Pearson BTEC Level 4 Higher Nationals in Business (RQF)

Unit: 1

Assignment 1:
Information Pack

Learning Outcomes 1 to 4

The Business Environment

INTRODUCTION

The aim of this unit is to provide students with background knowledge and understanding of business, the functions of an organisation and the wider business environments in which organisations operate. Students will examine the different types of organisations (including for profit and not for profit), their size and scope (for instance, micro, SME, transnational and global) and how they operate.

Students will explore the relationships that organisations have with their various stakeholders and how the wider external environments influence and shape business decision-making.

The knowledge, understanding and skill sets gained in this unit will help students to choose their own preferred areas of specialism in future studies and in their professional career.

This information pack is designed to give you the information and guidance that you will need to complete your assignments for this unit. In particular this information pack will look at the first 2 learning outcomes which make up assignment 1, these being;

1. *Explain the different types, size and scope of organisations.*
2. *Demonstrate the interrelationship of various functions within an organisation and how they link to organisational structure.*

3.

GUIDANCE

This document is prepared to break the unit material down into bite size chunks. You will see the learning outcomes above treated in their own sections. Therein you will encounter the following structures;

Purpose

Explains *why* you need to study the current section of material. Quite often learners are put off by material which does not initially seem to be relevant to a topic or profession. Once you understand the importance of new learning or theory you will embrace the concepts more readily.

Theory

Conveys new material to you in a straightforward fashion. To support the treatments in this section you are strongly advised to follow the given hyperlinks, which may be useful documents or applications on the web.

Example

The examples/worked examples are presented in a knowledge-building order. Make sure you follow them all through. If you are feeling confident then you might like to treat an example as a question, in which case cover it up and have a go yourself. Many of the examples given resemble assignment questions which will come your way, so follow them through diligently.

Question

Questions should not be avoided if you are determined to learn. Please do take the time to tackle each of the given questions, in the order in which they are presented. The order is important, as further knowledge and confidence is built upon previous knowledge and confidence. As an Online Learner it is important that the answers to questions are immediately available to you. Contact your Unit Tutor if you need help.

Challenge

You can really cement your new knowledge by undertaking the challenges. A challenge could be to download software and perform an exercise. An alternative challenge might involve a practical activity or other form of research.

Video

Videos on the web can be very useful supplements to your distance learning efforts. Wherever an online video(s) will help you then it will be hyperlinked at the appropriate point.

Contents

LO1

Explain the different type, size and scope of organisations

Different types of organisation

An organisation could be described a social unit of people that are structured and managed to meet a need or to pursue collective goals. In business terms this collective goal is usually to provide some form of goods or services to a consumer and there are many types of organisation to consider.

All organisations can be organised in to two categories or **Purposes** as you can see below;

Profit Organisation

Any business entity, whose primary aim is to generate profit from the regular operations, with a view to maximising the wealth of owners, is called as a profit organisation. The profit earned by such entities is either retained in business, for future contingencies, in the form of reserves or distributed to the owners as the dividend.

Non-Profit Organisations

A non-profit organisation, as the name suggest is a legal organisation whose primary purpose is to promote public good rather than making profit. These are founded by a group of people who come together for a common purpose, i.e. to provide service to members and people. The managing committee looks after its management which consists of a group of individuals, chosen by the members from among themselves. They are aimed at endorsing a social cause or supporting a particular outlook.

Comparison

BASIS FOR COMPARISON	PROFIT ORGANIZATION	NON-PROFIT ORGANIZATION
Meaning	A legal entity, which operates for earning profit for the owner, is known as For-profit or Profit organization.	A non-profit organization is a legal entity, which operates for serving the society as a whole.
Motive	Profit motive	Service Motive
Form of organization	Sole proprietorship, Partnership firm or company	Club, Trust, Public hospitals, society, etc.
Management	Sole proprietor, partners or directors, as the case may be.	Trustees, committees or governing bodies.
Source of revenue	Sale of goods and services.	Donation, subscription, membership fee etc.
Commenced through	Capital contributed by the owners.	Funds from donation, subscription, government grant and so on.
Financial Statement	Income statement, Balance Sheet and Cash flow statement	Receipt & Payment A/c, Income & Expenditure A/c and Balance Sheet.
Money earned over and above	Profit, is transferred to capital account.	Surplus is transferred to capital fund.

Figure 1 Comparison of Profit vs Non-Profit

Key Differences Between Profit Organization and Non-Profit Organization

1. A profit organisation is defined as a legal organisation, which is operated with the sole aim of earning profit from the business activities. On the flip side, a non-profit organisation is one that is operated with the primary objective of benefiting the society as a whole.
2. A profit organisation, as its name suggests, works for profit maximisation of the concern. As against this, a non-profit organisation works for providing service, for the well-being of the society.
3. A profit organisation can be a sole proprietorship, partnership or a body corporate, i.e. company whereas a non-profit organisation is an association of person, which can be a club, trust, public hospitals, cooperative society, etc.
4. The management of a profit organisation is overlooked by a sole proprietor in the case of sole proprietorship, partners in case of partnership and directors in case of company. On the contrary, there

is the board of directors, trustees, committees or governing bodies who look after the management of a non-profit organisation.

5. The major source of income, for a profit organisation, is from the sale of goods and services. Conversely, the non-profit organisation, derive a considerable part of their income from donation, subscription, membership fee, charity and so on.
6. When it comes to the commencement of the entity, a huge amount in the form of capital is brought in by the owners to run the business. Unlike, the non-profit organisation, raise funds for commencement, in the form of contribution through donation, grant, legacies, subscription, etc.
7. The financial statement of a profit organisation includes the income statement, balance sheet and cash flow statement. In contrast, the non-profit organisation prepares receipt & payment a/c, income & expenditure a/c and balance sheet prepared at the end of accounting year to know their financial position.
8. Money earned over and above by the profit organisation, i.e. profit, is transferred to the capital account. On the other hand, the excess of income over expenses results in the surplus which is transferred to the capital fund.

We can further organise business organisations in to 3 sectors;

Public Sector

A portion of the economy composed of all levels of government and government-controlled enterprises. It does not include private companies, voluntary organizations, and households.

The general definition of the public sector includes government ownership or control rather than mere function and thereby includes, for example, the exercise of public authority or the implementation of public policy. When pictured as concentric circles, the core public service in central and subnational government agencies defines the inner circle of the public sector. In this case, the distinction of the public sector from the private sector is relatively straightforward—it is evident in terms of employment relationships and the right of exercising public power. The next circle includes a number of different quasi-governmental agencies that are, however, placed outside the direct line of accountability within government. Examples range from social security funds to regional development agencies. The outer circle is populated by state-owned enterprises, usually defined by the government's ownership or it is owning the majority of shares. From the 1980s, a number of developed countries witnessed extensive privatizations of state-owned enterprises, whether in parts or in full (examples range from airlines to the telecom sector), although public ownership continues to be a widespread feature—for example, in the field of local public transport.

The term *public sector* is also used for analytical purposes, in particular, as a contrast to the private sector and third, or voluntary, sector. That allows for the mapping of the scope of state activities within the wider economy (also allowing for comparison across space and time). Furthermore, it highlights distinctive patterns and operating procedures within the public sector.

So, to break this down in terms of **legal structure.**

The public sector refers to all the businesses and organisations which are accountable to central or local government. They are funded directly by the government and they tend to supply public services rather than produce products for a profit.

The public sector provides 3 types of good / service.

- A **public good** is one which would not be provided by private sector businesses because it would not be profitable to do so (such as the emergency services and the armed services).
- A **merit good** is one which the government feel that everyone should have, whether or not they could afford them in the private sector (such as education and healthcare).
- **Essential services** (such as street lighting, refuse collection, street cleaning, parks, libraries, swimming pools, etc.).

A public corporation is the term used to describe a nationalised industry which is providing a good or a service to the general public. Until the successive Conservative governments of Thatcher and Major (1979-1997), there were many public corporations in the UK providing a huge range of services to consumers. However, the Conservatives sold many of these public corporations to the private sector - this process is known as privatisation.

Central government pays for the public goods and merit goods through taxation (e.g. Income Tax), whereas local governments pay for the services they provide through Council Tax (formerly Community Charge and, before that, through Rates).

Private Sector

The private sector consists of companies that are owned by individuals, Organizations within the private sector are usually free from government control or ownership. The main goal of companies within the private sector is usually to return a profit to its owners.

Small, privately owned business form the greater part of the private sector. Despite this fact, this sector boasts a rich diversity of individuals, partnerships, and groups — from small mom and pop stores to multi-national conglomerates.

Examples of organizations in the private sector include:

- **Sole Proprietors:** Designers, Developers, Plumbers, Repairmen
- **Partnerships:** Dentistry, Legal, Accounting, Tax
- **Small and Medium-sized Businesses:** Retail, Hospitality, Food, Leisure, Legal Services
- **Large Multinationals:** Apple, Tesla, Disney, Procter & Gamble, PepsiCo
- **Professional/Trade Associations:** Canadian Institute of Management, American Management Association
- **Trade Unions:** British Columbia Teachers' Federation, American Postal Workers Union

The above classifications of private companies are determined by the nature of the business. A company will choose its **Legal Structure** based on the companies **Purpose** and a number of other factors. Below is a breakdown of some of the legal structures within the private sector for you to get an idea about the factors that influence the choice.

Sole Trader

A **sole trader** is a one-person business, commonly found in trades where only small amounts of finance are required to set up and where there are very few advantages to the existence of larger organisations (e.g. hairdressing, newsagents, market traders).

Sole traders often employ waged employees, but they alone have to **provide all the finance** (often savings and bank loans) and **bear all the risks** of the business venture. In return, they have full control of the business and **enjoy all the profits**.

A sole trader faces **unlimited liability** for his/her debts, and it is referred to as an unincorporated business - this means that there is no legal difference between the business and the owner.

Partnership

To overcome many of the problems of a sole trader, a partnership may be formed. A partnership is an association of individuals and generally there will be between 2 and 20 partners.

Each partner is responsible for the debts of the partnership and therefore you would need to choose your partners carefully and draw up an agreement on the responsibilities and rights of each partner (known as a **Deed of Partnership** or **The Articles of Partnership**). The most common examples of a partnership are doctor's surgeries, veterinarians, accountants, solicitors and dentists.

As stated earlier, most partners in a partnership face **unlimited liability** for their debts. The only exception is in a **Limited Partnership**. This is where a partnership may wish to raise additional finance but does not wish to take on any new active partners.

To overcome this problem, the partnership may take on as many Sleeping (or Silent) Partners as they wish - these people will provide finance for the business to use but will not have any input into how the business is run. In other words, they have purely put the money into the business as an investment. These Sleeping Partners face limited liability for the debts of the partnership. A partnership, just like a sole trader, is an unincorporated business.

Franchising

Franchising has led to a rapid growth in the presence of many high-street stores in the UK over the past 10 years (e.g. McDonalds, Tie Rack, Perfect Pizza, and The Body Shop). A business franchise involves the **franchisor** (the owner of the business) selling a business format to a **franchisee** (the purchaser of the business name) in return for a fixed sum of money and a percentage royalty on sales revenue.

The **franchisee** will be based locally and is likely to be making his initial business venture. He buys the business format, which has been tried and tested in other areas, and it is therefore a far less risky venture than setting up his own business.