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Introduction

The Exam Success series will help you to reach your highest potential and achieve the best possible grade. Unlike traditional revision guides, these new books show you what examiners expect of candidates.

Exam Success in Cambridge International AS and A Level Business covers the requirements of the AS Level and A Level Cambridge 9609 Business syllabus. Units 1–11 cover the syllabus content, while Unit 12 provides advice on making your study time more effective; and Unit 13 consists of exam-style questions. Unit 14 provides case studies that are referred to in questions and examples throughout the book.

Cross-references are given to the OUP student book Business for Cambridge International AS & A Level, should you wish to study the topic in more depth. Throughout the book, a grey vertical bar shows AS content, and a green bar shows A Level content.

Each Exam Success book has common features to help you do your best in the exam:

- **Worked examples**
  These give examples of questions, and show you how best to answer them.

- **Key terms**
  These give you easy-to-understand definitions of important terms.

- **Common errors**
  These are errors that students have made in past exams, helping you to avoid similar mistakes.

- **Link**
  These show where in the book you can find more information on a topic, and also which case study to use for a data response question.

- **What you need to know**
  These provide you with useful summaries of the main features of topics you would need to demonstrate an understanding of in the exam.

- **Remember**
  These include key information that you must remember if you are to achieve a high grade.

- **Exam tip**
  These provide guidance and advice to help you understand exactly what examiners are looking for.

- **Raise your grade**
  Here, you can read answers by candidates and find out how to improve their answers.

- **Maths skills**
  These remind you of the mathematical skills that you need in order to carry out business calculations.

- **Revision checklist**
  These summarise what you need to show that you can do in the exam. Check them off one by one when you are confident.

- **Exam-style questions**
  Each unit has examples of the sort of questions to expect in the exam. Answers are available on the OUP support website.
1.1 Enterprise
This topic is concerned with:
➤ what is enterprise?
➤ the nature of business activity
➤ the role of the entrepreneur
➤ social enterprise.

What is enterprise?
Whenever there is demand for a product or service, there will always be a person or a business who will take the chance of satisfying that demand. Enterprise is the action taken to fulfil an identified need by either adding value to an existing product or filling a gap in the market by creating a product or service to fill it.

The nature of business activity
Business responds to the needs and wants of the customer, and success or failure is determined by the ability to use available resources to their maximum potential. Entrepreneurs are vital to a country’s economy as they provide employment, innovation and economic growth.

Adding value to a product could be: refining a product, repackaging a product or choosing a more suitable location to sell the product.

Economic activity is governed by the relationship between the business and the consumer; the consumer wants to buy many items but has limited capital, while the business can only produce a limited number of products as it has limited resources to allocate.

Whenever a decision is made, there is always a choice; option A, or option B. Both customer and businesses need to calculate the best option with the information available. There is always an opportunity cost to any decision which must be considered.

A successful business depends on its ability to provide something that its customers are willing to pay for. This depends on its ability to satisfy an identified want or need.
An unsuccessful business may identify a want or need but will not have the skills or resources to meet this need.

**The role of the entrepreneur**

Entrepreneurship requires a person to spot the gap in the market or an unmet need. This person is referred to as an **entrepreneur**. Entrepreneurs find inspiration in many places and may work for themselves or for a large(r) business.

Entrepreneurs are necessary for business to flourish. There are three main reasons why an economy needs entrepreneurs:

- **Employment**
  - entrepreneurs need help providing goods and services, so this creates employment
  - cost of employment is often required to be kept low, so low skilled/young labour is recruited.

- **Creating large businesses**
  - most large businesses started with one person and one idea
  - the new businesses that are created help to replace those in decline.

- **Economic growth**
  - quick response to improved economic conditions – can drive growth
  - wider economic growth employs more people as a whole than large businesses.

▲ Figure 1.1 Why an economy needs entrepreneurs

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**Worked examples**

1. Define an entrepreneur. [2 marks]

2. Explain entrepreneurship. [3 marks]

3. Briefly explain how an entrepreneur may add value to an existing product. [3 marks]

**Answers**

1. An entrepreneur is a person who identifies ✓ and meets a gap in the market. ✓

2. Entrepreneurship is the process of an entrepreneur risking/investing their own time and money ✓ to satisfy ✓ an unmet ✓ gap in the market.

3. An entrepreneur may find a new untapped market ✓ that has no easy access to the product ✓ and will add value by providing the good to a suitable location. ✓

There is an identified process for the basic steps taken by an entrepreneur as illustrated in Figure 1.2.
Business and its environment

Social enterprise
While most businesses are created to make profit for the shareholders (in small businesses usually a sole trader or partnership) some businesses are developed to meet the needs of other groups of people or even areas. These are called social enterprises which cater for the triple bottom line.

Key terms

Social enterprise: an organisation that applies commercial (business) strategies to meet both organisational and social objectives such as the triple bottom line.

Corporate social responsibility/triple bottom line: aims to meet the needs of people, planet and profit. Each is as important as the other.

Figure 1.2 The role of the entrepreneur

Raise your grade

Paper 1
1  (a) Define the term ‘value added’. [2]
Adding value to an existing product. ✗

[0 marks] This is mostly repeating the words in the question; this will not be awarded ANY marks. A better answer would be: The difference [1] between the selling price and the cost of raw materials. [1]

(b) Briefly explain two ways a business could add value to their product. [3]
They could process a raw material or improve the packaging. ✓

[1 mark] Not sufficient information – this is a list only and the question asks for explanation – could add a simple example for the processing [1] and explain why improved packaging would increase the desirability. [1]

2 Explain why many new businesses fail within their first year. [5]
Businesses fail because they have insufficient capital, ✓ fail to understand their customers, ✓ over-expand ✗ and are unable to respond to external environmental change. ✗

[2 marks] Insufficient answer – this is a list which does not ‘explain’. To get higher marks, select the two reasons you are most confident about and explain each, i.e. insufficient capital [1] as banks are reluctant to lend to start-ups [1] with no credit history [1] and do not have enough market research to understand their customers’ needs [1] which leads to a product led business. [1]
3 (a) Analyse the qualities of a successful entrepreneur.

A successful entrepreneur needs to be multi-skilled ✓ because there may not be many employees ✓ and must also be committed and self-motivated ✓ because there are many challenges when opening a small business. ✓

[4 marks] This is a basic answer that shows some analysis [L2], but each point could be explained further by highlighting how the entrepreneur would need to learn lots of new skills in the short term [L3] and identify some challenges such as competition and long opening hours to meet customer needs.

(b) Discuss why senior managers leading large public companies might decide not to have corporate social responsibility (CSR) as a business objective.

CSR or the triple bottom line ✓ might not be a business objective in a large public limited company (sells shares on the stock exchange) ✓ because if they spend money on non-essential expenditure ✓ they are imposing a tax on shareholders, ✓ which means that their dividends might be less. ✓ if businesses also ‘do good’ they may not focus on their core activities ✓ and the business might fail, ✓ which would mean that the senior managers would not risk their reputation on the triple bottom line. ✓ This means that most senior managers are more likely to focus on their core priorities such as profit seeking and shareholder satisfaction. ✓✓✓✓

[12 marks] This good answer builds up in layers. It goes through knowledge, application to the question, analysis and finally evaluation. The bold text shows how each layer is built upon the other to connect points and ensure that each level is met.

4 ‘Because there is conflict between profit and corporate social responsibility (CSR), private sector businesses should not have CSR as an objective.’ Do you agree? Justify your view.

CSR, which considers society and the environment ✓ as well as profit when making business decisions ✓ means that there is a debate about having it as a corporate objective.

CSR might include paying higher wages and cutting waste and pollution, ✓ which while beneficial for society and the environment, ✓ affects the profit negatively as there are higher costs in the short term due to a higher wage bill and new or improved machinery, for example. ✓✓ However, if staff earn more they may be more motivated which will be a benefit to the company in the long term if employees worker more efficiently to justify their higher wages. ✓✓

If a business sets CSR as an objective, this can be set as a marketing campaign ✓ which could improve the profile of the company, getting more loyal customers in the long term ✓ ✓ which could increase profits which is a net benefit for shareholders in the long term. ✓✓

I do not agree with the above statement because not having CSR as an objective is only a short term benefit to the company. ✓ Even though it may be more expensive and affect shareholders negatively, ✓ if they do not have CSR as an objective then they may lose market share to competitors who do and have lower profits in the long term. ✓

[16 marks] This is a good answer which follows a logical structure and answers the specific question set. However, while the analysis is sufficient for a question of this size, the evaluation is lacking in depth and the arguments are too basic.
José is walking in his local park and because it is a hot day, would like a cold drink. However, he cannot see a shop anywhere where he can buy one. He notices that there are other people walking, sitting down and playing with their friends, and wonders if they might also like to buy a cold drink.

a) Explain how José could become an entrepreneur and who his target customer might be. [3 marks]

b) Explain one reason why John might be taking a risk. [3 marks]

c) How would José be adding value to a product? [2 marks]

**Answer**

a) José could bulk buy soft drinks elsewhere, ✔ then come back and sell them to the people in the park ✔ for more than he spent. ✔

b) José is risking his own money ✔ (capital) and time because other people might not want to buy a drink off him ✔ as they have brought their own. ✔

c) José would be adding value to a product by buying chilled drinks in a shop further away ✔ and then selling them in a convenient location in the park for his target customer. ✔

**Exam tips**

**Key features of the sample answer**

➤ José is an entrepreneur because he has spotted a potential opportunity (a gap in the market) and if he starts selling drinks, will be taking a risk to meet his objective of making a profit.

➤ José is adding value to a product that he bought because he is making it more convenient to the end user. People will often pay more money for something if it is easier and takes less effort.

**1.2 Business structure**

This topic is concerned with:

➤ economic sectors

➤ legal structures.

**Economic sectors**

This topic aims to develop understanding of the different stages of the economy, the types of business ownership and the benefits and drawbacks of each and how they fit into a country’s economy. A business needs to ensure it has the most appropriate method of structure and ownership depending on various factors such as size and scope.

**Primary, secondary and tertiary sector businesses**

Central to the understanding of the economic sectors are the activities that each play in the broader business environment. What each business does is critical to understanding which sector a business belongs to. Businesses can be divided into three different sectors; primary sector which deals with raw materials, secondary sector which deals with manufacturing, manipulation and production and tertiary sector which deals with the end user, but not the industrial market.
The economic sector is often linked to the state of the country’s economic progression; ELDC countries generally have either primary sector businesses such as farming, mining and fishing, or secondary manufacturing businesses which are both labour intensive. More developed countries are often based on the tertiary sector and have businesses in the service sector, such as banking, insurance and sales. As businesses expand, they sometimes try to integrate vertically to gain control and supply security.

Some businesses can be vertically integrated and may be in more than one sector, such as oil companies who drill for oil (primary), refine it (secondary) and sell it to customers (tertiary).

The basic model for progression through the economic sectors is:

- **Primary sector**: Farmer plants crops (e.g. wheat), waits for it to grow and harvests. Sells to:
- **Secondary sector**: Buys raw materials (wheat) and transforms into bread. Sells to:
- **Tertiary sector**: A shop such as Carrefour who sells it to the end customer.

**Public and private sectors**

Businesses are owned either by the government (public sector) or by private individuals (private sector). Each sector has different aims and priorities; the public sector exists to aid and allow the private sector to create value by creating the country’s basic infrastructure.

**Legal structures**

**Main features of different types of legal structure**

When sitting a business exam it is essential know be able to identify and understand the different sizes and ownership structures of a business. Each legal structure has its own benefits, disadvantages and unique features. It is essential to be able to choose a suitable model and justify your choice.

<table>
<thead>
<tr>
<th>Table 1.1 Business ownership structures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sole trader</strong></td>
</tr>
<tr>
<td>✓ No formal, legal structure</td>
</tr>
<tr>
<td>✓ Simple and easy to set up and manage</td>
</tr>
<tr>
<td>✓ Simple decision making</td>
</tr>
<tr>
<td><strong>Partnership</strong></td>
</tr>
<tr>
<td>✓ Increased level of capital</td>
</tr>
<tr>
<td>✓ Additional skills – each person will have a speciality</td>
</tr>
<tr>
<td>✓ Decision making, workload and losses shared</td>
</tr>
<tr>
<td><strong>Private Limited Companies (Ltd)</strong></td>
</tr>
<tr>
<td>✓ Limited liabilities – more risk taking</td>
</tr>
<tr>
<td>✓ Separate legal identity to the owner(s)</td>
</tr>
<tr>
<td>✓ Increased status to a sole trader</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
### Business and its environment

#### Key terms

- **Unlimited liability**: no separation between the owner and the business – any debts accrued by the business can be claimed from the owner’s personal possessions – sole traders and partnerships.

- **Limited liability**: the owner(s) and the business are separate legal entities – any liabilities that the business holds are not guaranteed by the owner’s personal possessions.

#### Public limited company (plc)

| ✔ Sale of shares to general public – huge capital opportunity | ✔ Larger public profile | ✔ Board of directors manage the company | ✗ Very expensive and long process | ✗ Public scrutiny of all aspects of business | ✗ Increased risk of takeover | ✗ More short term v long term objectives |

#### Franchises

| ✔ Franchisee can use the established name and practice of a successful company | ✔ Benefits of Economies of Scale | ✔ Access to expertise | ✗ Proportion of profits paid to franchisor | ✗ Rigid model – lack of freedom | ✗ Weakness of franchisee when negotiating with franchisor |

#### Co-operative

| ✔ Working together increases Economies of Scale | ✔ Better business decisions due to many viewpoints | ✔ Greater market power | ✗ Limited amount of finance | ✗ A lack of a range of expertise | ✗ Complex decision making as all consulted |

#### Joint venture

| ✔ Shared investment | ✔ Access to expertise of different companies | ✔ Less risk | ✗ Sharing of profits | ✗ Differing corporate aims | ✗ Lack of continuity |

#### What you need to know

The most suitable legal structure for a business and the advantages and disadvantages of that structure.

### Raise your grade

These are generic questions as found in Paper 1, which have no stimulus material and require retained knowledge.

#### Short answer questions

1. **Distinguish between a local and national business.**

   A local business caters to one specific area ✔ and a national business caters to more than one area. ✔

   [2 marks] A good answer with two specific points.

2. **Briefly explain one advantage of national businesses.**

   A national business has more customers, ✔ so makes more profit. ✗

   [1 mark] While correct, there is not enough detail; three marks means three good points are needed; candidate could add ‘... more customers, so can bulk buy stock’ which reduces costs. [1]
3 Explain why small businesses are important to a country’s economy. [5]

Small businesses bring lots of jobs to the country ✓ and that means lots of people are employed ✓ which means that more people can afford to buy products raising the country’s economy. ✓

[3 marks] While correct, there is not enough detail; a five-mark question is asking the candidate to explain two points in some detail, so candidate could add ‘… and can react quickly to market changes [1] [understanding] which capitalise on new technologies and developments to become a market leader. [1] [effective explanation]

Essay question

4 Peter, a sole trader, wants to expand his business to deal with larger businesses. This requires an investment in expensive machinery requiring finance, so he is considering changing his legal structure. Recommend the most appropriate legal structure. [20]

A sole trader has unlimited liability, which means that he is personally responsible for any losses his business may make. This means he may lose his house. Another legal structure he could use is a partnership as a partner would bring in additional finance and new skills. The other appropriate legal structure could be a private limited company, which gives the benefit of limited liability, so his personal assets are safe if the business owes money, and more confidence to larger businesses.

[4 marks] Level 1 answer – understanding of legal structures.
This answer gains full marks for Level 1 – no additional knowledge is needed and expanding the answer further would only waste time.

If the sole trader enters into a partnership, then he would gain investment into his business which would reduce the amount of finance he would need to borrow from another source, such as a bank loan. This means that there would be less risk from meeting bank repayments and greater chance of survival. However, Peter would have to share the ownership of the business with someone who may not have the same long-term views so Peter could lose control of the direction of the business and not achieve his own aims.

[13–16 marks] Good analysis due to connective words highlighted, thus Level 4 answer is achieved as there is also limited evaluation.

I would recommend that Peter does enter a partnership because he would get the finance and experience he would need even though he loses some of the ownership.

[17–20 marks] Level 5 is not achieved as the evaluation is limited – there is no comparison made against another legal structure.

How to improve this answer

In order to gain full marks, the candidate must also analyse a second legal structure such as a private limited company, repeating the process for the analysis of a partnership. If the candidate does this, the evaluation can be strengthened by comparing the best feature of a partnership (the source of finance has less short-term risk) to the best feature of a limited company (limited liability) and recommending which is the most suitable. Any answer would gain full marks.
1.3 Size of business
This topic is concerned with:
➤ measurements of business size
➤ significance of small businesses
➤ internal growth.

Measurements of business size
Different methods of measuring the size of a business
This topic aims to develop the understanding and relevance of size to businesses. AS Level focuses on small to medium businesses and A Level questions will be based on larger, national or multinational businesses.

All measures of size must be quantifiable (measurable) so comparisons can be made against either internal business aims or external competitors. Below are four main methods explained with benefits and drawbacks.

▼ Table 1.2 Methods of measuring the size of a business

<table>
<thead>
<tr>
<th>Description</th>
<th>Turnover</th>
<th>Market capitalisation</th>
<th>Number of employees</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Value of sales in a given time period. Quantity sold x price.</td>
<td>Total value of the shares in a business. Share price x number of shares.</td>
<td>Number of people employed.</td>
<td>Portion of a market controlled by a company or product. Total sales or revenue of company/industry total sales.</td>
</tr>
<tr>
<td>Usefulness</td>
<td>Compare the success of the business against previous years or external competitors.</td>
<td>Shows the confidence of investors in a business and capacity for risk.</td>
<td>Can measure the growth of the business in labour intensive industries.</td>
<td>Calculates the relative size of the business in comparison to competition and chances of expansion.</td>
</tr>
<tr>
<td>Drawback</td>
<td>Does not take into consideration costs so a high turnover does not mean high profits.</td>
<td>Can only be used by incorporated businesses. Share prices fluctuate on confidence and are unstable.</td>
<td>Many businesses are automated and this can be misleading.</td>
<td>Depends on the sector or whether the business is a niche or mainstream company. Difficult to define market.</td>
</tr>
</tbody>
</table>
Advantages and disadvantages of being a small business

To be a small business you have to compare it to another. It is also dependent on the relative size of businesses in the sector and the country. ‘Small’ in business has many meanings; a business with few employees could still be ‘large’ as it is a technology-based company and has many employees.

Businesses often choose to remain small as there are a number of advantages over becoming larger; when small:

➤ the decision-making process is often faster, meaning more responsiveness to change

➤ there is often a closer relationship with customers, leading to a more personal service

➤ there is control of all processes and procedures, meaning the vision is clear.

However, there are some disadvantages to remaining small:

➤ you have less economics of scale, meaning unit costs may be higher

➤ customers may doubt the security and guarantees of small businesses

➤ less potential profit as revenue is often small.

Worked examples

1. Identify two reasons a business might want to remain small. [2 marks]

2. Briefly explain two reasons a business might want to remain small. [3 marks]

3. Explain why decision making is an important factor for a small business. [5 marks]

Answers

1. To have a close relationship with customers ✓ and to keep a clear vision for the business. ✓

2. A closer relationship with customers means that there will be a more personal service leading to customer loyalty ✓✓ and a clear vision for the future means that they will keep on meeting their original goal. ✓

3. If a business remains small, then they will be able to make decisions quickly ✓ which means that they will be able to respond before larger competitors to sudden market changes ✓✓ so they have a chance of gaining the initial market share and building a good reputation and loyalty. ✓✓

Strengths and weaknesses of family businesses

Central to the success of a family business is the culture of the home country. Some advantages and drawbacks of family businesses candidates could use in exams are:

Key terms

Small business: can be categorised as small depending on the measurement used – this is a subjective measure.

Family business: usually partnerships or limited companies, all the owners are members of one family. Employ more people than incorporated businesses in most countries. Family businesses can be small, medium or large.

Remember

It is useful to use more than one measure to define the size of a business as each has weaknesses and can be subjective. What is an appropriate measure for one business can be inappropriate for another.

What you need to know

Definitions of small businesses vary from country and industry. According to the European Union, a small business has less than 50 employees; in Australia, it is less than 15 employees.
Significance of small businesses

**The importance of small business and their role in the economy**

The economy consists of relatively few large businesses and many smaller and family businesses. Large businesses often **subcontract non-core** activities such as transportation and IT services to specialist businesses that are often much smaller in size.

Small businesses are vital to the economy because:

- **Innovation** is fast due to a smaller decision making process.
- **Response times** are quicker due to the smaller size.
- Increases competition and creates jobs, **leading to a downward pressure on price and inflation**.

**The role of small business as part of the industry structure**

For a large business, such as a car manufacturer to succeed, there needs to be a huge network of small businesses supplying smaller components, which are more cost effective to buy than make themselves. This allows the large business many advantages:

- There is less **capital investment** needed; this lowers the investment needed.
- Small businesses can work for many large companies offering better economies of scale.
- Large businesses only purchase the exact amount of products needed leading to less wastage of resources.

**Internal growth**

**Why and how a business might grow internally**

Some small businesses either want to grow or have to grow to remain competitive. Some of the internal main reasons for growth are:

- Economies of scale: leads to reduced costs.
- A reduction in average costs as production/sales increase; **fixed costs** per unit are decreased.
- **Diversification**: lowers risk.
- To remain competitive against larger businesses.
- To access additional customers and/or markets.

These can lead to:

- Increased profit margins.
- Increased profits or investment opportunities.
Worked examples

1 Define the term ‘innovation’. [2 marks]
2 Explain a benefit of economies of scale. [2 marks]
3 Explain a possible consequence of a small business not growing. [5 marks]

Answers

1 Innovation is the process of transforming an idea or invention ✓ into a new good or service. ✓
2 A benefit is that the average cost of raw materials will be lower ✓ so profit per unit will be increase. ✓
3 A consequence of not growing a small business is that your competitors might grow and gain economies of scale so their costs will be lower than yours ✓ which means that their selling price will be lower and attract more customers ✓✓ which reduces your sales revenue, customer base and this lowers your profits. ✓✓

Internal growth can be achieved in many ways. What is suitable for one business may not be suitable for another due to internal or external factors such as finance and competition.

1.4 Business objectives

This topic is concerned with:

➤ business objectives in the private sector and public sector
➤ objectives and business decisions.

Remember

Businesses usually have more than one objective, of which profit is only one. Try to use the case studies (where appropriate) and the question to think of objectives that are more specific and related to the business and develop these for affective analysis.
Business objectives in the private sector and public sector

Although every business has one or more objectives, they differ depending on the aims of the organisation. Private sector businesses usually have the ultimate aim of making a profit, while Public sector businesses usually have the ultimate aim of fulfilling a social need.

The nature and importance of business objectives at corporate, departmental and individual levels

A business will have different objectives depending on which business level the objective targets. At corporate level, the objective is to allow all stakeholders to understand the overall aim of the business. This mission statement may or may not be realistic and is often very general. This is then broken down into a strategy that is an overall plan for a particular department or sector. Each strategy is then broken down into tactics that guides individual teams or people on how to achieve their part in the overall objective of the business.

It is important to know and separate common aims for the private and public sector. These aims are not always exclusive.

Table 1.4 Aims for the private and public sector

<table>
<thead>
<tr>
<th>Private sector aims</th>
<th>Public sector aims</th>
</tr>
</thead>
<tbody>
<tr>
<td>To become the largest ...</td>
<td>To provide social care</td>
</tr>
<tr>
<td>To build brand reputation</td>
<td>To provide unbiased services</td>
</tr>
<tr>
<td>To build brand loyalty</td>
<td>To provide affordable essential services</td>
</tr>
<tr>
<td>To be a market leader</td>
<td>To provide a minimum level for all</td>
</tr>
</tbody>
</table>

Remember

Just because an objective is usually for one sector does not mean the other sector cannot use it.

Corporate social responsibility (CSR) as a business objective

Due to increased exposure to pressure groups and media, businesses have to ensure their corporate image (see objectives above) is suitable. The list of important stakeholders now includes society, which requires businesses to have corporate social responsibility. Some common CSR policies include:

➤ Caring for the environment; planting three trees for every one used.
➤ Wages, recruitment and health and safety; employee welfare, paying a living wage and providing all recommended equipment free of charge.
➤ Energy usage; using solar or wind power and reducing the carbon footprint.
➤ Community programmes; sponsoring a school or a hospital.
➤ Selecting partners carefully; avoiding business partners who have controversial business practices.

These policies have to be balanced against other regular business objectives as seen earlier in this chapter to ensure that major stakeholders are all satisfied with the business activities. As with all business objectives, there are costs and benefits to CSR:

Key terms

Objective: a specific, often measurable target to help achieve the mission statement.

Mission statement: a general statement of a business’ intent which all stakeholders can easily understand.

Strategy: an overall plan of action influencing tactics to achieve a long-term objective.

Tactic: a specific, short-term course of action for the day-to-day running of the business to meet part of an overall strategy.

Stakeholder: a person or organisation that has an interest, affects or is affected by the operation of a business.

Corporate social responsibility: a way in which a business can demonstrate responsibility to all stakeholders in their operations. Also known as the triple bottom line. Exceeds legal requirements.

Common error

Candidates often write that all public sector organisations do not aim to make a profit. While this is true in some cases, some public sectors do make a profit, such as tax departments; all profit, however, is re-invested instead of being given to shareholders.

Not all private sector organisations aim to make a profit either, they may have different aims such as Corporate Social Responsibility, satisficing, charity or training.
Table 1.5 Costs and benefits to CSR

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public awareness</td>
<td>Increased financial costs</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>Lower profit/profit margins</td>
</tr>
<tr>
<td>Goodwill</td>
<td>Loss of loyalty, trust and custom if caught in controversy</td>
</tr>
<tr>
<td>Marketing opportunities</td>
<td>Cultural conflicts; differing values</td>
</tr>
</tbody>
</table>

The relationship between mission statements, objectives, strategy and tactics

To make an effective tactic you must first know what the outcome of the operation should be. This is why most businesses start with a general mission statement and then gradually create SMART tactics through breaking down each large objective into separate components.

- Mission statement
  - A simple, easy to understand statement to give an overall direction
  - Non-specific, is the same for all stakeholders, internal and external.

- Objectives
  - Objectives are the key measures of success a business wants and needs to meet
  - These are often specific to groups of stakeholders as it provides a clear, achievable goal.

- Strategies
  - Longer term, plan of action which directs departments and stakeholders in achieving objectives
  - Each strategy might influence a number of departments or stakeholders in differing fashions.

- Tactics
  - Short term, specific targets given to a limited number of people to achieve a strategy
  - Useful for day to day planning and direct manipulation of short term resources.

Figure 1.4 Creating smart tactics

Common error
Candidates often address CSR as meeting the legal requirements – this is incorrect. CSR is a voluntary code which exceeds legal requirements and differentiates a business.

Key term
SMART: acronym for Specific, Measurable, Achievable, Realistic and Time-based. This ensures a target has a high chance of succeeding.

Remember
While you can give objective Specific, Measurable and Time based objectives, the achievable and realistic elements are more subjective.

What you need to know
Unless a question specifically asks for a definition, candidates do not need to define SMART when answering questions about objectives. Show understanding by using the framework accurately.

Worked examples

1. Explain one benefit of a SMART objective. [3 marks]
2. Identify two benefits of CSR for a business. [2 marks]
3. Explain one benefit of CSR for a business. [3 marks]

Answers

1. If an objective is SMART, then it will give employees a timeframe to complete their task, ✓ which means their project will be ready for when it is needed ✓ so the overall strategy will be achieved. ✓
2. One benefit is increased customer loyalty ✓ and another is that it is a marketing opportunity. ✓
3. The benefit of increased customer goodwill ✓ is that if there is a problem or bad publicity, then because the business has a reputation for doing the right thing ✓ customers may give them the benefit of the doubt and not boycott the company straight away. ✓
Objectives and business decisions

The different stages of business decision making and the role of objectives in the stage of business decision making

Decision making is an iterative process – it needs to be constantly adapted and changed due to factors both internal and external. The most important reason could be that with practice comes improvement. The process of turning an idea into an outcome has many influences that can affect the objective. Each stage of decision making is influenced by stakeholder objectives which in turn influences the path the process will follow.

The process of decision making starts with an idea or objective and follows a process of identifying issues, and collecting and analysing information, through evaluating data and making a decision. Once the decision is made, the process is then reviewed and the process starts again to either improve the outcome or react to external influences.

How objectives might change over time

Objectives do not stay constant. There are internal and external factors that influence the path of the business. As businesses develop, priorities change which influences the direction of business activities. Below are some main change factors.

![Figure 1.5 Factors influencing objectives](image)

Translation of objectives into targets and budgets

When a business decides upon its strategic objective, this can be split into a number of departmental strategies and then targets, these are then shared with departments and individuals who use them to guide business operations.

Each individual action will have an associated financial cost: this action therefore needs a budget to maximise the success of the action.

The communication of objectives and their likely impact on the workforce

Candidates will study management styles such as Drucker, McGregor and Taylor within Topic 2: People in Organisations. Candidates will need to understand the link between the style and the impact of management on workers.

Objectives, when used appropriately are inspirational and encourage employees.

When used badly, they can be demotivating and reduce morale and output.

Top down planning often will demotivate employees. Employer involvement has proved to ensure objectives are seen as SMART and motivational as discussed in Topic 2.
Table 1.6 Strategies and targets

<table>
<thead>
<tr>
<th>Corporate</th>
<th>Departmental</th>
<th>Individual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase sales revenue</td>
<td>Marketing – special offers</td>
<td>Designing a new advert aimed at a new target segment by December</td>
</tr>
<tr>
<td></td>
<td>Sales – set higher targets</td>
<td>Increase individual targets by 10% in one year</td>
</tr>
<tr>
<td>Increasing profits/ profitability</td>
<td>Manufacturing – reducing factory costs</td>
<td>Reduce the labour costs by 12% by the next accounting period</td>
</tr>
<tr>
<td></td>
<td>Purchasing – reducing raw materials costs</td>
<td>Increase bulk buying economies of scale by 15% within two months</td>
</tr>
<tr>
<td>Growth – become market leader</td>
<td>Marketing – target a larger customer base</td>
<td>Identify two new untapped markets within one year</td>
</tr>
<tr>
<td></td>
<td>Manufacturing – increase output to meet demand</td>
<td>Increase production efficiencies to ensure maximum output by 15%</td>
</tr>
<tr>
<td>Improve corporate image</td>
<td>Marketing – produce positive adverts</td>
<td>Highlight awareness of CSR in local areas for a two month period</td>
</tr>
<tr>
<td></td>
<td>Production – reduce health and safety accident rate</td>
<td>Increase spending on health and safety by 10% annually</td>
</tr>
</tbody>
</table>

How ethics may influence business objectives and activities

Ethics vary from country to country and depend upon the social and moral views of not only the population as a whole, but the viewpoints of different groups.

Behaving within the laws of the land does not make a business ethical. Behaving ethically does not mean that the business is acting legally.

It may upset some of the most important stakeholders. For private sector companies, the main objective is usually making a profit to divide between the shareholders. CSR can be very expensive, so businesses have to make a choice between short term profit and long-term success.

Key term

Ethics: a moral viewpoint and set of guidelines that governs decisions and behaviour.

Focus on profit

- Shareholders have high returns
- Community and customers disapprove

Act ethically

- Short-term reduction in profit
- Increased customer and community support
- Long-term custom and survival

Figure 1.6 Balancing profit and ethical concerns
Aims give an overall target for all areas of the business. For example, a candidate may aim is to achieve a specific grade in the exam. Objectives break aims down into manageable and specific targets for individuals or departments. For example, this objective might be achieved by studying a specific topic on a particular night.

**Figure 1.7 Reasons for objectives**

**Objectives – corporate and departmental level**

To make objectives specific, manageable and motivational, they must be SMART:

- **Specific**
- **Measureable**
- **Achievable**
- **Realistic**
- **Time-based**

**Figure 1.8 SMART objectives**

Objectives differ depending on the department in question and are often specific to the responsibilities of the department. Some may have similar themes but have different outcomes.

**1.5 Stakeholders in a business**

This topic is concerned with:
- business stakeholders
- the importance and influence of stakeholders on business activities.

Candidates often misread the term ‘stakeholder’ with ‘shareholder’ and vice versa. While a shareholder is an example of a stakeholder, that is often not what the question is asking.
Business stakeholders

Individuals or groups interested in the activities of business

This topic aims to develop the candidate understanding of the role, impact and influence of stakeholders on businesses and their decisions. A business decision or activity is neither good nor bad, however the effect it has on various stakeholder groups influences the stakeholder reaction. Stakeholder groups can be internal or external to the business, however what is good for one internal stakeholder may have a negative influence on another as shown below.

**Key term**

**Stakeholder**: a person, group or organisation that has an interest, is affected or affects a business or business decision.

**Common error**

Corporate social responsibility or behaving ethically is NOT a right; it may be expected and demanded however there is no legal requirement to do anything more than the basic legal requirements of the country.

**Roles, rights and responsibilities of stakeholders**

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Role</th>
<th>Rights</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders/owners</td>
<td>Invest, make strategic decisions.</td>
<td>Expect employees to provide services.</td>
<td>To manage and deliver all stakeholder expectations.</td>
</tr>
<tr>
<td>Employees</td>
<td>Provide labour to complete set tasks.</td>
<td>To be treated within legal requirements.</td>
<td></td>
</tr>
<tr>
<td><strong>External</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lenders/finance</td>
<td>Finance operations.</td>
<td>To receive prompt payment (interest) and correct information.</td>
<td>To ensure all supporting documents are accurate and correct.</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Provide services as agreed.</td>
<td>To receive prompt payment for products and services.</td>
<td>To supply the correct product or service requested within an agreed time period at an agreed standard.</td>
</tr>
<tr>
<td>Customers</td>
<td>Purchase products/services/create demand.</td>
<td>Products that comply with legal requirements including marketing and aftersales.</td>
<td>To follow seller instructions and requirements for warranty or use.</td>
</tr>
<tr>
<td>Local community</td>
<td>Provide external infrastructure (non-core needs).</td>
<td>To have disruption kept to a minimum and laws such as environmental respected; to be kept informed of major impacts on the community.</td>
<td>None.</td>
</tr>
<tr>
<td>Government</td>
<td>Provide support, regulate and tax activities.</td>
<td>To expect all businesses to abide by all laws and regulations. To expect all taxes to be paid.</td>
<td>To provide a fair and competitive environment to all stakeholders.</td>
</tr>
<tr>
<td>Pressure groups</td>
<td>Minimise negative impact of business activities and influence CSR.</td>
<td>None.</td>
<td>To act within legal boundaries.</td>
</tr>
</tbody>
</table>

★ Exam tip

When a question asks a candidate to discuss the stakeholders, pick the most important two unless specifically asked, and then analyse these well. Weak answers have many examples of stakeholders but analysed poorly. This wastes time and effort.
The importance and influence of stakeholders on business activities

Impact of business decisions/actions on stakeholders, and their reactions

An important analysis point for candidates will be the reaction of stakeholders and how important their reaction will be when a business makes a decision. Candidates must be able to match a likely reaction, explain the impact and show what they likely effect will be.

Example: A business is considering mechanising a labour-intensive process.

The impact on:

➤ **Shareholders** – increased short term investment through additional capital or reduced dividend, **however**, increased long-term return on capital.

➤ **Employees** – fewer jobs available leading to redundancy, **however**, increased opportunities for skilled labour.

➤ **Government** – increased productivity leads to increased tax returns, **however**, increased unemployment which leads to dissatisfaction and increased social costs.

➤ **Customers** – decreased costs lead to reduced prices, **however**, increasing mechanisation may threaten their own jobs.

Their reaction:

➤ **Shareholders** – focus on their strategic aim – short term returns or long-term profit **that might depend upon** how much bad publicity the decision will bring.

➤ **Employees** – worry about job security and potentially look for other jobs, **which causes** instability for the business.

➤ **Government** – may look forward to increased tax revenues **but** will insist the business looks after all employees who lose their jobs.

➤ **Customers** – will most likely buy the most cost-efficient option.

How and why a business needs to be accountable to its stakeholders

**Accountability** can be both moral and legal. The government expects a business to be accountable for both financial and legal issues. Customers and the local community expect businesses to be accountable for the products and the environment, whilst employees expect the business to be accountable for safe working practices and conditions.

The three main aspects of accountability are:

➤ **Legal requirements:**
   ➤ payments – tax to the government or wages to the employees within legal requirements
   ➤ treatment of staff – including health and safety and equal opportunities
   ➤ shareholders – published accounts must be made available for incorporated businesses customers – to ensure published claims are met.

➤ **Ethical requirements:**
   ➤ corporate social responsibility – a responsibility to provide above minimum legal requirements.

➤ **Commercial requirements:**
   ➤ transparency – improving relationships with supplier and customers, to ensure non are lost to competitors.

**Exam tip**

Business owners have to balance the different reactions of stakeholders of decisions made in business. Business is not just taking one stakeholder perspective as there are many different external influences.

**Common error**

Candidates miss out on analysis marks as consequences related to a simple piece of analysis are not linked together; (see bold type above) they are written down as individual elements which reduces the level of complexity in an answer.

**Key term**

**Accountability**: the obligation to account for activities and accept responsibility for their actions.

**Common error**

Accountability is not just a legal matter; you may act in a legal manner yet still be accountable to the moral judgement of your customer.
How conflict might arise from stakeholders having different aims

It is important to remember that when one stakeholder gets an advantage another will be disadvantaged. A business can aim to either satisfice the needs of the majority/the most important stakeholders, or meet the wants of the most important. The difference in approach is directly related to the relative strength of the stakeholder.

Common stakeholder conflicts:
- customers requiring high quality and low costs v shareholders requiring maximum return on investment (profit)
- suppliers wanting prompt/early payment v businesses (customers) wanting to delay payments
- shareholders wanting short term returns v managers and employees wanting long term investment.

How changing business objectives might affect its stakeholders

Stakeholders have different requirements as businesses change and develop. To successfully analyse the effect you must first know some key business objectives and the impact at each stage on some key stakeholders.

- **Survival**
  - shareholders – to protect and grow initial investment
  - employees – to protect their jobs
  - community – to create new jobs to stimulate the local economy.

- **Growth**
  - shareholders – to manage growth to ensure sustainability
  - employees – to balance investment and current and future pay increases
  - community – to protect the environment against the negative aspects of growth.

- **Profit**
  - shareholders – to identify cost efficiencies and maximise shareholder returns
  - employees – concern that efficiencies (i.e. mechanisation) may decrease wages or jobs
  - community – to gain investment into local infrastructure.

- **CSR**
  - shareholders – minimise external costs of business activities such as pollution
  - employees – be burdened with increased regulation and work demands
  - community – increased social benefits to the local communities.

![Figure 1.9 The impact of objectives on key stakeholders](image)
Revision checklist

I can:
➤ define an entrepreneur and an enterprise
➤ explain and give examples of added value
➤ explain the concept of opportunity cost and apply it to a scenario
➤ describe factors that can make a business succeed or fail
➤ describe the characteristics of an entrepreneur
➤ explain the impact an entrepreneur has on a country
➤ explain the concept of social enterprise and the reasons people start them.

Raise your grade

Paper 1 questions

1 Describe one measure of size. [3]
Sales turnover. ✓ It is the value of sales over a period of time. ✓
Market capitalisation. Value of a business total number of shares. ✗

[2 marks] While sales turnover and market capitalisation are both correct answers, the question only asked for one example, so the market capitalisation is NAQ (Not answered question) or REP (repeated information). To improve the answer, you could add to sales turnover, ‘... and can help compare size against your competitors’. [1]

2 Explain one measure of size. [3]
Profit is a measure of size because it shows how much money a business has made this year. This shows how much money the business has to invest or share between shareholders. ✗

[0 marks] It does not matter how good your explanation is if your measure is incorrect. Profit is not a measure of size because some very successful companies (Twitter, Starbucks UK) have made huge losses but are still international businesses. Ensure you choose one of the measures in the textbook.

3 Explain why a sole trader may want to expand his business. [3]
A sole trader may want to expand his business to increase his revenues. ✓ This could lead to an increase in his profits. ✓

[2 marks] Remember to check the number of marks available for the question. This has three marks for a general comment which means there should be three points, one for the knowledge and two points for the extended answer. ‘... and help him to expand’ would be needed for the third mark. [1]

4 Describe one strength of a small business. [2]
They have a quick decision-making process. ✓

[1 mark] Remember to read the question carefully; this asks you to describe, not just identify. You need to describe the strength of the decision-making process, e.g. ‘... which means they can react quickly to changes in the market.'
5 Analyse why it is important for small businesses to manage cash flow. [8]

Cash flow is the balance of money coming in and going out of the business. ✗ It is important to manage because small businesses need to make sure they have enough money coming in to meet the short-term expenses of the business ✓ ✓ such as paying wages and buying new stock without which a business cannot operate. ✓ ✓ Small businesses often have limited sources of finance to cover any shortfall as banks might not give big enough overdrafts, ✓ ✓ so you have to monitor if customers are paying their bills on time and make sure there are procedures for collecting outstanding debts. ✓ ✓

[8 marks] This answer shows how an answer can be built up by using connecting words. Even though the first sentence does not gain the candidate any marks [NAQ], it is useful to make sure the student is focused in the right direction. A good answer does not need to be very long, it needs to meet the level requirements which you can learn by studying past exams. This answer would score the full 8 marks.

Paper 2 questions

6 Describe one way in which you could measure the size of Paul’s business. [2]

You could use the number of customers Paul has (12) ✓ and compare that against his competitors. ✓

[2 marks] This answer uses data from Table 1 of the case study, so there is a direct link to the case study. This is necessary to score the second mark.

7 Explain why Paul’s Paper Supplies may want to expand its business. [4]

A sole trader may want to expand his business to increase his revenues. ✓ This could lead to an increase in his profits ✓ and help him to expand. ✗

[2 marks] Even though the answer is correct, remember this is a data response question referring to Paul’s Paper Supplies. The answer has no reference to the case study, so the marks are limited (in this case to two marks).

8 Describe one strength of Paul’s business. [2]

Paul has a quick decision-making process as he makes all the decisions himself, ✓ so he can respond to changes quickly. ✓

[2 marks] It is important to describe a specific point from the case study, such as working by himself, to make sure you get the application mark. Often, candidates think that something is too obvious to write down. It isn’t.

9 Analyse why it is important for Paul to manage his cash flow. [8]

Cash flow is the balance of money coming in and going out of the business. ✗ It is important for Paul to manage cash flow because his business has to make sure he has enough money coming in to meet the short-term expenses of his business ✓ such as covering the 30-day credit period his customers expect. ✓ His business has limited sources of finance as he only has a small overdraft. ✓ ✓ So he has to monitor his customers are paying their bills on time and make sure there are procedures for collecting outstanding debts. ✓ ✓

[6 marks] Although this answer is very similar to the answer for question 5 above, there are small differences that make the difference between getting half marks and full marks. In this question, the candidate refers to Paul rather than a generic business, as in the Paper 1 question. While the candidate uses specific examples from the case study and explains them for analysis (a small overdraft), his extended analysis is too generic; replacing ‘paying their bills on time’ to ‘paying within 30 days’ would have increased this answer to full marks.
**Exam-style questions**

This section will allow you to practise writing answers for exam-style questions. Remember, it is useful to be aware of the mark schemes for the questions which can be found on relevant websites or from your teacher.

**Paper 1**

**Short answer questions**

1. (a) Define market capitalisation. 
   
2. (b) Briefly explain one reason why a sole trader would not use market capitalisation as a measure of size.
   
3. Explain the importance of small businesses to a country’s economy.
   
4. (a) Briefly explain a small business.
   
(b) Explain why a small business might be more responsive to change than a larger business.
   
5. Explain two reasons why a small business would aim for internal growth.
   
6. Explain two disadvantages of remaining a small business.
   
7. (a) Identify two methods of measuring businesses.
   
(b) Explain a benefit of each measure.
   
8. (a) Define internal growth.
   
(b) Explain two methods of internal growth.
   
9. (a) Identify two stakeholders in a business.
   
(b) Briefly explain why a shareholder would not be happy with CSR policies.
   
10. (a) Analyse the importance of businesses effectively knowing their size in the market.

(b) Discuss how knowing the size of a business may influence stakeholders in a business.

11. Discuss why governments would want to encourage the development of small businesses in a country.

12. (a) Analyse how a business might use market share for pricing decisions.

(b) Discuss the best ways a small retailer could use its knowledge of its market share to achieve internal growth.

13. Discuss the most important factors that could influence a business when changing its objectives.

14. ‘Shareholders are the most important stakeholders in a business.’ Discuss this statement.

**Long answer questions**

10. (a) Analyse the importance of businesses effectively knowing their size in the market. [8]

(b) Discuss how knowing the size of a business may influence stakeholders in a business. [12]

11. Discuss why governments would want to encourage the development of small businesses in a country. [20]

12. (a) Analyse how a business might use market share for pricing decisions. [8]

(b) Discuss the best ways a small retailer could use its knowledge of its market share to achieve internal growth. [12]

13. Discuss the most important factors that could influence a business when changing its objectives. [20]

14. ‘Shareholders are the most important stakeholders in a business.’ Discuss this statement. [20]

**Paper 2**

Refer to Case study 1: Dingle’s Dairy in Unit 14.

1. (a) Define the term ‘stakeholder’. [2]

(b) Briefly explain the term ‘joint venture’. [3]

(c) Refer to Table 1 and calculate the profit margin for 2016. [3]

(d) Explain one way DD could use this information for decision making. [3]

(e) Analyse two factors influencing the changing business objectives for DD. [8]

(f) Recommend whether DD should choose expansion as a new business objective. Justify your choice. [11]