. These businesses have limited liability, has a separate legal status and has continuity.

Advantages	Disadvantages
1. Limited liability is the situation which states that the liability of the owner is only limited to the amount invested in the business and their personal assets are safe.	1. There are several legal formalities that are not only time consuming but also expensive.
2. Separate legal identity makes that the owners and businesses are separate. This means if a product is faulty the company is sued and not the owners.	2. Limited potential to raise capital since they cannot sell shares on the stock exchange.
3. Has continuity which means that the death of an owner does not lead to break-up of the business.	3. Less secrecy over accounts as accounts must be sent to company's house which can make them open to public inspection.
4. Can raise capital from selling of shares to friends and family. because investors are more likely to place the money in the business	4) Pvt. ltd companies have to pay higher %age of taxes than sole trader and partnerships.

4. Public limited companies

Definition: A limited company, often a large business, with the legal right to sell shares to the general public – share prices are quoted on the national stock exchange. These businesses have limited liability, has a separate legal status and has continuity. Example: Telenor, Nike etc.

Advantages	Disadvantages
1. Limited liability is the situation which states that the liability of the owner is only limited to the amount invested in the business and their personal assets are safe.	1. There are several legal formalities that are not only time consuming but also expensive. These include Memorandum of Association* and Article of Association*
2. Separate legal identity makes that the owners and businesses are separate. This means if a product is faulty the company is sued and not the owners.	* impt 2. Risk of takeover due to availability of shares on the stock exchange. As another company, can buy a large number of shares to assume control of the company.
3. Has continuity which means that the death of an owner does not lead to break-up of the business.	3. Less secrecy over accounts as accounts must be sent to company's house which can make them open to public inspection.
* 4. Can raise capital from selling of shares on the stock exchange. these selling of shares allows the firm to undertake expansion projects and can assist in internal growth.	4. Can lead to potential diseconomies of scale if the company.

[Pair Point] competitory.	[Pair Point]
5. PLCs have a potential to gain economies of scale. This reduces production cost due to expansion. details are in Section 4.	5. Might experience diseconomies of scale. This is a situation where average cost starts to increase due to expansion. This can be because of mismanagement, high capital costs etc.

*Memorandum of Association: A MOA is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders. This document includes the name of the company, the address, max share capital and the aims of the business.
*Article of Association: The AOA is a document that contains the purpose of the company as well as the duties and responsibilities of its members defined and recorded clearly.

5. Franchises
Definition: A Franchise is a business in which exclusive rights are purchased for selling goods or services under a specific brand name, logo and trading system. The franchisor sells the right the franchisee, authorizing the franchisee to use the brand name and logo. Franchises exist in several industries. Example: Food (McDonalds, Burger King, Starbucks), Clothing (Abercrombie and Fitch, Nike, American Eagle), Hotels (Marriott International, Hilton Hotels & Resorts)

Advantages and Disadvantages to the **Franchisor**

Advantages	Disadvantages
1. Expansion of the business without incurring the high capital cost. This leads to nationwide presence without heavy investment.	1. Training of employee needs to be paid by the franchisor.
2. Inflow of cash, since the franchisee pays the royalty. A royalty is a payment to an owner for the use of franchises license.	2. The franchisor pays for the nationwide advertisement campaigns.
3. Share of profits or revenues are earned by the franchisor.	3. Failure by an individual franchisee might reflect badly on the whole franchise operation.

Advantages and Disadvantages to the **Franchisee**

Advantages	Disadvantages
1. Chances of failure are reduced due to an already established brand name of the franchisor.	1. Expensive license fees need to be paid to the franchisor.
2. Franchisor pays for the advertisement of the brand and training of employees.	2. Has limited control over items like price, terms of sale, place etc. [Marketing Mix]
3. Can benefit from the business expertise and gain access to the business network of the franchisor.	3. Profits needs to be shared with the franchisor. 4) Any wrong move by the franchisor can impact the franchisee's performance.

4) Franchisee can get funding from financial institutions like banks and PVT investors due to the low risk nature of the business.

Definitions and adv and dis adv

6. Co-operatives

whole definition.

Definition: A co-operative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled business. All members have one vote and all of them share profits equally. There are THREE types of cooperatives:

1. Employee Cooperative: Business is owned by all the employees who work there.
2. Community Cooperative: Owned by members of a community to provide local service.
3. Retail cooperative: Where several retailers join together to come under one brand name.

Advantages	Disadvantages
1. Employees have a share in the business and they are interested in how it performs. This leads to higher staff motivation and engagement in their work.	1. Disadvantages include slower decision making since members need to be consulted on important issues.
2. Productivity of workers might be high since they are motivated by the values of the co-operative and desire to add value to their members and the wider community.	2. The ability to raise finances is limited since they can't sell shares to the public.
3. Economies of scale due to bulk buying. As members, can arrange the supplies in bulk to gain discounts.	3. Productivity and profitability might decrease as people are not motivated by self-interest.
4. Better decision making since work load is shared.	4. Only a small amount of profit is shared and the rest is reinvested into the business.

7. Joint ventures

Definition: A joint venture is when two or more businesses/people agree to work together on a particular project/product or business enterprise, sharing the cost, risk and responsibilities. These companies maintain their original identities. Examples: (i) Kellogg Company and Wilmar International Limited started a joint venture for the purpose of selling and distributing cereal and snack foods to consumers in China. (ii) NBC, Fox and Disney started a joint venture to create the enormously popular video streaming website "Hulu". originals are not affected.

Joint ventures → for third business → ↳ don't use 'merge' word.

Advantages	Disadvantages
1. Provide companies with the opportunity to gain new capacity and expertise. due to transfer of technology and idea share.	1. The objectives of the venture are not 100 per cent clear and communicated to everyone involved. [clash of cultures]
2. Allow companies to enter related businesses or new geographic markets or gain new technological knowledge access to greater resources, including specialized staff and technology sharing of risks with a venture partner.	2. There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners.
	3. Different cultures and management styles result in poor integration and co-operation.

as opposed to emerge.

3. Joint ventures can be flexible. For example, a joint venture can have a limited life span and only cover part of what you do, thus limiting both your commitment and the business' exposure.	4. The partners don't provide enough leadership and support in the early stages. • Fight for power and control.
4. JV's offer a creative way for companies to exit from non-core businesses. Companies can gradually separate a business from the rest of the organization, and eventually, sell it to the other parent company. Roughly 80% of all joint ventures end in a sale by one partner to the other.	Evaluations: - Joint ventures are most significant if the expertise of both companies are at the same level. 2) The success depends on how are the objectives of the 3) Its more significant for international expansions rather than local ones. 4) Joint ventures will only be successful if training of workers is done beforehand to avoid conflicts.

8. Multinationals

Definition: It is a large scale, well established business with head quarter in one country and operating through a network of production plants and/or branches in different parts of the world, e.g. P&G, Toyota, Shell, Standard Chartered etc. **(More details in A2)**

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[Only for Short Q's]

TOPIC 3: SIZE OF BUSINESS

PROFIT IS NEVER A MEASURE OF SIZE

1. MEASUREMENTS OF BUSINESS SIZE

Tested as: i) Definition.
2) Explanation after a calculation of market share

There are several ways to measure the size of the business:

1. Number of Employees
2. Revenue
3. Capital Employed
4. Market Share
5. Market Capitalization [Only for public ltd companies the value of shares on stock exchange]

1. Number of Employees

The higher the number of employees that greater the size of the business. This measure is usually used for labor intensive industries such as agriculture. Example: GlaxoSmithKline has over 100,000 employees.

2. Revenue

This is regarded as the total value of sales made by a business in a given time period. Higher the value of revenue the larger the size of the business. Example: Exxon Mobil had sales turnover of 433.5Billion in 2012 and was the largest firm by revenue.

3. Capital employed

This is the difference between the assets of the firm and its liabilities. This shows the amount of long term finance invested in the business. This measure is usually used for capital intensive industries such as car manufacturing. Example: In 201[illegible] Walmart's capital employed was 203.1 billion making it the world's largest retailer.

4. Market Share

This is the ratio between the sales of the company and the sales industry. Higher the market share the larger the business. However, it should be noted that a high market share might be misleading if the market for the products is small. Example: Nestle has the highest market share in milk, butter, yogurt and water in the Pakistan.

$$\text{Market Share \%} = \frac{\text{Compnay Sales}}{\text{Total Market Sales}} \times 100$$

5. Market Capitalization

It is regarded as the Total Value of the shares issued by the company.

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

This tends to show that higher the share price, greater will be the value of the company. Only applicable on public limited companies.

Note: There is no best size to measure a business. The way to measure will depend on several factors, the business being measured, the nature of the industry and the analysis being drawn (absolute or comparative)

Two perspectives: i) Business ii) country/govt

tested for 5, 8, 11 marks.

2. SIGNIFICANCE OF SMALL BUSINESSES

Definition. Small businesses are businesses that usually have less employees, generate low revenue, have less capital employed and have a low market share. There are several advantages and disadvantages of small businesses.

Some parts 9 MS can be used here

Advantages	Disadvantages
1. Create Jobs: Small businesses collectively employ a significant proportion of the working population.	1. Limited sources of finance: This leads to difficulty in expansion and reduces the chances to deploy technology and efficient production methods.
2. Create competition for larger firms: These businesses create competition within the market, brining prices down and prevent formation of monopolies. Example: Air Line industry, where cost is reduced over the years due to the entry of several small airlines.	2. No/Few economies of scale: Since the business is small it is difficult for them to expand production and achieve lower unit cost.
3. Flexibility with Changing Conditions: Small business operators have way more flexibility to make swift, immediate and necessary changes that are essential to dealing with shifting conditions. They're at the top. The ability to respond quickly to market changes is a big asset you have and can use to stay ahead.	3. No diversification: This increases the risk of failure due to the greater risk of negative impact of external change. Example: If the product and handmade carpets and the product goes out of fashion the business would be forced to shut down.
4. Innovation and dynamic products: These small businesses produce innovative and dynamic products adding the variety of goods available in the market. Example includes customized wallpapers designers etc.	dis. advantages for govt. 1) the governments has to fund these small businesses, which can be a burden on its budgets. 2) Most small business do not generate enough profit that they fought w... the tax brackets.

Adv. Ladings
5) these small businesses will become large firms in future and can contribute to the GDP and generate taxes for the govts

Family Owned business

8 marks Essays.

Definition: A business that is owned and managed by the at least two members of the same family

Revise all three strengths and weaknesses.

Strengths	Weaknesses
1. Knowledge: Passing on the accumulated knowledge helps to maintain the quality of the products.	1. Succession: This often results when the newer generations are incompetent or a difference of opinion rises among the members
2. More finance: Family members might be willing to provide finance and expertise	2. Informality: Lack of formal business practices due the absence of check and balance.
3. Commitment: Family members are more committed to the business which leads to members working for longer hours and at lower rates than outsiders.	3. Traditional: Family owned businesses follow their traditional methods of operations which might prove to be inefficient in the dynamic and changing market conditions.

MS

3. INTERNAL GROWTH

Definition: Internal growth is regarded as the expansion of a business by means of opening new branches, selling franchises or attracting investment from large businesses, launching new products for consumers, finding new markers, etc. This happens when the existing firm grows without joining hands with any other firms and usually reinvests profits to achieve this. Example: Coca-Cola, Innocent Smoothies, Subway etc.

Root Point to be noted: whenever growth reach some the only will be economies of scale and dis only would be diseconomies.

Advantages of Internal Growth

Advantage	Description
1. Power over suppliers and customers	When a business grows in size it has more power over its suppliers and customers which allows them to make more profits.
2. More customers	Since the business has more branches it can reach more customers which leads to more sales and higher potential for profits.
3. Increase business worth (the value of your assets in the balance sheet are going up.)	Owners can own something worth more than the previous business which helps them increase their wealth.

Note: Some businesses prefer to grow internally since it avoid problems related to growth like lack of capital and problems with adjusting to cultures. However, this method is slow and not suitable if the competitors are expanding rapidly.

DRAWBACKS.

- Take time because the main source of growth is retained profits, which is limited in its amounts, hence, a large scale expansion is not possible.
- Internal growth can put the business at high risk because if the expansion fails, the entire loss would be shared by one company.
- Growing internally can lead to lack of ~~diversities~~ diversification because the business does not have knowledge about other industries, making expansion procedures becomes risky.

4) Diseconomies at scale.

Evaluations

- Internal growth depends on the financial position of the company. It is only recommended if the business has abundant resources.

2) what is the preference of the owner? If its to retain control then internal is preferred but if its rapid expansion than external is preferred.

- Internal growth should only be done if the diseconomies can be prevented (does a company have enough resources to do that).
- It depends on the scale of expansion, if its local, or regional, internal is prefered but if its international then external growth is recommended.

Most important topic !!
[Essay type Questions]
Impt of Profit Maximization
1) Higher the profit, greater the retained earnings, increasing the potential of the business to achieve internal growth.
2) Higher profits lead to the ~~happening~~ business paying better wages, hence attracting good quality labour.
3) Higher profits can lead to a higher stock price for the company because the investors are most interested and makes it difficult for other companies to take over that firm.
4) Profit maximization can result in good quality products as the business has made funds available to invest R&D.

TOPIC 4: BUSINESS OBJECTIVES

1. BUSINESS OBJECTIVES | PRIVATE SECTOR AND PUBLIC SECTOR

Definition | Corporate objectives: These are aims and targets that relate to the business as a whole. They are usually set by the top management of the business and they provide the focus for setting more detailed objectives for the main functional activities of the business. These objectives should meet a SMART criterion (Specific, Measureable, Achievable, Realistic and Time Specific).

Definition | Departmental Objectives: These aims and targets of the functional departments of the business. Example Marketing, HR, Finance etc.

Objective	Description
1. Profit Maximization	This is when the businesses try to maximize the different between its cost and revenues. They help the business grow and persuade business owners to take risks [to increase revenue & to decrease the cost].
2. Profit Satisficing	This is when the business aims to generate enough profit to keep shareholders happy. This is for small businesses.
3. Growth	This aims to maximize sales and value of output. This helps the firm earn economies of scale, these firms enjoy greater control over the market and motivates managers to work hard.
4. Increase Market Share	This is linked with growth. However, it should be noted that an expanding business might have a lower market share because the market is growing at a faster rate.
5. Survival • when a new • when there is a -ve economic influence on the business	This is usually an objective for newly established businesses. Here the business aims to stay in the market and just cover it costs.
6. Max Shareholder Value (to increase the share price and dividends)	In public limited companies the objective of the firm is to maximize the share price and dividends paid.
7. Corporate Social Responsibility	This objective is set by businesses that consider the interests of their stakeholders and not only their shareholders when taking decisions.
8. Providing Services } only for govt.	This is an objective set by public sector enterprises. They aim to provide essential goods and services to the general masses at a subsidized rate.

Q) Definition of business objective, its adv and disadv

Advantages and Disadvantages of setting objectives [8 marks Essays] Part [4]

Advantages	Disadvantages
1. These specific organization objectives become part of senior level management strategies and set the context for divisional/departmental objectives and effective plans of action can be developed. 2. Ensures that the business is focused and does not drift clear corporate objectives given such as growth, profit/sales maximization.	1. If the objectives are unrealistic they might demotivate the employees. 2. If the objectives are not regularly updated with the changes in the external environment they might not provide focus. 3. It they are not communicated properly to the workforce they might be ineffective.

3. Present a clear set of guidelines and parameters for middle, junior management actions and strategies. Helps in setting departmental objectives. 4. Without these clear corporate objectives a business can drift and cease to compete and flourish. 5. Give meaning and purpose for all engaged in the business.	4th Adv :- Objectives can help evaluate the performance of the staff against preset targets. The performance is considered to be high if the target is ~~calculated~~ exceeded, performance is set to be low if the target was not achieved.

(Cooperate Social responsibility) → done by put businesses only.

CSR as a business objective [12] or [Popular Essay for P-1?].

<u>Definition | CSR:</u> These businesses consider that consider the interests of their stakeholders and not only their shareholders when taking decisions. [Pure Profit-making].

Advantages	Disadvantages
<u>1. Worker Loyalty:</u> Practices like paying higher wages, improving working conditions, improving safety standards, cutting waste and pollution, support worker security which motivates employees to work harder and creates loyalty.	<u>1. High Cost – Low Profits:</u> Environmental friendly production methods are costly and might result in expensive products. The company passes on these higher prices to their customers, resulting in low sales and hence lower profits. Two parties that have conflict with this objective 1) Trade union 2) Pressure groups (WWF, greenpeace).
<u>2. Avoid Govt. Fines:</u> Better waste management and less polluting methods will reduce the cost of the firm by avoiding government fines. This will also prevent reduction in sales due to bad publicity.	<u>2. Labor Redundancy:</u> Environmental friendly methods might lead to jobs lost in the economy. Since these production methods are expensive to deploy the firm might be motivated to cut down costs my making labor redundant. This will lead to unemployment in the economy and can generate a reaction from the labor unions.
<u>3. Marketing and Promotion:</u> Businesses that deploy green technology and production methods earn a boost to reputation in the eyes of the customers and stakeholders. Due to the growing trend and awareness in the world for environmental preservation the businesses can ride the curve and create a point of differentiation by adopting green policies. Example includes: Nike a sportswear brand. Nike has been working toward inventing closed-loop products; moving to 100% renewable energy; pioneering a manufacturing revolution that puts workers' voices at the heart of the business model; and fostering a diverse workplace and an inclusive culture that unleashes innovation.	<u>3. Loss in Market Share:</u> The firm might lose its market share since high costs opens up opportunities for competitors to grab a hold of the market share. The company might not be able to recover the lost market share and might have to spend millions on marketing to gain it back. <u>4. Customer Preference is cheaper product:</u> In developing countries where law and order is weak and customers are not concerned about the environmental producing in the greenest possible way will add to no increase in revenue and will only result in high costs leading to lower profits.

4. Attract Good Employees: CSR helps to attract good employees. Due to increased awareness, employees also prefer working for firms that have better ethical and environmental standards. Having this can not only help the company attract the best talent but also motivates the employees to work more efficiently, since they will feel more productive working for a company that reflect their own personal values.	5) Operations benefits: when companies tend to become ethical, they buy high quality raw materials and invest in machinery that is environment friendly. This combination leads to saving cost on raw materials, as the cost of disposal and wastage reduces dramatically. 6) Benefit of finance: ethical businesses avoid activities like window dressing, which means fabricating accounts and adopting to modify key financial information, which will make the business more attractive for investors.

for 5 marks **Relationship between mission statement, objectives, strategy and tactics**

Definitions	**Description**
1. Mission Statement its for internal and external stakeholders.	It sets out the overall purpose of a business. A written statement of the core aims/values/purpose/objectives of a business. The aim to the statement is to motivate employees and simulate interest by outside groups. However, it should be noted that mission statements are often written in very general and vague terms in order to appeal to internal and external stakeholders as to have little impact. Furthermore, they are often long and aspirational and have little operational value.
2. Objective	It is a target that is measurable and has a given timescale.
3. Strategy	It is a long-term plan to achieve that objective of a business.
4. Tactics is set by middle or lower management.	They are short-term actions that are combined to needed to implement the strategy.

All parts can come collectively.

Difference b/w both [5]

Strategy is set by top lvl management.

Example: The mission of Amazon is to become the most customer centric company in the world. For that they will set objectives like increasing 10% customer spending and increasing 10% market share over two years. In order to achieve that goal their strategy would be to deploy efficient CRM and ERP systems. Finally, the tactics would be to get a variety of suppliers and recruit an efficient sales team and review their performance regularly.

Stages in business decision making [2] OR [3] MARKS. [LEARN ANY THREE].

1. Setting Objectives: Helps to set realistic targets

*

2. Gathering information: Analyze the situation around the business

*

3. Selecting a suitable strategy: On the analysis select the best strategy

*

4. Implementing the strategy: Implement the strategy using various tactics.

*

5. Reviewing: Check if you achieved the targets and should you make changes or not.

1[5] marks: Opening Statement → A decision making is a process in which a problem is identified and the promblem is approached in a formal manner for the best interest of the business.

Opening:- objectives can change because of internal and external reasons.

How objectives might change over time?

Reason	Description
1. The stage of the business [Internal]	If the business is starting the objective would be survival since the entrepreneur lacks knowledge of the market and the brand name is not well established. Once the business is well established the owners might shift the objective to profit maximization and growth.
2. The external environment i) govt. laws. ii) Competition. iii) Technology ERP System	Changes in the external environment can lead the business to modify its objectives. Factors like govt. consumer protection and labor protection laws are tightened in the country forcing the business to reduce prices and pay higher wages. This would shift the objective from profit maximization to profit satisficing or social responsibility. Another factor can be competition. If the competition in high in the market the business might be forced to spend on advertising which reduces the profitability and shifting the objective from profit maximization to survival.
3. Financial Resources [Internal].	The financial resources of the firm can dictate it objectives. Example: If the company was perusing a CSR as an objective however due to poor research and development the company lost a lot of funds, it might be forced to leave CSR and change its objective to survival just to stay in business.

8-12 months (vision?)

Communication of Objectives

Once the objectives are set they must be communicated to the workforce to become effective. There are several methods to communicate objectives.

MS

Method	Description
1. State of nation' address by CEO and/or senior managers	This allows the company to gather a large number of employees and address them in person which allows workers to be exactly clear about the targets however its expensive to collect workers specially if it is a large business.
2. Team meeting/briefing	This is when senior managers explain the objectives in person which allows objectives to explained in detail and at lower costs however if not explained correctly might mislead the workers.
3. Training and development days	This is done during the induction training phase where new recruits can understand the objectives of the organization however existing employees don't benefit from it.
4. Digital platforms/company website	This allows every worker to access the website and objectives can be explained in detail using videos and diagrams however not all companies have that hence its usage is limited.
5. Private commination, letter or email	This ensures that every workers understands the message perfectly however it might cost the company a lot and not effective against a large workforce.
6. Internal advertisements	This can be done by putting posters on notice boards so that workers passing through could see it. However some workers do not pay attention to the notice board hence they might ignore the message.

Mostly used for external stakeholders

[Never been tested]

How ethics may influence business objectives and activities

Definition | Ethical code: Also known as code of conduct is a document detailing company's rules and guidelines on staff behavior that needs to be followed by all employees. This ethical code can be strict or relaxed.

· Pros and cons of CSR with definition of ethical code and ~~ethics~~ ethics. Final,

- A strict ethical control would mean the managers will believe than even if some activities are not illegal but are not morally right cannot be justified,

- A relax ethical code will approve of methods which might not ethical but are legal.

Ethics: - Norms acceptable and unacceptable to a particular set of people. It only covers a certain targetted population. [Ethics and ethical code are different].

• Tested with a lot other section like a essay.

TOPIC 5: STAKEHOLDERS IN A BUSINESS

1. BUSINESS STAKEHOLDERS

Definition | Stakeholders: These are individuals or group of individuals who influence and are influenced by the activities of the business. They can be internal stakeholders which operate from within the business (Example: Owners and workers) and external stakeholders these are individuals that influence from outside the business but are affected by its performance (Example: consumers, regulators, investors, suppliers).

Shareholder Approach vs. Stakeholder Approach	
Shareholder Approach	Stakeholder Approach
This aims to just rewarding the owner. They will perform action like paying wages, taxes, etc. but will not go beyond to benefit the society.	The view that businesses and their managers have responsibilities to a wide range of groups, not just shareholders.

Roles, Rights and Responsibilities of stakeholders:

1. Owners/shareholders: Owners are individuals that combine the factors of production to start a business. They are risk bearers and profit seekers. They want the image of their company to be enhanced and increase the share price of their company. Some of the owners are also concerned about the environment and keep CSR as an objective as well.

Customers / Consumers
↓, buys the product. ↓, uses the product.

	Roles	Rights	Responsibilities (not necessarily legally binding)
Customers	■ purchase goods and services ■ provide revenue from sales, which allows the business to function and expand	■ to receive goods and services that meet local laws regarding health and safety, design, performance and so on ■ to be offered replacements, repairs, compensation in the event of failure of the product or service – to at least the minimum levels laid down by law	■ to be honest – to pay for goods bought or services received when requested ■ not to steal [very weak Point] ■ not to make false claims about poor service, underperforming goods or failed items
Suppliers [Provides raw materials, Semi-Finished and finished goods]	■ supply goods and services to allow the business to offer its products to its own customers	■ to be paid on time – as laid down either by law or by the service agreement agreed between the business and suppliers ■ to be treated fairly by the purchasing business, e.g. not to have lower prices forced on them by a much larger and more powerful customer business	■ to supply goods and services ordered by the business in the time and condition as laid down by the purchase contract or supplier's service agreements 2) Quality should be maintained.
Employees	■ provide manual and other labour services to the business, in accordance with employment contract, to allow goods and services to be provided to customers	■ to be treated within the minimum limits as established by national law, e.g. minimum wage rate ■ to be treated and paid in the ways described in the employment contract ■ in most countries, to be allowed to join a trade union if desired	■ to be honest ■ to meet the conditions and requirements of the employment contract ■ to cooperate with management in all reasonable requests ■ $\boxed{\text{to observe the ethical code of conduct}}$
Local community	■ provide local services and infrastructure to the business to allow it to operate, produce and sell within legal limits	■ to be consulted about major changes that affect it, e.g. expansion plans or changing methods of production ■ not to have the community's lives badly affected by the business's activities	■ to cooperate with the business, where reasonable to do so, on expansion and other plans ■ to meet reasonable requests from business for local services such as public transport (e.g. to allow staff to get to work) and waste disposal
Government	■ pass laws that restrain many aspects of business activity ■ provide law and order to allow legal business activity to take place ■ achieve economic stability to encourage business activity	■ businesses have the duty to government to meet all legal constraints, such as producing only legal goods, and to pay taxes on time	■ to treat businesses equally under the law ■ to prevent unfair competition that could damage business survival chances ■ to establish good trading links with other countries to allow international trade
Lenders	■ provide finance to the business in different forms	■ to be repaid on the agreed date ■ to be paid finance charges, e.g. interest on loan	■ provide agreed amount of finance on agreed date for the agreed time period

| Connects | they perform ... | ...der: As a leader, his ... | ... is to act as a sym...

Ending line: There are several conflicts among the stakeholders and the business cannot satisfy all of them, hence the priority of the business is to always take care of the stakeholders [...] power first and should then focus on the other ones.

Conflict of Objectives

Conflict	Description
1. Investor vs. Employees	Investors want to reduce costs to increase profits but this may lead to fewer or lay pay increase for employees.
2. Customer vs. Community	To provide customers cheaper products the business may relocate to cheaper production facilities overseas which might cause unemployment in the local area.
3. Government vs. Customers	If the government wants more environmental friendly products the business may change its production system leading to higher costs and higher prices for customers.

Impact of business decisions/actions on stakeholders [5 MARKS]

Some businesses might lose their jobs as well as the expansion involves becoming capital intensive X [computerised]

Business decision/ activity	Possible impact on employees	Possible impact on local community	Possible impact on customers
Expansion of the business by building a new head office	■ more job and career opportunities ■ disruption during building and more complex lines of communication after expansion	■ more jobs for local residents and increased spending in other local businesses ■ disruption 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) [taking 2 businesses combining to work as one business]	■ 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 some 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 might result in higher prices
Significant application of IT 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 commuting by staff in cars might be necessary	■ more efficient and flexible production methods might improve quality and offer more product variety ■ IT reliability problems could cause supply delays