UNIT 1: Business Organisations & Environment

IB Business Management

Revision Guide

1.1 Introduction to Business Management

The role of businesses in combining human, physical and financial resources to create goods and services (AO2)

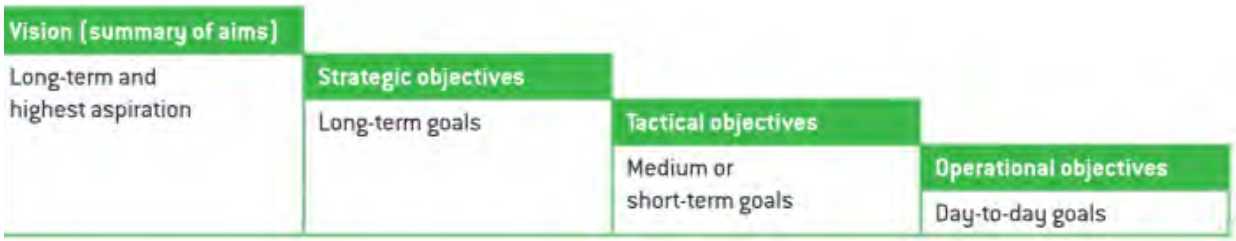
What is a business?

A business is any organisation that uses resources to meet the needs of customers by providing a product or service that they demand. There are several stages in the production of finished goods. Business activity at all stages involves adding value to resources such as raw materials and semi-finished goods and making them more desirable to – and thus valued by – the final purchaser.

The role of a business

Businesses identify the needs of consumers or other firms. They then purchase resources, which are the inputs of the business, or factors of production, in order to produce output. The 'outputs' of a business are the goods and services that satisfy consumers' needs, usually with the aim of making a profit. Business activity exists to produce goods or services, which can be classified in several ways: **consumer goods**, **consumer services** and **capital goods**.

the hierarchy of objectives



- all objectives should be **SMART** (specific, measurable, achievable, relevant and time-specific) ex. to achieve sales growth of $250m by 2023, or increase market share by 3% within five years

strategies: usually medium to long-term, a plan to achieve a strategic objective in order to work towards the aim of the business (how an organisation intends to achieve its aims and objectives) ex. to expand overseas or change location

tactics: short term, a plan to achieve a tactical objective to work towards the strategies of the business (the day-to-day functioning of the business)

The need for organizations to change objectives and innovate in response to changes in internal and external environments (AO3)

changes in the internal environment (in the conditions within the business)

- **Change in leadership** (ex. when a new leader is brought into the company, they might have a different leadership style which can require changes to objectives)
- **Corporate culture** (the accepted norms and customs of a business) - Firms with a flexible and adaptable organizational culture are more likely to have innovative objectives over time.

1.6 Growth and Evolution

Economies and diseconomies of scale (AO2)

Scale of operations: the size or volume of output (when a business increases its sale of operations, it produces more or in greater volume)

Economies of scale: the reduction in average unit cost as a business increases in size

Diseconomies of scale: an increase in average unit cost as the business increases in size

The merits of small versus large organisations(AO3)

Advantages of small and large businesses

Small businesses	Large businesses
• Can be managed and controlled by the owner(s) • Often able to adapt quickly to meet changing customer needs • Offer personal service to customers • Find it easier to know each worker, and many staff prefer to work for a smaller, more 'human' business • Average costs may be low due to no diseconomies of scale and low overheads • Easier communication with workers and customers	• Can afford to employ specialist professional managers • Benefit from cost reductions associated with large-scale production • May be able to set prices that other firms have to follow • Have access to several different sources of finance • May be diversified in several markets and products, so risks are spread • More likely to be able to afford research and development into new products and processes

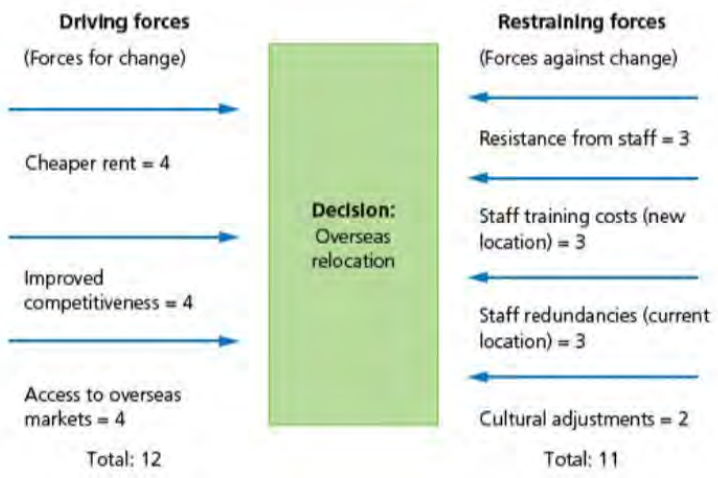
Disadvantages of small and large businesses

Small businesses	Large businesses
• May have limited access to sources of finance • May find the owner(s) has to carry a large burden of responsibility if unable to afford to employ specialist managers • May not be diversified, so there are greater risks of negative impact of external change • Unlikely to benefit from economies of scale	• May be difficult to manage, especially if geographically spread • May have potential cost increases associated with large-scale production • May suffer from slow decision-making and poor communication due to the structure of the large organisation • May often suffer from a divorce between ownership and control that can lead to conflicting objectives

Force Field Analysis

A force field analysis is a planning and decision-making framework for examining the factors for and against change

- The factors that support change towards a goal are called **driving forces**, whereas those that block or hinder change are called **restraining forces.**
- These forces are numerically weighted in order to calculate the relative strengths of driving and restraining forces, thereby aiding decision making in an objective and quantifiable way.



Gantt Chart

A gantt chart is a visual representation of a project schedule in which a series of horizontal lines shows the amount of work planned in certain periods of time. It illustrated the sequencing and schedule of a particular project.

- Links established between dependent tasks allow managers to sequence the various activities/tasks of a particular project-> it shows what must be completed before the next task(s) can begin.