Faculty of management science student association(FMSSA)

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1. Basic Concept of Business

Definition of Business

Business refers to any activity that involves the production, distribution, and exchange of goods and services with the primary aim of making a profit.

Characteristics of Business

• Profit Motive: The main goal of business is to generate profit.

• Risk-Taking: Every business faces uncertainties such as competition, changing consumer preferences, and economic fluctuations.

• Exchange of Goods and Services: Businesses engage in the sale of tangible goods (e.g., electronics) and intangible services (e.g., banking).

• Customer Satisfaction: A successful business meets the needs and expectations of its customers.

• Innovation: Businesses must continuously improve their products, services, and operations to remain competitive.

Types of Business Activities

1. Industry: Concerned with production and manufacturing (e.g., farming, mining, construction, and factory work).

2. Commerce: Facilitates trade and includes wholesale, retail, banking, and insurance.

3. Services: Intangible offerings such as education, healthcare, entertainment, and consultancy.

2. The Scope of Business

The scope of business refers to the wide range of activities involved in the business world.

Main Areas Covered in Business

• Production: Manufacturing goods and creating services.

• Marketing: Identifying customer needs, advertising, and selling products.

• Finance: Managing business funds, securing loans, and budgeting.

• Human Resource Management (HRM): Recruiting, training, and managing employees.

• Operations Management: Ensuring efficient business processes and supply chain management.

Business Sectors

• Primary Sector: Extraction of raw materials (e.g., agriculture, mining).

• Secondary Sector: Processing and manufacturing (e.g., factories, construction).

• Tertiary Sector: Services like banking, education, and retail.

Local vs. International Business

• Local Business: Operates within a specific region or country.

• International Business: Involves global trade, exporting, and multinational companies.

3. Social, Legal & Economic Perspectives of Business

Social Aspects of Business

• Corporate Social Responsibility (CSR): Businesses give back to society (e.g., charity donations, environmental conservation).

• Ethics: Businesses should operate honestly and avoid fraud, exploitation, and corruption.

• Consumer Protection: Laws protect consumers from defective products and unfair trade practices.

Legal Aspects of Business

• Business Laws: Regulations like contracts, taxation, labor laws, and intellectual property rights.

• Registration Requirements: Companies must register under legal frameworks like Corporate Affairs Commission (CAC) in Nigeria.

Economic Aspects of Business

• Supply and Demand: Determines product prices.

• Inflation: Affects purchasing power and business profitability.

• Taxation: Government collects taxes from businesses to fund public services.

• Market Structures: Monopoly, oligopoly, perfect competition, and monopolistic competition impact business strategies.

4. Forms of Ownership

1. Sole Proprietorship

• Owned by one person.

• Easy to start but has unlimited liability (owner is personally responsible for debts).

• Common in small businesses like shops and artisans.

2. Partnership

• Owned by two or more people.

• Partners share profits, losses, and responsibilities.

• Legal agreement (Partnership Deed) is required.

3. Corporation (Limited Liability Company - LLC)

• Separate legal entity from owners.

• Owners (shareholders) have limited liability.

• Requires legal registration and compliance with corporate laws.

4. Cooperative Society

• Owned and operated by members for mutual benefit.

• Common in agriculture and trade.

• Examples: Farmers' cooperatives, savings and credit cooperatives.

5. Organisation & Management

Definition of Organisation

An organisation is a structured group of people working together to achieve specific goals.

Functions of Management (POLC Framework)

1. Planning: Setting goals and deciding how to achieve them.

2. Organising: Allocating resources and assigning tasks.

3. Leading: Motivating employees and guiding operations.

4. Controlling: Monitoring performance and making necessary adjustments.

Leadership Styles

• Autocratic: Leader makes all decisions.

• Democratic: Employees participate in decision-making.

• Laissez-faire: Employees work independently with minimal supervision.

Decision-Making Process

1. Identifying the problem.

2. Gathering information.

3. Evaluating alternatives.

4. Making a choice.

5. Implementing the decision.

6. Reviewing results.

6. Organisational Structure

Types of Organisational Structures

1. Functional Structure: Groups employees based on departments (e.g., marketing, HR).

2. Divisional Structure: Business units operate independently (e.g., regional branches).

3. Matrix Structure: Combines functional and project-based teams.

4. Hierarchical Structure: Rigid, top-down authority (common in government).

5. Flat Structure: Few management levels, encourages teamwork.

Authority & Responsibility

• Chain of Command: Hierarchy of authority from top management to employees.

• Span of Control: Number of subordinates a manager supervises.

• Delegation: Assigning responsibilities to lower levels.

Centralization vs. Decentralization

• Centralized: Decision-making power is at the top.

• Decentralized: Decisions are distributed to various levels.

7. Sources of Finance

Internal Sources of Finance

• Personal Savings: Owner’s funds.

• Retained Earnings: Profits reinvested into the business.

• Sale of Assets: Selling equipment or property.

External Sources of Finance

• Bank Loans: Borrowing money with interest.

• Venture Capital: Investors fund the business for a share of ownership.

• Issuing Shares: Selling company stocks to the public.

• Government Grants: Financial assistance for businesses.

Short-term vs. Long-term Finance

• Short-term: Trade credit, overdrafts, leasing.

• Long-term: Bonds, equity financing, mortgages.

8. The Environment of Business

Internal Environment

• Employees: Workforce skills and motivation.

• Management: Leadership style and decision-making.

• Corporate Culture: Company values and ethics.

External Environment

• Economic Factors: Inflation, unemployment, exchange rates.

• Political Factors: Government regulations, policies.

• Technological Factors: Automation, digital transformation.

• Social Factors: Consumer preferences, demographic changes.

9. The Role of Government in Business

1. Regulation and Control

• Consumer protection laws.

• Anti-monopoly policies.

• Workplace safety regulations.

2. Taxation and Subsidies

• Businesses pay taxes to fund public services.

• Subsidies support industries (e.g., agriculture, renewable energy).

3. Infrastructure Development

• Government provides roads, electricity, and internet for businesses to thrive.

4. Monetary and Fiscal Policies

• Monetary Policy: Central Bank controls interest rates and money supply.

• Fiscal Policy: Government controls spending and taxation to influence the economy.

The Environment of Business

The business environment refers to all the internal and external factors that influence a company's operations, decision-making, and overall success. It includes economic, legal, technological, social, and competitive forces.

1. Internal Environment of Business

These are factors within the business that affect its operations. Businesses can control and influence them.

Key Components of the Internal Environment

1. Employees (Human Resources):

• The skill level, motivation, and productivity of workers affect business success.

• Well-trained and motivated employees lead to innovation and higher performance.

• Poor work culture can reduce efficiency and increase turnover.

2. Management & Leadership:

• The way a business is managed impacts productivity and decision-making.

• Strong leadership fosters growth, while weak leadership can cause decline.

• Decision-making styles (autocratic, democratic, laissez-faire) influence employee engagement.

3. Corporate Culture:

• The shared values, beliefs, and behaviors within an organization.

• A positive culture promotes teamwork, customer focus, and ethical behavior.

• Examples: Google's innovation culture vs. a bureaucratic government agency.

4. Company Policies & Structure:

• Includes business strategies, organizational hierarchy, rules, and procedures.

• A flexible structure adapts to change, while rigid policies can hinder growth.

5. Physical and Financial Resources:

• Access to capital, raw materials, machinery, and technology affects efficiency.

• Strong financial management ensures sustainability and growth.

2. External Environment of Business

The external environment consists of outside forces that businesses cannot control but must respond to. It is divided into:

A. Micro (Immediate) Environment

These factors directly impact a business's day-to-day activities.

1. Customers:

• Businesses must understand and adapt to customer preferences and trends.

• Example: The rise of online shopping forced retailers to create e-commerce platforms.

2. Competitors:

• Rival companies influence pricing, marketing strategies, and innovation.

• Businesses must differentiate themselves to stay competitive.

3. Suppliers:

• The availability, cost, and reliability of suppliers affect production and pricing.

• Example: A shortage of semiconductor chips impacted smartphone production.

4. Marketing Intermediaries:

• These include wholesalers, retailers, and distribution channels.

• Efficient supply chains ensure products reach customers quickly.

5. Publics (Stakeholders):

• Government, media, pressure groups, and investors shape business reputation.

• Negative media coverage can damage a brand, while positive PR builds trust.

B. Macro (General) Environment

These are broader forces that impact industries and economies as a whole.

1. Economic Factors:

• Inflation, exchange rates, GDP growth, and unemployment affect consumer spending.

• In an economic downturn, people spend less, reducing business profits.

• Example: COVID-19 slowed economic activities, leading to business closures.

2. Political & Legal Factors:

• Government policies, regulations, and laws impact business operations.

• Businesses must comply with labor laws, tax policies, and trade restrictions.

• Example: Banning single-use plastics forced companies to adopt eco-friendly packaging.

3. Technological Factors:

• Advances in AI, automation, and digitalization change how businesses operate.

• Companies that fail to adopt new technologies risk becoming obsolete.

• Example: Nokia's failure to adopt smartphones led to its decline.

4. Social & Cultural Factors:

• Consumer lifestyles, values, and demographics shape business strategies.

• Example: The growing demand for healthy food led to an increase in organic products.

5. Environmental & Ecological Factors:

• Climate change, pollution control, and sustainability impact business practices.

• Companies must adopt eco-friendly practices to avoid fines and attract ethical consumers.

• Example: Tesla's success in electric vehicles due to growing environmental awareness.

Importance of Understanding the Business Environment

• Helps businesses adapt to changes and make informed decisions.

• Identifies opportunities and threats in the market.

• Ensures compliance with legal and ethical standards.

• Improves competitiveness and strategic planning.

Case Study: How External and Internal Environments Impacted KFC in Nigeria

Internal Environmental Factors Affecting KFC in Nigeria

1. Corporate Culture & Management Strategy

• KFC’s parent company, Yum! Brands, brought global standards in food quality, service, and operations.

• However, adapting to local Nigerian tastes was slow, leading to lower initial acceptance.

2. Employees & Human Resources

• Recruiting and training staff to meet international fast-food standards was a challenge.

• High turnover rates in the fast-food industry made retaining skilled workers difficult.

3. Financial & Physical Resources

• Setting up outlets in Nigeria required significant investment in infrastructure, logistics, and raw materials.

• KFC had to import some ingredients (like chicken seasoning) due to supply chain challenges.

External Environmental Factors Affecting KFC in Nigeria

1. Economic Factors

• The Nigerian economy has experienced fluctuations, with inflation rising at times.

• Rising costs of raw materials and high exchange rates increased the price of imported ingredients, making KFC’s food more expensive.

• The economic downturn in 2016 (due to a fall in oil prices) reduced consumer spending, affecting sales.

2. Political & Legal Factors

• Government regulations, such as taxation, labor laws, and food safety laws, influenced KFC’s operations.

• In 2015, Nigeria introduced import restrictions on certain food products, making it harder for KFC to get key ingredients.

3. Technological Factors

• KFC embraced technology by introducing online ordering and delivery services.

• Social media marketing helped them connect with Nigerian youth, increasing brand awareness.

4. Social & Cultural Factors

• Initially, KFC used its standard global menu, which included burgers, fries, and crispy chicken.

• However, they later localized their menu by adding Nigerian dishes like Jollof Rice and Spicy Chicken to attract more customers.

• The increasing health consciousness of Nigerians led to demand for healthier food options, forcing KFC to offer grilled chicken and salads.

5. Competitive Factors

• KFC faced competition from local fast-food brands like Chicken Republic and Mr. Bigg's, which offered similar products at lower prices.

• The rise of street food vendors also created competition, as they provided cheaper and more accessible alternatives.

Results and Business Strategies Used

1. Menu Localization: KFC adjusted its menu to suit local tastes (e.g., adding spicy flavors and rice dishes).

2. Supply Chain Adjustments: They partnered with local farmers to source more ingredients locally to reduce import costs.

3. Pricing Strategy: Introduced budget-friendly meal options to attract middle-class consumers.

4. Technology Integration: Implemented online delivery services and mobile payment options to improve customer convenience.

5. Marketing Strategy: Increased social media presence, targeted Nigerian youth, and ran promotional campaigns.

Key Lessons from KFC's Case in Nigeria

1. Understanding the business environment is crucial for success.

• KFC struggled at first but later adapted to local economic, social, and competitive factors.

2. Localization is key for international businesses.

• Adapting to local consumer preferences helped increase customer acceptance.

3. Technology can be a game-changer.

• Online food delivery and digital marketing helped KFC boost sales despite challenges.

4. Economic and political stability impact business performance.

• Inflation, import restrictions, and government policies played a major role in KFC’s operations.

Forms of Business Ownership

The form of business ownership determines how a company is legally structured, its tax obligations, liability, and decision-making processes. The main types of business ownership include:

1. Sole Proprietorship

A sole proprietorship is a business owned and operated by one person. It is the simplest and most common form of business ownership.

Characteristics

• Single ownership: One person owns the business.

• Unlimited liability: The owner is personally responsible for all debts.

• Full control: The owner makes all decisions.

• Personal income tax: Profits are taxed as personal income.

• Easy to start and dissolve.

Advantages

✔ Easy to set up with minimal legal requirements.

✅ Owner keeps all profits.

✅ Full control over business decisions.

✅ Low operational costs.

Disadvantages

❌ Unlimited liability – personal assets can be used to pay business debts.

❌ Limited access to capital and expansion opportunities.

❌ Business continuity is affected by the owner's death or decision to stop operations.

Example:

A small roadside food vendor or a freelance graphic designer working alone.

2. Partnership

A partnership is a business owned by two or more people who share profits, losses, and management responsibilities.

Types of Partnerships

1. General Partnership (GP): All partners share responsibility and liability.

2. Limited Partnership (LP): Some partners have limited liability (only responsible for their investment).

3. Limited Liability Partnership (LLP): All partners have limited liability, protecting their personal assets.

Characteristics

• Two or more owners share responsibilities and profits.

• Unlimited or limited liability, depending on type.

• Profits are shared according to agreement.

• Partnership deed (contract) guides operations.

Advantages

✅ More capital available compared to sole proprietorship.

✅ Shared responsibilities and workload.

✅ Different partners bring different skills.

Disadvantages

❌ Disagreements between partners can arise.

❌ Unlimited liability for general partners.

❌ If one partner withdraws, the business may dissolve.

Example:

A law firm where multiple lawyers operate together under one brand.

3. Private Limited Company (Ltd)

A Private Limited Company (Ltd) is a legally separate entity from its owners, meaning it has limited liability. Ownership is usually restricted to a few shareholders.

Characteristics

• Owned by private shareholders (family, friends, or investors).

• Limited liability – owners are not personally responsible for business debts.

• Profits are distributed as dividends.

• Requires registration and legal formalities.

Advantages

✅ Limited liability protects owners' personal assets.

✅ Can raise more capital by issuing shares.

✅ Business continuity is not affected by owner's death.

Disadvantages

❌ More regulations and legal requirements.

❌ Shares cannot be sold to the public.

❌ Decision-making may be complex.

Example:

Dangote Cement Ltd – Owned by a limited number of shareholders.

4. Public Limited Company (PLC)

A Public Limited Company (PLC) is similar to a private limited company but can sell shares to the public on the stock exchange.

Characteristics

• Owned by shareholders who buy company shares.

• Limited liability for shareholders.

• Shares are traded on the stock exchange.

• Strict legal and financial reporting requirements.

Advantages

✅ Can raise large amounts of capital by selling shares.

✅ Limited liability for shareholders.

✅ Can expand easily due to financial strength.

Disadvantages

❌ Expensive to register and operate.

❌ Vulnerable to takeover by investors buying majority shares.

❌ Requires public disclosure of financial statements.

Example:

MTN Nigeria – A publicly traded company on the Nigerian Stock Exchange.

5. Cooperative Society

A cooperative is a business owned and operated by a group of people who share similar interests. Members contribute capital and share profits.

Characteristics

• Owned and controlled by members.

• Operates based on mutual benefit.

• Profits are shared among members.

• Members have equal voting rights.

Advantages

✅ Promotes teamwork and self-help.

✅ Limited liability for members.

✅ Focuses on the welfare of members rather than maximizing profits.

Disadvantages

❌ Decision-making can be slow due to equal voting rights.

❌ Limited capital compared to companies.

❌ Risk of mismanagement.

Example:

Agricultural cooperatives where farmers pool resources to buy equipment and sell produce.

6. Franchise

A franchise is a business model where an individual (franchisee) buys the right to use a brand name, product, and business system from a franchisor.

Characteristics

• The franchisee operates under the franchisor’s brand.

• Pays royalties and fees to the franchisor.

• Gets business support and training from the franchisor.

Advantages

✅ Established brand and customer trust.

✅ Franchisor provides business guidance.

✅ Higher success rate compared to starting a new business.

Disadvantages

❌ High initial costs and ongoing royalty fees.

❌ Limited control over business decisions.

❌ Strict franchise rules must be followed.

Example:

Domino's Pizza, KFC, and Mr. Bigg's operate through franchises.