

Chapter 1

Understanding Business and Business Studies

In This Chapter

- ▶ Understanding why and how people study business
 - ▶ Thinking about the part that business plays socially and economically
 - ▶ Considering the risks facing businesses
 - ▶ Looking at the bigger picture: the business environment
 - ▶ Seeing what pressures businesses contend with
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Welcome to the world of business and business studies!

The world of business is truly exciting. It provides everything that you need, want, consume and use in every part of your life. But the world of business can also be a scary one – times are uncertain, and this uncertainty is causing great changes in how companies and organisations conduct their affairs, how people organise their working and domestic lives, and how essential services (such as housing, energy and transport) are provided, delivered and paid for.

So, people knowing as much as possible about business is vital – how business is organised and structured, and how it goes about delivering what it's supposed to produce.

That's where you come in! Whether you're studying business in order to get qualifications, or whether you're doing so purely out of interest, you will acquire much greater knowledge, insight, understanding – and, ultimately, expertise – in everything to do with business and how business is conducted by reading this book!

In this chapter, I start you off on your business studies path by laying down the basics of this field of study, from defining business and understanding why people study it and how, to looking at the role of businesses, risks, the business environment, beneficiaries and stakeholders and, finally, the pressures that businesses face.

Defining Business

Business students must know the answers to two key questions:

- ✓ **What is *business*?** Answer: the provision of products and services for consumption, in return for an agreed-upon price, charge or fee, or for having paid taxes and charges at some point (usually for public services – this also applies to direct debit payments for electricity, gas and water).
- ✓ **What is *a business*?** Answer: an entity – an organisation – that conducts a particular set of activities, the purpose of which is to provide something – products, services or both – that’s of value to all or part of the community.



Ultimately, think of all organisations as businesses, whether they work on purely commercial lines, or whether they’re government departments, public service providers or charities. This makes studying business much more straightforward. Besides, all public service and charitable organisations are now run very much on ‘business lines’, with the kinds of pressures on their resources that have always occurred in commercial activities.

Why Study Business?

Business provides a fundamental structure for every part of society, affecting every walk of life and part of life. Most of what you do relates to businesses of one sort or another.

Obviously, businesses provide work, but they also provide plenty of other things that people need, such as holidays, cars, clothes, food and furniture. If you need healthcare, or want an education, or even water, gas or electricity, then schools and hospitals and the utility companies – *businesses* by any other name – exist to provide these services. And, of course, you expect businesses to be business-like – professional and expert. For example, you want healthcare or education to be delivered by experts, not just by people who fancy the job.

So you have an immediate rationale for studying business – without business, you’d have a hugely different life. People depend on businesses of all kinds for every part of their daily lives. Business delivers work, income, energy, transport, communications, food and drink, leisure activities and more. Organisations run along business lines deliver healthcare, education, security and defence. So business really is at the core of everything people do and are.

You study business, then, because you need to understand the following:

- ✔ How everything about the world that you live in operates and the position business has in making sure that the world works as well as possible
- ✔ How organisations can be improved for the benefit of everyone, and how those improvements can best be made
- ✔ Whether people are getting the best possible services from public businesses like utility companies, and the best possible value from the taxes and charges that they pay to support the public businesses

You also study business because businesses directly affect your quality of life and your ability to do the things that you need and want to do. For example, think of your reaction

- ✔ To increases in car parking charges.
- ✔ When you read of waste in government circles – for example, when it overspends by \$40 billion on defence contracts, or writes off £14 billion on computer projects for the UK National Health Service (NHS).

Happy? No! It is, after all, your money that's been increased or written off, so you have a vested interest in how businesses operate.



Business studies is about:

- ✔ Looking after money
- ✔ Making progress as an individual and for everyone
- ✔ Organisations, and creating the conditions in which you can be business-like
- ✔ People – in their roles as workers, customers and clients, and as they go about their daily lives
- ✔ Products, services and service
- ✔ Resources and their usage
- ✔ The law

Knowing How to Study Business

If you want to study medicine, you go to medical school. And so the superficial answer to the question 'How to study business?' is 'Go to business school.'

Well, business school can teach you a lot, but to really find out about business, you need to take a wider view. Business is all-pervasive (much more so than medicine, which, although critical, is only one part of life and, therefore, only one part of business life). You observe business all the time, and so you have the opportunity to make up your own mind and begin to form your own opinions, whether you go to business school or not. And as with the study of medicine, studying in a school, college or university isn't enough! How you *apply* your knowledge and, therefore, build your expertise, is crucial.



Tom Peters, one of the great business gurus, said in a televised lecture on Channel 4:

'The number of business school graduates has been rising at exactly the same time that the country's real-world share of goods and services has been falling. So something is going wrong at business school. You need practical experience as well as theoretical knowledge, and the two have to go together.'

Thinking for yourself

You need to study and observe how organisations conduct themselves. In doing so, you form your own opinions that you apply in all your business dealings. So, you ask:

- ✓ Why is company X so successful, but company Y isn't?
- ✓ Why do I always use one supermarket but not the others?
- ✓ Why do I like (or hate) working here?

... and so on. In this way, you begin to develop an enquiring mind. You build knowledge and understanding of your own behaviour, attitudes, values, prejudices and preconceptions that you have about businesses overall, how they conduct themselves and what you expect from them. And you then use this knowledge, understanding and insight to form the basis of your own expertise.

Putting theory into practice

The study of business is full of theories – this book contains plenty of theories – and the test of theories is what they contribute to practice.



Heathrow Terminal 5 in practice

When Heathrow Airport's Terminal 5 opened in 2007, it was equipped with technology that could handle 250,000 passengers and one million pieces of luggage per day (in theory). Nothing could go wrong (in theory). In practice, the outcome has been different. The technology can't handle what actually happens:

- ✓ People arrive in parties and groups, and then the system faces a huge demand.
- ✓ Quiet periods occur.
- ✓ Luggage is loaded and unloaded according to what the actual demands are.
- ✓ Some planes are late, others are early and others still are diverted or re-routed.
- ✓ Some passengers have connections to and from the airport.

Under perfect conditions, everything was fine with the systems; in practice, it wasn't. And effective practice is what lies at the core of all successful business. This is the same for all businesses – everything you try to implement has to work in as many sets of practical circumstances as possible.



When it comes to theories, you need to bear in mind two key points:

- ✓ **A theory doesn't work in every single set of circumstances.** If something works well in most sets of circumstances, you've a clear guide, of course. However, always be aware that a theory may not work, or work fully, all the time.
- ✓ **If something isn't working, you should probably change the theory, not the practice.** For example, if you've bet everything on an Internet marketing campaign for your new product because you can theoretically reach half the world's population, and yet the campaign has no effect on sales, you should probably try (or at least consider) something else. After all, you don't want to reach half the world's population; you want to reach that (probably tiny) part of the world's population that will buy and consume your products.

Theory never makes life predictable or certain. People have never before had greater access to information and data, and so, theoretically, creating business and businesses with a great deal more certainty of success than in previous times should be possible. But the international, economic, political, financial and business crises of the early part of the 21st century show clearly that success isn't assured, whatever the availability of data.



When studying business – theory and practice – remember that business is:

- ✔ A huge and complex subject, consisting of many different subjects and facets, and with an awful lot of information on which to base your knowledge and understanding
- ✔ Ever-changing, as people come up with new ideas and inventions, and new ways of doing things
- ✔ Unpredictable – you can't always state that something in business is going to work perfectly in all circumstances
- ✔ Bounded by people and how they behave, and needs to recognise that their behaviour (collective and individual) changes according to whether they're being customers, staff, tradespeople, managers, car drivers, public transport passengers or clients of healthcare and other public services

Keep these four bullet points in mind when reading all the books, papers, news media, journals and website articles that come your way. And if you're studying at business school, approach the syllabus armed with this knowledge and it will help you get the most from your education.

Considering the Role of Business

To study business, you have to form your own opinion of what business and businesses are for. In the earlier section 'Why Study Business?', I indicate just how big a part of daily life businesses are. You can split their role into two key areas: economic and social.

Seeing the economic side of business

The economic role of business and businesses reflects the fact that everything that people do has a cost, price or value. However, these economic aspects sit in a wider context:

- ✔ **Costs:** The costs incurred relate to everything that any business has to pay in order to be able to operate. Costs exist to the environment in terms of energy and other resources used and consumed. *Opportunity costs* also come into play – if you choose to do one thing, you forego the opportunity to do something else (at the same time at least). Finally, a business has direct or indirect costs to do with waste and effluent management and disposal, a necessary consequence of being in business.

- ✓ **Prices and charges:** Companies and organisations place prices and charges on all goods and services, and these prices reflect the value (see the following bullet point) that they're deemed to carry. Some companies and organisations are able to charge high prices because of the value that they deliver; others charge high prices because they have captive markets. Customers have to pay for most products and services at the point of order or delivery, but some (especially those provided by public services) are free at the point of order or delivery. (These kinds of products or services are usually paid for through taxation.)
- ✓ **Value:** A reflection of the utility that particular products and services have. Note the following two extremes:
 - If something has no usefulness or value at all, there won't be a price low enough that you can sell it for.
 - Nothing is absolutely perfect, which means that, ultimately, everything has its price – a price above which people aren't willing to pay.



The following examples are worth noting in support of understanding the economic point of view:

- ✓ A huge demand for housing – bought and rented – exists in the UK at present, but not at the prices, charges and rents currently on offer.
- ✓ The success of Ryanair and easyJet proved that huge demand (and, therefore, value) exists for air travel, but not at the prices that were being charged before these companies started up.

Understanding the social perspective

The economic perspective that I explain in the previous section also indicates the social side to business. In particular, the prices paid and the value ascribed to business, products and services are matters of collective and individual (that is, social) choice. No linear or one-dimensional economic rule or theory exists that states 'Because product X or service Y is only price £Z, I will buy it', and works in every set of circumstances.

Prices charged and paid also reflect personal and collective value. For example:

- ✓ If you're offered a Rolls-Royce for £3,000, you'll probably turn it down because you think something must be wrong with it (a social, not economic judgement).
- ✓ If a company is offering consultancy services for £10,000 a day, clients have absolute faith (a social judgement) that the services are excellent because of the high prices charged (a social judgement). If the services were no good, the consultancy couldn't charge these prices (also a social judgement).

Council taxes

Not long ago, one of the larger UK local government authorities paid a consultancy firm £2.5 million. The local government authority had decided that it needed to restructure itself as an organisation and also the ways in which it delivered its services. When the news broke of this exercise and the huge fees attached, a public outcry occurred. The local government authority defended its position by stating that because

it was responsible for 2.5 million people, the cost was only £1 per person.

And the lesson? The economic is nearly always justified by the social. You can make up your own mind whether the consultancy was genuine value for money!

Understanding Business Risks

Nothing in business is certain, and risk exists when you can't know everything about a situation. In business, things go wrong:

- ✔ You lose money.
- ✔ Your products, services and customer service lose their competitive edge.
- ✔ Your technology crashes.
- ✔ You're attacked and/or defrauded.
- ✔ Your costs rise and/or your income falls.

The above are all risks that businesses face. Businesses have to recognise the risks and be prepared to deal with them.

When it comes to identifying risks, businesses need to understand:

- ✔ The ins and outs of the business
 - The company's products and services, the service that's delivered and the risks of product and service faults and shortcomings
 - How reliable their suppliers and supplies are, and the risks of the loss of a key supplier or supply
 - The loyalty of customers, and the risks of losing a particular customer base or group
 - The loyalty, expertise and conduct of staff and their collective and individual attitudes, values and behaviour, and the risks to your performance of the loss of key staff or the inability to source good staff for the future

- ✔ What can possibly go wrong and why, and what the possible consequences are
- ✔ Some of the behavioural aspects of risk, including complacency, denial and an unwillingness to address the less certain parts of business activities

When a business is aware of a risk, it can mitigate the risk by taking steps to ensure that the bad things don't happen or, if they do, that plans are in place to deal with consequences.

Two areas of business in particular require risk management:

- ✔ **Accidents at work:** Accident prevention is often common sense – you need to keep the workplace clean and tidy, and train people to use equipment correctly. If you do this, you're certain to cut out about 90 per cent of the accidents that can potentially happen at work.
- ✔ **Crime:** You need to be aware of the crimes that can occur at work, including:
 - Financial crimes, such as fraud, theft and cheating
 - Vandalism, including sabotage of production equipment and information technology
 - Violence, especially of staff toward each other
 - Bullying, victimisation, discrimination and harassment
 - Corporate crime, including insider dealing in shares and commodities
 - Infiltrating the security of databases and information systems for criminal gain
 - Drug dealing, and drug and alcohol misuse



Risk management can be a negative approach to understanding business – you're always looking out for things that can conceivably go wrong. Nevertheless, if you study business from this point of view, you get an excellent insight into how companies and organisations behave, and how they should behave. You also take a realistic view at all times, giving yourself the discipline of looking at all the constraints, as well as the opportunities.

Situating the Business in Its Environment

The *business environment* is the part of the world in which business takes place. If you're to understand business, you have to recognise that a business doesn't operate in isolation. Instead, business activities are set in the context of how things are in the world, the state of markets, the ability and willingness of customers to spend money on products and services, and the wider state of local, national and international economies (turn to Chapter 2 for more on external influences).



All businesses have to be capable of operating successfully and profitably within their environment. Your knowledge of the environment – its pressures and opportunities – is absolutely critical.

You get your immediate knowledge of the business environment from news and current affairs media, company and organisation websites, and knowing about the nature of activities going on and the pressures being faced.

Thinking about Beneficiaries and Stakeholders

The *beneficiaries* of a business are those people for whom the business is especially important, or for whom the business was constituted. Table 1-1 outlines types of business and their beneficiaries.

Type of Business	Beneficiaries
Business organisations	Shareholders, staff, customers and clients
Utilities, including gas, electricity, water, transport, post and telecommunications organisations	Society at large – everyone needs the services provided
Public service organisations (for example, health, education, social care and welfare)	Client groups needing the particular service
Cooperatives	Staff, customers and clients
Convenience organisations (for example, food stores, libraries, local amenities and sports centres)	Those who find the organisation convenient for whatever reason
Mutual benefit associations (including trade unions, churches, political parties, clubs and also cooperatives as above)	Members
Regulatory bodies constituted by government	Society at large – these bodies ensure that the sectors they regulate conduct themselves to legal and ethical standards
Government at all levels	Society at large – in the provision of essential services, for example health and education; also infrastructure, security, law and enforcement



In addition to beneficiaries, businesses have *stakeholders*: people who have an interest in the business.

Look at stakeholders from the point of view of:

- ✓ Who benefits from the business?
- ✓ Who takes advantage of the business?
- ✓ Who's disadvantaged by the business?

Identify the stakeholders involved as follows:

- ✓ **Staff:** They depend on the organisation for salaries, wages and security.
- ✓ **Customers and clients:** They depend on the organisation for products, services and service.
- ✓ **Suppliers:** They depend on the organisation for their own regularity and assuredness of business.
- ✓ **The media:** They have a legitimate interest in covering every aspect of business – successes, failures and scandals.
- ✓ **The community at large:** They're affected by the contribution that business and businesses make.
- ✓ **Legal and regulatory authorities:** Their job is to make sure that work is carried out to the highest possible standards.
- ✓ **Shareholders:** If the business is a public company, shareholders (or stockholders) are the investors who may expect a financial return on their investment.

When you look at business in this way, you get a clear idea of who the companies and organisations are supposed to exist for and who they actually do exist for.



Of course, who businesses are supposed to exist for and who they do exist for ought to be the same! Unfortunately, that isn't the case in practice:

- ✓ Over the period 2010–2012 in the UK, the average salary of commercial company directors rose by 49 per cent; at the same time, the average wage of middle and junior management, supervisors and operational staff rose by 6 per cent.
- ✓ The directors of Lloyd's Banking Group and RBS received average bonuses in 2013 of £330,000, despite the fact that the performance of both organisations continued to decline.



When assessing the actual beneficiaries and stakeholders of business, take the broadest possible view.

Recognising Present Business Pressures

No introduction to business is complete without understanding the pressures that the business is facing at the moment and is likely to have to face in the future. Clearly, pressures and their effects vary among organisations and business sectors. However, some common pressures exist that every business is certain to face at one point or another:

- ✔ **Shortage of money and declining revenues:** Shortage of money is invariably the result of not having enough capital to support present and future developments. Declining takings and revenues are caused by falling sales. Whatever the cause, the critical pressure is that all companies and organisations have to know the worst set of circumstances in which they can possibly survive, and what actions they need to take in order to survive.
- ✔ **Rising costs, especially those that the business can't control:** These costs include, above all, energy, fuel, transport and waste, effluent management and taxes.
- ✔ **Declining business volumes:** Customers and clients seek ever-greater value for their money and change their spending habits in response to their own environmental pressures.
- ✔ **Increased competition:** The overall expansion and globalisation of trade and trading practices means that other companies and organisations have easier access to markets, customers and clients.
- ✔ **Making the most of your staff:** This pressure arises from the fact that people and wages are the largest single expense that business has to carry. The consequence is that in many cases everyone is going to be asked to do more and more in return for their wages and salaries.
- ✔ Additionally, in uncertain times, upward pressures exist on wages and salaries from staff. This is because employees would rather have a big pay increase now than the same rise phased in over two or three years. This, in turn, is because they want to secure their own immediate future and because the company for which they work may not exist in two or three years.
- ✔ **Declining property values:** The pressure that arises from declining property values means that premises have to be seen by managers primarily as a place to do work rather than an asset that has value in itself.
- ✔ **Competition for critical supplies and resources:** The pressure to secure all supplies at a cost and price that's more or less assured, at least for the immediate future.

✓ **Outsourcing:** The pressure to outsource comes from shareholders and backers above all. The advantage of outsourcing is that you know how much a certain service or activity is going to cost you, and so can plan with a degree of certainty.



I return to outsourcing at regular intervals throughout the book. (Turn to Chapter 5 especially for different aspects of outsourcing.) Outsourcing is a major aspect of current business practice, and if carried out with integrity, it makes a great and enduring contribution to business viability.

