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Business Technology

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CEO The ExP Group

“Hello”

Thank you for downloading a copy of these ExPress notes and I hope you find them useful for your studies.

We provide these ExPress notes free of charge to individual students as part of our CSR initiatives. The notes are designed to help students assimilate and understand the most important areas for the exam as quickly as possible.

A word of warning though in that they have not been designed to cover everything in the syllabus so you should only use these notes for either an overview of the key areas before you start your main studies or as part of your final revision in the run up to your exams.

Importantly though, we want you to be successful in your exams so good luck with your studies and please do let us know how you get on.

All the best,

Steve

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About The ExP Group

We were born with one passion, with one aim, with one desire. To use technology the way it should be used. To use technology to open up education, and in particular financial education, to whoever needs it regardless of their income, wealth, race, sex, religion or location.

We wanted to use technology to empower individuals to develop themselves through financial expertise, organisations to improve their performance through enhanced human capital and ultimately communities and families to benefit as a result.

We're on target and since our birth we have had the privilege of working with and learning from inspirational individuals and organisations from all 4 corners of the world in countries as varied as the UK in the north, Singapore in the east, South Africa in the south and the Cayman Islands in the west.

We're only part way through our journey but we're doing better than we expected. The best is yet to come though,

Education + Technology = Ethical Empowerment.

Thank you for being part of our story.

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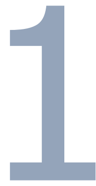

Chapter 1 - THE BUSINESS ORGANISATION AND ITS EXTERNAL ENVIRONMENT

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1. The purpose and types of business organisation

Business organisations span a wide spectrum from commercial entities to non-profits, including public sector organisations and non-governmental organisations (NGOs).

Commercial Businesses: These are profit-oriented entities that focus on producing goods or services for sale. Their primary goal is to generate revenue and ensure profitability for their shareholders.

Non-Profit Organisations: Unlike commercial businesses, non-profits aim to serve a social or charitable purpose without the intention of making a profit. Any surplus revenues are reinvested into the organisation to further its mission.

Public Sector Entities: These organisations are part of the government and are funded by taxpayer money. They provide essential public services such as education, healthcare, and public safety.

NGOs: Operating independently of government control, NGOs focus on addressing social, environmental, or political issues. They rely on donations and grants for funding.

Common Features of Business Organisations

Despite their differences, all business organisations share certain fundamental features:

Structure: Organisations have a defined structure that outlines the roles and responsibilities within the organisation to ensure effective management and operation.

Purpose: Each organisation has a clear purpose or mission that guides its activities, whether it's to make a profit, serve the public interest, or address specific issues.

Management: Effective management is crucial for the success of any organisation, involving planning, organizing, leading, and controlling the organisation's resources.

Differences Among Types of Business Organisations

The main distinctions among various types of business organisations lie in their goals, sectors they operate in, and their modes of operation:

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Goals: While commercial entities aim for profitability, non-profits seek to fulfil a mission, and public sector entities aim to provide public services.

Sectors: Business organisations operate in various sectors, including the private sector (commercial businesses), the public sector (government entities), and the third sector (non-profits and NGOs).

Operation Modes: The way these organisations operate also differs, with commercial businesses focusing on market competition, non-profits on service delivery and fundraising, and public sector entities on regulatory compliance and public accountability.

Understanding these aspects is crucial for anyone looking to engage with or manage a business organisation effectively, as it helps in developing strategies that align with the organisation's nature and goals.

2. Stakeholders in business organisations

Stakeholders in a business are individuals, groups, or organisations that have an interest in the decisions and activities of the business. Their interests can be directly or indirectly affected by the business's actions, objectives, and policies.

Stakeholders in a business can be categorized based on their relationship and level of interaction with the business. They can be broadly grouped into three types: internal, connected, and external stakeholders. Each type has a distinct role and interest in the business's operations and outcomes.

Internal Stakeholders

Internal stakeholders are those within the organisation who are directly involved in its day-to-day operations and strategic decision-making. This group includes:

Employees: Individuals working at various levels within the company, affected by its policies, culture, and success.

Management: The executives and managers responsible for making significant decisions and guiding the company's direction.

Connected Stakeholders

Connected stakeholders have a direct financial or business relationship with the company but are not part of its internal structure. This category includes:

Investors: Individuals or entities that provide capital to the company in exchange for equity or debt securities, interested in the financial performance and return on their investment.

Suppliers and Vendors: Businesses that provide goods or services to the company. Their success is often closely tied to the company's operational efficiency and payment practices.

Partners: Entities that collaborate with the company on joint ventures or strategic alliances. Both parties are interested in the success of their mutual endeavours.

Owners/Shareholders: The individuals or entities that legally own shares of the company. They are interested in the profitability, sustainability, and growth of the business.

Customers: Individuals or organisations that purchase and use the company's products or services. They are primarily concerned with the value, quality, and availability of these offerings.

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External Stakeholders

External stakeholders are not directly involved in the business operations but are affected by or can influence its outcomes. This group comprises:

Regulatory Authorities: Government agencies and bodies that regulate industry standards, compliance, and ethical practices. They ensure that the company operates within legal and ethical frameworks.

Community and Society: The broader community and societal groups that may be impacted by the company's operations, including its environmental and social footprint.

Understanding and managing the expectations and needs of these diverse stakeholder groups is crucial for a company's sustainability, growth, and social responsibility.

Stakeholder Conflict

Stakeholder conflict arises when the diverse interests and objectives of different stakeholders in a business clash. Given the variety of stakeholders involved with a business—ranging from employees, management, investors, to customers, suppliers, and the community—each group has its own set of expectations and objectives. Conflicts can occur due to differences in priorities, such as profitability versus environmental sustainability, short-term gains versus long-term growth, or employee benefits versus cost-cutting measures. Managing these conflicts requires careful negotiation, communication, and sometimes compromise, to align stakeholders' interests as closely as possible with the strategic objectives of the business.

Mendelow's Power-Interest Matrix

Mendelow's Power-Interest Matrix is a tool used in stakeholder management to help businesses identify and prioritize their stakeholders based on two key criteria: the power they hold and their level of interest in the business's activities. The matrix helps in strategizing communication and engagement with stakeholders to manage their expectations and influence effectively. It divides stakeholders into four categories in a 2x2 grid:

High Power, High Interest (Key Players): These stakeholders have significant influence over the business and a keen interest in its operations. They should be actively engaged and their concerns should be given priority in decision-making processes.

High Power, Low Interest (Keep Satisfied): Although these stakeholders have the power to impact the business, their interest might be low. It's important to keep them satisfied but not to over-communicate, to avoid overwhelming them with information they might find irrelevant.

Low Power, High Interest (Keep Informed): These stakeholders are highly interested in the business but lack the power to significantly influence it. Keeping them informed and maintaining good relations is important for support and feedback, but decision-making may not necessarily prioritize their demands.

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Low Power, Low Interest (Minimal effort): Stakeholders in this category have minimal impact on and interest in the business. While it's important to monitor them and keep them on the radar, they require the least amount of attention compared to other groups.

Mendelow's Matrix is a dynamic tool, meaning that stakeholders can move between quadrants as their interests and power levels change. Regularly assessing stakeholders' positions in the matrix can help a business adapt its stakeholder management strategies to current conditions, ensuring effective communication and minimizing conflicts.

3. Political and legal factors affecting business

PEST Analysis

PEST analysis is a strategic tool used by businesses to identify and analyse external macro-environmental factors that could impact their operations and strategic decisions. PEST stands for **Political, Economic, Social, and Technological** factors. By examining these areas, companies can gain insights into the broader landscape in which they operate, enabling them to anticipate changes, adapt strategies, and create more resilient business plans.

Political and Legal Factors Affecting Businesses

Political and legal factors are critical components of the PEST analysis, as they encompass the regulatory and political environment that can significantly influence business operations. These factors include:

Government Policies: Changes in taxation, trade tariffs, labor laws, and environmental regulations can affect business costs and market access.

Political Stability: Stability or instability affects business confidence and investment. Political unrest can lead to disruptions in operations and planning.

Legal Framework: Laws governing business operations, consumer protection, employee rights, and competition impact how businesses operate and compete.

Trade Regulations: International, national, and regional trade agreements or restrictions shape market opportunities and competitive landscapes.

Three Levels of Political Systems

Organisations must navigate political systems at three levels: global, national, and local. Each level has its own set of influences and considerations:

Global

World Trade Organisation (WTO): Sets global rules for trade between nations, aiming to ensure that trade flows smoothly, predictably, and as freely as possible. Businesses must adhere to WTO agreements and rulings, which can affect tariffs, trade barriers, and dispute resolutions.

European Union (EU) Legislation: For businesses operating within or with the EU, adherence to EU-wide regulations is mandatory. This includes regulations on product standards, labor laws, environmental protection, and data privacy (e.g., GDPR).

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National

National Government Policy: Businesses must comply with the laws and regulations set by the countries they operate in. This includes tax policies, employment laws, health and safety standards, and industry-specific regulations. National policies on economic development, foreign investment, and trade can also influence business strategies.

Local

Local Government Departments and Councils: Local regulations, zoning laws, property taxes, and business licenses are administered by local government bodies. These can affect where a business can operate, what facilities they can build, and the local resources they can access. Local government initiatives supporting businesses or infrastructure developments can also impact business opportunities.

Understanding and adapting to these political and legal environments at all three levels are critical for businesses to navigate risks and leverage opportunities effectively. It requires ongoing monitoring and analysis, given the dynamic nature of political and legal contexts across different geographies.

Data Protection and Data Security

Data protection and data security are closely related concepts in the field of information technology and cybersecurity, but they focus on slightly different aspects of managing and safeguarding data.

Data Protection

Data protection refers to the policies, procedures, and legal measures designed to protect personal or sensitive data from unauthorized access, use, disclosure, disruption, modification, or destruction. The goal of data protection is to ensure privacy and compliance with laws and regulations governing data privacy, such as the General Data Protection Regulation (GDPR) in the European Union, the California Consumer Privacy Act (CCPA) in the United States, and others around the world. Data protection measures include:

Legal and Regulatory Compliance: Ensuring that data handling practices conform to relevant laws and regulations to protect individual privacy rights.

Data Privacy Policies: Developing clear policies regarding the collection, use, storage, and sharing of personal or sensitive data.

Access Control: Restricting access to sensitive data to authorized personnel only.

Data Minimization: Collecting only the data that is directly necessary and relevant for the intended purpose.

Data Security

Data security, on the other hand, focuses more on the technical and physical safeguards that protect data from malicious attacks, breaches, and accidental loss. It encompasses the tools and techniques used to prevent unauthorized access, ensure data integrity, and protect data against threats such as hacking, malware, and phishing attacks. Key aspects of data security include:

Encryption: Transforming data into a coded format that can only be accessed with the correct decryption key, making it unreadable to unauthorized users.

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Firewalls and Antivirus Software: Using software tools to protect against unauthorized access and detect and eliminate malware.

Intrusion Detection and Prevention Systems (IDPS): Monitoring networks and systems for suspicious activity and responding to detected threats.

Data Backup and Recovery: Creating regular backups of data to prevent loss and ensure that data can be recovered in the event of a system failure or cyberattack.

While data protection is more concerned with the privacy rights and lawful handling of data, data security focuses on protecting data from external threats and breaches. Both are crucial for maintaining the confidentiality, integrity, and availability of data, and they often overlap in practice. Businesses and organisations must implement both strong data protection policies and robust data security measures to safeguard sensitive information and comply with regulatory requirements.

4. Macroeconomics Factors

Macroeconomics is a branch of economics that studies the behavior and performance of an economy as a whole. It focuses on aggregate phenomena, such as gross domestic product (GDP), unemployment rates, national income, price indices, and the interrelations among these various sectors of the economy. Macroeconomics aims to understand how the economy operates and to develop policies that can improve economic performance and stability. Key areas of study in macroeconomics include:

Economic Growth

This area examines the factors that contribute to long-term increases in national income and output, exploring how economies can achieve sustainable growth. Economic growth is crucial for improving living standards and reducing poverty.

Inflation

Inflation refers to the rate at which the general level of prices for goods and services is rising, eroding purchasing power. Macroeconomists study the causes of inflation, such as demand-pull inflation, cost-push inflation, and built-in inflation, and its effects on the economy. They also analyse policies to control inflation.

Unemployment

Unemployment analysis focuses on the reasons why people are unemployed and the various types of unemployment, including frictional, structural, cyclical, and seasonal unemployment. Understanding unemployment is essential for developing policies to maintain a healthy level of employment in the economy.

Fiscal Policy

Fiscal policy involves the use of government spending and taxation to influence the economy. Governments can use fiscal policy to stimulate economic growth during a recession or to cool down an overheating economy.

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Monetary Policy

Monetary policy concerns the management of the money supply and interest rates by central banks. It is used to control inflation, manage employment levels, and stabilize the currency. Monetary policy tools include open market operations, discount rate adjustments, and changes in reserve requirements.

International Trade and Finance

This area examines how countries interact through trade and financial flows. It includes the study of exchange rates, balance of payments, and the impact of trade policies and agreements on national economies.

Macroeconomics plays a crucial role in shaping economic policy and decision-making at the national and international levels. By understanding macroeconomic indicators and theories, policymakers and economists can better address economic challenges, such as inflation, unemployment, and recession, thereby promoting economic stability and growth.

Trade Cycles

Trade cycles, also known as business cycles or economic cycles, refer to the fluctuations in economic activity that an economy experiences over a period of time. These cycles are characterized by periods of expansion (growth) followed by contraction (recession), which repeat in a somewhat regular pattern. Understanding trade cycles is crucial for policymakers, businesses, and investors, as they impact decision-making processes related to investment, employment, and economic policy.

Phases of Trade Cycles

A typical trade cycle consists of four main phases:

Expansion (Recovery or Boom): During this phase, economic activity increases, marked by rising GDP, employment, income levels, and consumer spending. Businesses invest more due to higher demand for goods and services, and confidence in the economy grows. This phase may also see inflation as demand outpaces supply.

Peak: The peak marks the transition from expansion to contraction. At this point, the economy is operating at its highest output level without leading to inflation. Employment is high, and economic indicators are at their maximum levels. However, overheating can occur, with high inflation rates prompting policymakers to intervene, often leading to the next phase.

Contraction (Recession): During contraction, economic activity declines from its peak. GDP falls, leading to decreased consumer spending, lower production levels, reduced income, and increased unemployment. Businesses may cut back on investments, and consumer confidence declines. If a recession is severe or prolonged, it may be termed a depression.

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Trough: This phase marks the bottom of the cycle, where economic activity is at its lowest. Indicators like output, employment, and investment have bottomed out, and the economy is ready to start a new phase of expansion as conditions begin to improve.

Causes of Trade Cycles

Several theories attempt to explain the causes of trade cycles, including:

External Shocks: Natural disasters, oil price shocks, and geopolitical events can trigger economic fluctuations.

Monetary Factors: Changes in money supply and interest rates, often due to central bank policies, can influence borrowing, spending, and investment.

Technology and Innovation: Periods of technological innovation can drive expansions, while periods of technological stagnation can lead to contractions.

Psychological Factors: Changes in consumer and business confidence can lead to fluctuations in spending and investment.

Importance of Understanding Trade Cycles

Understanding trade cycles helps governments and central banks to implement counter-cyclical policies to stabilize the economy. During a recession, they might introduce expansionary fiscal (increasing government spending or cutting taxes) and monetary policies (cutting interest rates) to stimulate growth. Conversely, in a boom, they might use contractionary policies to cool down the economy and prevent overheating.

For businesses, understanding where the economy is in its cycle can influence strategic decisions such as expansions, contractions, and inventory management. Investors also use knowledge of economic cycles to make informed decisions about asset allocation, seeking to optimize returns based on expectations of economic growth or contraction.

Economic Theories

Classical Theory

The Classical theory, which emerged in the late 18th and early 19th centuries, primarily from the works of economists like Adam Smith, David Ricardo, and John Stuart Mill, posits that markets function best without government intervention. It argues that free markets lead to efficient allocation of resources, as they are guided by the invisible hand of self-interest and competition. The theory asserts that supply and demand reach equilibrium naturally, and full employment is the norm, as prices, wages, and interest rates adjust to maintain balance. Classical economists believe in the long-term perspective, focusing on the production and accumulation of wealth as the basis for economic growth.

The Keynesian View

The Keynesian view, named after the British economist John Maynard Keynes, emerged in the 1930s during the Great Depression. It challenged the Classical theory, especially on the point that markets always clear (i.e., supply always equals demand at some price level). Keynes argued that aggregate demand—the total demand for goods and services within an economy—is the driving force of economic activity, particularly in the short run. According to Keynesian theory, during periods of

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economic downturn, private sector demand may be insufficient, leading to prolonged unemployment and underutilized resources. Therefore, Keynes advocated for active government intervention through fiscal policy (e.g., government spending and tax policies) to manage demand, stimulate economic growth, and reduce unemployment. Keynesian economics emphasizes the cyclical nature of the economy and the role of aggregate demand in influencing economic output and inflation.

The Monetarist View

The Monetarist view, largely associated with economist Milton Friedman, emerged in the mid-20th century as a response to Keynesian economics. Monetarists emphasize the role of government's control over the money supply and how it influences economic activity, inflation, and employment levels. They argue that variations in the money supply have major short-term and long-term effects on the economy. According to Monetarism, the primary cause of economic fluctuations is changes in the rate of growth of the money supply. Monetarists advocate for a fixed annual increase in the money supply, aligning with the natural growth rate of the economy, to maintain price stability and economic growth. They also believe in the effectiveness of monetary policy over fiscal policy and argue for a limited role of government in the economy, suggesting that excessive government intervention can lead to inefficiencies and inflation.

Each of these theories offers a different perspective on the role of government in the economy, the causes of economic fluctuations, and the best policies to achieve economic stability and growth. While Classical economics emphasizes free markets and minimal government intervention, Keynesian economics advocates for active government policies to manage demand, and Monetarism focuses on controlling the money supply to ensure economic stability.

5. Microeconomics Factors

Microeconomics is the branch of economics that focuses on the actions of individuals and industries, like the dynamics between buyers and sellers, borrowers and lenders. It studies various aspects of economic behavior, detailing the ways in which individuals (or companies) reach decisions about what to sell, what to buy, how much to work, and how much to save.

Microeconomics is concerned with the supply and demand in individual markets, the allocation of resources, and the pricing of goods and services. It analyses market mechanisms that establish relative prices among goods and services and allocates limited resources among various uses. Microeconomics also examines how these decisions and behaviours affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the supply and demand of goods and services.

Key concepts in microeconomics include:

a. Supply and Demand

This is the fundamental model of how buyers and sellers interact in a market. The law of demand says that, ceteris paribus (all other factors being equal), as the price of a product falls, the quantity

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demanded of the product will usually increase, and vice versa. The law of supply states that, ceteris paribus, as the price of a product increases, the quantity supplied will usually increase, and vice versa.

b. Elasticity

Elasticity measures how much the quantity demanded or supplied of a product changes in response to a change in price. It helps to understand how changes in prices will affect demand and supply levels of goods and services.

Price elasticity of demand (PED) is a measure used in economics to show how the quantity demanded of a good or service changes in response to a change in its price. It quantitatively describes the degree of sensitivity of consumers to price changes. If the quantity demanded changes significantly with a small change in price, the demand is said to be elastic. Conversely, if the quantity demanded changes only a little with a significant change in price, the demand is inelastic.

Formula to Calculate Price Elasticity of Demand

The price elasticity of demand is calculated using the following formula:

$$PED = \frac{\%\text{ Change in Quantity Demanded}}{\%\text{ Change in Price}}$$

Examples

i. **Elastic Demand:** Suppose the price of a brand of ice cream decreases from $5 to $4 (a 20% decrease), and as a result, the quantity demanded increases from 100 units to 150 units (a 50% increase). Using the PED formula:

$$PED = \frac{50\%}{-20\%} = -2.5$$

The negative sign indicates that the direction of change is opposite (price down, quantity up), which is always the case for PED. A PED value of -2.5 (ignoring the negative for interpretation) means that the demand for this ice cream is elastic: a 1% decrease in price leads to a 2.5% increase in quantity demanded.

ii. **Inelastic Demand:** Consider a medication for which there are no close substitutes. If the price rises from $50 to $55 (a 10% increase), and the quantity demanded decreases from 1000 prescriptions to 990 prescriptions (a 1% decrease), then:

$$PED = \frac{-1\%}{10\%} = -0.1$$

Here, the PED value of -0.1 (ignoring the negative for interpretation) indicates inelastic demand: a 10% increase in price leads to only a 1% decrease in quantity demanded. Consumers are less sensitive to price changes due to the lack of substitutes.

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Interpretation

PED > 1: Demand is elastic. Consumers are highly sensitive to price changes.

Example: Luxury cars, such as high-end sports cars, have an elastic demand. A significant price increase may lead to a substantial drop in quantity demanded as potential buyers might opt for cheaper alternatives or delay their purchase, reflecting high sensitivity to price changes.

PED < 1: Demand is inelastic. Consumers are less sensitive to price changes.

Example: Fuel (petrol / diesel). For many people, gasoline is a necessity for commuting and daily travel, and there are few immediate alternatives for most consumers. Even if the price of gasoline increases significantly, the quantity demanded typically decreases only slightly, indicating inelastic demand.

PED = 1: Demand is unit elastic. Percentage change in price leads to an equal percentage change in quantity demanded.

Example: Certain clothing brands may have unit elastic demand for specific price changes. If the brand raises prices by a certain percentage and sees an equivalent percentage decrease in quantity demanded, it suggests that consumers are proportionately sensitive to price changes for these products.

PED = 0: Perfectly inelastic demand. Quantity demanded does not change as price changes.

Example: The demand for lifesaving medications, such as insulin for diabetics, is often considered perfectly inelastic. Regardless of price changes, patients in need of these medications must purchase them, meaning the quantity demanded remains constant even if the price increases dramatically.

PED = ∞: Perfectly elastic demand. Consumers will only buy at one price and no demand at any other price.

Example: Imagine a farmers' market where several vendors sell virtually identical organic apples at a fixed price. If one vendor decides to increase their price even slightly above the market rate, consumers will switch to buying from the other vendors, resulting in a drop to zero demand for the more expensive apples. This scenario reflects perfectly elastic demand, where consumers are extremely sensitive to price changes among identical goods.

c. Market Equilibrium

This occurs where the quantity supplied of a good equals the quantity demanded at the prevailing price. It is the point at which market supply and demand balance each other, and, as a result, prices become stable.

d. Market Structures

Understanding the different types of markets is crucial in economics as they describe how various industries are structured and how businesses interact within them. Here's an overview of the main types of markets:

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