1.1 Introduction to business management

Name: _____ Class: _____ Date: _____ **Total: 25 marks**

KEY WORDS stakeholder • economies of scale

Introduction to business management

Objective

Classify businesses by sector and entity, apply the objectives hierarchy and the stakeholder map, and use the average-cost arithmetic of economies of scale to judge growth decisions (syllabus 1.1–1.6).

1 Key knowledge and worked examples

Unit 1 toolkit. A business combines human, physical and financial resources into goods and services through four functions (HR, finance, marketing, operations) in four sectors (primary, secondary, tertiary, quaternary). Entities: sole trader and partnership (unlimited liability), privately and publicly held companies (limited liability), for-profit and non-profit social enterprises. Objectives: vision → mission → strategic → tactical; CSR. Stakeholders: internal vs external, with conflicts. Economies of scale on the repair business: 1 000 repairs at total cost 50 000 (average 50) → 2 000 at 80 000 (average 40) → 3 000 at 126 000 (average 42, diseconomies). External growth: merger, acquisition, joint venture, strategic alliance, franchise. MNC host impacts, both sides.

2 Practice

2.1 Define *entrepreneur* and distinguish an intrapreneur from one. [2]

2.2 Classify each activity by sector: (a) a copper mine, (b) a furniture factory, (c) a bicycle-repair shop, (d) a software consultancy. [2]

2.3 Explain one advantage and one disadvantage of operating as a partnership rather than as a sole trader. [4]

2.4 Distinguish strategic from tactical objectives, giving one example of each for a repair business. [2]

2.5 A repair business completes 1 000 repairs a month at a total cost of 50 000. A second workshop raises output to 2 000 repairs at a total cost of 80 000. Calculate the average cost at each level, and name one economy of scale that could explain the change. [3]

3 Exam-style questions

3.1 *(Original, Paper 1 style.)* Explain one advantage and one disadvantage for the repair business of remaining a small firm. [4]

3.2 *(Original, Paper 1 style.)* The owner is considering a third workshop that would lift output to 3 000 repairs at a total cost of 126 000, or offering franchises instead. Using the average-cost figures, explain which route they support, and state one risk that your recommended route carries. [4]

3.3 *(Original, stakeholders.)* The business plans to open on Saturdays. Identify two stakeholder groups whose interests conflict over this decision, explain the conflict, and recommend one way management could manage it. [4]

Solutions

2.1 An entrepreneur is a person who takes the financial risk of starting and running a new business, combining resources to pursue an opportunity (1). An intrapreneur innovates in the same way but inside an existing organisation, using its resources and bearing less personal risk (1).

2.2 (a) Primary (extraction); (b) secondary (manufacturing); (c) tertiary (service); (d) quaternary (knowledge-based). Four correct for 2, two or three correct for 1.

2.3 Advantage: a partner brings extra capital and complementary skills, and shares the workload and risk – the sole trader's limited finance and long hours are eased (2). Disadvantage: profit is shared and decisions need agreement, so disputes can slow or split the business; in an ordinary partnership each partner also carries unlimited liability for the others' decisions (2).

2.4 Strategic objectives are long-term, whole-business targets set by senior management; tactical objectives are shorter-term, departmental steps that deliver them (1). Example: strategic – 30% local market share in three years; tactical – open on Saturdays within six months (1).

2.5 Average cost = 50 000/1 000 = 50 at the first level and 80 000/2 000 = 40 at the second (2). Any one: purchasing economies (bulk discounts on parts), technical economies (better equipment used more fully), managerial economies (a specialist bookkeeper or manager spread over more repairs) (1).

3.1 Advantage: a small firm keeps close owner control and personal customer relationships, so it responds quickly and builds loyalty – the repair shop can adjust prices and hours without consulting anyone (2). Disadvantage: it forgoes economies of scale and has limited finance and resilience, so a competitor with lower average costs or a bad month can threaten it (2).

3.2 Average cost falls from 50 to 40 with the second workshop but would rise to 42 with a third, at 126 000 over 3 000 repairs (1): diseconomies of scale have set in – coordination and management costs outweigh further savings (1). The figures therefore support franchising, which grows the brand without the owner carrying the third workshop's costs and management (1). Risk: a franchisee who delivers poor service damages the whole brand, and the owner's income from fees and royalties depends on franchisees' performance that it does not directly control (1).

3.3 Customers (and the owner, who wants revenue) gain from Saturday opening; employees lose their weekend and may face unpaid or disruptive hours – a conflict between external and internal stakeholders (2). Management could use a voluntary rota with a weekend premium, or hire part-time Saturday staff, so that the customer gain is kept while the employees' cost is compensated or removed (2).

Local review guidance: the division written out before the average-cost figure, and the DIRECTION of the change stated; (R1 3.1) the advantage and the disadvantage each applied to the repair business, not left generic; (R1 3.3) the recommendation names the mechanism and the group it compensates. This is authored classroom guidance.