# FUNDAMENTALS OF PLANNING AND MANAGEMENT IN THE ENTERPRISE

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# THEME 1
# THE FIRM IN ECONOMICS

1. What is the enterprise. Basic terms.
2. The producer’s functions in economic system.
3. Planning and management and their significance for producer’ success.
4. Types of producers.

# Economics

Economics is about production, consumption, and the transfer of money.

**Producers:**

create goods and provide services for people to buy

**Consumers:**

buy goods and pay for services that the producers create and provide

| Types of Resources | | |
|---|---|---|
| Human | Natural | Capital |
| group of individuals who help run a business or organization | materials that occur in nature | human-made tool or machine to help someone create a good or service |
| waiter, cop, accountant | water, soil, air, trees | boat, tractor, hammer |

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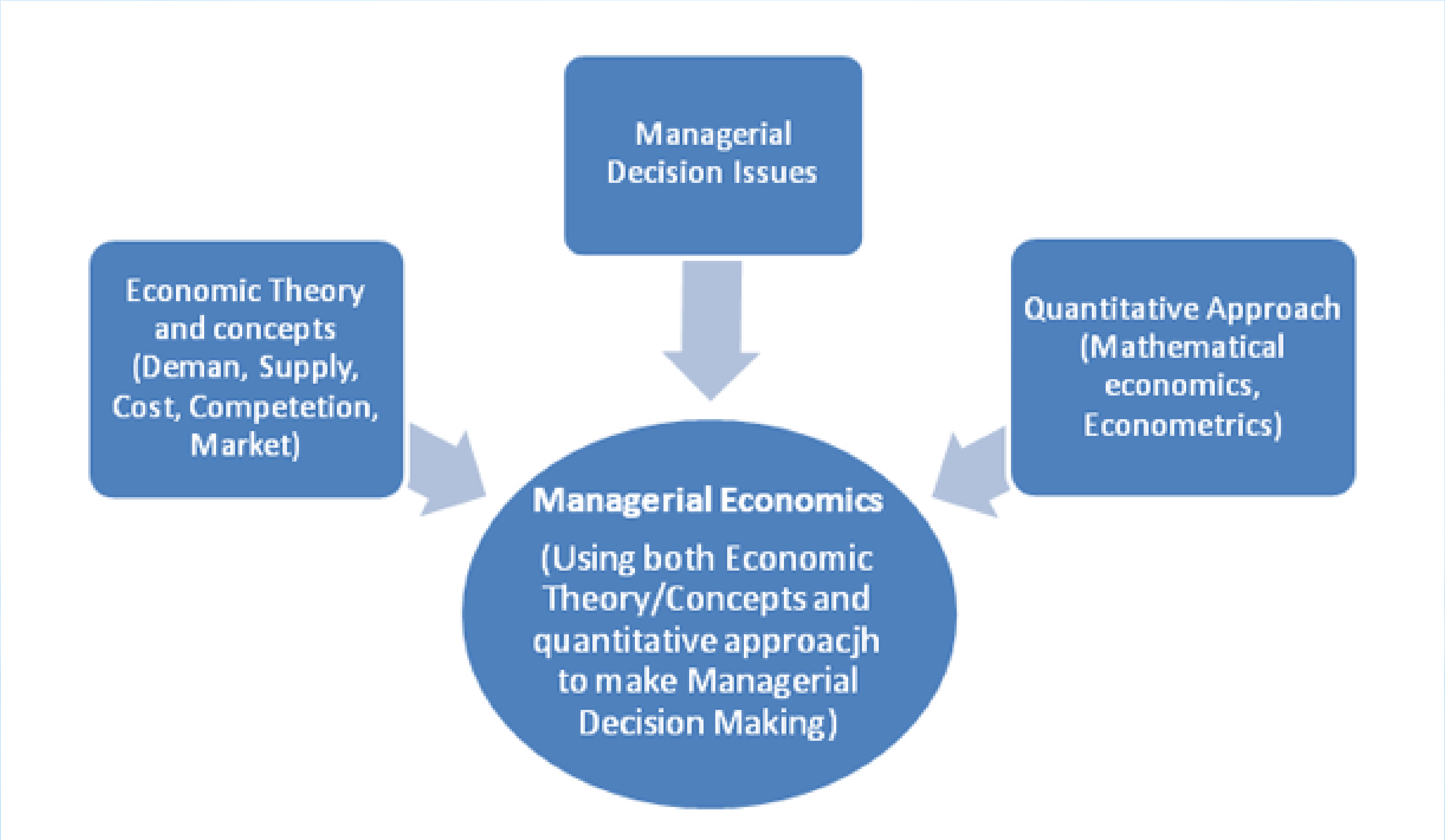
# * Industrial (managerial) economics is



## CHARACTERISTICS OF MANAGEMENT

**(i) Management is a Goal oriented Process** which is undertaken to achieve already specified and desired objectives by proper utilization of available resources.

**(ii) Management is All Pervasive** and is used in all types of organizations whether economic, social or political irrespective of its size nature and location and at every level.

**(iii) Management is Multidimensional:** It does not contain one activity. it is a complex activity including three main activities.

**(a)** Management of work

**(b)** Management of people

**(c)** Management of operations

**(iv) Management is a Continuous Process:** It is a never ending process. It consists of series of interrelated functions which performs continuously. The process of management continues until an organization exists for attaining its objectives.

# * Planning and Management

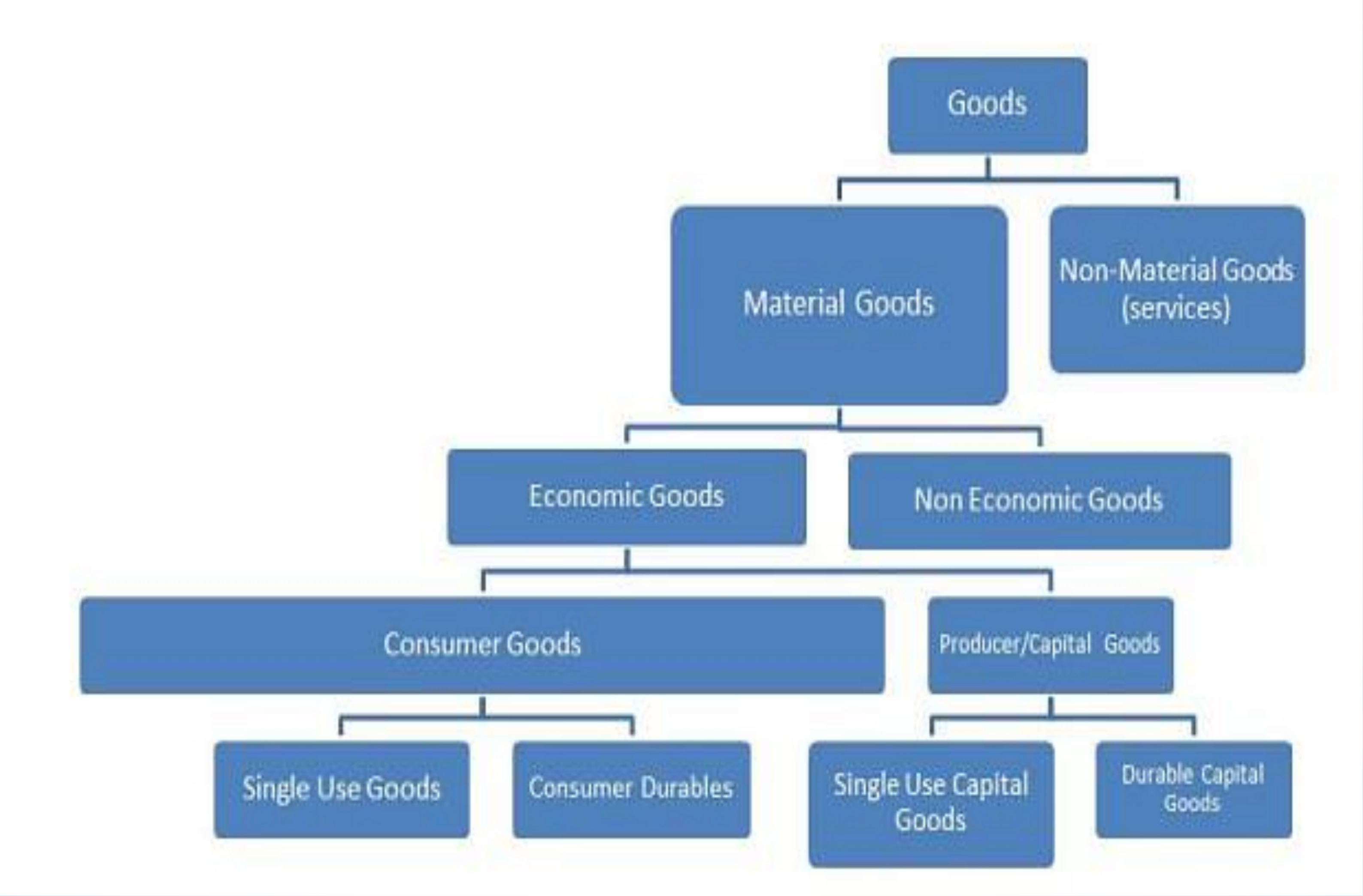
**Management** is a complex phenomenon that deals with various processes that take place in an organization and are associated both with its internal life (internal environment) and with its interaction with the environment (external environment).

It is the synchronization of various activities and efforts in an organization providing the required amount of quality, timing and sequence; thus, ensuring the achievement of the planned goal with minimum content.

In other words, Management is the process of getting things done through others with the help of some basic managerial activities like planning, organizing, directing, coordinating, and controlling.

Every employee is an important part of enterprise' management as they make economic decisions (plan their professional activities and choose from a variety of opportunities in order to achieve maximum of efficiency).

# * Types of goods and services



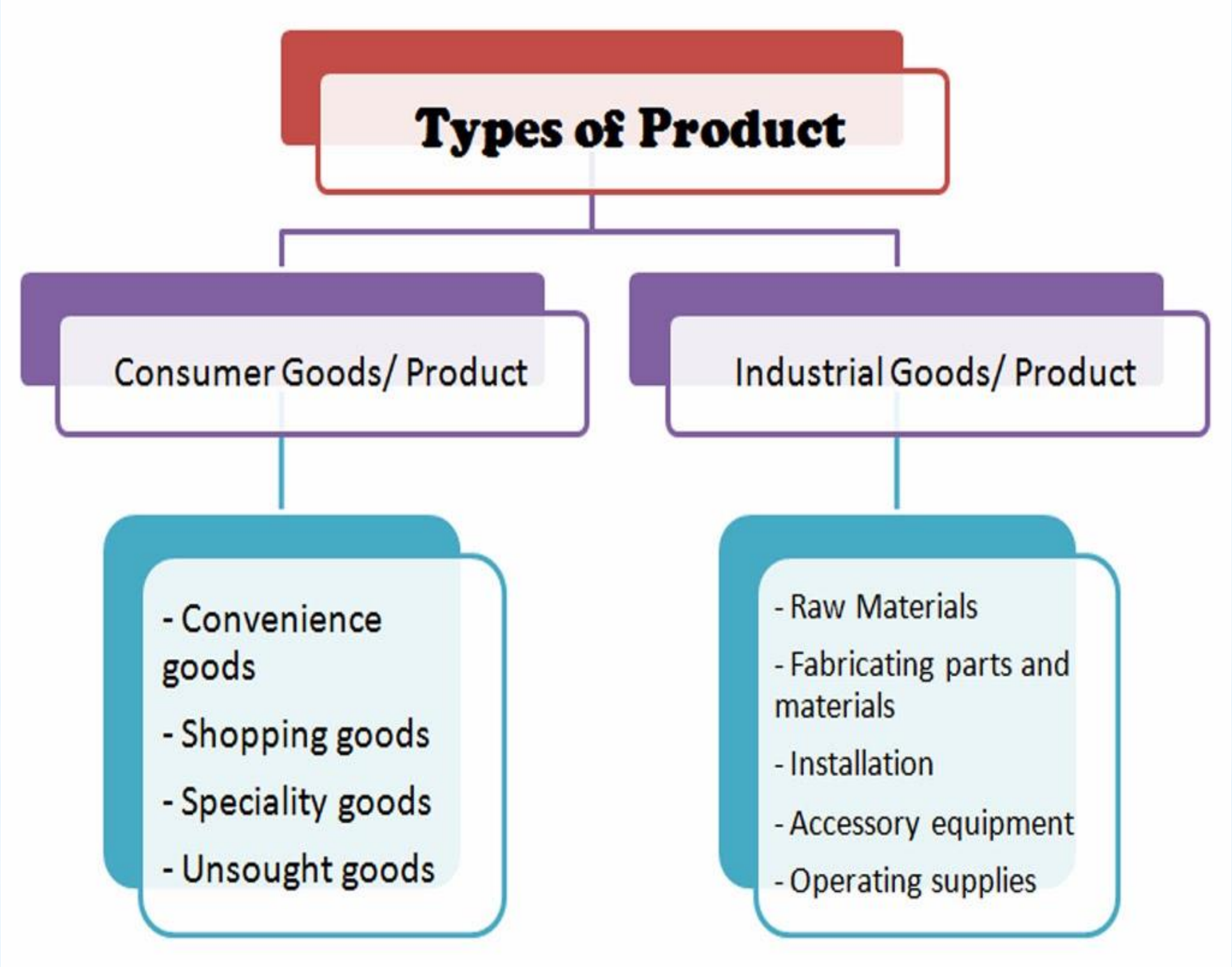
# * Types of goods

GOODS are the physical output of a firm producing a product meant for sale and consumption in a product market. Contrast with services, which are non-physical products produced and sold by firms to consumers,

so it is

A commodity, or a physical, tangible item that satisfies some human want or need, or something that people find useful or desirable and make an effort to acquire it

# * Types of goods



# * Types of goods

## Four types of goods

| | | Rival in consumption? Yes | Rival in consumption? No |
|---|---|---|---|
| **Excludable?** | Yes | **Private goods**<br>- Ice-cream cones<br>- Clothing<br>- Food | **Club goods**<br>- Higher education<br>- Cable TV<br>- Uncongested toll roads |
| | No | **Congestible (position) goods (most in real world...)**<br>- Fish in the ocean<br>- The environment<br>- Congested nontoll roads | **Public goods**<br>- Tornado system<br>- National defense<br>- Uncongested nontoll roads |

Goods can be grouped into four categories according to two characteristics:

(1) A good is excludable if people can be prevented from using it.

(2) A good is rival in consumption if one person's use of the good diminishes other people's use of it.

# * Services


doctor
taxi driver
TAXI
services
an action that someone does to help others.
pet groomer
babysitter

# Types of goods and services

In usage the goods may be divided at

- Using many times (consumer durables)
- Using one time (single time use)

# Income Elasticities

- Normal goods
  - Goods we purchase more of when income rises
- Inferior goods
  - Goods we purchase less of when income rises

- Normal goods fall into two categories:
  - Luxuries
    - Purchase a lot more when income rises
  - Necessities
    - Purchase a little more when income rises

# What is the difference between…

**<u>Normal Good</u>**

- A good that consumers demand MORE of as their income INCREASES
- Ex: Butter, Filet mignon

**<u>Inferior Good</u>**

- A good that consumers demand LESS of as their income DECREASES
- Ex: Margarine, hamburger

# Income Elasticity: Luxuries and Necessities

| Luxuries | Necessities |
|---|---|
| Income elasticity more than 1 | Income elasticity less than 1, but more than 0 |
| As income grows, proportionally more is spent on luxuries | As income grows, proportionally less is spent on necessities |
| **Examples:** | **Examples:** |
| Consumer goods<br>Expensive holidays<br>Branded goods | Staple groceries (e.g. milk)<br>Own-label goods |

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# Recap types of goods

- Normal – if incomes rises demand stays the same
- Inferior – if income rise demand for these fall as consumers buy better products
- Substitute – a good that can be switched if the price goes too high, instead of cinema go bowling
- Complimentary – items where the demand for one will affect the demand for another like DVD for a DVD player, petrol for a car

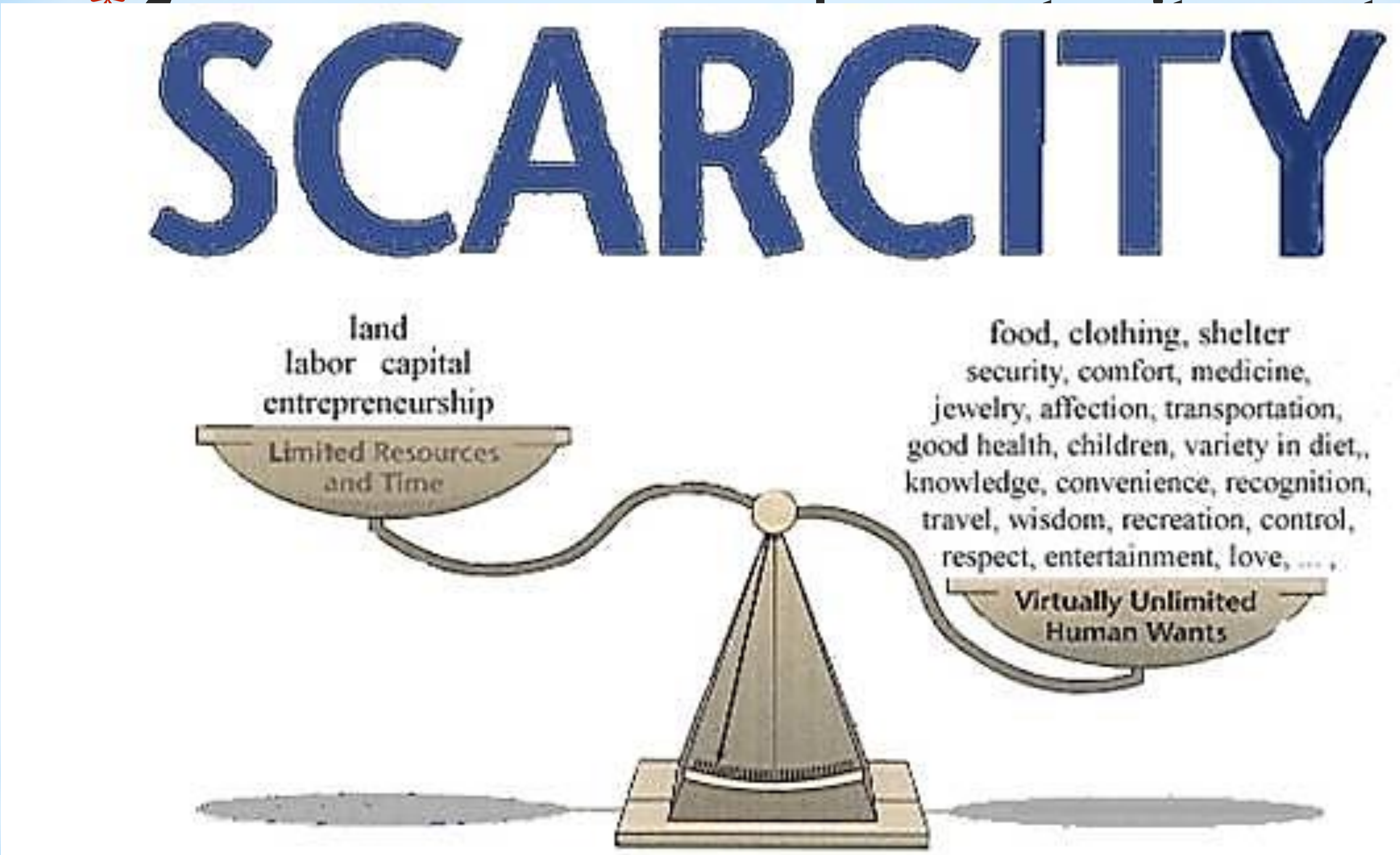
How to determine if two goods are substitutes or complements:

| | |
|---|---|
| – Do they accomplish the same basic function?<br>– Are they grouped in a similar category of goods?<br><br>If yes, these goods are probably substitutes. | – Does the use of one depend on/ require the other?<br>– If the price of one increased, would you be less likely to buy the other?<br><br>If yes, these goods are probably complements. |


# * Scarce resources and opportunity costs

## Scarcity

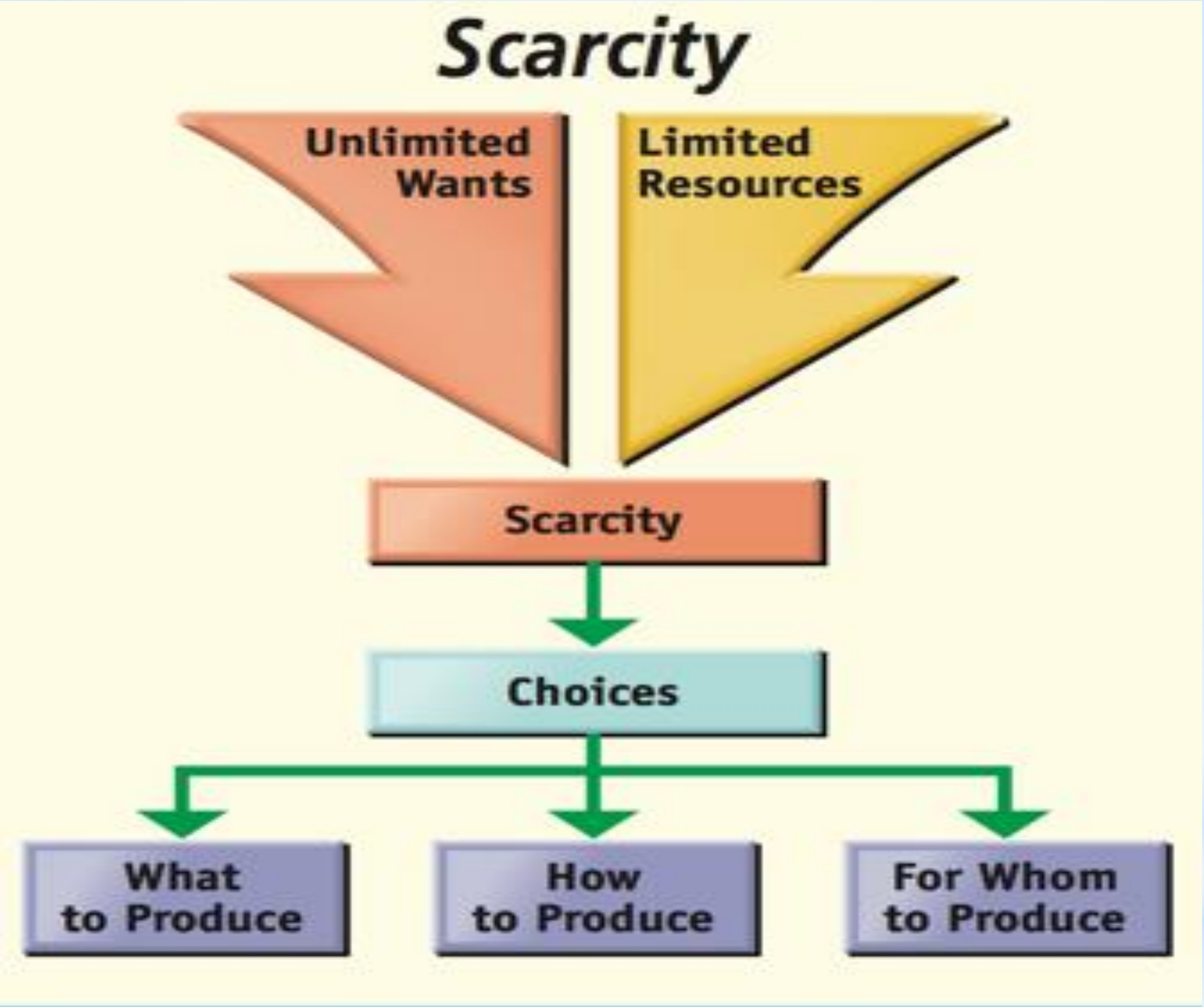
- A resource is scarce when there's not enough of the resource available to satisfy all the various ways a society wants to use it
- Examples are natural resource, human resources (labor, skill, intelligence) and even clean air and water
- The scarcity of resources means that society as a whole must make choices
- One way to make choices is to allow them to emerge as the result of many individual choices – which is what happens in a market economy


SCARCITY
land
labor capital
entrepreneurship
Limited Resources and Time
food, clothing, shelter
security, comfort, medicine,
jewelry, affection, transportation,
good health, children, variety in diet,,
knowledge, convenience, recognition,
travel, wisdom, recreation, control,
respect, entertainment, love, ... ,
Virtually Unlimited Human Wants

*Why can't we all have or produce all the items we want?*

**The Economic problem!**

- The economic problem is the **scarcity** of the resources and money that goes into making products and buying them
- A business might want to buy some machinery but a lack of money (capital) prevents this from happening.
- This is what the study of business & economics is all about!


Scarcity
Unlimited Wants
Limited Resources
Scarcity
Choices
What to Produce
How to Produce
For Whom to Produce

# How do opportunity costs affect your decisions?

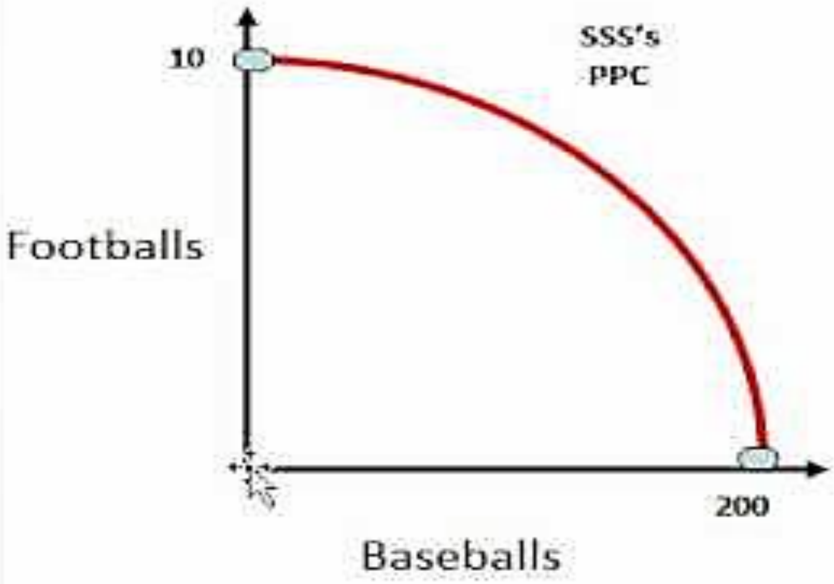
- Because of scarcity, limited resources and people unable to have all that they want, economics involves the study of tradeoffs (choices)

# Opportunity Cost

- Opportunity Costs – The cost of the next best alternative use of money, time or resources when one choice is made over another

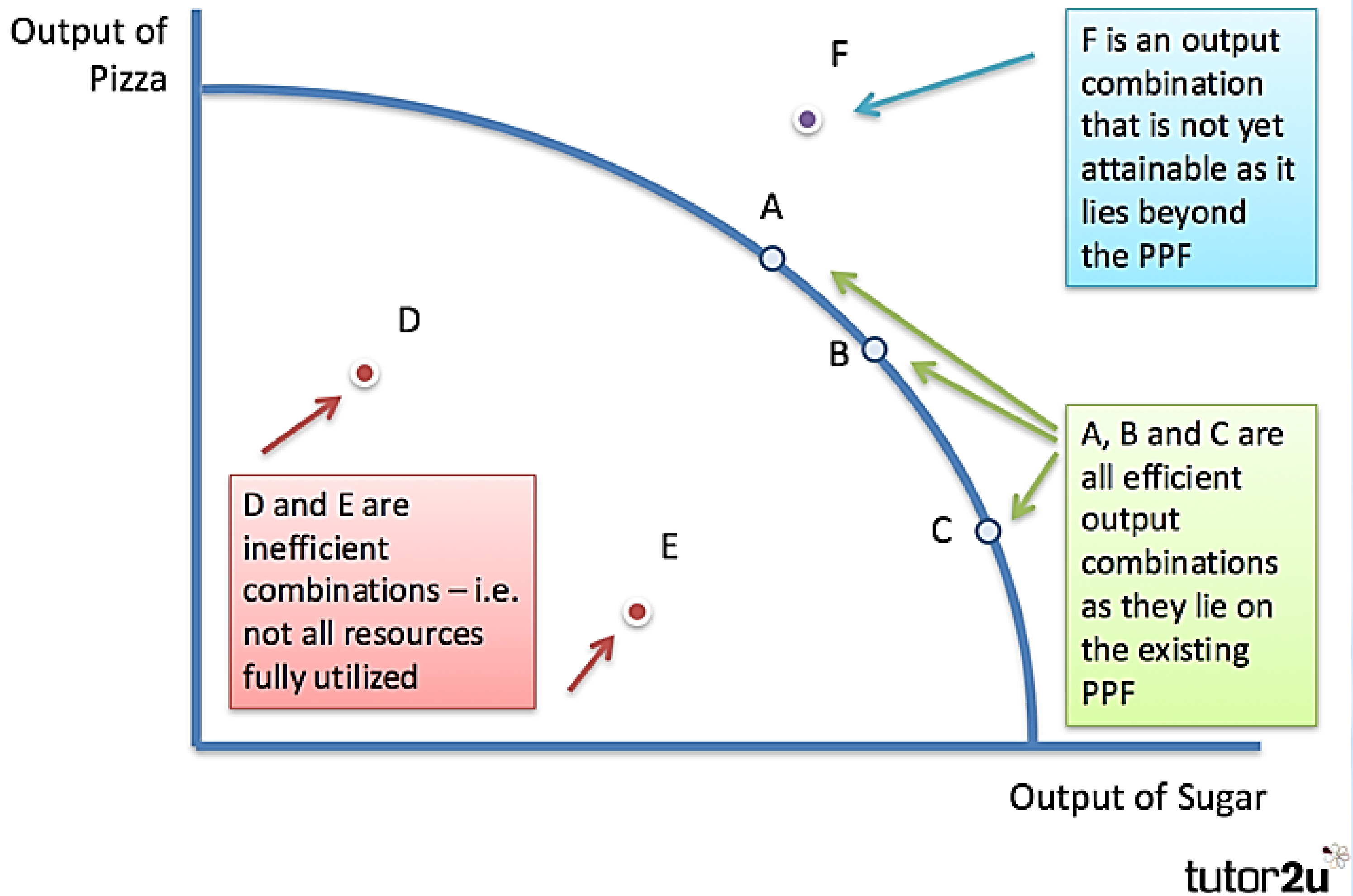
- Example: Which job would you take…one paying $7/hr. or one paying $12/hr?
- (Question: If people get paid more per hour if they work overtime, why don't people work as much as they possibly can?)

# What Does the Production Possibilities Curve (PPC) Show?




- The PPC illustrates the possible combinations of goods or services produced by a single nation, business or person

# Production Possibility Frontier (PPF)



# * Basic Terms

**Resources** required for generation of goods or services, generally classified into four major groups:

Land (including all natural resources),

Labor (including all human resources),

Capital (including all man-made resources),

Enterprise (which brings all the previous resources together for production).

These factors are classified also as management, machines, materials, and money (this, the 4 Ms), or other such nomenclature. More recently, knowledge has come to be recognized as distinct from labor, and as a factor of production in its own right.

## Factors of Production

- When we talk about resources we are talking about land, labour, capital and enterprise
- These are also called factors of production
- **Land** – the land itself, sea, forests, soil, minerals such as coal and oil – anything that is a natural resource
- **Labour** – the people that work to make goods and services
- **Capital** – the man made resources that help to produce goods and services such as factories, equipment, computers etc
- **Enterprise** – people that manage and control the firms that make the goods and services

**Factors of Production** – Land, labour, capital and enterprise

## 1. The Factors of Production (FOPs) and Economic Resources

Factors of production are the resources of **LAND**, **LABOUR**, **CAPITAL** and **ENTERPRISE** used to produce goods and services

### 1 LAND

All things **supplied by nature** and **used in the production** of goods/services

i.e. farmland, forests, rivers, lakes, seas or minerals

### 2 LABOUR

All **human effort** which goes into the production of goods/services

### 3 CAPITAL

Anything **made by man** and **used to produce** goods/services

- **Fixed** stock of fixed assets i.e. buildings, factories, warehouses, vehicles
- **Social** owned by the community in general i.e. roads, water, sewerage
- **Working** manmade raw materials and partially finished goods

### 4 ENTERPRISE

**Initiative** involved in **organising land, labour and capital** and which bares the **risks** involved

The production of every good/service requires a certain combination of each **FOP**

Goods and services are produced **(supply)** to satisfy what people want **(demand)**

The interaction of **demand** and **supply** determines the **price (P)** people pay

## 2 Economic Fields

### Microeconomics

**(The Detail)**

**Its all about…FIRMS/INDIVIDUALS**

The study of the behaviour and decisions of individuals and businesses in markets across the economy

**Key Terms**

Demand, Supply, Price Discrimination, Elasticity of Demand, Producer, Consumer, Market Equilibrium, Market Structure

### Macroeconomics

**(The General Picture)**

**Its all about the…wider ECONOMY**

Deals with the structure, behaviour and changes in the wider economy at national, regional or global level

**Key Terms**

GDP, Interest Rates, Unemployment, National Income, Inflation, Exchange Rates, Fiscal/Monetary Policy

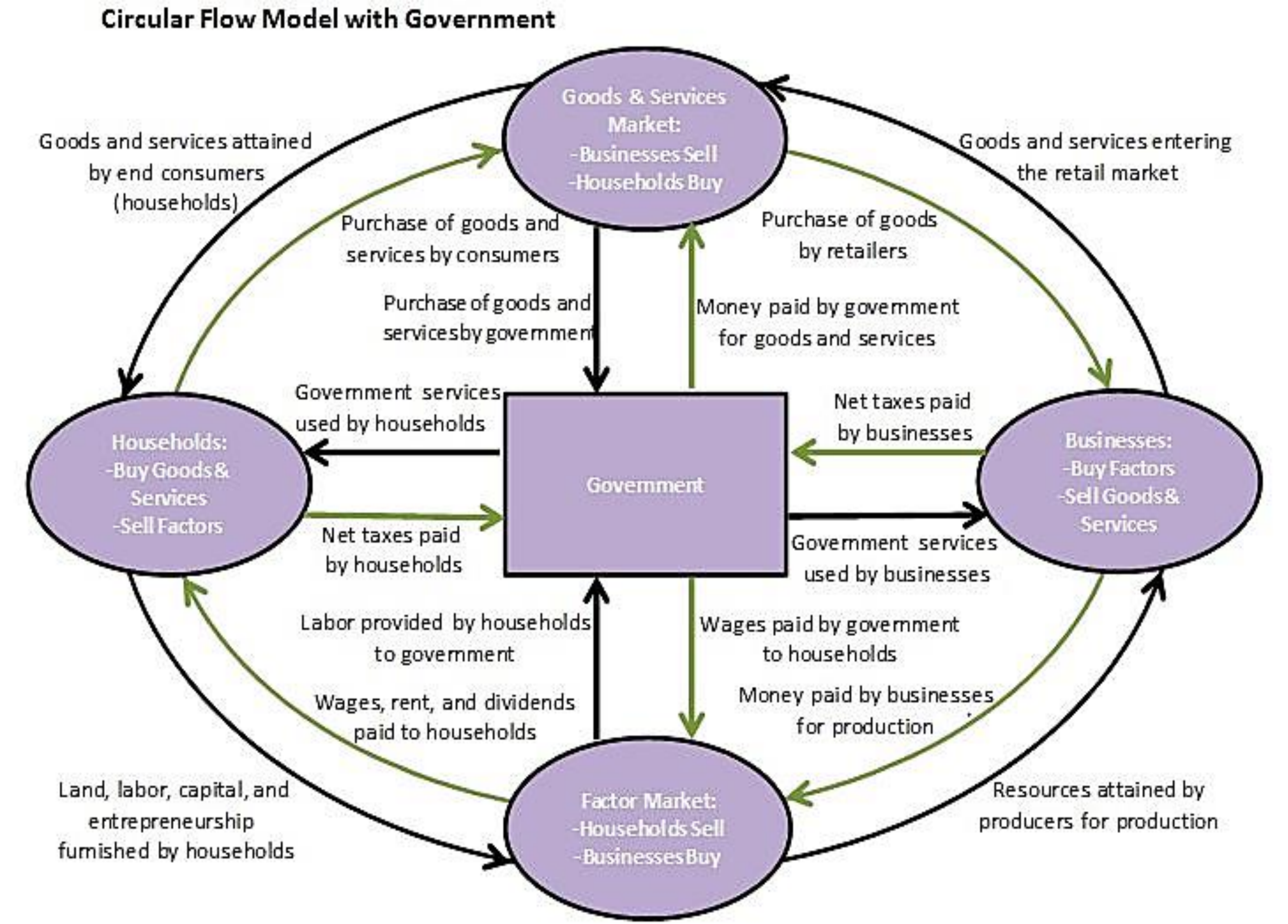
# * Basic Terms

Economies in the world may have different structure:

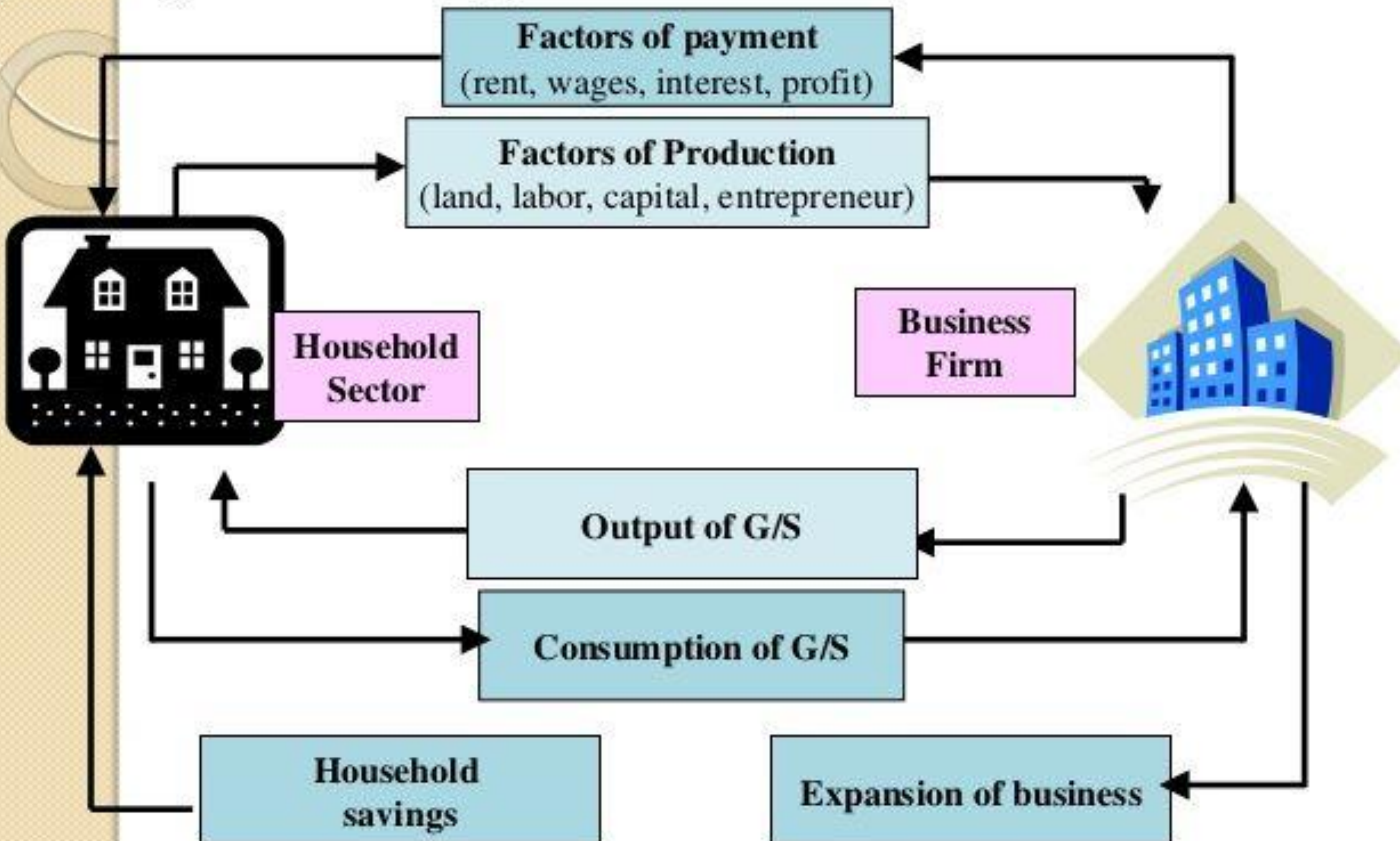
* Market economy – the system based on the private ownership for productivity factors and the commodities
* Command Economy - the system in which resources are allocated through central planning, usually by the state or central government
* Traditional Economy - the system in which traditions, customs, and beliefs help shape the goods and services the **economy** produces, as well as the rules and manner of their distribution. Countries that use this type of **economic** system are often rural and farm-based.
* Mixed economy - goods and services are supplied both by private suppliers and government.

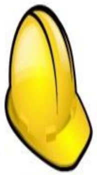
# Review . . . Types of Economies

| TYPES OF ECONOMIC SYSTEMS | Definition | Associated Terms | Examples in Practice |
| --- | --- | --- | --- |
| 1) ***Market economy*** | An economic system in which individuals own and operate the factors of production. | Free enterprise<br>Capitalism | |
| 2) ***Command economy*** | An economic system in which the government owns and operates the factors of production. | Socialism<br>Communism | Cuba<br>China |
| 3) ***Traditional economy*** | An economic system based upon customs and traditions. Economy is based upon agriculture and hunting. | Non-Industrialized<br>Agrarian societies | Haiti<br>Australian Aborigines |
| 4) ***Mixed economy*** | An economic system that has features of both market and command economies. | | United States<br>Great Britain<br>Japan |


Circular Flow Model with Government
Goods & Services Market:
-Businesses Sell
-Households Buy
Goods and services attained by end consumers (households)
Goods and services entering the retail market
Purchase of goods and services by consumers
Purchase of goods by retailers
Purchase of goods and services by government
Money paid by government for goods and services
Government services used by households
Net taxes paid by businesses
Households:
-Buy Goods & Services
-Sell Factors
Government
Businesses:
-Buy Factors
-Sell Goods & Services
Net taxes paid by households
Government services used by businesses
Labor provided by households to government
Wages paid by government to households
Wages, rent, and dividends paid to households
Money paid by businesses for production
Land, labor, capital, and entrepreneurship furnished by households
Factor Market:
-Households Sell
-Businesses Buy
Resources attained by producers for production

(savings economy)



| Factor | Characteristics | Examples | Rewards |
| --- | --- | --- | --- |
|  Labour | Physical + Mental Input |  Workforce | Wages |
|  Land | Land + Extracted Resources |  Farm + Crops | Rent |
|  Capital | Fixed + Working Capital |  Machinery | Interest |
|  Entrepreneurship | Organisation of Factors |  Manager | Profit |

# Role of the government

**Role of the government**

- Promotion of human capital accumulation
- Provision of essential public goods
- Decentralization
- Facilitating and regulating the private sector for promoting industries, financial institutions, and building infrastructures.
- Protections of individual liberties
- Private rights to land and capital
- Good courts and legal systems
- Representative political systems

# Comparing Merit Goods and Public Goods

| Merit Goods | Public Goods |
|---|---|
| • Provided by both public & private sector | • Normally funded and provided by the government |
| • Positive marginal cost of supplying to extra users | • Collective consumption – provide to one and you provide to all |
| • Limited in supply – potentially high opportunity cost | • Largely unconstrained in supply |
| • Rival – consumption by one reduces availability to others | • Non-rival in consumption |
| • Excludable e.g. private health care and education | • Non-excludable – giving rise to the free rider problem |
| • Rejectable by those unwilling to pay for the good or service | • Non-rejectable – usually funded by general taxes |

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# Public Goods

Goods which can be argued to be public goods are ...

- Defence
- The Judiciary and Prison Service
- The Police Service
- Street Lighting

# Public Policy toward Public Goods

- Provide some public goods
  - Example: national defense
- Contribute to nonprofit organizations that provide other public goods
  - Example: public radio
- Subsidize private contributions to many public goods
  - Example: environmental protection

# Summary of some Causes of Government Failure

| Cause of government failure | Brief explanation of the problem caused | Examples of government failure to consider |
|---|---|---|
| • **Political self interest** | Government influenced by influential political lobbying | Farm support policies, the drinks industry, transport lobby |
| • **Poor value for money** | Low productivity / high waste makes spending less effective | Investment on IT projects in the NHS, poor record of PFI projects |
| • **Policy short-termism** | Governments often looking for a "quick fix" solution | Road widening to reduce congestion, ASBOs for offenders |
| • **Regulatory capture** | When Govt agency operates in favour of producers | Self-regulation on alcohol prices, powerful energy lobby |
| • **Conflicting objectives** | One policy objective might conflict with another | Minimum carbon price could damage UK competitiveness |
| • **Bureaucracy & red tape** | Costs of enforcement may hurt enterprise & incentives | Costs of meeting health and safety and environmental laws |
| • **Unintended consequences** | Policies have unanticipated or unintended side-effects | Smoking ban – increased use of outdoor patio heaters |

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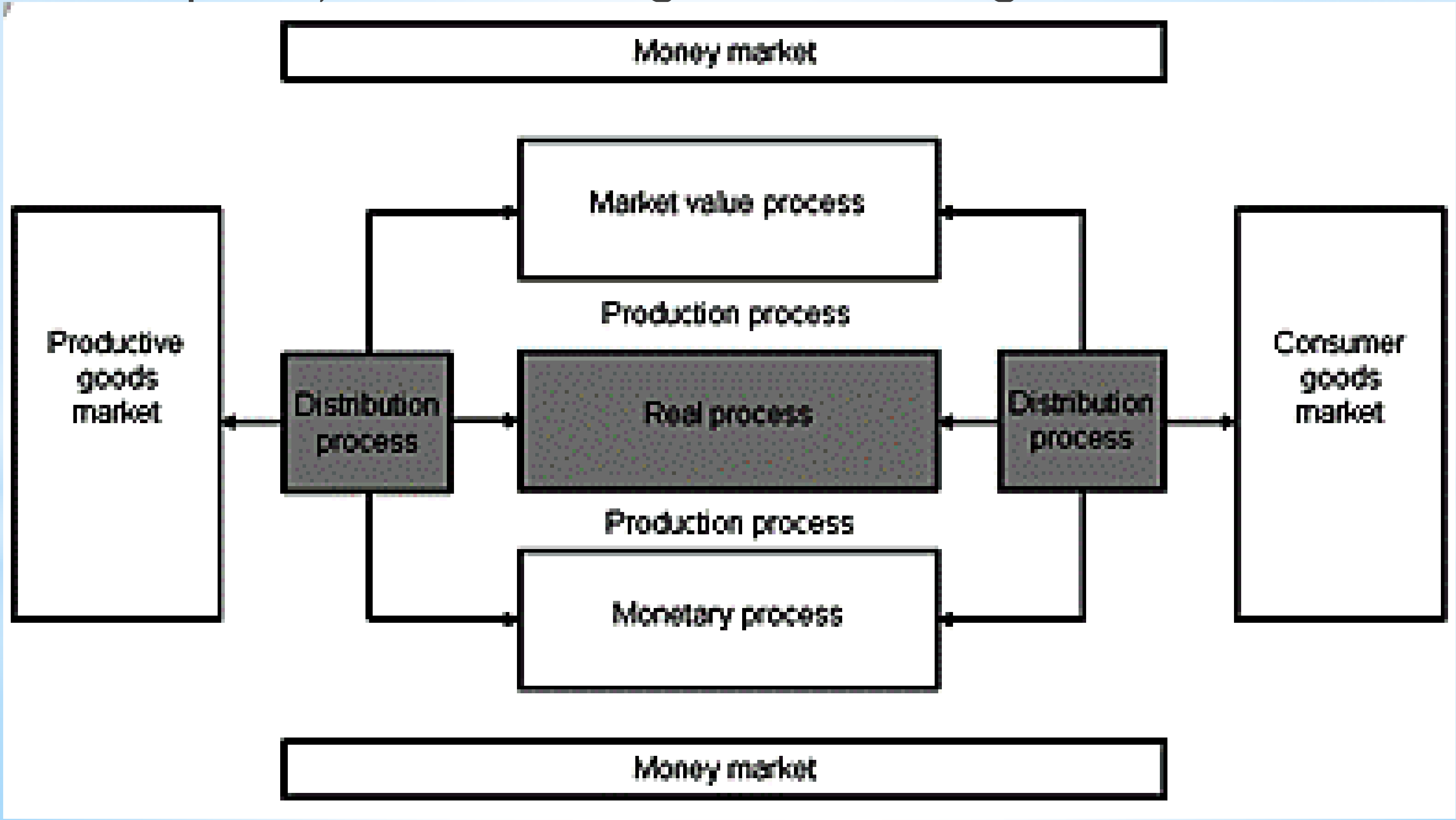
# *Production* –

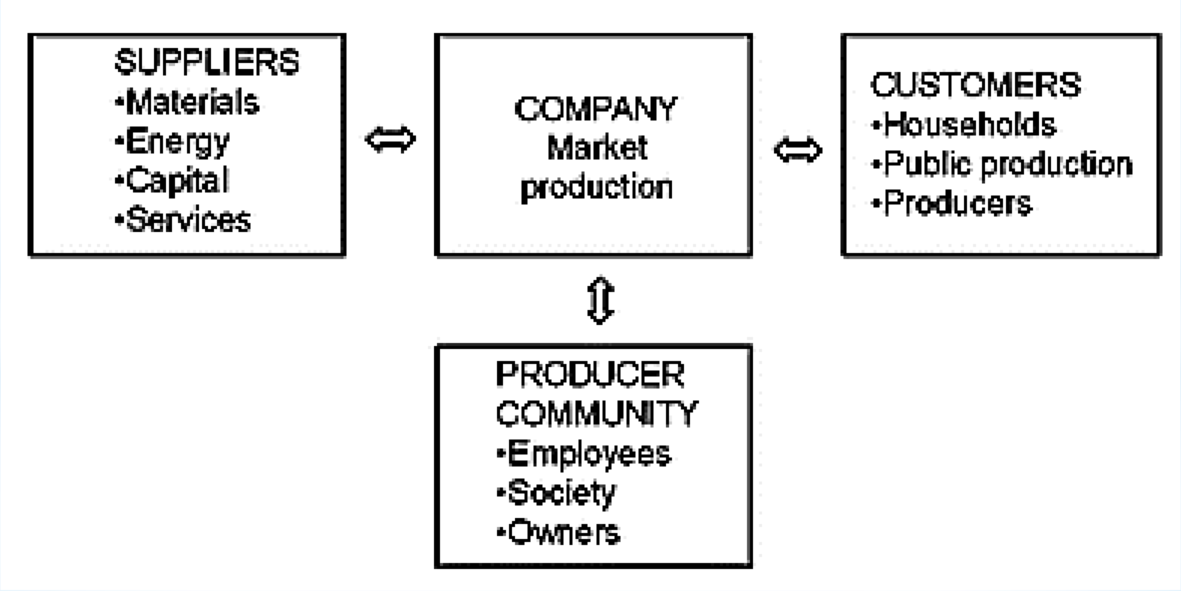
the activity of using factors of production (resources) in order to achieve the best result (to take the higher profit) when creating an economic good/service.

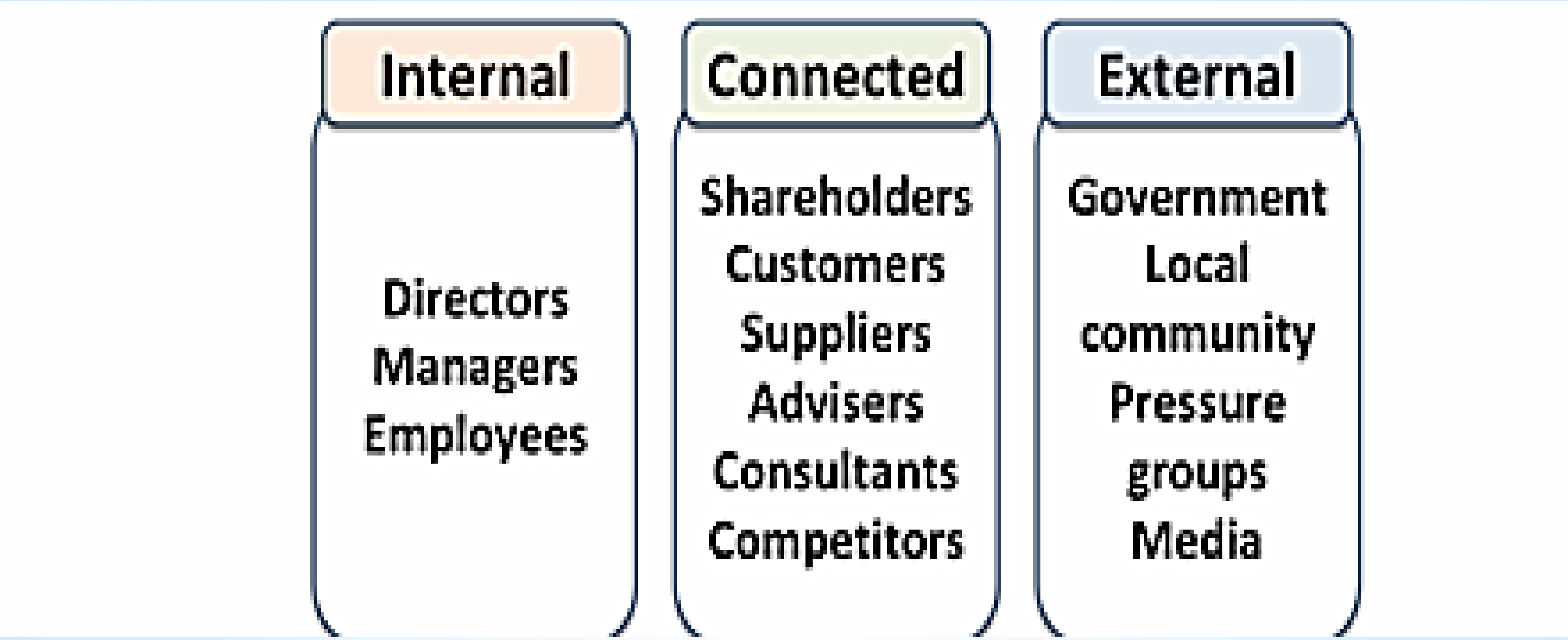


# Production System Definition

- "The methods, procedure or arrangement which includes all functions required to accumulate (gather) the inputs, process or reprocess the inputs, and deliver the marketable output (**goods**)."

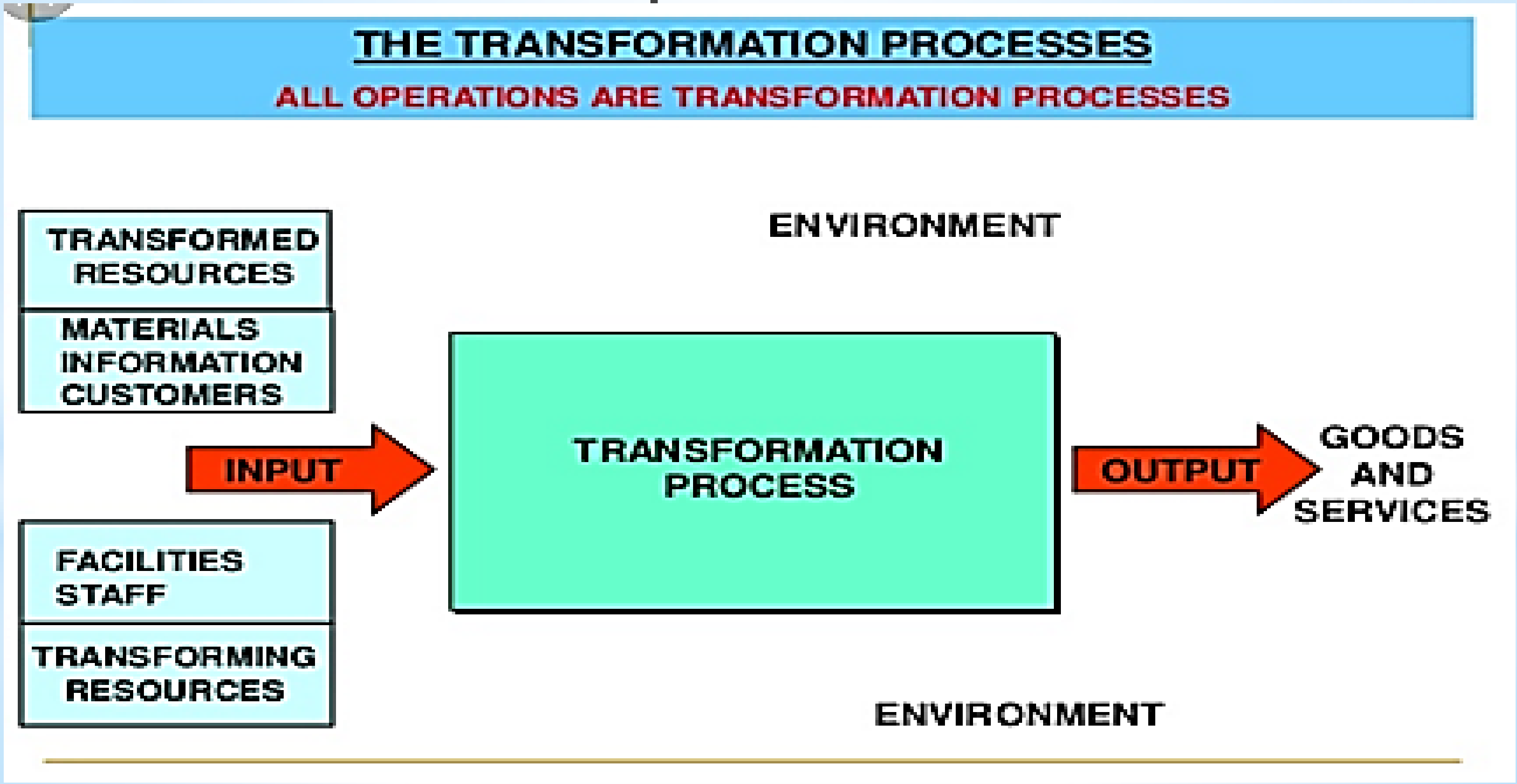
Economic well-being originates in efficient production, and it is distributed through the interaction between the company's **stakeholders**. **Stakeholders of production** are persons, groups or organizations with an interest in a producing company. Based on the similarities of their interests, stakeholders can be classified into three groups in order to differentiate their interests and mutual relations. The three groups are as follows:






*Producer's stakeholders (another classification)*

The **production process** is concerned with transforming a range of inputs into those outputs that are required by the market. This involves two main sets of resources - the transforming resources, and the transformed resources. Any **production process** involves a series of links in a **production** chain.



# * Types of production

**Production** is a process of combining various material inputs and immaterial inputs (plans, know-how) in order to make something for consumption (output). It is the act of creating an output, a good or service which has value and contributes to the utility of individuals.

The most important forms of production are:

* market production
* public production
* household production

# The producer is

- someone who creates and supplies goods or services.
- **Producers** combine labor and capital—called factor inputs—to create—that is, to output—something else.
- Business firms are the main examples of **producers** and are usually what **economists** have in mind when talking about **producers**.

# * Importance (Significance) of Producers:

**(I) Supply of Different Goods and Services:** Supply comes from the producer side. The producers or firms supply various goods and services in the market according to the demand of the consumers. Hence, if the number of producer increases, then the total supply of goods and services will also increase.

**(II) Entrepreneurship:** Producers are also entrepreneurs. They are the main coordinators of all the factors of production like land, labor, capital etc. They usually take the responsibilities to allocate the factors of production for conducting smooth business activities.

**(III) Optimal Use of Resources:** Producers are the leading persons, who take the initiatives to utilize all the economic resources, like forest resource, land resource, mineral resource, water resource, human or labor resource etc. optimally or efficiently for the production activities. The optimal use of these resources helps the country to achieve the path of economic development.

**(IV) Export Promotion:** The producers of export-oriented goods and services help to reduce the balance of payment deficit of the country by promoting more exports. These producers mainly produce goods services and for export and thus foreign exchange reserve will increase automatically.

**Name other positive factors of producers' activities in economic systems**

# * Significance of planning and management for every Producer

Management is termed as the lifeblood and backbone for every business:

It ensures fuller utilization of all resources and guides and monitors the activities of all human resources.

Businesses are able to increase their profitability and achieve their desired goals through the application of management techniques.

Management process is a continuous process which persists throughout the life of the business organization.

It is a dynamic function which changes with changes in various factors around the business environment like social, legal, technological, political and economic factors.

Any changes in these factors bring changes in overall management policies and strategies.

# * Significance of planning and management for every Producer

# Importance of Management

- Optimum utilisation of Resources
- Achievement of Desired Goals
- Minimises cost
- Creates Healthy Working Environment
- Helps in Growth and Expansion
- Improves Company's Goodwill
- Motivates employees

**Definition of Planning**

According to Theo Haiimann,

“Planning is deciding in advance what is to be done .When a manager plans, he projects a course of action for the future, attempting to achieving a consistent, coordinated structure of operation aimed at desired result ”.

**Importance of Planning**

Planning increases the efficiency of an organization. All business organizations would like to be successful, have a goodwill in the market, have higher profits. For attaining these attributes, the thinking process has to be very effective. Now let’s understand why planning is important for the organization.

1. Planning increase efficiency. Planning makes optimum utilization of all available resources. It helps to reduce wastage and avoids duplication of work.
2. Planning reduces business related risks. Planning helps to forecast the business-related risk and also helps to take necessary precautions to avoid these risks and prepare for future uncertainties
3. Planning provides direction. Direction means to give proper information, accurate instructions and guidance to the subordinates. Planning tells us what to do, how to do and when to do. It help the organization to achieve the goals through systematic coordination of the employees.
4. Planning encourages creativity and innovation. Planning helps the managers to express their creativity and innovation. It brings satisfaction to the managers and eventually success to the organization.
5. A good plan provides various financial and non-financial incentives to both managers and employees. These incentives motivate them to work hard and achieve the objectives of the organization.

6. A manager makes many different plans. Then they evaluate every course of action and choose the best strategy. So, decision making is facilitated by planning.
7. Without Planning each-and-every activity will be based on trial and error which will give rise to confusion Every organization has certain targets. Planning helps an organization to achieve their aims by avoiding overlapping, confusion and misunderstanding.
8. Planning is the first function of management. The other functions like organizing, staffing, directing and controlling etc. are organized for implementing plans. Controlling records the actual performance and compares it with standards set. In case the performance is less than the standards set then deviations are ascertained, and proper corrective measures are taken to improve the performance in future. Planning and controlling both are dependent on each other. Planning establishes standards for controlling.

Therefore, Planning is necessary for effective and efficient functioning of every organization irrespective of its size, type and objectives.

A producer might have different shapes. Since this is an economic term, this definition is very wide and includes any economic activity that supplies a good or service to society.

By using and combining the factors of production (land, labor, capital and technology) these **organizations** or **individuals** produce an output. This output constitutes the supply side of the market. To some economic schools and theories, producers are defined even more widely to include federal governments, municipalities, government agencies and even households. Producers are essential for an economic system to function properly.

# *Types of producers

**(I) Agricultural (Primary) Producers:** These producers mainly produce goods related to agriculture and its allied activities. They generally produce food crops, vegetables, fruits, flowers and forest products. Moreover, they also concentrate on fishing, animal husbandry, cattle rearing and other agro-based products like poultry farming, mushroom production etc. These primary producers mainly exploit (use) natural resources to produce goods.

**(II) Industrial (Secondary) Producers:** These producers mainly produce goods related to industry or manufacturing units. These producers are engaged in large-scale, small- scale and tiny scale industrial units. They produce various types of finished goods for several manufacturing units.

**(III) Service (Tertiary) Producers:** To produce both agricultural and industrial goods various types of services are required. These services include transport and communication services, banking and insurance services, storage services, etc.

There are usually **four varieties of firms** created in law, although these types have several subtypes.

- **proprietorship**, which is a firm owned by a single individual (the proprietor) or perhaps by a family. The family farm and many "mom-and-pop" restaurants and convenience stores are operated proprietorships. Debts accrued by the proprietorship are the personal responsibility of the proprietor.
- Legal and accounting firms are often organized as **partnerships**. Partnerships are firms owned by several individuals who share profits as well as liabilities of the firm according to a specified formula that varies by the relative contribution and potential cost of each partner in the firm. Thus, if a partner in a law firm steals a client's money and disappears, the other partners may be responsible for absorbing some portion of the loss.
- In contrast, a **corporation** is treated legally as a single entity owned by shareholders. Like a person, a corporation can incur debt and is therefore responsible for repayment.
- The **nonprofit firm** is prohibited from distributing a profit to its owners. Religious organizations, academic associations, environmental groups, most zoos, industry associations, lobbying groups, many hospitals, credit unions (a type of bank), labor unions, private universities, and charities are all organized as nonprofit corporations.

# Sole trader

- A sole trader or sole proprietorship is a business owned and controlled by one person
- It is the oldest and most popular form of business organization

| Advantages |
| --- |
| ✓ A sole trader is his or her own boss<br>✓ A sole trader can choose his or her own hours of work<br>✓ A sole trader receives all profits<br>✓ This type of business is easy to set up |
| **Disadvantages** |
| A sole trader:<br>x may lose revenue if off sick or on holiday<br>x has unlimited liability to pay business debts<br>x has full responsibility for the business<br>x may lack capital to finance business growth |

# Partnership

- A partnership is a legal agreement between two or more people to own, finance and run a business
- It is popular among professionals such as solicitors, accountants, veterinary surgeons

| Advantages |
|---|
| ✓ A partnership is easy to set up |
| ✓ More partners means more capital |
| ✓ Partners bring new skills and ideas |
| ✓ Limited partners have limited liability |
| ✓ Partners share responsibility for decisions |
| **Disadvantages** |
| x Partners can disagree |
| x Partners share any profits |
| x General partners have unlimited liability |
| x Partners may lack capital to finance growth |

# Joint-stock company


- These companies sell shares in their ownership to raise **permanent (i.e. non-repayable) capital**
- **Shareholders** are the owners of joint-stock companies
- Shareholders elect directors to run their company from day to day
- These firms are also known as corporations or **limited companies** because shareholders have limited liability
- A joint-stock company has a **separate legal identity** from its owners (it is taxed separately; it can own assets and borrow money in its own right; it can be held legally responsible for any damage or injury to third parties)

# Private limited company

| Advantages |
| --- |
| ✓ Shareholders have limited liability |
| ✓ Shareholders receive dividends from profits |
| ✓ Shareholders elect directors to manage company |
| ✓ The company has a separate legal identity |
| ✓ It is a popular form of organization for sole traders and partnerships seeking to raise additional finance for businessexpansion |
| **Disadvantages** |
| X Financial information may have to be disclosed |
| X Large shareholders can out-vote others |
| X Directors may run the business in their own interests rather than for shareholders |
| X Shares can only be sold privately and with the agreement of all other shareholders |

# Public limited company

| Advantages |
| --- |
| ✓ Shareholders have limited liability |
| ✓ Shareholders receive dividends from profits |
| ✓ Shareholders elect directors to manage the company |
| ✓ Companies have a separate legal identity |
| ✓ Shares can be advertised and sold publicly on the stock market to raise significant new capital |
| **Disadvantages** |
| x The legal costs of set up can be high |
| x Annual financial accounts must be published |
| x Directors may run the business in their own interests rather than for shareholders |
| x The original owners may also lose control of their company if it is taken over by another company through the purchase of shares on the stock market |

# Cooperative

- A cooperative is owned by its members for mutual benefit
- There is a one member, one vote policy

| Worker cooperative | Retail cooperative |
|---|---|
| ▸ Workers own all the shares | ▸ Owned by its members |
| ▸ Managed by its workers | ▸ Managers run the organization |
| ▸ Workers have limited liability | ▸ Owners have limited liability |
| ▸ Workers share any profits | ▸ Members receive profits |

# Public corporation

- This is a business-like **public sector** organization created to carry out a particular public sector function or to operate under governmental control, such as a municipal water company, a public health service or a central bank
- Some may be run for profit
- They are responsible for day-to-day running of **nationalized industries**

| | |
|---|---|
| Ownership and control | • A public corporation is run by a board of directors<br>• They are accountable to government ministers<br>• Committees monitor and investigate any irregularities and complaints |
| Legal status | • A public corporation has a separate legal identity from its directors and government |
| Finance | • Its finance comes from taxes, charges and other public revenues<br>• It is also financed by any re-invested profits<br>• Profits may be used by government to fund other public services and spending |

# Multinational

A **multinational** is a firm that operates in more than one country but will usually have its headquarters based in its country of origin

Multinationals are some of the largest companies in the world, selling many billions of dollars worth of goods and services, and employing many thousands of people globally

2009

Total revenue $458.4 billion

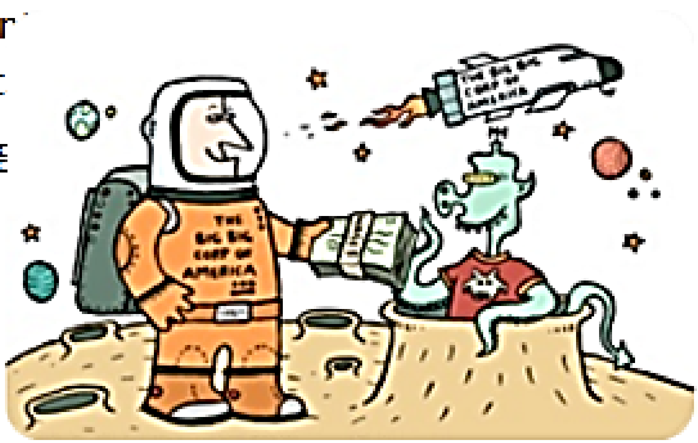
Total employees 102,000


Total revenue $405.6 billion

Total employees 2,100,000

# Multinational

- ✓ It has a huge global customer base and revenue potential
- ✓ It can minimize transport costs locating plants across differer countries to be near raw materials or large consumer market
- ✓ It can minimize wage costs by locating operations in low-wag economies
- ✓ It has low average production costs from large-scale production
- ✓ It can raise significant capital for business expansion, R&D and to employ highly skilled labour



## Implications for host economies and governments

| Potential economic benefits | Potential economic costs |
| --- | --- |
| • A multinational provides jobs and incomes<br>• It brings business knowledge, skills and technologies which can help other firms<br>• It pays taxes on its profits which help boost government revenues<br>• It increases export earnings from trade | • A multinational can transfer their profits to other countries to avoid paying tax<br>• It may force local competition out of business<br>• It may exploit workers in low-wage economies<br>• It may use its power to secure generous subsidies and tax breaks from a government |

# Financial liability in business


Owning a business involves financial risk

**Unlimited liability**

The financial obligation of business owners in the event of business failure is to repay all business debts (even if it means selling off their personal possessions)

**Limited liability**

The financial obligation of business owners for business debts is no more than the amount of capital they invested in the enterprise

This is because business owners with limited liability have a **separate legal identity** from their business

# Starting a business

An entrepreneur combines and organizes resources in a firm for the purpose of carrying out productive activity or business. Firms are therefore also known as business organizations.

A firm may take a number of legal forms depending on how it is owned, controlled and financed.

Do I have enough capital (or money) to set up in business?

Yes?
Sole trader

No?
Form a partnership
or limited company

Am I willing to share ownership and profits?

Yes? Form a
partnership or
limited company

No?
Sole trader

Can I manage my business alone?

Yes?
Sole trader

No?
Form a partnership
or limited company

Am I willing to risk everything I own?

Yes?
Sole trader

No?
Form a partnership
or limited company

## *Classification of producers in size*

**1. SMB (Small and Medium-Sized Businesses)**

**- Employees: 0-100** is considered a small-sized business; 100-999 is considered a medium-sized business. Note that these size specifications may be defined differently by some government organizations, which are specific for each country as part of its process for granting small business loans and for consideration of awarding Federal contracts.
**- Annual Revenue: $5-$10 million**
**IT Staff: Typically one or a few**
**IT skills: Modest.** Employees usually learn on the job.
**Location: Limited geographical boundaries** (but may have more remote workers due to outsourcing)
**- Limited Capital Expenditures** (i.e. CapEx)
Main considerations for technology purchases include price (because of limited CapEx) and ease of use (because of less experienced IT staff).
SMBs prefer the pay-as-you-go subscription model for software purchases
The 28 million small businesses in the US account for 54% of the country's sales

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## *Classification of producers in size*

**2. SME (Small and Medium Enterprises). Also known as the "Mid-Market"**

SME is a more globally-used term than SMB and is the official market phrase for internationally-based enterprises such as the United Nations, World Bank, World Trade Organization and the European Union.

**- Employees:** The European Union has defined an SME as **a legally independent company with 101-500 employees**

**- Annual Revenue: $10 million- $1 billion**

**IT staff: A small group to several employees**

**IT skills: Generalist skills**. Employees often lack specialty skills

**- Location: Likely to have more than one office location, and more remote employees**

**- Some CapEx**

Main considerations for technology purchases include capabilities, functionality, and reporting

If the middle market were a country, its GDP would rank it as the *fourth-largest economy in the world*

# *Classification of producers in size*

**3. Large enterprise determining features:**

**Employees: <u>Over 1000 employees</u>**
**Annual Revenue: <u>Over $1 billion</u>**
**IT Staff: <u>Full time IT staff</u>**, including several specialists
**IT Skills: <u>A wide variety of broad and specific skills</u>**
**Location: <u>Several office locations domestically and internationally</u>**
**<u>Large CapEx</u>**
Main considerations for technology purchases include guaranteed up-time, advanced features, and security
In 2012, large enterprises employed 9 million people in the US (51.6% of all employees)

Whether you are considered an SMB business, an SME, or a large enterprise influences many things, such as how financial decisions are made, the way your technology needs are framed, and how solution providers treat you during the sales process.
Whether you are searching for advanced solution features, a cost-effective option, or an easy-to-manage platform, knowing how your business is classified, the norms for that classification, and how your needs compare to those "norms," are all key to helping you adequately compare technology solution vendors and then decide which solution is the best fit for your business.

HOMEWORK

At 08.02 practice you need to make and present a small report at the theme “Economic relations at my future career”, where tell:

- Your name, major interests and hobbies.
- Your plans on your future job (short description).
- Your thoughts about economic activities at your future job.

The texts of your reports (including your names and photos) need to be sent to my email spicyna@tpu.ru after the seminar but not later than 21.00 p. m. 08.02.2022.

At 22.02 practice you are to make a report with presentation (4-5 slides) in such themes (everybody choose his/her own theme) :

- To define one type of firm organization used in Egypt (main characteristics; limitations for capital, staff and spheres of activities; examples of existing firms of such type);
- To describe the pros and contras of organizing such type of the firm in Egyptian economy (i.e., for what branches of economic activities they are more suitable).

The files of your presentations need to be sent to my email spicyna@tpu.ru not later than 21.00 p. m. 18.02.2022.