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Complete Enterprise

for Cambridge IGCSE®

Second Edition



Terry Cook
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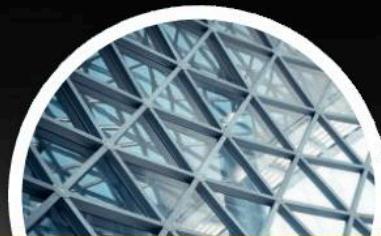
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Introduction

This book is designed to be used with the Cambridge IGCSE Enterprise syllabus (0454), although it will also be extremely useful for many other courses in enterprise and entrepreneurship.

It is a skills-focused resource specifically designed to provide the knowledge associated with running a small enterprise. It provides comprehensive coverage, along with up-to-date and relevant case studies from various countries. The practical approach also equips learners with transferable skills that can be applied to their future studies and careers.

The features of the book are as follows:

Key terms define the most important terms and concepts in enterprise. They occur when the term or concept is first referred to and they also appear in a glossary.

Study tips include useful suggestions to help learners.

Coursework links indicate where topics link directly to Component 2 Coursework.

Did you know? sections give useful and interesting information about many different aspects of enterprise and entrepreneurship.

Skills signposts refer to particular skills that are not only relevant to enterprise, but to other subjects and to learning in general.

Case studies featuring five enterprise projects appear at the beginning and are referred to throughout the book. In addition, many other case studies in the book provide examples of enterprise in action around the world. Each case study includes relevant extension questions.

Activities throughout the book are designed to enhance understanding. These activities can be carried out by individuals or in pairs or groups.

Learning outcomes appear at the beginning of each topic and summarise what learners should know and understand by the time they have finished the topic.

Key points appear at the end of each topic and summarise the most important aspects of enterprise covered in that topic.

Summary questions also appear at the end of each topic and give learners the opportunity to test their knowledge and understanding of what has been covered.

Practice questions appear at the end of each unit and give learners the opportunity to answer exam-style questions. The various questions cover AO1, focusing on knowledge and understanding; AO2, which focuses on application; and AO3, which is concerned with analysis and evaluation particularly in the 10-mark and 15-mark questions.

Student book and Cambridge syllabus matching grid

Syllabus overview	Unit in student book
1 Introduction to enterprise	
1.1 What is meant by enterprise	
What enterprise is	1.1
Who stakeholders are	1.2
1.2 Ways for students to be enterprising in everyday life	1.3
Ways of being enterprising:	
• at school	
• at home	
2 Setting up a new enterprise	
2.1 The enterprise process	2.1
Six stages of the enterprise process	
1. identifying the problem or want or need	
2. exploring creative solutions	
3. action planning	
4. implementing the plan	
5. monitoring progress	
6. evaluation of successes and failures	
2.2 Types of business organisation	
Different kinds of organisation, including	
• sole trader	2.2
• partnership	2.2
• limited company	2.3
• co-operative	2.3
• franchise	2.4
• social enterprise: charities, not-for-profit organisations	2.4
3 Enterprise skills	
3.1 Skills of enterprising people	3.1
Enterprise skills may include:	
• the practical skills and knowledge to create products and services	
• leadership	
• influencing skills	
• team-building	

• delegation	
• problem-solving	
• prioritisation/time management	
• self-confidence	
• resourcefulness	
• innovation	
• taking initiative	
• taking calculated risks	
• taking responsibility	
• motivation/determination to succeed	
• creativity	
• perseverance	
Identifying and evaluating your own skills	Coursework
3.2 Behaviours of entrepreneurs	3.2
How entrepreneurs use their enterprise skills	
4 Enterprise opportunities, risk, legal obligations and ethical considerations	
4.1 Opportunities	4.1
How opportunities arise, including:	
• changing needs or wants for a product or service	
• change in the ability to meet needs and wants	
• advances in technology	
• changes in government policy	
4.2 Risk	
Risks involved in enterprise	4.2
Identify risks	4.3/4.4
Analyses the implication of each risk	4.5
Decide if the risk is worth taking or not	4.5
Plan how to manage the risks	4.5
Attitudes to risk	4.6
4.3 Legal obligations	4.7
Why laws and regulations to protect stakeholders are needed in the areas of:	
• employment	
• production	
• marketing and selling	
• finance	
The impact of these laws and regulations on all stakeholders in these areas	
4.4 Ethical considerations	4.8
How an enterprise may have an impact on communities and society	
Ethical considerations within enterprise (i.e. choosing to run an enterprise following moral values and beliefs)	

	The impact of ethical considerations on the operation of an enterprise	
5	Negotiation	
5.1	The negotiation process	
	What negotiation is	5.1
	Stages in the negotiation process:	
	• planning	5.2
	• conducting the negotiation	5.3
	• measuring success	5.4
6	Finance	
6.1	Sources of finance	
	Advantages and disadvantages of different sources of:	
	• start-up funding	6.1
	• funding for continuing trade and expansion	6.2
6.2	The concept of trade credit	6.3
	Advantages and disadvantages of trade credit	
6.3	Financial terms	6.4
	Cash flow forecast	
	Break-even	
	Income statement	
6.4	Financial records	
	The purpose and importance of keeping accurate financial records	6.5
	How to prepare a simple budget, including a cash flow forecast, and an income statement for an enterprise	6.6
7	Business planning	
7.1	Business objectives	7.1
	Different enterprises have different aims and objectives	
	How aims influence the activities of enterprise	
7.2	Action plans	7.2
	The purpose and importance of action plans	
	Contents of action plans	
	Methods of monitoring action plans	
	The importance of updating business plans	
7.3	Business plans	7.3
	The purpose and importance of business plans	
	Contents of business plans	
	Methods of monitoring business plans	
	Reasons for updating business plans	
8	Markets and customers	
8.1	The purpose of marketing	
	Marketing to achieve enterprise aims	8.1
	Marketing from the perspective of customers	8.2
8.2	Market research	8.3
	Methods of identifying potential customers	
	The effectiveness of methods for different enterprises	

8.3 Customer retention	8.4
The reasons for retaining customers	
Methods of measuring customer satisfaction and retention	
Methods of retaining existing customers	
8.4 Marketing communications	8.5/8.6
Methods of marketing communications to reach intended customers	
Selecting appropriate methods for different enterprises	
9 Help and support for enterprise	
9.1 Sources of help and support	
Formal sources and the assistance they offer	9.1
Informal sources and the assistance they offer	9.2
Suitability of different sources of help and support for the enterprise	9.1/9.2
10 Communication	
10.1 Types of communication	10.1/10.2/10.3
Formal and informal communication	
Verbal and non-verbal communication	
Appropriateness of different types of communication for communications with internal and external stakeholders	
10.2 Meetings and presentations	10.4/10.5/10.6
The need for careful planning, considering possible outcomes before, during and after the event	
Documents for meeting and presentations The need to analyse and evaluate if meetings or presentations have been successful	

Introduction to case studies

These case studies are taken from real international examples of enterprise education in schools and the community. They are examples of different ways in which enterprise skills can be learned in a range of situations and contexts. These examples will be referred to and used in this book to help put theory into the context of practical experiences.

Enterprise activities may be anything from 'one-off' sales organised by students to participation in Youth Enterprise companies that run for months. Mini enterprise activities revolving around developing ideas or solutions to a problem are also valuable, especially for younger participants. All are excellent 'learning by doing' projects for everyone concerned, including the supervisor.

The following is general guidance, drawn from the case study companies' experience.

- Avoid being too ambitious. The good or service being produced or provided by participants should not be complex and/or time-consuming.
- The ideal enterprise group will have between four and six members – any less may be fine for a small project, but more members will make organisation and decision making difficult.
- All members should have clear job roles, even in a small-scale activity. Ideally, these should include managing director, finance director, marketing director, operations director and company secretary. This will clarify responsibilities and give individuals a focus, even though everyone will be involved in activities such as sales.
- Encourage the group to set clear objectives for job roles or departments in the company.
- Every enterprise should have a company name, mission statement and clear objectives. Ideally, as well as a profit motive, enterprises should work towards social objectives, e.g. supporting a cause.
- Plan deadlines and key dates at the beginning.
- All companies should produce a business plan, no matter how simple, as a 'road map' for the activity.
- Use all the sources of advice available to you. Local business people may agree to talk about their experience as entrepreneurs or to help as sponsors or ongoing advisers.



▲ Enterprise offers opportunities for 'learning by doing'

CASE STUDY 1

Mini enterprise

Consider these examples if you have a large group of students and want to divide them into a number of enterprise companies, then perhaps organise a competition. These activities can be run in a day or half-day session. The example below involves some production, but it can also be very successful using drawn ideas, for instance for a new soft drink.

The Ghana Bead and Cloth mini-enterprise companies

This activity was part of a programme of Financial Literacy and Entrepreneurship, run by a girls' education charity for girls of school-leaving age.

Five groups of participants, staying at the same location, took part in the activity over the course of 24 hours. They started on the afternoon of day 1, used the evening and finished the following lunchtime.

The aim of the activity was to introduce the concept of enterprise and for participants to gain some practical experience of running a mini-enterprise. The key parts of the activity were as follows.

- The five company groups were given:
 - a similar pack of resources containing scissors, thread, needles and locally produced cloth and beads
 - a list of the cost to the company for each item, e.g. each packet of beads.
- The groups decided on their company name and created a logo and mission statement. There were many good ideas, e.g. the mission statement of the Fashionable Ladies Company: 'helping to make you look even more beautiful'.
- Each group assessed the skills of members and chose a managing director and directors of marketing, finance and production.
- Each company made three or four prototype products. The array of products from the five companies included jewellery sets; clothing; bags; and even shoes, which had been cleverly constructed using cardboard with the cloth and beads.
- Raw material costs for each product were calculated. The finance directors used percentage mark-ups on these costs to help decide three different prices for each product.
- The marketing directors devised the marketing mix for the products and created advertising materials.
- Each company chose its best two products to display for the market research activity. All participants, plus the trainers and adults present, voted for their favourite product from each company and indicated the price they would be willing to pay.
- The groups were then given sales figures and worked out financial projections.
- Lastly, all groups told their 'company story' in a five-minute presentation to the other groups, adult trainers and helpers.



▲ Examples of African fabrics and beads

CASE STUDY 2

The Bee Business Enterprise Company

Type and location of company

The Bee Business Enterprise Company was a school-based company, run for nine months by eight members. It traded as a limited company, selling shares.

The business idea

The company's founders had heard about the difficulties faced by bee populations, due to disease and fewer wild flowers as sources of food. They decided to promote understanding of the importance of bees and make and sell 'bee-related' products in school and to customers at local trade fairs.

Objectives

Objectives were to: make a profit for its shareholders; publicise the importance of bees; produce and sell products that would increase public understanding of the issue; encourage the planting of wild flowers.

Products

The company's products were: bracelets made from black, yellow and white beads, and key rings featuring bees; a range of hand-made cards with a packet of wild flower seeds inside.

The company story

The group started off by allocating director roles. Group members sold shares and ran a bake sale to raise funds for raw materials. The sales director ordered black, yellow and white plastic beads from a supplier found on the internet. The operations director bought wild flower seeds from a garden centre. The finance director worked on pricing. Everyone had an input into the launch presentation, planned for the school assembly. Posters were displayed in many areas in the school.

The launch went well and generated a lot of interest. The marketing director researched how much customers would pay for the products by using a questionnaire and pictures of example products. The teacher and business adviser were pleased with progress, and the detailed business plan.

However, problems started to arise. The products were fiddly to make – each key ring took 20 minutes – and quality control was a challenge. The trade fair was fast approaching and team members were torn between the need to meet schoolwork deadlines and produce items to sell. The artistic member of the group who was making the cards was ill and unable to join production sessions.

Bee Business missed the Christmas trade fair, which was to be the company's prime selling opportunity. The group held a crisis meeting to get ideas about how to move the company forward.

The team decided to run a 'pizza and production' session. Everyone in Bee Business took part and they produced 50 of each product. The sale was a great success and the team ended the term with more enthusiasm. They planned more sales at school, and attendance at spring trade fairs, as people might be thinking more about planting wild flowers in March than in December.

The local March trade fair was a success and Bee Business was widely praised for its products and its social objectives. Easter sales at school also went well. The team planned a presentation that would tell the story of Bee Business to a large audience, including their teachers and local business people.

The members of Bee Business agreed that they would pass the following comments on to other school enterprise companies.

- Running a company is challenging, even with a group of friends.
- Be careful when deciding to make a product. Make sure you know how long it will take to produce each item.
- Plan carefully for important events so you do not miss opportunities.

CASE STUDY 3

The Rural Zambia Pre-school

Type and location of company

Financed by a 'seed money' grant, this social enterprise was started by two young women in a village with no pre-school nearby.

Source of business idea

The women developed their idea after attending an entrepreneurship course which included an activity to identify local community needs. They also enjoyed interacting with young children and wished to develop careers in education.

Objectives

Objectives were to provide pre-school education to children who would be 'first generation educated' in their families; sustain and improve the enterprise using nominal fees from parents and grants from organisations; teach young children and prepare them for school (having had training helped by sponsorship).

Products

Pre-school education is provided to around 70 children aged between three and six. Half attend in the morning, half in the afternoon.

The company story

Initial demand was overwhelming and lack of space in the schoolroom limits numbers. Every day as many children play outside as there are in the school.

Local and international donations to the pre-school include books; stationery; and T-shirts, which are proudly worn as school 'uniform'. There are basic English and mathematics lessons, with opportunities for play and singing. Children are keen and fast to learn.

Finance, though, is an ongoing problem. Although fees are very low, parents often cannot pay. Despite this, children are never turned away. The women's income from the work is therefore uncertain.

The entrepreneurs are constantly busy. Older children are, however, willing to help the younger ones learn.

This social enterprise makes a real difference to the community. The entrepreneurs are proud of their achievement and respected in the area. They are building their careers and hope to expand and offer jobs to one or two teenage girls.



▲ Children in Zambia

CASE STUDY 4

The Loop Enterprise Company

Type and location of company

This was a school-based company run for 9 months by 12 members. Financed by selling shares, it traded as a limited company.

Source of business idea

Damage caused to the environment by plastic bag waste inspired this company's main product.

Objectives

Objectives were to: make a profit for shareholders; raise awareness of the dangers of plastic waste; provide an alternative to plastic carrier bags; develop members' leadership and teamwork skills.

Products

The company's products were: specially designed bags, made of recycled cotton, in two patterns; hand-made products made of recycled cloth, including hair-bands and pencil cases.

The company story

The business adviser helped members apply for jobs that would suit their individual attributes and qualities.

At the first meeting there were many ideas for the company's name. Eventually, members voted for one of three possibilities. 'Loop' was the most popular.

The marketing director, a talented young artist, provided the company logo and other design ideas. The main product would be a shopping bag to replace plastic carriers. Five possible designs were considered.

Market research was carried out – all members of the school were asked about possible products, designs and selling prices. This took time, but gained information that was current and specific to Loop's needs.

Some supermarkets were selling cotton carrier bags but Loop's sales director thought the company's unique designs could beat this competition. Research results confirmed two bag designs and a selling price of \$5.50. Potential customers also liked the idea of recycled textile products. The operations director ordered 300 bags printed with the two designs and Loop's logo, and started production of recycled textile items.

Loop sold 100 bags in the first two weeks. Members attended two trade fairs and the products were well received. However, sales then slowed. Some people said the price was too high, which worried company members. What had gone wrong with the market research? How should Loop move forward?

At the next meeting, the finance directors supported the current price because of the profit generated – bags selling at \$5.50 cost just \$2 to produce. Other members wanted the price reduced. Finally, a 'special offer' selling price of \$4 was agreed. At the next sale 50 bags were sold.

At the end of the company year, 100 bags were unsold. However, Loop made enough profit to pay shareholders a small dividend.

All the members agreed that running an enterprise had been an excellent learning experience – and more difficult than they had anticipated.



▲ A typical landfill site includes large amounts of plastic waste



▲ Examples of recycled cotton bags before branding

CASE STUDY 5

The Sparrow Company

Type and location of company

This limited company, based in an Indian city, had 24 members.

The business idea

Company members were concerned that in their city increasing urbanisation was destroying birds' habitats and food sources. The population of sparrows was shrinking and the team wanted to reverse this.

'Realising the endangered situation of the once resilient house sparrow has saddened and touched us. In our graduating year, we have chosen to use the opportunity given to us to attempt a change in public attitude and... woo the sparrow back home. The... Enterprise Programme is an entrepreneurial effort and a commercial undertaking. However, we at Sparrow have decided to infuse our company with a sense of corporate social responsibility by using this programme as a platform, dedicated to finding practical ways of inviting our avian companions back into the city.'

Objectives

Objectives were to: raise awareness of the need to take care of city birdlife; produce and sell products making a substantial profit; sell a bird box to at least half the school's students.

Products

Products, branded with the Sparrow logo, were: bird boxes or 'sparradens'; T-shirts, mugs and flip-flops; other 'sparraphernalia'.

The company story

Sparrow's marketing department carried out market research throughout the school, and with parents, to identify what 'sparrow-related' merchandise people would buy at what prices. The operations department searched for suppliers, focusing on cost and reliability.

In an assembly presentation to launch Sparrow, company members outlined why sparrows must be attracted back to the city. The launch was a great success. Students throughout the school bought T-shirts and flip-flops. Parents ordered bird boxes and mugs.

Initially, supply met demand but the company making bird boxes was slow to deliver the second order, causing some frustration. Company members also found that selling products clashed with some academic work.

Then things improved: supplier problems were resolved; Sparrow's sales objectives were met; shareholders were pleased with the return on their investment; and the company won a local conservation award.

When asked about their experience, company members agreed they had not realised how much time and effort would be involved in starting and running an enterprise. However, they have certainly played a part in enabling sparrows to return to the city.

1

Introduction to enterprise

TOPIC AIMS

Learners should be able to:

- ▶ demonstrate an understanding of what is meant by enterprise
- ▶ demonstrate an understanding of who stakeholders in an enterprise are
- ▶ demonstrate a knowledge of different ways for students to be enterprising in everyday life, both at school and at home.

Unit 1 introduces the idea of enterprise. It looks at what is meant by enterprise capability, especially in relation to taking and managing risks, being innovative and creative and demonstrating a positive attitude.

The unit also considers who the stakeholders of an enterprise are, including customers and consumers, employees and employers, suppliers, lenders, the local business community and local government.

The unit looks at different ways for students to be enterprising in everyday life, both at school, such as through using technology for learning, and at home, such as finding ways to earn money.

It is important to stress that the idea of being enterprising underpins the whole content of this book.

1.1 What is meant by enterprise

LEARNING OUTCOMES

Learners should be able to:

- ▶ demonstrate an understanding of the meaning of enterprise capability
- ▶ demonstrate an understanding of business enterprise
- ▶ demonstrate an understanding of social enterprise.

Key terms

Land: natural resources that can be used by an enterprise

Labour: skilled, semi-skilled and unskilled workers who can work for an enterprise

Capital: human-made aids to production



Skills signpost

Decision making is an important skill. You will be required to take many decisions throughout your life. Taking as many things into account as possible will increase the likelihood of making the correct decision.



Did you know?

Former British Prime Minister Winston Churchill was once asked what the difference was between a pessimist and an optimist. He said that a pessimist sees difficulty in every opportunity, whereas an optimist sees opportunity in every difficulty.

The meaning of enterprise capability

There are a number of features of enterprise capability, one of which is taking and managing risks.

Taking and managing risks

Enterprise involves decision taking. Somebody will need to take a decision in relation to the combination of factors of production: land, labour and capital. These factors can be used in different ways and a decision will need to be taken as to how they will need to be combined to produce a desired outcome.

The essential aspect of enterprise is that a decision will be taken to start something. This could be a business, but there are many other examples of enterprise activities. For example, a person might want to start a charity or an environmental pressure group. Another person might want to start some form of club or society, such as a sports club or a drama society.

Linked to decision making is taking and managing risks. If somebody takes a decision to start up an enterprise, there is no guarantee that it will be a success. For example, in many countries over half of the enterprises started in one year have failed by the end of the next year.



▲ A design enterprise that aims to make a profit



▲ A sports enterprise that does not aim to make a profit

ACTIVITY 1.1

Working in a pair or group, think of six examples of enterprises that have been started in your local area, including profit-making and not-for-profit enterprises. Find out as much as you can about each one.

It is possible to start off being enterprising at home or at school (see Unit 1.3 on ways for students to be enterprising in everyday life).

Key term

Risk: the possibility that events in relation to an enterprise do not turn out as expected

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of making decisions and taking risks.

Key terms

Business enterprise: a type of enterprise that usually has profit as its main objective

Creative: the introduction of something original and imaginative rather than imitated

Enterprise: a business organised and run by an entrepreneur who makes decisions and takes risks

Innovative: the introduction of something new or different

Positive attitude: the tendency to be optimistic

Social enterprise: a type of enterprise that does not usually have profit as its main objective



Study tip

When answering questions about the meaning of the term 'enterprise', make sure you understand that not all enterprises exist to make a profit.

Being innovative and creative

Another aspect of enterprise capability is the importance of being innovative and creative.

Being innovative includes coming up with new ideas and products, challenging traditional approaches and finding new ways of solving problems.

Being creative involves asking why something should, or should not, be done. Entrepreneurs need to be bold in terms of putting their creative ideas into practice.

A positive attitude

Another aspect of enterprise capability is a positive attitude. A positive attitude encourages optimism and motivates all those involved with an enterprise to strive for success. A positive attitude encourages constructive and creative thinking, optimism and the motivation to accomplish goals. It makes you more resilient, more creative and more likely to make better decisions.

Business enterprise

It is possible to distinguish between a business enterprise and a social enterprise.

A business enterprise is usually one that provides goods and services with the aim of making money, i.e. it is expected that a profit will be made as a result of the enterprise activity.

Social enterprise

Whereas a business enterprise usually aims to make a profit, a social enterprise does not have such an aim and social enterprises are usually not-for-profit organisations.

ACTIVITY 1.2

Working in a pair or group, think of as many examples as you can of enterprises that have started up in your area then disappeared. Think of possible reasons why these enterprises were not successful.

Key points

- 1 There are a number of key features of enterprise capability: making decisions and taking and managing risks, being innovative, being creative and having a positive attitude.
- 2 There are two different types of enterprise: business enterprises that usually aim to make a profit and social enterprises that are not-for-profit organisations that do not usually aim to make a profit.

Summary questions

- 1 Explain what is meant by the term 'enterprise'.
- 2 Distinguish between a business enterprise and a social enterprise.

1.2

Who the stakeholders of an enterprise are

LEARNING OUTCOMES

Key term

Stakeholders: various groups with a strong interest in a particular enterprise, including customers and consumers, employees and employers, suppliers, lenders, the local business community and the local government



Study tip

You need to be able to refer to a variety of different stakeholders in an enterprise. Make sure you understand that all stakeholders may not be equally important.

Key term

Customer: a person or organisation that buys goods and/or services from an enterprise



▲ Customers are stakeholders in an enterprise

Learners should be able to:

- ▶ demonstrate an understanding of the meaning of the term 'stakeholder'
- ▶ demonstrate an understanding of different examples of stakeholders of an enterprise, including:
 - customers and consumers
 - employees and employers
 - suppliers
 - lenders
 - the local business community
 - local government.

Stakeholders

A stakeholder is a person, group or organisation with an interest or concern in something, such as an enterprise. The stakeholders can affect, and/or be affected by, the enterprise's actions, objectives and policies. Sometimes this impact on stakeholders can be positive and sometimes it can be negative. It needs to be understood that not all of the stakeholders in an enterprise are necessarily equal. Some examples of key stakeholders in an enterprise are customers and consumers, employees and employers, suppliers, lenders, the local business community and local government.

Customers and consumers

Customers are not members of an enterprise, but they are very important to its survival and success. Customers buy the goods and services that are supplied by enterprises. Spending by these consumers generates income for enterprises. Of course, customers are not only individual people who purchase products from an enterprise; other enterprises and businesses can also be regarded as customers.

It is important for enterprises to understand the needs and wants of their customers. If enterprises produce unwanted goods and services that are not demanded by customers, they are likely to fail and go out of business. Enterprises operate in a world where consumers have increasing rights and protection and so most enterprises work very hard at promoting good customer relations.

Employees and employers

Employees are employed by an enterprise to help its activity in some way. An enterprise needs employees with a range of skills and knowledge and many will provide training to new employees to familiarise them with the policies and working practices of the enterprise (often called an 'induction').



▲ Employees are stakeholders in an enterprise

Key term

Supplier: businesses that provide resources to enterprises which allow them to produce goods and services



▲ Suppliers are stakeholders in an enterprise



▲ The local business community is a stakeholder in an enterprise

The managers of an enterprise can usually be regarded as employees, but if an enterprise is operated by the owner, that person can be regarded as the employer.

Suppliers

Suppliers are businesses that provide resources which allow enterprises to produce goods and services. These resources could include raw materials, component parts, tools and equipment, energy and a range of different services. It is important for good relationships to exist between enterprises and suppliers because they rely on each other. Enterprises require suppliers to provide quality resources at reasonable prices and to provide a reliable and flexible service; suppliers require enterprises to provide a constant flow of orders and to pay on time.

Lenders

Many enterprises may need to borrow funds from a financial institution to stay in business or to finance expansion. As a result, there needs to be a good relationship between an enterprise as the borrower and a financial institution as the lender. Enterprises need to know that they can go to a financial institution to borrow money if that becomes necessary. On their part, financial institutions need to know that they will get this money back from an enterprise, plus any interest that has been charged on the loan.

ACTIVITY 1.3

Working in a pair or group, research the type of support that can be offered by financial institutions in your area to enterprises in need of help.

The local business community

Enterprises will employ people from the local community, the exact number depending on the size of the enterprise, and so good relationships are likely to exist between an enterprise and the local business community. An enterprise may also require some input from local businesses for training, such as information about courses provided by local colleges and universities. Enterprises can also become involved in community life through the sponsorship of local sports teams or through helping to raise money for local charities.

ACTIVITY 1.4

Working in a pair or group, consider ways in which enterprises have been involved in your local community.

Local government

Enterprises may have to work closely with different agencies of local government. For example, this could include planning applications, especially where an extension of an enterprise is being considered, and the payment of taxes to local government.

Key points

- 1** Stakeholders are those people or organisations that have an interest in, or concern with, an enterprise.
- 2** There are many different examples of stakeholders, including customers and consumers, employees and employers, suppliers, lenders, the local business community and local government.

Summary questions

- 1** Explain what is meant by 'a stakeholder in an enterprise'.
- 2** Explain why a good relationship between an enterprise and its suppliers is important.

1.3

Ways for students to be enterprising in everyday life

LEARNING OUTCOMES

Key term

Enterprising: the showing of initiative, imagination, energy and resourcefulness



Did you know?

Albert Einstein (1879-1955) once said that anyone who has never made a mistake has never tried anything new.



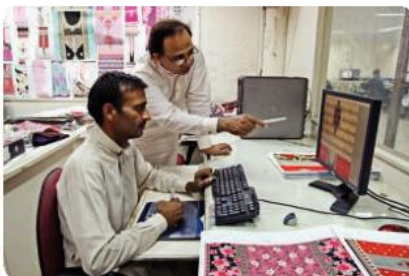
Study tip

When considering what is meant by communication, make sure you understand that there are many different forms of communication.



Skills signpost

Numeracy skills are crucial to enterprise, not only in relation to finance, but to all problems that require a solution.



▲ Using technology for learning

Learners should be able to:

- ▶ know different ways of being enterprising at school
- ▶ know different ways of being enterprising at home.

What does it mean to be enterprising?

Enterprising refers to the showing of initiative and the willingness to undertake new ventures and projects. These projects will be undertaken with boldness, energy and imagination. The enterprising person is likely to be resourceful and dynamic. There are different ways for students to be enterprising both at school and at home.

Ways of being enterprising at school

Using technology for learning

Technology can be used for learning, both inside and outside of school, in many different ways. For example, a student could be enterprising in terms of researching a number of different sources, making particular use of the internet as a learning tool. This could occur in a wide range of subjects. Technology is constantly changing, with rapid developments in relation to both hardware and software.

ACTIVITY 1.5

Working in a pair or group, consider different ways in which technology is useful to entrepreneurs. What are the most significant recent developments in such technology?

Working/learning as part of a team

Although the qualities and skills of individuals can be stressed, it is also important for people to be able to work with a partner and with people in a team. Teamwork is stressed in many activities at school and teamwork is also an important feature of the home. Learning within school can often involve group work, while at home learning will often be as part of a wider social group, i.e. the family.



▲ A guest speaker at an Enterprise Day



Study tip

When considering what is meant by communication, make sure you understand that there are many different forms of communication.



Skills signpost

When you are being enterprising at school, this can involve you in using a variety of different communication skills. These can include oral, visual and written forms of communication. You should be able and willing to use as many different forms of communication as possible.



▲ The importance of communication in enterprise

Schools may organise specific days which focus on being enterprising, such as Enterprise Days where guest speakers are often invited to give a talk and to organise interactive sessions. Some schools may even organise an Enterprise Week. Enterprise events can give students the opportunity to work in teams and come up with possible business opportunities. The emphasis is often on the investigation of possible creative and imaginative enterprise ideas.

ACTIVITY 1.6

Work in a group. Consider the advantages and disadvantages of working as part of a group.

Making reasoned evaluations

A key part of being enterprising, evaluation involves comparing different options before coming to a conclusion that is reasoned, logical and can be justified.

Developing new skills and using them in different situations

Critical thinking is an important part of being enterprising because critical thinking involves going outside and beyond the established and accepted ways of approaching a problem and involves the idea of ‘thinking smarter’. This should lead to improved problem solving and decision making, which is crucial in many school subjects. The ability and willingness to apply critical thinking to new contexts is a vital aspect of being enterprising.

It is also important to develop communication skills. The use of a range of communication skills will be important if somebody is going to be enterprising. These can include written and non-written forms of communication. Within the school context, it is important to be able and willing to use a variety of communication methods.

Numeracy skills should also be used effectively in enterprise. Numeracy is an essential skill for solving problems. (See Unit 6.4.)

Many people (at school and at home) operate in situations that are familiar to them, sometimes referred to as their ‘comfort zone’. Being enterprising, however, involves applying learning to new situations. Many important skills needed in enterprise are transferable: they can be used in different situations and contexts. This is why the Skills Signposts in this book are important.

ACTIVITY 1.7

Working in a pair or group, discuss which ways of being enterprising at school and in the home are likely to be the most important skills that are capable of being transferred to a real enterprise situation.

Problem-solving

The ability to solve problems is an important part of being enterprising. Many people see a problem as a challenge to be overcome and so approach it in a positive and imaginative way. This can be applied equally to problems at school and problems in the home. A student could be enterprising in looking at a particular problem from different perspectives. This might occur in a science or a mathematics lesson.



▲ A student in a school

Thinking creatively

To be enterprising, it is often important to think creatively about different ways to approach and solve a problem, i.e. finding creative solutions. Creative thinking is the process through which individuals come up with new ideas or new approaches. It is the process of repeatedly asking questions. This can be important in a school context. Entrepreneurs are often very creative people who are willing to go beyond traditional methods to achieve their objective. This will also often require them to think independently, i.e. not to follow what could be regarded as the accepted or established route.

A student could be enterprising in terms of thinking creatively about a particular topic or theme, such as in literature or in art. Creative and critical thinking is an important aspect of being enterprising and this is where a student takes the opportunity to think 'outside of the box', i.e. think of completely new ways to approach and/or solve a problem. This could occur in many different subjects, such as history or geography.

Taking the initiative or taking the lead

An important feature of being enterprising is the ability and willingness to take the initiative. This will often involve people leading others. This is certainly important in the school situation, and many people at school who are willing to take the initiative and lead others are rewarded, such as being given positions of responsibility.

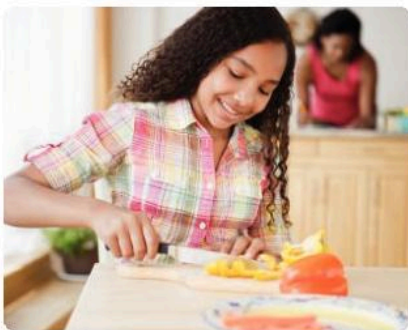
Organising activities

Students may often be involved in the organisation of particular activities at school, such as the organisation of a charity event to raise money for a local, national or international charity. This will give students valuable experience of what is involved in the organisation of an enterprise.

ACTIVITY 1.8

Working in a pair or group, think of as many different ways as you can in which you have been enterprising at school in the last six months. What do you think is the most enterprising thing that you have done at school recently.

Ways of being enterprising at home



▲ Being enterprising at home in the kitchen

It is not only at school that you can be enterprising. It is also possible to be enterprising at home as well. There are many different examples of how you can be enterprising at home.

Organising a household job

You can be enterprising by offering to do jobs at home. Examples of jobs outside include helping with the shopping or if you have a yard or garden, keeping the area clean and tidy or doing gardening jobs. There are also many examples of jobs inside the home, e.g. household cleaning and cooking.

Taking responsibility for younger children

If you are not the youngest in your family, an important way in which you can be enterprising at home is through looking after younger children. This will take some of the pressure off the adults and give younger members of the



▲ Being enterprising at home in the garden



Study tip

When answering questions about the meaning of the term 'enterprising', make sure that you are able to demonstrate that there are many different ways of being enterprising, such as within a school or home context.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of different ways of being enterprising.

family an opportunity to demonstrate maturity and responsibility for their actions.

Taking responsibility for pets

Many families have pets, some of which require regular attention, such as being groomed. If you have a family pet you could demonstrate responsibility by taking on the tasks that ensure its wellbeing. The ability to exercise due care, attention and control of a pet is an important responsibility.

Earning money for the family

If you are enterprising you might be able to bring money into the family. For example, you could charge a small fee for doing shopping for older or disabled people in the community.

ACTIVITY 1.9

Think about the different ways in which you have been enterprising at home in the last six months. Write an outline of three of these.

Key points

- 1 There are many different ways for students to be enterprising in everyday life.
- 2 These can be applied to both the school and home situation.

Summary questions

- 1 Explain what it means to be 'enterprising' in everyday life.
- 2 Outline different ways in which it is possible for a student to be enterprising (a) at school and (b) at home.

Unit 1 Practice questions

- 1 Identify **three** different ways of being enterprising at school or at home. (3)
- 2 There are different ways of being enterprising. Two of these are:
 - working/learning as part of a team
 - developing new skills and using them in different situations.
 Explain how you have used these two ways to be enterprising either at school or at home. (4)
- 3 Explain why 'problem solving' is an important way of being enterprising. (4)
- 4 Explain why the relationship between an enterprise and its customers needs to be a good one. (8)
- 5 Discuss whether enterprises always aim to make a profit. (10)

2

Setting up a new enterprise

TOPIC AIMS

Learners should be able to:

- ▶ understand the six stages of the enterprise process
- ▶ describe, compare and contrast different types of business organisation:
 - sole trader
 - partnership
 - limited company
 - co-operative
 - franchise
 - social enterprise: charities, not-for-profit organisations.

Unit 2 introduces some ideas about the setting up of a new enterprise. It looks at four key questions to ask when starting up an enterprise and then goes on to consider the six stages of the enterprise process. These include identifying the problem or need or want, exploring creative solutions, action planning, implementing the plan, monitoring progress and the evaluation of successes and failures.

The unit then goes on to look at different types of business organisation that can exist, including a sole trader, a partnership, a limited company, a co-operative and a franchise.

The unit also looks at the idea of social enterprise. This can include charities and not-for-profit organisations.

The focus of each of these types of business organisation is in relation to their relative advantages and disadvantages for a new enterprise.

LEARNING OUTCOMES

Learners should be able to:

- ▶ understand the six stages of the enterprise process.

Four key questions to ask about starting up an enterprise

There are four key questions to ask about the starting of an enterprise: Why? Who? What? How?

Why?

Many people start an enterprise because they want to:

- see if they can meet a challenge; gain a sense of achievement
- be in control (be their own boss; take the important decisions)
- become richer as a result.

Although many entrepreneurs start enterprises to make money, it is important to stress that many enterprises are not-for-profit organisations, e.g. charities, which aim to achieve social, rather than monetary objectives.

Who?

The personal qualities, entrepreneurial skills and resources available to the person starting the enterprise will, to a large extent, determine its success. (See Unit 3.1.)

What?

The term 'enterprise' can refer to businesses that aim to make a profit and also to a range of not-for-profit organisations, e.g. charities, clubs and societies.

How?

An enterprise can be organised in a variety of ways. An enterprise that exists to make money can be organised as a sole trader, a partnership, a limited company, a co-operative or a franchise. (See Units 2.2–2.4.)

The six stages of the enterprise process

It is possible to differentiate between six stages of the enterprise process.

Identifying the problem or need or want

The first stage in the enterprise process is to identify the problem that an enterprise aims to solve or the need or want that an enterprise aims to meet. If an enterprise has as its objective the solution of a problem, the existence of the problem needs to be identified. If an enterprise has as its objective the

satisfaction of particular needs or wants, these needs or wants will need to be clearly identified if the enterprise is to be successful in achieving its goals.

Exploring creative solutions

Once the problem or need or want has been identified, an enterprise will then need to explore possible solutions. These solutions may be easy to find or they may require creative and imaginative approaches with an enterprise having to go 'outside of the box' to arrive at an appropriate answer.

Key term

Action plan: a plan that outlines the actions required to achieve particular aims and objectives and which provides a way of monitoring progress.

Action planning

The third stage of the enterprise process will involve an enterprise planning how it intends to achieve its objectives.

Action planning is a process which helps to focus ideas and to decide what steps need to be taken to achieve particular goals. It involves setting clear objectives which are achievable and measurable, effectively prioritising the tasks that need to be taken and identifying the steps needed to achieve the stated goals.

Implementing the plan

Once the action planning stage of the enterprise process has taken place, an enterprise can then begin to implement the plan. An effective action plan will provide a clear timetable and a set of clearly defined steps to help the objective to be reached.

Monitoring progress

The fifth stage of the process is the monitoring of progress to judge how well the plan is being implemented and how well the objectives are being achieved, i.e. how well the plan is functioning. Monitoring the progress of the plan helps to ensure that the plan is being implemented as expected.

In order to monitor the progress of a plan, the following questions need to be asked:

- Has each step of the plan been implemented correctly?
- Has each step of the plan been implemented on time?
- Has the expected outcome materialised from the completion of each step?

The following additional questions may need to be asked, based on the answers to the above questions:

- Is more time required?
- Are more tasks required?
- Are more resources required?
- Was the plan realistic?
- What action needs to be taken?
- Does the plan need to change?



Did you know?

Benjamin Franklin (1706–1790), the US statesman, once stated that by failing to prepare, you are preparing to fail.



Did you know?

Yogi Berra (1925–2015), the US baseball coach, once stated that you have got to be very careful if you do not know where you are going because you might not get there.



Study tip

Monitoring the progress of a plan should not be confused with its evaluation. Monitoring a plan helps to ensure that the solution is being implemented as expected. Evaluating the solution occurs after the plan has been implemented and provides an indication of the successes and failures of the plan.

Coursework link

You need to follow the six stages of the enterprise process when working on your enterprise project in Component 2 Coursework.

Evaluation of successes and failures

The evaluation of a plan occurs after it has been implemented. It is important to allocate time for the formal evaluation of a plan because virtually every enterprise project is characterised by some successes and some failures. It is useful to identify the key factors that affected the success or failure of a plan because this will enable recommendations for improvements to be made. The positive and negative outcomes of each part of the plan can be evaluated, as well as any differences between predictions made in planning and actual events.

Key points

- 1 There are four key questions to ask when starting an enterprise: why?; who?; what?; how?
- 2 There are six distinct stages of the enterprise process: identifying the problem or need or want; exploring creative solutions; action planning; implementing the plan; monitoring progress; evaluation of successes or failures.

Summary questions

- 1 Explain why action planning is an important stage in the enterprise process.
- 2 Discuss why it is important to evaluate the successes and failures of an enterprise.

2.2 Sole trader and partnership

LEARNING OUTCOMES

Learners should be able to:

- ▶ describe, compare and contrast a sole trader and a partnership, in relation to their legal status
- ▶ describe, compare and contrast a sole trader and a partnership in relation to their advantages and disadvantages for a new enterprise.



▲ A sole trader enterprise

Key term

Business organisation: an organisation that has been established with the purpose of producing and selling particular goods and services

Key term

Sole trader: a person responsible for setting up and running an enterprise that he or she runs alone



Study tip

Make sure you fully understand the implications of unlimited liability for sole traders.

Sole trader

Sole traders are people who run what is usually a relatively small business by themselves. However, they may employ a number of people.

Advantages for a new enterprise

- Sole trader enterprises are simple to establish and there is usually no need to obtain special legal documents.
- The sole trader (owner) can take decisions independently and so have complete control of the enterprise.
- Any profit made after tax can be kept by the owner.
- There is usually no legal requirement to publish accounts.
- There can be greater flexibility in the hours of work.
- Sole traders can usually provide a more personal service to customers.
- In some countries, sole traders may receive government support.

Disadvantages for a new enterprise

- There is unlimited liability, which means that the owner is totally responsible for any debts that the enterprise has and can be forced to sell personal possessions to pay them.
- There may be difficulties in raising enough finance. For example, financial institutions are less likely to lend money to sole traders than to larger businesses because sole traders are more likely to go bankrupt.
- The owner may lack the skills or experience to make the business decisions.
- It may be difficult to compete with larger firms, for example if a larger firm can negotiate discounts on purchases because it buys in larger quantities.
- As a sole trader enterprise is an unincorporated business, the owner can be personally taken to court if there is a dispute.



Skills signpost

List the key skills required to be a successful sole trader. Think about the extent to which you possess, or could develop, these skills.



▲ Two of the partners in a partnership



Study tip

Make sure that you fully understand the differences between an ordinary partner and a limited partner.

Key term

Partnership: a type of business organisation owned by two or more people

Key term

Unlimited liability: the need for sole traders and partners (except limited partners) to pay the debts of an enterprise out of their personal funds

ACTIVITY 2.1

Working in a pair or group, list the sole traders operating locally in your area. Find out as much as you can about three of them.

Partnership

A partnership is a type of business organisation owned by two or more people. The maximum number of partners varies between countries, but is often 20.

Advantages for a new enterprise

- Partnerships are relatively easy to form. They usually require a legal contract, signed by all partners, called a deed of partnership.
- Having more than one owner makes it easier to raise money.
- There is usually no need to publicly disclose a partnership's accounts.
- A partnership may be able to negotiate discounts with suppliers, gaining cost advantages known as economies of scale.
- Partners can specialise in particular aspects of the work.
- Partners can share the decision making.

Disadvantages for a new enterprise

- Ordinary partners have unlimited liability: they may be asked to sell personal possessions if the partnership gets into debt. In some countries it is possible to be a limited partner – someone with limited liability.
- A partnership may not be large enough to gain economies of scale.
- Disagreements between partners can make decision making difficult.
- Any decision made by one partner is legally binding on all partners.
- If one of the partners leaves or dies, the partnership is dissolved.
- Profits have to be shared among all the partners.
- Like sole traders, partners can be sued by customers.

ACTIVITY 2.2

Working in a pair or group, list the key skills partners will need in order to keep disagreement and argument to a minimum.

ACTIVITY 2.3

Working in a pair or group, list the partnerships operating locally in your area. Find out as much as you can about three of them.

Key points

- 1 A sole trader is one type of business organisation for a new enterprise with various advantages and disadvantages.
- 2 A partnership is another type of business organisation for a new enterprise which has some advantages compared to a sole trader, but which also has some disadvantages.

Summary questions

- 1 Compare the advantages and disadvantages of a sole trader as an appropriate type of business organisation for a new enterprise.
- 2 Explain why a sole trader might decide to take on partners and establish a partnership.

2.3 Limited company and co-operative

LEARNING OUTCOMES

Key term

Limited company: a company that is legally independent from its shareholders, who as a result have limited liability

Key term

Limited liability: legal protection that allows shareholders to be liable for company debts only up to the value of their shareholding

ACTIVITY 2.4

Working in a pair or group, find out as much as you can about three limited companies that operate in your country.



Study tip

Make sure you understand the similarities and differences between a private limited company and a public limited company.



▲ A meeting in a limited company

Learners should be able to:

- ▶ describe, compare and contrast a limited company and a co-operative in relation to their legal status
- ▶ describe, compare and contrast a limited company and a co-operative in relation to their advantages and disadvantages for a new enterprise.

Limited company

A limited company has limited liability. This means that people who put money into a company can only lose this money if the company goes bankrupt; their own personal possessions are not at risk. There are two types of limited company: private limited company, which is usually the smaller of the two types, and public limited company.

The shares of a private limited company cannot be bought by members of the public. A minimum and maximum number of shareholders is often set.

The shares of a public company are sold on a stock exchange. They can be bought by members of the public. There is usually a minimum amount of capital required to establish a public limited company.

Advantages for a new enterprise

- Limited companies can usually raise more money than sole traders or partnerships. Setting up as a limited company (especially a public limited company) is particularly appropriate if the enterprise plans to become large.
- Shareholders have limited liability, i.e. they cannot lose their personal possessions if the company goes bankrupt.
- Limited companies are usually able to gain economies of scale.
- A limited company will continue even if one of the owners dies.

Disadvantages for a new enterprise

- The accounts of a limited company must be made available to the public.
- The original founders may lose control as people buy shares.
- A minimum amount of capital is needed to establish a limited company.
- Profits have to be shared among a large number of people.
- Shares of private limited company cannot be sold to the general public. This can limit the amount of capital that can be raised.
- There is often a divorce of ownership and control.
- Owing to their large size, limited companies may be inflexible.



▲ A co-operative enterprise

Co-operative

The two main types of co-operative are a consumer or retail co-operative and a producer or worker co-operative. A consumer or retail co-operative is owned by its members. These are members of the public, many of whom regularly use the co-operative. These people buy shares in the co-operative, but they are usually limited to one vote at shareholder meetings, however many shares they have. The profit is not usually distributed to shareholders, but to the shoppers who use the co-operative according to how much they have spent over a particular period of time, usually a year.

A producer or worker co-operative is owned by some or all of the workers in a particular firm. The profit is usually distributed to the workers who are its shareholders. Examples of such worker co-operatives can be found in many different kinds of agricultural activities in many countries, such as where farmers come together in a particular area to control the production and distribution of produce.

Other types of co-operative, e.g. in banking and insurance, exist in some countries.

Key term

Co-operative: a type of business organisation owned by its customers or its employees



Study tip

Make sure you are able to distinguish clearly between consumer and producer co-operatives.



Study tip

Make sure you are able to show how co-operatives are both similar to, and different from, other types of company.

Advantages for a new enterprise

- Shareholders in a consumer or producer co-operative have limited liability.
- In a producer co-operative, the workers are the shareholders, so they are less likely to be involved in disputes and more likely to work hard.
- There is usually democratic ownership, with one member, one vote.
- In a consumer co-operative, the business is run in the customers' interests.
- Many co-operatives are keen to involve the local community in their work.
- Co-operatives may be more ethical than other businesses.

Disadvantages for a new enterprise

- Shares in a co-operative are not usually sold on a stock exchange. This can limit the amount of capital that can be raised.
- In a producer co-operative, the workers can find it difficult to raise enough capital to set up a new enterprise.
- In a producer co-operative, the workers often lack the necessary experience to make the enterprise successful, so they have to appoint managers.

ACTIVITY 2.5

Working in a pair or group, find out about co-operatives in or near your area. Choose one and write a report on it that you could present to the class.



Did you know?

The first successful co-operative is usually considered to be the Rochdale Equitable Pioneers Society which opened a shop in 1844. Its principles, such as voluntary and open membership, democratic ownership and education for members, are still important in many co-operatives throughout the world. They are still known as the Rochdale Principles.



▲ The Amul plant in India showing the milk silos

CASE STUDY

The Amul Dairy Co-operative

Amul is a dairy co-operative established in India in 1946. Today it is jointly owned by over three million milk producers in India. India is the world's largest producer of milk and milk products and Amul is the largest food brand in India. It has now ventured into markets overseas. Amul products are now available in over 60 countries in the world.

The co-operative works directly with the farmers, at the village and district level, collecting and processing the milk, and it also organises all the marketing. This has the advantage of avoiding competition between farmers and saving on money that would otherwise need to be spent on advertising. The key feature of the Amul co-operative is that the entire value-chain from the farm to the consumer table is owned by the farmer.

Extension questions

- 1 Explain the potential advantages of organising this enterprise as a co-operative.
- 2 Explain why it is important for such an enterprise to stress not only production but also distribution and marketing.

Key points

- 1 A limited company (either a private limited company or a public limited company) is one type of business organisation for a new enterprise with various advantages and disadvantages.
- 2 A co-operative is another type of business organisation for a new enterprise with various advantages and disadvantages.

Summary questions

- 1 Compare the advantages and disadvantages of a limited company (including both a private and a public limited company) as an appropriate type of business organisation for a new enterprise.
- 2 Discuss why a new enterprise might decide to set up as a co-operative.

2.4 Franchise and social enterprise

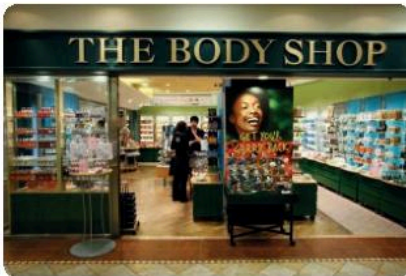
LEARNING OUTCOMES

Learners should be able to:

- ▶ describe, compare and contrast a franchise and a social enterprise in relation to their legal status
- ▶ describe, compare and contrast a franchise and a social enterprise in relation to their advantages and disadvantages for a new enterprise.

Franchise

A franchise arrangement allows an enterprise to purchase the right to sell a particular product. The enterprise, known as the franchisee, makes a payment to the owner of an established branded product, known as the franchisor. The franchisee can then sell the product and take advantage of the marketing provided by the franchisor. Four of the most famous franchises in the world are McDonalds, the Body Shop, Burger King and Pizza Hut.



▲ A franchise enterprise

Key terms

Franchise: an arrangement whereby one company gives the right to another company to supply its products

Franchisee: the enterprise allowed by a company to conduct business using that company's name and brand

Franchisor: the company that allows another company to conduct business using its name and brand

Advantages for a new enterprise

- The franchisee is able to sell a well-known and recognised branded product and so the revenue received is likely to be significant.
- Some of the advertising will be carried out by the franchisor, keeping down the costs of advertising by the franchisee.
- Such an arrangement is likely to be less risky than starting up an enterprise with a new name because the branded product will be familiar to many people and so there is likely to be less risk of failure.
- Certain services, such as training and some aspects of administration, may be carried out by the franchisor, saving the franchisee money.

Disadvantages for a new enterprise

- The franchisee will need to make a payment to the franchisor for the franchise rights and this payment will usually still have to be made even if the franchisee makes a loss.
- In addition to this initial fee, the franchisee will usually be required to pay a percentage of the sales revenue to the franchisor every year.
- The franchisor may strictly control the activities of the franchisee, giving it little choice in certain aspects of business, such as in relation to the design of the premises, the use of suppliers and possibly the area of operation; these aspects of a franchise agreement can be regarded as very restrictive by the franchisee.
- The franchisor has the power to withdraw the agreement and sometimes can prevent the franchisee from using the premises.



Study tip

Make sure you understand the difference between a franchisee and a franchisor. These two terms are often confused with each other.



Did you know?

Fred de Luca started the SUBWAY sandwich chain in the United States in 1965. He was 17 years old. He borrowed US\$1000 to open one shop. In 1974 he started selling franchise opportunities. Now there are over 30 000 SUBWAY outlets worldwide.



▲ A SUBWAY store

ACTIVITY 2.6

Find out as much as you can about two franchises that operate in your country. They will usually have very informative websites.

Key term

Social enterprise: a type of organisation that does not have profit as its main objective

CASE STUDY

SUBWAY

Be part of a Winning Team with the Number 1 Franchise

With more than 45,000 global locations, the SUBWAY system is the Number 1 Quick Service restaurant chain in the world. Each SUBWAY sandwich shop is focused on making great sandwiches, so great in fact that many SUBWAY customers have become franchise owners.

Here are some of the reasons for SUBWAY'S phenomenal success:

The sandwiches are customised just the way the customer wants.

The décor creates warm and inviting dining destinations.

SUBWAY products are products you will be proud to serve.

The nutritional value of SUBWAY food is very good.

The SUBWAY brand is committed to making its operations as environmentally and socially responsible as possible.

Contact us today to find out more about joining a winning team!

Extension questions

- 1 Outline the ways in which SUBWAY is trying to attract people to enter into a franchise arrangement with them.
- 2 Evaluate whether this franchise opportunity is likely to be a worthwhile enterprise.

Social enterprise

Social enterprises make their money from selling goods and services in a market, like any other enterprise, but they then reinvest their profits into the local community in some way. They therefore have the maximisation of social impact as their main objective rather than the maximisation of profit.

A charity is an example of a social enterprise. Charities raise money for a 'good cause', relying on donations and fundraising events for revenue. Some also run business enterprises, e.g. shops. In many countries registered charities do not pay tax.

A social enterprise is often a not-for-profit organisation. A profit may be made, but this profit is then reinvested into the organisation. Some schools, colleges and hospitals are not-for-profit organisations.

ACTIVITY 2.7

Working in a pair or group, find out about social enterprises in or near your area. Choose one and write a report on it that you could present to the class.



Study tip

Charitable organisations do not make a profit; they record a surplus.



Study tip

Make sure you are able to explain how a social enterprise differs from other enterprises.



▲ Staff from a social enterprise at work

CASE STUDY

Re-Cycle (Bikes to Africa)

Re-Cycle is based in Kenya, but it also operates in other parts of Africa including Namibia, South Africa, Malawi, Zambia and Madagascar.

Re-Cycle's mission is to collect unwanted bicycles in the UK and to send them to Africa for a new lease of life where they provide low cost and sustainable transport solutions, particularly in rural areas. Transport and development go hand in hand. Virtually everything traded must be transported, and almost everyone needs wheels to get to work or school. Simple, affordable transport generates income opportunities in developing countries, as well as saving lots of time and back-breaking work.

In Britain, millions of bikes are thrown away or lie unused in sheds, whilst many people in Africa have no access to transport of any kind. People spend hours each day walking to collect water, firewood or to access health care, school and employment. A bicycle lightens this burden and dramatically improves their wellbeing as well as work and education opportunities, helping to bring social change. A bicycle cuts travel time to a fraction and can carry passengers and heavy loads. Bikes give families the extra time to earn, learn and enjoy life.

Extension questions

- 1 Explain the various ways in which Re-Cycle can help a community.
- 2 Discuss the possible advantages and disadvantages of providing the bicycles through a not-for-profit organisation.

ACTIVITY 2.8

This unit has covered the six possible types of business organisation. Produce a wall chart summarising the main features of each one.

Key points

- 1 A franchise is a type of business organisation for a new enterprise which has some advantages compared to a sole trader, partnership, limited company or co-operative, but which still has some disadvantages.
- 2 Social enterprise is another type of business organisation for a new enterprise, but it is distinctive from a sole trader, partnership, limited company, franchise or co-operative because it is an example of a not-for-profit organisation.

Summary questions

- 1 Explain why a person might wish to set up a new enterprise as a franchise.
- 2 Explain why a person might wish to set up a new enterprise as a not-for-profit organisation.

Unit 2 Practice questions

- 1 Identify and explain **one** advantage and **one** disadvantage of setting up a new enterprise as a limited company. (4)
- 2 Explain the advantages and disadvantages of a sole trader and a partnership as alternative ways of setting up a new enterprise. (8)
- 3 Explain how a social enterprise is different from other types of business organisation. (8)
- 4 Discuss the arguments for and against setting up a new enterprise through a franchise arrangement. (10)
- 5 Discuss how important it is for an enterprise to effectively monitor the progress of its action plan. (10)

3

Enterprise skills

TOPIC AIMS

Learners should be able to:

- ▶ identify, explain and evaluate the personal attributes, characteristics and skills needed to be enterprising, including:
 - the practical skills and knowledge to create products and services
 - leadership
 - influencing skills
 - team building
 - delegation
 - problem-solving
 - prioritisation and time management
 - self-confidence
 - resourcefulness
 - innovation
 - taking initiative
 - taking calculated risks
 - taking responsibility
 - motivation and determination to succeed
 - creativity
 - perseverance
- ▶ analyse and evaluate how entrepreneurs use their enterprise skills
- ▶ identify and evaluate their own skills.

Unit 3 is concerned with the skills and personal attributes of enterprising people, such as leadership skills, self-confidence and the willingness to take calculated risks. It aims to help learners to recognise that some people have these skills and attributes naturally, whereas other people have to develop them, such as self-confidence. It is also important that learners understand how people combine and use these skills and attributes in many different ways.

The unit also introduces some particular examples of entrepreneurs who have been successful in their attempts to set up and establish a successful enterprise.

3.1 Skills of enterprising people

LEARNING OUTCOMES



Study tip

You need to understand that the term 'skills' can be used to cover attributes, characteristics and learned skills. Consider the fact that different people combine and use these enterprise skills in many ways.

Learners should be able to:

- ▶ identify, explain and evaluate the personal attributes and skills of enterprising people.

Skills and attributes needed by entrepreneurs

The practical skills and knowledge to create products and services

Entrepreneurs will have to possess the necessary practical and technical skills to put their ideas into effect. A good example of such an entrepreneur is Sir James Dyson.

CASE STUDY

Sir James Dyson

Sir James Dyson is a British inventor, industrial designer and founder of the Dyson company, established in 1993. He is best known as the inventor of the Dual Cyclone bagless vacuum cleaner.

Dyson had the practical skills and knowledge to design and create a vacuum cleaner that was unique because it did not require a bag to collect the dirt. Instead, he applied the idea of cyclonic separation, which avoided the weakness of traditional vacuum cleaners which lost suction power as the bag became full.

Extension question

Discuss the importance of entrepreneurs having the practical skills and knowledge to create products.

Key term

Leadership style: the distinctive way in which decisions are taken in an enterprise

ACTIVITY 3.1

Research two different enterprises and contrast the leadership styles of each. Write a report on these leadership styles.

Leadership

The quality of leadership is crucial to the successful running of an enterprise. Effective leadership involves:

- decisiveness and the ability to think ahead, especially in relation to seeing opportunities, anticipating problems, sensing change and responding to it
- exercising good judgement and taking the correct decisions
- the ability to make others believe in and want to share the leader's vision.

The best leaders are inspirational and have the type of personality and character that people can believe in. This encourages employees and other people to want to share the leader's vision and mission. Additional qualities that will help them to lead effectively are charisma, imaginativeness, energy, ambition and courage.



Study tip

You need to show you understand that there are different leadership styles and ways of exercising leadership in an enterprise.



Skills signpost

In Unit 1, you learned about the use of communication skills as a way of being enterprising. Understanding how entrepreneurs use a variety of different forms of communication will help you better understand this skill.

Key term

Team building: the process of improving the effectiveness and motivation of people working together in a team



Skills signpost

Unit 1 showed that working in teams is one way of being enterprising. Understanding how entrepreneurs build and use their teams will help you better understand the skill of working effectively in a team.

Key term

Delegation: where responsibility is passed down to others in an enterprise

There are different types of leaders. Three distinctive types of leader are:

- **autocratic** leaders, who assume a great deal of power and responsibility in an enterprise, taking all the major decisions
- **democratic** leaders, who encourage others in the enterprise to be involved in decision making as much as possible
- **laissez-faire** leaders, who allow employees to carry out a range of activities with relatively few guidelines or directions.

Influencing skills

It is vitally important that an entrepreneur has the ability to influence other people and the decisions that they make if the enterprise is going to succeed. This skill is vital in a number of different situations, such as negotiating, building a team and dealing with stakeholders.

The ability to influence others is dependent on having good interpersonal and communication skills. Interpersonal and communication skills include the tools that people use to interact and communicate with each other. They can include verbal communication, non-verbal communication, listening skills, decision making and assertiveness.

Team building

There is only so much that one entrepreneur can do by themselves, which means that it is difficult for an entrepreneur to flourish without help and support from others. It is therefore important to build an effective team and this will probably encourage enthusiasm and commitment in an enterprise, making success more likely.

ACTIVITY 3.2

Research two different entrepreneurs or enterprises. How important has team building been to their success?

CASE STUDY

Ambareesh Murty

Ambareesh Murty was in charge of eBay in India until 2011. He then decided to leave and start up his own enterprise, Pepperfry.com. This enterprise sells furniture and home products.

Murty stresses the importance of team building in his success. He argues that it is impossible for one entrepreneur to take all the decisions in an enterprise. He believes strongly in the importance of empowering people in an enterprise and encouraging them to take responsibility for the success of an enterprise.

Extension question

Discuss how effective teams can contribute to the success of an enterprise.

Delegation

Although responsible for taking key decisions in their enterprise, entrepreneurs will not be able to take every decision. They will need to delegate, which



Skills signpost

In Unit 1, you saw that problem-solving was one way of being enterprising. Understanding how entrepreneurs solve problems will help you better understand this skill.

ACTIVITY 3.4

Research two different entrepreneurs and analyse how important their ability to solve problems has been to the success of their enterprises.



© Phil Stafford/Shutterstock

▲ Richard Branson



Did you know?

On his last day at school, Richard Branson's Headmaster told him that he would either end up in prison or become a millionaire.

means passing some responsibility or authority to others in the enterprise to carry out specific activities.

ACTIVITY 3.3

Research two different entrepreneurs and analyse how important their ability to delegate effectively has been to their success.

Problem-solving

Entrepreneurs need to recognise the 'core' of a problem and have the ability to look at it from different perspectives in order to find a solution. Sometimes their solutions may be very radical or innovative, as entrepreneurs often have to 'think outside the box' if they and their enterprises are to achieve success.

Prioritisation and time management

Entrepreneurs need to be able to focus on the most important aspects of their work. This requires them to decide which aspects are most important and which aspects are relatively unimportant. If an entrepreneur allows themselves to get distracted by less important tasks, the implications for the success of their enterprise could be catastrophic. This is why an entrepreneur needs to prioritise which tasks are more important than others.

A successful entrepreneur will also organise their time as efficiently as possible in order to achieve what needs to be achieved in the time that they have.

CASE STUDY

Richard Branson

Sir Richard Branson is an English entrepreneur born in 1950. He is the founder of the Virgin Group, which comprises a variety of different companies such as Virgin Atlantic Airways, Virgin Trains and Virgin Mobile. His first enterprise, set up when he was 16, was a magazine called *Student*. His other enterprises have included Virgin Records, Virgin Media and Virgin Galactic.

Branson has always had a great deal of self-confidence. His interest in enterprise stems from a need to set himself massive challenges and to try as hard as possible to rise above them and achieve success. He emphasises that he has never started an enterprise that he has not been passionate about. He also stresses the importance of optimism and says that the problems he has faced intensified his determination to be successful.

Extension question

Consider why self-confidence is crucial to the success of an entrepreneur such as Richard Branson.

available. Effective time management is absolutely crucial to the success of an enterprise as it ensures that time is not wasted.

Self-confidence

The leader of an enterprise is likely to have a great deal of self-confidence, and this confidence can inspire confidence in the people around them. It is important that an entrepreneur is confident in themselves, especially in their ability to succeed, and in their product and their enterprise. An entrepreneur is convinced that their business idea will succeed. Their confidence about their ability, their product and enterprise helps others to believe in them and reflects positively on the enterprise's reputation.

Some people are naturally self-confident. Other people are less naturally confident, which means that they have to develop this skill, just like they would develop any other skill, in order to succeed as an entrepreneur.

ACTIVITY 3.5

Research two different entrepreneurs. How important has their resourcefulness been to their success?



Skills signpost

As discussed in Unit 2, thinking creatively and independently is a way of being enterprising. Understanding how entrepreneurs do actually work creatively will help you better understand the need for creativity when being enterprising.

Key term

Innovation: the process of putting a new idea into practice



Study tip

Make sure you can demonstrate that you clearly understand the difference between an invention, which is a totally original idea, and an innovation, which is the process of putting a new idea into practice.

Resourcefulness

To achieve success, entrepreneurs need to have (or be able to gain) various resources that are necessary to the success of their enterprises. Resourcefulness also includes the ability to use the available resources to meet new and different situations.

CASE STUDY

Shimi Shah

Shimi Shah has been involved in financial investments in the United Arab Emirates (UAE) for over 15 years. Her resourcefulness has enabled her to start a venture capital and advisory business, Carousel Solutions.

Shah has stated that, contrary to the impressions of those outside the Middle East, the UAE now 'assists women greatly and has a lot going for female entrepreneurs'. She says that funding for early-stage enterprises remains a challenge locally, but adds that the more resourceful entrepreneurs can eventually get established, utilising the proactive female business network in the country.

Extension question

Consider why resourcefulness is important to the success of an entrepreneur.

Innovation

Innovation is the process of putting a new idea into practice. There are actually two types of innovation:

- **product innovation**, where a new product is brought into the marketplace
- **process innovation**, where new ways of doing something are introduced.

Entrepreneurs are often innovative. They are continually trying to come up with new ideas and develop new products. Many challenge traditional or orthodox approaches to problems and create new solutions. Steve Jobs, the founder of the technology business Apple, stated that innovation was the most important attribute that distinguished a leader from a follower.

ACTIVITY 3.6

Research two entrepreneurs. How important has their ability and willingness to take the initiative been to their success?



Skills signpost

Unit 1 explored willingness to take the initiative as being a way of being enterprising. Understanding how entrepreneurs do actually take the initiative will help you better understand this skill.

ACTIVITY 3.7

Research two different entrepreneurs. Analyse how important their willingness to take calculated risks has been to their success.

CASE STUDY

Steve Jobs

Steve Jobs was an American entrepreneur. He was born in 1955 and died in 2011. He was the co-founder, chairman and chief executive officer (CEO) of Apple.

Jobs is regarded as having been an important pioneer of the personal computer revolution. He oversaw the development of the iMac, iTunes, the iPod, the iPhone and the iPad. Among other things, Jobs has been described as a visionary, the father of the digital revolution and a master of innovation.

Extension question

Research Steve Jobs and explain why he has been described as a master of innovation.

CASE STUDY

Nkemdilim Begho

Nkemdilim Begho is the Managing Director of the Nigerian IT business Future Software Resources and the winner of the 2012 Etisalat Nigeria Prize for Innovation. She believes that innovation in Africa can be improved by supporting anyone who has an innovative idea, and that prizes for innovation help to provide this support.

Extension question

Discuss how prizes and competitions can support innovation.

CASE STUDY

Anya Cherneff

Anya Cherneff is a co-founder of Empower Generation in Nepal. This enterprise aims to encourage widespread adoption of clean energy in developing countries by connecting female entrepreneurs and technology providers. Cherneff believed that women in Nepal had limited opportunities. She took the initiative to widen these opportunities by enabling female entrepreneurs in developing countries to develop their own clean energy enterprises.

Extension question

Consider why it is important for entrepreneurs like Cherneff to take the initiative.

Willingness to take the initiative is crucial to an enterprise's success. Entrepreneurs should not wait to see what happens, but should be bold and decisive. They need to be proactive rather than reactive, which means that their judgement is vitally important to their success.

Taking calculated risks

Unit 1 discussed the fact that risk is at the heart of enterprise. There are no guarantees of success. No matter how strongly an entrepreneur believes in the likelihood of a product succeeding, the customers will ultimately decide whether an enterprise is a success or not.



Skills signpost

Unit 1 discussed the fact that a willingness to lead is one way of being enterprising. Understanding how entrepreneurs exercise leadership will help you better understand the skill.

ACTIVITY 3.8

Research two different entrepreneurs. How important has their determination to succeed been to their success?



Study tip

You need to show you understand the link between self-confidence and the potential success of an enterprise.

It has been estimated that approximately one in five of new products introduced into the marketplace is likely to be successful, which means that there is an 80% risk of a new product failing. Despite this, entrepreneurs take the risk of launching new products and enterprises in the knowledge that their product or enterprise may fail. This is known as a calculated risk.

At the heart of the calculation is the relationship between risk and reward. Unit 2 considered the rewards facing an enterprise and these potential rewards often encourage entrepreneurs to take a calculated risk.

One important aspect of taking a calculated risk is that, if the enterprise or product fails, the entrepreneur must learn from this experience.

CASE STUDY

Jennifer Liu

Jennifer Liu is an entrepreneur in Hong Kong. In 2003, Hong Kong's economy was badly affected by the outbreak of severe acute respiratory syndrome (SARS), which killed almost 300 people in Hong Kong. While many businesses in the city closed, Liu started a coffee chain, Habitu.

This was a calculated risk, as SARS had a huge effect on business confidence in Hong Kong, but Liu was determined to make the enterprise a success. Habitu now has 20 shops and plans to open more.

Extension question

Discuss why it is often important for an entrepreneur to be willing to take a calculated risk.

Taking responsibility

To succeed, entrepreneurs must be able and willing to take responsibility, especially when their enterprise experiences difficulties. This means that they must be accountable for what is going on in an enterprise.

Motivation and determination to succeed

Successful entrepreneurs are motivated and determined to succeed. Many businesses collapse, especially during the first year of existence, so it is crucial to the success of an enterprise that the entrepreneur remains committed to, and passionate about, what the enterprise stands for. They must focus on their vision for the enterprise and what needs to be done to achieve it, and this focus drives many entrepreneurs to succeed.

CASE STUDY

Frans Aupa Indongo

Frans Aupa Indongo was an entrepreneur before Namibia gained independence. He was determined to be successful, although the apartheid regime at the time made this very difficult for black entrepreneurs. He started a brick-making enterprise in the 1950s then diversified into other enterprises, including clothing and sugar. His enterprises now employ over 1000 people in Namibia.

Extension question

Discuss why Indongo is a good example of the importance of determination to succeed to a successful entrepreneur.

CASE STUDY

Gossy Ukanwoke

Gossy Ukanwoke is the founder of Nigeria's first private online university. He started a social networking site called Student Circle when he was still at school. The success of that enterprise encouraged him to create an online university.

Ukanwoke recognises that there are a lot of challenges that he needs to rise above in order to succeed. He describes his work as an entrepreneur as an ambitious journey filled with risks and rewards. He strongly believes in the importance of higher education and intends to develop a global university.

Extension question

Explain how a determination to succeed has been crucial to Ukanwoke's entrepreneurial work.

ACTIVITY 3.9

Research two entrepreneurs and analyse how important their creativity has been to the success of their enterprises.

Creativity

An important aspect of entrepreneurship is thinking creatively, such as asking why something should or should not be done. Entrepreneurs often have original and creative ideas, but it can be challenging to put such ideas into practice and make them work. This can often require boldness and confidence to overcome the fear that the idea will fail. Edwin Land, inventor of the Polaroid camera, said 'an essential aspect of creativity is not being afraid to fail'.

CASE STUDY

Tendai Theresa Mashanda

Tendai Theresa Mashanda is an entrepreneur in Malawi. She owns Tindozi d'Afrique, an arts and crafts business selling items produced by African artists, which she first opened in 2007.

Mashanda's vision is to promote and market African art and craft products, especially those made by young people and women who do not have access to markets in their own countries.

Extension question

Discuss how creativity can be an important element in the success of an enterprise.

Key term

Perseverance: the determination and persistence to achieve something despite experiencing difficulties

Perseverance

Entrepreneurs need to persevere, especially when their enterprise is experiencing difficulties. Perseverance is the refusal to give up, which means that an entrepreneur will continue to aim to achieve success even if they experience obstacles. Having a vision is so important because it gives an entrepreneur goals to work towards.

CASE STUDY

Madinah Nalukenge

Madinah Nalukenge runs a catering business in Kampala, the capital of Uganda. It makes a profit of up to US\$3000 a month.

Nalukenge is a 34-year-old single mother and the success of the enterprise is a great source of pride for her, especially as some of her enterprise projects in the past have failed. She stresses the importance of perseverance and the need to stay focused if success in enterprise is to be achieved.

Nalukenge is proud to be part of a growing trend in Africa where more women are running enterprises than ever before. According to research carried out by the World Bank, Africa has a higher growth rate of female-run enterprises than anywhere else in the world.

Extension question

Consider the importance of perseverance to the success of entrepreneurs.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each of them of the various skills and personal attributes that have been covered in this unit.

Coursework link

You will be given the opportunity to identify and evaluate your own enterprise skills during the enterprise project.

ACTIVITY 3.10

Research two different entrepreneurs and analyse how important their perseverance has been to their success.

Key points

- 1 The skills, characteristics and attributes discussed in Unit 3.1 are some of the most important attributes or skills needed to be entrepreneurial.
- 2 The particular entrepreneurs given as examples in this unit demonstrate the importance of such skills and attributes to their success.

Summary questions

- 1 Discuss why it is important for an entrepreneur to have the practical skills and knowledge to create goods and services.
- 2 Explain why an entrepreneur's team-building skills are important to the success of an enterprise.
- 3 Discuss the importance of delegation to the success of an entrepreneur.
- 4 Explain why self-confidence is an important quality of a successful entrepreneur.
- 5 Discuss the reasons why resourcefulness is a crucial skill needed in order to be enterprising.
- 6 Explain why it is important that an entrepreneur needs to be able to take calculated risks.
- 7 Discuss the reasons why it is important for an entrepreneur to be willing to take responsibility.
- 8 Explain the reasons why an entrepreneur needs to be determined.

3.2 Behaviours of entrepreneurs

LEARNING OUTCOMES

Learners should be able to:

- ▶ analyse and evaluate how entrepreneurs use their enterprise skills.

You need to be able to analyse and evaluate the behaviour of entrepreneurs from your local community and in the rest of the world.

The following case studies are two examples of entrepreneurs from around the world.

CASE STUDY

Attoysius Attah

In 2013, Alloysius Attah co-founded Farmerline, which is a Ghanaian software business. It creates technological solutions to enable farmers and other rural businesses to access up-to-date information about markets and agriculture.

From the outset, Attah was determined to be a success and to give back to society. As a child, he lived with his aunt who was a small-scale farmer, so his vision for Farmerline is to give farmers across Africa the tools that they need to become prosperous and more enterprising.

Farmerline's software empowers farmers by helping them to increase their farms' productivity, improving their income, and to access global markets, giving them a much wider range of potential customers. It also helps them learn more about sustainable farming practices and apply global certification standards to their farms. The enterprise's software is also used by governments and charitable organisations.

By 2017, Farmerline had turned a profit for two years and had reached hundreds of thousands of users throughout West Africa. It works with Echoing Green, a social innovation fund, and the Miller Center for Social Entrepreneurship, which helps social entrepreneurs. The enterprise has also received a number of awards, including a 2016 SEED Award for Entrepreneurship in Sustainable Development.

Extension questions

- 1 Explain how Farmerline uses communication technology to achieve its aims.
- 2 Discuss the role that an entrepreneur's vision can play in the success of their enterprises.

CASE STUDY

Hooi Ling Tan

Hooi Ling Tan is a co-founder of Grab, the business responsible for GrabTaxi, which is a taxi-hailing app in South east Asia. In 2011, she and her co-founder created a business plan for a mobile app that would connect customers directly to taxi drivers via phone. Their idea came second in a Harvard Business School competition and, by 2012, the app had launched in Malaysia. By 2017, GrabTaxi was available in six South east Asian countries, including Singapore, Thailand, Indonesia and Myanmar.

Hooi Ling Tan stresses the importance of entrepreneurs having a unique idea and the determination to make it succeed. She also enjoys having the ability to make decisions and shape the future of Grab, which she lacked in her previous jobs. Tan may be the chief operating officer (COO) of Grab, but she thinks of herself as a 'plumber', dealing with things behind the scenes. She likes to focus on the enterprise's products, people and customers.

Tan's latest project is GrabHitch, a new car-sharing app that the enterprise is testing in Singapore. She feels strongly about contributing to society and wants to ensure that female customers are able to get around their cities safely, especially at night. GrabHitch gives its customers the option to choose drivers who are the same gender as them.

Extension questions

- 1 Explain how Hooi Ling Tan has developed an enterprise that is distinctive.
- 2 Discuss the challenges that Grab faces in making consumers more aware of its services.

ACTIVITY 3.11

Select two successful entrepreneurs, one from your own country and one from another country. Research the skills and personal attributes that have enabled them to become successful. Write a report that you can present to your class.

ACTIVITY 3.12

Find out about some entrepreneurs in your local community. Make a checklist of the attributes and skills covered in Unit 3.1, then use the checklist to identify the skills displayed by each entrepreneur.

Key points

- 1 These examples of entrepreneurs display some of the variety of personal attributes and skills needed to be successful.
- 2 These examples also show what can be achieved when an entrepreneur is determined to be a success.

Summary questions

- 1 Analyse the behaviour necessary for an entrepreneur to be successful.
- 2 Discuss the similarities and differences between the achievements of the two entrepreneurs in the case studies.

Unit 3 Practice questions

- 1** Identify and explain **two** personal attributes, characteristics or skills that are needed to be a successful entrepreneur. (4)
- 2** Explain why it may sometimes be necessary for an entrepreneur to take a calculated risk. (4)
- 3** Explain why effective (i) team-building skills and (ii) problem-solving skills are needed to be a successful entrepreneur. (6)
- 4** Discuss how one entrepreneur you have studied has used their personal attributes, characteristics and learned skills to be successful. (10)
- 5** Evaluate the likely importance of self-confidence, resourcefulness and a determination to succeed to the success of an entrepreneur. (15)

4

Business opportunities, responsibilities and risk

TOPIC AIMS

Learners should be able to:

- ▶ understand how opportunities for enterprise arise
- ▶ explain the reasons why enterprises and entrepreneurs take and accept risk, and how risk can be dealt with
- ▶ understand why laws and regulations are needed to protect stakeholders
- ▶ understand the ethical considerations of enterprise, such as in relation to how an enterprise may have an impact on communities and society, ethical considerations within enterprise, i.e. choosing to run an enterprise following certain moral values and beliefs and the impact of ethical considerations on the operation of an enterprise.

Unit 4 introduces some ideas about how opportunities for enterprise may arise, such as changing needs or wants for a product, a change in the ability of enterprises to meet needs or wants, advances in technology or changes in government policy. These opportunities for enterprise may be local, national, international or global.

The unit also looks at the risks involved in enterprise and why enterprises and entrepreneurs take and accept risk, and how risk can be dealt with. SWOT and PEST analysis is used as a means of identifying risks. Entrepreneurs need to analyse the implications of each risk, balancing the potential negative outcomes against the potential positive outcomes, i.e. the rewards, and then decide if the risk is worth taking or not. Entrepreneurs also need to plan how to manage the risks by avoiding, minimising or maximising the risk. It is also important to understand different attitudes to risk, including being risk-averse or risk-keen and being a risk reducer, a risk optimiser or a risk avoider. You need to be able to appreciate that different attitudes to risk can affect how an entrepreneur manages the risk.

Legal obligations are examined, particularly in relation to why laws and regulations to protect stakeholders are needed in the areas of employment, production, marketing and selling and finance.

Finally, the unit considers various ethical considerations that are related to enterprise, such as how an enterprise may have an impact on communities and society, ethical considerations within an enterprise, i.e. choosing to run an enterprise following certain moral values and beliefs, such as Fairtrade, and the impact of ethical considerations on the operation of an enterprise.

4.1 Enterprise opportunities

LEARNING OUTCOMES

Learners should be able to:

- ▶ understand how opportunities for enterprise arise.



Study tip

It is important to recognise that opportunities for enterprise may be local, national, international or global.

Changing needs or wants for a product

Opportunities for enterprise can arise for a number of different reasons, such as changing needs or wants for a product. Reasons why needs or wants for a product might change include the following.

Changes in taste and fashion

An important influence on the demand for products or services is changes in tastes and fashion. Over a period of time, some products and services become less popular while others become more popular. Entrepreneurs need to understand these changes and anticipate which products or services are likely to experience a significant increase in demand in the future.

CASE STUDY

Hotel du Vin

Robin Hutson and Gerard Basset started Hotel du Vin in 1994. They recognised that changes in taste and fashion were leading consumers to want better quality hotels without going to the extremes of the very expensive hotels that were beyond the price range of most people.

They saw a gap in the market for affordable but stylish hotels. The objective of the enterprise was to offer a reasonably priced hotel that did not compromise on service or quality. Their aim was also to create a relaxed, homely atmosphere. They firmly believed that they had a strong business idea and were determined to make the enterprise a success.

The enterprise started with one hotel in Winchester, England, and it has now grown to nine hotels.

Extension question

Go to the Hotel du Vin website. Consider how Robin and Gerard were able to take advantage of what they saw as a gap in the market.



▲ Hotel du vin

ACTIVITY 4.1

Find out how the population of your region and/or country has changed over the last 10 and 20 years. Has there been an increase? If so, has this increase been significant? Also, find out how the structure of the population of the region and/or country has changed over the same periods of time. Is there an ageing population?

Changes in the size and structure of population

Another possible influence on the demand for products is changes in the size and structure of population.

In terms of the size of population, a region or country may be growing significantly and this will provide opportunities for enterprise because there will be more potential customers, making the success of an enterprise more likely.

In terms of the structure of population, there may be a change in the age distribution of a region's or country's population and this may increase the potential demand for particular products. For example, in many countries there is an ageing population. This means that the average age of a population is getting older. If an enterprise were to focus on products or services for such an age group, the increase in the number of such people would be likely to enhance the possible success of such an enterprise.

Changes in real income

Another important influence on the demand for products is changes in income and particularly changes in real income. An increase in real income refers to an increase in income that is above the rate of inflation in a particular country. For example, if inflation in a country is 2% per annum and incomes have risen by 5% for the year, then the increase in real income is the difference, i.e. 3%. Increases in real income will provide useful opportunities for enterprise. Of course, if real incomes in a country were falling, this would have the opposite effect.

CASE STUDY

Bookmyforex.com

In 2011 Sudarshan Motwani took early retirement from ING Vysya Bank in India. He was 57 years old. He had specialised in foreign exchange for the previous three decades.

He decided that retirement was not for him and so he has started an internet service that enables Indian travellers to book foreign exchange online at competitive rates. Motwani had realised that real incomes for many people in India were rising and that they were more willing to take holidays, especially holidays outside of India.

He realised that increases in real incomes, and improvements in the standard of living of many people in India, had created an excellent opportunity for enterprise. He was convinced that with his experience of over 30 years in the foreign exchange division of banking, he was the person to take the initiative and take advantage of this opportunity.

Extension question

Discuss how an increase in real incomes in India provided an opportunity for enterprise for Sudarshan Motwani.



Study tip

You need to appreciate that enterprise opportunities can arise from both the demand side and the supply side.



Study tip

Make sure you understand that it is important to consider the possible impact on an enterprise of both changes in the size of population and changes in the structure of population.

Key term

Globalisation: the trend towards worldwide markets in goods and services



Did you know?

Anil Stocker, one of the founders of MarketInvoice, has stated the best piece of advice that he was given when starting out was that the biggest risk in life is not taking a risk.

ACTIVITY 4.2

Find out how real incomes have changed in your region and/or country over the last 10 and 20 years. You will need to find out the changes in incomes and inflation rates during this time.

Changes in the ability to meet needs or wants

Opportunities for enterprise arise not only from the demand side but also from the supply side. Changes in the ability to meet needs or wants can come about as the result of new production methods that enterprises are able to use to meet changes in demand.

Advances in technology

Another reason opportunities arise is from the many new products that have become available for consumers to buy in recent years, including DVD and BluRay players, satellite and digital television, digital cameras, tablets and smartphones. These new products widen consumer choice and have helped, in most cases, to make lives easier. They are the result of the application of new technology and of research and development, in terms of both the products themselves and of the methods used to produce them. Such development provides enormous opportunities for enterprise initiatives.

CASE STUDY

MarketInvoice

Anil Stocker, from Switzerland, and Ilya Kondrashov, from Russia, have established an enterprise called MarketInvoice. It was founded in 2011.

They recognised that the internet provided a great opportunity to establish an online marketplace for invoices. It enables institutional investors to provide working capital to enterprises by buying their outstanding invoices. The online marketplace works like an eBay for invoices.

The effect of this is to reduce the time lag created by long-term payment terms. This is especially important for enterprises which are often faced with difficult cash flow problems.

MarketInvoice provides an alternative to traditional financial institutions, such as banks, building societies and credit unions. The increasing use of the internet means that new and innovative enterprises can become established. The enterprise has already dealt with over US\$300 million of business since its establishment. This has involved over 700 businesses.

Extension question

Discuss how MarketInvoice has been able to take advantage of the opportunities provided by the growth in the internet.

Changes in government policy

Changes in government policy are further source of opportunity.

Availability of grants and subsidies

Governments in some countries have decided to provide support for enterprises. This can sometimes be in the form of financial support, such as by making grants and subsidies available to enterprise. This support can also sometimes be in the form of the provision of information and advice. In some countries,

governments may decide to offer both kinds of support to enterprises. Such policies will be of great help to enterprises, especially at the time of their start-up.

Changes in taxation

Governments can also decide to help enterprises by favourable changes in taxation. For example, a government could decide to charge a lower rate of taxation, or even a zero rate of taxation, to enterprises in the early stages of their development.

Changes in the law

Governments could also decide to help enterprises by favourable changes in the law, such as by making it easier for enterprises to start up in certain areas of a country.

ACTIVITY 4.3

Working in a pair or group, find out as much as you can about government policies that exist in your region and/or country which are designed to support enterprise initiatives.

Globalisation

It has already been pointed out that opportunities for enterprise may be local, national, international or global. Globalisation is an important development that has given entrepreneurs the opportunity to create an enterprise. Globalisation can be defined as the trend towards worldwide markets in goods and services.

Globalisation means that an enterprise can sell in more than one country. It is no longer the case that an enterprise has to be confined to sales in one particular region or country. In fact, with the development of the internet, it is now possible for an enterprise to become a 'world player'.



Study tip

Make sure you understand what is meant by changes in *real* income as opposed to changes in income.

CASE STUDY

eBay

eBay is an example of an enterprise that has taken advantage of the opportunities for enterprise offered by globalisation. It was started in 1995 by Pierre Omidyar, who was born in France. Omidyar was a former software engineer, but he saw the opportunities offered by globalisation. His aim was to create an online auction site that could operate in more than one country.

Omidyar advertised on the internet a broken laser printer for sale for US\$15. He was amazed that someone would be willing to buy something that didn't work, but when they did, he realised that there might be potential scope to establish a successful enterprise.

eBay is now the world's largest online marketplace and trades in 39 countries in the world. Its annual turnover has now reached over US\$2 billion.

Extension question

Discuss how enterprises such as eBay have been able to take advantage of the opportunities offered by globalisation.

Key points

- 1 There are many different ways in which opportunities for enterprise can arise.
- 2 These areas for enterprise could include taking advantage of changing needs or wants for a product, changes in taste and fashion, changes in the size and structure of population, changes in real income, changes in the ability to meet needs or wants, advances in technology and changes in government policy, such as in relation to the availability of grants and subsidies, changes in taxation and changes in the law.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of how opportunities for enterprise arose.

Summary questions

- 1 Discuss how an entrepreneur could take advantage of opportunities for enterprise by taking advantage of changing needs or wants for a good or service.
- 2 Explain how changes in government policy could give rise to opportunities for enterprise.

4.2 Risks involved in enterprise

LEARNING OUTCOMES

Learners should be able to understand that risks involved in enterprise may be in the following areas:

- ▶ financial
- ▶ economic
- ▶ health and safety/environmental
- ▶ human resources
- ▶ production.



Study tip

You need to make sure you understand that risk is an inevitable feature of enterprise.

Financial risks

An enterprise may find that it is not able to secure the finance that it needs. This is often seen in relation to working capital. An enterprise may receive sufficient funding to establish an enterprise, but then finds that it does not have enough money to pay the everyday costs, such as workers' wages. Perhaps the biggest risk to an enterprise comes from cash flow difficulties. Examples of financial risks can include an unexpected increase in costs and lower than expected sales.

Economic risks

Economic risks can include changes in the economic environment in which an enterprise operates. For example, there may be an increase in the level of unemployment in an economy that makes it more difficult for an enterprise to sell its products. It is important that an enterprise knows what the customers want and the importance of using market research to discover this must be stressed. There is always the risk, however, that an enterprise may not actually know what the customers want. An entrepreneur may think they know what the customers want, but there is always the risk that the market research has not produced accurate and reliable data. An enterprise will try to convince potential consumers that it has a unique selling point (USP) and that this makes it substantially different from the competitors, but there is always the risk that the customers will not recognise an enterprise's USP as sufficiently distinctive. The challenge for the enterprise is firstly to attract the customers, as a result of convincing them that it does have a distinctive USP, and then to retain them. There is also a risk that even if an enterprise has identified a gap in the market, it will not be a large enough gap for the enterprise to be profitable.

Key term

Unique selling point (USP): a feature of a product that makes it different from other similar products, and therefore more attractive to people who might buy it

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of risks the enterprises have faced.

Health and safety and environmental risks

Enterprises have a number of legal responsibilities, especially in relation to health and safety laws and regulations, and these can apply to both employees and customers. A risk that enterprises face is a failure to comply with these laws and regulations, possibly leading to an employee or customer being injured.

Enterprises also have environmental responsibilities. For example, they must comply with laws and regulations that relate to the protection of the environment, such as in relation to clean air. Failure to comply with such laws and regulations could lead to an enterprise being fined or possibly closed down.

Human resources risks

An enterprise runs the risk that although it may have a sufficient number of employees, they may not have the necessary skills, qualifications or expertise.

CASE STUDY

Enabling Enterprise

Tom Ravenscroft is an ex-teacher who has set up his own enterprise, Enabling Enterprise, in London, England. He has identified eight essential skills that employees need and the aim of his social enterprise is to promote them.

He has identified the eight skills as listening, presenting, problem-solving, creativity, positivity, aiming high, leadership and teamwork.

Tom Ravenscroft has stated that these skills are demanded by all enterprises, adding that it is presumed 'that skills such as leadership and teamwork are innate, but they can be taught'.

Extension question

Discuss whether these eight key skills for employment can be taught.

Production risks

An enterprise will need to be able to deliver on its promises, i.e. it will need to actually do what it has said that it will do. There is always the risk that an enterprise exaggerates its capacity to carry out its promises and then finds that it is unable to meet the expectations of the customers. An enterprise will need to ensure that its production and distribution resources are sufficient for supply to meet demand.

ACTIVITY 4.4

Work in a pair or group and consider the risks associated with everyday activities, such as travelling to school or going to a football match.

Key points

- 1 There are numerous possible risks involved in enterprise.
- 2 Some of the more significant risks can be in relation to the financial, economic, health and safety/environmental, human resources and production areas of enterprise activity.

Summary questions

- 1 Explain why an element of risk is inevitable when an enterprise starts up.
- 2 Discuss how an enterprise will decide which risks to deal with first as a priority.

4.3

Identifying risks: SWOT analysis

LEARNING OUTCOMES

Learners should be able to understand that risks involved in enterprise can be identified through the use of a SWOT analysis:

- ▶ strengths
- ▶ weaknesses
- ▶ opportunities
- ▶ threats.

Identifying the risks

Risk involves the assessment of the likelihood of something happening and of the magnitude of the impact of such an eventuality.

It has already been stressed in Unit 1.1 that risk is an inevitable feature of enterprise. In fact, one way of defining an entrepreneur is to describe him or her as a risk taker. It has been estimated that of new enterprises starting up, about a third go out of business within three years and only about 10% make significant profits.

SWOT analysis

A SWOT analysis can be used to identify the risks involved in enterprise. The strengths and weaknesses of an enterprise focus on the internal aspects of an enterprise and the opportunities and threats focus on the external aspects.

Key term

SWOT analysis: an acronym for strengths, weaknesses, opportunities and threats; it is a structured planning method that evaluates these four elements of an enterprise

Strengths

These are the internal characteristics of an enterprise that give it an advantage over others. For example, these strengths could be in the form of an enterprise's current resources, either in relation to their quantity or quality or to both. They could also be in relation to an enterprise's management and leadership or to the competitive advantage over rivals that the enterprise possesses, such as in terms of lower costs and superior products. Other possible strengths could include a loyal and productive workforce and a good product range.

Weaknesses

These are the internal characteristics of an enterprise that place it at a disadvantage relative to others. For example, these weaknesses could be in relation to limitations in production, such as a large amount of spare manufacturing capacity. Another weakness could be in the form of ineffective marketing. Other weaknesses could include a poorly trained workforce or ageing capital equipment.



Study tip

Make sure you understand that in a SWOT analysis, the strengths and weaknesses refer to internal elements within an enterprise whereas the opportunities and threats refer to external elements.

ACTIVITY 4.5

Work in a pair or group and produce a SWOT analysis of an organisation.

Opportunities

These are elements in the external environment that an enterprise could exploit to its advantage. For example, an enterprise could be looking at immediate opportunities in its present markets or at the long-term strategic possibilities of expanding markets, such as export markets. There may also be opportunities in terms of diversification into new markets. These opportunities would include the potential areas of expansion of the enterprise and future profits. Lower rates of interest increasing consumer demand and the application of new technologies, both in terms of products and methods of production, are other examples of opportunities.

Threats

These are the elements in the external environment that could cause difficulties for an enterprise. For example, these threats could include losing out to existing competitors and to new entrants into a market. Other examples could include an adverse change in market conditions, globalisation forcing down prices, changes in the law and changes in government policy.

Key points

- 1 A SWOT analysis is a method of identifying the strengths, weaknesses, opportunities and threats relating to an enterprise.
- 2 Strengths and weaknesses are concerned with the internal features of an enterprise whereas opportunities and threats are concerned with the external environment.

Summary questions

- 1 Describe two possible strengths and two possible weaknesses of an enterprise.
- 2 Discuss the possible threats to an enterprise of new competitors entering a market.

4.4 Identifying risks: PEST analysis

LEARNING OUTCOMES

Learners should be able to understand that risks involved in enterprise can be identified through the use of a PEST analysis:

- ▶ political
- ▶ economic
- ▶ social
- ▶ technological.

Key term

PEST analysis: the analysis of the wider macro-environment of an enterprise, including political, economic, social and technological, environmental and legal factors



▲ Voting in Uganda



Study tip

Make sure you understand the four factors that are included in a PEST analysis.

PEST analysis

It is necessary to consider the risks that are faced by an enterprise in a wider context. This gives rise to a PEST analysis which takes into account political, economic, social and technological factors.

Political factors

The activities of enterprises can be affected by political decisions taken by governments. For example, a government may decide to increase the rate of taxation. This will mean that enterprises may have to pay higher taxes on their profits. It also means that if taxes on income are increased, the disposable incomes of people will be reduced and this could have a negative impact on the products or services provided by an enterprise. Such changes in government policy are an example of a risk faced by an enterprise.

Similarly, it may have been the policy of one government to support enterprises by giving them different forms of grant or subsidy to help them financially. If an election takes place, and that government is replaced by another, there is no guarantee that the policies of the previous government will be continued. It could be that the new government decides to try to save money by discontinuing the financial help. This is another risk that an enterprise will need to face.

ACTIVITY 4.6

Work in a pair or group and consider in what ways governments have been (a) supportive and (b) unsupportive of enterprises in your region and/or country.

Economic factors

Decisions are taken that affect the wider, or macro, economy, but these decisions will also have an impact on particular enterprises at a micro-economic level. For example, an economy may be facing a high level of inflation and so it is decided to increase interest rates in the economy to try to bring down the inflation rate. This would have an effect on an enterprise in two ways. Firstly, it will make it more expensive for an enterprise if it needs to

borrow money, such as through a loan, from a financial institution. Secondly, it will also be more expensive for potential customers to borrow money and so make it less likely that they will borrow money to finance spending. The possible increase in interest rates is a risk that enterprises face.

The exchange rate may also be changed if the aim is to encourage the exports of a country. To encourage the purchase of a country's exports in other countries, the exchange rate will need to be lowered, known as a depreciation or devaluation. This would be advantageous to an enterprise that exports a large number of products abroad, but there is also a risk involved in this. A depreciation or devaluation which lowers the exchange rate of a country will make exports cheaper, but at the same time it will make imports dearer. This would be a disadvantage to an enterprise that imports a lot of its raw materials and component parts. This change in exchange rates is a risk faced by enterprises in many countries.



▲ Stacked containers on an ocean freighter

ACTIVITY 4.7

Work in a pair or group and consider in what ways enterprises in your region and/or country have been affected by the wider economic environment.

Social factors

Enterprises can also be affected by a wide variety of different social factors. For example, changes in the size and structure of a region's or country's population have already been considered in Unit 4.1.

The various religious groups that exist in a country may also be a factor having an impact on an enterprise. For example, certain groups may not be inclined to buy particular products and this could adversely affect the sales of an enterprise. This is a risk faced by enterprises if such a group becomes more influential in a country.

The migration of people, both from one country to another and from one part of a country to another part of the same country, can have an impact on enterprises. For example, in many countries, there has been migration from rural areas to cities and this could negatively affect enterprises in one part of a country and positively affect enterprises in other parts of a country. Such movements of people can therefore be a risk to some enterprises in certain parts of a country.



▲ A crowded development in Mexico City

ACTIVITY 4.8

Work in a pair or group and consider in what ways enterprises in your region and/or country have been affected by social factors.

Key term

Technology: the use of tools, machines and science in the production of goods

Technological factors

The activities of enterprises can be affected by technology and, in particular, by the level of technology. Advances in technical knowledge are opening up new product markets and new ways of producing items and so this gives scope for new enterprises to take advantage of this external influence.

Although technological progress and development can provide opportunities that enterprises can benefit from, there are also potential risks involved. For example, the speed of technological change may mean that some goods will have shorter product life cycles than was previously the case.

Another potential risk is in the use of technology to produce products. For example, developments in technology may mean that machines are more widely used and this could see a move away from more traditional methods of working. There is a risk that this could lead to lower levels of motivation amongst the workforce of an enterprise.



Study tip

Make sure that you can think of both new products and new ways of working when you are considering the potential impact of technological change on enterprises.

ACTIVITY 4.9

Work in a pair or group and consider in what ways enterprises in your region and/or country have been affected by technological factors.

Case studies

Refer to the five case studies on pages 6–10. Consider to what extent political, economic and social factors have contributed to the risks they have faced.

Key points

- 1 Enterprises can be affected by political factors.
- 2 Enterprises can be affected by economic factors.
- 3 Enterprises can be affected by social factors.
- 4 Enterprises can be affected by technological factors.

Summary questions

- 1 Explain why an enterprise might be affected by a change of government in a country.
- 2 Discuss how an enterprise might be affected by a recession in an economy.
- 3 Discuss how social factors can impact on an enterprise.
- 4 Discuss how technological factors could provide both a challenge and a risk to enterprises.

4.5

Analysing and managing risks

LEARNING OUTCOMES

Learners should be able to:

- ▶ analyse the implications of each risk by balancing the potential negative outcomes against the potential positive outcomes (in the form of rewards)
- ▶ decide if the risk is worth taking or not, including recognising that some risks would lead to rejecting an enterprise idea
- ▶ plan how to manage the risks by avoiding, minimising or maximising the risk.



Study tip

You need to make sure you understand that risk is an inevitable feature of enterprise.

Analysing the implications of each risk

Both SWOT analysis and PEST analysis are extremely useful in identifying the risks faced by an enterprise. However, an important feature of the enterprise process is balancing the potential negative outcomes against the potential positive outcomes. Some of the risks involved in enterprise have already been referred to in Unit 4.2, especially financial, economic, health and safety/environmental, human resources and production risks. The potential positive outcomes of the enterprise process can be seen in terms of the potential rewards that can be gained by an enterprise.

It has been stated in Unit 1.1 that a common reason for starting an enterprise is to make money. A person will hope to become richer as a result of the activities of an enterprise, and so a financial objective is clearly important. It is generally considered that profit maximisation is the main goal of many enterprises.

It is important, however, to stress that many enterprises are not-for-profit organisations that aim to achieve social, rather than monetary, objectives. Not-for-profit organisations are becoming increasingly important in many countries. A charity would be an example of such an enterprise.

Another reason for people starting an enterprise is because they want to be in control, i.e. they want to be their own boss and take the important decisions themselves. They want to take the important decisions in the enterprise. Their main goal is therefore the gaining of a sense of achievement when an enterprise becomes a success. Many people who set up a new enterprise are determined to prove that their idea can work and find that the venture provides excitement.

ACTIVITY 4.10

Working in a pair or group, discuss the various rewards facing an enterprise that has just been set up.

Deciding if the risk is worth taking or not

It has already been pointed out that the enterprise process involves balancing the potential negative outcomes against the potential positive outcomes. The result of this balancing process is the making of a decision on whether the risk is worth taking or not. Often an entrepreneur will decide to go ahead with an enterprise project, despite the risks, in the hope that the rewards of the project will make such a decision worthwhile. However, it may be the case that after due consideration of the potential risks, an entrepreneur decides to reject an enterprise idea.

Planning how to manage the risks

Once an entrepreneur has taken the decision to go ahead with an enterprise idea, it is necessary for him or her to plan how to manage the risks involved in the enterprise.

It is often not possible for an enterprise to deal with all of the potential risks. It is therefore important to identify those risks which can be dealt with and which are worth dealing with. This will involve the enterprise determining a response strategy.

It is probably the case in most situations that an enterprise will focus on those risks over which it has some form of control. For example, ensuring that the capital needs of the enterprise are sufficient and that there are enough employees employed by the enterprise with the necessary skills and experience. Once an enterprise has determined a response strategy to deal with particular risks, it will then need to monitor progress in dealing with those risks. This will indicate to the entrepreneur how the risks are being dealt with and if it is necessary to amend the response strategy.

Such a management plan is likely to focus on avoiding the risk, if at all possible, but often this will not be possible. In such a situation, the plan will aim at minimising the risk by taking appropriate actions. There are also likely to be certain situations, especially where the aim of an enterprise is to maximise profits, where the plan focuses on maximising the risk.

Key points

- 1 It is important to analyse the implications of each risk by balancing the potential negative outcomes against the potential positive incomes.
- 2 It is necessary to decide if the risk is worth taking or not and this could include recognising that some risks could lead to the rejection of an enterprise idea.
- 3 It is important to plan how to manage the risks faced by an enterprise.

Summary questions

- 1 Explain why it is important in an enterprise to balance potential negative outcomes against potential positive outcomes.
- 2 Discuss how best to manage the risks faced by an enterprise.

4.6 Attitudes to risk

LEARNING OUTCOMES

Learners should be able to identify and understand that some people are:

- ▶ risk-keen
- ▶ risk optimisers
- ▶ risk reducers
- ▶ risk-averse or risk avoiders.

Key term

Risk-keen: the attitude to risk which recognises that a high level of risk is likely to lead to a high level of profit

Key term

Risk optimiser: a person willing to accept a certain amount of risk in the interest of making significant profits

Key term

Risk reducer: a person who wishes to reduce the amount of risk faced by an enterprise to reduce the likelihood of failure

Attitudes to risk differ and the ways in which a particular entrepreneur deals with risk will depend on whether the person is risk-keen, a risk optimiser, a risk reducer or risk-averse and a risk avoider. The characteristics of each of these types are outlined below.

Risk-keen

This attitude to risk tends to apply to those entrepreneurs who aim to maximise profits. It is often the case that where there is a high level of risk, there is a high expectation of profit.

Risk optimisers

Risk optimisation is a situation when a person or an enterprise understands both its opportunities and threats and designs its strategy to take on the correct, or appropriate, amount of risk.

There is recognition of the uncertainty facing an enterprise. An enterprise will therefore need to clearly identify its exposure to risk and then select the optimal risk response in the light of the risks that it faces. The aim of a risk optimiser is the effective management of risk so that the continued existence of an enterprise is not threatened.

The aim of a risk optimiser is to take that number of risks which are likely to increase profitability and improve the ability to meet strategic goals without jeopardising the viability and future operation of the enterprise.

Risk reducers

Whereas a risk optimiser will accept a certain amount of risk as inherent in the process of setting up and running an enterprise, a risk reducer has a lower tolerance of risk. A risk reducer will aim to reduce the level of risk and uncertainty to that which is acceptable to an enterprise.

The effect of this approach to risk is that the potential reward of profit for the enterprise could be reduced, but this needs to be balanced by the fact that the potential risk of failure of the enterprise is also likely to be reduced.

This approach to the management of risk may be more likely when the uncertainty facing an enterprise is particularly an issue, such as when an economy is experiencing a recession.

CASE STUDY

Ashish Dhawan

Ashish Dhawan is a founder of a private equity enterprise, ChrysCapital. He believes that India is in the midst of a 'start-up boom', with many people leaving successful careers in large firms to become entrepreneurs. This is exactly what he did.

Dhawan, like all entrepreneurs, accepts that enterprises will be confronted by a variety of different risks on a regular basis. He does, however, emphasise that such risks should not be allowed to challenge the very existence of an enterprise. He describes himself as relatively risk-averse, keen to reduce the element of risk wherever possible in the long-term interest of the continued viability of an enterprise.

Extension question

To what extent should risk be accepted as a natural and inevitable part of enterprise?

Key term

Risk avoider: a person who wishes to avoid any possibility of risk in order to ensure the continued existence of an enterprise

Key term

Risk-averse: an attitude to risk characterised by being unwilling or disinclined to take any risk



Skills signpost

Consider the different ways it is possible for a person to deal with risk.

Risk-averse or risk avoiders

Whereas a risk optimiser accepts a certain amount of risk and a risk reducer aims to reduce the amount of risk faced by an enterprise, a risk avoider is a person who is extremely averse to risk taking. Risk avoidance is a risk management technique that aims to eliminate any possibility of risk.

Risk avoidance stresses that a person is not prepared to accept any risk. This may reduce the likely profit that is made by an enterprise, but it will make failure much less likely. It is an extremely cautious approach to the management of risk, but may be necessary in those markets where the level of demand has substantially reduced.

ACTIVITY 4.11

Work in a pair or group, consider whether you would regard yourselves as risk-keen, a risk optimiser, a risk reducer or risk-averse and a risk avoider.

Key points

- 1 A person could be risk-keen.
- 2 A person could be a risk optimiser.
- 3 A person could be a risk reducer.
- 4 A person could be risk-averse and a risk avoider.

Case studies

Refer to the five case studies on pages 6–10. Consider whether the entrepreneurs featured are risk optimisers, risk reducers or risk avoiders.

Summary questions

- 1 Explain the differences between risk-free, a risk optimiser, a risk reducer and risk-averse and a risk avoider.
- 2 Discuss which approach would be most appropriate for an enterprise when an economy is experiencing a boom.

4.7 Legal obligations

LEARNING OUTCOMES



Did you know?

The maximum number of hours that a person can be asked to work varies a great deal between countries. For example, in Denmark it is 37 hours, in the UK it is 48 hours and in the Central African Republic it is 52 hours.

Learners should be able to:

- ▶ understand why laws and regulations to protect stakeholders are needed in the areas of:
 - employment
 - production
 - marketing and selling
 - finance.

There are always going to be legal issues when setting up and running an enterprise. Such legal issues may bring an element of risk to an enterprise. There are likely to be a range of ways in which clients, consumers, employees and employers are protected, and affected, by the law in a number of different areas, such as in relation to employment, production, marketing and selling and finance.

Employment

The law can affect employment in enterprises in a number of different ways. For example, laws can apply to the recruitment of employees, their contracts as workers and the termination of their contracts. There is a risk to an enterprise of dismissing a worker incorrectly, leading to possible court action by the employee.

Laws can also relate to health and safety at work. An enterprise will need to ensure that an appropriate working environment is provided for all employees. If this does not happen, an enterprise risks being taken to court if an employee is injured at work.

In some countries, there is a law that establishes a minimum wage. Any enterprise must ensure that it complies with such legislation, otherwise it risks being accused of operating illegally.

The law can also establish the rights and responsibilities of trade unions. If this is the case, an enterprise must ensure that such rights and responsibilities are respected, otherwise there is a risk that it could be taken to court by a trade union for the infringement of such rights and responsibilities.



▲ A demonstration on respecting union rights

ACTIVITY 4.12

Working in a pair or group, consider ways in which enterprises in your region and/ or country have been affected by laws in relation to the employment of workers.

ACTIVITY 4.13

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to production.



Did you know?

There is a law in the UK called the Trade Descriptions Act, which states that a product must correspond to the claims that are made about it in an advertisement.



Study tip

You do not need to know in detail any particular laws affecting employment, production, marketing and selling, but you should have an understanding of the range of ways in which different people are affected, and protected, by the law.

Case studies

Refer to the five case studies on pages 6–10. Consider to what extent legal factors in relation to employment, production, marketing and selling have contributed to the risks the enterprises have faced.

Production

The law can also apply to production. Health and safety laws, in particular, can affect the production process of an enterprise. For example, protective clothing and certain equipment may need to be provided by an enterprise to meet such laws. This can increase the costs for an enterprise, but it risks being taken to court by an employee if such laws are not respected.



▲ A worker who requires protective clothing

Marketing and selling

Laws can also relate to the marketing activities of an enterprise. For example, in some countries there are restrictions on what an enterprise can say in an advertisement and there is likely to be an organisation which monitors this. In the UK this organisation is called the Advertising Standards Authority. Such a law can pose a risk to an enterprise in that if it attempts to make false claims about a product in an advertisement, it may be punished in some way, perhaps by a fine.

In some countries, pressure groups exist to try to influence the advertising of particular products. For example, in the UK, Action on Smoking and Health campaigns against the advertising of cigarettes.

ACTIVITY 4.14

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to marketing.

Another area where the law can restrict the freedom of an enterprise is in relation to selling. In many countries, there are laws that aim to protect the consumer in different ways.

For example, there may be laws that relate to what is sold by an enterprise, such as in the following ways:

- the product or service is fit to sell, e.g. they should be safe
- they are suitable for the purpose indicated
- they perform and operate in the way described

There will be a risk to an enterprise of being taken to court if it attempts to make claims about a product it is selling that do not correspond to reality.

Finance

One final area where legal obligations can affect an enterprise is in relation to finance. Laws and regulations can apply to how enterprises run their financial affairs, how they report on them, the roles and responsibilities of directors, the payment of taxes, the provision of credit and how they present their financial statements.

ACTIVITY 4.15

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to selling.

Key points

- 1 Enterprises can be affected by laws in relation to employment.
- 2 Enterprises can be affected by laws in relation to production.
- 3 Enterprises can be affected by laws in relation to marketing and selling.
- 4 Enterprises can be affected by laws in relation to finance.

Summary questions

- 1 Explain how laws in relation to employment and production could affect an enterprise.
- 2 Explain how laws in relation to marketing and selling and finance could affect an enterprise.

4.8 Ethical considerations

LEARNING OUTCOMES

Learners should be able to:

- ▶ understand how an enterprise may have an impact on communities and society
- ▶ understand the ethical considerations within an enterprise, such as choosing to run an enterprise following moral values and beliefs
- ▶ understand the impact of ethical considerations on the operation of an enterprise.

Key terms

Corporate social responsibility: the willingness of an enterprise to accept responsibility for its actions and how they may have an impact on a variety of stakeholders

Pressure group: an organisation that aims to influence governments and enterprises to adopt the policies and actions it favours

How an enterprise may have an impact on communities and society

It is important to have an awareness of how an enterprise may have an impact on communities and society. The impact on society may be positive or negative.

A positive impact could be through supporting community activities. Many enterprises support such community activities as sporting events and productions by amateur dramatic societies. This positive approach of an enterprise to social and community issues is part of what is generally known as 'corporate social responsibility'.

A negative impact could be through creating pollution. It is possible that some enterprises have contributed to traffic congestion, noise pollution, air pollution, water pollution, the use of non-renewable natural resources and emissions of gases that can possibly lead to the process of global warming.

Ethical considerations within an enterprise

Ethical considerations can apply within an enterprise, such as in relation to choosing to run an enterprise following moral values and beliefs and ethical principles. Such enterprises aim to behave in a socially responsible way by applying ethical and moral principles to what they do and how they do it.

Examples of such enterprises include:

- Fairtrade
- enterprises dedicated to organic farming, where traditional farming methods are employed that use environmentally sound techniques free from synthetic pesticides, growth hormones and antibiotics
- enterprises that donate a proportion of their profits to charities.



Study tip

You need to know how an enterprise can demonstrate ethical and moral principles in carrying out its work.

Key terms

Ethical principle: a way of doing something according to a set of moral principles, values and beliefs

Social impact of enterprise: the impact, either positive or negative, that an enterprise may have on communities and society



Did you know?

There are now over 1.4 million farmers and workers in 1,140 producer organisations within Fairtrade. They are spread across 74 countries throughout the world.



▲ A Greenpeace scientist monitoring outflow into a river

Fairtrade

Fairtrade refers to a product that is bought which carries the Fairtrade Mark. This signifies the following:

- the producers have received a fair price for their produce
- this price covers the cost of sustainable production, irrespective of market prices
- a long-term relationship with buyers, helping producers plan for the future with confidence
- the producers receive an extra sum of money, called the Fairtrade Premium, which can be spent on what is needed in the local communities, such as improved sanitation, health centres or educational facilities
- producers are accountable for their use of the Fairtrade Premium.

In addition to these relationships with producers, there are also relationships with workers:

- they must be paid a fair wage
- they must be provided with decent working conditions, such as minimum health and safety standards
- they are guaranteed the right to join trade unions
- they are provided with good housing, where relevant.

In many countries, there are groups who support the ethical and moral principles of Fairtrade. For example, in the UK, all such groups in the county of Oxfordshire are joined together through 'Fairtrade in Oxfordshire'. One town in the north of Oxfordshire, Banbury, has been designated a Fairtrade Town since 2006.

ACTIVITY 4.16

Working in a pair or group, consider ways in which enterprises in your region and/or country have demonstrated ethical and moral principles.

ACTIVITY 4.17

Working in a pair or group, find out which enterprises in your region and/or country are part of Fairtrade.

CASE STUDY

Agrocel

Agrocel is an Organic & Fairtrade Cotton Project in India. The cotton farmers produce a Fairtrade product through traditional methods. The Project Manager at Agrocel, Sailesh Patel, stresses the importance of using traditional, rather than modern, methods of farming: 'Modernisation has come along and tried to impose methods that use lots of natural resources like water, chemical fertilisers and pesticides which ultimately make the soil less fertile. This modernisation has taught the farmers bad practices that are not sustainable.'



▲ What is the Fairtrade Mark?
The Fairtrade Mark is the only independent consumer guarantee that disadvantaged producers in the developing world are getting a better deal. By choosing to buy Fairtrade, you can be sure that you're making a difference



Study tip

Make sure you know what is distinctive about Fairtrade products.



Skills signpost

If you joined a pressure group to campaign in favour of environmental issues, which skills do you think you would need in order to be influential?



▲ Organic cotton farming in India

Sailesh Patel also emphasises the importance of Fairtrade to the workers, especially the concept of a fair wage: 'Farmers receive up to 30% more money for their cotton when it is organic and fair-trade. This is important in India where 64% of the population depends on agriculture to make a living.'

Sailesh Patel believes that the ties between Fairtrade and sustainable production are very important: 'Handweaving does not damage the environment. Handlooms do not give off CO₂, unlike machine looms which do through burning oil – another reason why it is important to support these kinds of hand skills.'

Sailesh Patel is keen to spread the benefits of Fairtrade to more farmers: 'Agrocel is expanding its Fairtrade and organic networks. Many people now come to us asking for advice on how to set up projects like ours. Maybe one day we will help African farmers too.'

He believes that Fairtrade and sustainable farming are very important to India: 'There is a desperate need to do things differently and improve the situation for the farmers. With proper planning and development activities like Fairtrade, we can change this. Organic farming creates much more employment than conventional farming.'

Extension question

Explain why Sailesh Patel believes that Fairtrade is so important to India.

The impact of ethical considerations on the operations of an enterprise

Ethical and moral principles can apply to all aspects of an enterprise, including the following:

- who it buys its supplies from
- how it treats its employees
- how it acts towards its competitors
- what impact it has on the environment
- what impact it has on the local community.

ACTIVITY 4.18

Working in a pair or group, consider ways in which enterprises in your region and/or country have supported community activities.

Key points

- 1 Enterprises may have an impact, either positive or negative, on communities and society.
- 2 Ethical considerations can apply within enterprise, such as through choosing to run an enterprise following moral values and beliefs.
- 3 Ethical considerations can have an impact on the operation of an enterprise.

Case studies

Refer to the five case studies on pages 6–10. Consider to what extent they demonstrate a commitment to ethical and moral principles.

Summary questions

- 1 Explain how an enterprise can demonstrate a commitment to ethical and moral principles, values and beliefs.
- 2 Discuss how Fairtrade can make a difference to people's lives.

Unit 4 Practice questions

- 1 Explain how an enterprise can have a social impact. (4)
- 2 Explain how changes in real income can create opportunities for enterprise to arise. (4)
- 3 Distinguish between a risk-keen and a risk-averse entrepreneur. (6)
- 4 Discuss how a SWOT analysis could be of use to an enterprise. (10)
- 5 Evaluate how a PEST analysis could be of use to an enterprise in identifying potential risks. (15)

5

The negotiation process

TOPIC AIMS

Learners should be able to:

- ▶ understand and explain what is meant by negotiation
- ▶ understand the stages in the negotiation process: planning, conducting the negotiation and measuring success.

Unit 5 introduces some ideas about what is meant by negotiation and how it involves the interaction of many influences. It is emphasised that negotiation is something that is going on all the time, not only in enterprises but also with family and friends. The importance of a range of stakeholders in the negotiation process is also stressed.

The unit goes on to look at the process of negotiation and especially the importance of the different stages in the negotiating process, including planning, conducting the negotiation and measuring success.

5.1 The meaning of negotiation

LEARNING OUTCOMES



Study tip

Make sure you understand that the views and interests of as many stakeholders as possible should be taken into account in the process of negotiation.

Learners should be able to:

- ▶ understand that negotiation is an interaction of influences, including:
 - resolving disputes
 - agreeing upon courses of action
 - bargaining for individual or collective advantage
 - reaching outcomes to satisfy the interests of those involved.

It is important to understand that people are constantly negotiating in different ways and over different things, e.g. within the family, with friends or in enterprises. Successful negotiation depends on having a clear understanding of the negotiation process.

In negotiations involving enterprises it is also important that the views and interests of different stakeholders are taken into account, even those stakeholders not directly involved in the negotiation process. Examples of stakeholders include clients, colleagues and members, trade unions, customers, suppliers and the community.

What negotiation involves

Negotiation involves the interaction of many influences. Some of the most important are considered below.

Resolving disputes

Negotiation involves two or more people or parties coming together to resolve their differences and to reach an understanding. Negotiation can take a variety of different forms, ranging from informal processes, as with family and friends, to more formal processes, as with an enterprise.

With formal negotiation, an agenda is likely to be agreed. This will outline what is to be discussed. The order of times on the agenda may actually influence the outcome of the negotiation.

Agreeing upon courses of action

In the negotiation process, different parties adopt courses of action, or tactics, that they think will be most likely to bring about success. How the process takes place can vary. In different situations there may be differences in patterns of behaviour and methods of communication.

There are many different courses of action that can be used in the negotiation process and these can include the following:

- Auction – if a number of parties are involved, and there is a great deal of competition between them, there may be a bidding process.
- ‘Brinkmanship’ – this is where one party pushes another party to the edge or brink, making that party think there is no choice but to accept.

Key term

Negotiation: an interaction of influences that aims to reach an outcome that will satisfy the interests of those involved

ACTIVITY 5.1

Working in a pair or a group, negotiate about an activity you are going to do together at some point in the near future.



Skills signpost

Make a list of the various courses of action that you could use to achieve success in a negotiation process.

- Deadlines – these can be used to force the other party to accept a decision.
- Good guy/bad guy – this can be used when teams are involved in the negotiation process, where one negotiator is seen as more reasonable than another.

Negotiating strategies can be distinguished between distributive negotiation and integrative negotiation. Distributive negotiation is based on a hard-bargaining or extreme position. The idea is that is one negotiator wins, the other must lose. It can therefore be viewed as a ‘win-lose’ situation.

Integrative negotiation, on the other hand, is based on recognising the interests of all those involved in the negotiation process and so it might be possible to reach some form of agreement based on mutual gains. This soft-bargaining approach can therefore be viewed as a ‘win-win’ situation.

Bargaining for individual or collective advantage

The aim of negotiation is to gain an advantage for an individual or a collective, such as an enterprise. It is made clear in the process that the negotiators are representing the interests of others and so they will often emphasise the strength of their case. They will often begin by saying that they are unwilling to move from their initial negotiating position.

Reaching outcomes to satisfy the interests of those involved

For negotiation to be successful, the outcome needs to satisfy the interests of all those involved. After the differences between the parties have been explored, the aim of the negotiators is to look for a solution, and reach an outcome that is broadly acceptable to each party.



▲ Negotiation in progress

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of the different ways in which negotiation has taken place.

Key points

- 1 Negotiation involves the process of resolving disputes.
- 2 Negotiation involves agreeing upon courses of action.
- 3 Negotiation involves bargaining for individual or collective advantage.
- 4 Negotiation involves reaching outcomes to satisfy the interests of those involved.

Summary questions

- 1 Explain what is meant by negotiation.
- 2 Discuss why an enterprise should try to take into account all of its stakeholders when involved in a process of negotiation.

Stages in the negotiation process: planning

LEARNING OUTCOMES

Learners should be able to understand:

- ▶ setting objectives
- ▶ choosing evidence to use
- ▶ benefits of a proposal
- ▶ weaknesses of a proposal
- ▶ arguments and counter-arguments for the proposal.

The importance of reaching a satisfactory outcome for all parties, satisfying the interests of all those involved in the process, has already been stressed. In the process of negotiation, people bargain for what they want from somebody else with what others want from them.

In order to achieve success in negotiation, it is absolutely vital to plan as thoroughly as possible before the start of the negotiation process. The best way to achieve success is to know what is wanted and what people are prepared to give in order to obtain it.

Before negotiation takes place, it is important that appropriate planning takes place. For example, it will need to be decided when and where a meeting will happen and who will attend it. It will also be helpful to set a limited period of time in which the negotiation will take place. Effective planning is significant because this should help to reduce the possibility of time being wasted in the negotiation process.

The planning stage

There are a number of important elements in the planning stage of the negotiation process.

Setting objectives

The negotiation process is likely to be more successful if the negotiator is absolutely clear about the aims and objectives of the negotiation process so that they can stay focused on what is required.

It is important that the objectives of the negotiation process are SMART. This means that they should be:

- **S**pecific
- **M**easurable
- **A**chievable
- **R**ealistic
- **T**ime-based.

Key terms

Negotiating style: a particular approach to the process of negotiation

SMART objectives or targets: objectives or targets that are specific, measurable, achievable, realistic and time-based



Skills signpost

Conflict resolution is based on a dual concern for self and for others. What do you think your negotiating style or strategy would be in relation to the mixture of these two themes?

Coursework link

You will be required to plan a negotiation as part of your enterprise project in Component 2 Coursework.

ACTIVITY 5.1

Think about a particular objective or target that you have. Outline to what extent you think it is SMART.

Choosing evidence to use

The possession and selection of information is vital to the success of any negotiation. A negotiator will need to ensure that the appropriate information is collected so that it can be used in the negotiation. A key factor in the selection of certain information is that it will stand up to counter-argument from the other parties involved in the negotiation.

The benefits of a proposal

A negotiator, to be successful, will need to be fully aware of the benefits and strengths of a particular position or argument.

The weaknesses of a proposal

It will also be useful if the negotiator is fully aware of the possible weaknesses and limitations of any negotiating position. This awareness of the possible weaknesses of any negotiating position will enable the negotiator to anticipate these weaknesses being raised by the other parties and so be able to respond in an appropriate way.

Arguments and counter-arguments for the proposal

It will often be useful if a negotiator can try to 'win over' the other party or parties in the negotiation by making them clear on the potential benefits of accepting a particular proposal.

In terms of honesty, a negotiator may believe that it is important to make the other parties fully aware of not only the potential benefits of accepting a particular proposal, but also the potential drawbacks.

It is very important, as has already been indicated, that a negotiator anticipates the objections that are likely to be raised by the other parties to a particular proposal, so that counter-arguments can be put forward in an attempt to try to overcome the objections.

It may be an important part of the negotiation process to bring attention to the possible consequences of a proposal not being accepted. This may be part of the tactic of 'brinkmanship' already referred to.

Have I listed the drawbacks of accepting my proposal?

A negotiator may believe that it is important to make the other parties fully aware of the potential drawbacks of accepting a particular proposal.

How am I going to counter others' objections?

A negotiator must anticipate the objections that may be raised by the other parties. Counter-arguments can then be made to address the objections.



▲ Considering the objectives

Key points

- 1 Negotiation, if it is to be successful, needs to be carefully planned.
- 2 This process involves setting objectives, choosing evidence to use, considering the benefits and weaknesses of a proposal and the arguments and counter-arguments for the proposal.

Summary questions

- 1 Explain why it is important to plan any negotiation carefully.
- 2 Discuss the various elements involved in the planning stage of the negotiation process.

Stages in the negotiation process: conducting the negotiation

LEARNING OUTCOMES

Learners should be able to understand what is involved in conducting the negotiation:

- ▶ setting the tone
- ▶ presenting your proposal
- ▶ understanding each other's point of view
- ▶ summarising to check understanding
- ▶ reaching agreement.

Conducting the negotiation

Conducting the negotiation involves a number of elements, each of which is vital to the successful outcome of the process.

Setting the tone

It is important that the negotiator sets an appropriate tone for the conduct of the negotiation. The negotiating environment will need to be clearly established so that all of the negotiators are fully aware of how the discussions are going to proceed. For example, it might be helpful to produce an agenda which will outline the order in which different issues will be discussed. This will make it clear to the negotiators how the meeting will proceed.

This is significant in the process because it will allow the participants to be able to listen, question and clarify the issues. Each side in the dispute should have an equal opportunity to present their case.

There are different possible ways of communicating within a process of negotiation and so it needs to be considered how a negotiator will approach the process, i.e. what kind of tone is going to be set. For example, the distinction between a 'hard' and a 'soft' approach to bargaining has already been stressed.

The process of negotiation will obviously involve the interaction of different people, and it may be helpful if a negotiator considers whom they are going to negotiate with as this may influence the tone and negotiating style adopted.

Presenting your proposal

In terms of presenting your proposal, it is assumed that conflict resolution is based on a dual concern. This means that dealing with conflict is based on two themes:

- a concern for self, which stresses the importance of assertiveness
- a concern for others, which stresses the importance of empathy.

There are a number of different negotiating styles and strategies that could be used to present a proposal, based on different mixtures of these two concerns, and these can include the following:

- **Accommodating:** this style involves negotiators wanting to try to maintain relationships and so these people are sensitive to the views and language of others involved in the negotiation process when presenting a proposal.
- **Avoiding:** these negotiators do not actually enjoy the process of negotiation, especially where this involves a great deal of disagreement and confrontation, and so they are more inclined to agree with others.
- **Collaborating:** this style involves negotiators working constructively with others in the negotiation process to solve problems in creative and imaginative ways.
- **Competing:** these people enjoy the negotiation process because they like the opportunity it offers to be a winner; they tend to dominate the negotiation process and often see the process in terms of strategies rather than stressing the importance of relationships.
- **Compromising:** this style involves negotiators who are keen to bring the process of negotiation to an end, rather than letting it go on for a long time, and so they are more willing to make concessions to enable an agreement to be reached that is satisfactory to the people involved.

Understanding each other's point of view

From the discussions that take place at the meeting, the needs, goals and interests of both parties can be explored, and it is important to understand each other's point of view. It may be possible to establish which needs and interests are more important than others, i.e. an order of priority can be established. This would be extremely useful in the negotiating process because it would indicate which needs and interests were regarded as more important than others.

Summarising to check understanding

It is important that the bargaining positions of each side are made very clear.

Everything needs to be clarified so that there are no misunderstandings between the parties. It may be useful to produce summaries of what has happened at various times throughout the negotiating process as this could help to avoid misunderstandings.

This is significant in the negotiating process because it is vitally important that there are no misunderstandings between the parties that could damage and undermine the process.

Reaching agreement

Before an agreement can finally be reached, each side negotiates their position as strongly as they can. The arguments are put forward by each side as strongly as possible. If the bargaining position is a 'hard' one, it may well be that each party aims for a 'win-lose' situation, i.e. each side is determined to win at all costs, with no prospect of compromise.

However, it may well be that 'soft' bargaining positions are adopted so that all parties consider alternative strategies and possible compromises. In this



Study tip

Make sure you understand the various stages of the negotiating process.



▲ The conclusion of a successful negotiation

situation, the parties can aim for a 'win-win' situation, i.e. each side is willing to accept an outcome where they believe they have gained something positive as a result of the negotiation process. In such a situation, both sides believe that their point of view has been taken into account.

This is significant in the negotiating process because the position of each side needs to be as clear as possible so that it may be possible to reach a compromise solution that is acceptable to all parties.

The final stage in the negotiating process is the reaching of an agreement. Any agreement needs to be made absolutely clear so that both parties are aware of what has been decided as a result of the negotiation.

Once agreement has been reached, an appropriate course of action can then take place in order to implement the decision that has been reached. This may involve an action plan in order to carry out the course of action.

This is significant in the process because the reaching of agreement is the ultimate goal of any process of negotiation.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of the different ways in which agreement has been reached as a result of negotiation.

Key points

- 1 In measuring the success of a negotiation, it is important to consider what went well.
- 2 It is also important to consider how the negotiating could be improved next time.

Coursework link

You will be required to conduct a negotiation as part of your enterprise project in Component 2 Coursework.

Summary questions

- 1 Explain why it is important at the end of a negotiation process to reflect on what went well.
- 2 Discuss how it might be possible to improve the success of a negotiation process in future.

5.4

Stages in the negotiation process: measuring success

LEARNING OUTCOMES

Learners should be able to understand what is involved in measuring the success of a negotiation:

- ▶ what went well
- ▶ how to improve next time.

The final stage in the negotiation process, after agreement has been reached, is to measure the success of the process. In particular, this will involve two elements: firstly, a review of what went well and secondly, a consideration of how to improve next time.

Measuring success: what went well

It is important to review what went well in the negotiation process. These could include the following:

- effective verbal communication
- effective listening skills to reduce misunderstanding
- good attempts at building rapport to bring about strong working relationships between the various negotiators
- demonstration of mutual respect
- effective problem-solving skills
- successful decision making skills and techniques
- assertiveness to show other negotiators that you feel strongly about something
- ability to deal calmly and rationally with potentially difficult situations.

Measuring success: how to improve next time

There are a number of different possible ways that changes could be made in future negotiations. These are some examples of changes that might be considered.

There could be a change in the type of language used, such as a shift from threatening to non-threatening language or the use of a lower level of voice or a slower voice pattern. At times, the negotiation process could have been quite confrontational and so it might be useful to reappraise the approach taken, stressing the importance of using positive, non-confrontational, language and of looking for new options to resolve the dispute or conflict. It may also help if

a negotiator speaks more calmly and slowly; this could indicate a move away from emotional to more rational behaviour.

The skill of active listening could be employed to create a greater degree of rapport and trust. This may make it easier for negotiators to provide insights into the reasons for their actions and demands, as when the interests behind the negotiating positions are made clear, conflict resolution is easier to achieve. A greater degree of rapport between negotiators is likely to come about as a result of mutual respect and positivity between negotiators; this will help to move the negotiators away from a conflict situation to one where the negotiators are working together to achieve the best possible solution.

Another approach could be to lower demands. Sometimes, when demands are high, the result can be a lose-lose outcome when negotiators are unwilling to compromise or step down. It might be more helpful if there was a lowering of demands, not necessarily as a sign of a weaker position, but as a sign of collaboration and of working towards a win-win situation.

CASE STUDY

Udemy

Udemy is an online teaching and learning marketplace based in San Francisco, USA. It offers courses in negotiation skills.

Florence Ng, of Udemy, has summarised six key tips for successful negotiations:

- present your arguments clearly, concisely and confidently to avoid any confusion or unnecessary disagreement or conflict with other negotiators
- remain calm throughout the negotiation process and avoid losing your temper if discussions become heated or if things do not go your way
- be aware of any verbal or non-verbal cues that are demonstrated by other negotiators; watch for body language and other non-verbal signals between negotiators
- try your best to remain sensitive to the needs and concerns of those who you are dealing with
- always conduct negotiations with a diplomatic spirit; have your ultimate goal in mind, but attempt to seek mutually beneficial agreements to keep both sides happy
- if there is tension, look for ways to reduce it.

Florence has stated: 'The negotiation process can be a tiring one. It is important to keep yourself in good spirits at all times. This will also help your other party trust your judgements and attain good vibes from your side. Try adopting a sense of humour as well.'

Extension question

Discuss why it is important for a successful negotiator to strengthen and develop their negotiation skills.



Skills signpost

Think about any negotiation that you have been involved in, such as in the family. Consider what went well and what you would want to improve next time.

Key points

- 1 In measuring the success of a negotiation, it is important to consider what went well.
- 2 It is also important to consider how the negotiating could be improved next time.

Summary questions

- 1 Explain why it is important at the end of a negotiation process to reflect on what went well.
- 2 Discuss how it might be possible to improve the success of a negotiation process in future.

Unit 5 Practice questions

- 1 Explain what is meant by negotiation. (2)
- 2 Explain why it is important to set clear objectives in the planning stage of the negotiation process. (4)
- 3 Explain why it is important to check understanding when conducting a negotiation. (4)
- 4 Discuss how agreement can be reached in the negotiation process. (10)
- 5 Evaluate the various factors that could threaten the success of a negotiation. (15)

6

Understanding finance

TOPIC AIMS

Learners should be able to understand:

- ▶ the advantages and disadvantages of different sources of finance, including start-up funding and funding for continuing trade and expansion
- ▶ the concept of trade credit
- ▶ the most important financial terms
- ▶ the purpose and importance of keeping accurate financial records
- ▶ how to prepare a simple budget, including a cash flow forecast and an income statement for an enterprise.

Unit 6 begins by looking at the advantages and disadvantages of different sources of finance for enterprises, both in relation to start-up funding and to funding for continuing trade and expansion.

It then considers the concept of trade credit and its various advantages and disadvantages.

This is followed by an examination of different financial terms, including cash flow forecast, break-even and income statement.

The purpose and importance of an enterprise keeping and maintaining accurate financial records is emphasised and the unit finishes by showing what is involved in the preparation of a simple budget, including a cash flow forecast and an income statement for an enterprise.

6.1 Sources of finance 1

LEARNING OUTCOMES

Key terms

Commercial bank: a commercial institution that receives deposits and provides loans and other forms of financial support; it is usually owned by its shareholders

Building society: a financial institution that receives deposits and provides loans and other forms of financial support; it is usually owned by its members, and so is a mutual organisation

Credit union: a financial institution that receives deposits and provides loans and other forms of financial support; it is usually owned by its members, and so is a mutual organisation, but it tends to be limited to particular areas of a country or to particular groups of workers

Friendly society: a financial institution that receives deposits and provides loans and other forms of financial support; it is usually owned by its members, and so is a mutual organisation. It is similar to a building society, but tends to be on a smaller scale, specialising in providing savings accounts and life insurance plans

Learners should understand the advantages and disadvantages of different sources of:

- ▶ start-up funding.

Start-up funding

There are a number of different sources of finance available for start-up funding.

Personal savings (capital)

Some entrepreneurs are able to finance the creation of a new enterprise through their personal savings. However, unless they are very rich, the amount of personal savings accumulated is likely to be relatively small.

ACTIVITY 6.1

Working in a pair or group, find out the range of financial institutions which exist in your country. This information could be presented in the form of a wall chart.

Family and friends

Some entrepreneurs, when starting a new enterprise, may be able to gain finance from family and friends. This could be in the form of a gift, but it is more likely that it will be in the form of a loan. However, the rate of interest to be paid on such a loan may be less than the rate of interest that would apply on a loan from a commercial bank and it is even possible that as the loan is from family and friends, no interest will be required. This source of finance is usually more appropriate to the financing of a new enterprise than to the finance of one that is expanding.

Banks and other financial institutions, including overdrafts, loans, leasing and mortgages

In all countries, there will be a variety of financial institutions that will be able to provide finance to a new or to an expanding enterprise. These institutions can include commercial banks, building societies, credit unions and friendly societies.

The financial assistance can take different forms, but four of the most common are overdrafts, loans, leasing and mortgages.

An **overdraft** is where a borrower, such as an enterprise, has an account with a financial institution and this account is allowed to go into debit, usually up to a maximum amount. An agreed rate of interest will usually be paid by the

Key terms

Grant: a payment that is usually given to support a particular project or service

Lease: a contractual arrangement whereby an asset is used for a specified period of time on payment of rent

Lessee: the person or organisation that rents an asset from a lessor

Lessor: the person or organisation that rents out an asset to a lessee

Loan: money that is lent by a financial institution to a borrower

Mortgage: a form of loan that is usually secured against a property

Overdraft: a situation when an account is allowed to go into debit

Subsidy: a payment usually given to keep the selling price lower than would otherwise be the case

borrower to the institution, although this rate of interest will vary depending on whether the overdraft was agreed in advance with the financial institution or not.

ACTIVITY 6.2

Find out whether the government in your country has provided grants and/or subsidies to enterprises as part of an enterprise support programme.

A **loan** refers to an amount of money that is lent by a financial institution to a borrower, such as an enterprise, and which needs to be repaid over a period of time. An agreed rate of interest will usually be paid by the borrower to the institution which is, in effect, the price of the loan.

A **lease** refers to a contractual arrangement calling for the lessee (the user) to pay the lessor (the owner) for the use of an asset, such as a building or a vehicle. The lessor is the legal owner of the asset and the lessee obtains the legal right to use the asset in return for regular rental payments.

A **mortgage** is a form of loan that is usually linked to the purchase of a property or premises and the property provides for the security of the loan. This is why a mortgage is regarded as a secured loan, whereas most loans are unsecured.

Community sources, including charities and social enterprises

In many countries, there will be different community sources of finance. The Chilimba Investment Scheme in Zambia is one such example and it helps to provide finance to enterprises.

Charities can also be a source of finance to a new enterprise. The Prince's Trust in the UK gives low interest start-up loans and grants to new enterprises.

Social enterprises, i.e. not-for-profit organisations, may also be supported by local community sources.



Study tip

Make sure that you are able to clearly distinguish between overdrafts, loans, leasing and mortgages.



Study tip

Make sure you are able to distinguish between a grant and a subsidy.

CASE STUDY

The Chilimba Investment Scheme in Zambia

Access to finance is quite restricted for many people in Zambia. The informal sector is more popular than the formal sector and there has been a tradition of establishing savings and investment schemes in many parts of Zambia. One example of a local grassroots scheme in Zambia is the Chilimba Savings and Investment Scheme.

Chilimba is a form of informal, self-help savings scheme which exists as an alternative to the formal savings schemes offered by financial institutions in the country. It is popular among many Zambians because it is often quicker and easier than going to a commercial bank. Funds can be provided to help enterprises in their start-up initiatives.

Extension question

Consider why an informal savings and investment scheme may be seen as a viable alternative to that offered by a commercial bank.

Key terms

Crowdfunding: the practice of funding an enterprise project or venture by raising small amounts of money from a large number of people, typically via the internet

Investment: the process of purchasing capital assets

Share or equity: a contribution to the finance needed by an enterprise organised as a limited company. A share certificate is issued to the shareholder

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of its different sources of finance.

Grants and subsidies

The governments of some countries may provide a range of grants and subsidies to support new enterprises, usually as part of some form of Enterprise Support Programme.

A government grant refers to a payment from a government, usually to finance a specific project or service. Unlike a loan, a grant does not usually need to be repaid.

A government subsidy refers to a sum of money paid by a government to a producer, such as an enterprise, so that the price charged to the customer is lower than would otherwise have been the case.

Crowdfunding

Crowdfunding refers to the practice of raising finance for an enterprise by asking a relatively large number of people each for a small amount of money. Traditionally, financing an enterprise involved asking a few people or financial institutions for large sums of money. Crowdfunding switches this idea around, using the internet to communicate with thousands of potential providers of funds.

Selling shares

The purchase of shares in limited companies is another possible source of finance, although this would be more appropriate for the expansion of an existing enterprise rather than for the creation of a new enterprise, as it would be unusual for an enterprise to start as a limited company. It is much more likely that it would start as a sole trader or as a partnership.

Key points

- 1 There are many different sources of start-up funding for enterprises.
- 2 Each of these sources of finance will have various advantages and disadvantages.

Summary questions

- 1 Explain the differences between an overdraft, a loan, a lease and a mortgage.
- 2 Discuss the various factors that need to be taken into account when deciding which sources of finance to consider when starting a new enterprise.

6.2 Sources of finance 2

LEARNING OUTCOMES

Learners should understand the advantages and disadvantages of different sources of:

- ▶ funding for continuing trade and expansion.

Funding for continuing trade and expansion

There are a number of different sources of finance available for funding for continuing trade and expansion.

Personal savings (capital)

The use of personal savings has already been referred to as a source of finance for a new enterprise and it is possible that it could also be a form of funding for the continuation and expansion of an enterprise, although this is unlikely to be a source of significant funds.

Retained profit

This source of finance is particularly appropriate for an enterprise that wishes to expand. If an enterprise is already established, and is successful in terms of making a reasonable profit, then it is possible that at least some of these profits could be reinvested into the enterprise, such as in the form of buying new equipment or expanding the size of the premises. The proportion of a firm's profits that are retained for reinvestment will depend on how much of the profit is left after dividends have been paid to the shareholders of the company.

Private institutions

It is not only governments that can provide finance to new or expanding enterprises. Private institutions can also be a source of finance. In some countries, there is a tradition of private companies supporting new enterprises or those wishing to expand. Botswana is an example of such a country.



▲ Sir Seretse Khama International Airport, Gaborone, Botswana

Key terms

Venture capital: a collective investment scheme designed to provide private equity capital for relatively small expanding enterprises

Coursework link

You will have the option to prepare financial planning materials for your enterprise project in Component 2 Coursework.

CASE STUDY

Kgalagadi Breweries Limited

Kgalagadi Breweries Limited, the main brewing firm in Botswana, provides grants to new and expanding enterprises in what is called its Kick-Start Programme. The company is committed to supporting sustainable enterprise development as part of its aim of creating jobs and wealth within communities in Botswana. It has a strategy for building prosperity in Botswana and is committed to supporting small enterprises, stressing the role that they can play in generating economic growth and reducing poverty in the country.

One example of the grants given out by the firm is Pick-Up Services. This enterprise was started by the entrepreneur, Tiro Magowe, in 2013 and now employs 24 workers. The enterprise specialises in concrete floors for all types of buildings and is currently involved in the expansion of Sir Seretse Khama International Airport in Gaborone, Botswana. He thanked the brewing firm for its financial support, stressing that the grant would be used to buy equipment and to expand the enterprise.

Extension question

Discuss why a company would want to support enterprises in a country through the provision of grants.

ACTIVITY 6.3

Working in a pair or group, find out if there are any examples in your country of private firms that have given financial assistance to new or expanding enterprises.

Venture capital

Venture capital refers to a collective investment which provides finance to enterprises that are regarded in some way as relatively risky. These are often tax-efficient and are designed to provide private equity capital for small expanding enterprises rather than for new enterprises. Venture capital usually refers to finance that is provided by investors to enterprises with long-term growth potential, but which typically entails high risk for the investor in the short-term. Venture capitalists are sometimes known as business or enterprise angels.

Issuing shares

It has already been pointed out that the issuing of shares in limited companies would be more appropriate for the expansion of an existing enterprise rather than for the creation of a new enterprise, as it would be unusual for an enterprise to start as a limited company.

CASE STUDY

Refer to the five case studies on pages 6–10. Give examples from each case study of its different sources of finance.

Key points

- 1** There are many different sources of funding for continuing trade and expansion of enterprises.
- 2** Each of these sources of finance will have various advantages and disadvantages.

Summary questions

- 1** Explain what is meant by venture capital.
- 2** Discuss the various factors that need to be taken into account when deciding which sources of finance to consider when funding the continuing trade and expansion of an enterprise.

6.3 The concept of trade credit

LEARNING OUTCOMES

Key terms

Credit: a sum of money that an enterprise allows an entrepreneur before requiring payment and/or a sum of money that an enterprise allows a customer before requiring payment

Creditor: a person or organisation that is owed money

Debt: a sum of money that is owed by a person or organisation

Debtor: a person or organisation that owes money



Study tip

Make sure you understand that credit arranged between entrepreneurs and suppliers is referred to as trade payables and that credit arranged between entrepreneurs and customers is known as trade receivables.



Study tip

Make sure you are able to clearly distinguish between a creditor and a debtor and between credit and debt.

Learners should understand the advantages and disadvantages of trade credit for:

- ▶ entrepreneurs and suppliers (trade payables)
- ▶ entrepreneurs and customers (trade receivables).

Credit and creditors

The term 'credit' has a number of different meanings, but in this sense, in relation to trade credit, it can refer to a sum of money that a supplier allows an entrepreneur before requiring payment and/or a sum of money that an enterprise allows a customer before requiring payment.

A creditor refers to a person or organisation that is owed money.

A debtor refers to a person or organisation that owes money.

Debt and debtors

The term 'debt' refers to a sum of money that is owed by one person or organisation to another person or organisation.

Terms of payment

It is often the case that enterprises offer purchasers a period of time to make a payment. In these situations, the payment is delayed or deferred. These terms of payment will often vary from one transaction to another, but it is often the case that an enterprise will not require payment until a period of 30, 60 or 90 days has elapsed. The term 'credit' actually comes from the Latin word for 'believe', and so a credit arrangement is one based on trust, i.e. the enterprise is not reimbursed immediately but agrees to receive the required payment at a later date. Whether an enterprise decides to offer credit or not will depend, to some extent, on the reputation, reliability or creditworthiness of the purchaser. If a purchaser is regarded as being unreliable in some way, credit may be denied.

Trade credit can also apply to the relationship between entrepreneurs and suppliers. An entrepreneur may need certain parts or materials from a supplier, but is not able to pay for these immediately. The supplier may therefore decide to allow the entrepreneur to have credit, i.e. payment is deferred for 30, 60 or 90 days.

The advantages and disadvantages of trade credit

Advantages

The provision of credit by an enterprise has the advantage that this may attract customers. The trade credit facilitates purchases because there is no need to

Key term

Trade credit: the credit extended by a seller to the purchaser of goods and services



Did you know?

Did you know that Wal-Mart, the US firm and the largest retailer in the world, has used trade credit as a larger source of finance than borrowing from banks. Trade credit for Wal-Mart is approximately eight times the amount of equity capital invested by its shareholders.

arrange immediate payment. For example, if a rival enterprise offers credit of 30 or 60 days, but another enterprise offers 90 days, this may persuade customers to buy from this enterprise rather than from a competitor. From the point of view of the enterprise that is a creditor, i.e. it is owed money by a customer, this has the advantage of helping the enterprise to establish itself and possibly gain an increase in its market share.

From the point of view of the debtor, this period of credit has the advantage that the customer has a relatively long period of time to make the payment. There is always an opportunity cost involved with any financial transaction and if a customer knows that payment does not have to be made for 90 days, the money that will be needed to make this payment can be used for other purposes. Trade credit, involving delaying payment for goods or services received, can be regarded as a way of obtaining finance. The creditor is providing the goods and services without receiving immediate payment and this, in effect, the same as 'lending money'. Trade credit is frequently used by firms as a source of short-term financing and it has the advantage of being interest-free.

From the viewpoint of the supplier, it may also be wise to not insist on the entrepreneur making immediate payment because if this was demanded, the entrepreneur could decide to make contact with an alternative supplier that was willing to provide a credit arrangement.

Disadvantages

However, the extension of credit to as much as 90 days by the enterprise can have a disadvantage, especially in relation to cash flow. Other people and organisations may be requesting the payment of funds which the enterprise may not be able to pay at a particular point in time. It will not be of much use if the enterprise tells the firm demanding immediate payment that there is no need to worry because it will receive money that it is owed in up to 90 days time, as the firm will want payment now, not in another 90 days.

This period of credit could also have a disadvantage to the customer. It might have been able to pay the enterprise when it purchased the goods, or after 30 or 60 days, but it is possible that the customer experiences financial difficulties during the last 30 days of the credit period and is then unable to make the payment at the end of the 90-day period. If such a situation occurs, a great deal of confidence will be lost between the enterprise and the purchaser if the payment cannot be made after 90 days. Also, the purchaser may have been able to negotiate a discount for quick payment if payment had been immediate or within a short period of time and so the cost of goods to a firm may be higher as a result of using credit. When goods are purchased and paid for at a later date, this is regarded as a short-term financial debt and is an example of a current liability.

Trade credit given by the supplier to the entrepreneur could also have disadvantages, especially in relation to cash flow.

ACTIVITY 6.4

Working in a pair or group, consider whether you would decide to offer customers a period of credit if you started an enterprise.

Key points

- 1** An enterprise may decide to offer a customer, or a supplier may decide to offer an entrepreneur, a 30-, 60- or 90 -day payment period.
- 2** There are advantages and disadvantages, to both creditors and debtors, of the provision of credit.

Summary questions

- 1** Explain the concept of trade credit.
- 2** Discuss the advantages and disadvantages to an enterprise of providing a 90-day period of credit to a customer.

6.4 Financial terms

LEARNING OUTCOMES

Learners should understand:

- ▶ a cash flow forecast
- ▶ the concept of break-even
- ▶ an income statement.

Key term

Cash flow: the inflow of money into and the outflow of money out of an enterprise

Key term

Surplus: the amount by which an enterprise's income exceeds its expenditure or spending over a particular period of time

Key term

Deficit: the amount by which an enterprise's expenditure or spending exceeds its income over a particular period of time

Cash flow forecast

Cash flow refers to the movement of money into (inflow) and out of (outflow) an enterprise. It is usually measured over a specific period of time.

Cash inflows

Cash flows into an enterprise as receipts, e.g. from the money received from selling goods or services.

Cash outflows

Cash flows out of an enterprise as payments, e.g. to pay employees and suppliers.

Net cash flow

Net cash flow is the difference between money coming into, and out of, an enterprise. It can either be a surplus or a deficit.

Surplus

A surplus refers to the amount by which an enterprise's income exceeds its expenditure or spending over a particular period of time. It is where the difference between cash inflows and cash outflows is positive.

Deficit

A deficit refers to the amount by which an enterprise's expenditure or spending exceeds its income over a particular period of time. It is where the difference between cash inflows and cash outflows is negative.

The significance of an enterprise having a cash flow deficit or surplus

The significance of an enterprise having a cash flow deficit is, as has already been indicated, that it could go bankrupt, even if it was a profitable enterprise. Positive cash flow is essential to the solvency of an enterprise. As long as an enterprise has a sufficient amount of cash immediately available, it will be able to ensure that creditors, employees, suppliers and others can be paid on time. If an enterprise does not have sufficient cash immediately available, it will not be able to support its operations and could become insolvent. If the cash

Key term

Solvency: the degree to which the current assets of an enterprise are greater than its current liabilities

Key term

Break-even: the break-even point is when the total revenue of an enterprise exactly matches the total costs and the enterprise is not making either a profit or a loss



Study tip

Establishing the break-even point helps an enterprise to plan the levels of production it needs to be profitable.

Key term

Variable costs: the costs of an enterprise that vary directly with changes in the level of output

Key term

Fixed costs: the costs of an enterprise that do not vary directly with changes in the level of output

flow deficit is a short-term difficulty which can be put right, such as through the borrowing of additional funds, then the situation of insolvency may not last for a very long period of time. However, if the insolvency continues in the long term, then the enterprise may become bankrupt and will be forced to close.

The significance of an enterprise having a cash flow surplus is that it is crucial to the survival of an enterprise. This surplus will mean that an enterprise will be able to support its operations and will be able to pay its creditors, employees, suppliers and others. This means that an enterprise is solvent and is likely to continue in existence for a relatively long period of time.

Break-even

Break-even analysis involves working out the minimum level of sales required to cover all the costs of an enterprise. At low levels of sales, an enterprise is not selling enough units for revenue to cover its costs and a loss will be made. As more items are sold, the total revenue increases and covers more of the costs. The break-even point is reached when the total revenue of an enterprise exactly equals the total costs of an enterprise and the enterprise is therefore not making a profit or a loss. If the enterprise increases sales beyond this point, it will be making a profit.

The break-even point of an enterprise can be calculated by drawing a graph showing how variable costs, fixed costs, total costs and total revenue change with the level of output.

A break-even graph or chart is constructed in the following way:

- The horizontal axis is labelled to show different levels of production or output or sales.
- The vertical axis is labelled to show the value of total costs. This is made up of fixed costs and variable costs. The fixed costs are shown by a straight horizontal line which starts at the value of all the fixed costs; it is a horizontal line because the fixed costs do not change with changes in output. The variable costs are shown by a straight line.
- The vertical axis is also labelled total revenue. This shows the total amount of money received from selling the products and is calculated by multiplying the number of units sold by the price per unit.

Total costs

The total costs of an enterprise are made up of variable costs and fixed costs.

Variable costs

These are the costs of an enterprise in terms of what is involved in the production of goods, such as the costs of the raw materials, component parts, labour and energy that are used to produce a product. Variable costs are directly related to the production of an enterprise and so vary proportionately with changes in the level of output. They can also be called direct costs.

Fixed costs

These are the costs of an enterprise that do not vary with the level of output of an enterprise. Examples include the use of buildings, plant and equipment,

interest charges, rent and administrative costs. The costs of these must be met whatever the level of output of an enterprise; these costs of production will stay the same regardless of the quantity produced. They can also be called indirect costs.

ACTIVITY 6.5

The following table shows the fixed costs, the variable costs, the total costs and the sales revenue of an enterprise.

	10,000 units (\$)	20,000 units (\$)	30,000 units (\$)
Fixed costs	80,000	80,000	80,000
Variable cost = \$8 per unit	80,000	160,000	240,000
Total costs	160,000	240,000	320,000
Sales revenue = \$12 per unit	120,000	240,000	360,000

Produce a break-even chart using this information.

The limitations of a break-even chart

Break-even analysis has a number of limitations:

- it is not always easy to estimate costs
- it assumes that all units are sold
- it assumes that forecasts are reliable
- it assumes that the external environment in which the enterprise operates is stable.

Break-even analysis makes a number of assumptions, but these may not be accurate. Costs can change quickly, especially the variable costs, e.g. the cost of labour and/or raw materials may suddenly increase. Also, if a new enterprise enters a market or there is an economic recession, it could take longer than expected for an enterprise to reach the break-even point. This is why many enterprises add on a margin of safety to the break-even level of output when deciding on the minimum sales target.

Contribution

Contribution is the difference between sales revenue and variable costs. If contributions are just enough to cover fixed costs, then the enterprise breaks even. If contributions are less than fixed costs, then the enterprise makes a loss. If contributions are greater than fixed costs, then the enterprise makes a profit. Contributions provide a fund out of which total fixed costs must be paid before any profit is made by an enterprise.

Income statement

An income statement, also known as a profit and loss account or statement, refers to an income and expenses statement which shows the sales revenue of an enterprise over a period of time, usually three or twelve months, and all



Study tip

Break-even analysis is a useful tool for calculating the minimum sales needed to avoid an enterprise making a loss. However, despite its potential advantages, it has a number of limitations.

Key term

Contribution: the difference between sales revenue and variable costs

Key term

Profit: the difference between the sales revenue and the total costs of an enterprise



Study tip

You need to be aware that charitable organisations do not make a profit; they record a surplus

Key term

Loss: the gap or shortfall between an enterprise's sales revenues and the total costs incurred in producing the output of the enterprise

Key term

Income: all of the incomings of an enterprise received from different sources over a specific period of time

Key term

Revenue: the income received from the sales of goods and/or services of an enterprise over a specific period of time

Key term

Expenditure or spending: all of the outgoings of an enterprise over a specific period of time

of the relevant costs involved in earning that revenue. It is a statement of the financial performance of an enterprise during a particular period and shows the revenue and expenses of an enterprise.

An income statement shows how the sales revenue of an enterprise, before expenses are taken out, is turned into a net income after expenses are taken out. This net income can also be termed the net profit of an enterprise.

Profit

Profit refers to the difference between the sales revenue and the total costs of an enterprise.

Loss

Loss refers to the gap or shortfall between an enterprise's sales revenues and the total costs incurred in producing the output of the enterprise.

Income

The income of an enterprise refers to all of the incomings received from different sources over a specific period of time.

Revenue

This refers to the income received from the sales of goods and/or services of an enterprise over a specific period of time.

Expenditure or spending

The expenditure of an enterprise refers to all of the outgoings over a specific period of time. It can also be referred to as spending.

Debt

The term debt refers to a sum of money that is owed by one person or organisation to another person or organisation.

Income statement compared with a cash flow forecast

There are a number of differences between cash flow and an income statement:

- a cash flow statement will simply show the cash balance of an enterprise, whereas an income statement will indicate whether an enterprise has made a profit over the trading period
- the profit of an enterprise may not be the same as the cash received, such as when credit has been extended to purchasers
- an enterprise may receive cash in one trading period from sales made in a previous trading period, which would increase the cash balance of an enterprise, but not its profit
- an enterprise may borrow money, which would increase the cash balance, but have no effect on the profit of the enterprise

Key term

Debt: a sum of money that is owed by a person or organisation

Key term

Income statement, or profit and loss account: a statement which shows the net profit of an enterprise after all of the expenses have been deducted



Study tip

You will need to be able to define and to provide examples of financial terms in your exam.



Study tip

You will need to be able to make financial calculations where appropriate in your exam.



Study tip

Make sure you understand, and can explain, the difference between profit and loss and cash flow.

- purchases of fixed assets, such as machinery, will reduce the cash balance of an enterprise, but have no effect on its profit; similarly, sales of fixed assets will increase the cash balance of an enterprise, but again have no effect on its profit
- the amount of cash that an enterprise has at the end of a trading period will not be the same as the profit of the enterprise because it is unlikely that the cash balance of an enterprise will start from zero at the beginning of the trading period.

Profit and cash flow are very different. Cash flow is simply about money coming into and out of an enterprise. The challenge for an enterprise is to ensure that there is always enough cash to pay expenses when they are due, as running out of cash threatens the solvency of an enterprise. If an enterprise runs out of cash and cannot pay its workers or suppliers, it is insolvent. The enterprise must raise extra finance or cease trading. This is why planning ahead and drawing up a cash flow forecast is so important, as it can identify when an enterprise requires additional funding.

Key points

- 1 It is important to know what is meant by cash flow and to be able to explain why an enterprise would draw up a cash flow forecast.
- 2 It is important to know what is meant by break-even.
- 3 It is important to understand why an enterprise would draw up an income statement.

Summary questions

- 1 Explain why an enterprise would draw up an income statement.
- 2 Discuss how a profitable business could go bankrupt because of negative cash flow.

6.5 Financial records 1

LEARNING OUTCOMES

Learners should be able to understand:

- ▶ the purpose of income statements and budgets, including cash flow forecasts
- ▶ reasons for keeping accurate financial records.

Key terms

Budget: a financial statement of income and expenditure prior to a particular period of time

Budget variance: the difference between a budgeted or anticipated figure and the actual figure



Study tip

Make sure that you fully understand the meanings of the terms that are usually found in a budget.

The purpose of a budget

An enterprise will draw up a budget for a number of possible reasons, including the following:

- it can identify where expenditure may need to be controlled and reduced
- it can draw attention to the possible inefficiency of an enterprise
- it can clarify what an enterprise needs to do to improve its financial situation
- it can help an enterprise to establish specific and clear financial targets.

Budget variances

A variance is the difference between the figure that an enterprise has budgeted for and the actual figure. Variances are usually calculated at the end of the budget period when the actual figure will be known. A favourable variance is when the actual figure is better than the budgeted figure, whereas an adverse variance is when the actual figure is worse than the budget figure.

The purpose of an income statement

An enterprise will draw up an income statement for a number of possible reasons, including the following:

- it can help people, such as creditors and investors, determine the past financial performance of an enterprise
- it can help to predict the future financial performance of an enterprise
- it can help to assess the capability of an enterprise to generate future cash flows through an understanding of its income and expenses
- it can show the ability of an enterprise to generate profit during a trading period, and how the size of this profit could be changed by increasing revenue and/or reducing costs
- it can show how an enterprise has controlled its overheads over a trading period
- it can be used to indicate the growth of an enterprise.

The purpose of a cash flow forecast

An enterprise will draw up a cash flow forecast for a number of possible reasons, including the following:

- it would help to determine the value or rate of a return of a particular project or of all the work of an enterprise, such as the calculation of internal rate of return or net present value
- it would help to give an indication of the financial strength of an enterprise
- it would help to determine if there are problems and difficulties with the liquidity of an enterprise. An enterprise may be making a profit, but this does not mean that it is liquid, i.e. its assets may not be in the form of cash or easily and quickly converted into cash. This is why it is possible that a profitable enterprise may go bankrupt because of negative cash flow, i.e. an enterprise may fail because of a shortage of cash even though it is actually a profitable enterprise
- it would help an enterprise to evaluate the risks attached to the production of a particular product
- it would help to identify whether poor decisions have been taken by the management of an enterprise.

A cash flow forecast will indicate whether an enterprise has cash flow problems; these can come about in various ways, including the following:

- the enterprise has reached the limit of its overdraft
- the enterprise is owed a lot of money by purchasers who have taken advantage of the provision of trade credit
- the enterprise owes money to the tax authorities
- the enterprise owes money in the form of rent
- the enterprise does not have a working capital buffer, i.e. it is literally operating from day to day.

Reasons for keeping accurate financial records

There are a number of reasons why it is important for an enterprise to keep and maintain accurate financial records.

The need to provide a true and fair view to stakeholders

Accurate financial records show how much income is being generated by an enterprise, and how the money is being spent. Financial statements, such as an income statement or a cash flow forecast, can be produced from these records. Accurate and up-to-date financial records can give a useful indication of the strengths and weaknesses of an enterprise and of how changes could possibly be made to improve the efficiency and profitability of the enterprise. This information is of vital importance to the range of stakeholders involved in an enterprise. For example, if an enterprise is organised as a limited company,

it will need to be able to show that it is good at keeping accurate and up-to-date financial records if prospective investors are going to be attracted to invest in the enterprise.

Also, if the enterprise makes a profit, accurate financial records will be needed in order to calculate the dividends to be paid to the shareholders.

Legal and taxation purposes

An enterprise may well be required legally to keep accurate financial records. For example, if it is organised as a limited company, it will be legally required to keep certain financial records. Enterprises will also need to submit a tax return to show what the tax implications are of its operation and accurate financial records will help to provide the information that is required. If this is not the case, then the enterprise may end up over-paying or under-paying tax. If an enterprise is being audited for tax purposes, accurate and up-to-date financial records will be particularly important.

Forecasting

Future income and expenditure can be projected from the financial records and these projections can help to give an enterprise the necessary focus and direction. An important element of successful budgeting is to regularly review projected figures against actual figures. This will give an indication of what changes will need to be made within the enterprise.

Also, accurate financial records will help an enterprise to know if there will be enough cash to meet its financial commitments, such as paying the staff their wages and salaries. The records can be used to produce a cash flow projection which will show whether the incomings are sufficient to cover the outgoings. Keeping good financial records will make it easier to produce and implement a cash flow forecast. Depending on what is shown in the cash flow statement, the managers of an enterprise can then take the necessary action in order to increase income and/or reduce expenditure.

Decision making for owners/shareholders

Accurate financial records will be essential if the owners of an enterprise decide that a loan will be necessary for the expansion of the enterprise. If an enterprise approaches a financial institution for a loan, the potential lender will need to see the records in order to make a judgement about the financial health and well being of the enterprise. The financial records will also be used to inform the business plan, or any revisions of a business plan, which will indicate how any loan will be used by the enterprise.

CASE STUDY

Flame of Africa

A travel and tourism enterprise, called Flame of Africa, organises and operates tours in Botswana, Mauritius, Mozambique, Namibia, Uganda, Zambia and Zimbabwe. Flame of Africa was established in 2006 to specialise in holidays in these seven countries. Its sister enterprise, Flame Lily Holidays, can trace its origins back to 1958.

The managers of Flame of Africa stress the importance of maintaining accurate financial records, in particular for producing accurate cash flow forecasts. This is especially important in the travel and tourism sector because the demand for particular tours and holidays varies depending on the state of the economy in different countries.

Extension question

Discuss why it is important for an enterprise operating in the travel and tourism sector to keep and maintain accurate and up-to-date financial records.

Key points

- 1 It is important to understand the purpose of income statements and budgets, including cash flow forecasts.
- 2 There are a number of important reasons why it is important for an enterprise to keep accurate and up-to-date financial records.

Summary questions

- 1 Explain the purpose of an income statement for an enterprise.
- 2 Discuss the implications for an enterprise of failing to keep accurate and up to date financial records.

6.6 Financial records 2

Learners should understand how to prepare a simple budget, including:

- ▶ a cash flow forecast for an enterprise
- ▶ an income statement for an enterprise.

Preparing a cash flow forecast for an enterprise

If an enterprise prepared a cash flow forecast, it would include all the necessary information relating to cash inflow and cash outflow.

The cash inflow would include the 'revenue stream' that would change a cash account over a given period of time. Cash inflows into an enterprise are generated in one of three ways:

- financing
- operations
- investing.

The cash outflow would include the 'expenses stream' that would change a cash account over a period of time. Cash outflows from an enterprise are generated in one of two ways:

- expenses
- investments.

The following table shows a cash flow forecast for an enterprise for three months.

Item	First Month	Second Month	Third Month
Opening bank balance	\$2,500	\$1,500	\$-1,500
Total receipts (money in)	\$500	\$1,000	\$ 6,000
Total spending (money out)	\$1,500	\$4,000	\$ 2,000
Closing bank balance	\$1,500	-\$1,500	\$ 2,500

ACTIVITY 6.6

Working in a group which has planned the creation of an enterprise, produce a cash flow forecast which lists all the expected inflows and outflows of cash.

An enterprise can improve its cash flow by:

- reducing cash outflows, e.g. by delaying the payment of bills or securing better trade credit terms
- increasing cash inflows, e.g. by selling assets or by obtaining an overdraft.

Preparing an income statement for an enterprise

If an enterprise prepared an income statement, it would include all the necessary information relating to revenue and expenses.

The revenue would include all cash inflows into the enterprise as a result of its operations. This is essentially the sales revenue or gross revenue before the deduction of expenses.

The cash outflow would include the following:

- the expenses involved in producing an enterprise's output, known as the cost of sales
- the expenses involved in the selling and distribution of products
- the depreciation of assets of an enterprise
- expenses involved as a result of research and development
- tax expenses
- interest expenses.

The following table shows an income statement for an enterprise.

Sales revenue	\$100,000
Less cost of sales	\$60,000
Gross profit	\$40,000
Less other expenses	\$25,000
Net profit	\$15,000

ACTIVITY 6.7

Working in a group which has planned the creation of an enterprise, produce an income statement which shows the gross profit and net profit of the enterprise.



Study tip

You will need to be able to make financial calculations in relation to the pre-released case study.

Key term

Gross profit: the sales revenue of an enterprise less the cost of sales

Key term

Net profit: the gross profit of an enterprise less all other expenses



Study tip

Make sure that you understand the difference between gross profit and net profit.

Key points

- 1 It is important to know how to prepare a cash flow forecast for an enterprise.
- 2 It is important to know how to prepare an income statement for an enterprise.

Summary questions

- 1 Explain what is included in an income statement for an enterprise.
- 2 Discuss how an enterprise could try to improve its cash flow.

Unit 6 Practice questions

- 1 Explain **two** sources of start-up funding for an enterprise. (4)
- 2 Explain what is meant by the concept of trade credit by an enterprise to a customer. (4)
- 3 Distinguish between a cash flow statement and an income statement. (4)
- 4 Discuss why it is important that the financial records of an enterprise are accurate and up to date. (10)
- 5 Evaluate the extent to which finance for a new or expanding enterprise should come from government. (15)

7

Business planning

TOPIC AIMS

Learners should understand:

- ▶ that enterprises have different aims and objectives
- ▶ how aims and objectives influence the activities of enterprises
- ▶ the purpose and importance of action plans
- ▶ the purpose and importance of business plans.

Unit 7 is concerned with the range of business aims and objectives that an enterprise may have, including ethical and social, legal, profit, sales revenue, cash flow, growth and survival objectives. It is also concerned with how different aims and objectives can influence the activities of enterprises.

The unit goes on to deal with action plans and, in particular, the purpose and importance of action plans, their content, the methods of monitoring action plans and the importance of updating them.

Finally, the unit considers business plans, focusing on the purpose and importance of business plans, their content and the methods of monitoring them. It also considers possible reasons for an enterprise to update its business plan.

7.1 Business objectives

LEARNING OUTCOMES

Key term

Stakeholders: the various people and groups with a strong interest in a particular enterprise, including customers, employees, suppliers and the community.



Study tip

Although there are no agreed definitions of the length of such time periods as the short term and the long term, you need to understand the importance of these different time periods in relation to the planning of an enterprise.



- ▲ Various stakeholders will have views on an enterprise's business objectives and behaviour

Key term

Social responsibility: the idea that an enterprise has a responsibility towards the wider society and environment.

Learners should:

- ▶ understand that enterprises have a range of different aims and objectives including:
 - ethical, not-for-profit, social, belief-based
 - legal compliance
 - profit
 - sales revenue
 - cash flow
 - growth
 - survival
- ▶ be able to explain how different business objectives can affect how an enterprise behaves.

Aims and objectives

It is important to recognise that aims and objectives relate to different time periods, although there are no precise and universally agreed definitions of the particular periods of time:

- **Short-term:** this period of time is often seen within the context of the operational planning of an enterprise and this is likely to be for a period of, perhaps, three to six months, but it could extend to as long as a year.
- **Long-term:** this period of time can be seen within the context of the broader strategic planning of an enterprise and this is likely to be for a longer period of two, three or five years.

Ethical, not-for-profit, social, belief-based

Ethical aims and objectives are linked with the concept of social responsibility. Many enterprises wish to operate in a socially responsible way and this can be seen in their behaviour towards such stakeholders as customers, employees, suppliers and the local community. For example, an enterprise may be a not-for-profit organisation which seeks to achieve social and community objectives. An enterprise may well have wider goals which relate to the environment. For example, an enterprise might wish to be seen as an environmentally friendly business that is based on a belief in keeping down the level of pollution that it creates. This is likely to involve establishing good relations with relevant pressure groups, such as Friends of the Earth and Greenpeace.

ACTIVITY 7.1

Choose one enterprise and find out as much as possible about the various stakeholders that have an interest in it.

Legal compliance

One objective of an enterprise is a need for legal compliance. For example, an enterprise will need to comply with current laws and regulations relating to how it is set up and operated. It will also need to ensure that any contracts or agreements that are legally binding meet the necessary requirements. Procedures will need to be developed that ensure that health and safety laws and regulations are fully complied with. If an enterprise does not comply with the law, it may face serious consequences, such as a fine or the possibility of eventually being closed down by the legal authorities.



Study tip

Make sure you understand that profit is the difference between the revenue and costs of an enterprise.



Study tip

Make sure you understand what is meant by the term 'satisficing' and that you appreciate how it can affect how an enterprise behaves.



Study tip

You need to understand that objectives relate to the short term and that aims relate to the long term.



Skills signpost

Many enterprises stress that they have a social responsibility and demonstrate this in different ways. There are many ways in which you as an individual can demonstrate such a responsibility. Think of six possible ways.

Profit

One of the most important objectives of an enterprise is to make a profit. This is often the main reason why an enterprise has been established. The main objective of many enterprises is not just profit but profit maximisation, i.e. to make the gap between total revenue and total cost as great as possible.

Although profit maximisation is the goal of many enterprises, an enterprise may have the objective of satisficing. This is where the profit produced by an enterprise is sufficient to please the various stakeholders without being maximised, i.e. the stakeholders will be satisfied by the level of profit being made, even if it is recognised that the level of profit made by the enterprise could be greater.

However, as has already been pointed out, it should not be forgotten that profit may not be the main objective of social enterprises which exist as not-for-profit organisations, such as charities.

Sales revenue

Although profit maximisation is assumed to be the main objective of many enterprises, an alternative goal is the maximisation of sales revenue which is not the same as profit maximisation. This is especially the case for those enterprises that wish to expand their market share. The level of production needed to generate profit maximisation will not necessarily be the same level of output needed to generate sales revenue maximisation.

Profit has already been defined as the difference between costs and revenue and so there are two ways to increase the profits of an enterprise: increasing sales revenue and decreasing total costs.

Revenue refers to the income from the sales of an enterprise. This could be increased by raising the price of products if the demand for the products of an enterprise is not very sensitive to a price change. If the demand for the products of an enterprise is very sensitive to a price change, revenue would be more likely to be increased by lowering the price of the products.

Advertising can also be used, in addition to price changes, to increase sales revenue by increasing the awareness of the products being sold by an enterprise.

Cash flow

The importance of cash flow as an objective of an enterprise has already been stressed in Unit 6.4. Positive cash flow is essential to the solvency of an enterprise. As long as an enterprise has enough cash immediately available,

Key terms

Growth: the increase in size of an enterprise through internal and/or external expansion

Legal compliance: the process or procedure to ensure that an enterprise follows relevant laws, rules and regulations

Profit: the difference between the total revenue and the total cost of an enterprise

Profit maximisation: the goal of many enterprises to make the gap between total revenue and total cost as wide as possible

Sales revenue maximisation: where an enterprise aims to maximise the revenue received from sales rather than its profit

Satisficing: where an enterprise aims for an adequate level of profit, rather than profit maximisation



Study tip

You need to make sure you can demonstrate that you understand the difference between profit maximisation and a satisfactory level of profit.

it will be able to ensure that creditors, employees, suppliers and others can be paid on time. However, if an enterprise does not have enough cash immediately available, it will not be able to support its operations and could become insolvent. If the cash flow deficit is a short-term difficulty which can be put right, such as through the borrowing of money, then the situation of insolvency may not last for very long. However, if the insolvency continues in the long-term, then the enterprise may become bankrupt and go out of business.

Growth

An important objective of an enterprise may be growth, i.e. the expansion of the enterprise through internal and/or external growth.

Internal growth refers to the expansion of an enterprise through increasing its sales, such as through an increase in the number of outlets. These could be shops or factories, depending on the nature of the enterprise.

External growth refers to the expansion of an enterprise through taking over, or merging with, other enterprises. Such expansion would be expected to increase the sales of an enterprise and it may also reduce costs, contributing to an increase in profits.

Survival

A common objective of many enterprises, especially in their first few years of operation, is survival. In many countries, as many as one in three, or even one in two, enterprises collapse in the first year. An entrepreneur may have a lack of experience and a lack of resources and face stiff competition from established enterprises in a market. It will take time for an enterprise to become established and so survival may be a logical aim in the early years of an enterprise.

The influence of aims and objectives on the activities of enterprises

The various business aims and objectives will affect how an enterprise operates. For example, if an enterprise wishes to increase its profit, it will need to increase its sales revenue and/or reduce its costs. However, a reduction in costs could be as a result of taking decisions which could damage the environment. Similarly, it could lead to it behaving in an unethical way, such as in relation to the payments made to employees and suppliers.

The growth of an enterprise may help it to increase sales revenue and reduce costs, but if this is as a result of taking over another enterprise, this could lead to some workers losing their jobs.

One example of how aims can influence the activities of enterprises is in relation to the promotion of healthy eating in schools.

Another example of how aims can influence the activities is in relation to maximising growth. It has already been pointed out that growth is one of a number of important objectives that an enterprise may have, but maximising growth should not be at the expense of other objectives. For example, it should not lead to an enterprise acting unethically, lowering product quality or impacting the environment negatively.

ACTIVITY 7.2

Consider the potential advantages and disadvantages of an enterprise merging with another enterprise.

ACTIVITY 7.3

Consider how ethical and belief-based objectives may have an impact on an enterprise.

ACTIVITY 7.4

Work in a pair or group and find out about one enterprise that demonstrates a high level of commitment to the environment and to its wider responsibility to society. Write a report on how it demonstrates this commitment in its actions.

CASE STUDY

The promotion of healthy eating in schools

It has been estimated that approximately £2 billion is spent in the UK each year on food advertising and much of this goes on advertising such items as soft drinks, chocolate, biscuits, crisps and fast food. Over 80% of advertisements on children's TV are for fatty, salty and sugary foods.

Enterprises such as schools, however, remain one of the few places where children are relatively protected from commercial interests. Promoting healthy eating in schools is therefore one of the most important opportunities to ensure that children can choose a healthy diet.

Extension question

Discuss the role that a school can play in the promotion of healthy eating.

Key points

- 1 An enterprise may have a range of different business aims and objectives.
- 2 These different business aims and objectives can affect how an enterprise behaves.

Summary questions

- 1 Distinguish between the different business aims and objectives that an enterprise may have.
- 2 Discuss how different business aims and objectives could impact on the activities of enterprises.

7.2 Action plans

LEARNING OUTCOMES

Learners should understand the:

- ▶ purpose and importance of action plans
- ▶ contents of action plans
- ▶ methods of monitoring action plans
- ▶ importance of updating action plans.

Key term

Action plan: a plan that outlines the actions required to achieve particular aims and objectives and which provides a way of monitoring progress

The purpose and importance of action plans

An action plan is a detailed framework outlining the various actions that need to be taken to reach particular aims and objectives. It is beneficial for an enterprise to produce an action plan as it allows managers to monitor their progress, allowing them to handle projects efficiently. The advantage of producing and using an action plan is that it establishes the steps needed to achieve the end goal, e.g. it outlines each of the tasks that will need to be carried out.

An action plan will contribute to the establishment of a bond within an enterprise, as each member is aware of their individual role in achieving the success of a project. It can also help to create motivation and keep members focused on what they are aiming to achieve.

The contents of action plans

An action plan will contain a sequence of steps that need to be taken for a strategy to be successful. The various tasks that will need to be undertaken will be outlined and very often an indication will be given in terms of prioritising the amount of time that will need to be spent on each task. An action plan will usually indicate the tasks that will need to be carried out and an indication of a set date when these should have been completed.

An action plan will contain important information about the aims and objectives of a project and will set targets. These targets will need to be SMART:

- specific
- measurable
- achievable
- realistic
- time-based.

Specific roles and appropriate resources will then need to be allocated.

The methods of monitoring action plans

The success of an action plan can be monitored by analysing the progress achieved in relation to certain targets and by ensuring that tasks have been completed efficiently and by the agreed deadline. As a result of the monitoring process, it may become necessary to make some changes to the action plan. It is important, therefore, that an action plan is regularly updated.

The importance of updating action plans

Although many threats and opportunities will have been identified in the drawing up stage of an action plan, it is not possible to predict everything with certainty. It is especially important to update an action plan to take account of any challenges or threats that may have emerged since the beginning of the project.

CASE STUDY

ViRTUS

Mike Desjardins, an entrepreneur and the Chief Executive Officer of ViRTUS in Canada, has suggested the following tips to ensure that an action plan is executed effectively.

- Ensure that it is clear where the responsibility and accountability of tracking the progress of an action plan lies.
- Make it clear which steps need to be taken and by whom.
- Ensure that appropriate support is provided, both in terms of personnel and resources.
- Ensure that all members of a project are kept fully informed of what is happening in the project.
- Make sure that the tasks being undertaken are within the current operating budget.
- Ensure that it is clear to everybody what tasks need to be carried out and by when they need to be undertaken.
- Make sure that everybody fully understands what the target goals are and by when they are to be achieved.

Extension question

Discuss which are likely to be the most important factors in the effective execution of an action plan.

Coursework link

You will be required to produce an action plan for your enterprise project in Component 2 Coursework.

Key points

- 1 An action plan is fundamental to the success of an enterprise.
- 2 It is important to monitor action plans and, if necessary, to update them.

Summary questions

- 1 Explain the importance of an action plan to an enterprise.
- 2 Discuss how the carrying out of an action plan can be effectively monitored.

7.3 Business plans

LEARNING OUTCOMES

Learners should understand the:

- ▶ purpose and importance of business plans
- ▶ contents of business plans
- ▶ methods of monitoring business plans
- ▶ reasons for updating business plans.

Key term

Business plan: a document that summarises the main objectives of an enterprise and how these objectives are to be achieved



Study tip

Make sure that you clearly understand what is meant by a business plan.



Study tip

Although business plans are slightly different from each other, they are usually broadly similar. Make sure you have an understanding of what is likely to be included in one.

ACTIVITY 7.5

Working in a pair or group, decide on an enterprise that you might like to set up. Produce a business plan that will attract potential investors to lend your enterprise money.

The purpose and importance of business plans

The different possible aims and objectives of an enterprise have already been considered. A business plan is a statement, usually contained in a formal document, that outlines the ways in which an enterprise will try to achieve those aims and objectives. It will set out what the purpose of the enterprise is and how it aims to be a success.

There are a number of different possible reasons why an enterprise would want to draw up a business plan:

- to present to a financial institution when seeking to negotiate a loan
- to give a clear idea of its direction to all stakeholders
- to outline how it is going to operate
- to anticipate potential problems and so minimise the risk of something going wrong.

The production of a business plan is vitally important for an enterprise, especially when it is starting up. The most significant reason for this is that it is likely to help the enterprise to attract potential investors to lend money. There is usually an element of risk when people lend money and so potential investors need to be convinced that the enterprise they are lending money to is well-organised and focused on what it needs to do to achieve its aims and objectives.

A business plan will clearly establish the aims and objectives of an enterprise and indicate how these are going to be achieved. In particular, the results of market research and analysis will indicate if there really is a 'gap in the market' for a new enterprise. Such research will not guarantee the success of the enterprise, but it will help to minimise the risk of failure.

The contents of business plans

The business plan of one enterprise will not be exactly the same as that of another enterprise, but there are likely to be broad similarities between one

business plan and another. A business plan is likely to contain the following information:

- **The enterprise:** the name and address of the enterprise, the aims and objectives of the enterprise and the type of business organisation.
- **The product:** the good being produced and/or the service being offered, the quantity of products and the proposed price.
- **The market:** the results of market research and analysis conducted by the enterprise, the anticipated size of the market, the rate of growth of the market, likely demand, strengths and weaknesses of the competition and methods of promotion and advertising.
- **Personnel:** who will be involved in the enterprise and their skills and experience.
- **Production:** method of production, costs of production.
- **Premises and equipment:** the type, location and cost of premises, the type and age of equipment.
- **Finance:** the expected profit, the break-even point, cash flow forecast, how much money will be put in to the enterprise by the owners and how much money will need to be borrowed.



Did you know?

The US President Abraham Lincoln always stressed the importance of planning. He once said that a goal properly set was already halfway reached.

CASE STUDY

Pact, a coffee delivery business

Stephen Rapoport founded the coffee delivery enterprise, Pact, in 2012. The enterprise posts bags of the world's best coffee to customers on a subscription basis. This was Stephen's fifth enterprise venture.

He initially put in £4,000 of his own money to get the enterprise started, but by 2013 he had decided that he would need to raise much more money if the enterprise was to grow and be able to search for the world's best coffee from Guatemala to Ethiopia.

The enterprise was able to raise £2.2 million and Stephen believes that a major reason for this was the detail of the enterprise's business plan which persuaded investors that this was a serious enterprise. The business plan emphasised the quality of the coffee and also stressed an ethical underpinning in terms of demonstrating a commitment to the income received by the coffee growers, ensuring that they were above the poverty line.

Extension question

Discuss the importance of a business plan to Stephen Rapoport's success in raising over £2 million of additional investment.



Study tip

Make sure you understand the various possible reasons why an enterprise might want to draw up a business plan.

Methods of monitoring business plans

A business plan can be a useful tool for monitoring the operations of an enterprise. An effective tracking system needs to be developed so that particular goals and targets in a business plan can be checked. For example, the monitoring process is likely to focus on such areas of a business plan as

cash flow, profitability, market share, actual and potential competition and marketing strategies. Forecasts and projections can be compared with actual outcomes to judge how successfully the enterprise has been operating.



Study tip

You need to understand that once a business plan has been produced, it continues to be important and will need to be updated on a regular basis.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each of them of the different ways in which business planning has taken place.

Reasons for updating business plans

It has already been pointed out that a business plan is very important at the start-up stage of an enterprise. However, it should not be thought that once an enterprise has been established, there is no longer any need for it to have a business plan. Economic circumstances can change and there may be a decrease in the demand for an enterprise's products. It is therefore important to regularly update the business plan to incorporate any changes in products that are being provided by the enterprise. There may also be changes in the size of the market, or in the rate of growth of the market or in relation to the competition.

Also, a business plan is likely to include information about the type of business organisation and it may be that over a period of time this changes. For example, an enterprise may start as a sole trader but may eventually become a partnership or even a limited company.

A further reason is that an enterprise may need to seek further support from financial institutions and these are only likely to consider a loan if the enterprise's business plan is up-to-date.

Key points

- 1 A business plan is important to an enterprise, especially at the start-up stage.
- 2 A business plan will need to be regularly updated.

Summary questions

- 1 Explain why an enterprise would want to draw up a business plan as part of its start-up.
- 2 Discuss why an enterprise needs to update its business plan regularly.

Unit 7 Practice questions

- 1 Explain what is meant by legal compliance as a business objective. (4)
- 2 Distinguish, using appropriate examples of planning by an enterprise, between the short-term and the long-term time periods. (6)
- 3 Outline the main components of a business plan. (6)
- 4 Discuss why it is important for an enterprise to update its action plan on a regular basis. (10)
- 5 Evaluate the extent to which an environmental objective of an enterprise could conflict with its aim of maximising growth. (15)

8

Markets and customers

TOPIC AIMS

Learners should understand:

- ▶ the purpose of marketing
- ▶ the methods of market research
- ▶ the importance of customer retention and the different ways in which this can be achieved
- ▶ the different methods of communicating with a market for different enterprises.

Unit 8 introduces some ideas about what is meant by markets and customers. The purpose and benefits of marketing for an enterprise are considered, as well as the potential benefits to the customer of marketing.

The unit goes on to look at the different market research methods of identifying potential customers and at the effectiveness of these different methods for different enterprises.

There is then a consideration of the importance of customer retention. The reasons for retaining customers are explored, as well as the methods of measuring customer satisfaction and retention and the methods of retaining existing customers.

Finally, the different possible methods of marketing communications to reach intended customers are considered, as well as an examination of how different enterprises select appropriate methods depending on the particular context.

LEARNING OUTCOMES

Learners should understand the purpose of marketing to achieve enterprise aims, including:

- ▶ increasing consumer awareness of the enterprise or product
- ▶ establishing and maintaining brand loyalty
- ▶ increasing or defending sales, market share or profit.

Key term

Marketing: the process of communicating relevant information in order to influence the behaviour of consumers in ways which will benefit an enterprise

What is meant by marketing?

Marketing refers to a range of activities through which an enterprise communicates information, both about itself and about its products, to potential and existing customers in order to influence their behaviour. It is the process involved in identifying, anticipating and satisfying the needs and requirements of consumers profitably. It has been described as the process involved in getting the right product at the right price to the right place at the right time.

There are essentially three potential benefits and advantages of marketing for an enterprise: increasing consumer awareness, establishing and maintaining brand loyalty and increasing or defending sales.

Advantages of marketing for an enterprise

There are essentially three potential benefits and advantages of marketing for an enterprise: increasing consumer awareness, establishing and maintaining brand loyalty and increasing or defending sales.

Increasing consumers' awareness of the enterprise

Marketing is important in making consumers aware of an enterprise in terms of what the enterprise stands for and what it sells.

Marketing will need to fit in with, and reflect, the aims and objectives of the enterprise and should try to aid the successful achievement of these aims and objectives. An enterprise will not be successful if customers are unaware of its existence, and so an important role of marketing is to increase awareness of the enterprise. For example, if an enterprise stresses the importance of ethical considerations and/or corporate social responsibility, then marketing needs to ensure that customers are aware of this.

The role of marketing is not only to increase the awareness of consumers of the existence of an enterprise, but also to increase consumers' awareness of the products of an enterprise, whether these are goods or services. In many markets, there will be intense competition between different enterprises, and so it is important that marketing clearly differentiates the products of



Did you know?

The three most popular brands in the world, as measured by brand value, are Apple, Google and Coca-Cola.

Key terms

Brand: a name or image that clearly distinguishes one product from another

Brand loyalty: the degree to which consumers buy a particular brand of a product in preference to another brand

Branding: the strategy of differentiating the products of one enterprise from those of another through emphasising an identifiable image

ACTIVITY 8.1

Working in a pair or group, consider what helps to make a particular brand distinctive when compared with its competitors.

ACTIVITY 8.2

Working in a group, choose a product that an enterprise can offer to consumers and produce an appropriate marketing strategy for this product.

Key term

Marketing strategy: a long-term plan devised to achieve particular marketing objectives

one enterprise from those of another, stressing the particular features and characteristics of an enterprise's products.

Establishing and maintaining brand loyalty

The importance of stressing the distinctive features and characteristics of one enterprise rather than another has already been stressed and one way of achieving this is to emphasise the brand identity of particular products.

A brand refers to a name that is given by an enterprise to one or more of its products. The main aim of this branding is to clearly differentiate the product from others and so make it distinctive to consumers. Branding is likely to be an important part of an enterprise's marketing strategy. A brand name, if it is to be effective, will need to be relatively easy to remember. It should also project the image of the enterprise and the positive features and characteristics of the product. A brand is not only identified through a name or image, but also through a symbol, logo or trademark.

Placing the emphasis on a brand name is part of a strategy to establish and maintain brand loyalty. Customers often have quite a high degree of loyalty to a particular brand and a strong brand identity will help one enterprise to appear different from another. For many customers, loyalty to a particular brand is associated with identification with a particular brand image.

Increasing or defending sales, market share or profit

Marketing is also important in terms of the sales, market share or profit of an enterprise.

An objective of an enterprise may be to increase its total sales. This could be by value of sales or by volume of sales or by both. In such a situation, a marketing objective would be to help achieve this aim.

Alternatively, an objective of an enterprise may be to increase its market share, and possibly to gain the leadership of a market, and in this situation a marketing objective would be to assist in the achievement of this objective.

Finally, the aim of an enterprise may be to increase the profits that are made by an enterprise over a particular period of time and here too a marketing objective would be to assist in the achievement of this aim.

Key points

- 1 Marketing has a number of benefits for an enterprise.
- 2 These benefits can include increasing consumers' awareness of an enterprise, or product, establishing and maintaining brand loyalty and increasing or defending sales, market share or profit.

Summary questions

- 1 Explain how marketing can achieve enterprise aims.
- 2 Discuss how important brand loyalty can be in increasing the profit of an enterprise.

LEARNING OUTCOMES

Learners should understand the purpose of marketing from the perspective of customers, including:

- ▶ greater knowledge of the enterprise or product
- ▶ the ability to make more informed decisions.

Marketing from the perspective of customers

It has already been stressed that marketing has a number of benefits for an enterprise. It is also important to recognise the benefits to the customers of marketing.

Greater knowledge of the enterprise or product

Decision-making by customers will be strongly influenced by the knowledge that they possess. If they do not have very much knowledge about the range of products on offer to them, a decision to purchase something will be constrained by this lack of knowledge. A deficit in knowledge will certainly restrict the ability of a customer to make rational and logical decisions.

However, if a consumer is in possession of a wide range of knowledge, this will mean that they will be able to make a more informed choice. Marketing, in stressing the range of enterprises and products that exist, will therefore assist a consumer in making a better decision, in as much as it is better informed as a result of the possession of greater knowledge about what is available in a particular market.

The ability to make more informed decisions

As has already been indicated, it is important that a customer is as well informed as possible about the range of choice available in a particular market. The informed customer is at the heart of what is sometimes called consumer sovereignty, i.e. the idea that it is consumer demand that essentially determines the allocation of scarce resources in an economy. When customers are able to make more informed decisions, it is likely that they will be able to make better choices between alternatives. Marketing plays a key role in helping to make customers more informed than would otherwise be the case.

Another way in which marketing has benefits to the customer is that it can help to save time in making informed decisions. If a customer had to find out information about the range of enterprises and products on offer in a market, it would take a great deal of time. However, if marketing can make a customer



Did you know?

The European Union has stated that information is a major factor in helping consumers to make choices and in influencing their confidence in the products that exist within a market.

Key term

Consumer sovereignty: the importance of changes in consumer preferences in determining the allocation of scarce resources in an economy

better informed about the range of enterprises and products that exist in a market, a great deal of time will have been saved.

ACTIVITY 8.3

Working in a pair or group, decide on a few products that you might be tempted to buy and then consider the kind of information that would be useful to you before you came to a decision.



- ▲ It is important that consumers make an informed choice when choosing products

Saving time

If consumers had to find out information about the range of enterprises and products on offer in a market themselves it would take them a great deal of time. Marketing saves people time by providing this information.

Key points

- 1 Marketing has a number of benefits to consumers.
- 2 These benefits can include providing consumers with greater knowledge of the enterprise or product and enhancing the ability of customers to make more informed decisions.

Summary questions

- 1 Explain why greater knowledge of an enterprise can be of benefit to customers.
- 2 Discuss how marketing can help customers make more informed decisions.

8.3 Market research

LEARNING OUTCOMES

Key terms

Want: an item that is desirable, but not essential

Need: an item that is essential for survival



Study tip

Make sure you understand the difference between a want and a need.

ACTIVITY 8.4

Working in a pair or group, make a list of the questions you would ask people if you were carrying out market research on a product of your choice.

Key terms

Market orientation: an approach where an enterprise takes decisions on the basis of consumer demand

Market research: the collection and analysis of information that relates to the consumption of products or services

Learners should understand:

- ▶ the methods of identifying potential customers
- ▶ the effectiveness of methods for different enterprises.

Methods of identifying potential customers

At the beginning, an entrepreneur will identify the need or demand for a product. In essence, the entrepreneur is trying to find out if there is a gap in the market. This indicates a customer or market, rather than a producer, orientation, i.e. the entrepreneur starts by trying to find out if there really is a need or demand for a particular product. This gives the enterprise a customer focus. It is not enough that an entrepreneur thinks that he or she has a wonderful idea for a new product; the demand for such a product needs to be established, otherwise the enterprise will be doomed to failure.

It will be necessary to conduct market research to establish whether a demand for a particular product or service actually exists.

Primary and secondary market research

An important element of the marketing process is market research. Market research refers to the collection and analysis of information about a particular market.

Market research can take a variety of forms, but there are essentially two ways of carrying out research and collecting information. These are primary research and secondary research.

Primary research

Firstly, there is primary research. This is first-hand research and involves asking people, such as existing and potential customers and existing and potential retailers, questions about particular products or services. Primary research is sometimes called field research and it involves finding out information that does not already exist.

Primary research can include a variety of different methods, including the following:

- questionnaires
- personal interviews
- telephone interviews
- postal surveys
- online surveys
- observation

Key terms

Primary research: the collection of first-hand or original information (information that does not already exist) through different forms of field research

Field research: ways of gaining first-hand information through such methods as a questionnaire or an interview



▲ A potential customer completing a questionnaire



Skills signpost

List the key skills needed by a successful interviewer. Think about the extent to which you possess, or could develop, these skills.

Key terms

Quantitative research: the gaining of information in the form of hard objective data, e.g. statistics

Qualitative research: the gaining of information in the form of soft subjective data, e.g. opinions and attitudes

- focus groups
- consumer panels
- test marketing.

It is possible with primary research to distinguish between quantitative and qualitative research.

Quantitative research involves gaining information that is capable of being analysed in terms of hard factual data, e.g. a certain percentage of a population is likely to buy a particular product at a certain price.

Qualitative research involves gaining information that is of a softer, more subjective nature, e.g. people's attitudes towards, or opinions about, a particular product or service.

Secondary research

Secondly, there is secondary research. This is second-hand research and involves making effective use of information that already exists. Secondary research is sometimes called desk research. Information that is obtained from within an enterprise is known as internal, whereas information that is obtained from outside an enterprise is known as external.

Secondary research can include a variety of different sources of information. Internal sources can include the following:

- existing market research reports
- sales figures of an enterprise
- reports from the sales teams of the enterprise
- complaints from customers who have bought products from the enterprise
- the Annual Report and Annual Accounts of an enterprise
- information from the website of an enterprise
- stock movements (if an enterprise is organised as a limited company).

External sources can include the following:

- information from competing enterprises
- government publications and research reports
- publications from a regional economic body
- international publications, such as from the World Bank
- newspaper and magazine articles and reports
- trade or industry publications.

ACTIVITY 8.5

Keeping to the same product or service you chose in the earlier activity, try to find out as much information as possible through the use of desk research.



Study tip

Make sure that you understand the difference between quantitative and qualitative research.

Key term

Secondary research: the collection of information that already exists through different forms of desk research



Study tip

Make sure that you understand the difference between primary and secondary research.

Key term

Desk research: the ways of gaining second-hand information through such methods as analysing sales figures from inside an enterprise or using government research reports from outside the enterprise



Study tip

The effectiveness of particular market research methods will depend on the relevant local context of each enterprise.



Study tip

You need to understand that each research method will have a number of advantages and disadvantages.

The effectiveness of market research methods for different enterprises

Each of the methods has advantages and disadvantages for different enterprises, such as in terms of:

- cost
- availability
- suitability for the enterprise
- suitability for reaching the potential target market.

Primary research is particularly useful with a new product, but it tends to be more expensive. Secondary research is generally cheaper as the information has already been collected.

It is also necessary to consider availability. For example, it may be the case that no secondary information has been collected on a particular good or service, or it could be that the information collected is out of date and no longer relevant.

Some methods of market research may be more suitable for one enterprise rather than another. For example, personal interviews can provide useful information to an enterprise, but there is always the possibility that an interviewee has not been honest in their answers.

One research method may be more suitable for reaching the potential target market than another. For example, an online survey will be more useful to an enterprise that is planning to sell its products mainly through the internet than a more general survey.

Key points

- 1 An enterprise will need to be able to identify potential customers.
- 2 An enterprise will need to consider which research method is more effective than another.
- 3 Each of the research methods has a variety of advantages and disadvantages.
- 4 The effectiveness of the research methods used will depend on the relevant local context.

Summary questions

- 1 Explain why a market orientation is likely to be crucial to the success of an enterprise.
- 2 Discuss why one research method may be more effective than another for a particular enterprise.
- 3 Discuss the advantages and disadvantages of primary and secondary research.

8.4 Customer retention

LEARNING OUTCOMES



Did you know?

It has been estimated that it takes an enterprise between 5 and 10 times more time, effort and expense to gain new customers than it takes to retain existing ones.

ACTIVITY 8.6

Working in a pair, think of an enterprise or business that you use regularly. Consider why you continue to use one enterprise or business rather than another.

Key terms

Customer satisfaction: the degree to which the products supplied by an enterprise, and the quality of the service provided in selling those products, meet or exceed the expectations of customers

Focus group: a small number of people who are brought together to give feedback on a specific product or service

Mystery shopper: a person employed by a market research firm to visit retail establishments, posing as a casual shopper, to collect information on products and the quality of service

Learners should understand:

- ▶ the reasons for retaining customers
- ▶ the methods of measuring customer satisfaction and retention
- ▶ the methods of retaining existing customers.

The reasons for retaining customers

The retention of existing customers is very important for an enterprise for a number of reasons.

Establishing and maintaining brand loyalty

One significant reason is that it takes much more time, effort and expense to gain new customers than it takes to retain existing ones. It is therefore crucial for an enterprise to ensure a high level of customer satisfaction. The retention of an enterprise's customer base will be critical to its success. An enterprise needs to make sure that it gives its customers good reasons to stay loyal to it; if it does not do this, its competitors will give them various reasons to leave.

One important aspect of this is establishing and maintaining brand loyalty. If a customer is loyal to a brand, they will be more likely to keep using an enterprise.

Increasing or defending sales, market share or profit

Customer retention is critical to the success of an enterprise in terms of its sales, market share or profit. If customers are satisfied, it is much more likely that they will return for repeated, follow-on, business without considering the possibility of transferring to a competitor.

The methods of measuring customer satisfaction and retention

As has already been emphasised, customer satisfaction is vital to the ability of an enterprise to retain existing consumers. This is especially the case where there is a great deal of competition in a market. In such a market, where there are many enterprises in competition with each other, a high level of customer satisfaction is an essential objective of an enterprise.

Customer satisfaction refers to the extent to which the products supplied by an enterprise, and the service provided in selling those products, meet or exceed the expectations of customers.

It is one of a number of key performance indicators that can be useful in managing and monitoring the success of an enterprise. Customer satisfaction can be measured in a number of different ways, including the following:

- The number of sales and complaints: the number of sales, especially the trend in sales, can be extremely useful in giving an indication of the level of customer satisfaction in an enterprise, as can the number of complaints that an enterprise receives from customers.
- Mystery shopper feedback questionnaires: a mystery shopper is a person who is employed by a market research company to measure quality of service and to gather specific information about products, unknown to the enterprise being examined, and producing a feedback questionnaire on what they discovered.
- Focus groups: these are small groups of people whose reactions and opinions are studied as part of the market research process.

ACTIVITY 8.7

Working in a pair or group, try to think of other examples that you have come across in your country where an enterprise has tried to retain existing customers and increase their level of satisfaction.

Methods of retaining existing customers

There are a number of ways of retaining existing customers, including the following:

- Effective customer service: an enterprise needs to be able to demonstrate that it knows its customers, that it is able to satisfy their needs and that it tries to make its customers feel special and valued through the quality of the customer service that it offers. It is important that an enterprise ensures that the staff are trained appropriately to communicate positively and effectively with customers and, in some enterprises, it is also important that staff dress appropriately.
- Resolving complaints: any enterprise is likely to receive complaints from customers at some point or other and it is important that it is able to deal with them in an appropriate way. An enterprise should deal with complaints by minimising the effect of the complaint as much as possible and by trying to rectify the situation so that a resolution of the grievance can be reached in the most mutually acceptable way as possible. It is important that a complaint is resolved as speedily and as effectively as possible so that the customer retains a positive perception of the enterprise, if at all possible. An enterprise will need to be seen to be paying attention to the complaint and taking it seriously. It is also important that the cause of the grievance is seen to be understood. An apology will need to be made and this should be genuine and sincere, without blaming anybody in particular within the enterprise. There will then need to be a resolution of the grievance and this will need to satisfy the customer if they are going to keep using the enterprise. An appropriate compensation will need to be offered that is satisfactory to the customer. The aim should always be to provide a satisfactory resolution that actually enhances the customer's perception of the enterprise.
- Loyalty rewards: an enterprise can establish a reward or loyalty scheme, such as by giving 'money off' deals to regular customers, which will help to make customers feel a part of the enterprise and encourage them to return to the enterprise.



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- ▲ Enterprises often have sales of reduced-price products to attract customers

- New products: an enterprise will be better able to retain existing customers if it can offer them new products or if it can have regular promotions, such as '10% off all products' or 'buy one get one free offers', or have a regular sale of products to attract customers.
- Other methods include: giving out a survey to customers, asking them their opinions about the enterprise, and offering a prize to a lucky respondent, or keeping customers informed about the enterprise and its products, such as through a newsletter or a leaflet that can be given out to them.

Key points

- 1** Enterprises need to retain existing customers and can achieve this objective in a number of different ways.
- 2** Enterprises need to be able to measure the level of satisfaction that customers have with them.
- 3** Enterprises need to be willing to use a number of different methods to retain existing customers.

Summary questions

- 1** Explain how customer satisfaction with an enterprise can be measured.
- 2** Discuss the different ways that could be used by an enterprise to increase the satisfaction of its customers.

8.5 Marketing communications 1

LEARNING OUTCOMES



Skills signpost

Working in a pair or group, think about the skills that are involved in producing an effective advertisement. Think of a particular enterprise and produce a storyboard (in the case of a television or cinema advertisement) or a script (in the case of a radio advertisement) that could be used to promote it.

Key term

Mass media: a mixture of various technologies that are used to reach an audience

ACTIVITY 8.8

Working in a pair or group, produce a summary of the various television channels that operate in your country. Contact two or three of them and find out how much it would cost for an enterprise to advertise on them.

Learners should understand the different methods of marketing communications to reach intended customers, including:

- ▶ television, radio, cinema, newspapers and magazines
- ▶ posters and leaflets
- ▶ online communication and social media
- ▶ word of mouth and announcements
- ▶ sponsorship.

Learners should also understand the advantages and disadvantages of each of these different methods for different types of enterprise.

The mass media

The 'mass media' is a general term for a number of different possible methods of communicating with a market for different types of enterprise. These include using television, radio, cinema, newspapers and magazines.

Television

Television is available in countries all over the world and the development of digital television has expanded the number of television channels that are available to enterprises to promote their products.

Television, however, can be very expensive as a means of communicating with a market, and so only the larger enterprises are likely to use national or international television channels. On the other hand, in many countries there is a range of local and regional television channels that are available for an enterprise to use and these are likely to be cheaper than national and international channels and more appropriate for their needs.

Radio

As with television, radio is available in countries all over the world. As with television, the development of digital radio has increased the number of radio stations.

Although some of these radio stations will be national in scope, there is perhaps more of a tradition of local radio stations than local television channels and so these are likely to be cost-effective for even small- and medium-sized enterprises, especially those whose market is concentrated in particular areas of a country.

Cinema

The availability of cinemas will vary greatly from one country to another and may differ greatly even within one country.

ACTIVITY 8.9

Working in a pair or group, produce a summary of the various radio channels that operate in your country. Contact two of them and find out what it costs for an enterprise to advertise.

ACTIVITY 8.10

Working in a pair or group, find out how many cinemas there are in your country. Contact one and find out what it costs for an enterprise to advertise on its screen.



- ▲ Enterprises can use newspapers or magazines to distribute 'money off' coupons

ACTIVITY 8.13

Working in a pair or group, find out which posters advertising enterprises or their products are currently displayed in your area.



Skills signpost

Analyse a particular poster you have seen displayed that you think is effective in getting a message across. Make sure you think about what has helped to make it effective.

Cinema may, therefore, not be an appropriate method of communicating with a market for many enterprises, although if an enterprise is located in an area with a cinema, it may be possible to have an advertisement shown in that particular cinema.

ACTIVITY 8.11

Working in a pair or group, think about the skills that are involved in producing an effective advertisement. Think of a particular enterprise and produce a storyboard (for a television or cinema advertisement) or a script (for a radio advertisement) that could be used to promote it.

Newspapers and magazines

All countries will have a range of newspapers and magazines that could be used by an enterprise to communicate with a market and there will often be a mixture of local, regional and national variants of these.

If the activities of an enterprise are national in scope, then newspapers and magazines may be an appropriate method which an enterprise could use to communicate with its market. However, it is usually the case that newspapers and magazines are read by a particular market segment, such as particular social class, and so an enterprise will need to ensure that if it promotes its products in one of these, it will need to check that the advertisement is reaching its intended or target audience.

Local and/or regional newspapers and magazines may be likely to be more appropriate for small- and medium-sized enterprises, although again an enterprise will need to consider whether advertisements are reaching its intended or target audience.

ACTIVITY 8.12

Working in a pair or group, produce a summary of the various newspapers and magazines that operate in your country. Contact two or three of them and find out how much it would cost for an enterprise to advertise.

Posters

Posters exist in all countries and can be placed in a variety of different locations in a country. However, they are likely to be more effective for a small- or medium-sized enterprise if they are displayed in particular towns or regions. Of course, if a larger enterprise is national in the scope of its operations, a national poster campaign could be an effective form of communicating with a market.

Leaflets

Whereas a poster is usually a stationary form of promotion (although posters can be put on the side of buses and other forms of transportation), a leaflet is smaller and can be handed out to potential customers in particular areas.

This is likely to be a relatively cost-effective method of communicating with a market for a small- or medium-sized enterprise that is located in a particular area.

ACTIVITY 8.14

Working in a pair or group, find leaflets that have been given out by enterprises in your area. How effective are these advertisements?

Key points

- 1 A variety of different methods of marketing communications can be used by an enterprise.
- 2 Such methods could include television, radio, cinema, newspapers and magazines, posters and leaflets.
- 3 Each of these methods has various advantages and disadvantages.
- 4 Appropriate methods will depend on the potential target market.
- 5 Appropriate methods will depend on the relevant local context.

Summary questions

- 1 Explain how newspapers and magazines could be used by enterprises to communicate with a market.
- 2 Discuss why radio might be preferred to television as a method of marketing communication by an enterprise.

LEARNING OUTCOMES

Learners should understand the different methods of marketing communications to reach intended customers, including:

- ▶ online communication and social media
- ▶ word of mouth and announcements
- ▶ sponsorship.

Learners should also understand the advantages and disadvantages of each of these different methods for different types of enterprise.

Online communication and social media

Most enterprises have taken advantage of technological developments in communication, especially in relation to the use of the internet and social media.

Website

Most enterprises will have their own website. This will involve obtaining an internet service provider, buying or renting a website name, designing and installing the website graphics and other functions, such as a means of taking orders, promoting the website, such as through various search engines and directories, and maintaining the website.

The use of a website would be appropriate for most, if not all, enterprises. They are an increasingly important method of communicating with a market and are relatively cost-effective. In many markets, an enterprise will be at a disadvantage compared with its competitors if it does not have a website. For example, some enterprises are aiming at the international market and the use of a website for prospective customers to place orders in different countries is absolutely vital to the success of such an objective.

Key term

Website: a set of web pages served from a single web domain; all publicly accessible websites collectively comprise the world wide web

CASE STUDY

Mr Stanford

Mr Stanford is the name of an enterprise that was established by Nathan Rogers and Gene David in Brighton in the UK in 2014. The enterprise produces traditionally crafted umbrellas.

The enterprise uses a number of different methods of communicating with customers, and in particular its website. The website stresses the distinctive brand name of Mr Stanford, in particular the fact that the umbrellas are made from the best quality materials and that they feature a delightful range of prints and colours. The collection of umbrellas is changed on a six-monthly basis so that it is possible to add new styles.

The two entrepreneurs recognise the importance of marketing to the success of an enterprise, especially in terms of establishing a distinctive brand. The two entrepreneurs had previously lived in Thailand for seven years and had noticed that most umbrellas there were very cheap and likely to fall apart in the monsoon conditions of that country.

The two entrepreneurs stress how the enterprise is constantly evolving, building on its strengths, and is always looking for new challenges. For example, emphasising an umbrella as a fashion item has been a key element of the marketing and the aim is now to extend beyond the production of men's umbrellas to the creation of a range of umbrellas for women.

In addition to the website, the enterprise also makes use of telephone, email, social media and newsletters as part of its marketing strategy.

Extension question

Discuss how the enterprise has made use of its website to help create demand for a distinctive brand of umbrella.

Key terms

Social media: websites, other online means of communication and applications that enable users to share information and to participate in social networking

Word of mouth: people speaking to each other about a particular enterprise or product

Email

Many, if not all, enterprises, ask their existing and potential customers to give them their email address. It is then able to provide these customers with a variety of information, such as in relation to special offers and new products.

This form of communication is a very cost-effective method for an enterprise to communicate with its customers and so is appropriate for any enterprise, whatever its size.

Internet advertising

As well as having its own website, an enterprise can advertise itself and its products elsewhere on the internet. This method of advertising can be quite expensive, so it may be more appropriate for larger enterprises.

Social media

Many enterprises use social media platforms to promote themselves and their products. Examples of social media include Twitter, Facebook, LinkedIn, Whatsapp and Instagram. Social media marketing gives an enterprise a great opportunity to communicate directly with their existing and potential customers.

Word of mouth and announcements

One of the oldest, and certainly the cheapest, methods of communication is through word of mouth. An enterprise can build up a good reputation simply through customers telling people how good a particular enterprise is.

Word of mouth is an appropriate method of communication for any enterprise, however large or small it is. A positive reaction by customers, and a willingness to tell others about this experience, can be crucial to the success of an enterprise, especially in the start-up phase.

ACTIVITY 8.14

Working in a pair or group, think of an experience involving an enterprise that you and your friends have recently had. Think about what you would say about this experience as an example of word of mouth communication.

ACTIVITY 8.15

Working in a pair or group, find some examples of sponsorship by an enterprise in your area.

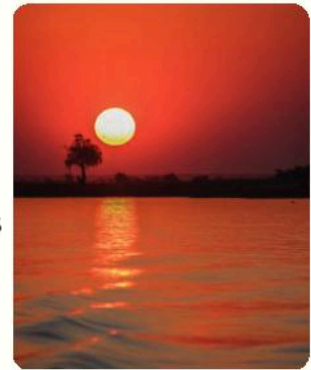
CASE STUDY

The Raft Floating Restaurant, Botswana

The Raft Restaurant in Botswana is a floating restaurant on the Chobe River, on the border between Botswana and Namibia. It started operating in 2014. The restaurant can serve up to 64 customers at a time.

The enterprise tends to rely on word of mouth as a major form of promotion. Sometimes this is literally in terms of satisfied customers telling others about their positive experience at the restaurant, but sometimes this is in terms of reviews on Trip Advisor. These reviews are available on the internet to potential customers who might be thinking of making a booking at the restaurant.

One of these reviews on Trip Advisor, with the title 'Unique experience', stated the following: 'We mingled with all the guests who were just as delighted as we were with the food, the ambience and the staff who welcomed us aboard with broad smiles and a catchy song!'



▲ The River Chobe, Botswana

ACTIVITY 8.16

Working in a pair or group, think of other possible methods of communicating with a market, for different types of enterprise, that this unit has not covered.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of different methods of communicating with a market.

Key term

Sponsorship: a situation where an enterprise supports an event or an organisation in some way and receives publicity as a result

Extension question

Discuss how important word of mouth can be to a newly opened restaurant.

Sponsorship

Sponsorship refers to a situation where an enterprise supports an event or an organisation financially, either by providing funds or goods and services. The sponsor benefits from the association of the name of the enterprise with the particular event or activity.

Some forms of sponsorship can involve vast sums of money and would therefore only be appropriate for very large enterprises. Sometimes, however, sponsorship can be at a very local level and involve modest sums of money; in this situation, many enterprises would be able to provide financial assistance to an event and gain publicity as a result of this support.

Selecting appropriate methods for different enterprises

Each method of marketing communication has various advantages and disadvantages in terms of:

- **Cost:** television is likely to be a more expensive method of communication than radio, especially local radio. Posters and leaflets are likely to be relatively inexpensive and word of mouth will require no cost at all.
- **Availability:** cinema may not be available in all countries, or at least not in all parts of a country, and so this would influence an enterprise in choosing whether to use this method of communication or not. Local newspapers will be cheaper than national newspapers, but not all areas of a country will necessarily have a local newspaper.
- **Suitability for the enterprise:** one method of marketing communication may be more suitable for one enterprise than another, for example a local enterprise with one store deciding to extend its opening hours may decide



Study tip

The effectiveness of particular methods of marketing communication will depend on the relevant local context of each enterprise.

Coursework link

You have the option to produce marketing communications for your enterprise project.

to simply make an announcement, whereas a much larger enterprise may decide to use television to make the public aware of something.

- Suitability for reaching the potential target market: an enterprise may decide to use different forms of social media, such as Facebook or Twitter, to reach a particular target market.

Key points

- 1 A variety of different methods of marketing communications can be used by an enterprise.
- 2 Such methods could include online communication and social media, word of mouth and announcements and sponsorship.
- 3 Each of these methods has various advantages and disadvantages.
- 4 Appropriate methods will depend on the potential target market.
- 5 Appropriate methods will depend on the relevant local context.

Summary questions

- 1 Explain how email could be used by enterprises to communicate with a market.
- 2 Discuss why sponsorship of an event or activity might not be appropriate for all enterprises.

Unit 8 Practice questions

- 1 Explain why enterprises often 'brand' their products. (4)
- 2 Explain why marketing is important from both the perspective of an enterprise and a customer. (4)
- 3 Explain why customer retention is such an important aim of enterprises. (6)
- 4 Discuss why it is important for an enterprise to conduct market research. (10)
- 5 Evaluate the potential effectiveness of online communication and social media as methods of marketing communication for an enterprise. (15)

9

Help and support for enterprise

TOPIC AIMS

Learners should understand:

- ▶ formal sources of help and support and the assistance they can offer to enterprises
- ▶ informal sources of help and support and the assistance they can offer to enterprises
- ▶ the suitability of the different sources of help and support for enterprises.

Unit 9 introduces some ideas about the help and support that is available for enterprises, although it must be appreciated that these sources of help and support will vary a great deal from one country to another.

The unit considers formal sources of support that could be available for enterprises, including government bodies, business agencies, consultants, financial institutions, charities, teachers, business networks and other entrepreneurs.

It goes on to consider informal sources of support that may be available, including friends, peers and family.

Throughout the unit, examples of the possible help and support available will be identified and their potential effectiveness will be assessed, taking into account how they can be of assistance to enterprises.

9.1 Help and support for enterprise 1

LEARNING OUTCOMES

Learners should understand the formal sources of help and support and the assistance they can offer enterprises, including:

- ▶ government bodies
- ▶ business and enterprise agencies
- ▶ consultants
- ▶ financial institutions
- ▶ charities
- ▶ teachers
- ▶ business networks
- ▶ other entrepreneurs.



Study tip

Make sure you understand that help and support for enterprises can come from formal and informal sources.

It is possible to distinguish between formal and informal sources of help and support for enterprises. Section 9.1 is concerned with formal sources of help and support and Section 9.2 is concerned with informal sources of help and support.

Formal sources of support

Formal sources of support can include government bodies, business and enterprise agencies, consultants, financial institutions, charities, teachers, business networks and other entrepreneurs.

Government bodies

The extent to which a government is able and willing to give help and support to enterprises will vary from country to country, but the following include a number of possible ways in which such help and support could be provided:

- certain tax concessions could be given, especially to enterprises which are just starting up or are in their first year or two of operation
- a government could ensure that courses in enterprise are included in the curriculum in schools and colleges
- a government could provide financial support to enterprises, such as through the provision of grants or subsidies
- a government could have a policy of regional aid where assistance is concentrated in particular areas; enterprises which are located in certain parts of a country could benefit from such assistance
- a government could launch a campaign to support the setting up of enterprises, such as through the provision of appropriate information



▲ A business seminar

relating to the setting up and running of an enterprise; workshops and seminars could be organised to ensure that the relevant information was made available to those who could benefit from it, and there could also be an online information website

- empty and under-used government offices could be made available to enterprises so that they are able to start up and develop.

These examples of the ways in which government bodies could be of assistance to enterprises indicate how a government could be of great help in the starting up and running of enterprises. Any financial support is likely to be very effective.

ACTIVITY 9.1

Working in a pair or group, find out how your government has provided help and support for enterprises.



Key term

Regional policy: a government policy which is designed to concentrate help and support in particular areas of a country

CASE STUDY

Oxfordshire Local Enterprise Partnership

The Oxfordshire Local Enterprise Partnership in the UK is responsible for championing and developing the Oxfordshire economy.

The vision for Oxfordshire is that by 2030 the Partnership will have strengthened Oxfordshire's position as a vibrant, sustainable, inclusive, world-leading economy, driven by innovation, enterprise and research excellence.

In terms of enterprise, the Partnership aims to encourage innovation-led growth, underpinned by Oxfordshire's strengths in research and development (R & D), business and enterprise collaboration and supply chain potential.

The Oxfordshire Local Enterprise Partnership is a light-touch body that complements existing organisations and projects, rather than replacing them.

Extension question

Discuss the benefits that could be gained from a local enterprise partnership, such as the one in Oxfordshire.

Business and enterprise agencies

Business and enterprise agencies will vary from one country to another, and they will all have different names, but the following indicates the sorts of agencies that could exist:

- Start-up agencies
- Confederation of Industry
- Chamber of Commerce
- Institute of Directors
- Federation of Small Businesses
- Business Link
- Enterprise Link.

These agencies could also be very helpful in providing appropriate information about the setting up of new enterprises. They could also organise meetings and conferences to which successful entrepreneurs could be invited; this would provide opportunities for such people to talk about what they have done to achieve success. Such agencies could also provide mentoring and face to face

ACTIVITY 9.2

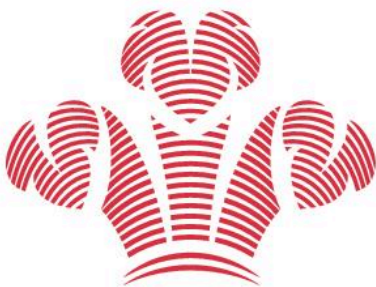
Working in a pair or group, find out how business and enterprise agencies in your region and/or country have provided help and support for enterprises.

Key term

Consultant: a person who provides expert advice in a particular area of enterprise activity

ACTIVITY 9.3

Working in a pair or group, find out how financial institutions in your region and/or country have provided help and support for enterprises.



Prince's Trust

- ▲ The Prince's Trust has been operating its Enterprise programme since 1976

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of formal sources of help and support available to the enterprises.

consultation sessions. All of these activities could be effective in providing the help and support that enterprises need.

A consultant is an expert or experienced professional in a specific field who has a wide knowledge of the subject matter. Consultants can be brought in by an enterprise to give advice on a particular aspect of enterprise activity.

Financial institutions

Financial institutions, such as banks, building societies, credit unions and friendly societies, often provide help and advice to entrepreneurs who have a business account with them. This guidance can be especially effective in relation to the financial aspects of starting up and running an enterprise. The advice can also be very effective in helping an enterprise produce an appropriate business plan. Financial institutions can also give financial support to enterprise organisations.

Charities

In many countries, charities can support enterprise start-up initiatives. For example, in the UK The Prince's Trust runs an enterprise programme. Charities can be very effective in providing help and support for enterprise.

CASE STUDY

The Prince's Trust

The Prince's Trust Enterprise programme has helped over 80,000 people realise their dream of setting up and running their own enterprise.

The Prince's Trust states the following:

'Imagine being your own boss: no one telling you what to do, choosing your own hours and making your own money. Your success will be down to you.'

'This really could be you: you've got what it takes to start your own enterprise, but you might just need help getting it all started.'

'We will not rush you into anything. Our approach is to guide you, listen to you and support you to make the decisions that work for you.'

'We can support you with your business plan, with training and funding, and you will meet other people in the same position as you. We will also give you the support of an experienced business mentor who can give you advice every step of the way – most of the people we have started up in business say this was the very best thing about our programme.'

'We can offer start up business finance if you decide to start up in business through our Enterprise programme. We can provide low interest loans of up to £4,000 for a sole trader and £5,000 for a partnership.'

Extension question

Analyse to what extent a charity, such as The Prince's Trust, could provide effective help and support for an enterprise.

ACTIVITY 9.4

Working in a pair or group, find out how charities in your region and/or country have provided effective help and support for enterprise.

Key term

Business and enterprise network: a means of bringing business people together to share, and learn from, their experiences in business and enterprise



Skills signpost

List the skills required by someone who has established a successful business and who wants to be an effective mentor to an entrepreneur starting an enterprise.



▲ Shailendra Bist

Key points

- 1 Government bodies can provide effective help and support for enterprise.
- 2 Business and enterprise agencies can provide effective help and support for enterprise.
- 3 Financial institutions can provide effective help and support for enterprise.
- 4 Charities can provide effective help and support for enterprise.

Summary questions

- 1 Explain why an enterprise may need help and support, especially when starting up.
- 2 Discuss how a government body could provide effective help and support to an enterprise.

Teachers

Teachers in schools and colleges can be a valuable source of help and support to enterprises, providing a range of assistance in different aspects of the work of an enterprise.

Business and enterprise networks

Business and enterprise networks can be very effective forums for advice and discussion. They provide opportunities for people who share similar business and enterprise interests to come together to discuss mutual concerns. They enable new business relationships to be formed, giving people the opportunity to learn from the experiences of others.

Business networks can vary in terms of their formality or informality. Some can be very formal with meetings organised on a regular basis, while others may be less formal.

CASE STUDY

The Pune Business and Enterprise Network

Shailendra Bist is an entrepreneur in Pune, India. He has established his own pub and brewery and uses the pub as a location for meetings of entrepreneurs in the region. He calls this network the Beer and Business Club.

He organises regular events which bring entrepreneurs together. He sees his role as creating a community of like-minded entrepreneurs who can all gain from others. Over 50 enterprises have recently started up in the region and he offers an opportunity for people to come from these enterprises to share their experiences.

Bist provides facilities. For example, he allows entrepreneurs to use the stage and the audio-video system in the pub for free. The meetings are both social and professional and this is the essence of a business and enterprise network. The meetings provide an opportunity for an informal catch-up of minds and ideas.

Extension question

Discuss the extent to which a business and enterprise network, such as the one provided by Shailendra Bist in Pune, can be of use to an entrepreneur who has just started up an enterprise.



Skills signpost

List the skills required of someone who wants to be a useful member of a business and enterprise network.

Key term

Mentor: an experienced person who will be a source of useful advice



Skills signpost

Make a list of the skills that would be required of somebody who had already established a successful enterprise who wanted to be an effective mentor to somebody just starting a new enterprise.

CASE STUDY

Women's Business Networking in Hong Kong

Most business and enterprise networks include both males and females, but this is an example of one which only women can join. This business and enterprise network in Hong Kong has been created to empower women, exchange business ideas and social and professional networking.

The business and enterprise network was founded in 2013 and is organised by Christine Zhou. The network has about 150 members and organises meetings on a regular basis. The members are active in business and enterprise within a 25 mile radius of Hong Kong.

Extension question

Discuss to what extent such a business network could be of assistance to a new enterprise setting up in Hong Kong.

Other entrepreneurs

Other entrepreneurs can also share their experiences with people who are thinking of starting up an enterprise. Very often, contact with other such people can be through business and enterprise networks.

Some of these business people may be willing to act as a **mentor** to entrepreneurs. A mentor can be extremely helpful to an enterprise that is just starting up and can contribute greatly to its chances of success. Such a person will have had a great deal of experience of enterprise and so will be able to offer useful and constructive advice. They will be enthusiastic and will want to share their knowledge and experience with others. They will be an extremely useful source of good advice and may help a start-up entrepreneur to avoid some basic mistakes.

CASE STUDY

Naomi Natangwe Kefas

Naomi Natangwe Kefas is a Namibian entrepreneur who started the enterprise, Magnetize, in 2007. The enterprise specialises in the manufacture of cleaning agents, supplies medical equipment and has recently diversified into property development. It has a factory in what used to be called the SME (Small and Medium Enterprise) Incubation Centre in Katutura in Windhoek, the capital of Namibia, but which has now been renamed the Bokamoso Entrepreneurial Centre. Magnetize's most important customers are government institutions in Windhoek and in Luanda, the capital of Angola.

Naomi is critical of the lack of mentors in Namibia. 'The start-up phase of an enterprise is a challenge, but established business owners in Namibia are not always willing to help newcomers. We do not have enough mentors in business to guide those that are coming up.'

Extension question

Discuss how a mentor could help an entrepreneur who is just starting an enterprise.

ACTIVITY 9.5

Working in a pair or group, find out about the different business and enterprise networks in your region and/or country and consider how effective they are.

Key terms

Incubation Centre: a place where resources, space and an appropriate environment are provided for entrepreneurs to start up an enterprise

SME: small and medium or medium-sized enterprises

Key points

- 1 There are a number of formal sources of help and support for enterprises, including government bodies, business and enterprise agencies, consultants, financial institutions, charities, teachers, business and enterprise networks and other entrepreneurs.
- 2 All of these can be effective in providing help and support for enterprises.

Summary questions

- 1 Explain why an enterprise may need help and support, especially when just starting up.
- 2 Discuss how a government body could provide effective help and support to an enterprise.
- 3 Make a list of the skills that would be required of somebody who had already established a successful enterprise who wanted to be an effective mentor to somebody just starting a new enterprise.

9.2 Help and support for enterprise 2

LEARNING OUTCOMES

Learners should understand the informal sources of help and support and the assistance they can offer enterprises, including:

- ▶ friends and peers
- ▶ family.

Learners should also understand the suitability of different sources of help and support for enterprises.

Informal sources of support

Whereas the previous section was concerned with formal sources of support, support from one's immediate environment, such as family members, fellow students and social contacts is also important. Discussion in a more informal setting can lead to valuable sharing of ideas because there is often more time available and having more thinking 'space' can prompt creative inspiration.

Friends and peers

If a person who is planning to start an enterprise has friends and peers who have already had experience of starting and running one, these people could be extremely helpful. They will be able to share this experience with others, both in terms of the successes and the failures that they have experienced.

Family

Members of a family can be a useful informal source of help and support if they have had experience of running an enterprise and they would probably be keen to share their experience with others. An advantage of the family as a source of help and support is that it is unlikely that any payment will be required for the assistance offered.

The suitability of different sources of help and support for an enterprise

Different sources of help and support will be more suitable to some enterprises than others. For example, a start-up enterprise, needing to borrow money, is likely to focus on financial institutions as a source of help and support. A start-up enterprise is also likely to benefit from the advice and guidance given by other entrepreneurs. A more established enterprise, on the other hand, may sometimes need specialised assistance and consultants are likely to be able to provide suitable assistance in this respect.



Study tip

The suitability of different sources of help and support for enterprises will depend on the relevant local context of each enterprise.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of the informal sources of help and support that were available to the enterprises.

Key points

- 1 Friends and peers and family can be effective in providing informal help and support to an enterprise.
- 2 Different sources of help and support can be more suitable for some enterprises than others.

Summary questions

- 1 Explain how friends and peers and family can provide assistance to an enterprise.
- 2 Discuss how different sources of help and support may be more suitable to one enterprise than another.

Unit 9 Practice questions

- 1** Distinguish, using examples, between formal and informal sources of help and support for an enterprise. (4)
- 2** Explain how a financial institution could provide help and support to an enterprise. (4)
- 3** Explain how other entrepreneurs could provide assistance to a start-up enterprise. (6)
- 4** Discuss to what extent a business and enterprise network will be an effective source of advice and guidance to someone planning to start an enterprise. (10)
- 5** Evaluate the various factors that could undermine the potential effectiveness of a business and enterprise network. (15)

10

Communication

TOPIC AIMS

Learners should understand:

- ▶ formal and informal communication
- ▶ verbal and non-verbal communication
- ▶ the appropriateness of different types of communication for communicating with internal and external stakeholders
- ▶ the need for careful planning, considering possible outcomes, before, during and after an event
- ▶ the documents needed for meetings and presentations
- ▶ the need to analyse and evaluate if meetings or presentations have been successful.

Unit 10 introduces some ideas about the advantages and disadvantages of different types of communication. It deals with the distinction between formal and informal methods of communication and between verbal and non-verbal communication. It goes on to consider how different types of communication may be more appropriate for communicating with internal and external stakeholders than others.

The unit explores different types of language that can be used in the process of communication. It stresses that the language used in any particular situation will vary depending on the context and the particular people involved. The unit also considers the importance of planning for a meeting and stresses the need for careful preparation, both before and between meetings.

Finally, the unit analyses how it is possible to evaluate whether particular meetings have been effective.

10.1 Types of communication 1

LEARNING OUTCOMES

Learners should understand:

- ▶ that communication can be of a formal or an informal nature
- ▶ that communication can be verbal or non-verbal
- ▶ the appropriateness of different types of communication for communicating with internal and external stakeholders.

Key terms

Formal communication: the official channels of communication used within an enterprise

Informal communication: the unofficial channels of communication used within an enterprise

Key term

Vertical communication: messages between people on different organisational levels of an enterprise; there are two types of vertical communication – downwards and upwards



Skills signpost

What do you think are the key factors to take into account when communicating with a prospective customer?

Formal and informal communication

It is important to recognise that methods of communication can be formal or informal depending on the audience.

Formal communication refers to official messages that are sent by, and approved by, an enterprise, such as writing a report for investors or potential investors or having an official business meeting.

Informal communication refers to unofficial messages that are not formally approved by an enterprise, such as sending an email to a friend or talking to a friend at lunch.

Communication within any enterprise is likely to include examples of both formal and informal communication.

ACTIVITY 10.1

Working in a pair or group, consider the relative advantages and disadvantages of formal and informal communication.

Differences in language

It is important to realise that the language used in communication will differ, depending on the particular context and on the people involved. In particular, it will change in formal and informal communication.

In written communication, correct spelling, punctuation and grammar should be used in all types of business communication. It is always better to avoid using slang expressions and abbreviations. It is also important to avoid using jargon.

Language is also important when talking to another person. For example, a person would probably use different expressions when talking to a friend or a colleague compared to the language used when talking to a senior member of an enterprise.

It has already been pointed out that the language used in communication will differ, depending on the context and on the people involved.

There are a number of reasons for this. If an employee is speaking with a senior member of the management of an enterprise, it is important that their

language is appropriate to such a situation, i.e. if the enterprise is organised on hierarchical lines, the language would reflect respect and a certain amount of deference. This language would be different from that used between employees because they would be on the same approximate level of the organisation structure of the enterprise.

It is important to understand that different types of language might be more appropriate in some situations and less appropriate in others. For example, the language used between two friends would be likely to be different from that used between a junior employee and a senior manager in an enterprise.

It is also important to think about the language used when an employee is communicating with a customer or a prospective customer. The employee, in this situation, will be the 'first point of contact' with the customer and so will be the 'face' and 'voice' of the enterprise. It is important that the employee makes a good impression with the customer as this could be important in terms of sales and revenue. It is always better to be formal with customers; if communication is too informal or too personal, there is a chance that a customer could be offended by an employee being too friendly and over-familiar. It is also important to avoid an excessive use of jargon; it may be necessary to explain clearly any abbreviations or jargon used. It is also clearly important to be polite when talking with customers. Some enterprises may train their staff to use a particular style and form of language when dealing with customers.

Another example would be when someone representing an enterprise, such as the finance manager, is in negotiations with a financial institution to provide the enterprise with finance, such as a loan. The person would need to ensure that their language was appropriate for this context, avoiding the use of slang and popular expressions that would be seen as inappropriate in such a context.

It is therefore important to stress that language can vary depending on the situation, but for an enterprise to be successful it needs to ensure that the language it uses is appropriate to the circumstances and expectations of a business situation.

Key terms

Body language: the process of communicating in a non-verbal way through conscious or unconscious gestures, movements and mannerisms

Verbal communication: messages between people in an enterprise that are spoken, such as in a face-to-face conversation

Written communication: messages between people in an enterprise that are actually written down, such as in a letter



Skills signpost

Make a list of the various ways in which you could try to be as effective as possible in a formal conversation with somebody.



Did you know?

There are many examples of managers not speaking very clearly, as the following example illustrates: 'I hear managers at the bank say "let's touch base about that offline". I think it means that they want to have a private chat but I am still not sure.'

ACTIVITY 10.2

Working in pairs, practise a conversation between an employee and a customer, thinking about the type of language that would be appropriate.

ACTIVITY 10.3

Think about the language that you would use when talking to someone senior to you compared with talking to a friend.

ACTIVITY 10.4

Think about the language that you would use when communicating with somebody through a letter rather than through a text message.



Did you know?

There is a pressure group, called the Plain English Campaign, whose aim is the improvement of language in communication. In one of its reports, it stated that employees who worked for large organisations often used 'management speak' to hide the fact that they had not done their job properly. Such people thought that it would be easy to bluff their way through situations by using long, impressive-sounding words and phrases, even if they did not know what they meant.

Verbal and non-verbal communication

It is also possible to distinguish between verbal and non-verbal communication.

Verbal communication refers to messages between people who are speaking to each other. This could involve a face-to-face conversation, a telephone conversation, a tele-conference or a message left on a person's voicemail.

Non-verbal communication can be where a message is actually written down. Written communication comprises a range of different methods, including letters, a memo or memorandum, a fax, an email, a report, a form, a noticeboard and information contained in a newspaper or a magazine.

Another form of non-verbal communication is body language. Body language is a type of non-verbal communication in which physical behaviour, rather than words, is used to express or convey feelings and thoughts. Examples include the use of postures, gestures and facial expressions.

ACTIVITY 10.5

Working in pairs, practise a conversation between an employee and a customer, thinking about the type of language that would be appropriate.

ACTIVITY 10.6

Working in a pair or group, consider the potential benefits and drawbacks of email as a form of communication.



▲ Communication can take different forms

Key points

- 1 Communication can be of a formal or informal nature.
- 2 Language changes in formal and informal communication.
- 3 Communication can be verbal or non-verbal.



▲ An example of verbal communication

Summary questions

- 1 Distinguish, with the use of examples, between formal and informal communication.
- 2 Discuss why different types of language may be used in different situations.

LEARNING OUTCOMES

Learners should understand the appropriateness of different types of communication for communicating with internal stakeholders, such as:

- ▶ managers
- ▶ employees
- ▶ shareholders
- ▶ owners.

Key term

Horizontal communication: messages between people on the same organisational level of an enterprise

It is important to recognise that stakeholders can be distinguished between internal and external stakeholders. Internal stakeholders are those that are directly involved in the work of an enterprise, such as the managers, the employees and possibly the shareholders if the enterprise is organised as a limited company.

Written methods of communication with internal stakeholders

Below are examples of methods of written communication used with internal stakeholders. As a reminder, internal stakeholders are the people directly involved in the work of an enterprise, e.g. managers, employees and shareholders if the enterprise is a limited company.

Memorandum

A memorandum, or memo as it is usually abbreviated to, is only used for internal communication. They are often used to send fairly brief messages, such as confirming the date and time of a meeting.

Email

An email can be used for internal communication. It can be used for many different kinds of messages, especially involving horizontal communication. They can also be used for sending reports and other documents by attaching them to an email.

Text message

Many managers and employees are likely to communicate with each other through text messages, especially where an informal method of communication is required.

Report

A written report can be produced on many different aspects of an enterprise and this can then be given, or sent through an email attachment, to all those that need to read the report.

Coursework link

You are required to write a formal report as part of your enterprise project.

Annual report

An annual report is usually written and sent to every shareholder prior to the Annual General Meeting (AGM) of shareholders.

Balance sheet and summary profit and loss account

In many countries, the balance sheet and a summary profit and loss account need to be sent to shareholders, along with the annual report, prior to the AGM.

Review

Sometimes, instead of a report, an enterprise produces a summary, e.g. of events in the previous 12 months, in the form of a review. This can be distributed to managers and employees, and sent to shareholders, prior to the AGM.

ACTIVITY 10.7

Write a letter, with you acting as the General Manager of an enterprise, to an employee, praising his or her contribution to the enterprise and informing the person that they are being promoted.

Key terms

Internet: a global system of interconnected computer networks that provides an extensive range of information resources and services

Intranet: a computer network that shares information resources and services within a particular enterprise

ACTIVITY 10.8

Choose one enterprise, access its website and write a summary of the information contained on the website about the enterprise.

Letter

A letter could be sent to a manager or an employee of an enterprise, especially if it is on an important matter, such as a promotion or a dismissal. A letter is also likely to be sent to shareholders, usually from the Chairman, giving details of a forthcoming AGM.

Frequently asked questions (FAQ) document

An enterprise may produce a document which deals with the most commonly asked questions. This could be sent to managers and employees and is certainly likely to be sent to shareholders. A copy is also likely to be included on the enterprise's website.

Internet

An enterprise is likely to have its own website on the internet. This is likely to be of more use with external stakeholders, but it will be of use as a method of communication with internal stakeholders, especially shareholders.

Forms

There are also many different kinds of forms that internal stakeholders will need to complete, such as expense forms, timesheets, insurance forms and stock request forms.

Notice board

A notice board can be a very effective method of communication between the internal stakeholders of an enterprise. They can be a very easy and convenient way of providing information, but their effectiveness depends on people actually reading them. If they are untidy, this is likely to discourage people from reading them.

Newsletter

Some enterprises produce a regular newsletter for internal stakeholders. This summarises news and events involving the enterprise over a period of time.



Did you know?

Thomas Sowell, an economist, once stated that people who enjoyed meetings should never be in charge of anything.

Key term

Shareholder: an individual who contributes funds to a limited company in return for shares in that company

Key term

Annual General Meeting (AGM): a yearly meeting of shareholders that a limited company is usually legally required to hold



▲ An AGM in a company

Intranet

Some enterprises may organise their own intranet which will contain information of relevance to people involved in it.

Verbal methods of communication with internal stakeholders

Telephone and voicemail

Many managers and employees are likely to communicate with each other using the telephone, especially where an informal method of communication is required. If the person receiving the call is unavailable, a message can be left on his or her voicemail.

Video conferencing and tele-conferencing

If an enterprise is organised over a number of different sites, it may be cheaper and more convenient to arrange a conference using a telephone and/or video link. This avoids staff moving to a meeting on a different site.

Briefing

In some enterprises, especially those that are relatively small, an informal briefing involving managers and employees may be held on a daily or weekly basis to provide an update on what is happening in the enterprise that day or week.

Meetings

More formal meetings can be held between managers and employees, between groups of managers or between employees. Face-to-face meetings have the advantage of giving the participants the opportunity to express their views and opinions as part of the meeting.

Annual General Meeting

A particular kind of meeting that is organised, usually on an annual basis, with the shareholders of an enterprise if it is organised as a company. This meeting gives an opportunity for all of the shareholders to express their views on the performance of the enterprise and possibly to 'vote out' particular directors from the board.

Appropriate methods of communication for different situations

It should be clear by now that some methods of communication are more appropriate for some situations than for others. For example, memos, emails, text messages, briefings, meetings, a notice board, forms, a newsletter, the intranet and video conferences are more likely to be used between managers and employees of an enterprise.

Letters, reports, reviews, the frequently asked questions (FAQs) document and the internet can be used as methods of communication with shareholders as well as between managers and employees.

The annual report, the balance sheet and summary profit and loss account and the Annual General Meeting are more likely to be used as methods of communicating with the shareholders of an enterprise.

Key points

- 1 There are a number of different methods of communication that can be used with the internal stakeholders of an enterprise.
- 2 Some of these methods of communication will be more appropriate to different situations than others.

Summary questions

- 1 Explain why both written and verbal methods of communication between internal stakeholders can be useful in an enterprise.
- 2 Discuss the various ways in which an enterprise can communicate with its shareholders.

LEARNING OUTCOMES

Learners should understand the appropriateness of different types of communication for communicating with external stakeholders, such as:

- ▶ suppliers
- ▶ customers
- ▶ banks and other financial institutions
- ▶ the local community
- ▶ local government.

As has already been indicated, it is important to recognise that stakeholders can be distinguished between internal and external stakeholders. External stakeholders are those that are not directly involved in the work of an enterprise, but are indirectly affected in various ways, such as the suppliers, the customers, the banks and other financial institutions, the local community and local government.

Written methods of communication with external stakeholders

Email

An email can be used for external communication. Many enterprises now use email for a variety of purposes, including marketing and for confirming in writing what has been agreed over the telephone. Email is likely to be a particularly useful method of communication with suppliers.

Text messages

Text messages are now increasingly being used as a method of communication between an enterprise and both its suppliers and its customers. For example, many financial institutions send text messages to its customers to warn them if their account is about to go overdrawn.

Report

A written report can be produced on many different aspects of an enterprise and this can then be given, or sent through an email attachment, to all those that need to read the report. For example, this could be a method of communication between an enterprise and local community organisations, such as in relation to an enterprise's commitment to social responsibility.

Review

An enterprise may produce a summary of the events of the previous twelve months in the form of a review. This could be distributed to its suppliers, customers and to local community organisations.

Letter

A letter could be sent to a supplier, customer or local community organisation to inform them of something. A letter might also be needed to be sent to a government department, such as when an enterprise is applying for planning

permission to expand the premises or when an enterprise is applying for some form of financial support from public funds.

Frequently asked questions (FAQs) document

An enterprise may produce a document which deals with the most commonly asked questions. This could be sent to suppliers, customers and local community organisations. A copy is also likely to be included on the enterprise's website.

Internet

An enterprise will almost certainly have its own website on the internet. This will be a very important method of communication with external stakeholders, containing a great deal of information about the enterprise.

Forms

There are also many different kinds of forms that may need to be completed, especially involving suppliers and customers. An enterprise may also need to complete a form for a government department if it is applying for some form of financial assistance.

Newsletter

A newsletter will usually be produced for internal stakeholders, summarising the main news and events involving the enterprise over a period of time, but it could also be distributed to external stakeholders, including suppliers, customers and local community organisations.

Media statement

An enterprise may decide to issue statements which summarise its position on certain issues. These are likely to be addressed to suppliers, customers or local community organisations.

Verbal methods of communication with external stakeholders

Telephone and voicemail

Many enterprises are likely to communicate with external stakeholders through telephone, especially where an informal method of communication is required. If the person receiving the call is unavailable, a message can be left on the person's voicemail.

Meetings

It is possible that an enterprise might organise a meeting with suppliers, customers or local community organisations. For example, when an enterprise is planning to locate in an area, when there have been complaints about certain aspects of the work of an enterprise or when suppliers do not think that an enterprise has been treating them fairly. Face-to-face meetings have the advantage of giving the participants the opportunity to express their views and opinions as part of the meeting.

Press conferences

Sometimes an enterprise will organise a press conference to make an important announcement. This will usually be in relation to suppliers, customers or the local community.

Appropriate methods of communication for different situations

It should be clear that some methods of communication are more appropriate for some situations than for others. For example, emails, text messages, letters, reviews, media statements, press conferences, the frequently asked questions document, the internet, forms, meetings and the telephone are likely to be used as methods of communication with suppliers, customers and local community organisations.

A letter is more likely to be used as a method of communication with a government department, although once contact has been established with a particular person in a government department, further communication may well include email, text messages and telephone calls.

CASE STUDY

The Debswana Diamond Company

The Debswana Diamond Company, in Botswana, is very effective at communicating with local community organisations. It uses a variety of different methods of communication, including meetings and press conferences.

The General Manager of the Jwaneng mine, Albert Milton, has spoken at a press conference in a school about how the company has paid for the upgrading of school laboratories. He stated that the company was keen to create a conducive teaching and learning environment in schools. He also expressed his belief that an educated society will lead to a better informed and more productive nation, arguing that it was critical to build the future of Botswana on skilled and competent individuals.

The General Manager said that the company valued the people, the environment and the communities within which it conducted business. He stressed the importance of companies having a corporate social responsibility for the communities within which they operated.



▲ The Debswana Diamond Company

Extension question

Discuss how the manager of a company can use different methods of communication to get across his or her view about the core values of the company.

Case studies

Refer to the five case studies on pages 6–10. Give examples from each case study of the different ways in which communication has taken place with internal and external stakeholders.

Key points

- 1 A number of different methods can be used to communicate with the external stakeholders of an enterprise.
- 2 Some of these methods of communication will be more appropriate than others in particular situations.

Summary questions

- 1 Explain why both written and verbal methods of communication between external stakeholders can be useful in an enterprise.
- 2 Discuss the various ways in which an enterprise can communicate with local community organisations.

10.4 Meetings and presentations 1

LEARNING OUTCOMES

Learners should understand the need for careful planning, considering possible outcomes, before, during and after the event.

Ways to achieve this include:

- ▶ being well planned
- ▶ having a clear focus
- ▶ keeping to time
- ▶ ensuring that everyone has an opportunity to speak.

The planning of meetings

The need for careful preparation before, during and after meetings needs to be stressed.

Planning a meeting

A meeting, if it is to be effective, needs to be well planned. For example, all attendees need to know:

- where to arrive
- when to arrive
- what to bring.

The objective of a meeting

A meeting will be considered effective if it serves a useful purpose and achieves a desired outcome. However, if a meeting is to achieve this, it must be clear what the purpose or objective of a meeting actually is. A meeting, therefore, needs to have a clear focus.

A meeting is sometimes called without adequate consideration being given to what is the objective or purpose of the meeting. For example, a meeting may have different possible objectives, including the following:

- taking a decision
- solving a problem
- discussing an ongoing project
- generating different ideas
- receiving reports or summaries of action
- communicating a new strategy
- setting out a plan.

These are all examples of different possible objectives of a meeting. If a meeting is to be effective, it is important to clearly establish what its objective should be, as different objectives may conflict with each other. Once the objective of a meeting has been decided, it becomes possible to sharply focus on this purpose. This will influence the planning of the meeting and decisions about which people will be required to attend the meeting.

The use of time

Time is an important resource and so keeping to time is very important so that time is not wasted. A meeting needs to be planned so that it is possible to achieve the objective in the minimum of time.

An agenda will need to be drawn up and if a meeting is to be effective, the agenda will need to be written in such a way that the participants remain focused on what the meeting is aiming to achieve. In the preparation of the agenda, a number of questions need to be asked:

- Priorities: what must be covered in the meeting?
- Objective: what is the fundamental aim or purpose of the meeting?
- Participants: who really needs to attend the meeting?
- Sequence: in what order are the topics and issues to be covered?
- Timing: how much time needs to be spent on each topic or issue?
- Date and time: how much notice should be given of the meeting?
- Place: where will be the best place to hold the meeting?

Once all of these questions have been answered, an agenda can be produced. This should make it clear to the participants why the meeting is taking place, what they need to do before the meeting in order to effectively prepare for it and what they are expected to do at the meeting.

Many people describe a meeting as ineffective because they do not believe that the available time has been used wisely. A well thought out agenda should help to keep a meeting focused on its objective so that time is not wasted. An agenda can operate as a guide to the effective use of time. For example, if an agenda clearly shows how much time will be allocated to the discussion of a particular topic, and the allocated time is coming to an end, alternative strategies can be suggested instead of prolonging the length of the meeting. These could include the following:

- hurry the discussion so that a decision has to be reached within, say, the next five minutes
- defer the taking of a decision until another time
- delegate the taking of a decision to a separate sub-committee.

The use of an appropriate process at a meeting

Effective meetings need structure and order. There needs to be a clear agenda and a commitment to involving all of the participants as fully as possible in the meeting so that everyone has an opportunity to speak.

It is important, if a meeting is to be evaluated as effective, that the process of the meeting is seen as satisfactory and appropriate to the participants in terms



Did you know?

David Ogilvy, a marketing executive, suggested it was always a good idea to hold meetings in rooms too small for the audience. His argument is that 'standing room only' creates an atmosphere of success, as in theatres and restaurants, while a half-empty auditorium smells of failure.



Skills signpost

If you were asked to chair a meeting, make a list of the ten key points that you would need to take into account to ensure that the meeting was as effective as possible.

of what the meeting is aiming to achieve. This can be seen in a variety of ways, including the following:

- if some of the participants are dominating the discussion, make sure that other participants are invited to give their views and opinions, so that everybody is encouraged to contribute to the discussions
- at the end of each item on the agenda, quickly summarise what had been said and what had been agreed and ask the participants to confirm that they agree with the summary
- observe body language and consider what this may say about how the meeting is proceeding; for example, it may be clear that the level of concentration of some of the participants is decreasing and so it might be an appropriate time for a break
- ensure that the meeting stays on target in terms of going through the items on the agenda; irrelevance or digression needs to be avoided if time is to be used effectively
- at the end of the meeting, quickly summarise what has been achieved and what action points have been agreed.

Key point

- 1 Meetings need to be well planned, have a clear focus, keep to time and ensure that everyone has an opportunity to speak.

Summary questions

- 1 Explain why it is important that a meeting is well planned.
- 2 Discuss the importance of keeping to time in meetings.

10.5 Meetings and presentations 2

LEARNING OUTCOMES

Learners should understand the importance of providing appropriate documents for formal meetings:

- ▶ notice of meeting
- ▶ agenda
- ▶ minutes.

Learners should understand the importance of appropriate documents for presentations:

- ▶ visual aids
- ▶ handouts.

Key terms

Agenda: a list of items that will be discussed at a forthcoming meeting

Formal report: a document that is written to provide information, analyse an issue and make recommendations

Minutes: a summary of what has taken place at a meeting

Notice of meeting: the provision of information about the date, time and place of a forthcoming meeting

ACTIVITY 10.9

Working in a pair or group, prepare an agenda for a meeting of the School Council, listing the items that need to be included.

Coursework link

You will give a presentation as part of your enterprise project.

Documents for meetings

The importance of planning meetings as carefully as possible has already been stressed. This applies to the period of time before, during and after a meeting.

Most enterprises will organise meetings to communicate and discuss a variety of issues that are important to the enterprise. Each meeting will have different matters to discuss, but because they are formal meetings, there are a number of rules or expectations that need to be followed. These include giving adequate notice of the holding of a meeting, the preparation and distribution of an agenda for the meeting, the taking of minutes during the meeting and the distribution of these minutes after the meeting.

Notice of meeting

Those people who are required to attend a meeting need to be informed about when the meeting will take place, in terms of both the date and the time, and where it will take place. This is usually done through giving notice of a meeting that is going to be held. There is no agreed time prior to a meeting when the notice needs to be given and this will vary from one enterprise to another, but it is usually thought that the notice of a meeting should not be given less than seven days and not more than 21 days before the meeting is to be held.

Agenda

An agenda is a list of what is to be discussed at the meeting. It is circulated to the participants of a meeting before the meeting takes place to give them adequate preparation of what is going to be discussed. This is useful in giving the participants the opportunity to prepare for the discussion and it may well give them an indication of what they need to bring, in case they need to refer to something during the course of the meeting.

The first three and the last two items of an agenda are always the same. These are as follows:

- apologies for absence; these are received from those people who are unable to be at the meeting, for whatever reason
- minutes of the last meeting; the minutes or notes taken from the previous meeting are sometimes read, but if they are not read out, the participants are asked to refer to them
- matters arising from the minutes; the chairperson of the meeting will ask if there are any points that any of the participants wishes to raise, arising from the minutes, and this may lead to a discussion
- any other business; this provides an opportunity for the participants to raise any other issues that were not included on the agenda
- date and time of next meeting; this is usually agreed before the participants leave the meeting, giving them the opportunity to agree a mutually convenient date and time.

The agenda will contain the list of issues or topics that will be discussed at the meeting after the first three items and before the last two items.



▲ Clarification of the minutes of a meeting

Minutes

One member at the meeting will take the minutes. Sometimes this task is taken by different people at each meeting to give everybody the opportunity to carry out this task. However, in many enterprises, there will be one designated person who has the responsibility to take the minutes. This person will usually be the secretary.

The minutes are a record of what has taken place at a particular meeting and of any decisions that have been reached. They also sometimes indicate where action is required to be taken and by whom. The minutes are circulated after a meeting has taken place and they should provide a clear and accurate record of what took place at the meeting.

The minutes of a meeting are very important and so it is crucial that they are:

- a true and accurate account of what took place at the meeting and of the decisions taken
- relatively brief because the purpose of the minutes is to offer a summary of the main points of the discussions that took place at the meeting
- clear, because they are a record of what took place at the meeting and are likely to be referred to in the future, such as at the next meeting. They will also be read by those people who were absent and unable to attend the meeting.

Documents for presentations

It is not only the documents for formal meetings that are important but also the documents for presentations. These include visual aids and handouts.

Visual aids

One of the most popular visual aids used in presentations is PowerPoint. Slides can be created that give a visual summary of what is being covered in a presentation. The software can be used to produce slides that engage the

participants' attention, making use of motion, zoom and spatial relationships, and keep them engaged in what is being covered in a presentation.

The advice on the production of slideshows is based on the 10-20-30 rule, where they should:

- contain no more than 10 slides
- last no more than 20 minutes
- use a font size of no less than 30 point.

Handouts

These are documents that support what is being covered in a presentation and it is usually intended that the participants in the presentation will take these away with them.

The benefits of handouts for the presenter include the following:

- they allow the presenter to cut down on the amount of material covered in the presentation so that the presenter does not commit information overload
- they allow the presenter to stop worrying about forgetting what they want to say
- members of the audience will have a concrete reminder, making the presentation more memorable.

The benefits of handouts for the audience include the following:

- they allow audience members to concentrate better, instead of having to note down what the presenter is saying
- if the audience members do want to take notes, they have a place to do it
- if the audience members are inspired by the presentation, they have got more information on the topics covered.

Formal report

A formal report might be used to support a meeting or presentation. A formal report presents details and usually makes recommendations that are based on the information in the document. There are various types of formal reports, including problem-solving reports and feasibility studies.

Key points

- 1 Documents for formal meetings, including notice of a meeting, an agenda and the minutes, are important.
- 2 Documents for presentations, including visual aids and handouts, are important.

Summary questions

- 1 Explain the importance of handouts to a successful presentation.
- 2 Discuss why it is so important that the minutes of a meeting are a true and accurate summary of what took place.

10.6 Meetings and presentations 3

LEARNING OUTCOMES

Learners should understand the need to analyse and evaluate if meetings or presentations have been successful in such ways as:

- ▶ analysing and evaluating decisions made
- ▶ deciding if objectives were achieved.

It is important to consider the effectiveness of any meeting or presentation but, to do so, it is necessary to consider how the effectiveness of a meeting or presentation can be evaluated. This involves asking three questions:

- Was the objective of the meeting or presentation achieved?
- Did the meeting or presentation take up a minimal amount of time?
- Did the participants at the meeting or presentation believe that an appropriate process had been followed?

Analysing and evaluating decisions made

One way to judge whether a meeting or presentation has been successful is to analyse and evaluate the decisions made at the meeting or presentation.

In terms of a presentation, a post-event evaluation should focus on such key points as:

- the effectiveness of the speakers
- the participant experience in terms of how much they learned
- the overall level of participant satisfaction as judged by how highly the presentation was recommended by attendees and whether or not they would attend a similar presentation again.

Deciding if objectives were achieved

Another way to judge whether a meeting or presentation has been successful is to decide if the objectives of the meeting or presentation have been achieved. This could involve giving out a questionnaire which members of a meeting complete and then the results of this feedback can be analysed. The feedback may also include tasks or goals for improvement.

CASE STUDY

Leaf Group Company

Elizabeth Wolfenden, of the Leaf Group Company, has produced a step-by-step approach to the evaluation of a presentation. She stresses the importance of determining four key factors as part of the evaluation process:

- the confidence of the speaker
- the quality of the information presented
- the level of clarity of the speaker
- the level of organisation.

Step 1

Determine the confidence of the speaker. The speaker should be comfortable and easily connect with the audience. If a speaker acts uncomfortable or nervous, the presentation is not going well. However, if the speaker easily makes eye contact, invites audience participation and puts the audience at ease, this aspect of the presentation is a success.

Step 2

Determine the quality of the information presented. The speaker should provide enough details to support the point of the presentation but not too many unnecessary details that may confuse or bore the audience.

Step 3

Determine the level of clarity. The speaker should be easily able to convey the point they are trying to make. Vocabulary should be easy to understand and all words should be spoken in a clear and fluent manner.

Step 4

Determine the level of organisation. Every presentation should have some form of structure and organisation, whether formal or informal. Simple things such as making sure there is a proper introduction and conclusion can go a long way in making the presentation a success.

Extension question

Discuss what a speaker could do beforehand to ensure that a presentation was a success.

Key points

- 1 The success of meetings or presentations can be judged by an analysis and evaluation of decisions made.
- 2 The success of meetings or presentations can be judged by deciding if objectives were achieved.

Summary questions

- 1 Explain how judgements about the success of a meeting or presentation can be made.
- 2 Discuss why it is important to evaluate the success of a meeting or presentation.

Unit 10 Practice questions

- 1 Distinguish between formal and informal communication in an enterprise. (4)
- 2 Explain why communication between an employee of an enterprise and a customer needs to be formal rather than informal. (6)
- 3 Consider the advantages and disadvantages of email as a form of communication between an enterprise and both internal and external stakeholders. (6)
- 4 Discuss the importance of providing appropriate documents for an effective presentation. (10)
- 5 'Meetings seem to go on forever and never achieve anything.' Discuss why it is important to analyse whether a meeting has been successful. (15)

Introduction to coursework

TOPIC AIMS

Learners should be able to:

- ▶ choose a suitable project
- ▶ plan the project
- ▶ use enterprise skills to implement the plan
- ▶ evaluate the project.

This section on coursework starts with a consideration of possible coursework projects that might be suitable.

It then deals with what is involved in Task 1. This requires the production of a formal written report of approximately 1200 words about how the particular project was chosen.

It then goes on to consider what is involved in Task 2. This involves the production of an action plan, and the submission of material relating to either financing the project or planning marketing communications.

There is then a consideration of what is involved in Task 3 in terms of using enterprise skills to implement the plan.

Finally, the section concludes with what is involved in Task 4 in terms of evaluating the project.

LEARNING OUTCOMES

Learners should be able to:

- ▶ choose a suitable project.

Choosing a suitable project

Component 2 Coursework involves a portfolio of evidence based on an enterprise project. You must plan and run an enterprise project. You need to be able to present appropriate evidence that serious consideration has gone into the choice of an appropriate project. You should not simply choose the first idea that you think of. Instead, a great deal of deliberation needs to go into choosing one, rather than another, enterprise project.

You will need to show appropriate evidence that you have evaluated a number of possible projects before coming to a decision about which one is to be chosen. There needs to be evidence of thorough evaluation of different possibilities before one has been selected.

Coursework suggestions

You should carry out your own enterprise project. This could either be on your own or as a member of a group. Groups can vary in size, but they do not usually consist of more than six people.

Learners working alone

Working on your own, you will take sole responsibility for carrying out a relatively small and simple project.

Possible projects or activities for working by yourself could include the following:

- gardening/grass cutting/tidying up a yard
- pet sitting/dog walking/any similar activities involving caring for an animal
- baby sitting
- car washing/valeting
- tutoring younger students/helping them with different aspects of their learning
- making and selling small items, such as jewellery
- producing and selling greetings cards and similar stationery
- producing flower baskets
- producing picture frames
- producing wooden ornaments
- small scale local community and environmental projects, such as in relation to recycling used materials.

Learners working in groups

If you are working in a group, you should carry out a larger and more complex project. This will allow each member of the group to play a separate, defined role and each member must be able to demonstrate this role in the work of the project.

Possible projects for working in a group could include the following:

- producing items for sale, such as printed T-shirts
- providing a snack shop or a similar catering facility in a school or college
- recycling clothes
- producing candles
- producing party decorations
- producing calendars
- staging an event, such as a fashion show, an exhibition or a sporting event
- organising and running a trip or visit for other students
- producing an instruction manual, newsletter or children's book
- organising a market stall for a day
- organising an exhibition at a trade fair
- producing play equipment
- producing cushions or bean bags
- producing bird boxes
- producing clocks
- repairing and servicing bicycles
- local community projects, but on a wider scale than those involving just one individual, such as a more ambitious environmental project; this would be ideal for a social enterprise type project.

Practical considerations

The choice of project or activity will depend upon a number of factors including:

- the range of facilities and resources available to learners
- the skills, attributes, interests, talents and experience of learners
- the amount of time available to carry out the activity or project.

In order to produce evidence in each of the four tasks of the coursework, it is important that opportunities should be given to do the following:

- plan the project and monitor progress
- obtain the necessary finance
- communicate with potential customers
- negotiate with another person or with a group of people.

Key points

- 1 An appropriate project needs to be chosen for your coursework.
- 2 The choice of project will largely depend upon whether you are carrying it out by yourself or as part of a group.

Summary questions

- 1 Explain the various factors that need to be considered when choosing an appropriate project for your coursework.
- 2 Discuss the advantages and disadvantages of deciding to carry out a project alone rather than as a member of a group.

LEARNING OUTCOMES

Learners should be able to:

- ▶ identify a suitable project
- ▶ produce a formal written report.

The formal written report

In this task, you are required to produce a formal written report showing consideration of two or three ideas for possible projects and to give a detailed explanation for your choice of project.

In this report, you will need to give an outline of how the particular project was chosen and why other possible projects or activities were discarded as possible choices. The report should therefore provide a clear account of the process that was used to select the project and of the outcome reached as a result of going through this process of selection.

In the report, you will need to:

- outline and analyse the advantages and disadvantages of each idea
- collect, present and analyse appropriate data
- give a detailed explanation of the reasons for the choice of project and a justified decision, including why other ideas were rejected
- write in a formal report style.

The advantages and disadvantages of each idea

The report will need to include a number of advantages and disadvantages of each enterprise idea. This will include not only the enterprise idea chosen but also the ideas that were discarded.

The inclusion of relevant data

You will need to collect, present and analyse appropriate data for each possible idea. One way of presenting this data could be in the form of the results of market research that had been carried out. Another way of presenting the data could be in the form of a SWOT or PEST analysis.

Reasons for the choice of project

You will need to give a detailed explanation of the reasons for the choice of enterprise project. You also need to include a summary of the reasons why other ideas were rejected. In this part of the report, you will need to make clear why you chose one project rather than another, outlining the main reasons for your choice.



Study tip

You should produce the formal written report before you begin your chosen enterprise project.



Study tip

The word count is designed to encourage depth, rather than breadth, of analysis.

Formal report

You will need to write in a formal report style, including:

- headings
- subheadings
- charts
- tables
- diagrams
- clear links to appendices, where appropriate.

The task has an approximate word count of 1200 words, excluding charts, tables, diagrams and appendices. The word count is designed to give you the flexibility to explore two or three options and to give an explanation of your final choice of enterprise project.

Key points

- 1 A formal written report will need to be produced.
- 2 This will need to explain the reasons for the choice of project.

Summary questions

- 1 Explain what will need to be included in a formal written report on the choice of a suitable project.
- 2 Discuss why you decided to discard some ideas.

LEARNING OUTCOMES

Learners:

- ▶ need to produce an action plan.

In this task of the coursework, you need to produce evidence that you have carried out planning in order to try and ensure the success of the chosen enterprise project. An action plan must be submitted.

**Study tip**

You should produce the action plan before you begin your chosen enterprise project.

Action plan

You are required to produce an action plan. This action plan could contain the following:

- the key activities or tasks undertaken in the enterprise
- the timings of the activities or tasks
- the person or persons responsible for carrying out these activities or tasks
- the dates by when these activities or tasks have to be completed
- the proposed methods of monitoring the progress of the plan
- the outcome of the activities or tasks.

The key activities or tasks undertaken in the enterprise

The various tasks and activities undertaken in the enterprise need to be included in the action plan. It should make it clear exactly what the enterprise intends to do and how these activities or tasks are to be carried out.

The timings of the activities or tasks

The action plan needs to make it very clear not only what is happening in the enterprise, but also when the various activities and tasks are to take place and how long these are likely to take. The importance of having a clear understanding of realistic timescales for the project or activity will be emphasised as you draw up your action plan.

The person or persons responsible for carrying out these activities or tasks

It is also important to make it clear who will be carrying out the activities. This means that the action plan needs to be very precise about who is doing what in the enterprise, making clear the responsibility of different people for various tasks or activities.

The dates by when these activities or tasks have to be completed

It is important that the action plan makes it clear exactly what are the agreed dates for the completion of the activities or tasks. The enterprise needs to draw up a timetable that summarises the key dates by which time certain activities or tasks have to be completed.

Key term

Action plan: a plan that outlines the actions required to achieve particular aims and objectives and provides a way of monitoring progress

The proposed methods of monitoring the progress of the plan

It is crucial that you are able to monitor the success of the action plan. The action plan will provide information about what is to be done in an enterprise, but it is important to consider how to regularly check that what is supposed to be happening in the enterprise is actually happening. You need to realise how important it is to set clear and measurable monitoring criteria. For example, this could be in the form of monitoring the number of units produced by an enterprise, the number of units sold and the revenue received. This is a very significant part of an action plan as the effective monitoring of progress is vitally important to the eventual success of an enterprise.

The outcome of the activities or tasks

Finally, an action plan should include information about the eventual outcome of the activities or tasks. It may be that what actually happened turned out to be very different from what had been planned and the action plan needs to be very clear about the actual outcomes achieved, however successful or unsuccessful these were.



▲ Putting together an action plan



Study tip

You must submit the action plan, but the plan will not be assessed.



▲ Answers to these key questions form the six stages of an action plan

Task 2a: Planning to manage potential problems or issues in the action plan

You will use the action plan to identify key activities within the enterprise project that you can write about in Task 2a.

For this task, you should identify two or three significant activities from the action plan for your enterprise project. For each activity, you should identify potential problems or issues and describe how you plan to manage each problem or issue.

You must submit a written analysis of potential problems or issues and how you intend to manage them.

If you work in a group, you may agree an action plan together, but the significant activities identified must be your own individual choices.

Key points

- 1 An action plan needs to be produced and submitted.
- 2 The action plan will not be assessed.

Summary questions

- 1 Explain why it is important for an enterprise to produce an action plan.
- 2 Discuss what is likely to be contained in an action plan for an enterprise.

Task 2b: Planning for financing the project

LEARNING OUTCOMES

Learners must submit:

- ▶ written evidence of the sources of finance you considered for the different financial needs of the project
- ▶ a witness statement for your presentation.

Task 2b, planning for financing the project, requires you to provide written evidence of planning for financing the project and give a presentation of your proposals for the chosen option, demonstrating your communication and enterprise skills.

Written evidence of the sources of finance

You need to research three or four appropriate sources of finance for the enterprise project. The written evidence will consist of three financial aspects of the enterprise:

- the various sources of finance that you considered for the different financial needs of the enterprise project
- your decision on which source(s) of finance to use
- an explanation of why you believe that these are the best and most appropriate sources of finance for the enterprise project.

The evidence is likely to contain information in relation to the following five aspects:

- the costs of materials and equipment
- the various potential methods of finance available
- the advantages of different sources of finance
- the disadvantages of various sources of finance
- the method(s) of finance chosen.

If you are working in a group, you may create a budget together. Individual or group budgets may be submitted as an appendix for reference.

Witness statement of a presentation

The second piece of evidence you need to submit as part of Task 2b is a witness statement of a presentation you have given. This statement will comment on your communication and enterprise skills. The presentation should be to a teacher or to a business person and it should include the use of visual materials. The presentation should cover your proposals for financing the enterprise project and your reasons for the choice(s) of finance. In addition to the witness statement, it would also be helpful if the script used for the presentation was included and any slides or other examples of display material



Study tip

Individual or group budgets may be submitted but these will not be assessed.

used in the presentation. The documents used in the presentation can be included in an appendix.

The witness statement submitted is likely to include the following information:

- your name
- the type of event
- the date of the event
- the size of the audience at the presentation
- how you demonstrated listening skills
- how well you interacted with the audience
- your skills development
- the initiative you showed and the problem solving skills you demonstrated.

You need to ensure that the presentation is appropriate for the audience and that it is communicated as effectively and as clearly as possible.

Key points

- 1 Written evidence of the sources of finance you considered will need to be produced.
- 2 A witness statement of your presentation will need to be produced.

Summary questions

- 1 Explain why financial planning is important to the success of an enterprise.
- 2 Discuss what needs to be considered when giving a presentation to an audience to ensure its effectiveness.

Task 2b: Planning marketing communications

LEARNING OUTCOMES

Learners must submit:

- ▶ written evidence of the types of marketing communications considered for the project
- ▶ a witness statement for the presentation given.

Task 2b, planning for marketing communications, requires you to provide written evidence of planning for marketing communications and to give a presentation of your proposals for the chosen option, demonstrating your communication and enterprise skills.

Written evidence of types of marketing communications

The written evidence will consist of three aspects of the enterprise:

- the types of marketing communication you considered
- your decision on which method(s) to use
- an explanation of why you believe your chosen method(s) will be successful.

There are a number of different examples of marketing communication that could be used, including the following:

- a poster
- a leaflet
- a design plan for a website
- a story board for a television advertisement
- a written script for a radio advertisement
- sponsorship materials.

It is not necessary for you to produce a recording of a radio or television advertisement. A written description of the advertisement, a script of the advertisement or a story board showing the ideas for the advertisement will be sufficient.

Witness statement of a presentation

The second piece of evidence you will need to submit is a witness statement on a presentation you have given. This statement will comment on your communication and enterprise skills. The presentation should be to a teacher or to a business person and it should include the use of visual materials. The presentation should cover your proposed methods of marketing communications and your reasons for the choice of communications. In



Study tip

Individual or group examples of marketing communications may be submitted but these will not be assessed.

addition to the witness statement, it would also be helpful if the script used for the presentation was included and any slides or other examples of display material used in the presentation. The documents used in the presentation can be included in an appendix.

As with the presentation on financial planning, you need to ensure that the presentation is appropriate for the audience and that it is communicated as effectively and as clearly as possible.

If you are working in a group, you may create examples of marketing communications together. Individual or group examples of marketing communications may be submitted as an appendix for reference.

Key points

- 1 Written evidence of your decision as to which method of marketing communication should be used will need to be produced.
- 2 A witness statement on your presentation will need to be produced.

Summary questions

- 1 Explain why effective methods of marketing communications are important to the success of an enterprise.
- 2 Discuss what needs to be considered when deciding between using one method of marketing communications and another.

Task 3: Using enterprise skills to implement the plan

LEARNING OUTCOMES

Learners must submit:

- ▶ a written record of how they used five named enterprise skills to implement their enterprise project
- ▶ their individual plan for a negotiation.

A written record of how five enterprise skills were used

Task 3, using enterprise skills to implement the plan, requires you to identify five of your own enterprise skills from those in Unit 3.1 used during the enterprise project. One of these skills must be negotiation. You should explain how you used these skills in your enterprise project, showing that you have taken into account and demonstrated the entrepreneurial skills that you possess. Entrepreneurial skills were considered in Unit 3 when it was pointed out that you would need to be able to identify and evaluate your own skills during your enterprise project.

You will need to submit a written record of how you used five named skills to implement your enterprise project. You must only write about your own skills.

Individual plan for a negotiation

You must also plan and conduct a negotiation with someone outside the enterprise project team to secure support for an aspect of the enterprise project.

This individual plan for a negotiation must include details of:

- the people involved in the negotiation
- the situation of the negotiation
- the benefits and weaknesses of your proposal
- the outcomes of the negotiation.

During the course of the enterprise project, you will have been involved in a number of different possible negotiating situations. For example, you may have needed to arrange suitable finance for the enterprise project or activity and this would have involved negotiation with a representative of a financial institution, such as over the terms of an overdraft. Also, you may have had to negotiate to rent a particular piece of equipment or to pay for a market stall for a day. Such situations as these can provide appropriate evidence for the planning for negotiation.

You need to make clear exactly who was involved in the negotiation and what their role in the process was, including all the various people involved. You also need to give a description of the situation of the negotiation, including

the date it took place. You need to summarise the essential advantages and limitations of what was being discussed in the negotiation. Finally, you need to provide details of the outcome of the negotiation. For example, were you able to gain all that was needed or was there a degree of compromise involved in the negotiating process?

Key points

- 1** A written record of how you used five named skills to implement their enterprise project needs to be submitted.
- 2** A written description of your individual plan for a negotiation must be submitted, including details of the people involved in the negotiation, the situation of the negotiation, the benefits and weaknesses of the proposal and the outcomes of the negotiation.

Summary questions

- 1** Explain the five most important skills used during an enterprise project.
- 2** Discuss what needs to be considered when planning for the successful outcome of a negotiation.

LEARNING OUTCOMES

Learners must submit:

- ▶ the planning and implementation of the project
- ▶ the financing of the project or the marketing communications used (or, if you are working in a group, the internal communications used).

The formal written report

Task 4 requires you to produce a formal written report. In this report, you will analyse and evaluate the enterprise project in two ways. Firstly, you will analyse and evaluate the planning and implementation of the project. Secondly, you will analyse and evaluate either the financing of the project, the marketing communications used or the internal communications used (this can only be chosen if you are working as part of a group).

The evaluation of the planning and implementation of the project

This part of Task 4 requires you to analyse and evaluate your enterprise project and to make recommendations for improvement. The areas for analysis and evaluation could include the following:

- the methods used to plan the enterprise project
- any deviations from the plan
- how well the plan was implemented.

The evaluation of the financing of the project

The areas for analysis and evaluation could include the following:

- the suitability of the sources of finance used
- the way income and expenditure were managed and monitored
- the extent to which the enterprise project achieved its financial aims.

The evaluation of the marketing communications used

The areas for analysis and evaluation could include the following:

- the suitability of marketing communications used in terms of cost
- the appropriateness of the marketing communications used for the enterprise project
- how well the marketing communication methods used helped to attract potential customers.



Study tip

The choice of the internal communications option is only available if you have been working in a group and not by yourself.



Study tip

You should focus on how well your plans were implemented, not on evaluating your own performance.



Study tip

The word count is designed to encourage depth, rather than breadth, of analysis.

The evaluation of the internal communications used

The areas for analysis and evaluation could include the following:

- the suitability of the channels used
- the flow, speed and accuracy of communication achieved.

The content of the formal written report

In the report, you need to:

- analyse and evaluate positive and negative outcomes for each chosen area
- explain differences between predictions made in planning and actual events
- use evidence gathered during the enterprise project to support the points made
- give clear and reasoned recommendations for improvement for each area
- write in a formal report style with headings and subheadings where appropriate.

The task has an approximate word count of 1500 words, excluding charts, tables, diagrams and appendices. The word count is designed to give you the flexibility to explore the positive and negative outcomes of two areas.

Key points

- 1 A formal written report needs to be produced.
- 2 The report will focus on two areas of enterprise activity: the planning and implementation of the project (compulsory) and one from the financing of the project, the marketing communications used and the internal communication used (this is only for learners working in a group).

Summary questions

- 1 Explain why a report needs to be formal and clearly structured.
- 2 Discuss what needs to be considered when recommending improvements in different aspects of an enterprise's activities.

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for **Cambridge IGCSE®**

Second Edition

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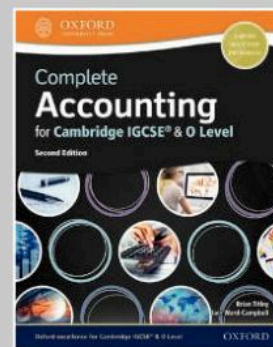
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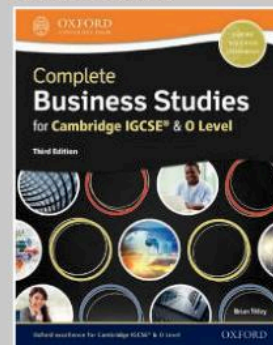
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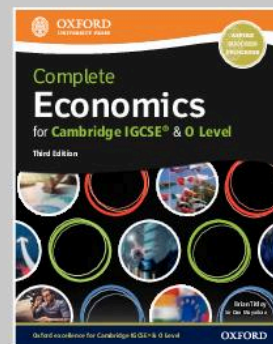
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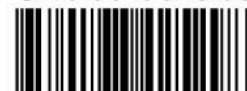
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