UNIT 1- BM

1.1 INTRODUCTION TO BUSINESS MANAGEMENT

- **What is a business?**
  - Decision-making company or organization
  - May/may not be for profit
  - Involves the exchange of goods and services
  - Produce goods and/or provide services
  - Exist to satisfy the needs and wants of people, organizations, governments, etc.
  - Enterprise – a group of people that tackles an objective, usually profit
  - Quality of output depends on quality of inputs

- **Main inputs in a business**
  - Capital
    - Amount of money needed to run a business
    - Man-made goods like machines, buildings, vehicles, and equipment needed for business to operate
    - Investment – increasing spending on capital
  - Land
    - Space where a business operates
    - Raw materials and natural resources that are used in making a product
  - Labor/manpower
    - Physical & mental efforts of people to produce products/services
  - Enterprise/entrepreneurship
    - Management, organization, and planning of other three factors of production
    - Actions of entrepreneur who shows initiative and takes risks to set up, invest, and run a business
- **Main business functions and their roles**
  - Human resources
    - Manages the workforce and laborers of the company
    - Deals with recruitment, wages, communication, and motivation of employees
  - Finance and accounts
    - In charge of managing the organization’s money and assets
    - Ensures accurate recording and reporting of financial documentation (to comply with legal requirements)
  - Marketing
    - Ensure that a company’s products sell
    - Concerned with identifying and satisfying consumers’ needs/wants
    - In charge of promotions, advertisements, etc.
  - Operations
    - In charge of business functions and processes that produce the actual goods
    - Concerned with research & development, delivery, stock management, etc.
- **Business sectors (or economic sectors)**
  - Primary

        - Involves the harvesting of naturally available resources
        - e.g. mining, agriculture, livestock, drilling, and logging
        - Regulated and protected by the government
        - Fuels (produces inputs for) the other economic sectors
        - Example countries: Vietnam, Philippines, Canada, Dubai
        - Example companies: Philex Mining, Del Monte, Dole
    - Secondary
        - Involves manufacturing of raw products to finished or component goods
        - Finished goods – exported or sold to domestic consumers
        - Component goods – sold to companies in the tertiary sector
        - Example countries: China, Scotland, Japan, Italy, USA
        - Example companies: Coca-Cola, Honda, Del Monte
    - Tertiary
        - Involved with service and retail
        - Includes retail sales, transportation, entertainment, restaurants, media, healthcare, banking, etc.
        - Exploited in developing countries
            - Philippines is a victim of brain drain: where professionals go abroad to look for jobs making it difficult for companies in the tertiary sector to find the employees they need
        - Relies on the primary and secondary sector for inputs
        - Example countries: USA, United Kingdom, Singapore, Hong Kong
        - Example companies: JP Morgan, Convergys, Lotte
    - Quaternary
        - Involves intellectual activities or innovation services
        - Includes government, education, libraries, scientific research, information technology, etc.

- **Impact of sectoral change**
    - Change in economic structure (primary to secondary, secondary to tertiary, etc.)
        - Industrialization
            - When a country moves towards the manufacturing sector as its principal output and employment (primary to secondary)
            - Products become more refined and have more export potential
            - Raises the standard of education
            - Opens better job opportunities
        - Developed nation
            - Exploits the tertiary sector as the national output of employment
            - Further raises the standard of education
    - Examples of effects of shifting to the tertiary sector
        - For a labor intensive manufacturer of aluminum cans
            - Quality of products improve
            - More distributors
            - Less employees and higher wages for employees
            - Can consider turning to robots and machines, as well as outsourcing
        - For the owner of a small seaside bed and breakfast
            - Easier to find competent employees
            - More income due to higher demand
            - More competition
            - People would rather work for bigger companies
            - Can consider expanding
        - For a family-owned vegetable farm
            - More demand due to more stores
            - Opportunity for a “dampa” system
            - Less laborers

        - Can consider opening a small business or outsource
- **Entrepreneurship (and the entrepreneur) vs. intrapreneurship (and the intrapreneur)**
    - Entrepreneurship is the process of starting a business, company, or organization
    - The Entrepreneur
        - The founder, and usually owner
        - Big risk, big reward
        - Organizes inputs of production into goods and services (outputs)
        - Obtains money, buys the inputs needed and makes decisions.
        - Takes risks and provides the vision for the business idea
        - Assumes large financial risk
        - Provides sufficient resources
    - Intrapreneurship is similar to entrepreneurship but is done in an existing organization
    - The Intrapreneur
        - Is an employee of the organization
        - Uses resources of company to undertake projects and therefore risks very little
        - Rewarded in the form of a paycheck
        - Does not act autonomously like an entrepreneur as he is dependent on other employees or the organization he works for
- **Reasons for starting up a business or an enterprise**
    - Profit – positive difference between revenues and costs
    - Fame
    - Benefit human welfare
    - Very fulfilling
    - Family
    - Legacy
- **Common steps in starting up a business and problems new ones may face**
    - Businesses often start up by looking for market opportunities (market gaps or niches)
    - Niche markets are where small businesses can easily compete
    - Factors to consider: What questions would businessmen ask about the factors?
        - Business idea
        - 4 business inputs (capital, land, labor, and enterprise)
        - Four departments/functional areas
    - Possible problems faced by a start-up (either internal or external)
        - Internal
            - No land to establish a business
            - Product may not appeal to your location
            - Lack of manpower
        - External
            - Terrorists
            - Politics or government
            - National Calamities
            - Limited resources
- **Business plan**
    - Report detailing aims and objectives of a business
    - Planning tool that serves as a blueprint to address the issues of a startup business
    - Meant for investors/banks to help them decide on whether to invest/approve loans
    - Elements of a business plan
        - Business – name of the business, type of the business, statement of aims and objectives, details of the owner
        - Product – details of goods/services, operations and equipment needed, suppliers, price
        - Market – who you're selling to, market profile, competition (strengths and weaknesses)
        - Finance – money, start-up costs

- Personnel – employees and workforce, skills
- Marketing – marketing mix employed by business

1.2 TYPES OF ORGANIZATIONS

- **Private vs. Public sectors**

    - Private Sector
        - Goal is to make profit
        - Owned, financed and run by private individuals or entities
    - Public Sector
        - Goods and services provided by the government or local authority
        - May be free or sometimes with a small fee
        - e.g. public hospitals, museums, etc.

- **Types of for-profit/commercial organizations**

    - Sole trader
        - Business that is completely owned and controlled by just one person
        - Simplest form of business
        - Owned by a single person who assumes all profits and liabilities
        - Advantages
            - Little legal requirements for setup
            - All the income goes to one man
            - Less restrictions and easy decision-making
        - Disadvantages
            - All the income tax is shouldered by one man
            - Unlimited liability (owner is the same legal entity as the business) and all the debt incurred by the business is put on the owner
    - Partnership
        - Company ran by two or more individuals who form a partnership
        - Each person contributes money and resources, as well as sharing the responsibilities of managing a business.
        - Turns into a corporation if there >15 partners and will pay corporate tax.
        - Has a deed of partnership stating the responsibility of each partner
        - Involves presence of "silent" or "sleeping" partners, who do not make decisions, merely giving money to the business and earning profit
        - Advantages
            - Liability is spread around
            - Range of skills
            - Higher capital
        - Disadvantages
            - Unlimited liability despite being spread out between partners
            - Slower decision-making
    - Private limited company (LTD)
        - Shareholders are limited to family, friends, business partners
        - Shares cannot be sold to the public
        - Type of incorporation
            - Owner and company are separate entities
            - Results in limited liability
        - Registered at the Securities and Exchange Commision (SEC)

        - Advantages
            - Limited liability – when the company is sued or incurs losses, all a shareholder will lose is his stock in the business.
            - Higher capital, higher capacity for expansion
        - Disadvantages
            - More restrictions
            - Corporate taxes (higher)
    - Public limited company (PLC)
        - Company whose shares are listed on a stock exchange and can be freely bought and sold by anyone
        - Required by law to publish their complete and true financial position
        - Type of incorporation
        - Must conduct shareholders' meetings
        - An LTD can convert to PLC by offering stock market flotation or an initial public offering (IPO)
        - Advantages
            - More capital raised from selling stock
            - Limited liability
            - Continuity after death, freely transferable
            - Higher capacity for expansion
        - Disadvantages
            - Possibility of a hostile take-over through shares, control can change unexpectedly and be lost by the original owner
            - Much more restrictions
            - Corporate tax
            - Not allowed to hide anything – competitors can check their prices, goals, etc.

- **Types of for-profit social enterprises**

    - Cooperatives
        - Organizations that are jointly owned and run by its members who share in profits and benefits
        - Advantages
            - Shareholders must be help run organization, work is more spread out
            - Equal voting rights/power among all shareholders
        - Disadvantages
            - Decision-making may be more time consuming or involve more conflicts
            - Less profit for each shareholder as it is spread among many members
    - Microfinance providers
        - Microfinance – loan service offered to individuals or groups with no access to more conventional banking services (unemployed, low-income individuals, etc.)
    - Public-Private Partnerships (PPP)
        - Public corporations are sold-off or transferred to the private sector
        - Advantages
            - Incentivized to be more efficient and productive
            - Government can focus on other projects and infrastructure
            - Enjoy the skills and talents of the private sector (can lead to increased efficiency and productivity)
        - Disadvantages
            - Services provided would be more expensive
            - Prices goes up, government has to subsidize (increase in taxes)
            - Aim of profit may lead to cost cutting, lower quality, higher prices

- **Types of non-profit social enterprises**

- Non-profit businesses
  - Run not for profit but to benefit the public (especially the marginalized)
  - Operational (objective or purpose) or advocacy (promote or defend a cause)
- Non-profit organizations (NPOs) vs. non-government organizations (NGOs)
  - NPOs
    - Does not divide its funds between owners
    - Aim is to raise funds and use it for their beneficiaries
    - e.g. service organizations or charities, Bantay Bata, PGH, PCSO
  - NGOs
    - Exists in the private sector
    - NGOs participate in humanitarian projects, education projects, etc.
    - e.g. WWF, UNESCO, Red Cross
- Charities
  - A non-profit organization that is exempt from taxes
  - Deploys its resources for charitable purposes
  - May raise funds to reduce poverty or to reduce environmental problems.
  - e.g. Caritas Manila, Pondo ng Pinoy
- Pressure Groups
  - Organized groups that do not run for election
  - Advocate certain interests such as environment, sexuality, religion, rights, etc.
  - Seeks to manipulate the public or private sector for certain causes.
  - e.g. PETA, Greenpeace, Church, LGBT

1.3 ORGANIZATIONAL OBJECTIVES

- **Vision statement and mission statement**

  - Vision
    - Describes a desired position for the company in the far future (“Where do we want to be?”)
  - Mission
    - Purpose of business, states what the business is and does
    - How the vision statement will be achieved (“How do we get there?”)
  - Vision and mission statement
    - Positive, ideal goals
    - Parallel to business
    - Customer centric
    - Answers:
      - Where are we now?
      - Where do we want to be?
      - How do we get there?
      - How do we know we are there?

- **Aims, objectives, strategies, and tactics**

  - Aims – long term goals of what the company wants to be
  - Objectives – shorter term goals that are specific and measurable
  - Individual targets, departmental objectives, divisional objectives, corporate objectives, mission, aim (pyramid, base to height is left to right)
  - Guides and unifies management and workforce
  - Basis for strategic planning
  - Builds trust and goodwill

- **Changing objectives and innovations (due to changes in environment)**

    - Companies change objectives when responding to internal and external changes
    - Context of company must be considered
    - Internal factors
        - Corporate culture – way the organization works (aggressive, chill, etc.)
        - Type and size of organization – small or big businesses run differently
        - Age of organization – change must be consistent with times
        - Financial status – profit goals, how much money the business has to use
        - Risk profile of shareholders – If investors are risk-averse or risk-loving
        - Private/Public sector
            - Private = profit
            - Public = serve
    - External
        - State of economy – strong or depressed economy affects the company too
        - Government constraints – government telling you not to expand somewhere
        - Presence and power of pressure groups – (e.g. not to expand in the endangered locations)

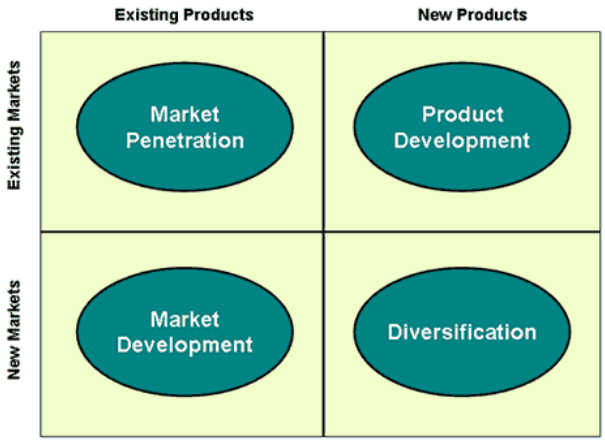
- **Corporate social responsibility (CSR)**

    - Concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on various stakeholders
    - Benefits:
        - Better employee recruitment and retention
            - Sense of value/purpose for employees
        - Boosts company's image/reputation
        - Risk management against scandals, accidents, etc.
            - Appeases pressure groups
        - Brand differentiation and smoother operations
        - Customer loyalty & goodwill
    - Disincentives:
        - High compliance costs can lower profits
        - Forced to use materials that are specialized and may reduce profit
        - Ethics are not universal or unchanging anyway
        - Lower profits may decrease personal bonuses which may lead to greediness
    - Attitudes change over time; acceptable practices before are unacceptable today.
    - CSR objectives adapt to changes in social norms/hot issues (i.e. tattoos, dyed hair, jeans, single parents, gender bias, child labor, smoking, obesity, global warming, etc.)

- **SWOT analysis**

        - Qualitative form of assessment
        - Guides management for future strategies
        - Used alongside STEEPLE, which helps to further identify opportunities and threats
        - Internal factors
            - Strengths – advantages that are basis for developing competitive advantage.
                - e.g. experienced management, patents, loyal workforce/customers
            - Weakness – negative factors
                - e.g. poorly trained workforce, limited capacity, obsolete equipment, etc.
        - External factors
            - Opportunities – potential areas for expansion of the business and future profits

        - e.g. political/economical policies, social statistics & trends, etc.
    - Threats – hindrances to the business
        - e.g. economic environment, market condition competitors.
- **Ansoff Matrix**
    - Analytic tool to determine growth strategy by focusing on product/market combination
    - Growth strategies
    - Existing product + existing market = Market Penetration (low risk)
        - Seeks to maintain or increase market share
            - Price adjustments
            - Increase of market promotion
            - Minor product improvements
            - Intense competition
        - New product + existing market = Product Development (medium risk)
            - Innovation to replace existing products
            - Focusing on consumer needs
            - Brand extension
            - Capitalize on technology
            - Consumers in existing market may not like the new product
        - Existing product + new market = Market Development (medium risk)
            - New distribution channel
            - Expanding geographically
            - Attract new market segments
            - New consumers may not like the product
        - New product + new market = Diversification (high risk)
            - If successful, higher gains can be reaped from various industries
            - Spreads out risks and safeguards against economic shocks over diverse product portfolio
            - Related diversification (same industry – e.g. McDonalds and McCafe)
            - Unrelated diversification (different industry – e.g. Zesto and Zest Air)



1.4 STAKEHOLDERS

- **Stakeholders**
    - People who can be affected by and therefore have interest or stake in actions of the business
        - e.g. shareholder, employees, suppliers, customers, competition, government/state, pressure groups, etc.

- Stakeholder Concept – priority to stakeholders rather than shareholders

- **Interests of internal stakeholders vs. interests of external stakeholders**
  - Internal
    - Employees
      - Employment security, wage levels, conditions of employment, participation in the business
    - Managers
      - Employment security, salary and benefits offered, responsibilities given
    - Shareholders
      - Owners of shares in the company, have decision-making power, receive dividends (share of profit)
      - Annual dividends, share price, security of investment
  - External
    - Suppliers
      - Speed of payment, level and regularity of orders, fairness of treatment
    - Customers
      - Value for money, product quality, quality of service
    - Government
      - Job creation, tax payments, value for output produced, impact on wider society/economy
    - Special Interest groups (SIGs)
      - Banks, creditors, pressure groups, local community, trade/labor union
      - Care about individual interests: payment of debts, environment, etc.
    - Competitors
      - Fairness of competitive prices, strategic plans of the business
- **Stakeholder conflict**
  - Not possible to satisfy all stakeholders all the time
  - Conflict will always arise from new developments, business activities, etc.
  - Stakeholder conflict resolution
    - Arbitration
      - To resolve industrial disputes between workers and managers
      - Advantage
        - Both sides agree to an independent arbitrator who will decide th
      - Disadvantage
        - Neither stakeholder group will likely receive what they want
        - Decision is binding
    - Workforce Participation
      - To improve communication, decision-making and reduce potential conflicts between employees and managers
      - Advantage
        - Gain cooperation of workers – better motivated and involved
      - Disadvantage
        - Waste of time and resources to be able to get all information
    - Profit-sharing scheme
      - Reduce conflict between workers and shareholders over allocation of profits and benefits
      - Advantage
        - Sharing profits can encourage workers to work in ways that will increase long-term profit
      - Disadvantage
        - Reduces retained profits and/or profits paid out to shareholders unless the scheme pays off
    - Share-ownership scheme
      - To reduce conflict between workers , manager and shareholders
      - Advantage