

Edexcel
AS Level
BS
(Code: WEC13 01)
Unit 01
Entrepreneurs and leaders



Chapter 19 – Role and entrepreneurs

CREATING AND SETTING UP A BUSINESS

The role of entrepreneurs: Entrepreneurs are people who have a business idea and want to make money working for themselves. They are the owners of a business and without them the business would not exist. The roles played by entrepreneurs in business are summarised below.

- Entrepreneurs are innovators because they try to make money out of a business idea. Such ideas might come from spotting a gap in the market, a new invention or market research. However, many people set up a business by copying or adapting what another business does. Business ideas are discussed below.
- Entrepreneurs are responsible for organising other factors of production. They buy or hire resources, such as materials, labour and equipment. These resources are used to make or deliver products. Organising involves giving instructions, making arrangements and setting up systems.
- Since entrepreneurs are the owners they have to make all the key decisions. They may make decisions on how to raise finance, product design, choice of production method, prices, recruitment and wages.
- Entrepreneurs are risk takers. This is because they risk losing any money they put into the business if it fails. However, if the business is successful they will be rewarded with profit. The risks faced by entrepreneurs are discussed below.

Risks and rewards for entrepreneurs: In 2015, the UK saw 581,000 new businesses, with over 600,000 expected to grow to over 600,000 in 2016. Entrepreneurs like Richard Branson, Stelios Haji-loannou, and Martha Stewart have become wealthy through their businesses. However, starting a new business can be risky, with the downside being business failure, which may leave debts and make it difficult to return to a normal job. Success and failure have an opportunity cost.

Entrepreneurs and business ideas: Each year, hundreds of thousands of people set themselves up in business. Instead of working for someone else, they become the owner. Or they move from owning one business to owning another business. I

Business experience: For most people starting a small business, the business idea comes from their existing job. A plumber might work for a plumbing company and decide to set up on her own. A marketing consultant working for an advertising agency sets up his own marketing agency.

Personal experience: Some people draw on their personal experience outside of work to find a business idea. Some turn a hobby into a job. An amateur cyclist might buy a cycle shop. A keen gardener might set up a gardening services business. Some use their customer experience to spot a gap in the market.

Skills: Some entrepreneurs draw on their broad skills base to start a business. A person with an administration job might judge that they have good 'people skills' and decide to set up a business in selling. A plumber might judge that in his area electricians can charge more for their work.

Lifestyle choices: Some business areas attract people who want to make a lifestyle change. They might want to move to the country and invest in a small holding. They might always have wanted to run a caravan site so they buy a caravan site. Or they might be retiring from a full-time job but still want to carry on working on their own.

Stages in setting up a business: The way an entrepreneur goes about setting up a business is important. It needs to be carried out in a structured way and carefully planned. The future success of a business might depend on the quality of work undertaken during the setting-up process. One approach to setting up a business is summarised in Figure 1.

- **Idea.** A business cannot start without an entrepreneur having a business idea. The sources of ideas are discussed above.

- **Research.** The viability of a business idea has to be researched. This might involve carrying out market research and analysing the competition to decide whether the idea is likely to work. Other research might involve meeting people, such as bankers and business people, to get advice on setting up and running a business. It may also be possible to attend a course designed for new entrepreneurs.

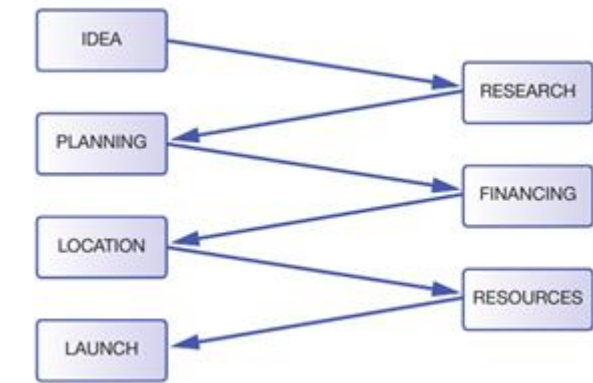
- **Planning.** Planning is a very important stage in setting up a business. Business planning is discussed in Chapter 23.

Financing. Entrepreneurs will provide some of the money needed to set up a business. Finance may also be needed when the business is 'up and running'. Entrepreneurs have to decide how much finance they will need and which sources they will use to obtain this. Sources of finance are discussed in Chapter 24 and 25.

- **Location.** The location an entrepreneur chooses will depend on the nature of the business. Some people, such as tradespeople or tutors, offer services to the local area. Others work from home and yet offer services nationally, such as website designers.

- **Resources.** The business plan will contain a list of the resources needed to set up and run the business. For example, a dentist will need suitable premises, furniture, specialist dental equipment, a computer, uniforms, protective gear, and so on. Adverts might have to be placed to attract workers. Entrepreneurs will also have to find suppliers of materials, utilities and other day-to-day resources.

- **Launch.** This is an exciting time for an entrepreneur. It is when the business first starts trading. Some entrepreneurs organise an opening event. For example, a new restaurant might have a special opening night where guests are invited for a free meal. Special launches like this are designed to create good public relations (PR) with customers, so that people become aware of the new enterprise. Some entrepreneurs 'ease' themselves into their new business life by keeping their jobs for a while until the business gets established.



▲ Figure 1 Stages in setting up a business

RUNNING AND EXPANDING/DEVELOPING A BUSINESS

After the launch, entrepreneurs become engaged in the day-to-day running of the business. For many this involves working in production or delivering a particular service. As the business expands and develops, more and more time will be spent attending to these 'functional' business activities.

- **Financial management.** The business needs enough money to fund its operations. This might require producing cash flow forecasts, arranging loans and overdrafts, making payments, chasing debts and monitoring cash movements into and out of the business.

- **Administration.** This usually involves accurate record keeping.

- **Marketing.** Initially, depending on the nature of the business, marketing might involve obtaining an online business listing, developing an attractive website, using an email campaign, distributing leaflets, placing advertisements in a newspaper, organising promotions or giving special offers. It will also involve developing relationships with customers.

- **Purchasing.** Businesses will have to buy resources all the time. They may also have to buy in commercial services, such as cleaning, printing and accountancy. Entrepreneurs need to get the best quality resources at the lowest possible price. Many business owners will develop relationships with their suppliers.

- **Managing people.** Some entrepreneurs run their businesses independently without the help of others. However, if a business is successful it will probably need staff to help out. This will involve spending time on recruitment, selection and training. Entrepreneurs may need to develop skills in managing people and motivating staff.
- **Production.** In manufacturing and construction, the production process is an important business function.

INTRAPRENEURSHIP

Entrepreneurs are business owners and risk their own personal finances when developing a business idea.

Intrapreneurs are employees, usually in large businesses, who use entrepreneurial skills to find and develop initiatives that will have financial benefits for their companies. These might be new products, services or systems. However, unlike entrepreneurs, intrapreneurs carry no financial risk. If their initiatives fail, the employer shoulders the financial burden.

Intrapreneurs are usually employed in product development. The advantages of employing intrapreneurial staff include the following.

- Intrapreneurs can drive innovation in a business and uncover new commercial opportunities. This can help a business gain a competitive edge and increase profits significantly. In some cases, the discoveries and inventions made by intrapreneurs can have a huge positive impact on a business.
- It is a means of satisfying the self-actualisation needs of employees. Self-actualisation is the highest level of need, according to Maslow's hierarchy of needs. If staff adopt this role they are being given the opportunity to be creative and reach their full potential. This will help to motivate staff and hopefully raise their productivity.
- A number of awards can be won by businesses if they develop unique or ground-breaking products.
- Individuals benefit by getting the opportunity to experiment and be creative without having to meet the cost of failure. This should improve their job satisfaction and help them develop entrepreneurial skills which they might use in the future - perhaps by setting up their own business.

BARRIERS TO ENTREPRENEURSHIP

Many would argue that it is important for an economy to encourage entrepreneurship. This is because businesses are the main source of income, employment and wealth for a country. However, despite this, a number of barriers exist that discourage many people who aspire to be entrepreneurs from getting started.

Lack of finance: Some people with a good business idea do not start trading because they cannot attract the necessary finance. The main problem is that the providers of capital and loans may be reluctant to lend money to entrepreneurs. This is because the failure rate can be high for new businesses and financial institutions cannot afford to lose money.

Lack of entrepreneurial capacity: To be successful in business people have to be equipped with the necessary entrepreneurial skills and characteristics. Running a business requires a wide variety of talents and skills, and needs considerable energy and commitment.

Becoming an employer: Employing a person for the first time is quite a big step in the development of a business. Employers have responsibilities to their employees.

Legal barriers (red tape): Bureaucratic 'red tape' can discourage potential entrepreneurs. Legislation and other regulations can be demanding - complying with legislation relating to employment, the environment, consumers, corporate governance, health and safety, taxation, property rights and competition costs money and diverts an entrepreneur's focus away from what is important to them.

Lack of ideas: Some people would like to run their own business, but do not have any original ideas. A lot of markets are saturated or so competitive that the potential for profit is limited. It is possible to take out a franchise or copy the ideas of others. However, for many people this does not reflect the 'spirit' of enterprise.

Fear of failure: The failure rate for business start-ups can be high. Many new entrepreneurs may not realise that statistically their chances of success may be quite low. However, many do recognise that failure is a possibility and a fear of failure stops them from starting an enterprise. In many cultures failure has very negative associations and is best avoided if possible.

Aversion to risk: Entrepreneurs have to take risk. But many people are risk averse and are not inclined to undertake activities where the outcome is uncertain. This is a psychological barrier to enterprise and one that is difficult to overcome. It is hard to encourage a person to become an entrepreneur if risk taking is not a feature of their personality.

Corrupt and unsupportive environment: Some countries may have an unsupportive business environment. This might be because they are politically unstable, have contract and property laws that may be unclear, enforce regulations inconsistently or may be impacted by corruption and bribery. In these countries, some regulators and inspectors might act as predators. This means that entrepreneurs might have to develop

ANTICIPATING RISK AND UNCERTAINTY IN THE BUSINESS ENVIRONMENT

In Chapter 1 it was explained that businesses have to deal with both risk and uncertainty. The key difference between the two is that entrepreneurs have some control over risk. They make a conscious decision to take a risk and to a certain extent they can choose the levels of risk they take.

Anticipating risk: Entrepreneurs understand the nature of risk right from the point when they first set up a business. For example, a significant number of entrepreneurs have probably sacrificed secure employment with a regular income to start their businesses.

Entrepreneurs can take measures to reduce the amount of risk they take. market may be a complete failure overseas. Such a failed venture could be very expensive.

Anticipating uncertainty: Dealing with uncertainty is more of a problem for entrepreneurs as they have no control over the nature or timing of some events.

SUBJECT VOCABULARY

entrepreneurs individuals who, typically, set up and run a business and take the risks associated with this.
intrapreneurs employees who use entrepreneurial skills, without having to risk their own money, to find and develop initiatives that will have financial benefits for their employer.

Chapter 20 – Entrepreneurial motives and characteristics

CHARACTERISTICS OF ENTREPRENEURS

Starting your own business is very common. Hundreds of thousands of small businesses are started each year. People give up their jobs to work for themselves or they start a new business alongside a normal full-time job.

UK that encourages business start-ups, identified seven characteristics of successful entrepreneurs.

- **Self-confidence.** Successful entrepreneurs are people who believe that they are going to succeed. They think they have a winning formula for their business. They can persuade other people, for example, to buy the product or help finance the business.
- **Self-determination.** Successful entrepreneurs are ones who think they can take control of events going on around them. They can influence those events and turn them into something that will benefit their business.

- **Being a self-starter.** Many people work best when being told what to do. But to be a successful entrepreneur, you have to be a self-starter. Entrepreneurs can work independently and can take decisions. They have their own ideas about how things should be done, and they are able to develop those ideas.
- **Judgement.** The business environment is changing all the time. A successful entrepreneur is someone who gathers information and listens to advice. At the same time, they can see where the business might go in the future and what they want out of the business. This helps them to make judgements and decisions.
- **Commitment.** Many people think when starting up a business that it is going to be easier than working for someone else. All the evidence shows that entrepreneurs work longer hours than those with a normal job. Running your own business can sometimes be more stressful because of the risks that are always present. So successful entrepreneurs are ones who are committed to what they do.
- **Perseverance.** All businesses have successes and failures. There is always an element of risk that their business could perform poorly or even fail. Therefore, successful entrepreneurs must show perseverance. They must be able to get through the bad times and the setbacks.
- **Initiative.** Successful entrepreneurs can take the initiative in situations. They do not allow events to overwhelm them by doing nothing. They can change and be proactive.

SKILLS REQUIRED BY ENTREPRENEURS

Not only do entrepreneurs need to possess a number of important characteristics to be successful, they also need to use a wide range of different skills. To begin with it helps if entrepreneurs are capable to some extent in their chosen line of business.

However, it is possible to set up a business in unfamiliar fields. There are also examples of entrepreneurs entering quite diversified lines of business without any relevant experience.. It is possible to do this by employing experts in the chosen field right from the start. Other important entrepreneurial skills include the following.

Organising: Entrepreneurs play an important organisational role. They have to project manage the setting up and running of their business ventures. This involves organising and co-ordinating a wide range of resources in order to get the business up and running. In this organisational role, entrepreneurs will be planning, scheduling, giving instructions, prioritising, setting up systems, monitoring, time managing and meeting deadlines.

Financial management: This is a very important skill and if it is neglected can lead to the failure of the business. The main aim of financial management is to make sure that the business has enough money whenever it is needed. This might involve budgeting, cash flow forecasting, chasing debts, keeping up-to-date financial records, arranging loans and overdrafts, and analysing financial information (in business accounts, for example).

Communication: Entrepreneurs will need to interact with a wide range of different stakeholders. These might include customers, employees, suppliers, the local community and the authorities. Entrepreneurs will need to develop effective face-to-face communication skills to deal directly with people. Charm, courtesy, confidence, professionalism and a convincing manner are all useful entrepreneurial qualities.

Managing people: As a business grows there will be a need to take on more staff. It is often said that managing people is one of the most difficult tasks when running a business. Individuals are all different and may require different approaches to motivation. Entrepreneurs need to recruit the 'right people' in the first place and then show clear leadership and direction. People should be easier to manage if their needs are met, and if they are treated with respect and valued.

Decision making: Running a business will require a lot of decision making. The level of decisions however will differ. Most decisions are about low-level, day-to-day issues such as what materials or stock to order, which tools

to use and where to advertise for a new employee. In contrast, a small number of decisions are strategic. These are important and can have long-term effects on the business.

Negotiating: Inevitably entrepreneurs will spend some of their time negotiating. This often means agreeing the terms of a contract, such as agreeing a price for undertaking some work or completing an order for a customer. However, negotiation might also be needed when dealing with suppliers and employees.

IT skills: Entrepreneurs will be able to run their business more efficiently if they have good IT skills. For example, they might need to:

- set up filing systems to store and manage business documents and other information
- communicate with stakeholders using email or conference calling
- use spreadsheets to prepare budgets and cash flow forecasts
- design documents, such as invoices, order forms, job descriptions, expense claim forms, flyers and newsletters
- set up a business website and provide a system for online purchases
- use social media to help raise the profile of the business and direct potential customers to the business website
- use computer software to give presentations
- use specialist software, for designing products, for example.

REASONS WHY PEOPLE SET UP BUSINESSES

People set up businesses for a wide range of reasons. These motives, and others, fall into one of two different categories: financial and non-financial.

Financial motives: Many people set up a business because they want to make money. They often think that they could earn far more if they worked for themselves. Profit is the driving force behind many entrepreneurs and most businesses would not exist if it was not for the desire to make a profit.

Two approaches to making profit can be identified.

- **Profit maximisation.** Some entrepreneurs try to make as much profit as possible in a given time period. This is called **profit maximisation**. These entrepreneurs are motivated by money and their key focus is the financial return on their efforts. It might be argued that entrepreneurs who try to maximise profits are likely to take bigger risks. This is because there is usually a direct relationship between risk and reward.
- **Profit satisficing.** Some entrepreneurs might take a different approach to profit. For example, they may aim to make just enough profit to maintain their interest in the business. This is called profit satisficing. One reason why some entrepreneurs do not seek to maximise profits is because they do not want to take on the extra responsibility of expanding their business - which is often required to make more profit.
- **Non-financial motives:** For some people, other motives for setting up a business might be as important or more important than making money. They will obviously need to make enough profit in order for the business to continue in operation, but the main driving force is non-financial. A number of non-financial motives exist.
- **Ethical stance.** A minority of people set up a business in support of a moral belief they possess. By encouraging more people to use the restaurant, particularly if non-vegetarians can be attracted, fewer animals would be killed. Another example might be setting up a business to generate 'clean' electricity.

- **Social enterprise.** These are organisations that trade with the aim of improving human and environmental well-being. They are sometimes referred to as not-for-profit organisations. Generally, social enterprises have a clear social and/or environmental mission and generate most of their income through trade or donations. Fairtrade is an example of a social enterprise. It markets products produced by small-scale farmers and workers who are excluded from trade in a variety of ways.
- **Independence.** A lot of people want to be 'their own boss'. This is an important non-financial motive for setting up a business. These entrepreneurs are driven by the desire to be independent. The freedom to make all the decisions when running a business is very appealing. Some people dislike being told what to do at work. Being able to make your own decisions is often regarded as the main
- **Home working.** Quite a number of entrepreneurs set up their businesses from home. They may be tradespeople such as plumbers, painters or electricians that use their home as a base for their business. Or, increasingly, they may work from a room or an office at home.

SUBJECT VOCABULARY

profit maximisation an attempt to make as much profit as possible in a given time period.

profit satisfying making enough profit just to satisfy the needs of the business owner(s).

Chapter 21 – Business objectives

BUSINESS OBJECTIVES

The aims of a business are what the business wants to achieve in the long term. Aims tend to be general and examples might be to be the 'best' in the market or the 'market leader'. The objectives of a business are the goals or targets that need to be met in order to achieve an aim. Businesses are more likely to be successful if they set clear objectives. Businesses need to have objectives for the following reasons.

- Employees need something to work towards. Objectives help to motivate people. For example, sales staff might get bonuses if they reach certain sales targets.
- Without objectives owners might not have the motivation needed to keep the business going. Owners might lose control and allow their business to become passive and aimless. This could result in business failure.
- Objectives help owners decide where to take a business and what steps are necessary to get there. For example, if a business aims to grow by 10 per cent, it might decide that launching products overseas would be the best way to achieve this. It is easier to assess the performance of a business if the objectives set are SMART. This means that they should be:
 - **Specific** - stating clearly what is trying to be achieved
 - **Measurable** - can be measured quantitatively
 - **Agreed** - have the approval of everyone involved
 - **Realistic** - able to be achieved given the resources available
 - **Time specific** - have a stated time by which they should be achieved.

SURVIVAL

All businesses will consider survival to be important. However, from time to time survival can become the most important objective. Therefore, a target for a new business may be simply to survive in the first 12 months. A business might also struggle to survive if new competitors enter the market. If the new entrants have better or cheaper products, or more financial resources, entrepreneurs may need to focus on survival in the changed business environment at the expense of other objectives.

PROFIT MAXIMISATION

Without profit most businesses would not exist. However, some businesses focus on profit more aggressively, usually because the owners want to make as much profit as they possibly can. This is called profit maximisation. This might be more likely if businesses are owned by institutional shareholders, such as pension funds and investment funds. These owners need to maximise the returns on their investments to meet the needs of their clients. Many entrepreneurs are unlikely to pursue profit maximisation, they are more likely to pursue profit satisficing.

OTHER OBJECTIVES

Although survival and profit maximisation are two important business objectives, there are others.

Sales maximisation: Some entrepreneurs might try to increase sales as an objective. This is called sales maximisation. It involves a business selling as much as it possibly can in a particular period of time. Sales levels are an important measure of performance and generally growing sales is a healthy sign for a business. Most businesses can raise profits by selling more output.

Market share: Most businesses would prefer a large market share to a small one. Consequently, trying to increase market share is a common business objective. If a business can get a larger market share this should help to increase revenue and raise the profile of the business in the market. If a business can build a bigger market share than its rivals, it may be able to dominate the market.

Cost efficiency: From time to time businesses may consider how to reduce their costs. It is an objective that might be pursued when trading conditions become difficult due to more competition or an economic downturn. However, some businesses look to cut costs all of the time. If costs are lower, profit margins will be higher. Businesses with lower costs might also gain a competitive edge in the market.

A business can use a variety of methods to cut costs. It might:

- lay off staff to cut labour costs
- find new suppliers to get cheaper resources increase the usage of recycled materials
- develop new working practices that use fewer resources
- develop ways of saving energy.

Employee welfare: In recent years a number of businesses have realised the benefits of meeting the needs of employees more effectively. If employee welfare is improved workers will be happier, better motivated, more productive, more co-operative, more flexible and less likely to leave. Therefore another objective might be to improve employee welfare. A number of measures can be taken to achieve this, including:

- improving the working environment by making it cleaner, less noisy and less crowded
- ensuring that staff are given proper breaks and somewhere comfortable to interact with colleagues during those breaks

- ensuring that staff are equipped with the necessary tools and equipment, providing ergonomically
- designed chairs for call centre workers, for example
- maintaining high standards of courtesy between all staff members
- encouraging regular exercise by organising fitness sessions or providing a staff gym, for example.

Customer satisfaction: Most businesses will try to meet the needs of customers. The benefits are clear. If customers are satisfied they are more likely to return. Loyal customers are valuable to a business. In order to win their loyalty, some businesses aim to exceed customer expectations. How might they do this?

- Ensure that all customer-facing staff are trained to a very high level in communication. Their conduct must be polite, professional and friendly 100 per cent of the time.
- Provide a platform for customer feedback - an online review system, for example.
- Interact with customers using social media - encourage a two-way flow of information.
- Deal with customer complaints promptly and effectively - to the evident satisfaction of the customer.
- Monitor customer service regularly - using mystery shoppers, for example.

Social objectives: A business that sets social objectives is one that shows concern for the local area. A business should aim to promote prosperity and develop a strong relationship with the local community so it can co-exist. This might involve:

- keeping noise levels down
- maintaining sensible opening hours
- demonstrating responsibility to the environment by minimising pollution
- providing employment for local people
- maintaining open channels of communication between the business and the local community so that issues can be raised and discussed
- making contributions to community life, such as visiting local schools, sponsoring local events or making donations to local charities.

It is not in the interests of a business to upset the local community. This is because collectively, the local population may be a powerful force should they submit any form of objection. A business has a duty to be considerate and respectful when operating in a residential area, for example.

SUBJECT VOCABULARY

aims what a business tries to achieve in the long term.

objectives the goals or targets set by a business to help achieve its long-term purpose.

sales maximisation an attempt to sell as much as possible in a given time period (or an attempt to generate as much sales revenue as possible in a given time period).

Chapter 22 – Business choices

OPPORTUNITY COST

Entrepreneurs and other business decision makers are frequently faced with choices. There are often a number of alternative ways of using resources. As a result businesses have to make a choice about which way to use them. Such choices are common in life and are faced by individuals, businesses and the government.

- Individuals have to choose how to spend their limited budgets. For example, a university student, after all living costs have been met, may have €50 left at the end of the week. This student would like to buy some new books (€20), get the train home for the weekend (€30), go out for a meal with friends (€30) or buy a new pair of designer jeans (€50). Clearly, a choice has to be made because all of these goods together would cost €130.
- Businesses may have to choose between spending €100,000 on an advertising campaign, retraining its workforce, redecorating the reception area or buying new vehicles for sales staff.
- A government may have to decide whether to spend €5000 million on increasing disability benefits, building new hospitals, providing better care for the mentally ill or building a new motorway.

Assume that a business placed its spending desires in the order of preference below.

1. Advertising campaign.
2. Retrain workforce.
3. Redecorate reception area.
4. Buy new vehicles for sales staff.

In this example, the advertising campaign is the preferred choice. Therefore the €100,000 will be allocated to this project. The other three options are sacrificed or given up. The benefit lost from the next best alternative is called the **opportunity cost** of the choice.

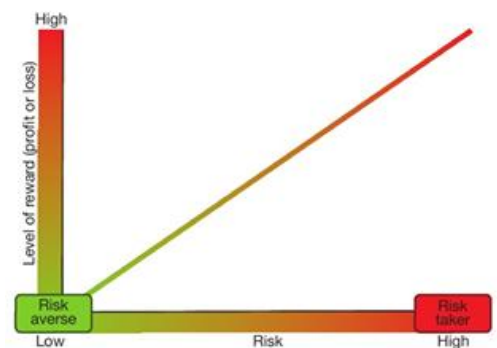
NON-MONETARY OPPORTUNITY COST

Opportunity costs can quite often be measured in monetary terms. In the above example, the opportunity cost of investing in the advertising campaign is the benefit sacrificed in order to retrain the workforce. The business might be able to calculate the value of the extra output generated by the workers after retraining. However, there may also be some non-monetary or intangible benefits of staff retraining.

BUSINESS CHOICES AND TRADE-OFFS

Businesses have to make countless decisions, and decision makers are frequently faced with **trade-offs**. This means that opting for one choice involves compromising another.

One very important trade-off is that between risk and reward, as shown in Figure 1. It is often necessary to take bigger risks in order to receive higher rewards. However, with high risk there is the danger of large losses.



▲ Figure 1 The relationship between risk and reward

Initially, one important decision for an entrepreneur is whether to set up a business in the first place. The benefits of running your own business may include:

- independence, as owners are in complete control and are free to make all decisions
- flexibility, as owners can choose a life balance between work and leisure that suits them
- the chance to make more money than might be earned in employment
- job satisfaction and a sense of achievement in building something from nothing
- the chance of becoming rich - some entrepreneurs become millionaires!

Employment may also offer health insurance, employee pensions, holiday pay and sick leave. Running a business is also very challenging, for the following reasons.

- Owners of small businesses are responsible for all day-to-day operations. Unless they have a reliable and trustworthy assistant, they have to be available whenever the business is open.
- The demands of running a business may result in a lack of free time. Also, if working from home the boundaries between work time and personal time may become blurred. Owners may spend too much time in 'work mode'.
- Business owners need a variety of skills to be successful. Advertising, marketing, interviewing, hiring, management, stock control and accounting are all part of an entrepreneur's responsibilities. This will be a lot more demanding than working in a specialised area as an employee.
- If owners operate as sole traders, they have unlimited liability. This means that personal assets are not protected if the business starts to run up debts.

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|---|
| 1. Firms often have to consider the trade-off between holding liquid assets and investing more in productive assets, such as machinery. By reducing the amount of liquid assets held, there is a risk of cash flow problems. However, investing more in productive assets may increase profitability. |
| 2. Directors of public limited companies have to find the right balance when distributing corporate profits. They can reinvest profits and hopefully increase future profitability. However, shareholders may prefer higher current dividend payments and less reinvestment. |
| 3. Firms might choose to take a more ethical approach to their operations. However, this is likely to come at a cost, as investment in cleaner technology might be required, for example. |
| 4. A common trade-off is that between higher profit margins or higher turnover. Some businesses can often sell more and raise turnover, but this may come at the expense of lower prices and reduced profit margins. |

▲ Table 1 Examples of common business trade-offs

WEIGHING UP TRADE-OFFS

When businesses are faced with trade-offs similar to the ones shown in Table 1, the following actions might help to find the right balance.

- Obtain information. One approach would be to list the advantages and disadvantages of each choice and try to determine which carries the heaviest weight.
- Balance short term with long term. Try to determine what might be given up in the long run for some important short-term gain - and vice versa.
- Measure support. When weighing up alternatives, it might be appropriate for the decision maker to think about which key staff will support a particular idea and who will oppose it. The views of others can be a powerful influence.

SUBJECT VOCABULARY

choices in business, deciding between alternative uses of resources.
opportunity cost when choosing between different alternatives, the opportunity cost is the benefit lost from the next best alternative to the one that has been chosen.
trade-offs in business, where a decision maker faces a compromise between two different alternatives; for example, between paying dividends to shareholders and reinvesting profits in the business.

REVISION QUESTIONS

1. 2023 MAY/JUNE QUESTION NUMBER 01 (D) P1 (MARKS 8)

As the business grew, Li had to move from being an entrepreneur to become the leader of Li-Ning.

(d) Discuss the possible difficulties Li may have met as a result of this move.

Source for use with Section A

Extract A

About *Li-Ning*

Li-Ning is a Chinese sportswear and sports equipment business. It was started by entrepreneur Li Ning, who was a successful Chinese gymnast. He won 106 gold medals in his long gymnastic career. He lit the Olympic torch at the 2008 Summer Games in Beijing.

Li started his business to provide Chinese athletes with sportswear for the Olympic games. The business developed to provide luxury sportswear to exclusive Chinese retailers. 5

Under the leadership of Li, the business has grown rapidly and has begun to take market share in China from leading sportswear businesses such as *Adidas* and *Nike*. It advertises globally and sponsors several athletes and teams worldwide. 10

Whilst the sportswear designs of *Li-Ning* aim to attract international customers, the business still focuses on retaining Chinese culture, heritage and traditions in its designs and marketing. It uses social media to gather feedback on its products.

Product differentiation is key to the success of the business. *Li-Ning* employs a large team to develop new sports products using the latest technology. Through research and development, the business offers innovative and high-performance sports shoes, clothing and sports-equipment. 15

Li-Ning designs and manufactures high quality, premium priced products for a range of sports, including:

- Basketball 20
- Badminton
- Table tennis
- Gymnastics
- Running
- Cycling 25
- Pickleball

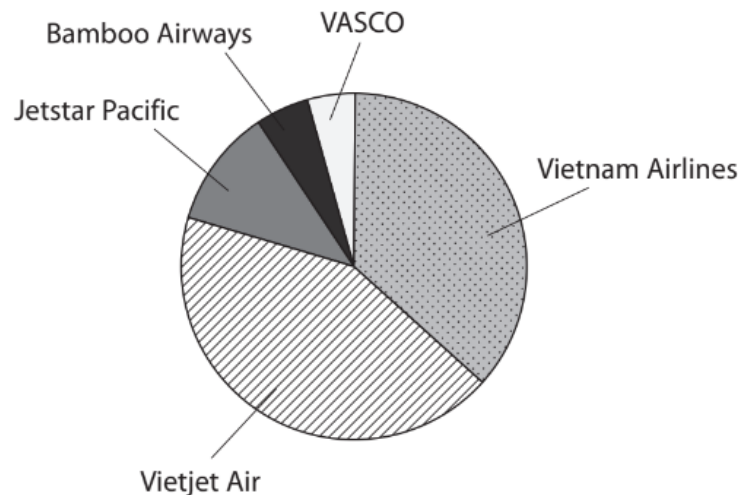
2. 2022 MAY/JUNE QUESTION NUMBER 01 (C) P1 (MARKS 8)

(c) Analyse two entrepreneurial motives Nguyen Thi Phuong Thao may have had when starting Vietjet Air.

Extract A**The growth of the airline market in Vietnam**

Vietnam is one of the world's fastest-growing economies and its airline market is expanding due to rising consumer incomes in Vietnam and increased tourism. New airline businesses such as *Bamboo Airways* are now competing for the growing number of passengers.

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Extract B**Market share of domestic flights in Vietnam****Extract C****The founder of Vietjet Air**

Nguyen Thi Phuong Thao made history by becoming the only woman to have formed a major airline business. The success of *Vietjet Air* has made her the first self-made female billionaire and she is known as a workaholic.

The main reason for the success of *Vietjet Air* is keeping costs low by seating more passengers on its planes. Its planes have 240 seats compared to competitors that have 180 seats on similar planes. On average, *Vietjet Air's* flights are 88% full.

However, Nguyen faces many challenges such as a competitive airline market, congested airports, and a shortage of pilots and engineers.

Extract D**Working for Vietjet Air**

Vietjet Air offers its employees extensive training, free flights and competitive salaries to help attract employees from around the world.

Vietjet Air has a performance related pay scheme with bonuses available every six months. These bonuses are dependent on the personal performance of employees.

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During 2019, *Vietjet Air* recruited 1,696 employees including 284 pilots.

3. 2020 MAY/JUNE QUESTION NUMBER 01 (C) P1 (MARKS 6)

(c) Analyse two entrepreneurial characteristics that Rossi Mitova has that may have contributed to her success.

Extract B**About Rossi Mitova**

Rossi has always been inspired by challenging what she saw and taking action. When she was asked to help save the small farm in Bulgaria that was struggling to survive, it gave Rossi a perfect opportunity to combine her biggest passions, which were nature, food and business. Rossi worked hard to create the *Farmhopping* website and convince farmers to use her online service.

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In an interview Rossi said "The most challenging parts of starting the business were learning to deal with the uncertainty and to be a good leader. I have worked hard at selecting the right team and motivating them while ensuring we are true to the social objectives of *Farmhopping*. I have made many mistakes on the way but learn from my mistakes. I always listen to the feedback from others and work hard on continually improving the business. The one thing I am most proud of is that I never give up despite the many setbacks and challenges I have faced in business".

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