
Business objectives - Forms of business -
Business choices - Moving from entrepreneur
to leader

Chapter 21, 22, 23, 24 and 25 – January, 2017

BUSINESS OBJECTIVES

OVERVIEW

- ▶ Distinction between *aims* and *objectives*
 - ▶ *aims*: general ideas what business wants to achieve in long-term (i.e., be a 'market leader')
 - ▶ *objectives*: *goals* or *targets* that need to be met to achieve *aims* (i.e., annual sales targets)
- ▶ Business needs to have *objectives* because:
 - ▶ objectives *motivate* people (i.e., used to determine *bonuses*)
 - ▶ objectives *drive* (or motivate) owners
 - ▶ objectives define the strategies of businesses (i.e., markets that have to be targeted in order to grow by 10%)

BUSINESS OBJECTIVES

OVERVIEW

- ▶ Business objectives should be **SMART**:
 - ▶ **s**pecific: stating clearly what is trying to be achieved
 - ▶ **m**easurable: capable of numeric measurement
 - ▶ **a**greed: have the approval of everyone involved
 - ▶ **r**ealistic: able to be achieved given the resources available
 - ▶ **t**ime-specific: have a stated time by which they should be achieved
- ▶ these elements will allow the business to define a clear *metric* for defining success (i.e., increase turnover by 8% in the next 12 months)

BUSINESS OBJECTIVES

SURVIVAL

- ▶ *Survival* can be the main objective
 - ▶ for *new* businesses or
 - ▶ if new *competitors* join the market
 - ▶ if *trading conditions* become more difficult (i.e., British Airways)
- ▶ Question 1 page 127

BUSINESS OBJECTIVES

PROFIT MAXIMISATION

- ▶ *Profit maximisation* is more likely with businesses that are owned by *institutional shareholders* that have to maximise the returns on their investment (i.e., pension funds, investment funds)
- ▶ *Profit satisficing* is a more common objective of entrepreneurs
- ▶ Maximising profit means:
 - ▶ keep costs as low as possible
 - ▶ raise prices as high as possible
- ▶ Examples of profit maximisation are: *skim pricing* (=setting prices unnaturally high as customers in this market are not price sensitive)
- ▶ Disadvantage of profit maximisation: focuses too much on short-term profits and ignores long-term opportunities

BUSINESS OBJECTIVES

OTHER OBJECTIVES

- ▶ *sales maximisation*: increase sales (growing sales is an important performance indicator).

Note: *physical sales level* \neq *sales revenue*

- ▶ *market share*: increasing market share helps to increase revenue and raise profile of business (i.e., control prices, dominate market)

- ▶ *cost efficiency*: reducing costs may be important if *competition* increases or if there is an *economic downturn*. Low costs are important to gain a *competitive edge* in the market.

Note: See page 128 for *examples* of cutting costs as well as *drawbacks* of this particular objective.

BUSINESS OBJECTIVES

OTHER OBJECTIVES

- ▶ *employee welfare*: better employee welfare means happier, better motivated, more productive and more flexible staff.
Note: See page 128 for *examples of measures* that can be taken to reach this objective.
- ▶ *customer satisfaction*: satisfied customers are in general *loyal* customers.
Note: See page 128 for *examples* of keeping customers satisfied.
- ▶ *social objectives*: helps to develop *relationship with local community*.
Note: See page 128 for *examples* of achieving this.

BUSINESS OBJECTIVES

KEY TERMS

- ▶ aims:
- ▶ objectives:
- ▶ sales maximisation:

FORMS OF BUSINESS

SOLE TRADERS

- ▶ Simplest form of business organisation is a *sole trader* (or *sole proprietor*)
- ▶ Sole trader = one owner but can employ any number of people
- ▶ Can be involved in any business activity: (i) primary sector (i.e., farmer, fishermen), (ii) secondary sector (i.e., building, manufacturing), or (iii) tertiary sector (services)
- ▶ Sole traders have *legal responsibilities*:
 - ▶ pay income tax and National Insurance contributions
 - ▶ register for value added tax (VAT) if turnover reaches a threshold
 - ▶ request licence to trade (if selling alcohol, taxi service, or public transport)
 - ▶ request planning permission (i.e., if converting a warehouse into a nightclub)
 - ▶ comply with legislation at business practice (i.e., safe working conditions)

FORMS OF BUSINESS

ADVANTAGES AND DISADVANTAGES OF SOLE TRADERS (SEE TABLE 1 PAGE 130)

FORMS OF BUSINESS

PARTNERSHIPS

- ▶ *Partnership*:
 - ▶ has more than one owner, who *share* responsibilities and profits
 - ▶ Examples: accountants, doctors, estate agents, solicitors, ...
 - ▶ no *legal formalities* are required when partnership is formed
- ▶ Partners may draw up a *Deed of Partnership* (legal document which states partners rights in the event of a dispute), which covers issues such as:
 - ▶ amount of capital each partner has to contribute
 - ▶ profits/losses that have to be shared amongst partners
 - ▶ procedure for ending partnership
 - ▶ level of control each partner has
 - ▶ rules for taking on new partners
- ▶ In the absence of a *Deed of Partnership*, partners will be subject to *Partnership Act* (1890)

FORMS OF BUSINESS

ADVANTAGES AND DISADVANTAGES OF PARTNERSHIPS (SEE TABLE 2 PAGE 131)

FORMS OF BUSINESS

LIMITED PARTNERSHIPS

- ▶ Limited partnership: some partners provide capital but take no part in the management of the business
 - ▶ *sleeping partner*: partner will have *limited liability* (partner can only lose the original amount of money invested)
- ▶ *Limited Partnerships Act 1907* defines the elements discussed above: There must be at least one partner with *unlimited liability*
- ▶ *Limited Liability Partnership Act, 2000* allows all partners to have limited liability. Business has to agree to comply with a number of regulations (i.e., filing annual reports, ...).

FORMS OF BUSINESS

LIMITED COMPANIES ♣

- ▶ *Limited companies* have a separate *legal identity* from its owner
- ▶ Company can own assets, form contracts, employ people, sue or be sued
- ▶ *Main features* of limited companies:
 - ▶ capital is raised by selling shares
 - ▶ owners/shareholders have limited liability
 - ▶ limited companies are run by directors who are elected by shareholders
 - ▶ limited companies pay *corporation tax* (instead of income tax on profits)
- ▶ Forming a limited company:
 - ▶ send *Memorandum of Association* and *Articles of Association* to the *Registrar of Companies*
 - ▶ if documents are acceptable then the company gets a *Certificate of Incorporation*

FORMS OF BUSINESS

PRIVATE LIMITED COMPANIES

- ▶ *Private limited companies* can be *small or medium-sized* businesses or *large* businesses (size of *limited companies*)
- ▶ Main features of private limited company:
 - ▶ business name ends in *Limited* or *Ltd.*
 - ▶ shares can only be transferred privately (cannot be advertised for sale)
 - ▶ are often family businesses
 - ▶ directors of these businesses tend to be shareholders and are involved in running the business

FORMS OF BUSINESS

ADVANTAGES AND DISADVANTAGES OF PRIVATE LIMITED COMPANIES (SEE TABLE 3
PAGE 132)

FORMS OF BUSINESS

FRANCHISING

- ▶ using *franchises* helps reducing risks (i.e., business failure)
- ▶ *franchisor*: company which owns the franchise and it allows another business (*franchisee*) to use its business ideas and methods in return for fees
- ▶ Examples: Domino's Pizza, McDonald's, Subway, ...

FORMS OF BUSINESS

FRANCHISING

- ▶ Services provided *by* the franchisor to its franchisees:
 - ▶ gives a *licence* to make a product (already tested in the market)
 - ▶ a *recognized brand*
 - ▶ a *start-up package* (i.e., advice, equipment, training, contacts for capital)
 - ▶ *ingredients and materials* to make the product
 - ▶ *marketing support* (i.e., national advertising, ...)
 - ▶ *ongoing training*: helps maintain standards, sales, develop new products
 - ▶ *business services* at competitive prices (i.e., good deals with insurance, delivery, ...)
 - ▶ *exclusive area contracts*: prevents competition between franchisees

FORMS OF BUSINESS

FRANCHISING

- ▶ Fees paid by the franchisee to the franchisor:
 - ▶ initial *start-up fee* (covers advice, equipment, and right to use the name)
 - ▶ percentage of sales for ongoing services
 - ▶ profits are made on the sales of the material sold to the franchisee
 - ▶ one-off fees charged for management services (i.e., training)

FORMS OF BUSINESS

ADVANTAGES AND DISADVANTAGES OF FRANCHISING (SEE TABLE 4 AND 5 PAGE 133)

FORMS OF BUSINESS

SOCIAL ENTERPRISES ♣

- ▶ *Social enterprises*: trade with the aim of improving human and environmental well-being (rather than profit)
- ▶ Also known as *not-for-profit organisations*. In general social enterprises:
 - ▶ have a clear social/environmental mission
 - ▶ income are donations or through own trade
 - ▶ reinvest most of profit
 - ▶ not connected to governments
 - ▶ are accountable and transparent
- ▶ Forms of social enterprises:
 - ▶ **co-operatives**: owned and controlled by their members
 - ▶ **worker co-operatives**: jointly owned by their employees
 - ▶ **mutual organisations**: owned by their customers (or members) rather than by shareholders
 - ▶ **charities**: raise money for causes or draw attention to disadvantaged groups in society

FORMS OF BUSINESS

LIFESTYLE BUSINESSES

- ▶ Aims to make enough money and provide the flexibility needed to sustain a particular lifestyle
- ▶ Examples: tradespeople (i.e., plumber, electrician), consultants, florists, small retail stores, B&B, small lifestyle farms
- ▶ Main features of lifestyle businesses:
 - ▶ small business with one owner
 - ▶ personal interest of entrepreneur = nature of business
 - ▶ owner may undertake variety of different ventures (sell music instruments, teach to play instrument, ...)
 - ▶ less stressful than other forms of businesses
 - ▶ are considered an alternative to retirement

FORMS OF BUSINESS

ONLINE BUSINESSES

- ▶ Main features of *online businesses*
 - ▶ customers access business over internet
 - ▶ payment is collected electronically (i.e., credit card, PayPal, debit card)
 - ▶ requires secure websites
 - ▶ low set-up costs
 - ▶ paid-for or sponsored advertising is main source of revenue
- ▶ See Table 6 page 135 and the *Maths tip*

FORMS OF BUSINESS

THE GROWTH OF BUSINESSES

- ▶ Growth of business is important because:
 - ▶ higher profile in the market
 - ▶ larger revenues
 - ▶ lower unit costs (economies of scale)
 - ▶ higher profits
- ▶ Businesses may evolve:: (i) start as *private limited companies*, and then decide to *go public* and become (ii) *public limited companies*

FORMS OF BUSINESS

PUBLIC LIMITED COMPANIES

- ▶ Public limited company: owned by *shareholders* and company name ends by *plc*
- ▶ run by *board of directors* under supervision of *chairperson* (accountable to the shareholders)
- ▶ *shares* of public limited companies can be bought and sold on the *stock market*
- ▶ *stock market*: market for second-hand shares

FORMS OF BUSINESS

STOCK MARKET FLOTATION

- ▶ *stock market flotation* occurs when a company goes *public*
- ▶ also known as *initial public offering* (IPO): company's shares are offered to the public for the first time
- ▶ publish a *prospectus* (document advertising the company and inviting investors) (see page 138 regarding its content)
- ▶ costs associated with the process of *going public*
- ▶ conditions that have to be fulfilled before starting to trade:
 - ▶ ...
 - ▶ has to receive payment of 25% for the value of shares
- ▶ *full listing* vs. *Alternative Investment Market* (AIM)
 - ▶ AIM: designed for companies that want to avoid the *high costs* of a *full listing*

FORMS OF BUSINESS

ADVANTAGES OF LIMITED COMPANIES

- ▶ similar to the advantages of *private limited companies*
- ▶ other advantages
 - ▶ large amounts of capital can be raised
 - ▶ production costs may decrease as firms get larger (economies of scale)
 - ▶ larger companies may dominate the market
 - ▶ larger choice of financing if needed (i.e., banks prefer to give loans to plc)
 - ▶ executives are put under pressure to *perform well* (pressure comes from media and financial analysts)

FORMS OF BUSINESS

DISADVANTAGES OF PUBLIC LIMITED COMPANIES

- ▶ high *setting-up costs* can be very high
- ▶ outsiders can get power of the company (since shares are public)
- ▶ company's accounts are public and could be used by the competition
- ▶ size may become a disadvantage because of lack of personal interaction
- ▶ compliance with company legislation will use a lot of resources
- ▶ divorce of ownership and control: senior managers may pursue their own objectives
- ▶ large public limited companies may be *inflexible*

BUSINESS CHOICES

OPPORTUNITY COST

- ▶ Common *choices* that businesses have to make:
 - ▶ invest in advertising campaign
 - ▶ retrain workforce
 - ▶ maintain buildings
- ▶ businesses will define an *order of preference* to its spending
- ▶ the next best alternative is called the *opportunity cost* of the choice
- ▶ Our example: benefit lost by not retraining the workforce

BUSINESS CHOICES

NON-MONETARY OPPORTUNITY COST

- ▶ *opportunity costs* can be measured in *monetary terms*
- ▶ Our example: opportunity cost of investing in the advertising campaign is the *benefit forgone* from retraining the workforce
 - ▶ *monetary benefit*: output of workers increases (productivity increases)
 - ▶ *non-monetary benefit*: workers may feel more confident/happy and therefore they will be more productive
- ▶ opportunity costs can be of *professional* as well as *personal* nature (i.e., family holiday)

BUSINESS CHOICES

BUSINESS CHOICES AND TRADE-OFFS

- ▶ decisions often come with *trade-offs*: opting for one choice involves compromising another
- ▶ an important trade-off is between *risk* and *reward*
 - ▶ high rewards are often associated with high risk
 - ▶ sometimes the risky scenarios will occur (i.e., 2008 crisis)
- ▶ see Figure 1 page 142
- ▶ see example on trade-offs when running your own business (Table 1 page 143)

BUSINESS CHOICES

WEIGHING UP TRADE-OFFS

- ▶ when faced with trade-offs, following actions could help
 - ▶ obtain *information* (list and assess advantages and disadvantages)
 - ▶ balance *short term* and *long term*
 - ▶ evaluate what *support* you have

MOVING FROM ENTREPRENEUR TO LEADER

OVERVIEW

- ▶ a business can grow and an *entrepreneur* may see his/her role change
- ▶ as the business grows, entrepreneurs have to adapt to new functions
 - ▶ need for *formality* (i.e., formal communication channels, formal organisational structure)
 - ▶ need for *shared ownership* (i.e., new capital required to fund expansion)
 - ▶ greater responsibilities to others (i.e., growing staff means more people will be affected by decisions)
 - ▶ need for motivation and inspiration (i.e., workforce needs to be motivated and encouraged)
 - ▶ need for strategy and vision (i.e., as business grows leader will be more involved in designing business strategies than in production)

MOVING FROM ENTREPRENEUR TO LEADER

THE DIFFICULTIES IN DEVELOPING FROM AN ENTREPRENEUR TO A LEADER

- ▶ adapting the *mindset* (i.e., learn to delegate, trust in others, sacrifice autonomy from entrepreneurship)
- ▶ *stress* (i.e., worry that debtors won't pay, presence of conflicts in the organisation)
- ▶ sharing ownership and *control* (i.e., loosing control of own business)
- ▶ *trust* (i.e., trust between leaders and employees)
- ▶ lack of *leadership qualities* (i.e., management, communication, problem solving, decision making, and organisational skills)

MOVING FROM ENTREPRENEUR TO LEADER

OVERCOMING DIFFICULTIES

- ▶ methods used to adapt and overcome difficulties
 - ▶ delegation and trust: good leaders will surround themselves with talented, honest, and trustworthy people
 - ▶ earn respect: praise, be fair but tough, open, and honest
 - ▶ maturity and experience: some may have a talent to be leaders, others will develop into one through experience
 - ▶ education: many leadership skills can be learned (i.e., negotiation, communication, decision-making, languages, ...)
 - ▶ reduce stress: see Figure 1