

---

> Unit 1

# Business and its environment

---

## > Chapter 1

# Enterprise

### LEARNING INTENTIONS

In this chapter you will:

- analyse what is meant by business activity, opportunity cost and the economic problem
- analyse how businesses add value
- analyse why businesses succeed or fail
- apply the characteristics of successful entrepreneurs and intrapreneurs
- evaluate the role of entrepreneurs and intrapreneurs in businesses
- analyse the role of enterprise in a country's development
- evaluate the benefits and limitations of business plans.

### KEY TERMS

Added value   Adding value   Business plan   Capital goods   Consumer   Consumer goods   Consumer services  
 Customer   Entrepreneur   Factors of production   Intrapreneur   Multinational business   Opportunity cost

## Key skills exercises

### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- the nature of business activity
  - important factors of production
  - skills and personal qualities needed by successful entrepreneurs and intrapreneurs
  - why businesses succeed or fail
  - role of enterprise
  - business plans.
- 1 Identify the **four** factors of production.
  - 2 Explain how a good reputation for quality can help a business add value.
  - 3 Define the term 'opportunity cost'.
  - 4 What is meant by 'the business environment is dynamic'?
  - 5 Identify **five** characteristics of a successful entrepreneur or intrapreneur.
  - 6 Identify **three** reasons why a recently established business might fail.
  - 7 Explain **one** difference between business risk and uncertainty.
  - 8 Identify **three** ways in which a country benefits from the start-up of new businesses.
  - 9 Identify **three** elements of a business plan.

## 1 Enterprise AS Level 1.1

- 10 Identify **three** benefits to an entrepreneur of preparing a business plan.
- 11 Identify **two** possible barriers to entrepreneurship.
- 12 Explain the difference between an entrepreneur and an intrapreneur.
- 13 Explain the difference between a national business and a multinational business.

### Application

#### Sami's new business

Sami lives in a low-income country with few job opportunities. He is bored with his job in a petrol service station where he has worked since leaving school. He feels that he is being watched all the time by his manager. He plans to set up a business with a small sum of money given to him by a relative. He will make and decorate ceramic pots to sell to tourists. Sami started making pots in an art class at school and enjoyed it. He will use a simple pottery wheel and an electric kiln. He cannot work from home as pottery can be very dusty work. Clay and paint to decorate the pots will be bought from suppliers. He wants to use his skill to make pots for most of the working day. However, he knows that he will have to keep records of all of the transactions his business has with suppliers and customers. He thinks that he will have to employ someone to help him with selling the pots and administration of the business.

- 14 Explain **two** reasons why Sami decided to set up his own business.

#### WORKED EXAMPLE FOR Q14

##### One reason

One reason is that Sami wants to be independent by owning his own business **[K]**. This is shown by the fact that 'he feels he is being watched all the time by his manager', which does not give him any independence at all **[Ap]**.

#### TIP

Do not make up your reasons! Read the case study carefully and identify two reasons why Sami took this decision.

- 15 Explain **two** factors of production that Sami will need before he can start operating his business.
- 16 Explain **two** challenges that Sami will face in starting his business.
- 17 Explain how Sami will add value in his business.

### Analysis

- 18 Analyse **two** benefits to Sami's country of his decision to start up his own business.

#### WORKED EXAMPLE FOR Q18

##### One benefit

Sami will employ at least one other worker **[K]**. He will need someone to help him sell pots and carry out administrative tasks such as looking after the paperwork **[Ap]**. This will help reduce unemployment in Sami's country **[An]**. This will lead to more people in jobs earning income to increase demand for products **[An+]**.

- 19 Analyse **two** reasons why Sami's business could fail.

## > CAMBRIDGE INTERNATIONAL AS & A LEVEL BUSINESS: WORKBOOK

### Evaluation

- 20 Do you think Sami's business will be successful? Justify your answer.
- 21 Evaluate the most important entrepreneurial characteristics that Sami will need to help make the business a success.

#### TIP

For Q20, think of at least one reason why Sami's new business might be successful (e.g. it might be something to do with his own skills). Then consider what problems might arise that would impact on the success of Sami's business. Analyse how and why these factors would affect the success of Sami's business and come to an overall and justified conclusion.

### EXAM-STYLE QUESTIONS

#### Short answer questions

- 1 Analyse **one** way in which a country might benefit from entrepreneurs opening new businesses. [5]
- 2 Analyse **one** reason why a business might fail. [5]

#### Essay questions

- 1 a Analyse the role of intrapreneurship to the success of a business. [8]
- b 'Any hard-working person can become a successful entrepreneur.' Evaluate whether you agree with this statement. [12]

#### Data response questions

##### Sadiq Boat Repairs (SBR)

Sadiq set up SBR three years ago. He prepared a detailed business plan. He found several investors and banks prepared to offer him finance. The business repairs boats and boat engines. Sadiq located his business in a small workshop next to a large harbour. There are many small boats in the harbour.

Sadiq is a skilled mechanic and a keen boat owner. He used to work for a large car manufacturer but found the work repetitive. He works long hours as he does not employ any workers. He likes dealing with customers directly. He does all of the paperwork for the business.

Sadiq belongs to a sailing club and is friends with many of the members. He buys in boat and engine repair parts for his customers. His final price for each job includes the cost of these parts and the time he has spent on the job. He thinks he might be able to add further value by selling new boat engines to customers whose engines cannot be repaired. He has been offered some low-cost spare parts for engines, which would also help to increase added value.

- a i Identify **one** type of business capital. [1]
- ii Explain the term 'add value'. [3]
- b Explain **two** factors, other than Sadiq's own personal qualities, that have led to the success of SBR. [6]
- c Analyse **two** ways in which Sadiq's business could increase added value. [8]
- d Evaluate Sadiq's role in the success of his business. [12]

**CONTINUED****Improve this answer**

This is a sample answer to data response Qb.

Location is important for any business **[K]**. If the site is too expensive, it can mean that costs are too high and no profit is made **[An]**. Sadiq must have chosen a cheap location.  
All new businesses need customers and the quicker customers are gained, the more successful the business is likely to become **[K]**. Sadiq's customers will pay money to the business and this can then be used to pay the costs of the business and pay back any loans that were needed to set it up **[An]**.

**Your challenge**

See whether you can improve this answer. It clearly identifies two factors. Both of these are briefly explained in terms of how they contributed to the success of a business. However, it seems to lack detailed application. Just referring to 'Sadiq' does not make the answer applied. A better answer is available online – but write yours out first!

## > Chapter 2

# Business structure

### LEARNING INTENTIONS

In this chapter you will:

- classify industries into levels of economic activity – primary, secondary, tertiary and quaternary – and analyse changes in their relative importance
- analyse the differences between the private sector and public sector in your country
- identify the different forms of legal structures of business and evaluate the most appropriate one for different businesses
- analyse the advantages and disadvantages of changing from one type of business ownership to another.

### KEY TERMS

Articles of Association   Command economy   Cooperative   Franchise   Free-market economy   Joint venture  
 Limited liability   Memorandum of Association   Mixed economy   Public corporation   Partnership  
 Primary sector business activity   Public sector   Public limited company   Private limited company   Private sector  
 Quaternary sector business activity   Secondary sector business activity   Share   Shareholder   Social enterprise  
 Sole trader   Tertiary sector business activity

## Key skills exercises

### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- different levels of economic activity
- the different sectors of an economy
- the main forms of business ownership.

- 1 Identify **three** industries in the primary sector.
- 2 Identify **three** industries in the secondary sector.
- 3 Explain **one** difference between the tertiary sector and the quaternary sector.
- 4 Identify **three** types of economic activity that are usually undertaken by the public sector.
- 5 Are public limited companies in the private sector or the public sector?
- 6 Explain the term ‘limited liability’.
- 7 If a small sole-trader business expands by employing one worker, why is it not now a partnership?
- 8 Identify **two** benefits that a partnership has over a sole-trader business.
- 9 Identify **two** benefits that a public limited company has over a private limited company.
- 10 Give **one** advantage and **one** disadvantage to an entrepreneur of setting up a franchise business.

## 2 Business structure AS Level 1.2

- 11 Identify **two** objectives of most social enterprises.
- 12 Identify **two** examples of cooperatives operating in your country.
- 13 Outline **two** common differences between cooperative organisations and other forms of business ownership.

### Application

	Primary	Secondary	Tertiary	Quaternary
Country A	30 (45)	32 (20)	30 (28)	8 (7)
Country B	3 (4)	15 (25)	65 (57)	17 (14)

**Table 2.1:** Business sectors in Country A and Country B (% of output) in current year (and five years ago)

- 14 Explain **two** possible causes of the changes in the relative importance of the business sectors in Country A, as shown in Table 2.1. Country A is a low-income country experiencing rapid economic growth.
- 15 Explain **two** possible consequences of the changes in the relative importance of the business sectors in Country B, shown in Table 2.1. Country B is a high-income country.

#### Gill's dresses: 1

Gill is a skilled dressmaker. She makes dresses to her own designs. She used to sell her dresses to clothes shops but she recently decided to sell them only at city centre markets. Selling at these markets takes up a lot of Gill's time. Currently, she works at home but needs additional space for the inventories of materials she has. She also plans to employ a worker who will help her cut material and sell finished dresses at the markets. Gill's old sewing machine keeps breaking down and she needs to replace it. She is worried that her savings might not be enough to pay for a new one.

- 16 What evidence above suggests that Gill is a sole trader?
- 17 Explain **two** benefits to Gill of taking on a business partner.

#### TIP

Read your answer for Q16 carefully. Does it make clear references to Gill and/or her business?

#### WORKED EXAMPLE FOR Q17

##### One benefit

Gill is planning to expand her business by buying/renting additional storage space for materials [Ap]. This will need finance [K] and Gill may not have enough savings, so a partner will bring finance into the business [Ap].

- 18 Is Gill's business in the private sector or public sector? Explain your answer.
- 19 In which level of economic activity would you classify Gill's dressmaking business? Explain your answer.

## > CAMBRIDGE INTERNATIONAL AS & A LEVEL BUSINESS: WORKBOOK

### Analysis

#### Gill's dresses: 2

Gill decides to form a partnership with her friend Maria, who is keen to make dresses but is not very skilled. She has told Gill that she will put a substantial amount of capital into the business and that she knows a lot about fashion.

A specialist clothing retailer has suggested a joint venture proposal to the partners. The owner plans to open a small fashion shop in the city and has asked Gill and Maria to supply dresses. The retailer would manage the sale of the dresses.

- 20 Analyse **one** disadvantage to Gill of taking on a partner.
- 21 Analyse **one** benefit and **one** drawback to Gill and Maria of converting the business into a private limited company.

#### WORKED EXAMPLE FOR Q21

##### One benefit

The benefit would be that both Gill and Maria will have limited liability [**K**]. Maria plans to put a substantial amount of capital into the business [**Ap**]. Gill and Maria would benefit from only risking the capital they invested in the business [**An**]. This would protect their other assets from being liquidated if the business fails [**An**] and could encourage them to invest more into the business, leading to further expansion [**An+**].

#### TIP

Your answer to Q21 should provide the basis of your answer to Q22. Include at least one paragraph in Q22 explaining your decision as to whether they should form a private limited company.

### Evaluation

- 22 Do you think that Gill and Maria should form a private limited company? Justify your answer.
- 23 Advise Gill and Maria whether or not to form a joint venture with the retailer. Justify your answer.

#### EXAM-STYLE QUESTIONS

##### Short answer questions

- 1 Explain the difference between primary sector business activity and tertiary sector business activity. [3]
- 2 Analyse **one** benefit to an entrepreneur of starting a franchised business. [5]

##### Essay questions

- 1 a Analyse **two** benefits to a sole trader of forming a partnership. [8]  
 b 'The owners of all private limited companies should consider converting their businesses into public limited companies.' Evaluate this view. [12]

#### TIP

For short answer Q1, start with a definition of each type of business activity and then explain the differences between them.



## CONTINUED

## TIP

In the previous questions, notice that there are more marks available for the essay questions than for the short answer questions. Write in clear paragraphs. For Q1b, the final paragraphs should explain and justify why owners of a private limited company might or might not consider converting the business to a public limited company.

## Data response questions

## Cassy's jewellery

Cassy makes wedding rings, and other items of jewellery, for women and men. Sajiv is her business partner. Their business is in the private sector. They sell jewellery through the business's website. The sold items are posted to customers. Sajiv is responsible for accounts, arranging finance from the bank and buying material supplies. The partners employ two skilled jewellery makers. Sajiv has invested more capital in the business than Cassy. He is thinking of the benefits of limited liability if their partnership is converted into a private limited company.

Both Cassy and Sajiv want new challenges. They could expand their business, called C and S Gems, by employing more workers and renting a large workshop. However, last week they were asked by a large company, MGC, which makes expensive jewellery, if they wanted to buy a franchise from MGC. The franchise licence would give Cassy and Sajiv the legal right to copy MGC's many well-known jewellery designs. These would then be sold through an MGC branded shop. The cost of the franchise licence is high and C and S Gems would have to be sold to finance this. 'This franchise would give us less risk and a well-known brand name,' said Sajiv.

- |   |    |   |      |
|---|----|---|------|
| a | i  | Identify <b>one</b> feature of the private sector.  | [1]  |
|   | ii | Explain the term 'limited liability'.   | [3]  |
| b |    | Explain <b>two</b> ways in which tertiary sector businesses could help Cassy's business.  | [6]  |
| c |    | Analyse <b>two</b> problems that Cassy and Sajiv might experience from changing the business from a partnership to a private limited company. | [8]  |
| d |    | Evaluate whether Cassy and Sajiv should sell their business and buy the MGC franchise.  | [12] |

## Improve this answer

This is a sample answer to data response Qd.

A franchise means buying a licence to trade under the name of another business [K]. If this business is well known with a good brand name, it can reduce operating risks [An].

MGC is a large company and appears to have a good brand name [Ap]. This means Cassy and Sajiv would not have to spend much on advertising as customers will already know about MGC jewellery designs [An]. Lower advertising and promotion costs, because of the well-known brand name, will help to make the franchised business more profitable [An+]. Risks will be reduced as MGC will have much experience in operating retail stores and will be able to pass this on to Cassy and Sajiv [An]. They are both ambitious and want new challenges [Ap]. Setting up a new shop and making well-known jewellery designs will give them these challenges [An]. The franchise is likely to be very profitable and they will get a good return on their capital.

## Your challenge

See whether you can improve this answer. It makes some relevant points and the consequences of these are explained in some detail, which is the skill of analysis. Some of these points are also applied to the data response question. However, it seems to lack the important skill of evaluation, although the final sentence could be used in a conclusion. The answer does not give an overall conclusion supported by the analysis shown. A better answer is available online – but write yours out first!



## > Chapter 3

# Size of business

### LEARNING INTENTIONS

In this chapter you will:

- apply several ways of measuring the size of businesses
- analyse the benefits small businesses can have on a country's economy and their own industry
- analyse the advantages and disadvantages of small businesses and of family businesses
- analyse the difference between internal and external growth
- identify and analyse different forms of external growth: merger/takeover, joint ventures and strategic alliances
- evaluate the impact of different forms of external growth on business stakeholders
- analyse why a merger/takeover may not achieve its objectives.

### KEY TERMS

Capital employed   Conglomerate integration   External growth   Horizontal integration   Market capitalisation  
 Market share   Merger   Organic growth   Revenue   Strategic alliance   Synergy   Takeover  
 Vertical integration – forward, backward

## Key skills exercises

### Knowledge and understanding

To answer the questions in this chapter, you need to know and understand:

- different ways in which business size can be measured
- the benefits of small businesses
- how to compare the advantages of small and large businesses
- the strengths and weaknesses of family businesses
- types of external growth, and how external growth differs from organic growth
- the different impact types of growth can have on stakeholder groups
- reasons for the use of joint ventures and strategic alliance.

- 1 Define the term 'revenue'.
- 2 Explain the term 'market capitalisation'.
- 3 How is market share measured?
- 4 Why might a business with high capital employ only a few workers?
- 5 Identify **three** benefits of small businesses to an economy.
- 6 Identify **three** advantages large businesses often have compared with small businesses.
- 7 Identify **three** common strengths of family businesses.
- 8 Identify **three** common weaknesses of family businesses.
- 9 Explain the difference between organic growth and external growth.