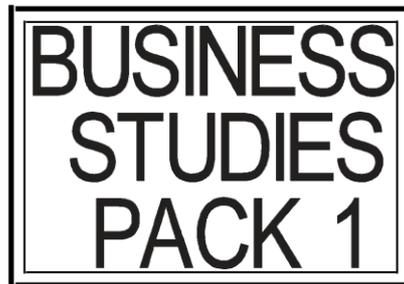


# CONTENTS

1	THE OBJECTIVES OF BUSINESS - OVERVIEW
2-7	SURVIVAL, PROFIT AND GROWTH
8	SOLE TRADERS
9	PARTNERSHIPS
10-11	PRIMARY, SECONDARY AND TERTIARY INDUSTRIES
12	METHODS OF PRODUCTION - EXAMPLE
13-15	PEOPLE - THE MOST IMPORTANT RESOURCE
16	EMPLOYER'S ORGANISATIONS
17	THE TRADES UNION CONGRESS - AND UNIONS
18-19	INDUSTRIAL RELATIONS



By Harry Jivenmukta

# THE OBJECTIVES OF BUSINESS - OVERVIEW

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1

Essentially all businesses have similar objectives:

- z **SURVIVAL.** Businesses try to avoid bankruptcy and failure.
- z **PROFITABILITY.** Businesses try to make profit to pay wages and to re-invest.
- z **GROWTH.** Businesses want to become larger and make more money.
- z **MARKET ENTRY.** Businesses want to discourage others entering the same market because this might reduce their own market share.
- z **GAINING MARKET SHARE.** Increase market share by being better than the competition.
- z **SALES TURNOVER.** All businesses want to increase their turnover because it usually means more profit but certainly means that the Company has fewer cash flow problems.

When we look at High Street shops we often do not appreciate how long it has taken for them to develop and grow into their present status. It is possible to trace their roots to very simple, often sole trader roots. It is also very illuminating to study how they managed to grow by use of borrowing, partnerships, or mergers into large national, and in some cases international stores.

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## EXERCISE

Select a large High Street store and trace its development. Give actual examples of how it was formed, how it expanded and how it gained market share.

1. What is its present position in the market - its market share?
2. How many products does it sell - is it a single product outlet or multi-product outlet?
3. Has it recently expanded or reduced in size?
4. What opportunities are there for further expansion?
5. What opportunity and likelihood is there for a new business to enter this market?

# SURVIVAL, PROFIT AND GROWTH - SURVIVAL

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2

Many observers see businesses only in terms of their profitability but do not understand that in the early years, (about the first 3 years in most cases), new businesses are more interested in survival than profit or growth. New businesses are almost always 'front end' loaded. This means that they have large initial set up costs which have to be paid at the beginning or in the early stages of the new business. This is precisely the time when orders are likely to be at their lowest because the new company has not built up its customer base adequately. Two thirds of new businesses fail in the first three years of their existence.

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## EXERCISE

The exercise below asks you to calculate some of the initial costs of a new business. The business is a small office set up as a print and copy facility. The owner, a sole trader, is working from home in a converted garage and needs to spend money on the following and buy equipment and sundries:

- z work on converting the garage into an office room
- z have a secondary wall built inside the original single brick garage
- z have the whole room lagged to prevent heat loss
- z have 12 extra plug sockets fitted
- z carpeting for the room
- z shelving for 3 walls of the room
- z a desk and tables as required
- z telephone line
- z adequate heating

The following equipment also needs to be bought:

- z two computers with laser printers and design software
- z a scanner
- z a fax machine
- z a large photocopier
- z an answering machine
- z headed paper, compliment slips, company stamp, and office sundries

Calculate roughly how much this new business needs to spend up front before even one serious order can be processed. All new businesses must calculate how much money they need to set up their operation. It is usually impossible to even break even in the first two years, and often the new business calculates that after three years it will start to make money, having paid off set up costs.

# SURVIVAL, PROFIT AND GROWTH - PROFIT

3

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Profit is a very simple idea, but often extremely difficult to work out in practice. Many businesses calculate their profit incorrectly, and often, this in itself can lead to failure. Unlike people who have trained in Business Studies, many business people often have little or no formal business training. It is imperative that profit levels be calculated properly to avoid problems later.

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## EXERCISE

Consider the following exercise to see this point. It is taken from a real life example.

**PROJECT:** Prepare 500 Information Folders for conference. Price £4.00 per unit.

**DETAILS:** Design, and present information for a fifteen page, glossy information pack for a conference. Print and supply in a folder. Deliver to premises.

**COSTING:**

£200.00 for design, £0.40 per unit

£50.00 cost of paper £0.10 per unit

£0.30 per folder

£1.20 print cost per pack

£0.40 postage, packing and delivery costs

Unit cost = £2.40

The business then calculated that it would make £1.60 profit per unit supplied. However, this profit margin is very incorrect. The business failed to include the costs of VAT, and the hidden costs of wear and tear on the printing machinery, office running costs, initial liaison with the customer costs and tax payable by the business. The real profit was actually nearer £1.00 per unit.

Write down ten cost elements which are associated with all small businesses - e.g. VAT, Income Tax, heating and lighting costs etc.

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# SURVIVAL, PROFIT AND GROWTH - GROWTH

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4

There comes a time when the business is making enough money to pay for its overheads, and to pay its owner a decent wage. At this point money starts to become available. The business is relatively well established with a product or products which sell well. The instinct of the business is to expand and growth is possible. There are several advantages of growth. The biggest advantage is that the business already has equipment and an office and there is little or no need to have to spend large amounts of money to expand. It is possible to achieve economies of scale:

- z The same computers can be used for the new product which are already being used for the original business.
- z The same office can be used which means that there are no new costs of insurance, heating, etc.
- z The same manager can handle the new venture - it does not really matter whether the business outputs 1,000 or 50,000 units, etc.

Growth does mean risk, however, because any new venture does not have an automatic right to succeed. Many businesses run into difficulties because there is often an assumption that just because it has succeeded in one particular area it is bound to succeed elsewhere. It is important to treat any expansion with great concern until it proves itself to be successful.



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## EXERCISE

1. Make a list of the main advantages of growth.
2. Explain more fully what '**economies of scale**' means and give examples.
3. What does '**diseconomies of scale**' mean? Give a full explanation and examples.
4. Why do businesses expand? What are the advantages and disadvantages of businesses remaining small and compact, with single product output?

# SURVIVAL, PROFIT AND GROWTH - MARKET ENTRY

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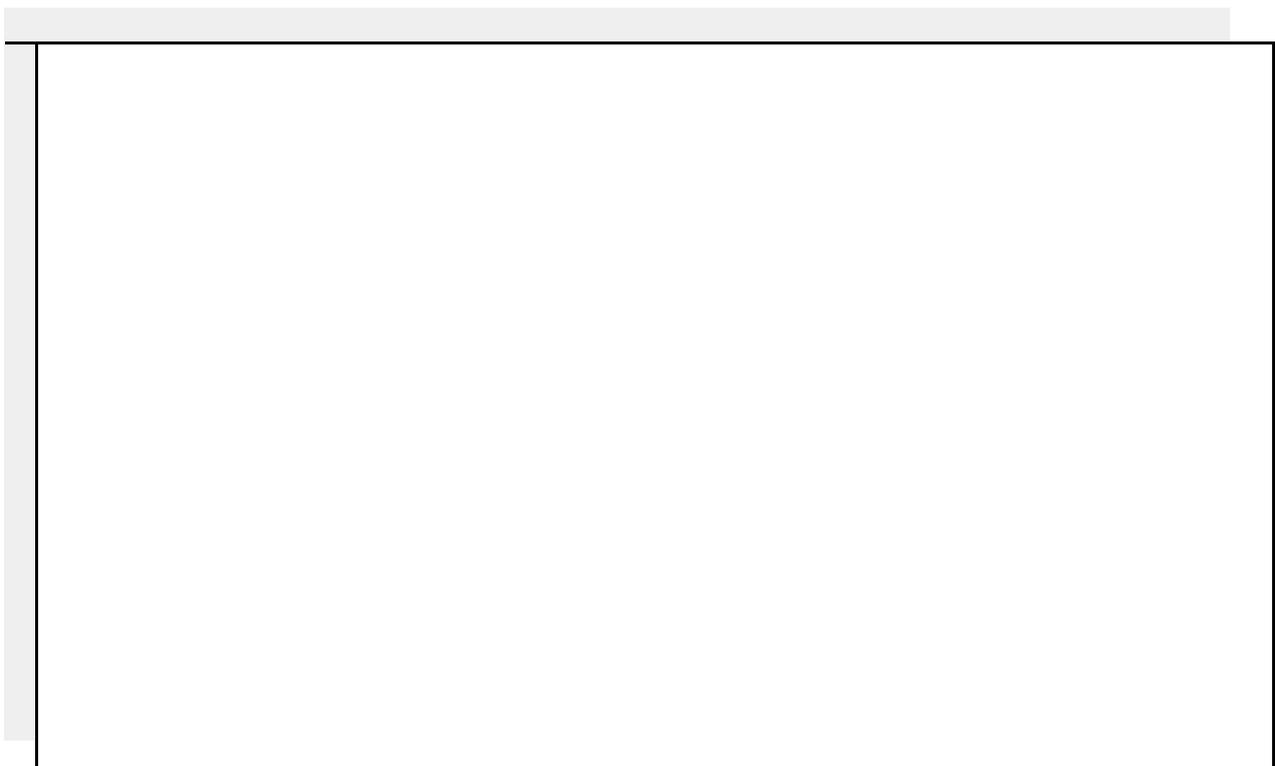
All businesses ideally want as few as possible other businesses in the same market as themselves because with each extra business there is a probability that their own market share will decrease. In simple terms, all other things being equal, ten businesses in a particular product area means that each business would have 10% of the market. If there were 20 such businesses then each business would only have 5% of the market share. Of course things are never that simple.

Businesses use many methods of keeping others out. The main tactic is to give the impression that any new business would have no chance of profitability. A good example of this is the newspaper price war over the last few years in the UK. *The Independent* had great difficulty launching because other newspapers cut their prices to make sure *The Independent* would not have an easy entry into the market. *The Times* sold for as little as 10p. Of course if there were no competition from other newspapers the price of *The Times* would probably be nearer 30p or 50p. This type of competition is obviously good for the consumer because it keeps prices down. In some cases such competition can be bad because it can reduce the amount of consumer choice.

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## EXERCISE

Choosing a product which interests you, design a programme which would deter others from trying to enter the same product market. Use posters, advertisements, special offers, and discounts etc. Remember that the aim is to reduce the chances of competition and not to ruin your own product by too much discounting.



# SURVIVAL, PROFIT AND GROWTH - INCREASING MARKET SHARE

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All businesses want to increase their market share for several reasons including:

- z It keeps others out of the market
- z It means the business will make more money
- z It makes the Company more attractive to customers

Increasing market share is one of the hardest things to do because all the businesses in that particular product area want to increase their share as well. It may be that other similar products are also available and the businesses in that product area are also trying to increase their market share. There are many ways in which market share can be increased including:

- z Offering better quality products
- z Offering the same product cheaper
- z Offering cheaper products
- z Offering complimentary services, (e.g. back-up and support with computers)

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## EXERCISE

Selecting your own product, plan a strategy for how you could increase its market share.

# SURVIVAL, PROFIT AND GROWTH - SALES TURNOVER

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7

Businesses want to increase their turnover mainly for two reasons:

- z It usually increases profit
- z It means that the business has fewer cash flow problems, (more businesses become bankrupt through bad cash flow than through any other single reason).

Increased turnover does not always mean an increase in profits because often the increase is due to reduced prices or clearance sales. It is better, though, to have money in the bank than a warehouse full of items no-one wants. In such cases the money gained through clearance can be re-invested, hopefully, in more saleable products.

Usually, an increase in sales turnover does mean greater profitability, and this in turn means that the business has more money to re-invest and grow. Increasing turnover can also be achieved by:

- z Increasing the number of products available
- z Entering into a partnership with another business which trades in a complimentary product, (e.g. Insurance Services linking up with Pensions Companies etc.)

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## EXERCISE

Why is it important to increase sales turnover? Think of examples in real life which illustrate how this is achieved.

# SOLE TRADERS

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The **Sole Trader** type of business is the most common form of business in the UK. Put simply the sole trader is a single person owned business. This single person makes all the decisions of the business and is fully responsible for all activity. Being a sole trader does not mean that no one else works in the business. The business is owned by only one person but he or she may employ many people to work for him or her.

The advantages of being a sole trader is mainly that the person is very motivated because the profits made are all for him or her. The harder the sole trader works the more money he or she can make. The amount of money made by increased effort directly benefits the trader. Other advantages of the sole trader setup is that decisions can be made very quickly because the trader has only himself or herself to consult, and there is generally more flexibility in the operations of the business.

The disadvantages of this type of business is that there are limits to what one person can do. This matters in terms of raising money for expansion, being responsible for every decision, and the problems which can arise if the person is unable to work due to illness. The sole trader often also has unlimited liability and could end up losing home and possessions if the business fails and debts

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## EXERCISE

1. What are the main features of a sole trader business?
2. What are the main disadvantages of running a business as a sole trader?
3. How can a sole trader fund expansion without having to join a partnership?
4. Make a list of 10 types of business which can usefully be run as a sole trader concern?

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Often the way in which a sole trader expands is to become a **Partnership**. Other partnerships are formed at the very beginning of a business venture. A partnership can be two or more people and as the word suggests many of these give equal responsibility and liability to each partner. There can of course be partnerships where there is a major partner and one or more junior partners.

The advantages of a partnership can be that '**two heads are better than one**'. Where there is more than one person making decisions then often by pooling ideas and comparing strategies there is less chance of making expensive mistakes. In partnerships there is also scope for specialization. In a partnership responsibilities can be shared so that, for instance, one partner who is good at figures can concentrate on that side of the business and is likely to be more efficient than the other less mathematically minded partners. There is also likely to be more money and resources available to partners as each of them will contribute to the setting up and running of the business.

The disadvantages of a partnership are mainly that the independence which the sole trader enjoys is missing. All partners can reasonably expect to be consulted on decisions which means that there is less flexibility and speed in decision making. There is also the common problem of partners ending the relationship because of disagreements, illness or death of one partner.

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## EXERCISE

1. What are the main features of a partnership type business?
2. How do partnerships differ from sole trader concerns?
3. What advantages do partnerships have over sole traders?
4. Make a list of some famous partnerships, (e.g. Marks and Spencer).

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# PRIMARY, SECONDARY AND TERTIARY INDUSTRIES

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## PRIMARY INDUSTRY

This sector of an economy includes agriculture, forestry, fishing, mining, quarrying, and the extraction of minerals. It may be divided into two categories:

- z **genetic industry**, including the production of raw materials that may be increased by human intervention in the production process
- z **extractive industry**, including the production of exhaustible raw materials that cannot be enlarged through cultivation

The genetic industries include agriculture, forestry, and livestock management and fishing all of which are subject to scientific and technological improvement. The extractive industries include the mining of mineral ores, the quarrying of stone, and the extraction of mineral fuels.

## SECONDARY INDUSTRY

This sector, also called manufacturing industry has three main functions:

- z takes the raw materials supplied by primary industries and processes them into consumer goods
- z further processes goods that other secondary industries have transformed into products
- z builds capital goods used to manufacture consumer and non consumer goods

Secondary industry may be divided into two sections:

- z **Large-scale industry** generally requires heavy capital investment in plants and machinery, serves a large market including other manufacturing industries, has a complicated industrial organization and frequently a skilled specialised labour force, and generates a large volume of output. Examples would include steel and iron manufacturing, motor vehicle and heavy machinery manufacture, cement production, meat-packing, and most power generation.
- z **Light or small-scale industry** has a smaller capital investment in plants and equipment, and it may involve special products, such as custom built or craft work. The labour force may be either low skilled, as in textile work and clothing manufacture, food processing, and plastics manufacture, or highly skilled, as in electronics and computer hardware manufacture, and craft work.

# PRIMARY, SECONDARY AND TERTIARY INDUSTRIES

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## TERTIARY INDUSTRY

This sector, also called service industry, includes industries that, while producing no tangible goods, provide services or intangible gains or generate wealth.

The industries of this sector include

- z banking, finance, insurance and investment
- z wholesale, retail, and resale trade
- z transportation, information, and communications services
- z professional, consulting, legal, and personal services
- z tourism, hotels, restaurants, and entertainment; repair and maintenance services
- z education and teaching
- z health, social welfare, administrative, police, security, and defence services

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## EXERCISE

In your own words write what you understand each of the types of industry to be, and list five types of job in each production area.

**PRIMARY INDUSTRY**

**SECONDARY INDUSTRY**

**TERTIARY INDUSTRY**

## **MASS PRODUCTION**

*Mass production is the name given to the method of producing goods in large quantities at low cost per unit. But mass production, although allowing lower prices, does not have to mean low-quality production. Instead, mass-produced goods are standardized by means of precision-manufactured, interchangeable parts. The mass production process itself is mechanised to achieve high volume, has an elaborate organization of materials flow through various stages of manufacturing, careful supervision of quality standards, and division of labour.*

*To make it worthwhile, mass production requires mass consumption. Mass production has become common place in the twentieth century.*

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## **EXERCISE**

The example above is a brief summary of what mass production involves. Think about different methods of production yourself and write a short summary of one of them below. Examples of these could include; processing raw materials, specialist designer or medical items, high technology products, etc.

# PEOPLE - THE MOST IMPORTANT RESOURCE

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Often, businesses forget that their most important resource is the people who work in the business. As work operations have become more automatised and impersonal, employers often think that their workers are replacable resources. The attitude of some employers to strike action or grievances is to sack the offending employees. But many employers have realised that there is a significant investment involved in recruiting, training and keeping their best workers. Recruitment in some areas of employment is a very serious and costly affair, and in skill shortage areas 'head-hunting' is common.

A typical recruitment process might include:

- z Advertising the vacancy in the local or national newspaper, Job Centres, and careers service outlets.
- z Sending out application forms and information packs to potential applicants.
- z Putting an interview team together to oversee the process and actually interview applicants.
- z Spending time assessing the returned application forms, (sometimes as many as 100 forms per job or more!)
- z Setting a date and time for the interviews and informing applicants.
- z The interviews themselves, (sometimes there are second or even third interviews.)
- z Writing to the successful and unsuccessful candidates.
- z Training the successful candidate.

Sometimes no one suitable applies, or the interviews are disappointing and the whole process has to start again. As employers realise the amount of time, money and effort required in recruiting workers it becomes important to recruit the right person for the job and keep the best workers.

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## EXERCISE

1. Do you agree that people are the most important asset to a business? Why?
2. Why are some employers keener than others to keep their workers happy?
3. Are people easily replacable? Make a list of work areas where people are harder to replace, either because of the skills level of the work or because of the nature of the qualifications required to do the job.

# PEOPLE - ASSESSING ABILITY AND SKILLS

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Employers divide the types of skills which they are looking for in workers into four main areas. These are:

- z **FORMAL QUALIFICATIONS.** These are qualifications for which workers will have received certificates and include; GCSEs NVQs, etc.
- z **WORK SKILLS.** These are the skills which workers will have gained in part time or full time work and include practical skills like filing, computer skills, selling techniques, cash till work, etc.
- z **PERSONAL SKILLS.** These include communications skills, the ability to work with others as a member of a team, or to work alone, and personality etc.
- z **TRANSFERRABLE SKILLS.** These are skills which workers have obtained in parts 2 and 3 which can be transferred into other work areas. **EXAMPLE:** Experience of working with computers may be an indication that the worker would quickly understand and operate other types of electronic and computer applications. Transferrable skills are very important because they indicate an ability to adapt to situations and may also show the potential to develop and advance in employment terms.

Employers look for a variety of skills in the areas mentioned above depending on the type of job vacancy they are trying to fill. They have an ideal candidate in mind and will employ the person who fits their requirements or is closest to them. All employers seem to give differing levels of weighting and this often makes it difficult for an interviewee to decide how to approach the interview. Some employers give preference to work experience whilst others may look for personal attributes and be prepared to give more training if required.

Traditionally work areas have been divided into four sections:

- z Unskilled
- z Semi-skilled
- z Professional
- z Managerial

It is much harder to make divisions like these today than it was twenty years ago because many jobs now require a mixture of skills and abilities. For example, some 'unskilled' jobs now require workers to be able to record their work on computer terminals which clearly requires additional skills.

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## EXERCISE

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1. How would you list your skills using the categories listed at the top of the page?
2. Can we use the categories of Unskilled, Semi-skilled, Professional, and Managerial today in the same way as they were used in the past? Why? How else can we categorise work types and areas?

# PEOPLE - SPECIALISATION AND SKILLS

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Most people in work can probably point to some or all of their duties and say they are specialists. A specialist is someone who undertakes a particular duty or duties which could not be done by anyone else without training. Specialisation became commonplace during the Industrial Revolution because it meant that more output could be achieved. Almost all processes of production are divided up into small operations which in themselves deal with a particular process. The advantages of specialisation include:

- z People can learn to be good at a certain activity and do it well
- z Repeating the same task ensures that the job is well done as the person becomes more skilled with practice
- z The worker is less stressed because the task is always the same and there are no surprises

There are some disadvantages associated with specialisation including:

- z Repeated tasks are boring. People become like machines and feel unfulfilled and unhappy
- z Individual workers do not see the whole product and work on only a little bit of it. There is no feeling of ownership to the product
- z If one part of the process is halted the whole system grinds to a halt. Everyone is dependent on the stage before and after their own
- z Workers feel distant from the management and the business because they are just a tiny cog in a huge mechanism

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## EXERCISE

1. What are the advantages of specialisation?
2. Is it inevitable that specialisation must happen in order to mass produce goods?
3. Would you like to work in a job which requires specialisation? Why?
4. Are there some types of specialisation which are very interesting? Make a list.
5. Make a list of 5 jobs where there cannot be any or much specialisation.

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Employers organisations can be of various types and include Chambers of Commerce, Confederation Of British Industry, and specialised trade organisations. They are mainly interested in publicising, promoting, and developing commercial and industrial opportunities in their areas.

The title of chamber of commerce is applied to differing types of bodies in various countries. In the United Kingdom they are voluntary associations, whose members provide financial resources by subscription. In the other countries of the European Community and in some Latin-American countries, they are bodies whose functions are stated in law.

The functions of these organisations include:

- z Representing the interests of members to local and national authorities
- z Issuing certificates of various types
- z Nominating members to consultative committees
- z Providing advice on import duties and commercial legislation
- z Establishing training schools
- z Organizing exhibitions, etc.

The first British chamber of commerce was founded in Jersey in 1768; There followed Glasgow and Belfast (1783); Edinburgh and Leeds (1785); Manchester (1794); Birmingham (1813); and Liverpool (1850). The Great Exhibition (1851) led to the formation of 13 in that decade. Junior chambers of commerce (to provide for business people between the ages of 21 and 40) were introduced in 1925; today there are well over a hundred of them.

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## EXERCISE

1. Why is it important for employers to have their own organisations?
2. When does the government approach such organisations for consultation purposes? Give actual examples, (e.g. National Farmers Union and associated organisations with regard to the BSE issue).
3. Make a list of 5 events in recent years when employers organisations have been involved in

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The Trades Union Congress (TUC) is the national organisation of British trade unions. Although it is the sole national trade union centre, three other related bodies also exist: the Scottish Trades Union Congress, the Wales Trade Union Council, and the Irish Congress of Trade Unions (Northern Ireland Committee).

Founded in 1868, the TUC hold annual conferences of independent unions for the exposition of trade union principles. Historically, TUC members cooperated with government and business in formulating economic policy until 1979, when a Conservative government came to power under Margaret Thatcher. Excluded from government policy making after that, the TUC was unable to rally its members against the Thatcher government's legal restrictions on trade unions. As a result of these and other factors, the TUC's membership declined from about 12 million in 1979 to about 8 million in 1989. The TUC has had a minor revival with the election of the Labour Government in 1997.

The TUC's union affiliates act independently in the conduct of their relations with business. The TUC is not itself affiliated with any political party, but many of its affiliate unions support the Labour Party.

There are a number of trade unions which represent workers in all types of work areas. People who want to join a trade union will join the one which represents their particular job or trade. The trade union is responsible for negotiating with the employer any matter which directly or indirectly affects the working conditions of its members. There are various stages of negotiation in connection with a disagreement, from meetings with managers to strike action.

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## EXERCISE

1. What are the main functions of the Trades Union Congress?
2. What are the duties and responsibilities of individual trade unions?
3. Make a list of events in recent years when trade unions have featured in the media in an attempt to protect their industry or when they have been in conflict with the government of the day.

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Management styles fall into two major schools:

- z The individual free market manager is characterized by a devotion to the rigours of the free market; such managers feel no obligation to their employees outside the workplace, since the primary aim of a firm is the maximization of profit.
- z The paternal style of management assumes that the firm has obligations to its workers outside the workplace and to the larger community.

Workers are motivated by a number of factors besides wages and fringe benefits. Incentive systems, which adjust pay according to productivity, can be important to worker performance. The amount of direct supervision and the ratio of supervisors to workers varies from firm to firm.

The relations of management with workers and unions involve elements of both conflict and cooperation. Most unions have been organized to demand from management improvement in pay scales and working conditions. Negotiation has become a chief function of union representatives, and most negotiators are willing to compromise, especially if management moves to reduce conflicts.

There are many factors which determine the relationship between workers and managers:

- z **The firm's profitability** - sometimes the business may demand more from its workers if it is under pressure and facing difficulties
- z **Production targets** - especially the case in medium size companies and light industry, businesses have to meet production and delivery deadlines which can often put pressure on the manager/worker relationship
- z **Personalities** - sometimes the managers or union representatives are particularly aggressive or alternatively very friendly towards each other
- z **Culture in the organisation** - some industries have traditionally been very hostile or aggressive in their manager/worker relations

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## EXERCISE

1. What do you think would be the ideal management/workforce relationship?
2. How has the relationship between managers and workers changed in the last 20 years. Use examples of government legislation.
3. Is it possible for managers and workers to always have a good working relationship with each other?

Strikes are the end product of a failed negotiated settlement between the management and workforce. There are several steps before a strike is called including:

- z Discussion between the union representatives and management
- z Discussion between union officials and senior management
- z A vote to test the determination of the workforce. Sometimes it is possible to resolve the dispute at this stage. If there are fewer than 50% of the workforce in support of further action the union will step down from confrontation. On the other hand, if the vote is overwhelming for further action, the management may decide to give way in order to avoid a strike
- z Work to rule. This means no overtime, no filling in for absent colleagues, and no co-operation over and above the standard agreed work contract
- z One day strikes held at critical times (e.g. Christmas) to cause maximum damage to the business without losing too much in wages to the workers

The relative power of workers in relation to management has reduced significantly in the UK because of industrial relations legislation passed by the Conservative governments since 1979, and due to the reduction of people joining trade unions.

The loss to businesses caused by strikes can be huge depending on various factors:

- z The length of the strike
- z The timing of the strike
- z The general health of the business at the beginning of the strike. If the business is already weak a strike could bankrupt it
- z The level of demands by the workforce. The business may simply not be able to settle and remain profitable

Strikes can often affect other businesses as well. In some cases it can help other businesses which deal in the same products because for a time they will be able to produce more. In some cases other businesses will also suffer especially suppliers to the business which is no longer producing goods because of the strike, and also the businesses or people who rely on the product and may not be able to buy it because of shortages of the product.

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## EXERCISE

1. Make a list of major disputes in recent years. Select one and say how it could have been resolved more effectively.
2. How do governments affect the relationship between workers and employers? Make a list of recent legislation.

