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Business Management



CHAPTER 1: THE FOUNDATIONS OF BUSINESS

Business has always been recognised as having an important role in the economic and social development of its communities. It is an integrated part of any society and is committed to operating in a responsible and sustainable manner. Moreover, business today is truly global and impacts on a wide sphere of issues including politics, culture, economic development, technological innovation, environmental and ethical concerns.

LEARNING OUTCOMES

Upon completion of this chapter you should be able to:

1. Understand what constitutes a business
2. Identify participants, functions and external forces of business
3. Describe what constitutes a SWOT and PESTLE analysis
4. Discuss the role of environmental scanning
5. Introduce and discuss the important challenges in modern business

REVISION RESOURCES

SEMINAR: This topic will be reviewed and discussed in **Revision Seminar 1**.

EXAM QUESTIONS: **Pilot and Past papers** are available from the website of Accounting Technicians Ireland and are essential aides when studying Business Management topics.

WHAT IS A BUSINESS?

“...any activity that provides goods or services to consumers for the purpose of making a profit.”

(Capon, 2004)

A business is a profit-seeking activity that provides products and services to satisfy the needs, wants and demands of consumers. The driving force behind most businesses is the opportunity to earn a profit; however, non-profit organisations exist to provide society with a social service. Businesses exist to serve the interests of their owners. In striving to meet those needs they also contribute to the provision of:

1. Society with necessities
2. People with jobs and a means to prosper
3. Governments with taxes to provide services for its citizens

DIFFERENT TYPES OF BUSINESS

Business by its nature is dynamic. This means it is ever changing and often hard to define. However there are a variety of business classifications that we can consider:

Business Classifications	
<p>1.) Profit Organisations <i>(Exxon Mobil earned more than \$1,287 of profit for every second of trading in 2007.)</i></p>	<p>These businesses have a profit motive. They seek to secure a difference between costs and the product price. The larger the difference, the larger the potential profit.</p>
<p>2.) Non-Profit Organisations <i>(Irish American Billionaire Chuck Feeney has secretly given away over \$4 billion in anonymous donations</i></p>	<p>These are legally constituted firms whose goal is to engage in public or private interest without any commercial or monetary profit aim.</p>

<i>since 1982 including \$1 billion to the Irish education system.)</i>	
<p>3.) Goods Producing Organisations <i>(Mitsubishi is one of the most diverse companies in the world producing cars, energy, glass, oil and aircraft amongst many other areas.)</i></p>	<p>These businesses produce tangible goods and are often capital intensive. Many produce their own goods through manufacturing, construction, mining and agriculture.</p>
<p>4.) Service Organisations <i>(The Industrial and Commercial bank of China is ranked by Bloomberg as the biggest bank in the world with a market capitalisation of \$277.5 billion in 2008.)</i></p>	<p>These businesses provide intangible products such as finance, insurance, tourism, hospitality and health.</p>

FUNCTIONAL AREAS OF BUSINESS

- ✓ Management and Human Resources
- ✓ Marketing
- ✓ Finance
- ✓ Information Technology

1. Management and Human Resources

Many theorists have provided definitions of “management” over the years for example “getting things done through people”. Henri Fayol proposed that there are five primary functions to management: (1) planning, (2) organising, (3) commanding, (4) coordinating, and (5) controlling. Other conventional models describe a variety of elements in the human resources function:

- Recruitment
- Retention
- Conditions of work
- Training
- Health and safety

2. Marketing

This is a business discipline focused on the practical application of marketing techniques and the management of a firm's marketing resources and activities. Marketing is no longer just selling the products or services being offered, but is concerned with events before and after the selling takes place.

These events include:

- Marketing research
- Targeting customers
- Segmenting customers
- Developing the product
- Pricing the product
- Promoting products to customers
- Distribution

3. Finance

Cash flow is vital to any organisation whether or not for profit or private sector. Decisions made and activities planned are meaningless without the necessary finance to carry them through. The finance function is concerned with not only ensuring the adequate supply of funds for organisational activities but also reporting the results and putting in place procedures to evaluate and examine performance over periods. Finance is explored in more depth in Chapters 15 and 16.

4. Information Technology

Information technology has a major impact on modern business and information systems are in widespread use across all businesses. They can provide a valuable source of competitive advantage and allow organisations to integrate their core functions to create efficiencies and reduce costs. For example, many financial institutions use highly complex IT systems to analyse and predict stock market trends and outcomes. IT is explored in more depth in Chapters 13 and 14.

THE BUSINESS ENVIRONMENT

This refers to the forces outside the firm that affect the management team's ability to develop and maintain successful transactions with its target customers. The business environment can be subdivided into the micro environment and the macro environment.

THE MICRO AND MACRO ENVIRONMENTS

The **Micro Environment** focuses on the kind of market structure that an organisation finds itself competing in and includes the company itself, suppliers, distributors, competitors and publics. These are internal factors close to the company that have a direct impact on the company's strategy.

<i>The Micro Environment</i>	
Customers	<i>Organisations survive on the basis of meeting the needs, wants and providing benefits for their customers. Failure to do so will result in a failed business strategy.</i>
Employees	<i>This includes the employment, training, motivation and development of human resources. People are the lifeblood of the business and this is particularly true in the service industry where personal interaction is key.</i>
Suppliers	<i>The development and maintenance of close relationships with</i>

	<i>various suppliers is highly beneficial and helps combat against rises in raw material costs and subsequent rises in prices.</i>
Shareholders	<i>Shareholders own the company. They have rights to certain privileges such as voting rights, appointment of directors, purchase of new shares, right to assets of the company during liquidation. They have the right to share in the company's profits through dividends.</i>
Media	<i>Positive or negative media attention in an organisation and/or its businesses can limit performance and impact on public perception. A good public relations strategy is vital.</i>
Competitors	<i>In free markets it is essential that companies monitor their competitors closely and develop ways to differentiate themselves from rivals.</i>

The **Macro Environment** refers to the external factors that affect a company's planning and performance. Many of those factors are beyond the control of the business. It encompasses many dynamic and continuously evolving variables including political, economic, social, technological, legal and environmental issues (PESTLE Analysis).

The Macro Environment	
Political Factors	<i>Companies must monitor political changes at both domestic and international levels. Issues of importance include political orientation (capitalist, communist) and government attitudes to foreign investors, taxation and international policy.</i>
Economic Factors	<i>These factors are hugely influential. Economic factors dictate prices, production costs, demand and profits. The current economic recession is global and thus impacts markets around the world.</i>

Socio-Cultural Factors	<i>Companies must consider changing tastes, purchasing behaviour and changing priorities which are dynamic and hard to evaluate. Religion, attitudes, beliefs, education and social systems all fall under this category.</i>
Technological Factors	<i>Technology is a major macro environmental variable which influences many products and services that we are familiar with. It can also be used to gather, analyse and use market research information to create specific selling strategies and aid the promotion effort.</i>
Legal Factors	<i>Organisations must be aware of the legal parameters in the markets in which they operate. They are vast and often complex. Among the most important legal considerations are taxation, employment laws, safety regulations and contract law.</i>
Environmental Factors	<i>The environmental debate is on going today. Many companies have adopted approaches to minimise the impact of their operations on ecological systems and are developing strategies and initiatives to help combat climate change. International and domestic environmental laws must be adhered to.</i>

THE SWOT ANALYSIS

This is a strategic planning tool used to assess the **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats of a business. Strengths and weaknesses are internal to the organisation while opportunities and threats are external. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieving that objective. The usefulness of SWOT analysis is not limited to profit-seeking organisations.

STRENGTHS: These can be competences, valuable resources, or characteristics that a firm uses to manipulate opportunities in the external environment or help to offset threats within its internal environment. Companies should focus in particular on whether they have the relevant strengths to build on their opportunities.

WEAKNESSES: These can be identified when an organisation lacks a competitive advantage, resource or characteristic and is therefore not performing as well as its competitor. Prior to assessing its weaknesses a company needs to decide whether correcting its weaknesses is more critical than building on its strengths to exploit opportunities.

OPPORTUNITIES: These are possibilities or chances that an organisation may pursue to obtain advantages in the marketplace. They can include emerging market opportunities, potential alliances with other companies and capitalising on new technologies.

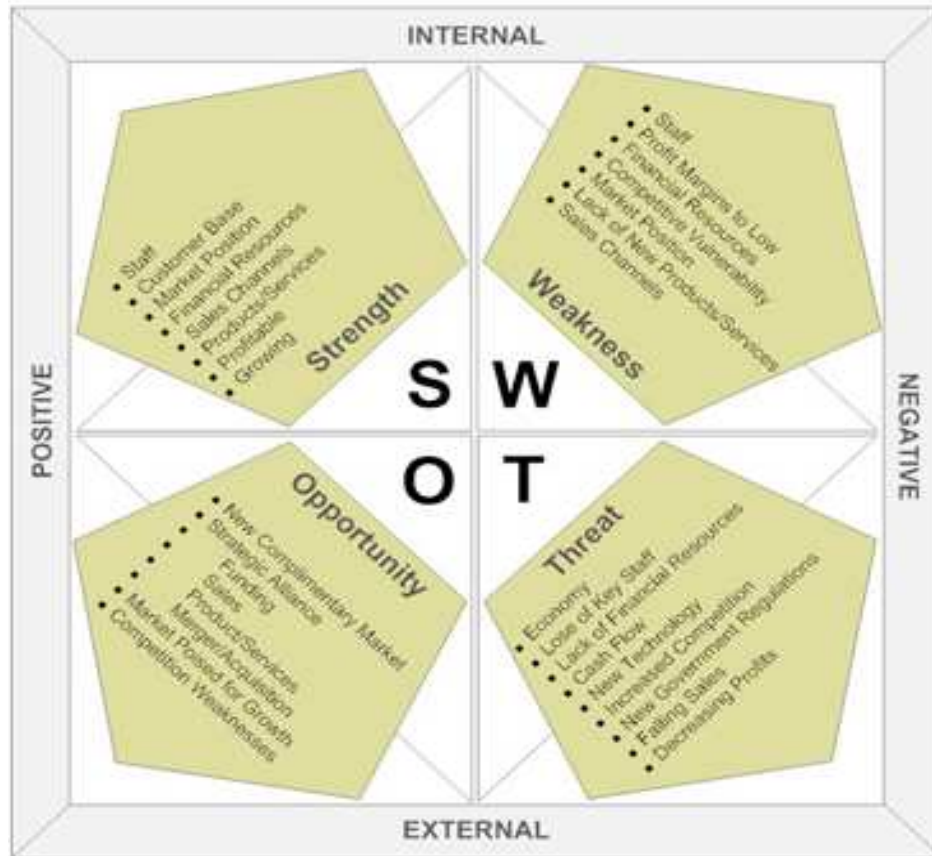
THREATS: These have the potential to impact negatively on the organisation and often arise from factors beyond the control of the firm. The current economic downturn would be considered a major threat to most industries.

ACTIVITY:

Consider your own bank or building society. In your experience what do you consider to be their core strengths and weaknesses?

Tip: You can relate your own experiences to this exercise or indeed use what you have heard in the media. You should be able to relate to examples in an exam situation and doing exercises such as this will help you. Try the same for opportunities and threats. Maybe the next diagram can help?

ELEMENTS OF A SWOT ANALYSIS



Source: www.bizstrategies.biz

FRAMEWORK FOR MANAGING THE DYNAMIC ENVIRONMENT

In today's dynamic business environment, organisations are becoming more complex, ambiguous and unpredictable. They are experiencing extraordinary change and transformation across all sectors. As a result companies need to be ready to acknowledge the challenges that change presents and try to overcome these for the good of the company as a whole.

Environmental Scanning

What is it?

This is the process of collecting information to carry out a systematic analysis of the forces affecting the company and identifying potential threats and opportunities with a view to generating future strategies.

How is it done?

In order to keep up to date with changes in the environment companies need to gather information about trends, events and relationships in their external environment. It can include an industry and competitor analysis, consumer analysis, product innovations, and the company's internal environment.

What is the benefit?

This information should assist management in planning the organisation's future course of action. To achieve a competitive advantage the company must also respond to the information gathered from environmental scanning by altering its strategies and plans when the need arises.

Key techniques of environmental scanning:

1. Ad-hoc scanning - Short term, infrequent examinations usually initiated by a crisis.
2. Regular scanning - Studies done on a regular basis.
3. Continuous scanning – Continuous structured data collection and processing on a broad range of environmental factors.

Objectives and Benefits of Environmental Scanning	
Key Objectives	Key Benefits
Detect trends and events important to the organisation.	Provides a better general awareness & responsiveness to a dynamic business environment.
Define potential opportunities, threats or changes for the organisation implied by those trends and events.	Improves strategic planning as the firm has acquired relevant information pertaining to their industry.
Promote a future orientation in the thinking of management and staff.	Enables the organisation to be more effective in dealing with their customers.
Alert management and staff to trends that are converging, diverging or interacting.	Improves market analysis and resource allocation.

When an issue is detected, there are six approaches a company may use in responding to them:

Opposition Strategy	The firm tries to influence the environmental forces so as to negate their impact. An example is political lobbying.
Adaptation Strategy	Occurs when a firm adapts their marketing plan to the new environmental conditions. An example here may be to cut advertising expenditure during a recession.
Offensive Strategy	This occurs when the firm tries to turn the new influence into an advantage. A quick response can

	often give the firm a competitive advantage. For example, during periods of economic downturn, firms that reduce price significantly but maintain quality often find sales rising.
Redeployment Strategy	This occurs when the firm decides to divert its assets into another industry. For example, an investment firm may redirect capital intended for real estate investment to 'safer' stocks.
Contingency Strategy	The firm determines a broad range of possible reactions thereby finding substitutes for their business strategies. For example, a firm may target an emerging market like India but retain the intention to redirect investment activity into China if the venture proves too difficult.
Passive Strategy	This occurs when the firm does not respond to the issues detected and continues as normal, ignorant of the environmental issues that are threatening its existence. In recessionary times, many firms try unsuccessfully to keep prices constant rather than reducing them in order to retain consumers.

MODERN BUSINESS CHALLENGES

Today's organisations have become more complex, and the marketplace more unpredictable. This has resulted in extraordinary change and transformation in all sectors. Business organisations and managers are constantly being faced with challenges in the process of getting work activities done through people.

1. Corporate Social Responsibility (CSR)

CSR refers to the voluntary actions that businesses may undertake over and above compliance with the minimum legal requirements to address both its

competitive interests and the interests of the wider community. It can be characterised as the concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

Example: AIB launched 'eStatements' - a CSR initiative that encourages customers to receive bank account and credit card statements online thus reducing paper dependency. AIB will make a donation per customer signing up for the service with proceeds divided among environmental projects.

2. Volatile Markets

The financial market has been under international scrutiny in recent times as recessionary climates dominate global agendas. This is one of the great challenges facing administrations everywhere as financial volatility permeates through the vast majority of industries.

Example: Billionaire Warren Buffett recently 'rescued' financial powerhouse Goldman Sachs with an investment in the region of \$5 billion. Bear Sterns and Lehman Brothers were not as lucky and became high profile casualties of the recent financial crisis.

3. Ethical Behaviour

Increased accountability and legal frameworks across the globe now require that businesses take stock of their actions. Ethical debates in business are not new however and the area is large and often hard to quantify. Among the most common ethical issues in marketing for example are unfair and deceptive marketing practices, offensive material in marketing communications, marketing and advertising to children and sex appeals in marketing. In general business ethical debates extend to wages, sourcing of raw materials, health and safety and political lobbying. Ethics are explored further later in this manual.

Example: Companies like the Body Shop have long endorsed ethical behaviour. Movements such as 'Fair Trade' are now endorsed across business – Starbucks is one such example of a company employing fair trade practices. Interestingly this may also be viewed as a CSR initiative.

4. Environmental Concerns

The environment is one of the major challenges facing business and society today. Certain sectors are more open to criticism – producers of cars, airline companies, oil and natural resource producers are all under intense scrutiny. Many of these companies have had to figure out ways to combat these problems and indeed to develop new, more efficient and environmentally friendly products and services.

Example: The Olympics in London 2012 promises to be the 'Greenest' games yet. Among the initiatives introduced are the promotion of walking and cycling to Olympic venues, transportation of materials by rail and water, energy efficient buildings and electrically charged taxis.

SAMPLE QUESTIONS & SOLUTIONS PROGRAMME

The following questions will test your knowledge of the material you have just covered in this chapter. You will note all questions are weighted in exactly the same way as your May/August 2010 examination questions will be. This will assist you with your time management.

The questions examine the key areas you are expected to know for this particular subject, and will assist you significantly in your preparation for your examination in May/August 2010. In addition to the questions below, please also refer to the Summer 2009 examination paper which is contained in this manual for your reference. In addition, Pilot papers for this subject can be downloaded from www.AccountingTechniciansIreland.ie

Question 1:

- a) Define what is meant by the term “Non Profit Organisation”.
5 marks
- b) Outline and explain the FOUR different functional areas of business.
10 marks
- c) Discuss in detail the six elements of the Micro Environment, making reference to an organisation of your choice.
10 marks
(25 marks)

Question 2:

- a) Define the term “Micro Environment”.
5 marks

- b) Differentiate between the terms “Micro Environment” and “Macro Environment”.

10 marks

- c) Discuss how the Macro Environment is impacting on the financial services industry making references to specific examples.

10 marks

(25 marks)

Question 3:

- a) Outline the four key functions of a business.

5 marks

- b) Explain TWO of the following business concepts using examples where appropriate:

- SWOT analysis
- PESTLE analysis
- The Micro Environment

10 marks

- c) Discuss 4 key objectives when undertaking Environmental Scanning.

10 marks

(25 marks)

Question 4:

- a) Define a “Business” making reference to 3 Irish or UK based examples working within the Accounting area.

5 marks

b) Briefly discuss the 4 business classifications which are commonly used.

10 marks

c) Present a detailed argument explaining the advantages and disadvantages of using the SWOT analysis model in business.

10 marks

(25 marks)

Question 5:

a) Differentiate between the terms “Micro Environment” and “Macro Environment”.

5 marks

b) “Moneymaker” is a small mortgage firm operating in County Limerick. Due to the current credit crunch, it is experiencing a significant drop in business in the past 6 months. The Managing Director has asked you to provide a detailed report on the effect of the Macro Environment forces on the potential growth of the company. Please provide a detailed report for presentation to the MD.

10 marks

c) Discuss the challenges presented to a firm when it does not manage its Micro Environment.

10 marks

(25 marks)

Solutions to the chapter questions above will be available online for students from January 2010 (in order to have provided you with sufficient time to have covered certain parts of the course.)

For those of you of wish to attempt any of the above chapter questions (and without looking at the solutions online!), you can email your answers to solutions@accountingtechniciansireland.ie from January 11th, 2010. Detailed feedback* will be provided to you within 3 working weeks of receipt. (These questions will not in any way count towards your summer examination marks.) This is a free service to our students and you are strongly advised to get maximum benefit from it. Students in the past have found it very useful.

**** Proof of purchase of this manual may be required***