<u>Chapter 1</u>

1.1 Introduction to Business Management

The Role of Business

A business is a decision-making organization involved in the process of production of goods and services.
Inputs are the resources that a business uses in the production process (labour and raw material), these generate ***outputs*** (products). Goods are physical goods and services are intangible products.
Needs are the basic necessities that a person must have to survive
Wants are people's desires - whats they would like to have

There are consumer goods and services (for the public) and capital goods and services (from businesses to businesses e.g. raw materials, machinery)

The main functions of a business

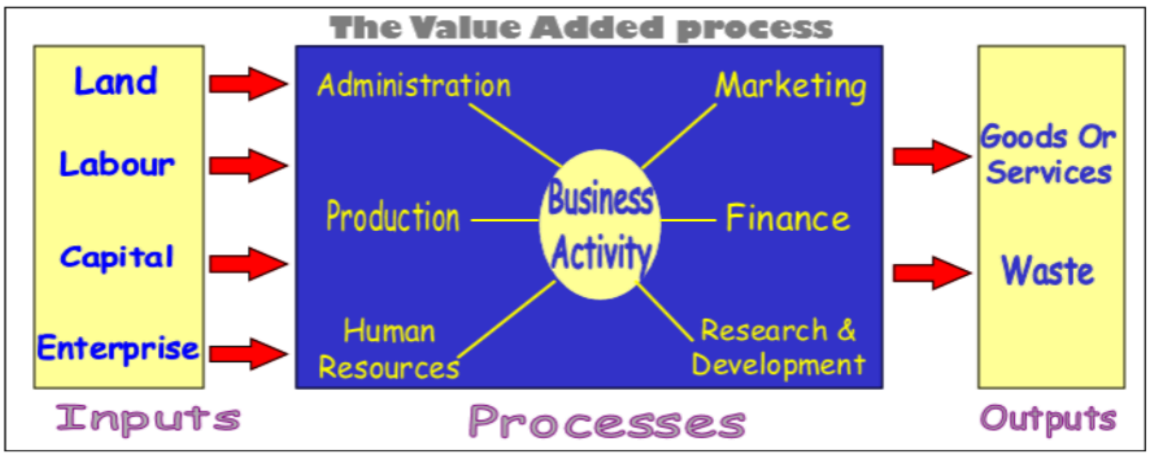
For a business to operate effectively, tasks must be carried out by functional areas.

- *Human resources* - managing personnel and organization - workforce planning, recruitment, training, appraisal, dismissals, redundancies, outsourcing human resource strategies.
- *Finance and accounts* - managing the organization’s money, keeping track and reporting financial documentation for legal requirements and informing on the financial position of the business.
- *Marketing* - identifying and satisfying the needs and wants of customers - market research, test marketing, advertisement & branding
    - Product - goods and services meet customers requirements
    - Price - pricing strategies
    - Promotion - making sure customers know about a product
    - Place - goods and services are convenient for customers to buy
- Operations - responsible for the process of converting raw materials into finished goods.

Business Sectors

- **Primary Sector** - businesses involved in the cultivation or extraction of natural resources,
    - Large percentage of output and employment in less economicallly developed countries (LEDCs)
    - There is little value added in primary production (the difference between value of inputs and the value of outputs)
- **Secondary Sector** - the section of the economy where business activity is concerned with the construction and manufacturing

    - It's the wealth creating sector because manufactured foods can be exported worldwide to earn income for country
    - Value is added to the natural resources during production
- **Tertiary Sector** - business activity is concerned with the provision of services to customers i.e. retailing, transportation, banking, finance, insurance, health care, leisure, entertainment etc.
    - Most substantial sector in employment and as a percentage of *gross domestic product* (the value of the country's output each year) in MEDC's
- Quaternary sector - is a subcategory of the tertiary sector, where businesses are involved in intellectual, knowledge-based activities that generate and share information , e.g. ICT, R&D, consultancy services, scientific research. It exists in MEDC's as it requires a highly educated workforce.



Chain of production - the link through the business sectors which tracks the stages of an items production, from extractions of raw materials used to make the product all the way through to it being delivered to the customers. The sectors are interdependent.
Sectoral change refers to a shift in the relative share of national output and employment that is attributed to each business sector over time.

Four Factors of Production
- Land - any natural resource
- Labour - human input, workers
- Capital - products that are made to produce
- Enterprise - people who have ideas, take risk and get paid for managing above three

Entrepreneurship and Intrapreneurship

Entrepreneurs are owners or operators of an organization who manage, organize and plan the other three factors of production (land labour capital). They are risk takers who exploit business opportunities in return for profits.

Intrapreneurship is the act of behaving as an entrepreneur but as an employee within a large business organization. Intrapreneurs work in an entrepreneurial capacity, with authority to create innovative products or new processes for the organization.

Reasons for Starting a Business - GET CASH

Growth - the value of a business owned by the entrepreneur grows
Earnings - they can pay themselves as much as they want
Transference - inheritance of family business to children
Challenge - high fliers need a challenge to reach their potential
Autonomy - some personality types prefer to maintain control of their own lives
Security - being your own boss can give a better sense of job security
Hobby - lifestyle choice to do something you love or compliment other commitments

Steps to starting a business

1. Write a business plan - goals and objective of business and outline of how they will be accomplished, use of the 4 factors of production
2. Obtain startup capital - internal and external sources of finance and how it will be allocated
3. Obtain business registration - establish legal status and any licenses
4. Open a business bank account - to allow income and expenditure
5. Marketing - market research and 4Ps

Problems that a new business may face

- Lack of finance
- Cash flow problems
- Marketing problems
- Unestablished customer base
- People management problems
- Legalities
- Production problems
- High production costs
- Poor location
- External influences

Elements of a business plan

A **business plan** is a report detailing how a business sets out to achieve its goals and objectives, It helps financiers,& stakeholders in asses opportunities and risks that may be reflected in a business plan and see their own potential gain and success of business. It must contain:

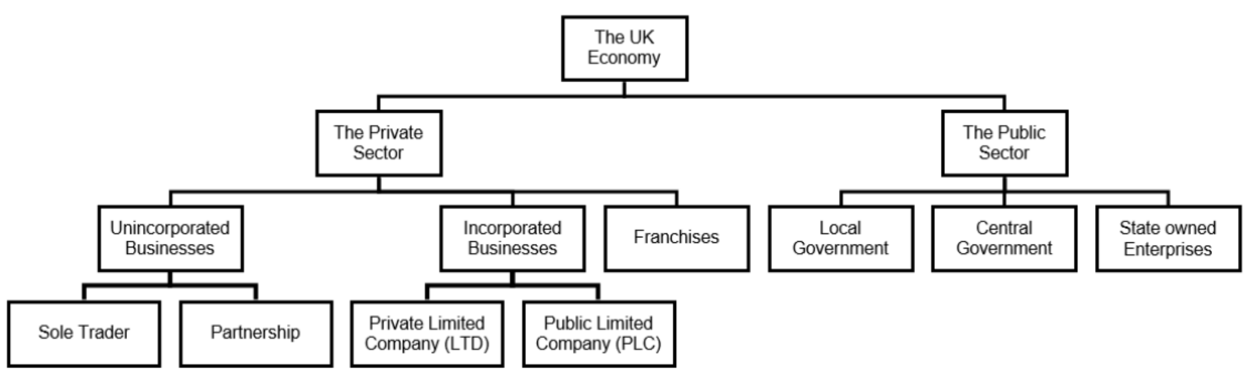
- ***The business*** - legal details (name and address), costs, track records of the entrepreneur, type of business organization, aims and objectives

- ***The product*** - details, evidence of success, where and how it will be products, suppliers, costs, pricing strategies
- ***The market*** - number of customers and sales forecast, market segments and profiles, growth, competitors
- ***The finance*** - sources, security, cash flow forecast, profits and losses, financial health, forecast rate of return
- ***The personnel*** - number and type of employees, organizational structure and HR, payment systems
- ***The marketing*** - market research, 4Ps, USPs

1.2 Types of organizations

The private and public sectors

Organizations that operate in the **private sector** are owned and controlled by private individuals and businesses, rather than by the government. The main aim of most private sector organizations is to make profit.
Organizations that operate in the **public sector** are under the ownership and control of the government.Traditionally they provide essential goods and services that would be underprovided by the private sector.
Organizations that are wholly owned by the government are called **state-owned enterprises**



Profit-based organizations

A business can only survive in the long term if it is profitable. The three main profit-based organizations are:

- **Sole traders** - self-employed person who runs and controls the business and is the sole person held responsible for its success (profits) of failure (unlimited liability)
    - They may work alone or employ other people, start up capital is obtained from personal savings or borrowings
    - An important legal point is that the business is unincorporated (the owner is the same legal entity as the business)

        - Unlimited liability (fully legally responsible for any debts, must pay debts with own money)

Advantages	Disadvantages
Few legal formalities (easy to set up)	Unlimited liability (no limit to the amount of debts)
Owner receives all of profit made by firm	Limited source of finance and economies of scale
Being your own boss	High risks
Personalised service to customer	Workload and stress
Privacy - don’t have to make financial records available to public	Lack of continuity (if owner isn’t present business can be jeopardised)

- **Partnerships** - profit-seeking business owned by two or more persons (partners). They share responsibilities, burdens and financing of owning a business
    - Silent partners do not actively take part in the running of the partnership but have a financial stake in it and limited liability.
    - Without a contract (deed of partnership), profits or losses must be shared equally amongst the partners and all partners have the same rights in the running of the business.
    - They have unlimited liability

Advantages	Disadvantages
Financial strength	Unlimited liability
Specialisation and division of labour	Lack of harmony (disagreements and conflict)
Financial privacy (don’t have to publicise financial records)	Lack of continuity if partner dies or leaves the firm
Cost-effective - raising productivity	Prolonged decision making

- **Corporations** (INC)
    - Companies are businesses owned by their shareholders. These are individuals or other businesses that have invested money to provide capital for a company.
    - Companies are incorporated businesses (there is a legal difference between the owners of the company and the business itself).
    - Limited liability means that shareholders do not stand to lose personal belongings if the company goes into debts (the max they can lose is their investment)

- A board of directors (BOD) is elected by shareholders to run the company on their behalf.

There are two types of limited liability companies:
- **Private limited company** (LTD)
    - Owned by at least 2 shareholders
    - Shares are sold privately to friends and family, they receive dividends in return
- **Public limited company** (PLC)
    - This is able to advertise and sell its shares to the general public via a stock exchange

Flotation occurs when a business first sells all or part of its business to external investors, a process known as *initial public breaking*.
All companies must hold an ***annual general meeting*** (AGM) to allow owners to have a say in the running of the business.

Advantages	Disadvantages
Finance through shares	Communication problems
Limited liability	Added complexities & bureaucracy
Tax benefits	Compliance costs
Productivity in specialist managers and staff	Disclosure of information
Benefit of economies of scale	Loss of control

For-profit social enterprises
Social enterprises are revenue-generating business with social objectives at the core of their operations. These strive to return a surplus for social gain and they can be operated as a non-profit and for-profit organisation. All social enterprises have two main goals:
- To achieve social objectives
- To earn revenue in excess of costs

There are three main types of for-profit social enterprises:
Cooperatives - enterprises owned and run by their members, such as employees or customers, with the common goal of creating value for their members by operating in a socially responsible way.
- All employees have a vote in decision making.
- There are three main types:
    - Consumer cooperatives - owned by the customers who buy the goods/services for personal use - child care, health care cooperatives, etc

- Worker cooperatives - set up, owned and organized by their employees - cafes, etc
- Producer cooperatives - these join and support each other to process or market their products

Advantages	Disadvantages
Employees have a key stake in cooperative so are more interested in how it performs	Low salaries & limited source of finance
Employees have a say	Slower decision making
Social benefits & public support	Limited promotional opportunities

Microfinance providers - This is a type of financial service aimed at entrepreneurs of small businesses especially those on low incomes. These enable the disadvantaged members of society to gain access to essential financial services to help eradicate poverty

Advantages	Disadvantages
Microfinance helps those in poverty to become financially independent	Immorality
Job creation	Limited finance
Social wellbeing	Limited eligibility as they have to ensure business can repay

Public-private partnerships or enterprises (PPP)
This occurs when the government works together with the private sector to jointly provide certain goods or services.

Non-profit social enterprises

These are businesses that run in a commercial-like manner but without profit being the main goal. Instead they use their surplus revenues to achieve their social goals rather than distributing the surplus as profits or dividends. There are two main types:
Non-governmental organizations (NGOs)

- This is non-profit social enterprise that operates in the private sector. This organization does not aim primarily to make profit, they run for the benefit of others in society.
- There are two types:
    - Operational NGOs - established from a given objective or purpose
    - Advocacy NGOs - take a more aggressive approach to promote or defend a cause, striving to raise awareness through direct action

Charities provide voluntary support for good causes (protection of children, etc). Its key function is raising funds from individuals and organizations to support a cause that is beneficial to society.

Advantages	Disadvantages
Social benefits, public recognition, trust and free of corporate tax	Must be registered before they operate
Donors can get income tax allowances (raises incentives for donors)	Disincentive effects (lack of profit can cause motivational problems) and limited source of finance
Limited liability	Potential charity fraud and inefficiencies

1.3 Organizational objectives

Vision statements and mission statements

A **vision statement** outlines an organization's aspirations in the distant future.
A **mission statement** refers to the declaration of an organization's overall purpose. It forms the foundation for setting the objectives of a business

Vision statement	Mission statement
"What do we want to become"	"What is our business"
Focused on long term	Focus on medium or long term
Mission statements are updated more frequently than vision statements	
Do not have to be actual targets that must be achieved	Allow people to see what could be
	This tends to outline the values of the business (beliefs, etc)

Aims are the general and long-term goals of an organization. They are broadly expressed as vague and unquantifiable statements. They serve to give a general purpose and direction for an organization.
Objectives are the short-to-medium term and specific targets an organization sets in order to achieve its aims. They are more specific and quantifiable.

Without having clear aims and objectives, organizations have no sense of direction or purpose. They are important for three reasons:

- *To measure and control* - set boundaries for business activity
- *To motivate* - reach a common goal
- *To direct*

Strategies are the long-term plans of action to achieve the strategic objectives of an organization.
Tactics are short-term methods used to achieve an organization's tactical objectives.

Once a business has decided on its short and long term goals, it can then decide on the most suitable methods to achieve these targets. There are several levels of business strategy:

- *Operational strategies* - day-to-day methods used to improve efficiency
- *Generic strategies* - those that affect the business as a whole
- *Corporate strategies* - targeted at the long term goals of a business

Aims	Objectives
What business wants to achieve	What the business has to do to achieve aims
Not necessarily time-bound	Time-bound[
Vague or abstract goal	Specific and measurable target
Set by senior leaders	What a business needs to happen
What a business wants to happen	Set by managers or their subordinates

Tactical objectives are short-term goals that affect a section of the organization. They are specific goals that guide the daily functioning of certain department or operations. They tend to refer to targets set up for months, such as:

- Survival
- Sales revenue maximisation

Strategic objectives are the longer term goals of a business, some example include:

- Profit maximisation
- Growth
- Market standing
- Image and reputation

The need for changing objectives
There are various factors that can cause the aims and objectives of an organization to change, requiring innovative responses to these factors. Some of the internal factors include:

- Corporate culture
- Type and size of organization
- Private versus public sector organizations
- Age of the business
- Available finance
- Risk profile
- Crisis management

Some of the **external factors** include:
- State of the economy
- Government constraints
- The presence and power of pressure groups
- New technologies

Ethical objectives

Ethics are the moral principles that guide decision-making and strategy, they define what is right or wrong from society's point of view. Socially responsible businesses are those that act morally towards their stakeholders. These obligations are known as **corporate social responsibility** (CSR).

There are three broad views and attitudes towards the role of businesses in delivering CSR:
- The self interest (non-compliance) attitude
    - Generate profits for their owners
- The altruistic attitude
    - Humanitarian and unselfish behaviour
- The strategic attitude
    - Only be socially responsible if such actions help them become more profitable

To achieve their ethical objectives, businesses have adopted an **ethical code of practice** and publish this in their annual report.

Advantages	Disadvantages
Improved corporate image and customer loyalty	Costs of being socially responsible are high
Potential cost cutting (less packaging, etc)	Lower profits
Improved staff morale and motivation	Stakeholder conflict as not all might want CSR

Attitudes towards CSR may change over time due to change in societal norms, pressure group action and educational awareness, etc. This means that firms must adapt to meet their social responsibilities; such ways of doing this are:

- Provide accurate info and labelling
- Adhering to fair employment practice
- Having consideration for the environment
- Active community work

Firms have realised that a good reputation can give them an important competitive edge. Despite the driving forces for setting ethical objectives, whether a business acts in a socially responsible way depends on several interrelated factors:

- The involvement, influence and power of various stakeholders
- Corporate culture and attitudes toward CSR
- Social expectations
- Exposure and pressure from media
- Compliance costs
- Laws and regulation
- Experience

SWOT analysis

This is a simple yet very useful decision-making tool. It can be used to assess the current and future situation of a product, brand, business, proposal or decision. SWOT is an acronym for:

- **Strengths** - <u>Internal</u> factors that are favourable compared with competitors (e.g. brand loyalty)
- **Weaknesses** - <u>Internal</u> factors that are unfavourable when compared with rivals (e.g. competitive disadvantages)
- **Opportunities** - <u>External</u> possibilities for future development (e.g. rapid economic growth)
- **Threats** - <u>External</u> factors that hinder the prospects for an organization (e.g. technological breakdowns)

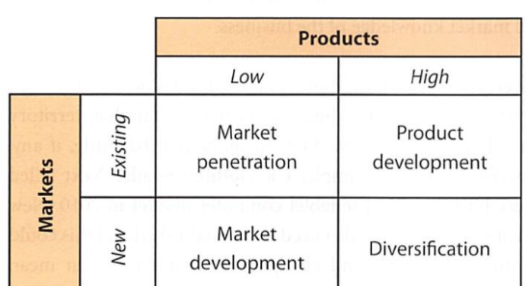
SWOT analysis can provide a good framework for:

- Competitor analysis
- Assessing opportunities
- Risk assessment
- Reviewing corporate strategy
- Strategic planning

The Ansoff matrix

This is an analytical tool that helps managers to choose and devise various product and market growth strategies.

- Market penetration - existing products in existing markets, low risk
    - Better pricing or improved advertising
- Product development - new products in existing markets, medium risk



    - Product extension strategies & brand development
- Market development - existing products, new markets, medium risk
    - New distribution channels
- Diversification - new products in new markets, high risk
    - Related diversification - news customers within the broader confines of the same industry
    - Unrelated diversification - new products in untapped markets

Market penetration	Product development	Market development	Diversification
Same products for existing customers	New products for existing customers	New customers for existing products	New products for new customers
Minimal risk	Moderate risk	Moderate risk	High risk
Seek to maintain or increase market share	Innovation to replace existing products	Entering overseas markets	Spreading risks
Intense competition	Product improvements	New distribution channels	Use of subsidiaries and strategic business units

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1.4 Stakeholders

A **stakeholder** is any person or organization with a direct interest in, and is affected by the activities and performance of a business.
Shareholders (or stockholders) are the owners of a limited liability company. Shares in a company can be held by individuals and other organizations.

Internal stakeholders

Internal stakeholders are members of the organization, people who work for the business who are INSIDE the business and involved daily. They each have interests relating to the business.

- **Owners / shareholders** - profits, growth, increase in value of business, maximise dividends, achieve capital gain
- **Managers and directors** - salary, maximise benefits, promotion, status, long0term financial health
- **Staff / Employees** - pay, working conditions, job security, promotion

External stakeholders

External stakeholders do not form part of the business but have a direct interest or involvement in the organization.

- **Customers** - price, customer service, quality
- **Competitors** - rivalry for motivation, benchmark performance
- **Government** - observe laws, pay taxes, create wealth & employment
- **Pressure groups** (individuals with a common concern (such as environmental protection) who seek to place demands on organizations to act in a particular way or to influence a change in their behaviour.)- whatever their particular focus is (mainly that business operates ethically)
- **Suppliers** - sales, payment as agreed, good working relationships

Stakeholder Conflict

As different stakeholders have varying interests in the business, it is likely that **conflict** will arise. It happens because a business cannot simultaneously meet the needs of all of its stakeholders.

- ***Employees vs Managers/owners*** - cutting staff benefit for profit
- Supplier vs business - paying full price for supplies vs discounts for bundles
- ***Directors vs Shareholders*** - fairer distribution of profits to shareholders/employees instead of overpaid management vs more pay for top management because high risk and decision making
- ***Owners vs pressure groups***
- ***Owners vs government***

In resolving conflict the leaders need to look at:

- *The type of organisation in question* - partnerships struve for profit and customers are key stakeholders, charities have other priorities and local community is key, a limited company is accountable to shareholders therefore they are key.
- *The aims and objectives of business*
- *The source and degree of power of each stakeholder group*

Mutual Benefit - there are mutual benefits in simultaneously meeting the competing needs of different stakeholders. Addressing the needs of both employees and management lead to motivated workforce, which leads to improved customer relations, corporate image, market share and profits. Greater output also leads to more employment in local community which also pleases the government.

1.5 STEEPLE analysis

STEEPLE analysis

STEEPLE analysis is an acronym for the **S**ocial, **T**echnological, **E**conomic, **E**nvironmental, **P**olitical, **L**egal and **E**thical opportunities and threats of the external business environment. These factors, unlike internal ones, affect all businesses yet are beyond the control of any individual organization.

Social opportunities and threats

Social, cultural and demographic factors can directly affect the activities of a business. The values and attitudes of society towards a wide range of different issues (such as business ethics, social welfare, women, religion or animal rights) can present both opportunities and threats for businesses.

Technological opportunities and threats

Advances in technology and work processes have improved productivity. However, the high cost of staying up to date with technological progress can cause problems for businesses. It can bring new working practices, increased productivity and efficiency, quicker product development time, create jobs, new products in new markets. However it is not always reliable and secure, can be costly, cause job losses.

Economic opportunities and threats
The economic environment refers to the state of the economy in which businesses operate. This is determined by the government's ability to achieve four key economic objectives: to control inflation, to reduce unemployment, to achieve economic growth and to have a healthy international trade balance.

Environmental opportunities and threats
Individuals, organizations and governments are increasingly concerned about the negative impacts of business activity on the natural environment. Changes in social attitudes towards the environment have meant that businesses are increasingly reviewing their practices. Firms that do not respect the environment face ruining their reputation and long-term profitability.

Political opportunities and threats
The political stability of a country and government policies (such as taxation and interest rate policies) can provide both opportunities and threats for businesses. A laissez-faire government adopts a free market approach to managing the economy as it rarely intervenes in business affairs. Government policies can be broadly categorised as fiscal policy (use of taxation and government expenditure policies to influence business activity) and monetary policy (use of interest rate policy to affect to the money supply and exchange rates in order to influence business activity).

Legal opportunities and threats
The government imposes rules, regulations and laws to ensure that the general public is protected from adverse business activity. Government intervention can also protect the interests of businesses.

Ethical opportunities and threats
Business ethics are the moral principles that are, or should be, considered in business decision-making.

1.6 Growth and Evolution

Size of business and Growth

There are 4 ways to determine how large a business is:

- **The value of the business** - how much they would get if they sold everything

- **Sales Revenue** - the value of all the goods the business sells in a year
- **Market Share** - value of sales a business makes compared to all sales by all businesses
- **Size of Workforce** - <200 - small, 3000+ - large
- **Capital employed** - the value of the firm's capital investment for the business

Why would businesses want to grow?
- **Lower costs** - economies of scale and higher profits
- **Wider range of products** - increases security since they have more to rely on
- **Ensure supplies and outlets** - control over the availability of products
- **Prevent competitors gaining an advantage** - gaining more control of a market will give a firm an advantage over their competitors

Benefits of growth - Economies of Scale

Economies of scale refer to lower average costs of production as a firm operates on a larger scale due to gains in production efficiency, e.g. easier and cheaper access to finance. This is a very good competitive advantage because it combines the ability to sell at a low price with a higher profit margin earned per unit sold.

The **average cost** is cost per unit output, it's calculated by dividing total costs (TC) by the quantity (Q) of output. AC = TC / Q
This is divided into two components: **average fixed costs** (AFC = TFC / Q) and **average variable costs** (AVC = TVC / Q)

Internal economies of scale - economies of scale inside the firm
- ***Technical*** - buying better equipment, high fixed cost of equipment is spread out over large output thereby reducing cost of production
- ***Financial*** - obtaining favourable loan rates, as they are seen as less risky and also get better interest rates
- ***Managerial*** - employing specialist staff, higher productivity = less costs
- ***Specialisation*** - like managerial but with workforce, expert staff groups are responsible for production process, therefore productivity is higher
- ***Marketing*** - large firms benefit from bulk selling because of reduced time and transaction costs, big firms can also use the same advertisement worldwide just in different languages
- ***Purchasing*** - buying in bulk lowers average costs and offers discounts
- ***Risk-bearing*** - enjoyed by conglomerates, they can spread their fixed costs over large product portfolio.

External economies of scale - economies which occur within the industry and are largely beyond an individual firm's control**.**
- ***Technological progress*** - increases productivity, e.g. internet for e-commerce
- ***Improved transportation networks*** - ensures prompt delivered, easy access for employees and customers

- ***Skilled labour*** - which may be found in local area
- ***Regional specialisation*** - a particular location has a better reputation for producing a certain good or service.

The problems of growth - Diseconomies of Scale

Diseconomies of scale are the result of higher unit costs as a firm continues to increase in size and loses control, coordination and communication

Internal diseconomies of scale

- ***Lack of control and coordination*** - decision make longer, sense of alienation between business sectors
- ***Poorer working relationships*** - separation of managers and workers, damages communication flow and morale of staff, thereby productivity
- ***Disadvantages of specialisation*** - workers become bored with repetitiveness, causes slack
- ***Bureaucracy*** - takes longer for decision making, makes communication more difficult
- Complacency
- ***Lack of flexibility*** - e.g. it may not be possible to change production quickly

External diseconomies of scale

- Too many large business in a certain area increases market rents
- Businesses might have to increase wages and financial rewards to beat competition for employees
- Traffic congestion - deliveries are likely to be delayed due to overcrowding

Advantages of Large Businesses

Factor	Benefit
Brand recognition	Familiarity leads to ability to sell on a larger market
Brand reputation	The larger the more trusted
Value-added services	The larger the wider range of services available
Lower price	Price discounts due to economies of scale
Greater choice	More product choice
Customer loyalty	Customers are more likely to remain loyal

Advantages of Small Businesses

Factor	Benefit

Cost control	Growth requires and costs money
Financial risk	Large businesses face large risk, small business have control
Government aid	Grants and subsidies are offered to small businesses to help them start
Local monopoly power	Being the only business in a remote area, less likely to encounter large global businesses
Personalised services	Small firms have time to devote to individual customers
Flexibility	More adaptive to change
Small market size	Not likely to attract competition from big players due to small market

How can firms grow?

Internal growth (also known as **organic growth**) occurs when a business grows using its own capabilities and resources to increase the scale of its operation and sales revenue. It can do it in several ways such as:

- Changing price - lower prices more customers more revenue
- Effective promotion - people are more likely to buy a product if they know about it
- Improving products - producing products that appeal to the market
- Greater distribution networks - if a product is more widely available
- Offer preferential credit - 'buy now pay later'
- Increased capital expenditure - new production processes and technologies
- Improved training and development - improved level of customer service
- Overall value for money - customers are likely to look at more than just price

Advantages	Disadvantages
Better control and coordination	Diseconomies of scale
Inexpensive - use of retained profits, less risk	Need to restructure organization as it gets bigger
No corporate culture clashes and conflicting management styles from merging	Having to share decision making with new owners
Less risky for evolution of business	Slower growth that it would be with external

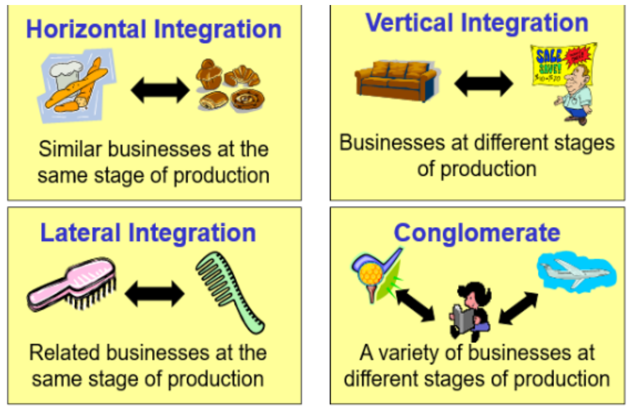
External growth (or **inorganic growth**) occurs when a business grows by collaborating with, buying up or merging with another firm.

- It's a fast way to grow and evolve
- Quick way to reduce competition
- It can bring about greater market share

- Working with businesses means sharing ideas
- Spreads risks across several distinct markets
- Main disadvantage: very expensive

Methods:

- **Mergers and acquisitions**
    - A ***merger*** takes place when two firms agree to form a new company
    - A ***takeover*** occurs when a company buys a controlling interest in another firm, i.e. buys enough shares in the target business to hold a majority stake



Benefits	Drawbacks
Greater market share	Redundancies
Economies of scale	Potential disagreements between parties
Having access to each other's resources	Loss of control os some of the original owner
Fast method of growth to protect survival	Diseconomies of scale
Diversification of product mix	Risk of monopoly, problems with government

- **Joint ventures** - growth strategy that combines the contributions and responsibilities of two different organizations in a shared project by forming a separate legal enterprise.
    - They allow organizations enjoy some of the benefits of M&A (such as market share) without losing corporate identity
    - Pooling of experiences, skills and resources of collaborating firms should create synergy
    - Spreading of costs and risks
    - Entry to foreign markets
    - Relatively cheap compared to hostile takeovers
    - Competitive advantages
    - Exploitation of local knowledge
    - High success rate
- **Strategic alliance** is similar to a joint venture but different because the affiliated businesses remain independent organisations. The firms in the SA share costs of product, development, operations and marketing. There are four key stages:
    - *Feasibility study* - rationale, objectives and feasibility

        - *Partnership assessment* - what they have to offer, both human and financial resources
        - *Contract negotiation* - determine each member's contributions and rewards
        - *Implementation* - operations are initiated with commitment to the contract from all parties
        - Purpose: gain synergies from different strengths of the members by pooling resources
    - **Franchising** refers to an agreement between franchisor selling its rights to other businesses (franchisees) to allow them to sell products under its name in return for a fee and regular royalty payments.

Benefits for franchisor	Benefits for franchisee
Rapid growth with low risk cost wise	Low risk since franchisor is already established
National and international presence without costs of M&A or organic growth	Low start-up costs
Benefits of growth without staff, stocks, R&T costs	Franchisor provides added services because it needs for franchisee to succeed
Royalty payments from franchisee	Large scale advertising
Franchisees have more incentives to do better than salaried managers	Greater awareness in local market

Drawbacks for the franchisor	Drawbacks for the franchisee
Big risk in allowing others use the brand	Cannot try own ideas
Difficult to control daily operations	It can be expensive to buy license
Not as quick as M&As	Significant percentage of revenues to franchisor

The role and impact of globalisation

Globalisation can be defined as the growing integration and interdependence of the world's economies, It has caused national economies to integrate towards a single global economy, where consumers have ever-increasingly similar habits and tastes. With globalisation, economic and political decisions takes in one region of the world will affect those in other parts of the world too.

Role and impact on business growth and evolution:
- Increased level of competition
- Harder to meet customer expectations
- Increased customer base
- Economies of scale
- Greater choice of location
- External growth and opportunities
- Increased sources of finance

Growth of multinational companies

A **multinational company** (MNC) is an organization that operates in two or more countries. A MCN has its Head Office in the home country whereas **transnational corporation** has regional head offices rather than a single international base. A business may strive to become a MCN because:
- An increase customer base allows businesses to increase their sales turnover by expanding internationally
- Benefit from cheaper production costs and inexpensive labour
- Higher production levels - economies of scale
- By producing in a particular country they can avoid protectionist policies
- They can spread risks internationally

The impact of MNCs on the host countries

A host country is any nation that allows a multinational company to set up in its country.

Advantages	Disadvantages
They create jobs in the host country	Unemployment as they pose a threat to domestic businesses
Boost host countries gross domestic product (the value of a country's annual output)	Profits that MNCs generate are repatriated to home country
New skills and technology in production processes to host countries	Pressure groups are concerned about social responsibility in using resources
Intensify competition in the host country	Competitive pressures for domestic businesses