

# Introduction to business management (1.1-1.6)

International Baccalaureate · IB Diploma · Business Management · SL

## Introduction to business management

IB Diploma Programme Business Management SL, Unit 1 *Introduction to business management* (first assessment 2024). This topic covers sections 1.1 to 1.6: what a business is, types of business entities, business objectives, stakeholders, growth and evolution, and multinational companies. Unit 1 is the same at SL and HL. The course's four concepts, **change**, **creativity**, **ethics** and **sustainability**, run through every section. The worked examples follow one car-repair business from its start, and its numbers fit every later unit.

In 1995 Wang Chuanfu started BYD in Shenzhen with about 20 workers, making batteries for mobile phones. It grew by building more factories, then by buying a small car maker in 2003. By 2023 BYD sold more new-energy cars than any other company in the world. This topic shows the choices behind a story like that: what form a business takes, what it aims for, whom it must keep happy, and how it grows.

### Must-know for this topic:

| Idea         | Key content                                                                         |
|--------------|-------------------------------------------------------------------------------------|
| business     | resources → goods and services; four functions; four sectors; entrepreneurs         |
| entities     | sole trader, partnership, privately and publicly held companies; social enterprises |
| objectives   | vision and mission; strategic and tactical objectives; CSR                          |
| stakeholders | internal and external; conflicts between them                                       |
| growth       | economies and diseconomies of scale; internal and external growth                   |
| MNCs         | good and bad effects on the host country                                            |

## What a business is

A **business** is an organisation that uses resources to make goods or services that people want. It combines:

- **human resources** : the people who work in it;
- **physical resources** : buildings, machines, materials;
- **financial resources** : the money to start and run it.

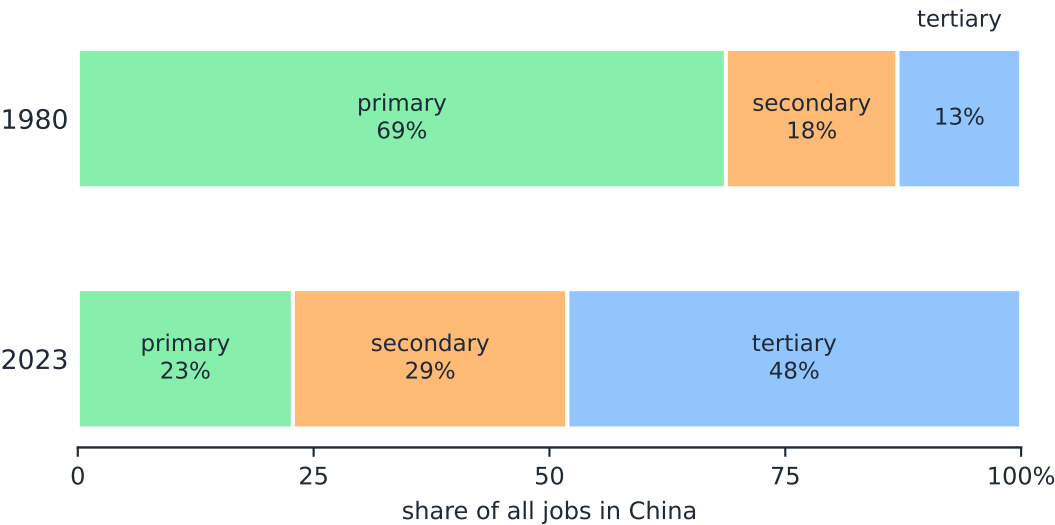
Every business has four **business functions**, and each is one unit of this

course: human resources (Unit 2), finance and accounts (Unit 3), marketing (Unit 4) and operations (Unit 5).

Businesses work in four **sectors** :

| Sector            | What it does                           | Examples                       |
|-------------------|----------------------------------------|--------------------------------|
| primary sector    | takes natural resources from the earth | farming, fishing, mining       |
| secondary sector  | makes goods from materials             | car factories, building        |
| tertiary sector   | provides services                      | shops, banks, car repairs      |
| quaternary sector | works with knowledge and information   | software, research, consulting |

As a country develops, jobs move from the primary sector to the secondary and then the tertiary sector. This is called **sectoral change** .



*China’s jobs moved from farming to services in four decades*

An **entrepreneur** starts a new business and takes the risk that it may fail.  
An **intrapreneur** has new ideas and leads new projects inside an existing business. People start businesses to be their own boss, to follow an idea, or to earn more. They meet problems: finding finance, finding customers, little experience, strong rivals and the law’s rules.

## Types of business entities

The **private sector** is owned by individuals and private firms. The **public sector** is owned by the government.

The most important difference between the types is **liability**, which means who pays the business's debts if it fails.

- With **unlimited liability**, the owners must pay the debts from their own money, even by selling their home.
- With **limited liability**, owners can only lose the money they put into the business. This is possible because a company is a separate legal person from its owners.

| Type                          | Owners                                                          | Liability         | For                                                             | Against                                                                                           |
|-------------------------------|-----------------------------------------------------------------|-------------------|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| <b>sole trader</b>            | one person                                                      | unlimited         | easy to set up; owner keeps all profit and makes every decision | hard to raise money; long hours; the business may end when the owner stops                        |
| <b>partnership</b>            | two or more partners                                            | usually unlimited | more money and more skills; work is shared                      | partners may disagree; each is responsible for the others' decisions                              |
| <b>privately held company</b> | shareholders, often a family; shares are not sold to the public | limited           | owners keep control; limited liability                          | must register and publish some accounts; harder to raise large sums                               |
| <b>publicly held company</b>  | anyone can buy shares on a stock exchange                       | limited           | can raise very large amounts of money                           | must publish full accounts; owners can lose control in a takeover; pressure for short-term profit |

A **social enterprise** is a business whose main aim is to help people or the environment. It earns money by trading, but it puts its **surplus** back into its aim.

- **For-profit social enterprises** include private-sector companies with a social aim, public-sector companies owned by the government, and **cooperatives**, which are owned and run by their members (such as workers or farmers) and share profits among them.
- **Non-profit social enterprises** include **non-governmental organisations** (NGOs) and charities. They depend on donations and grants as well as trading.

**Worked example.** The car-repair business starts as a sole trader with 20,000 of savings. After a year the owner takes a partner, who adds another 20,000 and shares the long working week. Now each partner is responsible for the other's decisions and debts. When the business opens a second workshop, the owners form a privately held company. Their homes are now safe if the business fails, but they must register the company and publish accounts.

## Business objectives

A business sets its aims from the top down.

- A **vision statement** says what the business hopes to become in the long run: "To be the repair garage every family in the city trusts."
- A **mission statement** says what the business does, for whom and how: "We repair family cars quickly, at a fair price, and explain every bill."
- **Strategic objectives** are long-term aims set by senior managers: growth, profit, market share, protecting the value of the shares, and ethical aims.
- **Tactical objectives** are shorter-term, smaller steps, often set for one department, that help to reach a strategic objective.



*Each level turns the one above it into more detailed, shorter-term aims*

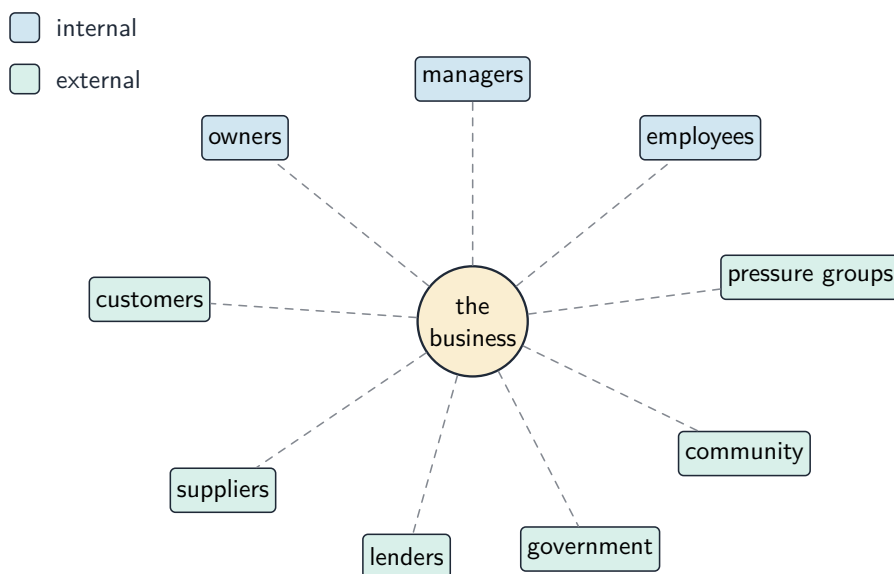
**Worked example.** The repair business sets a strategic objective of 30% of the local repair market within three years. Its tactical objectives are to open on Saturdays within six months and to reach an average online review of 4.5 stars.

Objectives change when the situation changes. A new rival, a recession, new technology such as electric cars, or a new owner can all make a business rethink its aims.

**Corporate social responsibility** (CSR) means a business aims to act ethically towards workers, customers, the community and the environment, not only to make a profit. The repair business recycles all its oil and old batteries and trains two young apprentices a year. CSR costs money in the short term, but it can build a good reputation, attract customers and staff, and avoid fines. Critics say some firms use CSR only for advertising.

## Stakeholders

A **stakeholder** is any person or group affected by what a business does.



*Internal stakeholders work inside the business; external stakeholders are affected from outside*

- **Internal stakeholders** are inside the business: owners or shareholders, managers and employees.
- **External stakeholders** are outside it: customers, suppliers, banks and other lenders, the government, competitors, **pressure groups** (groups that campaign on an issue, such as the environment) and the local community.

Stakeholders often want different things, so there is **stakeholder conflict**

. Shareholders want higher dividends, but employees want higher wages. Customers want low prices, but suppliers want high prices. The local community wants peace and quiet, but the business wants to grow. Managers deal with conflict by deciding whose needs matter most, by talking and agreeing a compromise, or by changing the plan so that more groups gain.

**Worked example.** Saturday opening pleases customers and the owners, but the mechanics lose their weekend. The owners agree a rota, so each mechanic works one Saturday in four, and pay 50% extra for Saturday hours.

## Growth and evolution

### ■ Economies and diseconomies of scale

**Economies of scale** are the fall in average cost (cost per unit) as a business grows. **Internal economies of scale** come from the business's own growth:

- **purchasing economies** : discounts for buying in bulk;
- **technical economies** : bigger, better machines used fully;
- **managerial economies** : hiring specialist managers;
- **financial economies** : big firms borrow more cheaply;
- **marketing economies** : one advert reaches more customers per unit sold.

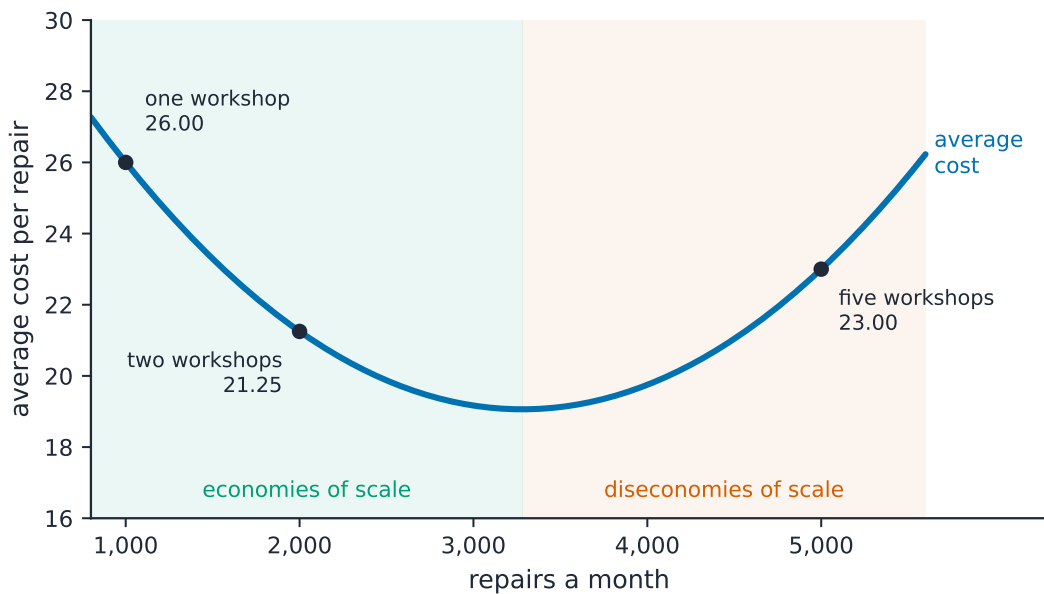
**External economies of scale** come from the growth of the whole industry in an area, such as colleges that train mechanics, or parts suppliers that open nearby.

**Diseconomies of scale** are the rise in average cost when a business grows too big. Communication becomes slow, managers lose control, decisions take longer, and workers feel less valued, so motivation falls.

**Worked example.** Average cost = total cost ÷ output.

|                | Repairs a month | Total cost | Average cost |
|----------------|-----------------|------------|--------------|
| one workshop   | 1,000           | 26,000     | 26.00        |
| two workshops  | 2,000           | 42,500     | 21.25        |
| five workshops | 5,000           | 115,000    | 23.00        |

Going from one workshop to two lowers average cost by 4.75 a repair: bulk discounts on parts and one manager for both sites. At five workshops the owners expect average cost to rise again, because they could no longer watch every site and parts would have to travel between them. This is the point where diseconomies begin.



*Average cost falls with economies of scale, then rises once diseconomies set in*

Small businesses have advantages too. They can give personal service, change quickly, and keep the owner in control. Many owners choose to stay small for these reasons.

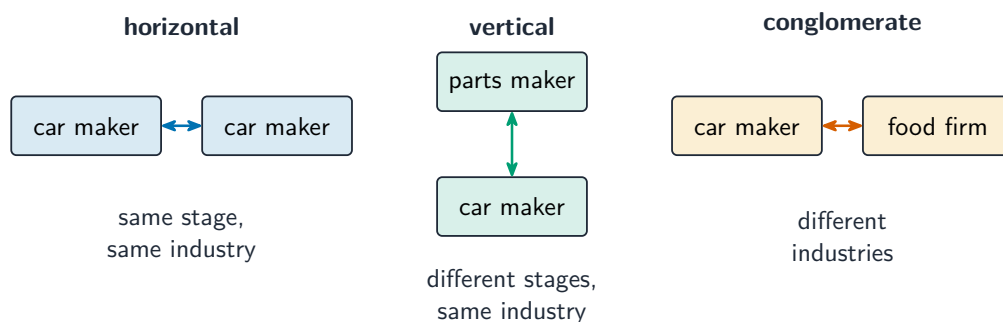
## ■ Internal and external growth

**Internal growth** (organic growth) means growing from inside: opening new branches, selling new products, or winning more customers. It is slow but safe, and the business keeps its own culture.

**External growth** means growing by joining with other firms. It is faster, but it is expensive and the two cultures may clash.

| Method                               | Meaning                                                                                                   |
|--------------------------------------|-----------------------------------------------------------------------------------------------------------|
| <b>merger</b>                        | two firms agree to join and become one new firm                                                           |
| <b>acquisition</b> / <b>takeover</b> | one firm buys more than half the shares of another; a takeover is an acquisition the target does not want |
| <b>joint venture</b>                 | two firms create a new firm together and share its costs, profits and control                             |
| <b>strategic alliance</b>            | firms work together on a project but stay separate and do not create a new firm                           |
| <b>franchising</b>                   | a franchisor sells others the right to use its brand and methods, for a fee and a share of sales          |

When firms join, the type of integration depends on how their businesses relate.



*Horizontal, vertical and conglomerate integration: same stage, different stages, different industries*

## Multinational companies

A **multinational company** (MNC) has operations in more than one country. The country where it opens a factory or office is the **host country**.

| Good effects on the host country | Bad effects on the host country                    |
|----------------------------------|----------------------------------------------------|
| new jobs and better training     | profits may be sent back to the MNC's home country |
| investment and new technology    | local firms may not survive the competition        |
| tax revenue for the government   | local culture may change, with fewer local brands  |
| more choice for consumers        | pollution and heavy use of resources               |
| local suppliers win new orders   | an MNC may pressure the government on tax or rules |

The balance depends on the MNC, the host country and the time period. A car factory may bring thousands of jobs, but if it closes ten years later the town loses most of them at once. Governments try to keep the good effects by setting rules on pay, pollution and local partners.

## Checklist

- Resources; the four functions; the four sectors and China's sectoral change; entrepreneurs and intrapreneurs; why businesses start and the problems they meet (1.1).
- Private and public sector; sole trader, partnership, privately held and publicly held company with liability and finance compared; for-profit and non-profit social enterprises, including cooperatives and NGOs (1.2).

- Vision and mission statements; strategic and tactical objectives; why objectives change; CSR (1.3).
- Internal and external stakeholders; conflicts between them and how managers deal with them; the Saturday-opening example (1.4).
- Internal and external economies of scale, diseconomies, the average cost of 26.00, 21.25 and 23.00; reasons to stay small; internal and external growth; mergers, acquisitions, joint ventures, strategic alliances and franchising; horizontal, vertical and conglomerate integration (1.5).
- The good and bad effects of MNCs on host countries (1.6).

Paper 1 asks you to define terms, explain them and discuss them in the case-study business. Paper 2 may ask for the average-cost calculation. All numbers about the repair business are original.