

BUSINESS — Nature of Business

Purpose · Vision & Mission · Goals & Objectives · Core Values · Stakeholders

PAGE 1 · CHAPTER ROADMAP, DEFINITIONS & CORE CONCEPT

1 CHAPTER OVERVIEW — THE ROADMAP

CENTRAL IDEA In a fast-changing environment, **change is the only constant**. Businesses that understand the major variables influencing their **growth and profitability** will succeed in the long run.

AREA 1 Nature of business

Goods, services, profit, risk

AREA 2 Purpose

Profit & not-for-profit

AREA 3 Vision, mission, goals, objectives

Hierarchy of aims

AREA 4 Core values

What the business stands for

AREA 5 Stakeholders

Internal · connected · external

Key elements this chapter focuses on: Purpose — profit & not-for-profit Vision, mission, goals & objectives Factors of production Stakeholders — internal & external

2 KEY DEFINITIONS

Teal terms = high exam priority

Business

An organisation that strives to earn **profit** by providing **goods and services** desired by its customers.

Goods

Tangible items that can be held, touched, stored, manufactured or traded — e.g. laptops.

Services

Intangible offerings that cannot be held, touched or stored — e.g. physicians, lawyers, airlines.

Standard of living

Measured by the **quantity of goods and services** people can purchase with the money they have.

Quality of life

The overall level of **human well-being** — life expectancy, education, health, sanitation, leisure time.

Revenue

Money a company earns from **selling goods or providing services** to customers.

Costs

Expenses incurred for rent, salaries, supplies, transportation etc. to create and sell goods & services.

Profit / Loss

Profit = money remaining after covering all costs.
Loss = costs exceed revenues.

Not-for-profit organisation

Established to achieve objectives **other than earning profit** — e.g. charities, NGOs, hospitals, educational institutes.

Vision statement

Focuses on the **future** — what an organisation **aspires to become**; inspirational.

Mission

The **purpose** of an organisation and the **reason for its existence**.

Mission statement

Defines **what an organisation is, why it exists** and its reason for being; focuses on the **present**.

Core values

Fundamental **beliefs and guiding principles** that shape how a business operates, decides and interacts with stakeholders.

Stakeholder

Anyone who has an interest in, or is affected by, a business — individuals, groups or organisations.

3 CORE CONCEPT — HOW A BUSINESS EARNS PROFIT

INPUT

Customers want goods & services

Consumers and other organisations (hospitals, retailers, governments)

REVENUE

Money from sales

Selling goods / providing services

COSTS

Expenses

Rent, salaries, supplies, transport (e.g. Microsoft: salaries, facilities, advertising)

RESULT

Profit or Loss

Revenue > costs → profit; costs > revenue → loss

RISK ↔ PROFIT A **direct relationship**: the greater the risks, the greater the potential for profit (**or loss**). Not all companies earn profits — that is the **inherent risk** of being in business.

⚠ **WHY LOSSES HAPPEN** Failing to achieve goals due to **inefficient use of resources** and/or **ineffective business strategies** in responding to market competition.

PROFITABILITY IS MEASURED BY Revenue Costs Profit — When a company such as **Microsoft** uses its resources intelligently, it can increase sales, hold costs down and earn a profit.

PAGE 2 · NATURE & PURPOSE OF BUSINESS

4 GOODS vs SERVICES

Basis	GOODS	SERVICES
Nature	Tangible	Intangible
Can be...	Held, touched, stored, manufactured or traded	Cannot be held, touched or stored
Study Text examples	Laptops; machinery, goods for resale, computers supplied to organisations	Physicians, lawyers, hairstylists, car washes, airlines

Businesses meet consumer needs: Household essentials Clothing Medical care Transportation Banking Communication → goods & services form the **basis of our standard of living**.

5 STANDARD OF LIVING vs QUALITY OF LIFE

Basis	STANDARD OF LIVING	QUALITY OF LIFE
Meaning	Quantity of goods & services people can purchase with the money they have	Overall level of human well-being
Measured by	Purchasing power over goods & services	Life expectancy · education · health · sanitation · leisure time
Use	Basis for comparing standards of living among countries	Regions & countries are ranked and compared
Business role	Businesses create the goods & services it is based on	Businesses provide jobs, goods & services — a combined effort of businesses, government and not-for-profit organisations

6 PROFIT vs NOT-FOR-PROFIT ORGANISATIONS

Basis	BUSINESS (FOR-PROFIT)	NOT-FOR-PROFIT ORGANISATION
Main goal	Primary goal is to earn a profit	Objectives other than profit — e.g. feeding the poor, preserving the environment, advocating rights of an underprivileged community
Goals & resources	Sets goals; needs resources	Also sets goals and requires resources — but goals not centred on profits
Examples	e.g. Microsoft	Charities, hospitals, educational institutes, social service organisations, NGOs, civic groups, religious bodies
Practices	Management, marketing, finance, laws, ethics, adaptation	Also engage in similar practices

7 PURPOSE OF A BUSINESS

PRIMARY GOAL = PROFIT

Profit is the **reward for the risks** assumed in providing goods & services. Businesses may **retain and use** profits as they choose — **within legal limits**.

Profits benefit society → **employment** → income **reinvested** in the economy. Profits should be earned **ethically & socially responsibly**.

TO EARN A PROFIT, A BUSINESS NEEDS

- **Management skills** — plan & organise operations
- **Marketing expertise** — identify consumer needs
- **Financial resources** — fund & expand activities
- Comply with **laws**, act **ethically**, **adapt** to change

TO REMAIN PROFITABLE, A BUSINESS MUST

- Produce **quality products**
- Operate **efficiently**
- Act socially & ethically responsibly towards stakeholders (customers, employees, investors)
- Many also consider the **environmental impact** of products

FACTORS OF PRODUCTION · SELF-TEST Q14 & Q18 Entrepreneurs combine the inputs of **natural resources, labour and capital** to produce goods or services, for profit or a not-for-profit goal. Using the **factors of production** efficiently → **more goods and services with the same resources**.

PAGE 3 · HIERARCHY OF AIMS, VISION & MISSION

8 HIERARCHY OF AIMS AND PLANS

Study Text table



WHY A HIERARCHY? In a strategic review, management should regularly **re-consider the purpose** of the entity. Goals, objectives & strategies are formulated to **fulfil that purpose**.

COMMUNICATING PURPOSE Establishing purpose + clear communication to stakeholders is achieved through a **mission statement** and a **vision statement**.

⚠ **ORDER TRAP** Vision → Mission → Goals → Objectives → Strategies → Tactical → Operational. **Goals = general; objectives = specific.**

9 VISION STATEMENT vs MISSION STATEMENT

Basis	VISION STATEMENT	MISSION STATEMENT
Time focus KEY	FUTURE — what the organisation aspires to become; avoids describing the current state	PRESENT — how the company plans to achieve its objectives and why
Describes	Future aspirations	What the organisation is, why it exists; its core function in society — products & services provided to customers
Purpose	Inspirational — motivates employees; communicates goals to stakeholders	Communicates purpose to employees, shareholders & other stakeholders
Qualities	Clear, optimistic, realistic ; brief, simple, specific to the business, free from ambiguity	Clear and concise ; may include role of employees or ethical considerations

INEFFECTIVE VISION

An **unrealistic** vision — e.g. a **small store** claiming it will become the **largest retailer in a short period**.

MISSION — 4 KEY QUESTIONS

- 1 What is our business?
- 2 What value do we offer customers?
- 3 What will our business be?
- 4 What should our business be?

WHO INVESTS IN MISSION?

Small businesses may **overlook** it; **large organisations** invest significant time & resources. Especially important for **growing businesses** where the owner cannot personally convey the mission to all stakeholders.

10 RELEVANCE OF THE MISSION STATEMENT — 6 PURPOSES

1 Basis for **consistent strategic planning** decisions

2 Translate broad intentions into **corporate objectives**

3 **Common purpose** for all groups & individuals

4 **Inspire** employees

5 Establish **goals and ethical standards**

6 Enhance understanding & support among **external stakeholders and the public**

11 APPLY IT — IDENTIFY THE LEVEL

Statements taken from the Study Text

Statement	Level	Clue
"To become a leading provider of sustainable and innovative technology solutions..."	VISION	"To become..." → future aspiration
"To deliver innovative and reliable technology solutions that empower..."	MISSION	Present purpose / core function
Maximise the wealth of shareholders	GOAL	General aim
Double the share price within the next ten years	OBJECTIVE	Specific aim with a target and time period (corporate objective)

PATTERN TO SPOT One goal is achieved through **several specific objectives** — the objectives are the concrete steps/targets supporting the goal.

PAGE 4 · GOALS, OBJECTIVES & CORE VALUES

12 FROM MISSION TO STRATEGIC TARGETS

MISSION

Purpose / reason for existence

GOAL (GENERAL AIM)

e.g. maximise the wealth of shareholders

OBJECTIVE (SPECIFIC AIM)

e.g. double the share price within the next ten years

OUTCOME

Specific strategies with strategic targets

for achievement within a strategic planning period

WHO DECIDES? Mission, goals & objectives are issued by the organisation's **leaders** — in a company, the **board of directors**.

INFLUENCED BY The board's decisions are influenced by the company's **governance structure** and the **expectations of its stakeholders**. Commercial entities often stress the **ethical** aspects of their mission, sometimes to motivate employees.

13 HIERARCHY OF CORPORATE & STRATEGIC OBJECTIVES

CORPORATE OBJECTIVE

The **overall objective** for the organisation — e.g. *double the share price within the next ten years*.

STRATEGIC OBJECTIVES

Some are **more important** than others → a hierarchy of strategic objectives.

CSFs → KPIs

The **main** strategic objectives are often identified as **critical success factors**, each with corresponding **key performance indicators**.

14 GOALS vs OBJECTIVES — STUDY TEXT EXAMPLES

Variable	GOAL (general aim)	OBJECTIVES (specific aims)
Growth and Profitability	Increase net profit by 15% by growing revenue while controlling expenses	Increase annual sales by 25% · Add five new customers each month · Reduce annual utility bills by 5%
Customer Care	Reduce customer complaints by 30% and improve resolution time by one day	Hire two new customer service employees within next 12 months · Respond to complaints within two business days
Staff Retention	Fewer than three employees leaving in six months	Training for new employees within first 90 days · Bi-weekly one-on-one meetings
Efficiency	Reduce shipping times from five to two days	Add a new shipper · Improve production time by two hours

15 HOW TO SET EFFECTIVE GOALS — 7 TECHNIQUES

- Participating in the goal-setting process
- Goals involve **intrinsically motivating** work
- A system providing **feedback** on goal achievement
- Goals are **SMART**
- Aligning** personal and commercial goals
- Stating goals **positively** when recording them
- Setting **priorities**

EXAM NOTE

The Study Text lists **SMART** goals as one of the techniques but does not expand the acronym in this chapter — remember it as a named technique alongside the other six.

16 CORE VALUES — WHAT THE BUSINESS STANDS FOR

CORE VALUES

Fundamental **beliefs and guiding principles** that shape how a business **operates**, makes decisions and interacts with **stakeholders**. The **foundation of organisational culture**; ensure **consistency in behaviour** across all levels.

VALUES CLARIFY 'WHAT THE BUSINESS STANDS FOR' BEYOND PROFIT-MAKING

Guide employees
in day-to-day work

+

Strengthen brand identity
in the market

+

Create alignment
between strategy & behaviour

PAGE 5 • CORE VALUES & UNDERSTANDING STAKEHOLDERS

17 COMMON CORE VALUES IN BUSINESS ORGANISATIONS (7)

Exact set varies with the nature & vision of the organisation

i Integrity & Honesty

Truthful, fair, transparent conduct
 → builds **trust** with customers, employees, partners

ii Accountability & Responsibility

Ownership of actions & decisions (individually & collectively); accept responsibility for outcomes

iii Customer Focus

Customer needs at the **centre** — quality products, services & experiences

iv Excellence & Innovation

Continuous improvement, creativity, high standards

v Respect & Fairness

Value **diversity**, treat people with dignity, fair policies & practices

vi Teamwork & Collaboration

Cooperation & mutual support within/across teams → **shared goals**

vii Sustainability & Social Responsibility

Environmentally sustainable, socially responsible, **positive community** contribution

REMEMBER

Values go **beyond profit-making** — they guide behaviour, not just results.

18 IMPORTANCE OF CORE VALUES (5)

1

Provide direction & purpose

Give meaning to mission & vision; a **guiding light** in change; decisions follow **principles**, not only short-term gains → builds confidence inside & outside.

RESULT

Consistency → confidence inside & outside the organisation

2

Shape organisational culture

Establish 'how things are done'; unity, motivation, pride to belong → **engagement** ↑, turnover ↓.

RESULT

Engagement ↑ • Turnover ↓

3

Build trust & reputation

Fairness, transparency, accountability earn confidence of customers, employees, regulators, society. Trust is hard to build, easy to lose.

RESULT

Long-term credibility & strong stakeholder relationships

4

Support ethical decision making

The most profitable option may not be the most ethical; values prevent **exploitation, dishonesty, corruption** → lower reputational/legal risk.

RESULT

Minimises risks; protects from reputational / legal damage

5

Ensure sustainability & long-term success

Purely profit-driven firms may succeed short-run but struggle over time; values balance **profitability, social responsibility & environmental stewardship** → resilience.

RESULT

Resilience & long-term growth

19 UNDERSTANDING STAKEHOLDERS

STAKEHOLDER

Anyone who **has an interest in, or is affected by**, a business — individuals, groups or organisations. They can **influence** the business or **be influenced** by its decisions. Essential to success → considered in **strategic decisions**.

CLASSIFIED BY RELATIONSHIP WITH THE BUSINESS

- 1 **Internal** — work within; day-to-day operations
- 2 **Connected** — direct financial relationship, not daily ops
- 3 **External** — no employment/financial link; **indirect** but affected/interested

WHY MANAGING STAKEHOLDERS MATTERS

- Identify who can **influence** success
- Allocate **resources** efficiently
- Build **relationships & trust**
- Operate **ethically & responsibly**

20 WHY GOVERNMENT (EXTERNAL STAKEHOLDER) HAS AN INTEREST IN ALL BUSINESSES

a) Tax

Businesses pay tax on profits → interest in **profitability**

b) Strong economy

Depends on new business **investment** → government may encourage it

c) Employment

Seeks **low unemployment**; businesses are major employers

d) Regulation

Employment law, environmental law, health & safety, company law

PAGE 6 • STAKEHOLDER CLASSIFICATION, INTERESTS & BALANCE

21 THE THREE CATEGORIES OF STAKEHOLDERS

STAKEHOLDERS OF A BUSINESS

1 • INTERNAL

Directly involved in **day-to-day operations**; work within the organisation; interests tied to its success or failure.

Employees

Stake: **job security, fair wages, good working conditions, career progression**. Performance directly affects **productivity & profitability**.

Managers / Directors

Oversee daily activities & decisions. Stake: smooth operations, achieving goals, efficiency. Success → **bonuses, promotions**; failure → hurts **career progression**.

NOTE Shareholders on the **board of directors** may be considered **internal**. Same applies to **sole proprietors** and **partners**.

2 • CONNECTED

Direct **financial relationship** but **not part of daily operations**; interact through transactions & exchanges.

Shareholders / Owners

Invest capital; stake = **profitability** → share value & **dividends**. Influence major decisions via **voting rights**.

Customers

Quality products at **fair prices**, good service, reliability, value. Satisfied → **loyal** → revenue ↑.

Suppliers

Provide **raw materials, goods or services**. Stake: stable relationship, **timely payments**, long-term contracts.

Creditors

Lend money / **extend credit**. Stake: timely payment **with interest**; monitor financial health.

Labour Unions

Represent employees **collectively**: fair wages, safe conditions, secure benefits; negotiate & influence workforce policies.

3 • EXTERNAL

Not connected through employment or financial transactions; **indirect** relationship but influence can be **significant**.

Government

Regulates via **laws, policies, taxation**; wants compliance, taxes, contribution to economy, ethics, lower environmental harm.

Community / Public

Wants jobs, support for local economy, responsible operation without environmental harm. Good relations → **reputation** ↑.

Environmental Groups

Advocate protection of natural resources; want sustainability, **less pollution**. Responsible firms build trust & avoid **negative publicity**.

22 STAKEHOLDER INTERESTS & BUSINESS BALANCE

CONFLICTING INTERESTS — STUDY TEXT EXAMPLE

Shareholders

prioritise profitability → cut costs



Employees & unions

demand better wages & conditions

EFFECTIVE STAKEHOLDER MANAGEMENT

Balancing all needs is one of the **most challenging** aspects of running a business → address diverse interests while staying **profitable and ethical**.

LINK → MENDELOW'S MATRIX

Understanding stakeholders' **interest and power** helps prioritise. Mendelow's Matrix categorises stakeholders by **level of interest** and **level of power**.

23 APPLY IT — IDENTIFY THE STAKEHOLDER CATEGORY

Based on Study Text & Self-Test Q3, Q6, Q13

Party in the question	Category	Clue / condition
Mr. Masood owns 20% shares of the company	CONNECTED (shareholder)	Internal only if he sits on the board of directors
Executive directors, senior managers, finance managers	INTERNAL	Work within the business; day-to-day operations
Supplier of machinery	CONNECTED	Transactions with the business — NOT internal
Government, local communities, pressure groups, environmental groups	EXTERNAL	Indirect relationship, but affected by operations

PAGE 7 · EXAM PATTERNS, TRAPS, DECISION TREE & MCQ CLUES

24 HOW THIS CHAPTER CAN BE TESTED

1 Definition-based — business, goods, services, not-for-profit, vision, mission, core values, stakeholder

3 True / False — mission = basic function in society; vision = future; public has a stake in major companies

5 "Which is NOT..." — not an external stakeholder; not a reason for government interest; not an employee stake

7 Sequence / hierarchy — vision → mission → goals → objectives → strategies → tactical → operational

2 Fill in the blank — "A business strives for ____" → profit; "____ combine inputs..." → entrepreneurs

4 Classification — internal vs connected vs external stakeholders; goods vs services

6 Comparison — vision vs mission; goals vs objectives; standard of living vs quality of life

8 Scenario / identification — identify the stakeholder, its stake, or the level of a statement

25 ⚠ EXAM TRAPS

1 Mission vs vision — The single key difference: **mission** = current/present; **vision** = future (not length or importance).

3 Managers are... — **Internal** stakeholders — never external.

5 Suppliers vs creditors — Suppliers provide **raw materials, goods, services**; creditors **lend money / extend credit**.

7 Government interest — Tax, investment, employment, regulation — **NOT** reducing business profitability.

9 Employee stake — Job security, fair wages, working conditions, career progression — **stock options not mentioned**.

11 Not-for-profit — Still **sets goals and needs resources** — goals simply not centred on profit.

13 Goods vs services — Goods = **tangible** (store, touch); services = **intangible**.

2 Goals vs objectives — Goals = **general** aims; objectives = **specific** aims. Goal comes **above** objective in the hierarchy.

4 Shareholders — Normally **connected**; **internal** only if on the board (same for sole proprietors & partners).

6 Labour unions — **Connected** stakeholders — even though they represent employees.

8 Board decisions — Influenced by **governance structure & stakeholder expectations** (e.g. shareholders' opinion).

10 Risk ↔ profit — Greater risk → greater potential for profit **OR** loss — not guaranteed profit.

12 Standard of living vs quality of life — SoL = **quantity** of goods/services purchasable; QoL = overall **well-being**.

14 Unrealistic vision — A vision must be **realistic** — an over-ambitious one is **ineffective**.

26 DECISION TREES — CLASSIFY THE STAKEHOLDER · IDENTIFY THE AIM

WHO IS THE PARTY IN THE QUESTION?

Q1 Works **within** the business in **day-to-day operations**? **YES** → **INTERNAL** (employees, managers, directors)

Q2 No — but has a **direct financial relationship** / transactions? **YES** → **CONNECTED** (shareholders, customers, suppliers, creditors, unions)

Q3 No employment or financial link, yet **affected / interested**? **YES** → **EXTERNAL** (government, community, environmental groups)

CHECK THE CONDITION Shareholder on the **board**, sole proprietor or partner → treat as **internal**.

WHICH LEVEL OF AIM IS THE STATEMENT?

Q1 Describes what the organisation **aspires to become** in future? → **VISION**

Q2 States **purpose / reason for existence**, products & services now? → **MISSION**

Q3 A **general aim**? → **GOAL** | A **specific target**? → **OBJECTIVE**

CHECK THE CONDITION Present = mission · Future = vision · General = goal · Specific = objective.

27 MCQ QUICK-CLUE SECTION

From the chapter Self-Test

Business strives for

Profit (Q1)

Public has a stake in major companies

TRUE (Q4)

Reasons for government interest

All: tax, investment, regulation (Q5)

Government encouraging new businesses

Reduces unemployment (Q9)

Shareholders influence decisions via

Voting rights (Q11)

Failure affects managers'

Career progression (Q12)

Efficient use of ____ → more output

Factors of production (Q14)

Combine natural resources, labour, capital

Entrepreneurs (Q18)

28 STAKEHOLDER STAKES AT A GLANCE

*internal if on the board

Stakeholder	Category	Their stake / main interest
Employees	Internal	Job security, fair wages, good working conditions, career progression
Managers / Directors	Internal	Smooth operations, goals, efficiency; bonuses & promotions
Shareholders / Owners	Connected*	Profitability — share value & dividends; voting rights
Customers	Connected	Quality products at fair prices; good service, reliability, value
Suppliers	Connected	Stable relationship, timely payments, long-term contracts
Creditors	Connected	Timely repayment with interest; financial stability
Labour Unions	Connected	Fair wages, safe conditions, secure benefits for members
Government	External	Compliance, taxes, contribution to economy, ethics, low environmental harm
Community / Public	External	Jobs, local economy, responsible operation
Environmental Groups	External	Sustainability, reduced pollution, minimal environmental damage

29 QUICK MEMORY MAP

Concept	Key words	Core idea
Business	profit • goods & services • customers	earn profit by meeting wants
Profit	revenue – costs • risk • reward	reward for risk; retained within legal limits
Not-for-profit	charities • NGOs • goals • resources	objectives other than profit
Hierarchy of aims	vision → mission → goals → objectives → strategic → tactical → operational	broad & future → detailed & action
Vision	future • aspire • inspire • realistic	what we want to become
Mission	present • purpose • 4 questions • 6 uses	why we exist
Core values	7 values • 5 reasons • culture • trust	what we stand for beyond profit
Stakeholders	internal • connected • external • balance	who affects / is affected

MNEMONIC — HIERARCHY OF AIMS

“Very Many Good Owls Stay Totally Observant”

V Vision
M Mission
G Goals
O Objectives
S Strategies / strategic aims
T Tactical plans
O Operational plans

Memory aid only — the order is from the Study Text.

30 BUSINESS — NATURE OF BUSINESS IN 60 SECONDS

🕒 NATURE & PURPOSE

- Business = earn **profit** by providing goods & services
- Goods tangible • services intangible
- Profit = revenue – costs; loss if costs > revenue
- More risk → more potential profit or loss
- Not-for-profit: goals other than profit
- SoL = quantity; QoL = well-being

🕒 AIMS & VALUES

- Vision → Mission → Goals → Objectives → Strategic → Tactical → Operational
- Vision = **future**; mission = **present**
- Mission: 4 questions, 6 purposes; set by the **board**
- Goal general; objective specific (CSFs → KPIs)
- 7 core values; 5 reasons they matter

🕒 STAKEHOLDERS

- **Internal**: employees, managers/directors
- **Connected**: shareholders, customers, suppliers, creditors, unions
- **External**: government, community, environmental groups
- Board shareholder → internal
- Govt: tax • investment • jobs • regulation
- Balance conflicts → Mendelow's Matrix