NATIONAL QUALIFICATIONS CURRICULUM SUPPORT

Business Management

Business Enterprise

Student Notes

[INTERMEDIATE 1]

Learning
+Teaching
Scotland

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Contents

Introduction

This pack contains student notes to support the learning and teaching process for part of Business Management (Int 1). It covers material from Outcomes 1 and 2 of the Business Enterprise (Int 1) unit of the course and relates to the following area of the course content:

- **Business in Contemporary Society**
  Role of business in society
  Types of business organisations
  Sources of finance
  Objectives
  Role of the entrepreneur
  Changing nature of business
  Stakeholders

About this pack

The pack consists of student notes which are intended as a ‘core text’ for students and provide the basic material for this aspect of Business Management at Intermediate 1. Students who have assimilated this material should have the requisite knowledge to enable them to achieve a satisfactory level of performance in this area of the course. However, teachers and lecturers may wish to provide additional material to help students achieve as high a grade as possible.

In general, the student notes have been organised in a way that matches the order of the course content as set out in the Arrangements for Business Management (Int 1). This coincides with other material for the course such as the Course Planner and the Student Activities for Intermediate 1.

Using this pack

The student notes may be used in a number of ways, depending on the teacher/lecturer preference. They can be given out as handouts which students may read in class or as homework. This may be at the beginning of the topic or to consolidate learning once a topic has been completed. The notes are complementary to the Student Activities for Business Management at Intermediate 1 and could be used in conjunction with them.

This pack is designed to stand alone, but it is also complementary to the student notes at Intermediate 2 level. In this case, the relevant section is Business Enterprise (Int 2): Business in Contemporary Society. As far as possible, given the differences in the course content between the two levels, the format of this pack matches the layout of the pack at Int 2 level. This should help teachers and lecturers who are required to deal with a bi-level group and students who move from one level to another.

In using this pack, students should be encouraged to relate the material to any experience they may have of business and to developments within the local and national business environment. This can help to illustrate and exemplify the material in the student notes as well as helping to keep it current and up to date.

Outcome 1

The role of business in society

Businesses exist in order to provide a range of goods and services for people. We all have **needs** that we cannot live without. For example, we need water, food, clothing and shelter in order to survive.

We also have **wants** as well as needs. Wants are extra things that make life more enjoyable for us. Examples of wants are fashionable clothes, mobile phones, cars, television sets, holidays abroad. None of these goods or services keeps us alive but we enjoy them.

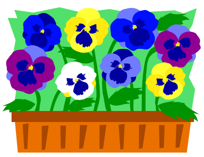
Business activity can be described as any activity that provides goods and services to satisfy our needs and wants.

What is the difference between a **good** and a **service**?

Goods are products that you can see or touch. Examples of goods are tables, chairs, chocolate bars, crisps.

There are 2 types of goods: **durable goods** and **non-durable goods.**

DURABLE GOODS are goods that you can use until they eventually wear out or break down. Examples of durable goods are computers, CD players, motor cars, etc.



NON-DURABLE GOODS are goods that can only be used once. Examples of non-durable goods are food, drink, books, flowers.

Services are things that are done for us. Examples of services are hairdressing, hospital services, banking, train and bus services.

Wealth

Wealth is created by 'adding value' to something. At each stage in the production of a good or the provision of a service, **value** is added to the price. For example in order to produce a cake, each of the following ingredients have cost something

FLOUR	BUTTER	EGGS	FRUIT	SUGAR
50p	70p	40p	80p	60p

Price of all ingredients = £3.00
Price of cake to customer = £5.00

When they are all combined together and the cake is finally baked, you will find that the SELLING PRICE to the customer is much more than what all the items cost. This is what is known by **adding value**, and this is how businesses make money.

Businesses exist for a wide variety of reasons, but some of the main reasons why they exist are

- to satisfy peoples' needs and wants
- to provide a service (schools, hospitals, banks)
- to make a profit
- to develop a good idea.

In order for businesses to provide the above, they need **RESOURCES.** These resources are known as **FACTORS OF PRODUCTION.** They are:

LAND – all the natural resources like water, oil and the actual land itself.

LABOUR – all the manpower and skills needed to produce goods and services.

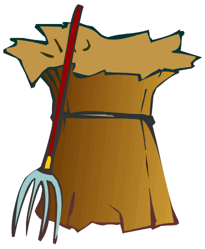
CAPITAL – the money available, machinery, equipment and factories.

ENTERPRISE – the idea which a person has and is willing to take a risk developing, in order to produce goods and services.

The role of business in society therefore is to find out the wants that people have and produce goods and services in order to satisfy these wants.

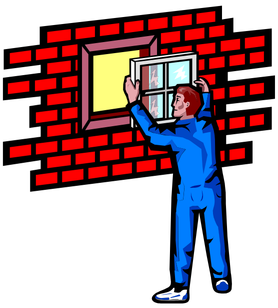
Sectors of business activity

PRIMARY SECTOR



Businesses in this sector are involved in getting raw materials from the land and sea.
Examples are farming, mining and fishing.

SECONDARY SECTOR



Businesses in this sector use raw materials and change them into things we can use.
Examples are car manufacturers, clothing companies and building firms.

TERTIARY SECTOR

Businesses in this sector provide a service to people. Examples are hospitals, banks, supermarkets, hotels.

Types of business organisation

Our society is made up of many different types of business organisations. Listed below are the main ones:

Sole trader

A sole trader is a business that is owned and managed by one person. Examples of sole-trader businesses are plumbers, hairdressers, small shops.

ADVANTAGES	DISADVANTAGES
• It is easy and cheap to set up. • Owner has complete control over all decisions. • All profits are kept by the owner. • Owner can choose how many hours he/she works. • A more personal service is offered to customers.	• The owner has **unlimited liability**. This means that if the business is unsuccessful the owner could lose his/her business and also his/her possessions such as his car and home. • It can be difficult to raise finance as banks may be reluctant to lend you money. • No one to share workload with. • If owner is ill or on holiday, work has to stop and no money is coming in.

Partnership

A partnership is a business which usually has 2 to 20 people. These people (partners) own and control the business. In some partnerships, however, there can be more than 20 people. Examples where this is allowed are accountancy and law firms. In a partnership a legal document called a partnership agreement is drawn up. This sets out how profits are to be shared.

ADVANTAGES	DISADVANTAGES
• Easy to set up. • Lots of expertise available from different partners. • More finance available. • Responsibilities are shared – so less pressure.	• Unlimited liability – they could lose personal wealth if business fails. • There may be disagreements between the partners • If one of the partners leaves, this can upset the running of the business.

Private limited company

A private limited company is one which is owned by shareholders and is run by a director or Board of Directors. Private Limited Companies tend to be owned by families who all own a certain number of shares. The shares are NOT AVAILABLE for purchase on the Stock Exchange. To operate as a private limited company, you must register with Companies House in Edinburgh and complete 2 documents – the **Memorandum of Association** and **Articles of Association** which set out the details of the company, the aims of the company and how it will be run and financed.

ADVANTAGES	**DISADVANTAGES**
• Shareholders have **limited liability.** • This means that, if the business fails, each shareholder only loses the amount that he/she has invested in the business. • More finance can be raised from shareholders. • Shareholders may have experience and expertise that they can bring to the business.	• Profits are shared among more people. • There is a legal process in setting up the company. • The business must abide by the rules of the Companies Act.

Public limited company

A public limited company (plc) is usually a much larger company than a private limited company. It sells shares to the general public through the Stock Exchange. The owners often lose control over decisions because it is the shareholders who appoint the Board of Directors to oversee the business.

ADVANTAGES	DISADVANTAGES
• Easy to raise large amounts of finance due to their size. • They can sell shares at any time so this means they can raise finance easily for large projects.	• Set-up costs can be high • They must abide by the roles of the Companies Act. • They must publish their yearly accounts. • They have no control over who buys their shares

Voluntary organisations

Voluntary organisations are run and managed by volunteers. Examples include the scouts, tennis clubs, youth clubs. They bring together people with similar interests.

Charities are also voluntary organisations. Examples of charities are Oxfam, Cancer Research and the Red Cross. Charities must be registered with the Charities Commissioner who regulates their activities. The main objectives of charities are to relieve poverty and to carry out activities which are going to be of benefit to the under-privileged. Charities do not require to pay some taxes such as VAT.

Publicly funded organisations

These are organisations that are set up and owned by the government. The main aim of these organisations is to provide services to the public. Examples of publicly funded organisations are our local-authority education service, houses provided by the local authority, refuse collection and hospitals; also bodies like the BBC, etc. Their main aim is not to make a profit but to provide a service to people. They are funded from taxes which people pay.

Sources of finance

Businesses are financed in many different ways. The main sources used to finance them are as follows.

Source	Advantage	Disadvantage
Issue shares	Large sums of money can be raised in a relatively short space of time	The cost of issuing shares can be expensive and it is difficult to decide an appropriate selling price for your shares. Also, shareholders will expect to receive a dividend each year for their investment.
Bank loan	Usually quick and easy to set up. Regular monthly payments can be made over a period of time.	Small businesses tend to be charged a higher rate of interest.
Government grant	Normally you do not have to pay this back.	This can take quite a while to obtain. The government may make conditions which firms have to comply with, such as providing jobs for the unemployed or people with disabilities.
Loan from family and friends (sole traders often use this)	Usually quick to set up.	Can result in arguments if they want the loan repaid sooner rather than later.
Owner's savings	No interest charges to pay.	Risk of losing your investment if business fails and you have unlimited liability.

Objectives of business organisations

Objectives are goals or aims which all organisations have. The objectives of an organisation will depend on a number of factors, such as –

- the **type** of organisation it is.
- the **size** of the organisation.
- the **type of good or service** that it provides.

The following table shows some of the objectives that business organisations may have:

To make a profit	To make as much profit as possible.
To survive	To continue to trade – especially for a new business if it is faced with stiff competition.
To grow	To increase in size and dominate the market.
To provide a good service	To provide services which people require and are pleased with. (This is an objective of many hospitals, charities and local authorities.)
To show social responsibility	Some businesses may wish to improve their public image by showing that they are socially responsible. For example, they may give money to charities or spend money on improving the environment.

The role of the entrepreneur

An entrepreneur is a person who develops a business idea and combines the factors of production (land, labour, capital and enterprise) in order to produce a product or provide a service. Entrepreneurs are usually willing to take a risk. Two well-known examples of entrepreneurs are Richard Branson (Virgin Group) and Anita Roddick (Body Shop), who have built up very successful businesses.

The changing nature of business

In order to survive, businesses must be able to adapt to changes which take place in their environment.

Changes which have taken place in the business environment in recent years, for example, are the increase in **multinational organisations** (organisations which operate in 2 or more countries throughout the world). Many multinationals set up factories in Eastern Europe and China because the labour costs and production costs are much lower than those of the UK. This means that a lot of work which used to take place in Britain now takes place abroad.

Small businesses play an important part in our society as they allow new entrepreneurs to enter the market. The government is keen to encourage entrepreneurs, and it provides various grants to encourage new business.

Factors which cause change for organisations are shown below.

Change in costs	If the costs of raw materials increase, this will have an effect on the selling price of a good or service. If the business does not increase the selling price, then they will run at a loss and may go out of business.
Development of new products	Businesses must ensure that they continue to meet the needs of customers, so product development must be high on their agenda. If they are not prepared to spend money on product development and research they may find that they are left behind in the market.

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Change in demand	Peoples' tastes are always changing and what was popular 6 months ago may not be popular now. This is particularly the case in the world of fashion. Businesses must be prepared to meet the changing tastes and demands of customers.
Changes in technology	Businesses must keep up with changes in technology or face losing customers.
Activities of competitors	If competitors' prices are less than yours, then customers may take their custom to the competitor. Businesses must make themselves aware of the activities of competitors and be prepared to match them.
Changes in legislation	Laws have an effect on businesses and businesses must comply with laws or face prosecution.

Outcome 2

Stakeholders

A stakeholder is a person, group or organisation that has an interest in the success or failure of a business. Stakeholders can be **internal** stakeholders or **external** stakeholders.

Examples of internal stakeholders are:

- Shareholders
- Managers
- Employees

Examples of external stakeholders are:

- Customers
- Suppliers
- Banks
- The local community
- The Government

The influence of stakeholders on organisations

Stakeholders have an interest in an organisation and are also able to affect the way organisations operate. The following table outlines some of the interests that stakeholders have and the ways in which stakeholders can have an influence on an organisation.

Stakeholder	**Interest**	**Influence**
Shareholders	They want the organisation to be profitable and provide them with good dividends.	They can vote at Annual General Meetings. They can decide who should be appointed as directors of the organisation and vote on major issues affecting the organisation.
Managers	They want to manage the department that they are responsible for well so that they can demand good salaries.	They make important decisions such as hiring and firing staff and the amount of hours employees should work, etc.
Employees	They want job satisfaction, job security and good working conditions.	They can exert influence by the standard of work they produce. They can also decide to take industrial action if they are not happy with working conditions.
Customers	They want high-quality products at competitive prices.	They can decide to buy or not to buy a product. If they are not happy with the product or service they will not buy it and this will influence the profits of the business.
Suppliers	They want the organisation to succeed so that they receive repeat orders.	They can increase their prices. They can also change the amount of time allowed for payments.

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Banks	They want the organisation to be successful so that they can do business with it.	They can decide whether or not to lend money to the organisation. They can also charge a high rate of interest.
Local community	Organisations bring work into a local community.	People can complain to the local council about the activities of the organisation. They may also spread bad rumours about the organisation.
Government	Organisations provide jobs so government wants them to succeed, if only to reduce unemployment.	The government can introduce laws which the business must comply with or else may face prosecution.