BUSINESS & MANAGEMENT (STANDARD LEVEL)
Module 1: Introduction to Organisations
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1.1 Types of Organisations

Sole traders/proprietors
Features
1. Owned by just one person

Control
1. Owner has full control over decision making and receives all the profits

Advantages
1. Easy to set up business
2. Complete control
3. Owner keep all the profit - *but it may not be much*
4. Personal service - can get to know customers very well
5. Privacy - not required to publish financial accounts

Disadvantages
1. Unlimited liability
2. Shortage of finance - may prevent expansion
3. Pressure of responsibility
4. Lack of expertise
5. Lack of continuity - owner dies, business dies

Partnerships
Features
1. Joint ownership of more than one owner
2. Each owner:
    - contributes financially
    - shares decision-making
    - shares profits
3. Unlimited liability
4. Workloads and profits are shared (not necessarily *equally*)
5. Partners can draw up Deed of Partnership

Control: Shared decision-making
Advantages
1. Extra financing
2. Additional skills
3. Shared workload

Disadvantages
1. Unlimited liability
2. Shared profits
3. Disagreements may lead to conflict
4. Still shortage of capital

Companies/Corporations
General features
1. Set up: need to register with Registrar Of Companies (ROC)
2. The business is a separate legal entity from the owners
3. Limited liability
4. Capital invested through purchase of shares
5. Owners are the Shareholders
6. Day to day operations run by Board of Directors which are elected by the Shareholders

Control
1. Shareholders share decision-making
2. Power depends on amount of shares

Private Limited Companies (LTD)
Features
1. Share cannot be advertised for sale or traded in stock market
2. All shareholders must agree for transfer of shares

Advantages

1. Limited liability
2. Greater source of finance
3. Continuity - owner dies, business lives on

Disadvantages

1. Legal requirements
2. Loss of privacy - accounts need to be published

Public Limited Companies (PLC)

Features

1. Any member of general public can buy and sell shares in the company
2. Shares are advertised and listed in Stock Market

Advantages

1. Greater sources of finance
2. Expansion - huge capital
3. Credibility - easier to get credit, bank loans, etc.

Disadvantages

1. High costs - floatation can be very expensive
2. Loss of control
3. Problems related with big business size e.g. lack of flexibility

Cooperatives

Features

1. Business owned and controlled equally by those who uses its services or work at it
2. Earnings are shared as dividends - shared according to participation
3. Membership is open

Advantages

(None yet. Edit to add)

fDisadvantages

1. Conflict between members
2. Longer decision-making process
3. Requires participation of members for success
4. Extensive record keeping necessary
5. Less incentive to invest additional capital

Franchises

Features

1. Franchisors authorise proven methods and trademarks of their business to franchisees
2. Franchisees need to pay fee or percentage of sales
3. Reduced risk of failure

Typical franchise package usually includes:

- use of brand name & image
- advertising campaigns
- materials and equipments
- training
- exclusive area to sell

Control

- Owner not entirely his own boss
- Franchisor makes key decisions about location, marketing, etc.

Advantages

1. Greater chance of success
2. Reputation and customer loyalty
3. Experience and knowledge

Disadvantages

1. Financial costs, initial fee, royalty payments
2. Loss of control/independence
3. Dependent on the success of the franchisor

Charities
A trust, company or incorporated association establishes for charitable purposes only.
Features
- Non-for-profit organisation
- Sometimes referred to as *foundations*.
- Generally enjoy tax exemptions & donors generally enjoy tax relief
- Normally subjected to some form of government supervision to:
    1. prevent charity fraud
    2. allow the government to influence the scope and agenda of charities

Non-Governmental Organisation (NGO)
A private institution that is independent of the government.
Characteristics:
- Usually use public relations to meet their goals.
- People working for NGOs are volunteers and paid staff. Paid staffs typically receive lower pay than in other sectors.
- Volunteers are not purely altruistic. They may have their individual interests such as skills, experience and contacts.
- Sources of funds include membership fees, sale of goods and services, private donations and grants from international institutions or government.
- NGOs are not legal entities under international law (except the Red Cross).

Private sector and public sector

Private sector
1. Business or organisation is owned by individuals or shareholders
2. Main objective: *make profit*

For the private sector, profit is a measure of success and a motivator for further investment.

Public sector
Organisations in public sector are owned or funded by the Government. Public organisation can be converted to a private organisation, and such process is known as **privatisation**.
Public sector tends to be driven by the need to provide a service - perhaps at the lowest costs.
Objectives of a public sector:
- less to achieve profit
- more to provide value-for-money services that meets the needs of communities

1.2 Growth and Evolution

Why organisations grow
- Increased sales and profits
- Greater market power - due to increased market share
- Security and survival
- Reduced costs

How organisations grow AHL

Internal growth
Definition
Expand scale of production to meet increased demand

To expand the scale of production, a business might hire more employees, invest in new larger machineries, expand its market distribution, etc.
Example: McDonald's grows by expanding operations into new countries and increases its market share.

Mergers, demergers, and take over (external growth)

Acquisition or take over
- Buy over other companies

Advantages:

- Immediate expansion, acquiring of skills and workforce overnight.

Disadvantages:

- Costly
- May increase burden of the parent company

Mergers

Merger is a term used when two companies join to form one new company **voluntarily** (the difference with takeover is that takeover may not be voluntary).

Why companies merge?

- Make savings from being bigger
- Compete with larger corporations or eliminate competition
- Spread production over larger range of products
- Take advantage of economies of scale economies of scale

Demergers

A demerger is when a firm divides into two or more firms or sells off some of its subsidiaries. It may be a way out of *failed merger* or *overgrowth*.

Global conglomerates & Networks

Global conglomerates

A conglomerate is *a large company that consists of **seemingly unrelated** business sections*.

Advantages:

- Allow capital to be allocated in a more efficient way
- Create synergies between companies
- Opportunity to grow in each unrelated market.

Disadvantages:

- Lack of focus
- Inability to manage unrelated businesses equally well

Networks

Networks refer to arrangements between independent organizations to work together.

There are generally 2 types of networks:

1. with an organizational superstructure (example, become a member of the XXX network).
   In this type, members benefit from the marketing of the superstructure and its possibilities for referrals.
2. independently owned entities that offer services of another organization - e.g. "affiliate" radio or TV stations

There can be arrangements in networks to literally function together.

- **close to or is a strategic alliance**
  The Star Alliance in the airline industry, for example, where five major airlines formed an alliance so that all five enjoyed the benefit of providing service to basically all major airports in the world without having, individually, to have flights, etc. to each
- **functioning relationship closer to the connotation of the word network**
  Small shipping companies, which often deliver "globally" but actually deliver in a limited geographic region and another company in the network delivers any shipments beyond the original shipping company's geographic territory.

Networks can have either legal basis or exist merely as a matter or practice.

Subsidiaries, joint ventures, multinational companies, and holding companies

Subsidiaries

A subsidiary is a company that is bought over or controlled by another company. The company that controls the subsidiary with 51% or more shares is called the *parent company*. When a company has several subsidiaries it is called a *group*.

An important fact about subsidiaries is that they are a **different legal entity** than the parent company which means it has different taxations and regulations, which can be used to benefit the parent company.

Advantages:

- Spread risks - parent company is not liable for the subsidiary
- Losses of subsidiary do not affect the parent company (because of different legal entity)
- Widen territory or place of distribution - consumers always see the same company everywhere

Disadvantages:

- Can be costly - other investments might be a better option
- More administrative work required to keep two or more companies on track

Joint ventures

A joint venture is when individuals, groups of individuals, corporations, limited companies or partnerships form a short term partnership, e.g. for one project, to carry out economic activities collectively. The companies in the joint venture all supply equity and share the risks, profits and costs.

Joint ventures are often used to enter foreign markets where the foreign company then forms a joint venture with a domestic company. This is beneficial for both because:

- the foreign company has the knowledge and technology
- the domestic company already has the customers and knows the market well

Advantages:

- Sharing of risks
- Open doors to new technology and customers
- Gain competitive advantage - several companies work together
- Increasing market segment
- Combined research and development

Disadvantages:

- It will not necessarily be successful
- Sharing of knowledge could be abused - only one company walks away with the benefits

Multinational companies

A multinational organization is a company that supplies or makes their product in at least two countries.

Important features:

- Large size and huge capital - a lot of power, can influence economies and political relations between countries.
- Played an important role in globalization because - went to poor countries to produce their goods for cheap labor

Examples of this are Google and HSBC but there are many more.

Advantages:

- Products are sold all over the world
- Possibility to work on revolutionizing ideas

Disadvantages:

- Not all products can be sold everywhere in the world - different legislation, culture, etc.

Holding companies

A holding company is a company that *owns* another company. They need to have enough stock to be able to control the board of directors, which then means they can direct management and operations.

They do this so they can operate the company the way in which they think it is best, and has higher profits. A holding is beneficial because it is like having another company but only with less liability and risk.

Economies & diseconomies of scale AHL

Economies of scale

Economies of scale refers to the benefit of size - advantages large businesses have compared to smaller businesses. They are:

1. Production
    - Buying in bulk - get discount
    - Division of labour - workers can specialise in areas of expertise
    - Use mass production techniques
        - Lower fixed costs
        - Larger and more efficient machinery
2. Marketing
    - Reduce cost per unit product of marketing - little change in marketing costs, substantial change in production
    - Afford more expensive advertising methods, e.g. television
3. Finance
    - Easier to attract finance
    - More financial security

    - Lenders often charge lower interest rates
    - Better access to stock market, accumulation of retained profit
4. Management

Diseconomies of scale
1. Problems in managing production
    - Leads to inefficiency
    - Raises costs of storage due to bulk purchase
2. Communications and decision-making
    - Slow decision-making
    - Slow to react to changes
3. Effects on employee
    - Poor morale
    - Company may be inflexible

1.3 Organisational Objectives

Nature, role, and importance of objectives
Objectives are used to state the goals of the business, and also to assess the business' performance.
Good objectives should be **SMART**:
- **S**: Specific
- **M**: Measurable
- **A**: Agreed
- **R**: Realistic
- **T**: Time-specific

The role and importance of objectives are:
- Determine the role of the employees
- Determine the strategy to be done
- Provide shareholders with a clear idea of the business in which they have invested
- Provide a sense of direction for the business
- Provide a basis for decision making
- As a measurement for achievement

Hierarchy of objectives
Terms and meanings:

Term	Meaning
Mission Statement	A statement of the business core aims, phrased in a way to motivate employees and to stimulate interest by outside groups.
Vision/Aim	A statement of the general purpose of the business, usually not specific and mainly to attract stakeholders
Objective	A goal that an organization or individual wants to achieve.
Strategic objectives	What the organization wants to achieve in to remain competitive & ensure its long-term sustainability *Example: To increase market share*
Tactics	**Short-term departmental** objectives or strategies to obtain strategic objectives.
Operational Objectives	Low-level objectives which are addressed to individuals or small groups

The hierarchy of objectives:

Order	Objectives	Example
1	Aim	To maximise shareholders value
2	Strategic objectives	To increase market share by 10%
3	Tactics	Marketing: To increase sales revenue by 10%
4	Operational objectives	Introduce 5 more clients to the business each month.

Tactics are the strategies in departmental level to achieve the **strategic objectives**, which are the strategies or objectives set to achieve the **business aims**.

Mission statements
A mission statement is a **written expression** of the corporate aims. It is a statement of the fundamental purpose of the organization so as to inspire those who work for it.
A good mission statement should:

- provide information and inspiration to their employees
- outline clearly the way ahead for the organization

SWOT Analysis
SWOT analysis is a tool for auditing an organization **and its environment**. It is the first stage of planning and helps marketers to focus on key issues.

SWOT stands for strengths, weaknesses, opportunities, and threats.
It is important to remember that strengths and weaknesses are **internal** factors, while opportunities and threats are **external** factors.

Worked example:

SWOT Analysis for Starbucks Corporation

Strengths	Weaknesses
• Very profitable, earning in excess of $600 million in 2004, with a generated revenue of more than $5000 million • A global coffee brand built upon a reputation for fine products and services • Extensive network - it has almost 9000 cafes in almost 40 countries • Strong brand image - one of the Fortune Top 100 Companies to Work For in 2005. The company is a respected employer that values its workforce. • Strong ethical values and an ethical mission statement *Starbucks is committed to a role of environmental leadership in all facets of our business*.	• Vulnerable to the possibility that their innovation may falter over time • More than three quarters of their cafes are located in the home market - they need to look for a portfolio of countries to spread business risk. • Dependent on a main competitive advantage, the retail of coffee, which could make them slow to diversify into other sectors should the need arise.
Opportunities	**Threats**
• New products and services that can be retailed in their cafes, such as Fair Trade products. • Expand its global operations. New markets for coffee such as India and the Pacific Rim nations are beginning to emerge. • Co-branding with other manufacturers of food and drink, and brand franchising to manufacturers of other goods and services	• Who knows if the market for coffee will grow and stay in favour with customers, or whether another type of beverage or leisure activity will replace coffee in the future? • Exposed to rises in the cost of coffee and dairy products • Market entry of many competitors and copy cat brands

1.4 Ethical Objectives

Why organisations set ethical objectives

1. **Consumers' views**.
   People take notice of a firm's behaviour when making product choices. This can also stretch to the firm's country of origin.
2. **Recruitment & retention of staff**.
   By being ethical, firm's can recruit well-qualified and motivated staff. They also provide a range of benefits for the employees.
3. **Improvements in employee motivation**.
   Ethical firms tend to get better output from employees.

Implementation
The implementation of the ethical objectives is reflected in the business operation.
For example, to achieve the ethical objective of preserving the environment, the business may modify its method of production and choose channel of distribution that serves towards preserving the environmental or minimising the environmental effect. Another example would be that of ethical treatment of the employees, such as comfortable working environment and avoid subpar wage level.

Effects on organisation
Advantages
- Increases goodwill, improves brand image
- Recruits and retains highly-skilled and motivated staffs
- Improves motivation of the employees

Disadvantages
- Costs will increase
- Loss of profit
- Conflict from shareholders demanding higher profits
- Business practice means changing the way certain things are done

1.5 Stakeholders

What are stakeholders?
Stakeholders are those who have *stakes* or *interests* in the business.
Several types of stakeholders that are required by the syllabus guide are:
(Descriptions in ***bold*** *indicates that those are included in the 'conflict' subunit of 1.5)*

Suppliers
Suppliers are defined as providers of:
1. production materials
2. production of service parts
3. heat treating, plating, painting, or other…

Good relationship with suppliers is vital to ensure reliability, quality, and value-for-money services from them.
- **Possible conflicts might arise due to the inefficient nature of payment to the suppliers as well as suppliers' subpar quality of supply.**
- **Conflicts with suppliers will cause the business to face stock shortages that will further hurt company's daily operations.**

Employees
- A person who is paid for the performance of his or her duties by his or her employer and can include an officer, partner and sole-proprietor.
- It is important to please employers as pleased and motivated employers tend to show higher level of productivity.
- Motivations theories are used for companies to satisfy their employees.
- **Conflicts with employees can cause lack of motivation.**
- **Lack of motivation = lower productivity = loss to the company**
- **Conflicts with employees can also cause high absenteeism, that will drain the company's pool of manpower**

Stockholders
- One who owns shares of stock in a corporation or mutual fund. For corporations, along with the ownership comes a right to declared dividends and the right to vote on certain company matters, including the board of directors. also called shareholder.[1]
- Stockholders are very important for limited companies.
- They provide capital and finance to the company, thus, enabling it to operate and expand.
- They are also looking for their personal financial gains.
- Important to secure high dividends to please them
- **If they're not pleased, the company risks losing its stockholders (share prices will fall)**

Customers

- Defined as a person, company, or other entity which buys goods and services produced by another person, company, or other entity [2].
- "Customers are Always Right"
- They are backbone of the company's success.
- A company can please customers by providing goods and services that the customers are happy to have
- **Daunted and resentful customers will tend not to purchase a company's products in the future**
- **Therefore, sustainable success can't be obtained.**

Special Interest Groups

- Defined as *a person, group, or organization attempting to influence legislators in favor of one particular interest or issue.*[3]
- It is important to please them as they might affect government's decision in the future
- Interest groups are usually influential in the 'Legal' aspect of PEST-LE
- Example of Interest groups: PETA, Greenpeace
- **Failures in satisfying special interest groups can lead to boycotts by consumers (eg Shell's decision to sink its oil rig in the North Sea and how furious Greenpeace was)**

Creditors

- Defined as a *person (or institution) who extends credit by giving permission to borrow money if he or she promises to pay it back at a later date.*[4]
- It is important to please creditors as they are the ones who provide funds to the company
- Creditors can be pleased if a company pays its debts accordingly (fast, on-time payment)
- Company's security and level of gearing affects creditors (company with high gearing isn't likely to gain creditor's trust for more financial injections in the future)
- **Failures in satisfying creditors will make it difficult for the company to find financial resources to expand, or to even stay afloat in times of cash-flow crisis.**

Competitors

- A business that provides similar products or services. The presence of competitors in an industry drives down the price of goods and services because consumers have more alternatives from which to choose if the price of a particular good or service is too high[5].
- A company is likely to be pleased by the negative occurrences or developments in its competitors, and vice versa.
- Symbiotic relationships that will please both competing companies can occur through the setting ups of trade unions, etc.
- **Conflicts with competitors can cause more proactive marketing methods to be used. The marketing methods include the 'price war', predatory pricing system, and other bold attempts to shield off competitions.**

1.6 The External Environment

Legal and Political

Legal

- Change in legislation often affects a business
- A business's marketing strategy (4 P's') is very dependent on the legal factor
- For instance, a petrol station cannot sell alcoholic beverages. Shops cannot sell cigarettes to the teens below 18 years of age.
- Legal factors are less likely to affect much of company's pricing methods. However, in certain countries with price controls and such, the legal factor does play its role in determining the pricing strategy undertaken.

Political

- Political change can also bring legal change to the company's external environment.
- Green Party, for instance, is more inclined to set up rules that are more likely to benefit the environment. The rules might also be less encouraging in the financial sense.
- Government also has power in making tax rules (taxation). Higher taxes mean greater financial strains to the company.
- Political changes might also include changes in terms of export-import regulations. The government's role in signing free trade pacts with certain countries will benefit export-oriented industries.

Social and Cultural

- Social factor is a vital factor as it involves the customers (which is the backbone of a business)
- A business must operate in line with the social and cultural principles of a country.
- Social change might be indicated by the changes in the eating habits, health awareness, etc.
- The company will either capitalize or brood for these changes (higher environmental awareness might help organic industries, for example)

Technological

- Defined as *the scientific method and material used to achieve a commercial or industrial objective*.[1]
- A company will either benefit or suffer from higher level of technological advancements in the market.
- Technology = expensive
- If the company is large and financially well-off, it can use technology and enjoy from economies of scale (higher yields, lower costs)
- If the company is small and can't afford to use high-tech machineries, it will suffer from higher production costs compared to its competitors (losing price edge)
- However, less usage of technology can also prove as an advantage for a company as it might even enter into niche market (hand-made shoes industries)

Ecological

- It's more related to environmental issues
- A company's quest for profit will be made limited by its needs to protect the environment
- A higher degree of awareness with regards to ecological sides of a business operations will force the company to be more aware (and spend its money) to pollute less
- A company (resort and hotel operators) might find it hard to build establishments in the beautiful, picturesque, yet protected areas.
- Logging companies must be extra careful not to cut down trees of certain species, at certain areas to protect the environment.
- Construction company will suffer from higher operating cost.
  Example: When constructing the KL Tower, the builders took special care to construct a retaining wall around a 100-year-old jelutong tree (*Dyera costulata*). The tower was moved at a cost of RM430,000 to avoid harming the monumental tree.[2]

Economics

- Macroeconomic factor affects company's decision to expand or not.
- The economic conditions also affect other factors like employees' salaries, spending, etc. The domino affect occurs as the changes aforementioned will lead to other changes (motivation levels of workers, etc)
- Economic stability is vital in making it easier to apply for bank loans for expansion
- Recession might force the company to take short-term decisions to ensure its survival (job cuts, asset disposals, etc). These decisions are not necessarily good in the long run.