



Chapter 1

Setting up a new enterprise

Learning summary

In this chapter you will learn about:

- the different stages of the enterprise process
- the key points to consider at each stage
- the characteristics of different types of business organisations.

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The enterprise process

To be successful in an enterprise activity, an enterprising person needs to follow various steps in order. This is called the **enterprise process**. Make sure you consider each of these steps as you plan and implement your own enterprise project.



KEY TERM

Enterprise process: The various stages involved in starting and running an enterprise.

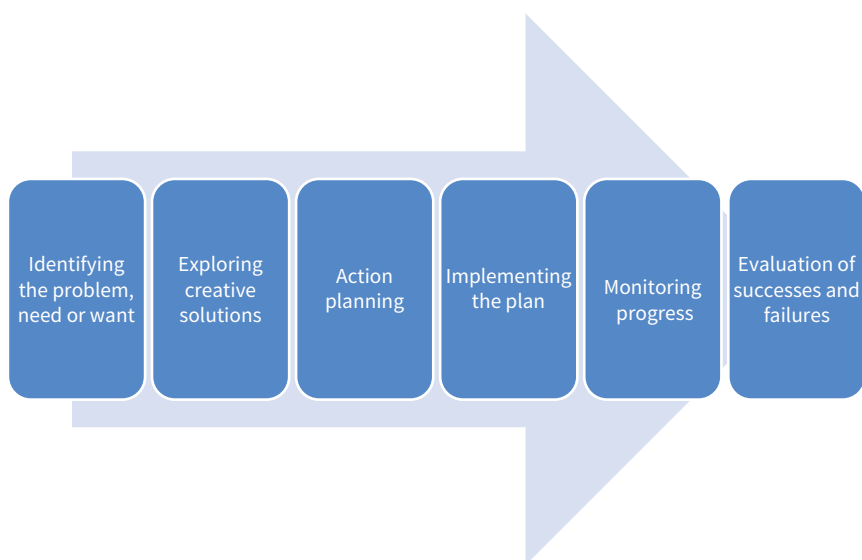


Figure 1.1: The enterprise process

Identifying the problem, need or want:

- A combination of group discussion, brain storming and individual reflection should be used to identify and understand the problem, need or want. Collecting ideas and thoughts from different people involved/stakeholders will ensure many different aspects of the business opportunity have been considered.
- A suitable risk assessment needs to be carried out before starting an enterprise activity.
- The identification of the enterprise opportunity/idea should be backed up with thorough research about the market need. This helps the enterprise have a clear aim and vision that it can work towards. The expected rate of return if it is to be a business enterprise, should also be considered.

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- Recognition of the skills required and reflection on whether an entrepreneur and his associates have them is important for the success of the enterprise. If there are any skills gaps then there should be a plan in place to fill them.

Exploring creative solutions

- When aiming to solve a problem or meet a need, creative and innovative ways need to be looked at and evaluated. Creativity and innovation are key traits of a successful enterprise. They help entrepreneurs find new ways of solving existing problems and meeting needs.
- These creative ideas then need to be analysed and evaluated to help choose the most effective solution. Mind maps can be used to explore the links between ideas which can then be very helpful in developing an effective enterprise plan.

Action planning:

- This involves, making plans for the enterprise activity keeping the costs, budget and financial capability in mind.
- Breaking down goals into achievable tasks.
- Using resources and team members most efficiently. Allocating roles according to people's strengths, skills and attributes to increase the chances of success.
- Setting appropriate timescales and milestones, working towards the goals set out earlier.

Implementing the plan

- To be successful, enterprise activities must be carried out efficiently, effectively, lawfully and with due regard to health and safety.
- All milestones, timescales and health and safety issues identified in the plan should be frequently referred to. This ensures that the activities and tasks are focused and directed towards meeting objectives.
- Things don't always work out as planned and unexpected events do happen. In such a case, decision-making needs to be quick, flexible and responsive.

Monitoring Progress

- Constantly monitoring and evaluating progress against the objectives set out is a way to make sure that projects are tracked and any deviations identified.

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- If tasks are not done and objectives not met on time, corrective action/adjustments need to be done in response to any deviations from the plan. This is essential to ensure that objectives are met and goals achieved within the allocated budget and time.

Evaluation of successes and failures

- This involves reviewing the final outcomes against achievement criteria. This is done in order to draw lessons from the activity and come up with suggestions for improvement in the future.
- Skills, attitudes, qualities, understanding acquired and lessons learned should also be assessed and reflected on to enhance the success of future enterprise projects or activities.

TIP

Word processing and spreadsheet software tools can be very useful for recording ideas and plans, and for creating timelines for target setting and monitoring. Putting data and figures into tables makes it easier to understand the information. Use a spreadsheet to store information and perform calculations.

ACTIVITY 1.1

Your group has been given the task of starting a new club in school. Brainstorm for ideas with your team. Some examples of new clubs that could be offered are:

- helping children in the lower classes with maths/science/English
- sports club offering a popular or sport of your choice
- debating club.

Once you have decided on which club your group will be starting, discuss all the things you need to consider to get it running. Consider the various stages of the enterprise process and what you need to do. You can make an enterprise process mind map or make a list of the points.

- 1 Which club has your group decided to start? How did you identify this club as the best one to start?
- 2 What planning do you need to do in order to start the club? One of the things to think about is the venue where the club will meet. What other things should be considered?
- 3 How will you implement the plans that you have made?
- 4 How will you ensure that your club is running successfully?

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PROJECT PROMPT

As you start your enterprise project, have an overview about how your project will develop through various stages of the enterprise process

- 1 When identifying the problem/need of your project, identify the various factors that you will have to consider. Think about the research you will have to do to make informed decisions. What will be the aim/vision of your enterprise? Consider the risks involved in starting and running your enterprise.
- 2 Analyse how the solution that you have found to the need/problem identified in your project is the most creative and effective.
- 3 When making your action plan, think of all the financial and marketing aspects of your enterprise.
- 4 Find out about all sources of help and support from the government and other organisations that you could use.
- 5 Think about what milestones you might set to be able to monitor the progress of your project.
- 6 At each stage, remember to reflect on what worked well and what could have been improved.

Types of business organisations

Businesses may be organised in many different ways, each with its own legal status, advantages and disadvantages.

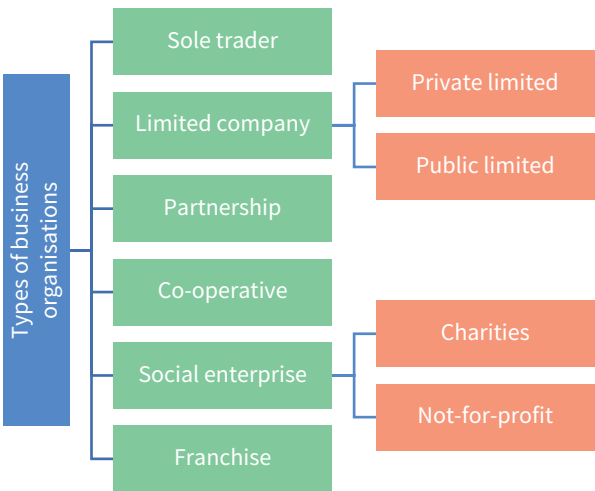


Figure 1.2: Types of business organisations

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Sole trader

This is a business that is owned and run by just one person though it may employ staff. A **sole trader** is an **unincorporated business**. This means it is not a separate entity from the owner. The owner has **unlimited liability** and is liable for all the debts of the business and stands to lose his/her investment as well as personal assets if the business goes into debt.

However, this is one of the most common types of business organisations, mainly because it is cheaper and simpler to start. Examples include hairdressers, photographers, freelance writers and artists.



KEY TERMS

Sole trader: A business that is owned and run by just one person though it may employ staff. It is an unincorporated business in which the owner has unlimited liability for all the debts of the business.

Unincorporated business: A business that does not possess a separate legal identity from its owner. The owner(s) have full liability for the business.

Unlimited liability: Shareholders/owners are liable for all the debts of their organisation and stand to lose their investment as well as personal assets if the business goes into debt.

Advantages of being a sole trader:

- Cheap, quick and simple (less documentation and legal formalities) to start.
- The owner can keep all the profits.
- The owner can make his/her own decisions and has full control of their business.

Disadvantages of being a sole trader:

- The owner is fully responsible for all debt, also known as unlimited liability
- It is difficult to raise finance, so often the owner has to rely on personal savings.

Partnerships

This is a business that is owned by two or more people, who are known as the partners. **Partnerships** cannot normally have more than 20 partners though this can vary from country to country. This sort of a business organisation is also unincorporated and so the partners have unlimited liability. Lawyers, accountants and small businesses owned by two or more people are usually set up as partnerships.



KEY TERM

Partnership: A business that is owned by two or more people, known as the partners. This sort of a business organisation is unincorporated and so the partners have unlimited liability.

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Advantages of partnerships:

- Cheap, quick and simple (less documentation and legal formalities) to start.
- The partners can keep all the profits.
- The partners have full control of their business.
- The decision-making and workload is shared.

Disadvantages of partnerships:

- The partners are fully responsible for all debt (also known as unlimited liability).
- It is difficult to raise finance, so often entrepreneurs have to rely on personal savings.
- Disagreements and conflicts between partners can slow down the business.
- The decision made by one partner is legally binding on all the others.

Limited companies

Limited companies are incorporated businesses that are a separate legal entity from their owners. A limited company is owned by its shareholders who own a share of the company. There are two types of limited companies.

Private limited company

The shares of a private limited company are usually held by friends and family so there are a small number of shareholders.

Public limited company

Shares are offered to and often owned by the public and other organisations.

Advantages of a limited company:

- The shareholders have a **limited liability**, which means they are not fully liable for the debts of the business. Shareholders/owners are only liable to pay/lose the amount they have invested.
- It is easier to raise finance than it is for sole traders and partnerships as they can sell their company's shares.



KEY TERMS

Limited company: An incorporated business that is a separate legal entity from its owners.

Limited liability: Shareholders/owners are only liable to pay or lose the amount they have invested.

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- Since the company is a separate unit from the owners, it will continue to exist even if one of the owners leaves or dies.

Disadvantages of a limited company:

- Limited companies are not so easy to set up as there are a lot of legal formalities, rules and regulations to be followed.
- The original owners may lose control of the business as shares are sold to the public.
- The accounts of the company have to be published for the public to see.

Co-operatives

This type of business organisation is owned and managed by people who use its services and who work there. There are different types of **co-operative**.



KEY TERM

Co-operative: A type of business organisation that is owned and managed by people who use its services or who work there.

- A consumer co-operative is owned by consumers who buy its goods or services.
- A producer co-operative is owned by producers of goods who have come together to sell their goods.
- A worker co-operative is one which is run by its employees.

Advantages of co-operatives:

- Co-operatives are democratic.
- The members (whether consumers or employees) work together. There are fewer chances of conflict as members share a common interest.
- The owners/shareholders in a co-operative usually have limited liability.
- Co-operatives usually get some sort of tax relief from the government.
- Most co-operatives are treated as separate legal units and so the death of a member does not affect its continuity.

Disadvantages of co-operatives:

- It is difficult to raise finance as co-operatives cannot issue shares.
- Accounts have to be made accessible to the public.
- Members may not necessarily have the required skills to run the business and so have to hire professionals who may be expensive.

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Franchises

A **franchise** is a form of business organisation that allows a company (franchisee) to buy the right to use an existing company's (franchisor) brand name and products/service. For example, Subway, the sandwich shop opened its first franchise in Connecticut, USA in 1965. Other Subway franchises soon followed and now there are more Subway restaurants in the world than any other restaurant chain.



KEY TERM

Franchise: A form of business organisation that allows a company (franchisee) to buy the right to use an existing company's (franchisor) brand name and products/service.

Advantages of franchises:

- The franchisee has a greater chance of success as they are selling a well-known product/service.
- The franchisor may provide some support to the franchisee by providing advice and training.
- The franchisor may contribute funds or do some advertising at national level, reducing the franchisee's costs.
- Easier to gain loans from bank, as the business is seen to be low-risk.

Disadvantages of franchises:

- The franchisee will have to pay a license fee and possibly a percentage of the revenue to the franchisor.
- The initial costs of setting up a franchise business may be high.
- The franchisee will not have full control over how he can run his business as he will have to follow the controls set by the franchisor.

Social enterprises

A social enterprise is a business with social objectives and ethical values aimed at benefitting the community. The money earned is reinvested in the business or used for a social cause. There are different types of social enterprise.

Not-for-profit enterprises

- Not-for-profit enterprises are directly involved in producing goods or providing services, but in a socially responsible way.
- They often sell products or services in order to reinvest their profits into the business for the benefit of the community and not-for-profit maximisation of its owners/shareholders.

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- They generate their own income and do not rely on donations to survive.
- A not-for-profit organisation's aim is to improve social conditions. The aims may be short-term or may last for decades.



KEY TERM

Income: All the money that comes in to an enterprise.

Charities

- Charities raise money by doing fundraising activities and collecting donations.
- Charities work to provide quick solutions to immediate disasters/adversity and their impact is often short lived.

Advantages of social enterprises:

- Committed employees: employees who work for a social enterprise often feel for the cause and have a personal interest in its social aims and objectives.
- Job satisfaction for employees is high as they know they have made a difference to people in need.
- They bring about a positive change to people and communities.

Disadvantages of social enterprises:

- Social enterprises may be less competitive in the market due to limited capital.

TIP

Consider your skills and personality when deciding what type of organisation your enterprise will be.

ACTIVITY 1.2

In a group, research and discuss an enterprise that has come up internationally or in your own country recently. You may use the internet or a business magazine/journal for your research. What type of an organisation is it? What is the main product/service offered by the enterprise? What are the risk factors/challenges faced by the enterprise? Is it successful so far?

PROJECT PROMPT

What type of a business organisation will best suit your enterprise? Explain why you think this sort of organisation will be best suited to you.

It isn't a requirement for the coursework, but it would still be useful to think about which type of organisation will best suit your enterprise.

What are the disadvantages of this sort of organisation and how could you minimise them?