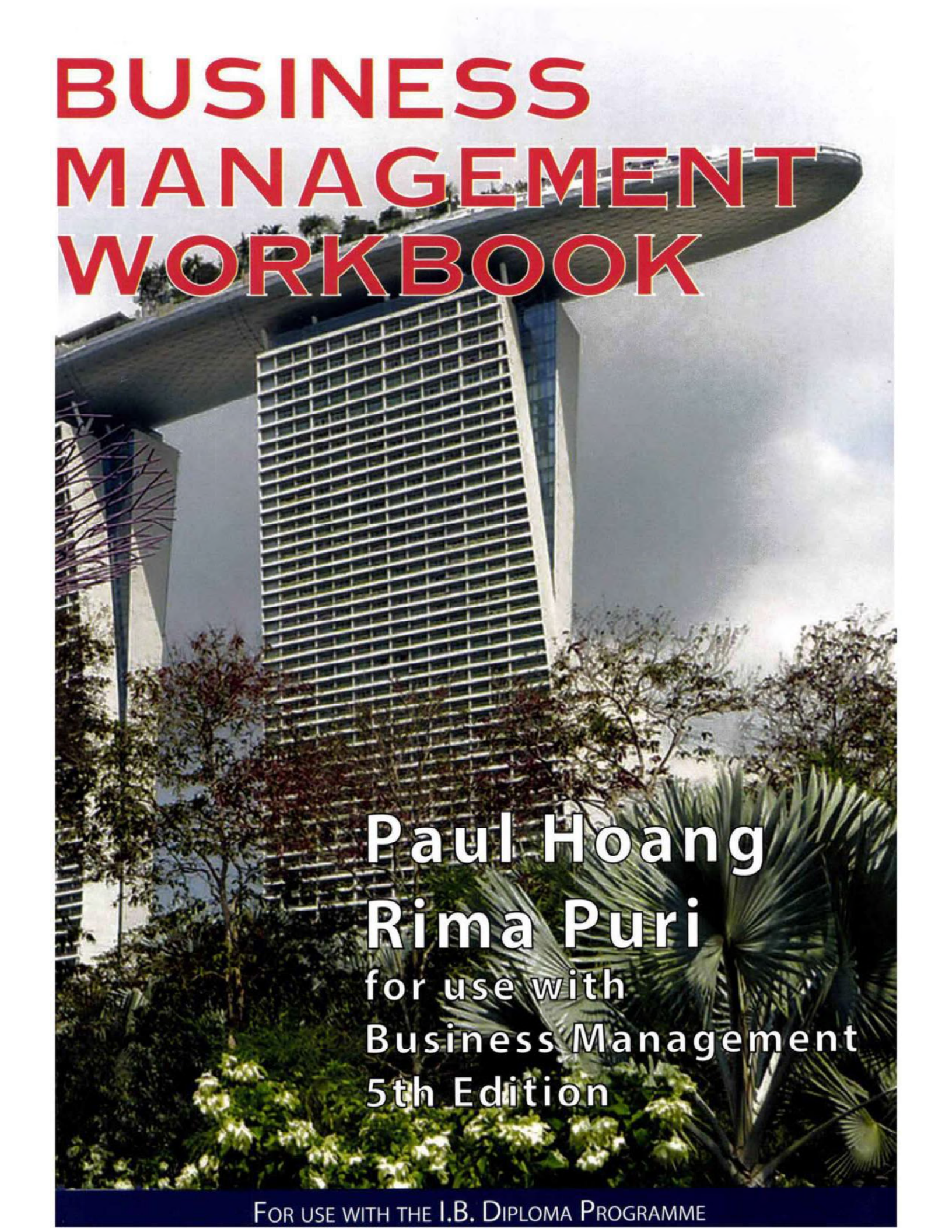


BUSINESS MANAGEMENT WORKBOOK



Paul Hoang

Rima Puri

for use with

Business Management

5th Edition

FOR USE WITH THE I.B. DIPLOMA PROGRAMME

For use with the
INTERNATIONAL BACCALAUREATE

Business Management Workbook

For use with Business Management 5th Edition

Paul Hoang
Rima Puri



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This fully revised Workbook is intended for use by students following the International Baccalaureate course in Business Management (first exams 2016) and accompanies the main textbook *Business Management, for use with the IB Diploma Programme*, now in its fifth edition available from IBID Press.

The Workbook can be used as end-of-topic reviews throughout the two-year course or it can simply be used as a revision tool prior to the examinations. There are cloze 'fill-in-the-blank' tasks, key terms and concepts quizzes, short-answer examination-style questions and over 900 multiple choice questions.

Dedication

Dedicated to our students

Message from the authors

Dear students (and teachers),

We hope that you find this Revision Workbook to be of value in preparing you for consolidating your learning and understanding of the IB DP Business Management course (first exams 2024).

There are several ways that you can use the Revision Workbook:

- To review the units that you have studied with your teachers in class, including the Business Management Toolkit (BMT).
- As end of topic tests (set by your teachers or as part of your self-assessment) during the two year IB Diploma Programme.
- As a revision tool prior to the external examinations.

The solutions to all the questions are available on the IBID Press website to aid your revision and learning. However, please be disciplined and refrain from looking at the answers before you have attempted the questions (making mistakes is an essential part of the learning process!) The Revision Workbook supplements the main textbook Business Management, for use with the IB Diploma Programme, now in its fifth edition, also published by IBID Press.

Finally, please allow us the opportunity to wish you the very best for your forthcoming IB examinations.

Paul Hoang and Rima Puri

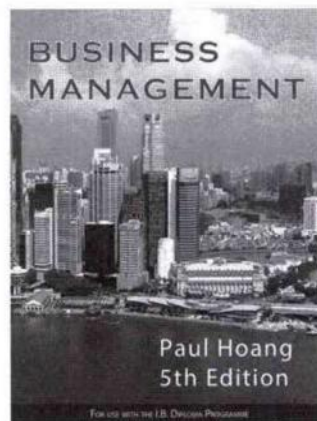
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Main Text

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Unit 1.1

What is a Business?

Task 1 – Complete the missing words

A _____ is a decision-making organization that uses inputs, known as the _____ of production, to produce goods and services. _____ are physical products, such as pens, televisions and clothing. _____ are intangible products, such as education, health care and foreign holidays.

_____ is the process of using factors of production to generate the _____ of goods and services. These are then purchased by _____ (the people or businesses that *buy* the product) and then used by _____ (the end users, whether they are businesses or individuals).

Task 2 – Vocabulary Quiz

a. Identify the correct stage of production from the clues below:

Stage of production	Description
	Businesses involved in the extraction of natural resources, such as farming and mining of raw materials.
	Businesses involved in intellectual and knowledge-based activities that generate and share information, e.g., research and development.
	Businesses involved in transforming primary resources into manufactured products for sale.
	Businesses involved in the provision of services, such as education, healthcare, distribution (logistics), and after-sales care.

b. Determine the correct factor of production (land, labour, capital, or enterprise) from the given definitions:

Factor of production	Definition
	The non-natural (manufactured) resources used to further the production process, e.g., buildings, machinery, tools, and vehicles.
	An individual who has the skills and ability to take risks in organizing the other factors of production to generate output in a profitable way.
	The physical human effort and psychological intellect used in the production process.
	All natural resources that are used in the production process, e.g., wood, water, physical land, and minerals.

c. Identify the correct functional department in each case below:

Functional department	Functional roles of the department
	Prepares the final accounts such as profit and loss accounts, cash flow statements and balance sheets; manages the money of the business.
	Handles recruitment, training, appraisals and the general welfare (well-being) of the workforce.
	Conducts research to meet the needs of customers; arranges promotional activities to sell the firm's products.
	Manufactures goods in order to meet quality standards, targets and deadlines.

Task 3 – Explain...

a. The meaning of adding value.

b. Two reasons why people set up their own businesses.

c. Two likely problems that new businesses are likely to face.

Task 4 – Multiple Choice Questions

1. What are the resources used in the production process collectively known as?
 - A. Capital resources
 - B. Factors of production
 - C. Raw materials
 - D. Working capital

2. Consumers are the people or businesses that
 - A. Buy and use goods and services
 - B. Buy goods and services
 - C. Pay for a good or service without using it
 - D. Use a good or service

3. Which of the following is not an example of primary production?
 - A. Agriculture
 - B. Coaching
 - C. Fishing
 - D. Mining

4. Which of the following is not classified as land as a factor of production?
 - A. Coal
 - B. Fish
 - C. Paper
 - D. Water

5. The difference between the cost of the inputs in the production process and the final price of the output is known as
 - A. Adding value
 - B. Income
 - C. Profit
 - D. Revenue

6. The primary sector is the part of the economy that consists of
 - A. Agriculture, fishing and extractive industries
 - B. Businesses that have been recently set up
 - C. Organizations that provide value added services to their customers
 - D. Organizations that use extracted raw materials for production

7. An entrepreneur is someone who
 - A. Has a managerial or supervisory role within an organization
 - B. Is a business person who manages production and output
 - C. Organizes factors of production and takes the risks of decision-making
 - D. Owns a business as a sole trader or as the primary owner

8. What is meant by production?
 - A. Any output other than services
 - B. The manufacturing of goods in the secondary industry
 - C. The process of making products from the available resources
 - D. The second stage of the output process

9. The term 'product' refers to
 - A. Both goods and services
 - B. Goods only
 - C. Services only
 - D. The physical attributes of a good

10. The _____ sector of the economy is owned by individuals and companies, usually in pursuit of making profit. The _____ sector is controlled by the government and aims primarily to provide a service by acting in the public's best interest.
- A. Primary, Tertiary
 - B. Private, Public
 - C. Public, Private,
 - D. Tertiary, Primary
11. Which of the occupations below does not exist in the tertiary sector?
- A. Librarian
 - B. Machinist
 - C. Real estate agent
 - D. Secretary
12. Which statement best applies to the secondary sector?
- A. Consists of businesses involved in the manufacturing of physical goods
 - B. Forms the largest employment sector in most high-income countries
 - C. Provides both goods and services
 - D. Tends to be highly labour intensive
13. Which of the following does not apply to the quaternary industry?
- A. A sub-category of the tertiary sector
 - B. Capital intensity
 - C. Development of expertise and skills
 - D. Improved efficiency of production
14. Which of the following businesses does not operate in the tertiary sector?
- A. Pest control
 - B. Restaurants
 - C. Private security firms
 - D. Textiles
15. The process of increasing the value of a resource in the production process is known as
- A. Adding value
 - B. Production process
 - C. Sectoral change
 - D. The chain of production

16. Computer hardware and software systems are an example of which type of factor of production?
- A. Capital
 - B. Enterprise
 - C. Labour
 - D. Land
17. Which of the following statements is correct?
- A. Automation has caused a decline in the secondary sector in many countries
 - B. Manufacturing accounts for the largest value-added sector of an economy
 - C. The primary sector is the largest part of the economy in most high-income countries
 - D. The quaternary sector accounts for the largest sector of employment in most countries
18. Public utilities, such as water and gas supply, are usually considered as being in the tertiary sector because they
- A. Are involved with turning resources into a useable product
 - B. Are not extracted or manufactured
 - C. Are owned by the government
 - D. Provide services to the general public
19. Which of the following would not be regarded as part of the tertiary sector?
- A. Education and training
 - B. Engineering
 - C. Insurance
 - D. Leisure and tourism
20. Which of the following does not apply to most business start-ups?
- A. Business registration documentation is required prior to trading
 - B. Owners of the business have to obtain finance
 - C. It requires a business plan to minimise risks
 - D. It requires having a well-known brand name

Unit 1.2

Types of business entities

Task 1 – Complete the missing words

A _____ is a business owned and run by a single person. Such firms are very common, partly because there are few legal procedures involved in setting up the business. The owner bears all the _____ of running the business but has full _____ and gets to reap all _____ that the business earns. However, the owner also has unlimited _____, meaning that they may need to sell personal possessions in order to pay off any debts that the business may have.

An ordinary _____ is an alliance of between 2 and 20 individual owners who are jointly responsible for the affairs of the business (although the maximum number can vary in different countries). The joint owners will usually sign a mutually agreed contract known as the _____. Most, if not all, of the partners face _____ liability for any debts the business might incur. Partners that simply place their money into the business as an investment and without any direct involvement in the business are known as _____ partners. These partners enjoy _____ liability.

_____ are for-profit _____ enterprises owned and run by their members (usually employees or customers). Their primary aim is to create value for their members by being socially responsible. They share any profits earned between their _____.

Non-profit social enterprises are businesses run in a commercial-like manner but without _____ being the main goal. For example, _____ (NPOs) use their surplus revenues to achieve their social goals, rather than distributing the surplus as profits or _____ to shareholders. A _____ (NGO) is a non-profit social enterprise that operates in the _____ sector of the economy, i.e. it is not owned or controlled by the government. However, NGOs do not aim primarily to earn a profit. Nevertheless, as with all business entities, an NGO must earn a financial _____ in order to be sustainable.

Companies are owned by _____ who have limited liability. This is because all limited liability companies are _____ businesses, i.e. the organizations are treated as separate legal entities from their owners. Shareholders get one _____ for each share that they own in the company. _____ held companies tend to be relatively small businesses that are owned by family members. In order to become a _____ held company, the business has to sell shares to the public for the first time, known as an _____ (IPO). In return for their investment, shareholders are given a proportion of the company's profits (if any is earned) in the form of _____ payments. The declared payment is paid on each share that a shareholder owns, so the more shares held the higher the total pay-out will be. Shareholders also buy shares in the hope that there is a _____ gain, i.e. the share price rises over time.

Task 2 – Vocabulary Quiz

Identify the key terms from the clues given. *Hint:* the answers are in alphabetical order!

Key Term	Definition
	For-profit social enterprises owned and run by their members, such as employees or customers, striving to create value for their members.
	Term used to describe a privately held company offering its shares on the stock exchange for the first time, thereby changing its legal status to a public limited company.
	Private sector businesses that do not primarily aim to make a profit for their owners.
	Businesses in this sector are run and owned by the government in order to provide communal services for society, e.g. state education and health care.
	A business entity owned and run by a single person.
	An investor in a partnership that does not get involved in the day to day management of the business.

Key Term	Definition
	Organizations that are revenue-generating businesses with community (general public) objectives at the core of their operations.
	This is the marketplace for buying and selling second-hand company stocks and shares.
	Refers to the limitless amount of debt that the owner(s) of a sole trader or partnership business can incur if things do not go well.

Task 3 - True or False?

		True / False
a.	A not-for-profit organization is any business entity that does not primarily aim to earn a profit.	
b.	A publicly held company can advertise its shares and have them traded on a stock exchange.	
c.	A stock exchange represents the market where secondhand shares can be bought and sold.	
d.	All non-governmental organizations (NGOs) operate in the private sector.	
e.	Limited liability means that if a firm is unable to pay back its debts, the owners of the business can lose everything, including their personal possessions.	
f.	Cooperatives are an example of for-profit social enterprises.	
g.	Publicly held companies are examples of private sector business entities.	
h.	Social enterprises do not strive to earn a profit. There are for-profit social enterprises that exist, such as cooperatives, private sector companies, and public sector companies	
i.	State-owned enterprises are also known as publicly held companies.	
j.	The liability of shareholders is limited to the amount of their investment.	

Task 4 - Explain one...

- a. Benefit of a business remaining small.

- b. Purpose of holding an Annual General Meeting (AGM) for shareholders of a publicly held company.

- c. Feature of the private sector.

- d. Feature of public sector companies.

- e. Difference between a state-owned enterprise and a publicly held company.

- f. Advantage of being a privately held company.

Task 5 - Multiple Choice Questions

1. Which statement does not apply to sole traders?
 - A. A business that is owned by one person
 - B. The most common form of business ownership
 - C. There can be more than one employer
 - D. There may be more than one employee

2. A sole trader is a person who
 - A. Forms a business with another person
 - B. Has exclusive responsibility for the running of the business
 - C. Is not legally liable for any debts of the business
 - D. Sets up the safest form of business organization

3. In comparison to other forms of business, sole proprietors face the problem of
 - A. Administration and set up procedures
 - B. Continuity
 - C. Privacy of financial accounts
 - D. Specialisation

4. Disadvantages of sole traders do not include
 - A. A reliance on the efforts and liability of just one person
 - B. Autonomy in decision making
 - C. Constraint of lack of time and specialisation to complete all tasks
 - D. The demands of having to be multi-skilled

5. Advantages of sole traders do not include
 - A. A high degree of confidentiality in administration and financial reporting
 - B. Flexibility and freedom in decision making
 - C. Profits not having to be shared with others
 - D. The various sources of finance available

6. Which of the following is not a reason why people may choose to set up their own business?
 - A. There are a lack of employment opportunities
 - B. There are higher risks than working for someone else
 - C. To enjoy autonomy in decision making
 - D. To extend personal interests and hobbies

7. Which of the following is not a necessary condition for an ordinary partnership?
 - A. Having at least one partner with unlimited liability
 - B. Having between 2-20 partners
 - C. Shares cannot be issued by the business
 - D. Signing the contents of a partnership deed

8. Which of the following is least likely to be a disadvantage of a partnership?
 - A. Having less control of business activities
 - B. Having to share profits with other partners
 - C. Managing conflict and disagreements
 - D. Spreading workload with other partners

9. The legal document that sets out the constitution of a limited liability company is known as the
 - A. Articles of Association
 - B. Certificate of Incorporation
 - C. Deed of Incorporation
 - D. Memorandum of Association

10. Which document is issued to a limited liability company before it can start trading?
 - A. Articles of Association
 - B. Certificate of Incorporation
 - C. Deed of Partnership
 - D. Memorandum of Association

11. The Memorandum of Association
 - A. Sets out rules for the appointment and remuneration of directors
 - B. Shows how profits will be distributed to its owners
 - C. States the main purpose of a limited liability company
 - D. Stipulates the internal functions and rules of an organization

12. Which of the statements is false?
- A. A privately held company cannot sell its shares on a stock exchange
 - B. Publicly held companies operate in the private sector
 - C. Second-hand shares of publicly held companies can be traded on a stock exchange
 - D. The Board of Directors of a privately held company own the business
13. Which of the statements about shareholders is correct?
- A. An advantage for shareholders is having limited liability
 - B. As co-owners of a company, shareholders have equal voting rights
 - C. Shareholders are paid annual dividends for investing in the company
 - D. They own and control private and publicly held companies
14. Identify the incorrect statement below
- A. A Deed of Partnership is advised for ordinary partnerships as it helps to resolve disagreements
 - B. A silent partner is another name for a sleeping partner
 - C. Publicly held companies operate in the public sector
 - D. Shareholders are not personally liable for the debts of the company
15. The shareholders of a company
- A. Are legally entitled to a share of any profits earned
 - B. Are wealthier than sole traders or partners
 - C. Control the running of the business
 - D. Earn a capital gain in their investment by selling their shares
16. 'Unincorporated' means that a business entity
- A. Has shareholders
 - B. Has unlimited liability for its debts
 - C. Is a separate legal entity from its owners
 - D. Is protected by limited liability
17. A drawback of publicly held companies is that they
- A. Have limited liability
 - B. Have to publish certain financial information to all stakeholders
 - C. Rely on government funding
 - D. Represent high risks to investors

18. What is the other name for a publicly held company?
- A. Joint stock company
 - B. Limited liability company
 - C. Private sector company
 - D. Privately held company
19. A for-profit public sector company is set up in order to
- A. Earn profits as a social enterprise
 - B. Privatise the provision of certain services such as schools and hospitals
 - C. Reduce the risks of share ownership
 - D. Replace the government in the provision of goods and services to the general public
20. A public sector enterprise is
- A. An organization owned by private shareholders only
 - B. An organization owned by shareholders who can trade their shares on a stock exchange
 - C. An organization owned and controlled by the state or government
 - D. Any business that has had an initial public offering
21. A non-profit organization that operates in the private sector and runs for the benefit of others in society is known as a
- A. Charitable organization
 - B. Non-governmental organization
 - C. Non-profit organization
 - D. Not-for-profit organization
22. Which of the following is an example of for-profit organizations?
- A. Charities
 - B. Cooperatives
 - C. Non-governmental organizations
 - D. Privately held companies
23. Which of the following is not classed as a social enterprise?
- A. Charities
 - B. Consultancy service providers
 - C. Microfinance providers
 - D. Public sector companies

24. Which statement does not apply to non-governmental organizations?
- A. They are a type of not-for-profit organization
 - B. They are private sector organizations
 - C. They are registered as incorporated businesses
 - D. They promote and raise money for social causes
25. Which of the following is *least* likely to be a non-profit organization?
- A. Museums
 - B. Performing arts groups
 - C. Police force
 - D. Public transportation firms
26. Which of the following is an example of public (sector) expenditure?
- A. Donations made to charities and non-profit organizations
 - B. Investment by publicly held companies
 - C. Spending by the general public on company stocks and shares
 - D. Spending on state education and healthcare
27. Which of the following is not a non-profit social enterprise?
- A. Amnesty International
 - B. Habitat for Humanity
 - C. International Baccalaureate Organization
 - D. World Wide Fund for Nature
28. Which of the following is not a source of finance for non-governmental organization?
- A. Corporate tax refunds
 - B. Donations
 - C. Fund-raising events
 - D. Selling products
29. Which of these factors is *least* likely to affect the strategic choice of the most appropriate type of business organization?
- A. The amount of finance needed
 - B. The products being sold
 - C. The size of the business and scale of its operations
 - D. Whether owners and investors want limited liability

30. Which of the following types of business entities cannot be classified as an example of a for-profit social enterprise?
- A. Cooperatives
 - B. Private sector companies
 - C. Public sector companies
 - D. Publicly held companies

Unit 1.3

Business objectives

Task 1 - Complete the missing words...

The _____ of a business are its goals, which tend to stem from the organization's _____ statement. Hence, they are a clear statement of a firm's intentions, such as growth or to become the market _____. They can be expressed as _____ and/or quantitative targets.

A business tends to find it difficult to satisfy all its stakeholders simultaneously due to their _____ objectives. For example, shareholders are likely to demand that the business aims for _____ maximization, whilst employees will strive to maximize their own _____ and benefits (thereby potentially reducing the profits of the business).

Organizations are increasingly concerned with the possible impact of their actions on the environment and society. This is largely because of the increased public awareness and concern for the planet's natural environment. Adverse business activity could lead to unwanted publicity from pressure groups. Such negative exposure can damage the _____ of the business and reduce customer _____. Unethical business practices might also adversely affect the firm's suppliers, employees, creditors and investors. Ultimately, ignoring ethics and corporate social _____ can seriously harm a firm's profitability. Hence, there are ever more driving forces pushing businesses to behave in a _____ responsible way.

Task 2 – Match the terms...

Read the definitions and match them with the correct business terms from the list below:

a.	Shareholder value	i.	This declaration of a business that provides a shared purpose and sense of direction for all stakeholders of the organization.
b.	Mission statement	ii.	This refers to the obligations that a business has towards its stakeholders and society as a whole.
c.	Objectives	iii.	The objective of ensuring the owners of a company receive dividends and see an increase in the value of their investment.
d.	Social responsibility	iv.	The long-term actions a business takes in order to achieve its aims and objectives (what needs to be done, the resources needed to do it, and the timeframe in which to accomplish it).
e.	Strategy	v.	The ultimate long-term desire or aspiration of an organization.
f.	Vision	vi.	These are the medium to long-term goals and targets of an organization, e.g. survival, diversification, and growth.

Task 3 – Odd One Out

Select the odd one out from each of the rows below and provide a brief reason for each of your answers.

a.	Tactical objectives	Secondary objectives	Strategic objectives	Operational objectives
b.	Growth	Survival	Sales maximization	Acquisition
c.	To direct	To select	To control	To motivate
d.	To improve quality of customer service	To become the world's market leader	To reduce absenteeism and labour turnover	To improve productive efficiency

- a. _____
- b. _____
- c. _____
- d. _____

Task 4 – True or False?

	True / False
a. A business that adopts an ethical approach will tend to improve its profits in the short run.	
b. All businesses have the objective of earning a profit for their owners.	
c. All businesses in the private sector aim to make profit whereas those operating in the public sector aim primarily to provide a service to the general public.	
d. Being socially responsible is the same as being environmentally responsible.	
e. Ethical corporate responsibility considers the welfare of the workforce.	
f. For most businesses, the objectives of shareholders are more important than those of other stakeholders.	
g. If a business behaves ethically, its profits will fall in the short run due to compliance costs.	
h. Strategic objectives refer to the general organizational objectives of a business that encompass its long-term goals.	
i. Survival is the main aim of businesses in the long term.	
j. The overall purpose of an organization can often be inferred from its mission statement.	

Task 5 – Explain...

- a) Why a business might choose to act unethically.

- b) The purpose of producing an ethical code of practice in the workplace.

- c) Why a business might choose to donate money to charitable organizations.

- d) Why organizational objectives should be agreed through a process of consultation with employees rather than simply being set by senior managers.

Task 6 – Mission, Vision, or Objective?

Vision	Mission	Objective

Choose from:

1. Can be changed easily	2. Core values and beliefs	3. Motivational tool for employees
4. Provides strategic direction for decision making	5. Purpose of the organization	6. Source of inspiration
7. Specific rather than idealistic	8. Strategic planning tool	9. Rarely reviewed
10. Reviewed periodically	11. The ideal image of the organization in the future	12. What the company aspires to be

Task 7 – Multiple Choice Questions

- Objectives are
 - Qualitative statements of a firm’s strategic direction
 - The major goals of an organization
 - The purpose for a firm’s existence
 - What a business wants to achieve
- What is the term used to describe what an organization exists for and what it intends to achieve?
 - Business objectives
 - Business plan
 - Mission statement
 - Vision statement
- Objectives of public sector organizations are least likely to include which of the following?
 - To reach break-even as soon as possible
 - To maximize profitability
 - To provide a service to the community
 - To survive

4. What is the declaration of the future identity of a business known as?
 - A. Business objectives
 - B. Corporate identity
 - C. Mission statement
 - D. Vision statement

5. Many businesses strive to be market leaders. Which of the following methods is least likely to achieve this objective?
 - A. Having a high labour turnover rate
 - B. Having a reputation for competitive prices
 - C. Maintaining customer satisfaction
 - D. Maintaining product quality

6. Which of the following options does not apply to business objectives?
 - A. Help to assess the performance of a business
 - B. Inform strategic planning
 - C. Provide a focus for the workforce
 - D. Suggest how goals should be achieved

7. Advantages of setting ethical objectives do not include which of the following?
 - A. A possible unique selling point for the firm
 - B. An obligation to provide shareholder dividends
 - C. Avoiding bad publicity
 - D. The impact on staff morale

8. Which of the following is not an example of ethical policies adopted by a business?
 - A. Fair trading terms with businesses in low income countries
 - B. Fringe benefits offered to all members of staff
 - C. Sponsoring charity events in the local community
 - D. The safe disposal of waste materials

9. Businesses do not always consider acting in an ethical way. Which of the following does *not* explain why this might be the case?
 - A. Compliance costs are low
 - B. Ethical objectives often conflict with profit objectives
 - C. Ethics might not be important to the firm
 - D. There might not be any government constraints

10. An ethical code of practice is not likely to include details concerning which of the following?
 - A. Corporate social responsibilities
 - B. Ethical marketing practises
 - C. Expectations of employees in the workplace
 - D. Statutory employment rights

11. Unethical business practises do not include
 - A. Deliberately using offensive tactics to market a firm's products
 - B. Lending money to companies that manufacture weapons
 - C. Setting higher prices to raise profit margins
 - D. The production of demerit products such as alcohol, tobacco and gambling

12. What does the 'R' in SMART objectives stand for?
 - A. Rational
 - B. Realistic
 - C. Reasonable
 - D. Righteous

13. Which of the following refers to short-term and specific goals of a business that have definitive timelines?
 - A. Mission statements
 - B. Strategical objectives
 - C. Tactical objectives
 - D. Vision statements

14. Which of the following refers to the safeguarding of the interests of the owners of a company?
 - A. Ethical code of practice
 - B. Shareholder value
 - C. Stakeholder value
 - D. Vision statements

15. Which document or statement refers to the guiding principles of an organization that provides the moral guidelines for conducting business activities?
 - A. Business plan
 - B. Ethical code of practice
 - C. Mission statement
 - D. Vision statement

Unit 1.4

Stakeholders

Task 1 – Complete the missing words...

Stakeholders are _____, groups, or organizations that have a direct _____ (or stake) in the operations and performance of an organization or are directly affected by its operations. Examples include: _____ (owners), directors, managers, employees, competitors, customers and suppliers.

_____ stakeholders are those who are not directly involved in the business but have an interest in its operations and performance. Examples include customers, the _____, suppliers, the local community, and _____ groups. By contrast, _____ stakeholder groups come from within the organization, such as _____ (labourers), managers and directors.

Different stakeholder groups have different interests in an organization, so this is likely to cause some _____ in the organization. Conflict arises because a business cannot simultaneously meet all the needs of all its stakeholders. For example, if customers want higher-quality products, then this may come about by firms having to charge higher _____. However, this clearly can upset many customers.

Task 2 – Stakeholder groups

Identify the stakeholder group from the given clues regarding that group's main interests. *Hint:* answers appear in reverse alphabetical order.

Stakeholder group	Examples of stakeholder group's interest
	To receive regular orders and for their customers to meet payment deadlines.
	To receive regular dividends, higher share prices and discounts for purchases made.
	Employment opportunities, financial support for events (such as sponsorship deals or charitable donations), and to minimise disruptions to the environment.
	Good remuneration package, job security, safe working environment, and opportunities for career development.
	Competitive prices, safe and good quality products, after-sales care and overall value for money.
	Minimal risk and the ability of their customers to repay the money owed on time.

Task 3 – Explain...

- a. The difference between shareholders and stakeholders.

- b. The difference between directors and shareholders.

c. The difference between internal and external stakeholders.

d. What Bill Gates, co-founder of Microsoft Corporation, meant by “*Your most unhappy customers are your greatest sources of learning.*”

e. The sources of conflict in large organizations such as Walmart or American Airlines.

f. The types of decisions that are made by the Board of Directors of a company

Task 4 – Multiple Choice Questions

- 1. Stakeholders are
 - A. All those parties directly working in an organization and are affected by its operations
 - B. Individuals, groups or organizations that are affected by the behaviour of businesses
 - C. People who can influence the behaviour of businesses
 - D. The people or organizations that own shares in the business

- 2. Which of the following are internal stakeholders?
 - A. Competitors
 - B. Creditors
 - C. Debtors
 - D. Shareholders

3. Which of the following groups is classified as external stakeholders?
 - A. Creditors
 - B. Manager
 - C. Owners
 - D. Workers

4. Which of the following groups is an example of external stakeholders?
 - A. Customers
 - B. Directors
 - C. Employees
 - D. Shareholders

5. Which of the following stakeholder groups is *least* likely to be an external stakeholder?
 - A. Competitors
 - B. The general public
 - C. The government
 - D. Trade unions

6. A business might want to become involved in community projects even though there are not necessarily any direct financial gains from doing so. Which option below does *not* provide a reason for this?
 - A. For staff professional development
 - B. The subsequent press coverage that it may attract
 - C. To boost staff morale and motivation
 - D. To enhance the image of the organization

7. Which of the following is not an internal stakeholder of the Industrial and Commercial Bank of China (ICBC)?
 - A. The Board of Directors
 - B. The Chinese government
 - C. The hourly-waged staff at ICBC
 - D. The shareholders of ICBC

8. Which statement below does not apply to the shareholders of a business?
 - A. They are internal stakeholders
 - B. They are the owners of limited liability companies
 - C. They have an interest in the operations and performance of the business
 - D. They receive dividends each year based on the number of shares they hold

9. An organization of individuals who unite to further their common interest to influence government policy and public opinion of a particular cause is known as a
- A. Campaigning group
 - B. Labour union
 - C. Pressure group
 - D. Trade organization
10. Lobbying groups would not typically support which one of the following?
- A. Anti-smoking
 - B. Deforestation
 - C. The fair treatment of workers
 - D. The protection of animals
11. Which of the following is *least* likely to be an objective of pressure groups?
- A. To change government macroeconomic objectives
 - B. To change government policies
 - C. To change opinions of the general public
 - D. To influence business and consumer behaviour
12. How do pressure groups primarily strive to achieve their goals or objectives?
- A. By getting the workforce to take industrial action
 - B. By lobbying the government for changes to the law
 - C. By organizing mass demonstrations to win public support
 - D. By raising as much publicity and awareness of their cause as possible
13. A socially responsible company has chosen to donate money to a charity. Some of the shareholders do not agree with this as it reduces their potential dividend payments. What is this an example of?
- A. Budgetary constraints
 - B. Compliance costs
 - C. Stakeholder conflict
 - D. Shareholder values
14. Which stakeholder group is most likely to have the following interests or needs: financial benefits, job security, good working conditions, and continuous professional development?
- A. Directors
 - B. Employees
 - C. Entrepreneurs
 - D. Managers

15. Boycotting is often used by pressure groups to achieve what?
- A. To create adverse publicity for a business by encouraging customers to shun (avoid or reject) the business
 - B. To prevent employees from being able to attend work
 - C. To push governments to introduce legislation desired by the pressure groups
 - D. To take a business to court for its socially undesirable behaviour
16. What arises because an organization cannot meet the needs of all its stakeholders at the same time?
- A. Conflict
 - B. Lobbying
 - C. Miscommunication
 - D. Mismanagement
17. Anti-piracy advertising against the illegal downloading of music and movies would be an example of a campaign promoted by
- A. Industry trade groups
 - B. Labour unions
 - C. Local communities
 - D. Pressure groups
18. Which statement does not apply to suppliers as a stakeholder group?
- A. They are an external stakeholder group
 - B. They offer preferential credit terms to all their customers
 - C. They provide other businesses with stocks, component parts and finished goods
 - D. They provide support services to their clients
19. Who are shareholders of a company?
- A. External stakeholders of a private limited company
 - B. Individuals or organizations with an investment interest in a particular business
 - C. The owners of limited liability companies
 - D. Those entitled to receive dividends each year irrespective of the profits made
20. Which management tool enables managers to deal with stakeholder conflict?
- A. Contingency planning
 - B. Crisis management
 - C. Perception mapping
 - D. Stakeholder mapping

Unit 1.5

Growth and evolution

Task 1 - Complete the missing words...

_____ growth refers to the increased size of a business by using its own resources, such as _____ profit. It is also known as _____ growth. In contrast, _____ growth occurs when a firm expands by merging with or _____ another firm. This method is also known as _____ growth.

Firms looking for quick growth and expansion will tend to use _____ growth strategies such as purchasing a majority stake in another company. This strategy is known as a _____. By contrast, a _____ is where two or more companies share the financial risks and rewards of a business project. The firms jointly establish and own a new business entity.

One benefit of organizational growth is economies of scale. These are _____ savings benefits due to large scale business operations, i.e. _____ costs of production fall as the level of _____ increases. The main types of economies include financial, managerial, _____ (or commercial) and marketing. The _____ (or best) size for a business depends on its goals, the structure of its costs and the size of the market.

Task 2 – Vocabulary Quiz

Identify the key terms from the clues given. *Hint:* the answers are in alphabetical order.

Key term	Definition
	A method of growth that involves buying a majority stake in another business in order to take control of the target business.
	Refers to the cost per unit of output. It is calculated by dividing total costs (TC) by the quantity of output (Q), i.e. TC/Q .
	Businesses that provide a diversified range of products and operate in an array of different industries.
	Growth strategy that involves payment of an initial fee and royalty payments in return for the use of another firm's trademarks, logos and products.
	External growth of firms through mergers and takeovers of other businesses.
	External growth method that occurs when two or more businesses split the costs, risks, control, and rewards of a business project. In doing so, they agree to set up a new legal entity.
	This is an agreement between two companies to form a single legal entity with its new or revised Board of Directors.
	This growth strategy involves two or more firms working together on a specific business venture. They form a legally binding contract without losing their individual corporate identities.

Task 3 – Economies and diseconomies of scale

- a. Explain why it is relatively easier to enter the restaurant industry than to enter the pharmaceutical manufacturing industry.

- b. Outline two causes of external diseconomies of scale.

- c. Explain whether a firm would experience economies or diseconomies of scale given the following information: total costs of production increase from \$5000 to \$6000 following an increase in output from 200 units to 300 units, with fixed costs at \$2000.

- d. Explain why 'average fixed costs' will continually fall with increased levels of output.

Task 4 – True or false?

	True / False
a. A conglomerate merger takes place between two firms that are in different lines of business.	
b. A demerger takes place when a firm splits into smaller firms or sells a number of its subsidiaries.	
c. A franchisee offers to sell a franchise agreement to a franchisor.	
d. Conglomerates tend to be large multinational companies that operate in multiple countries.	
e. Economies of scale refers to the reduction in the costs of production achieved through increased output.	
f. Expanding overseas is an example of diversification as a growth strategy.	
g. Growth through horizontal mergers or acquisitions does not represent any growth in the industry.	
h. Organic growth comes from increased sales revenue and profits, the latter of which is reinvested back in the business.	
i. Private limited companies cannot be taken over.	

Task 5 – Explain the difference between ...

- a. A franchisee and franchisor.

b. Acquisitions and mergers.

c. Internal and external economies of scale.

Task 6 – Multiple Choice Questions

1. Internal diseconomies of scale can be caused by
 - A. Being unable to purchase stocks at a discounted price
 - B. Higher advertising costs to a global audience
 - C. Management control being weakened with a larger workforce
 - D. Traffic congestion causing delays to the delivery of inventory

2. Which of the following is not a cause of internal diseconomies of scale?
 - A. Late deliveries due to congestion in busy locations
 - B. Less control, direction, and coordination of human resources
 - C. Poor communications between different departments
 - D. The lack of staff morale and motivation due to feeling disconnected

3. If a firm increases the amount of production but sees an increase in its average costs, what is this a sign of?
 - A. External diseconomies of scale
 - B. External economies of scale
 - C. Internal diseconomies of scale
 - D. Internal economies of scale

4. Which statement about internal economies of scale is true?
 - A. They generate lower unit costs of production
 - B. They increase unit costs due to growth of the industry as a whole
 - C. They reduce production costs in the short term
 - D. They result from changes in production techniques

5. What can external economies of scale arise from?
 - A. Bulk purchases of raw materials and component parts at favourable prices
 - B. Lower interest rates, thus reducing the cost of borrowing to larger companies
 - C. Specialised back-up services available in a particular region
 - D. The introduction and use of advanced technologies

6. External economies of scale are cost savings available to the whole _____ as a result of its _____
 - A. business, location
 - B. business, size
 - C. industry, location
 - D. industry, size

7. Suppose a firm doubles its use of resources in the production process and finds that output increases by 50%. What has the business experienced?
 - A. External diseconomies of scale
 - B. External economies of scale
 - C. Internal diseconomies of scale
 - D. Internal economies of scale

8. If a firm uses more resources to raise the level of output but sees an increase in its average cost of production, what is this a sign of?
 - A. External diseconomies of scale
 - B. External economies of scale
 - C. Internal diseconomies of scale
 - D. Internal economies of scale

9. Technological economies of scale can only be feasible for a business if
 - A. Banks lend money for the purchase of highly expensive technology
 - B. Capital equipment is capable of producing mass units of a product in a short time
 - C. There is an economic boom
 - D. There is sufficient market demand for the product

10. Which one of the following is not a benefit of forming a conglomerate?
 - A. Opportunities for economies of scale
 - B. A more focused marketing approach
 - C. Higher market power
 - D. Spreading of risks

11. In 2022, Frontier Airlines merged with Spirit Airlines in a deal worth \$6.6 billion. What is this an example of?
- A. A hostile takeover
 - B. Diversification
 - C. Horizontal integration
 - D. Vertical integration
12. The Walt Disney Company paid \$7.4bn to buy Pixar. What is this an example of?
- A. An acquisition
 - B. Diversification
 - C. Franchising
 - D. A strategic alliance
13. Which of the following is not a valid argument for pursuing growth as a business objective?
- A. To achieve internal economies of scale
 - B. To increase market share
 - C. To increase the chances of business survival
 - D. To minimise communication problems
14. Which of the following is least likely to be an advantage of forming a strategic alliance?
- A. Firms enjoy some of the advantages of mergers without losing their corporate identity
 - B. Profits from the strategic alliance can be shared equally
 - C. Strategic alliances are founded on friendly, cooperative and mutual agreements
 - D. They are not as expensive as takeovers or mergers
15. Suppose that several independent firms in the same office block share the use of a secretary and receptionist. What is this an example of?
- A. Economies of scale
 - B. Joint venture
 - C. Organic growth
 - D. Strategic alliance
16. Which of the following is an advantage of diversification?
- A. Additional finance is needed to fund the expansion plans
 - B. Extra time and resources are devoted to the new business venture
 - C. Required expertise, such as the knowledge of new markets
 - D. Risk-bearing economies of scale can be achieved

17. Which of the following is a disadvantage of diversification as a growth strategy?
- A. The degree of management control
 - B. Entering of new markets
 - C. Increased customer base
 - D. Spreading of risks
18. When does horizontal integration occur?
- A. When a firm acquires or merges with another firm at the same stage of production
 - B. When a firm acquires or merges with another firm operating at a different stage of production
 - C. When two or more firms decide to set up a separate business with its own legal status as an entity
 - D. When two or more firms that are not in direct competition decide to merge
19. Suppose a business grows in size due to its own finance and retained profits. What is this process known as?
- A. A conglomerate
 - B. An acquisition
 - C. External growth
 - D. Organic growth
20. Which statement applies to a franchise?
- A. A person or business that sells the right to others to promote their products
 - B. A person who buys the legal rights to use someone else's products or brands.
 - C. The agreement that gives a business the rights to trade using another firm's products, and brand name
 - D. The use of methods of external growth to enlarge a multinational corporation
21. A merger between two newspaper companies is an example of
- A. Conglomerate merger
 - B. Horizontal integration
 - C. Lateral amalgamation
 - D. Vertical integration
22. Organic growth cannot be achieved through increasing which option below?
- A. Capital expenditure (investment)
 - B. Labour turnover
 - C. Prices of price inelastic goods and services
 - D. Sales turnover

23. Which statement cannot be applied to internal growth?
- A. Financed through retained profits of a firm
 - B. Relatively cheaper method of growth
 - C. Relies on the production and marketing of a firm's products
 - D. Suitable for firms looking to grow rapidly
24. Which statement below does not explain why small firms can survive and flourish?
- A. Being able to provide a personalised service
 - B. Choice of finance options
 - C. Financial aid from the government
 - D. Local monopoly power
25. When two different organizations contribute resources to a shared project by forming a separate business, this is known as
- A. A joint venture
 - B. A strategic alliance
 - C. Collaboration
 - D. External growth
26. Which statement below does not apply to franchises?
- A. The failure rate is low as franchisees are generally very motivated
 - B. The franchisee can buy or lease a franchise
 - C. The franchisor can expand its business without incurring huge debts
 - D. The franchisors have little, if any, control over the way the business operates
27. One potential disadvantage of mergers is a change in
- A. Access rights to technology and human resources
 - B. Market power
 - C. Synergies
 - D. The corporate culture
28. Which of the following is an advantage to the buyer of a takeover bid?
- A. Changes to corporate cultures
 - B. Changes to the corporate identity
 - C. Possible staff redundancies
 - D. Potential market dominance

29. Which of the following is not a valid reason for a firm to choose to demerge (split up)?
- A. To avoid falling profits in the business
 - B. To enjoy economies of scale
 - C. To focus more specifically on a target market
 - D. To focus on a smaller range of products and services
30. Which option is not a valid reason for airline companies to form a strategic alliance?
- A. The airline companies keep their separate legal identities
 - B. They benefit from economies of scale from combined purchasing and marketing power
 - C. They can cover more destinations (flight locations) by joining forces
 - D. They can grow through diversification

Unit 1.6

Multinational companies

Task 1 - Complete the missing words...

A multinational company, sometimes referred to as a _____ company, is an organization that operates in _____ or more countries, with its Head Office usually based in the _____ country.

Globalization refers to the growing degree of _____ and interdependence of the world's economy. This means that decisions and actions taken in one part of the world will have a direct impact on those in other parts of the world. A key contributing factor of globalization is the growth and expansion of _____ (MNCs). There is increasing pressure for these global businesses to market their brands worldwide.

The growth in multinational companies has both positive and detrimental effects on the host country. For example, it stimulates _____ as there are more foreign businesses and products competing in the domestic market. At the same time, the _____ of trade restrictions (such as the removal of barriers to international trade) has allowed domestic businesses to enter overseas markets, thereby enabling these firms to benefit from a larger _____ base as well as _____ of scale (lower average _____ as a firm expands its operations).

Task 2 – True or false?

	True/False
a. Multinational companies are public limited companies that operate overseas.	
b. Multinational companies can minimise their tax bills by operating in overseas countries.	
c. Businesses of all sizes can compete with large multinational companies, particularly on the Internet.	
d. Large foreign MNCs can force domestic businesses to become more efficient in order to remain competitive in the market.	
e. Multinational companies can benefit from having greater brand awareness.	
f. Multinational companies can improve the domestic economy by providing employment opportunities in multiple industries.	
g. Multinational companies can introduce new ways of doing business in the host country, thereby spreading knowledge and skills transfer.	
h. An advantage of MNCs for the host country is that any profits are kept within the country for the improvement of the economy.	
i. A drawback of MNCs operating in foreign countries is the potential loss of cultural diversity.	
j. The presence and dominance of MNCs can significantly reduce the market share of domestic businesses.	

Task 3 – Multiple Choice Questions

- Multinational companies that market their products by expanding into overseas markets is an example of
 - Diversification
 - Market development
 - Market penetration
 - Product development

2. Which of the following is least likely to be a barrier to international trade?
 - A. Communication across geographical locations
 - B. Cultural differences
 - C. International business etiquette
 - D. Political and economic conflict

3. Which of the following is a potential drawback to a multinational company expanding overseas?
 - A. Different business etiquette and customs
 - B. Opportunities for economies of scale
 - C. The spreading of risks by not relying on trading in any single economy
 - D. Wage rates in low incomes countries

4. Which of the following is a disadvantage of MNCs operating in a host country?
 - A. Consumer choice
 - B. Economic growth
 - C. Profits are repatriated
 - D. Skills transfer

5. Which term describes the benefit of foreign multinational companies helping to develop the skills of domestic employees.
 - A. Economic growth
 - B. Infrastructure
 - C. Skills transfer
 - D. Training

6. Which statement below about MNCs is false?
 - A. Multinational companies can exploit cheap labour, especially in low-income countries
 - B. Multinational companies can reap the benefits of economies of scale
 - C. They have their headquarters in one country but have operations in different countries
 - D. They generate more benefits than drawbacks for host countries

7. Which option shows the advantage that multinational companies can have on a host countries?
 - A. Profits are likely to be repatriated to the home country
 - B. Their headquarters are based in their respective home country
 - C. They can help individuals in the host country to escape poverty
 - D. They take advantage of economies of scale by operating on a larger scale

8. How might large and powerful multinational companies be detrimental to a host country?
 - A. Governments can be customers of multinational companies
 - B. Governments may take part-ownership of some foreign multinational companies
 - C. There can be skills transfer due to the presence of the MNCs
 - D. They may try to influence government decision making

9. When does a domestic company become a multinational company?
 - A. When it hires foreign workers
 - B. When it makes foreign direct investment (FDI)
 - C. When it pays tax revenues
 - D. When it provides foreign aid

10. Which worldwide organization promotes freer trade between countries?
 - A. Microfinance providers
 - B. Multilateral development banks
 - C. The World Bank
 - D. The World Trade Organization