

**South Tuen Mun Government Secondary School**  
**Business, Accounting and Financial Studies (Business Management Module)**  
**Revision Note - Business Environment**

**Chapter 1 - Hong Kong's Business Environment**

**A. Overview**

- I. Development [Now : International Financial Centre]
- \* Fishing Village → 1840s : British colony → free entrepôt for Mainland
  - \* 1940s : Mainland Civil war → influx of people
  - \* 1950s : United Nations embargo [China]
  - \* 1960s : Manufacture → industrial centre
  - \* 1970s : Rent & wages raise+ Western import quota → price raise
  - \* Late 1970s : Open-door policy → manufactures relocated in Mainland  
→ Cost decrease
  - \*



**1.1 Type of Business Activities**

**(1) Primary Production 第一級生產**

- Extraction of natural resources
- Examples



*Farming*



*Fishing*



*Mining*

**(2) Secondary Production 第二級生產**

- Processing of raw material into semi-finished goods/ finished goods
- Examples



*Different types of manufacturing industries*

**II. Production Sectors [interdependent]**

- (a) Primary : direct extraction of natural resources [ ~0.1% : least important]
- (b) Secondary : turning raw materials into semi-finished / finished goods [~7% : declining since 1980s]
- (c) Tertiary: provision of services [~90% : most important]

### (3) Tertiary Production 第三級生產

- Provision of services
- Examples



**Financial Services**



**Tourism**



**Logistics**

### III. Contributions of Business

- Goods & Services** : wider consumption choices (e.g manufacturing, trading , retailing)
- Living Standard Raise** : Working →income →per capita GDP raise [~70%]
- Job Opportunities** : operation & production
- Productivity Raise** : efficient equipment & methods → profits raise

### 1.2 Role and Importance of Business in Hong Kong economy

#### (1) Income generation



#### (2) Employment creation



#### (3) Earning of foreign exchange

CANADA	CAD	0.9512	1.0888
CHINA	CNY	7.7169	1.6210
EURO	EUR	0.6544	1.0810
JAPAN	JPY	10.800	1.0200
SINGAPORE	SGD	1.3112	1.0200
HONG KONG	HKD	1.0043	1.0010
NEW ZEALAND	NZD	1.1646	1.0210
THAILAND	THB	32.516	1.0010

#### (4) Providing an outlet to capital



#### (5) Sources of income for government (tax)



#### (6)

### IV. Characteristics [HK]

- Lack primary industries** : few natural resources
- Focus on tertiary industries** : service-oriented (e.g. banking , insurance , accounting , legal)
- Depend on external trade**: external changes →huge impacts
- Free trade** : Government → little intervention [import : No quota & tariff]
- Simple taxation system** : 3 direct taxes [Profit//Salaries //Property ]→low rate → no investment tax
- Many SMEs**: >310000[=98% of Hong Kong Business Units]

**Characteristics of Hong Kong economy**

(1) Tack of primary industries  
缺乏第一級產業



(2) Dependence on external trade  
倚賴對外貿易



(3) Concentration on tertiary industry  
集中於第三級產業



(4) Free trade 自由貿易  
(NO quota, tariff, foreign exchange control)

**Top five freest economies**

Rank	Name	Score	Change
1	Hong Kong	89.6	-0.5
2	Singapore	89.4	0
3	New Zealand	82.1	+0.9
4	Australia	81.4	-0.6
5	Switzerland	80.5	-1.1

Source: The Heritage Foundation

(5) Simple taxation 簡單稅制



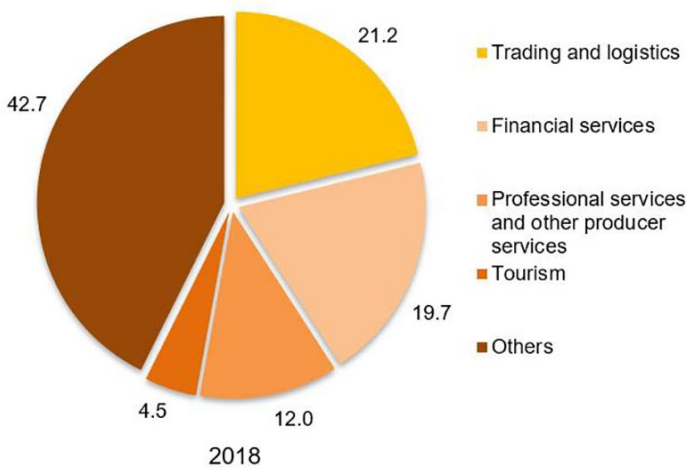
**B. Recent Development**

**I. 4 KEY industries (since 2002)[58% of GDP & 47% of Labour Force]**

- (a) Financial Service (e.g Stock Brokerage)
- (b) Producer & Professional Services
- (c) Trading & Logistics : delivery & storage
- (d) Tourism : hotels , transport (e.g cruise terminal)

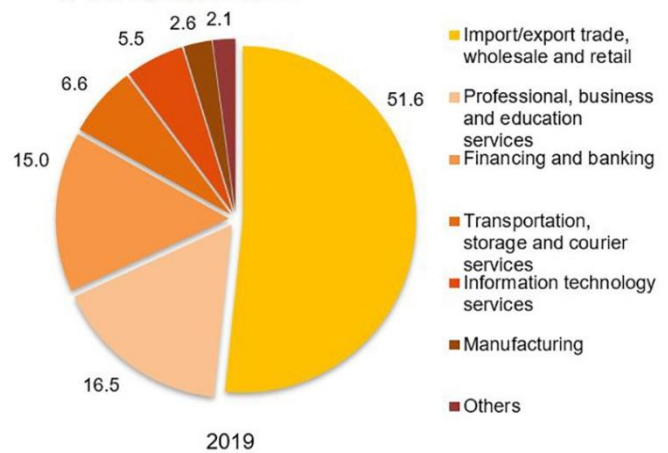
**The Four Key Industries**

% share of value added in GDP



**Major Line of Business**

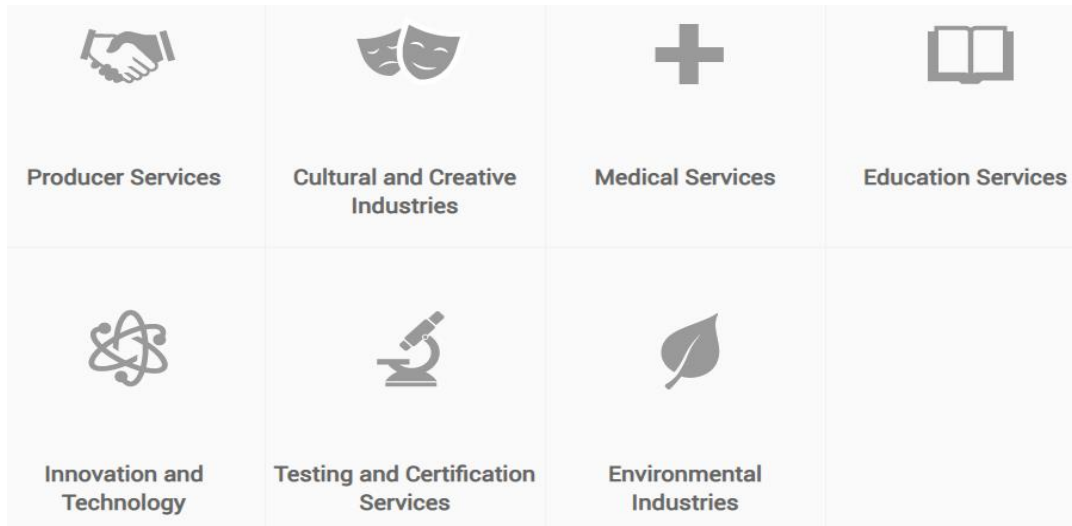
% share of RHQs & ROs





**II. 6 Priority Industries (Since 2009-2010)**

- (a) **Cultural & Creative Industries** ( e.g advertising//architecture , publishing)
- (b) **Medical Service** : Medical care system
- (c) **Education Services** : More Resource →High workforce quality →Long Term potential development
- (d) **Innovation & Technology**
- (e) **Testing & Certification Services** : food & product safety
- (f) **Environmental Industry** : environmental protection (e.g. Waste collection , recycling)



**III. Economic Relationship: HK and China [97:resumption of sovereignty →Closer Cooperation]**

- \* Imports & Exports :~50%
- \* Flow of Capital : >800 Mainland enterprises listed in Hong Kong
- \* Pan-Pearl River Delta Regional Cooperation Framework Agreement [04:HK+Macau+9 Regions]
- \* Mainland and HK Closer Economic Partnership Agreement(CEPA) [03→10 supplement bill 2014)
- (a) **Trade barriers decrease** [goods]:>1000 categories → no export tariff
- (b) **Free trade** [service] : qualified professionals → start business in Mainland
- (c) **Cross-border trade & investment** (e.g. intellectual property : joint protection)



**C. Globalization - Reduction and removal of barriers between national borders**

**I. Impact on HK Business**

- (a) **Overseas market** : telecommunication & transportation  
→Sales Network (online//MNCs)
- (b) **Global sourcing & outsourcing** :inputs ,outputs & subcontractors [skill & tech] from foreign
- (c) **Technology transfer** : overseas branches →Productivity Raise
- (d) **Flow of information & Capital** : up-to-date market information & investment in different markets
- (e) **Keen Competition**: local firms forced to improve

### 1.3 Recent developments of Hong Kong Economy

**(1) Closer economic and business relationships with the Mainland**  
與內地的經濟及商業關係更緊密

- CEPA 內地與香港關於建立更緊密經貿關係的安排

**CEPA 實施以來取得的主要成果**

**貨物貿易方面** 截至2012年3月底

- 內地累計進口香港CEPA下受惠貨物 **297.99億美元**
- 貨物貿易額達到 **2,412.8** 億人民幣

**零關稅範圍廣**

- 享受零關稅的香港原產地貨品增至 **1,700** 種
- 累計批出的原產地證書申請超過 **2,172** 份
- 貨品出口總值達 **100.7** 億元

**香港企業享受零關稅進入內地的條件獲進一步放寬**

- 允許將內地的原料和組件價值計入“本地百分比”，且比例可占總值的 **15%**

**金融體系更加緊密** 2011年

- 香港銀行處理的跨境人民幣票據貿易交易額達 **19,489.7** 億人民幣，同比上升 **1,928%**
- 香港人民幣存款到年底達 **1,888.2** 億元，同比上升 **13%**

**內地企業在港投資增加** 在2004年至2010年間

- 已有 **2,118** 內地企業來港開業
- 投資額超過 **559** 億元

**“個人游” 廣受歡迎**

- 開通赴港“個人游”的全國城市增至 **129** 個
- 2011年“個人游” 訪港旅客達 **1,030.9** 人次，占內地訪港旅客人數總量的 **15.3%**

**內地訪港旅客人數逐年攀升** 2011年

- 內地訪港旅客達 **6,680.9** 人次
- 內地消費額達 **1,113.6** 億元

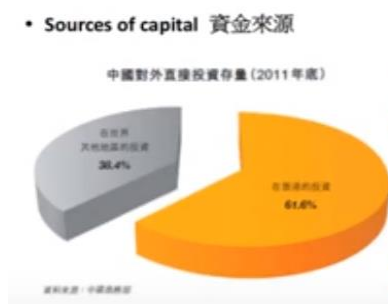
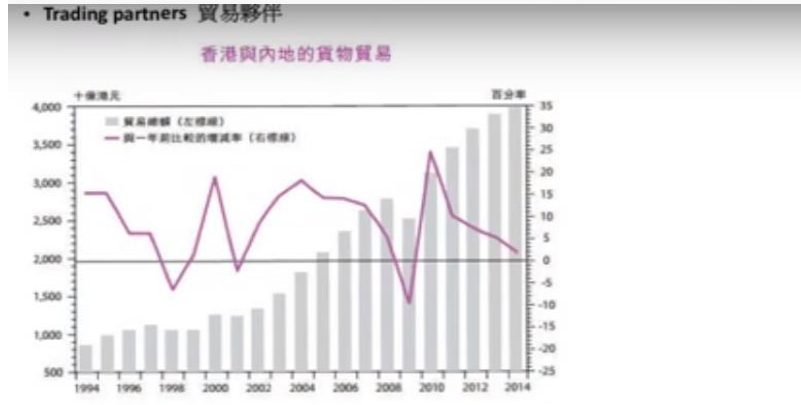
**服務貿易領域逐步拓寬**

- 內地對香港服務貿易的開放領域和服務到 **177** 種
- 開放部門達到 **1,077** 個
- 開放服務約達 **201** 種

**香港工貿界共簽發《香港服務提供者證書》逾2,500份給近1,400家香港企業**

截至2012年4月底

新华社記者 海龍河 編制



(2) Impacts of globalization on Hong Kong business 全球一體化對香港企業的影響

- Keen competition 激烈競爭



- International flow of capital and information 資金及資訊之國際流動



- Global sourcing and outsourcing 全球採購及外判



- Technology transfer 科技轉移





**(3) Increasing international trade cooperation 更多國際間的貿易合作**

- **WTO 世界貿易組織**



- **APEC 亞太區經濟合作組織**



**II. World Trade Organization(WTO) [1995]**

= Break through barriers, foreign trade enter domestic markets, smooth trade flows

\* **Promote free trade, forum for multinational trade negotiations and dispute settlement / sanctions**

- (a) Trade agreements & Monitor national trade policies
- (b) Handle trade disputes & forums for trade negotiations[協商]
- (c) Maintain barriers if needed : interest, spread of diseases , environment
- (d) Technical help & training for developing countries
- (e) Cooperate with other international organizations

### III. Asian-Pacific Economic Cooperation (APEC) [1989]

=Strength economies by pooling resources within region to achieve efficiency

- forum for government-to-government dialogue and cooperation ,economic growth ,Asia-Pacific region.
  - voluntary basis.
- (a) Lower production costs : price decrease & job opportunities increase
  - (b) Less Barriers
  - (c) Training
  - (d) Safe & efficient movement of outputs & labour
  - (e) Trade & investment raise



### D. Factors Affecting Business Decision

#### I. Economic

- (a) Trade policy (e.g. foreign exchange control tax)
- (b) Rental level
- (c) Overall economy : expand [prosperous 繁榮] vs reduce costs [depressed]
- (d) Interest rate : cost of borrowing increase → financial burden → borrowing incentives decrease

II. **Political:** Unstable → investment decrease

III. **Legal:** transparent & independent judiciary system → clear & fair laws → protected

IV. **Physical:** geographical location & abundant natural resources (e.g Victoria Harbour)

V. **Technological:** time of communication & automated production → efficiency increase (e.g. research and development // information technology)

#### VI. Social-cultural

- (a) Population : size , structure & education → supply & quality of labour
- (b) Religions , lifestyles & values → consumption patterns





1.4 Factors Affecting Business Decision

(1) Economics factor 經濟因素

Wages level



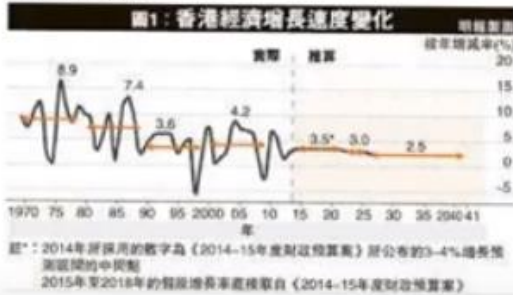
Rent level

**今年全球商舖租金最高地段**

2013年排名	2012年排名	國家/城市	地區/街道	呎租(元)	按年變化(%)
1	1	中國香港	銅鑼灣	1,948	14.7
2	2	美國紐約	第五大道	1,614	無變化
3	3	法國巴黎	香榭麗舍大道	1,033	38.5
4	6	英國倫敦	新靈德街	676	15.6
5	4	日本東京	銀座	636	7.4

資料提供：高緯環球

Business Cycle



(2) Technological factor 科技因素

I.T. application



Telecommunication technology



Transport technology



(3) Cultural factor 文化因素

Taste and Preference of Customers in different countries



(4) Physical factor 自然地理因素

Natural environment

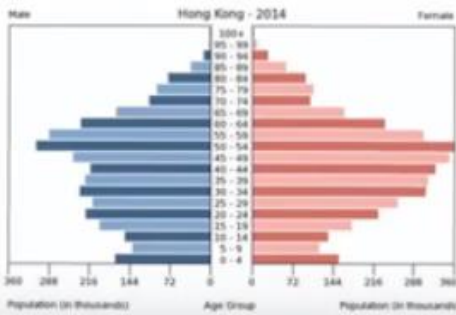


Infrastructure, e.g. Electricity supply



(5) Social factor 社會因素

Age distribution



Language ability



(6) Political factor 政治因素

Political stability



Relationship with other countries



(7) Legal factor 法律因素

Licensing, i.e. Business Registration Certificate



Regulations, i.e. Intellectual Property Protection



# Ch 2 Forms of Business Ownership



## Sole Proprietorship

### Characteristics of a sole proprietorship

1. Owned by one person
2. Owner bears unlimited liability: No separate legal entity
3. Small scale of business: ∴ limited capital
4. Managed by the owner

Advantages of a sole Proprietorship	Disadvantages of a sole Proprietorship
<ul style="list-style-type: none"> <li>● Simple set-up procedures</li> <li>● Low set-up costs</li> <li>● Lower profits tax rate (15%)</li> <li>● Easy transfer of ownership</li> <li>● Efficient and flexible operations</li> <li>● Close relationship with customers &amp; employees</li> </ul>	<ul style="list-style-type: none"> <li>● Owner has unlimited liability</li> <li>● No separate legal existence</li> <li>● Heavy workload and great responsibility</li> <li>● Lack of management skills</li> <li>● Lack of continuity</li> <li>● Lack of capital sources</li> </ul>



Efficient & flexible decision-making



Unlimited liability (有限債務責任)

## Partnership 合夥

- An enterprise owned by **at least TWO partners** E.g. law firm, accounting firm or clinic





**Types of Partners**

General partner 普通合夥人	Limited partner 有限合夥人	Nominal partners 名義合夥人
<ul style="list-style-type: none"> <li>- has unlimited liabilities</li> <li>- involved in the planning and management of the business</li> </ul>	<ul style="list-style-type: none"> <li>- has limited liabilities</li> <li>- does not take part in management</li> <li>- at least one general partner in the limited partnership</li> </ul>	<ul style="list-style-type: none"> <li>- not an owner with no investment</li> <li>- does not take part in management</li> <li>- work as consultant who provides the reputation or expertise</li> <li>- does not share profit but be paid a consultancy fee</li> </ul>



Division of labour  
 - Marketing  
 - Product design



Bound by decision of general partners

**Partnership**

**Characteristics of a partnership**

1. Number of partners: at least two partners.
2. Unlimited liability: at least one general partner with unlimited liability
3. Small scale of business
4. Bound by decisions made by others

**Types of partnership**

General partnership	Limited partnership
<ul style="list-style-type: none"> <li>● All the partners are general partners and have <b>unlimited</b> liability.</li> </ul>	<ul style="list-style-type: none"> <li>● Includes one or more limited partners.</li> <li>● at least one <b>general</b> partner (unlimited liability)</li> </ul>

**Characteristics of different types of partner**

	Liability	Invest money	Ownership	Disclose identity	Take part in running the business
General partner	Unlimited	✓	✓	✓	✓
Limited partner	Limited	✓	✓	✓	✗
Nominal partner	-----	✗	✗	✓	✗

Advantages of a Partnership	Disadvantages of a Partnership
<ul style="list-style-type: none"> <li>● Easy to set up</li> <li>● More sources of capital</li> <li>● Division of labour</li> <li>● Easier to attract employees</li> <li>● Lower profits tax rate (15%)</li> <li>● Sharing business risk</li> </ul>	<ul style="list-style-type: none"> <li>● General partner(s) has unlimited liability</li> <li>● No separate legal existence</li> <li>● Lower operational efficiency</li> <li>● Bound by the decisions of others</li> </ul>

**Limited Company**

- has a separate legal existence and is owned by many shareholders.

Private limited company	Public limited company
<ul style="list-style-type: none"> <li>• 1-50 shareholders, board of directors has the power to refuse to register transfers of shares.</li> <li>• They are set up to obtain capital without losing control of the business.</li> </ul>	<ul style="list-style-type: none"> <li>• Can sell its shares to the public.</li> <li>• No. of shareholders has no upper limit, but at least one</li> <li>• Disclose its financial information</li> </ul>

**Characteristics of a Private/Public limited company**

1. Separate legal entity
2. More sources of capital
3. Limited liability of shareholders
4. Restriction on the company's name
5. Separation of ownership and management:  
Owned by shareholders, managed by board of directors
6. Large scale of business

**Limited Company 有限公司**

- **Separate legal entity 獨立法人**
- Nam Restriction: Ltd. / Inc.
- Ownership of a limited company can be divided into **shares (股票)**
- **Shareholders (股東) have limited liabilities 有限債務責任**  
Liabilities are limited to the amount of investment




## Types of Limited Company

	Private limited company 私人有限公司	Public limited company 公眾有限公司
Number of shareholders	1 to 50	At least <b>one</b> , <b>no upper limit</b>
Sources of capital	<ul style="list-style-type: none"> <li>- Invite new shareholders</li> <li>- Rise capital from existing shareholders</li> </ul>	<ul style="list-style-type: none"> <li>- Issue new shares to the public</li> <li>- Issue bonds to financial institutions</li> <li>- Right issue to existing shareholders</li> </ul>
Disclose of financial information	- <b>NO need</b> to disclose financial information to the general public	- <b>Need</b> to disclose financial information to the general public
Transfer of shares	<ul style="list-style-type: none"> <li>- <b>First offer to EXISTING shareholders</b></li> <li>- Board of directors may refuse to register the share transfer</li> </ul>	- Shares can be <b>FREELY transferred</b> in the <b>stock market</b>

### Compared with sole proprietorship and partnership

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Shareholders have limited liability, and can thus avoid the loss of their personal assets.</li> <li>• Separate legal entity. Changes in shareholders and directors X affect the running and continuity of the company</li> <li>• Easier to raise capital → better development.</li> <li>• large scale.</li> </ul>	<ul style="list-style-type: none"> <li>• Setting up is complicated ∴ more documents</li> <li>• Higher profit tax (16.5%)</li> <li>• large and complex structure → longer decision making time</li> <li>•</li> </ul>

### Compared between private and public limited companies

Advantages of a Private limited company	Disadvantages of a private limited company
<ul style="list-style-type: none"> <li>• No need to disclose a lot of information.</li> <li>• Existing shareholders have better control of the company.</li> <li>• Easier set up and less costly</li> </ul>	<ul style="list-style-type: none"> <li>• More difficult to raise capital</li> <li>• Shares cannot be easily transferred</li> </ul>
Advantages of a Public limited company	Disadvantages of a Public limited company
<ul style="list-style-type: none"> <li>• Easier to obtain loans ∴ , higher creditworthiness.</li> <li>• If listed, can raise capital by issuing shares</li> <li>• The separation of ownership and management → hire specialists → better management and efficiency.</li> </ul>	<ul style="list-style-type: none"> <li>• Need to disclose more information</li> <li>• If most of the shares fall into the hands of other parties, the existing shareholders may lose control of the company.</li> <li>• Price of shares will be affected by many other factors on the stock market.</li> </ul>



Types of Limited Company		
	Private limited company 私人有限公司	Public limited company 公眾有限公司
Television Industry	 亞洲電視 ASIA TELEVISION LIMITED	 Television Broadcasts Limited 電視廣播有限公司
Property Developers	 華懋集團 Chinachem Group	 恒基兆業地產集團 HENDERSON LAND GROUP
Catering Industry	 美心集團	 大家樂 CAFÉ DE CORAL

Type of Shares		
	Ordinary Share 普通股	Preference Share 優先股
Voting Right	Voting right in Annual General Meeting (股東大會)	<b>NO</b> voting right
Dividend 股息	Variable and unguaranteed	Fixed and guaranteed
Preference in receipt of dividend	2 <sup>nd</sup>	1 <sup>st</sup>
Priority of claim of asset under company's liquidation (清盤)	2 <sup>nd</sup>	1 <sup>st</sup>

Limited Company 有限公司	
Pros	Cons
- Limited liability of shareholder	- Higher profit tax rate
- Higher continuity	- More requirements in setup procedures
- More sources of capital	- Separation of ownership and management



**Public Enterprise:** are wholly owned by the **government**.

1. **Government department:** keep law and order, provide social services
2. **Public corporation:** self-financing and operates on a **commercial** basis, **separate** legal existence.
  - Government ✗ daily operation, ✓ **supervision**.
  - appoints a **board of directors** to manage

Public Enterprise 公營企業		
	Government department	Public corporation
Characteristics	<ul style="list-style-type: none"> <li>- Run by the government</li> <li>- Daily financed by the government</li> </ul>	<ul style="list-style-type: none"> <li>- A separate legal entity managed by a board of directors on a commercial basis</li> <li>- Set up by the government and be self-financing</li> </ul>
Examples		

Advantages of a public enterprise	Disadvantages of a public enterprise
<ol style="list-style-type: none"> <li>1. Easy to raise capital</li> <li>2. Provides essential services to the public</li> <li>3. Narrows the income gap</li> <li>4. Avoid wasting resources</li> </ol>	<ol style="list-style-type: none"> <li>1. Lack of efficiency</li> <li>2. Political objective over-ride commercial decisions. (not a gov't department)</li> <li>3. Increase taxpayers' burden</li> </ol>



## Franchise

- Franchisor allows the franchisee to sell its goods and services
- Franchisees are required to pay franchise fee, royalties, share management and promotional fees, must operate their businesses in a similar way to that of the franchisor.
- The franchisor provide management training, monitor franchisee

### Characteristics of a Franchise

1. Brand name well regarded by customers
2. Support from the franchiser
3. Standardised operation
4. Control by the franchiser
5. Sharing of promotional expenses
6. Chain stores in different locations

### Franchise 營業特權



Owner of the franchise (**franchisor**)

allows the **franchisees** to sell its goods or service,  
in return for a franchise fee.

### Examples



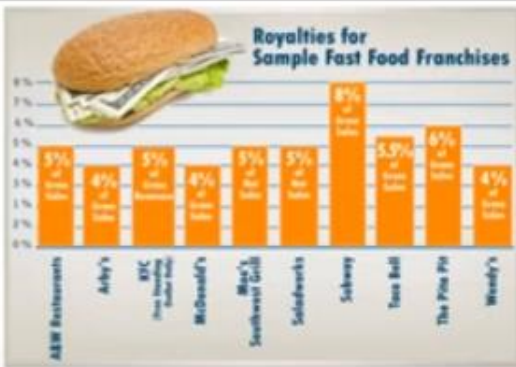


**From the franchisor's perspective**

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. Shared risk</li> <li>2. Can obtain capital</li> <li>3. Opportunity to grow and build the brand</li> <li>4. Economies of scale → ↓Cost</li> </ol>	<ol style="list-style-type: none"> <li>1. Huge investment to build the franchise system and infrastructure, and to provide training and support to franchisees.</li> <li>2. May not have complete control (Franchisees may ruin the reputation of the business)</li> <li>3. May need to disclose confidential information to franchisees (future competitors)</li> </ol>

**Franchisor 特許權擁有人**

Pros	Cons
- Additional income from franchise fee	- Potential competitors
- Quicker expansion through franchisees	- Goodwill tarnished (商譽受損)
- Lower operating costs through sharing among franchisees	- High investment in franchise system



**From the franchisee's perspective**

Advantages	Disadvantages
<ol style="list-style-type: none"> <li>1. Can obtain support from the <b>franchisor</b>.</li> <li>2. Franchised stores have <b>goodwill</b> (well-known)</li> <li>3. Easy to set up</li> <li>4. Benefits of a large shop (<b>lower costs</b>)</li> </ol>	<ol style="list-style-type: none"> <li>1. Required to pay <b>promotional</b> and <b>management</b> fees (even no profit)</li> <li>2. May rely too heavily on the <b>support</b> of the franchisor.</li> <li>3. May be difficult to communicate within a short time (overseas headquarter)</li> <li>4. Not enough <b>independence</b> in operation</li> </ol>

**Franchisee 特許加盟商**

Pros	Cons
- Support and assistance from franchisor	- Payment of royalties and promotional fees
- Well-known brand, i.e. franchisor's reputation	- Loss of autonomy
- Economies of scale, i.e. bulk purchase discount	- Difficult to contact franchisor in a short time

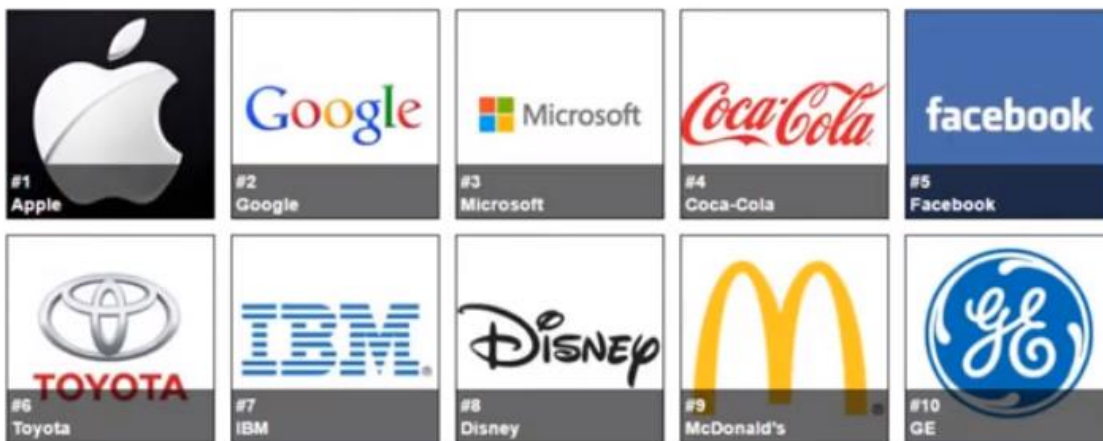


**Multinational corporation (MNCs):**

operate in many countries, large scale, most are public limited companies

**Multinational Corporations (MNCs) in Hong Kong 香港跨國公司**

- MNCs set up regional headquarters (地區總部) or regional offices in Hong Kong.



The World's Most Valuable Brand in 2016

Source: <http://www.forbes.com/powerful-brands/#/tab:rank>

## Multinational Corporations (MNCs)

Firm's size	<ul style="list-style-type: none"> <li>- Large companies in term of <b>market capitalization and sales</b></li> <li>- Most are <b>public limited companies</b></li> </ul>
Management	<ul style="list-style-type: none"> <li>- Run by <b>professional managers</b> who have specialized roles and duties</li> </ul>
Operations	<ul style="list-style-type: none"> <li>- Deal with <b>different countries'</b> economic, legal and tax <b>systems</b></li> <li>- Assist large-scale operation with <b>advanced technology</b></li> </ul>
Sources of capital	<ul style="list-style-type: none"> <li>- <b>Issue shares and bonds</b> to the <b>public</b></li> <li>- Obtain loans from banks</li> </ul>
Organizational structure	<ul style="list-style-type: none"> <li>- <b>Complex organizational structures</b></li> <li>- Communications needs to pass through different layers, thus <b>decision making is slow.</b></li> </ul>

**Joint-venture 短期合營**

- **TWO or more entities** join together and create a **NEW** business entity (temporary partnership)

**Examples**

	
<p>Technological Development of fuel cell system</p>	<p>Starbucks' entry of India market</p>
	
<p>CAA-GBG Global Brand Management Group</p>	<p>JV with Mr. Chow to build e-commerce platform</p>

**Joint Venture**

- Two or more entities (usually **companies**) form a new business entity to carry out joint project
- The new entity is legally separate from the partners in the joint venture.

<p><b>Advantages</b></p> <ol style="list-style-type: none"> <li>1. Sharing risk</li> <li>2. Economies of scale</li> <li>3. Shared expertise</li> <li>4. More capital</li> <li>5. Easier entry into new markets</li> </ol>	<p><b>Disadvantages</b></p> <ol style="list-style-type: none"> <li>1. Disagreement among partners</li> <li>2. Leaking of information</li> <li>3. Loss of autonomy</li> </ol>
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**Joint-venture 短期合營**

Pros	Cons
<ul style="list-style-type: none"> <li>- Economies of scale 規模經濟</li> </ul>	<ul style="list-style-type: none"> <li>- Conflict among partners</li> </ul>
<ul style="list-style-type: none"> <li>- Shared expertise &amp; capital</li> </ul>	<ul style="list-style-type: none"> <li>- Loss of autonomy 自主</li> </ul>
<ul style="list-style-type: none"> <li>- Easier entry into a new market</li> </ul>	<ul style="list-style-type: none"> <li>- Leaking of information</li> </ul>





**South Tuen Mun Government Secondary School**  
**Business, Accounting and Financial Studies (Business Management Module)**  
**Revision Note - Management Functions**  
**Chapter 3 Business Ethics and Social Responsibilities**

**Stakeholder:** person or party who affects and be affected by the firm’s decisions and behaviour.

**Social responsibility:** firm’s responsibility to all its stakeholders.

**Responsibility**

<b>Owners/Shareholders:</b> - Maximize shareholders’ investment	<b>Customers</b> - Reasonable quality and prices -
<b>Employees</b> - Safe and healthy working environment Fair and reasonable rewards and compensation (wages & salaries)	<b>Government</b> - Pay tax due promptly and honestly. - Comply with laws and regulations -
<b>Suppliers</b> - Pay on time	<b>Distributors</b> - Supply quality products
<b>Creditors</b> - Repay on time - Provide accurate information	<b>Community/Society:</b> - Donations in charitable programs - Protect environment - avoid unhealthy producing products and contents

**Business Ethics**

- Rules or standards governing the conduct of a firm.

Comparison between Laws and Ethics	Laws	Ethics
Specificity of inappropriate behaviour	Clearly specified	Not clearly specified
Specificity of sanctions and punishments	Clearly specified	Not clearly specified
Variation of standards among people	No	Yes
Similarity	Both change over time	

**The Importance of Business Ethics**

- Illegal or unethical actions damage the image and reputation of a firm.
- It may lose credibility and the trust of other stakeholders.

**Ways of enhancing awareness of business ethics**

- Emphasizing the importance of business ethics in recruitment
- Compiling a code of ethics for all staff to follow
- Providing education and training courses on business ethics
- Rewarding ethical practices and punishing unethical practices
- Demonstrating commitment to ethical practices by senior management



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**Revision Note - Management Functions**

**Introduction to Management Chapter 4a Management Functions**

**A. Organisation comprised of people with assigned roles who work together to achieve common goals**

- Management plan, organize, lead, and control organization's resources effectively and efficiently

**Effective** = *accomplishing goals*, **efficient** = *making the most of inputs with least costs*

**Importance**

- Prevent wastage of resources** :proper utilization
- Staff morale** :clear duties unite to achieve goals
- Goodwill**: recognition  
(employees + customers + public ) positive image



**Importance of Management**

- Guide to accomplishing organizational goals**
  - Management is the process of coordinating resources to meet **organizational goals** through **planning, organizing, leading** and **controlling**. (4 management functions)
- 2Es'**
  - Efficiency**: doing the thing right (least input → most output)
  - Effectiveness** doing the right thing (achieve goal quickly)

**B. Management Levels**

I. **Top** (e.g. directors , chief executive /financial officer (CEO/CFO), general manager (GM)

**Highest level** : *fewer people but more responsibilities daily operations (Skill: conceptual)*

**Responsibilities:**

- develop mission & vision*
- mange overall performance & effectiveness*
- set long-term goals & adjust when necessary*

II. **Middle** (e.g. regional / division/department managers)(**Skills: conceptual, interpersonal, technical**)

**Responsibilities:**

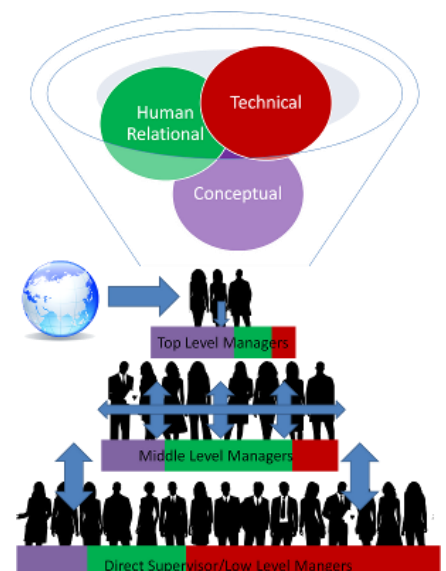
- bridge between top & first-line*
- carry out top management's plans & coordinate resources from them*
- listen to first-line management's needs & help solve problems*

III. **First-line** (front-line)(e.g. supervisors ,assistant managers ,team leaders)

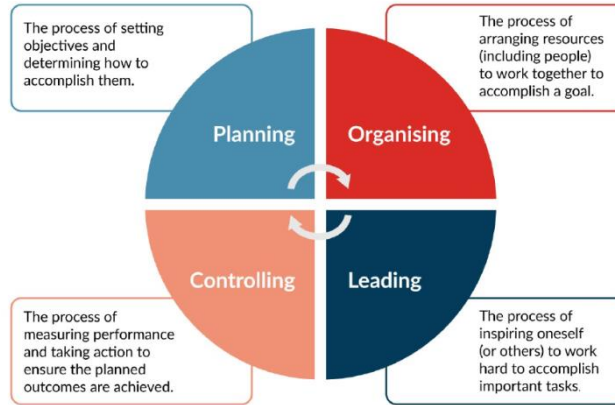
**Lower level**: *more people but fewer responsibilities (Skills: technical)*

**Responsibilities:**

- assign jobs to non-supervisory staff & supervise them*
- handle daily operational problems*
- make short-term plans & decisions for daily operations*



# Four Management Functions



## C. Function 1 : Planning -Setting goals and deciding ways to achieve them

### I. Importance



- a) **Clear goals:** motivate employees to work towards direction
- b) **Foresee problems:** predict changes ,challenges & their impacts >corrections
- c) **Better utilize resources:** streamline production process
- d) **Performance standards :**facilitate evaluation when controlling

### Steps

- 1) **Identify goals**
- 2) **Conduct Analysis** (review internal & external situations (e.g. SWOT))
- 3) **Develop Action Plan**
- 4) **Implement Action plan** (assign tasks >execution)
- 5) **Evaluate Results** (review >adjust)

### \*\* Importance

1. Anticipate potential problems
2. Provide direction
3. Clarify roles and responsibilities

### Characteristics of Effective Goals (SMART)

- **Specific:** Ask the five W's: Who, What, Why, Where and Which
- **Measurable:** express in numbers >easier evaluation & able to track the progress
- **Attainable:** realistic ,reasonable ,achievable >motivated >morale & efficiency
- **Relevant:** ensure your goal is relevant to the company goal
- **Time-specific:** completion date >monitor progress



## Types of Plans



**(a) By Breadth**

- **Strategic:** overall goals > long-term & broad
- **Tactical:** tools to achieve intermediate goals (support overall goals) > short-term
- **Operational:** standards & targets for daily operations in each part of organisation > short-term

**(b) By Duration**

- **Long-term:** 3-5 years > outline development
- **Mid-term:** 1-3 years > support overall goals
- **Short-term:** < 1 year > operational matters + routine duties

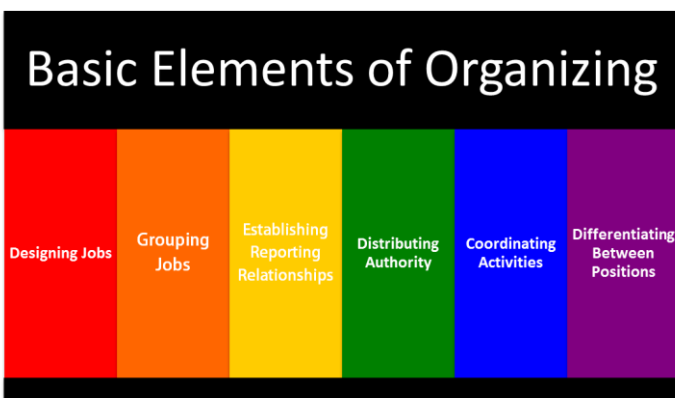


**Planning process**

1. Establish objectives and goals
2. Gather useful and relevant information
3. Evaluate and determine alternative options
4. Set a time frame
5. Implement the plan

**D. Function 2 : Organising -manager arranges resources to achieve organisational goals Functions**

- a) **Define** work
- b) **Separate** work into several tasks & allocate people + resources
- c) **Coordinate** activities of different individuals /groups
- d) **Change** organisation structure if needed



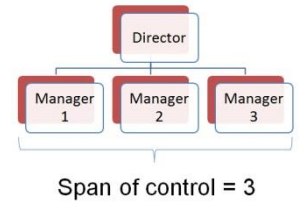


**Organisation Structure** -*formal system of interaction and coordination of individuals and group*

**Organisation Chart** -*visually show structure*

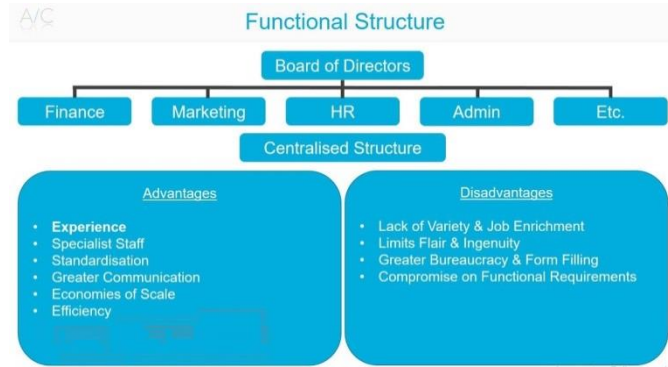
**Reflect-positions of each part of organisation**

- span of control* (Number of employees under each superior)
- path of responsibility & authority* (superiors to subordinates)
- functions & scope of responsibility and authority* of each part of organisation

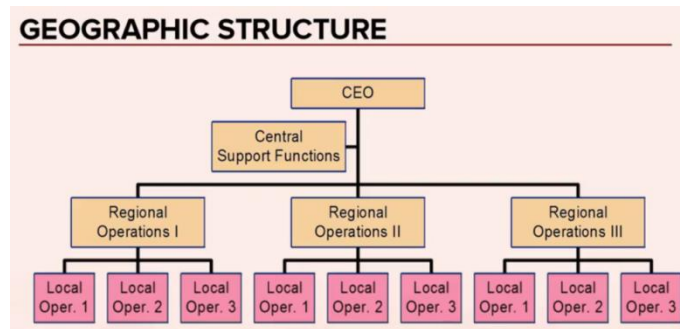


**Departmentalization** -*grouping similar jobs together to form departments*

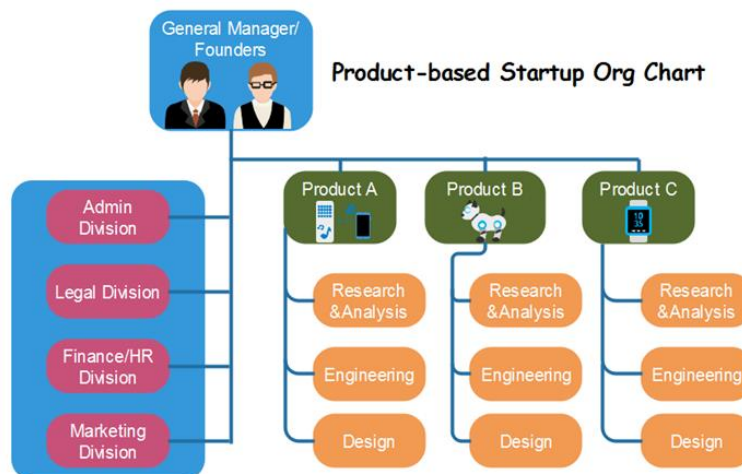
a) *By Function*



b) *By Geographical Location*



c) *By Product/Service*



## Types of Organisational structure

a) **By Level:** *span of control* (no. of subordinates directly supervised by a supervisor at same time)

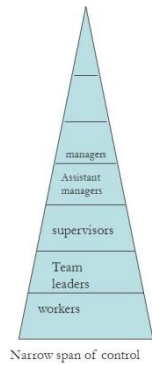
### Characteristics of organisational structure

#### Tall Organisation:

(Suitable for bigger organizations, such as government, MNC)

- Smaller span of control
- More levels
- Slower decision-making: longer chain of command
- Clearly defined roles and responsibilities (Government)
- Obvious chain of command

Power is centralized on the top levels and there is more employee control



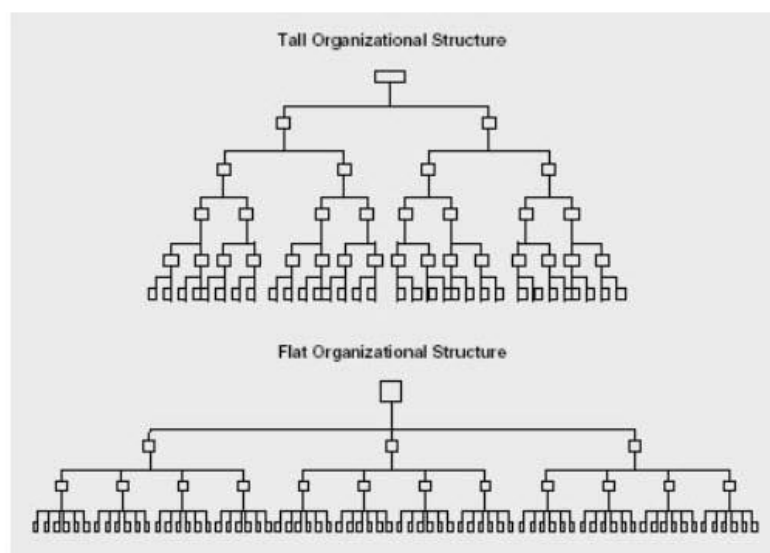
Narrow span of control

#### Advantages:

- Greater control from the manager's point of view
- Fewer subordinates needed to manage: managers get more time to plan and organize the future activities.
- Easier for managers to supervise staff as smaller teams are easier to control and manage
- Greater specialization and division of labour can help increase efficiency and productivity.
- The efforts of subordinates can be easily coordinated
- Better performance and quality of work due to close supervision
- Lots of promotion possibilities (more levels)
- Superior-subordinate relations will improve: Employees are more likely to know their own boss and there is a mutual-trust and feedback is more effective
- More mentoring needed
- Tall organization encourages development of staff
- Clearer lines of communication (chain of command) between different layers of management

#### Disadvantages:

- More expensive because of more number of highly-paid managers involved
- More "vertical" communication problems: increased number of people whom information must pass through
- May lead to complicated channels of communication with very formal procedures
- It is difficult to coordinate the activities of different levels
- Employees feel undervalued and far removed from the real decision-making because of more levels
- Workers are closely monitored and therefore, low motivation and innovation suffers
- Subordinates have less freedom and responsibility
- Employees may not get the opportunity to suggest ideas and show initiative
- Less rewards are given to staff, de-motivational
- Tall Organization is not suitable for routine and standardized jobs.
- Managers may be very dominating.  
(**Autocratic leadership**)

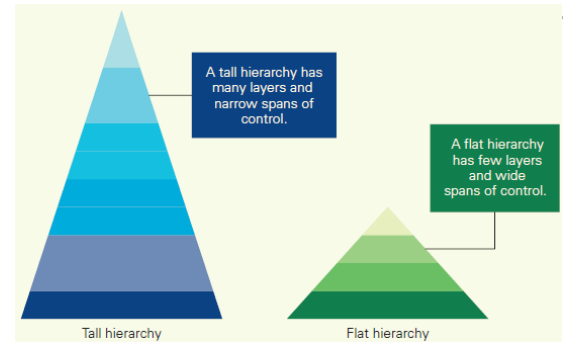


## Flat Organisation:

(Suitable only to small organizations, such as partnerships, some private limited companies)

- Wider span of control
- Fewer levels
- Faster decision-making: shorter chain of command

Manager must be able to delegate well: More democratic



### Advantages:

- Great job satisfaction from the employees' point of view: the extra responsibilities meet workers' higher order need for self-actualization, which motivates them.
- More delegation from the superior: reduced workload for manager which reduce their stress
- Higher morale and productivity because of greater autonomy, responsibility and decision making for staff
- Better team spirits: employees are involved in making decisions
- Increased communication between levels of management: More direct and effective communication
- Flexible and better able to adapt to changes
- Managers benefit from the expertise and ideas of lower level staff when making decisions

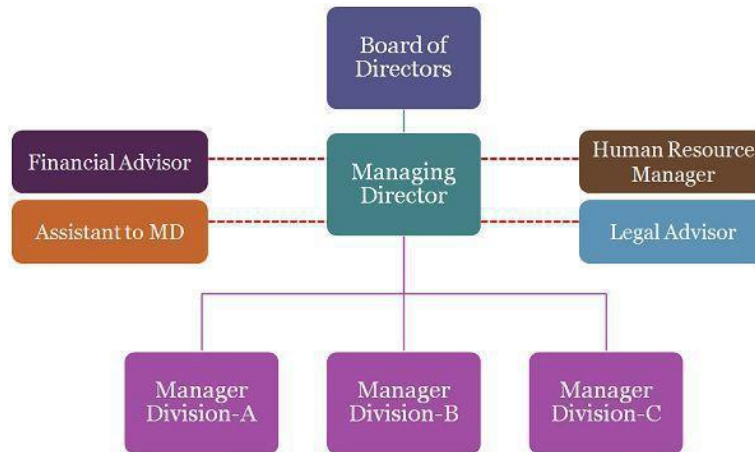
### Disadvantages:

- Create more administrative responsibility for the relatively few managers
- Less clear specific job functions or roles: may cause conflict and confusion over their roles among staff.
- Less opportunity for promotion because of fewer manager's levels or positions.
- More difficult to coordinate between superior and staff: bosses must be team leaders who generate ideas and help others make decisions. When too many people (wider span of control) report to a single manger, his job becomes impossible.
- Produces more generalists than specialists
- Workloads of employees may increase: the extra responsibilities may increase stress for staff so could demotivate staff, (Theory X employees: lazy ones)
- Training and support is needed so staff can carry out their new responsibilities and it will be expensive and time-consuming
- Theory Y employees are needed as they are those who enjoy work and can be trusted with extra responsibilities.
- Employees often worry that others manipulate the system behind their backs by reporting to the boss that means more employees distrusting higher levels of authority.

	<b>Tall structures (A company with many levels)</b>	<b>Flat structures (A company with fewer levels)</b>
<b>Communication</b>	<b>Difficult:</b> Many layers and distortion in communication	<b>Faster:</b> with <u>little</u> distortion.
<b>Efficiency and flexibility</b>	<b>Less efficient and inflexible:</b> Slow decision-making complicated coordination among levels	<b>Efficient and flexible:</b> Quick decision-making and actions taken.
<b>Span of control</b>	<b>Narrow:</b> Each manager manages only a few subordinates.	<b>Wide:</b> Each manager has many subordinates.
<b>Motivation</b>	<b>Low:</b> Closely monitored	<b>High:</b> More autonomy

b) **By Authority** :chain of command (flow of goals & power delegation)

- **Line Authority**: supervisor possess authority(right /power) to give instructions to direct subordinates
- **Staff Authority**: for positions that support & advise line managers of different departments



i) **By Authority**

- Line authority: superior-subordinate relationship
- Staff authority: support, assist and give advice.

**Leading (lead + motivate)**

**Leadership styles**

- **Autocratic** :does not involve subordinates
- **Democratic/ Participative**: encourages subordinates to participate
- **Laissez-faire**: provides little or no direction and gives subordinates freedom

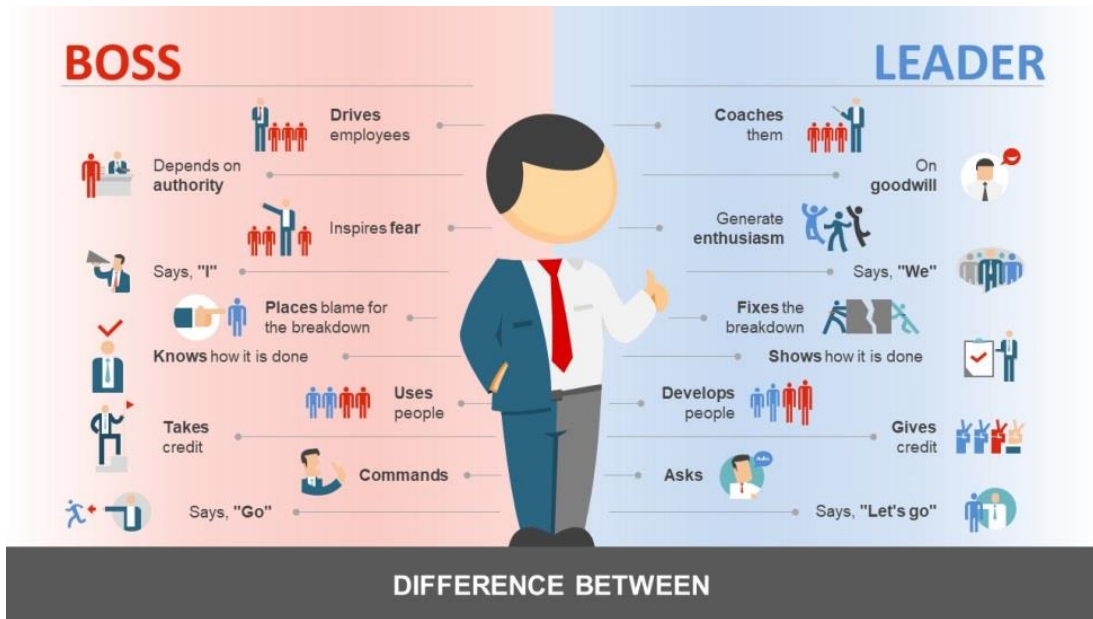
**Factors affecting the suitability for particular leadership style**

	<b>Autocratic</b>	<b>Participative</b>	<b>Laissez-faire</b>
<b>1. Nature of work</b>	simple, routine, require low level of skills	--	complex e.g. scientific research or creative e.g. design
<b>2. employee's ability/attitude</b>	inexperience, passive and not willing to take up job responsibilities	experience, capable and willing to take up job responsibilities	can work independently and are highly motivated
<b>3. Time pressure</b>	high (crisis)	low	low
<b>4. Information needed for decision making</b>	only available to the managers	employees also possess information	employees possess major information



**Leading- Directing, Guiding & Motivating** group of people to work towards goals

- **Motivating** workers to perform their tasks
- **Avoiding** problems and mistakes
- **Improving** company performance



**What makes a good leader:**

- Setting meaning goals
- Giving clear instructions
- Providing support and advice
- Understanding their needs
- Communicating with them effectively
- Recognizing their contributions
- Giving rewards for good performance



## E. Function 3: Leading-directing guiding & motivating group of people to work towards goals

### Leadership = influential ability

#### I. Leadership Styles (ways of treating subordinates)

##### a) **Autocratic** (leading from top) **Job centred**

- Decisions & problem-solving by boss himself: less competent subordinate can be used only to carry out the orders of the boss
- Centralized power: boss just assign tasks
- Maintain absolute control: Group leaders dictate all the work methods and process
- Division of labour
- No input from group members: Don't listen to subordinates' opinions
- Relies on threats and punishment to influence employees
- Not a stable long-term solution

##### Advantages:

- Focused Target, task specialization
- Quick decision making: only one decision maker
- Maintains order and discipline where chain of command is crucial such as military, air force
- Helps new members by teaching them how to perform a task so they have a set of clear expectations
- Allows knowledgeable members to direct new members in terms of appropriate behavior until the new members are capable of making decisions on their own.
- Good for staff perform simple repetitive tasks

##### Disadvantages:

- Staff become tense, resentful and fearful
- Employees become more dependent
- No suggestions are heard
- Group members are rarely trusted
- Low staff morale, high turnover, absenteeism and work stoppage
- Staff may become passive and unwilling to take initiative
- Lower job satisfaction and less committed to their work

##### Adopted when

- Little time is allowed: urgent decision is needed
- Workers are not willing to take up job responsibilities
- Decision likely to be resisted
- Staff is inexperienced & passive
- New untrained staff do not know which task to perform
- Suitable for Theory X employees
- When the leader is most knowledgeable
- Information needed for decision-making is available only to managers

### Autocratic leadership style

• A common belief of many Autocratic leaders is that followers require **direct supervision** at all times or else they would not operate effectively.

• Autocratic leadership style works well if the leader is **competent and knowledgeable** enough to decide about each and everything.

• Autocratic is considered one of the most effective leadership styles in case there is some **emergency and quick decisions** need to be taken.



#### Autocratic Leaders

- Pros
- Effective when action is needed during an emergency
- Cons
- Communication is one way
  - Stressful on followers
  - Unilateral decision-making



"Excuse me, did you say 'No comment'?"

**b) Democratic (participative) Employee centered**

Subordinates : involve in decision -making within certain framework: \*opinions are considered

The leader acts as a guide and mentor for the employees in achieving their goals but leader makes final decision after everyone's input



Democratic leaders often work with their employees to set workable goals rather than dictating what might be unobtainable goals. (**MBO: Management by Objectives**)

**Advantages:**

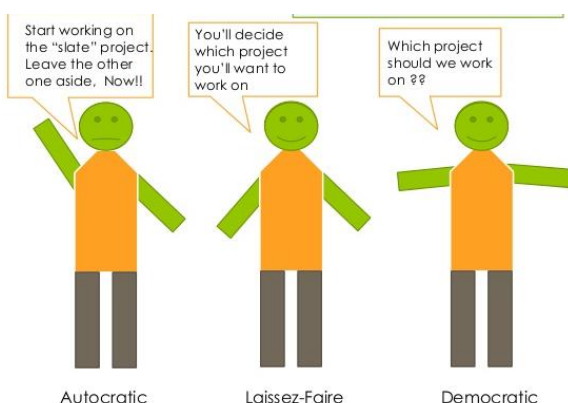
- Allowed subordinates to have a say in decision
- Creates a collaborative workplace
- Ideas and suggestions from different people may result in better decisions
- Workers are motivated. They are more willing to carry out the decisions made by them and be more committed in their jobs
- Enhance job satisfaction, especially Theory Y employees
- Displays trust and draws respect to each other
- Uses each other's expertise: expertise and information shared between management and employees
- Keeps staff informed about everything that affects their work and shares \*decision making and \*problem solving responsibilities
- It builds strong teams

**Disadvantages:**

- Collaboration takes time: it is time-consuming to finalize opinions from everyone
- The leader depends on the knowledge of the subordinates
- In the case of uneducated/unskilled worker/Theory X employees, it is not very effective

**Adopted when -need subordinates' support**

- ✓ Willing to take up responsibilities
- ✓ Required knowledge & skills of staff
- ✓ Workers are experienced and capable
- ✓ Finish tasks with little supervision
- ✓ Only work with highly skilled and experienced employees
- ✓ When implementing operational changes
- ✓ Resolving individual or group problems



### c) **Free-rein (/Laissez-faire)**

*Subordinates: given full autonomy to make decisions without any comments/directions/guidance*

*Workers can decide what they want to do and how to complete their tasks*

*Managers sometimes can set some limits on workers' power and hold them accountable for the results*

#### Advantages:

- Gives workers a sense of challenge, commitment and satisfaction in their jobs

#### Disadvantages:

- May lead to chaos when everyone just focuses on their own tasks and fail to cooperate with others
- Inexperienced and passive workers may feel frustrated and helpless as they do not receive any instructions and guidance in performing their jobs

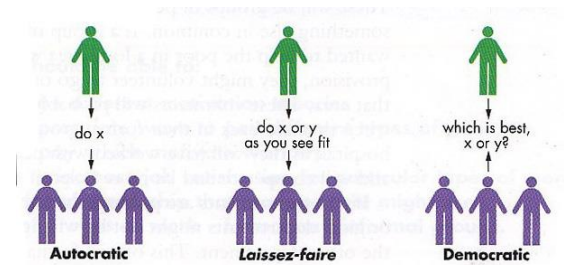
#### Adopted when

- ✓ Experienced & capable to handle tasks independently
- ✓ Like challenges
- ✓ Creativity needed, e.g. scientific research
- ✓ Tasks require freedom of expressions, for example, painting and design



#### Factors Affecting Leadership Styles

- Nature of Task:** complication vs simple & routine
- Urgency of Decision:** discussion vs direct decision
- Subordinates Ability:** independence / experience
- Subordinates Personalities:** active vs passive



## 5 different leadership types



### Which leadership style is best?

- ✓ Right leader for the right situation
- ✓ **Autocratic** makes more sense when the business is in trouble (e.g. rapid turnaround)
- ✓ Autocratic would be inappropriate where performance highly dependent on effective team-working and decentralized operation
- ✓ **Stage of business:** start-up vs established and complex
- ✓ **Laissez-faire style** was ineffective compared with autocratic and democratic
- ✓ **Quantity of work** done was equal in groups with democratic and autocratic leaders
- ✓ **Work quality and group satisfaction** was higher in democratic groups



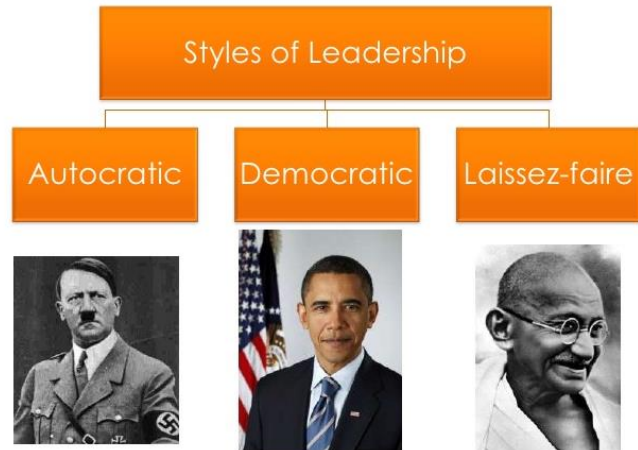
✓ It is suggested that managers should move toward more employee-centered styles to increase employee motivation and morale



**Autocratic:** Leader tell the subordinates the way to do it, without even asking their advice  
 Example of Leader: President Donald Trump - during his first 100 days in the white house, has been dominating his decision solely based on his own opinion and without asking the parliament for the approval  
 (Sedaca 2017)

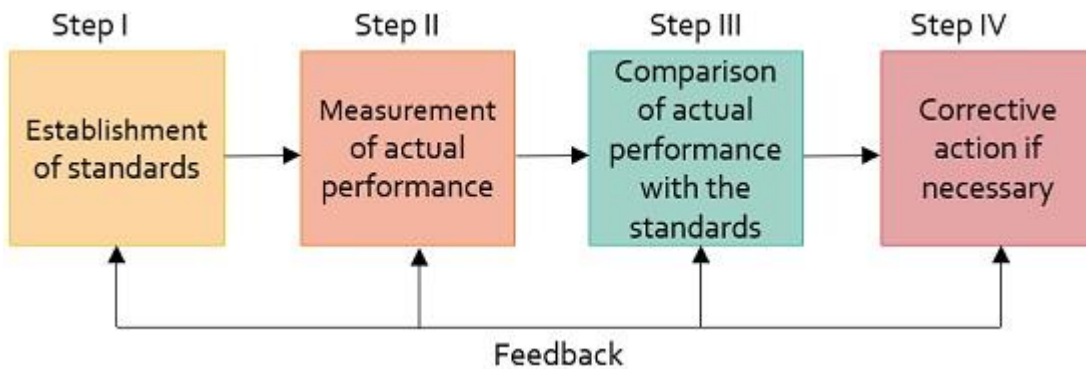
**Democratic:** Leader mostly asking few of their subordinates advice, but still conclude the final decision them selves  
 Example of Leader: Indonesian President, Joko Widodo - to overcome any small to national's issue, he never missed the opportunities to have a discussion with his ministry  
 (Chandran 2016)

**Delegative:** Leader allows their subordinates to withdrawn the decision together, where the leader will still hold the responsibility over the decision  
 Example of Leader: Queen Victoria - Her trust in her own government by try to stayed out of nations business, grant her one of the strongest nations the world has ever seen  
 (William 2015)



**F. Function 4:Controlling-monitoring organization’s activities to ensure plan & goals are followed**

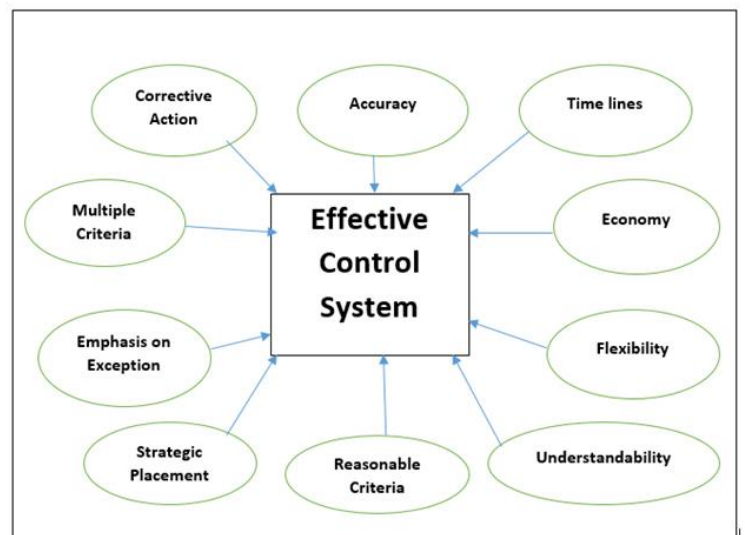
**I. Steps**



1. Performance Standards
2. Measure actual Performance
3. Analyze Deviation between Standard &Result (size &direction of deviation)
4. Corrections(investigate reasons >direct efforts back toward goals)

**Characteristics of Effective Control System**

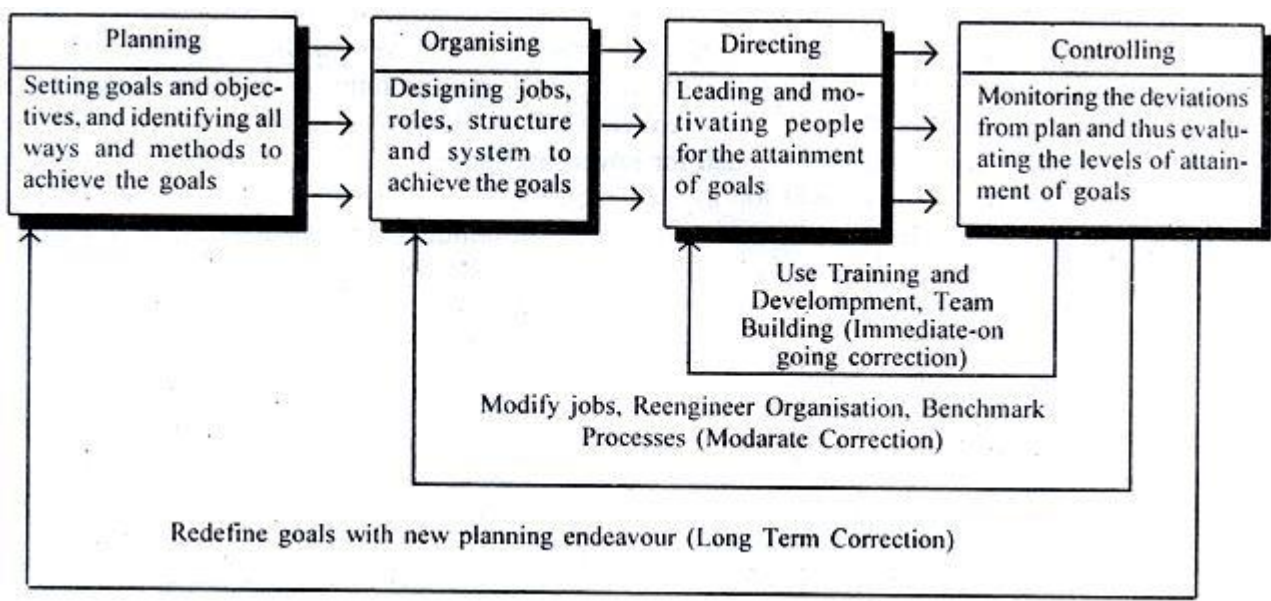
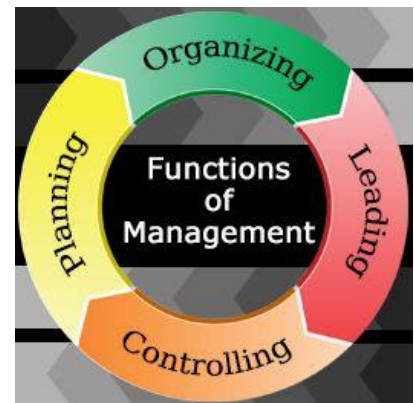
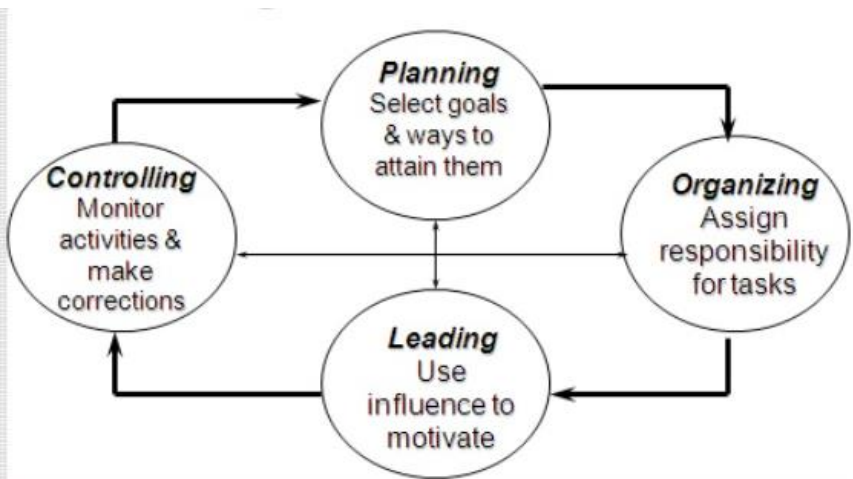
- Flexible (adjust>reflect external changes)
- Timely (avoid delay)
- Objective
- Fair



**Best Leadership should be:**



**FOUR Management Functions**





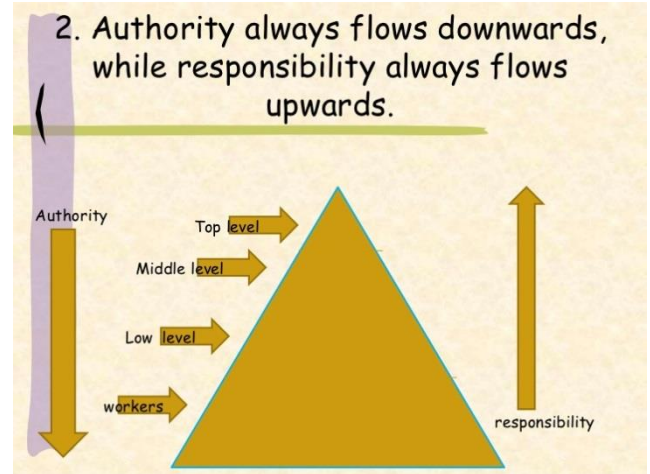
**Introduction to Management Chapter 4b-Principles of effective Management**

**A. Authority & Responsibility**

- **Authority**-right to make decisions,, perform duties ,supervise subordinates ,allocate resources and lead work
- **Responsibility**-obligation to carry out specific and assigned duties (hold accountability)
- **Delegation**-assigning authority and responsibility from manager to subordinates for finishing specific tasks



Basic of distinction	Authority	Responsibility
Meaning	The power or right of a superior to give order to others	It is an obligation to perform the assigned duty or order
Sources of origin	It emerges from a formal position in the organisation	It emerges from superior subordinate relationship
Direction of flow	It flows downwards i.e. From top to bottom	It flows upwards i.e. From bottom level to top.
Purpose	Its purpose is to make decisions and get the decisions executed	Its purpose is to execute the duties assigned by the superior.



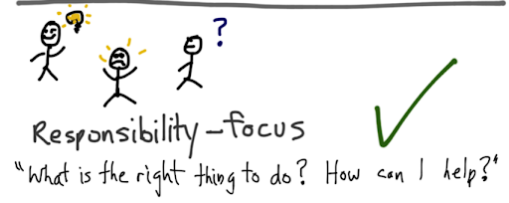
**I. Principles of effective Delegation (balance authority &responsibility)**

- define job responsibility** : understand requirements
- Assign right person**: ability & workload
- Provide resources** : sufficient +training
- Monitor work regularly** : feedback &support



**II. Adv. of Delegation**

- manager's workload** :reduced stress/improved time management technical matters >focus on long-term plans &strategies
- subordinate's ability**: training opportunities >develop skills & talents >realize potential
- Subordinate's job satisfaction**: try new things &own decisions >autonomy >motivated/ elevated self-esteem and sense of achievement
- Subordinate's sense of responsibility** : check progress>remind duties
- Organizational benefits**: increased teamwork, productivity, efficiency



**III. Factors Affecting Delegation**

- Confidence in subordinates** 'ability':not trust >finish by self
- urgency of task** : avoid mistakes
- Importance of task** :serious impacts>avoid failure
- Level of support** :may lack



**Principles of Effective Delegation**



**B. Division of Work (/Labour)-breaking down of work into separate jobs or tasks**

**#Adv.(Employer)**

- a) *saving time* of training & shifting among tasks
- b) *best person for job*: capability > productivity
- c) *better use of resources* :tools needed
- d) *mechanization*: productivity
- e) *easier supervision*

- The work in organisation must be **divided among individuals and departments.**
- It leads to **specialisation.**
- improvement in **quality, quantity, and reduction in cost**



**#Adv.(employee)**

- a) *practice makes perfect* :skilled at specific task
- b) *more leisure time*: finish more quickly

**#Disadv.**

- a) *Monotonous work*: repeat > bored > job satisfaction > motivation
- b) *Disruption of product*:interdependent steps
- c) *Occupational mobility of staff*: particular skill only >unemployment if industry if industry declines

**C. Unity of Command -each subordinate only receive orders from and report to ONE superior**

**#Adv.**

- a) *avoid conflicting instructions* :effective flow of information > confusion
- b) *arrange appropriate workload* : overloaded with work > delay
- c) *supervision*: superior can't shift responsibility of supervision onto others



**D.Unity of Direction-only one manager assigned to be in charge of a specific plan**

The entire organization should be moving towards a common objective in a common direction

**#Adv.**

- a) *clear goals* :unite to achieve common goals
- b) *team spirit* :facilitate coordination >more motivated
- c) *save time &resources*



**E. Management by Objectives (MBO)-superior and subordinates set goals and plans for achieving them together (Goal orientation, multiple accountability,**

- *Superior* :responsible for evaluating subordinates' work &giving feedback regularly
- *Subordinates* :given autonomy to work

**I. Steps**

1. *Review* long-term goals & Agree on goals for subordinates to complete
2. *Develop* action plan for achieving goals
3. *Implement* action plan(subordinates)
4. *Review & Evaluate* performance regularly (superior)

**II. Adv.**

- a) *synchronization of goals* :business goals match with subordinates 'goals
- b) *clear understanding of goals* :discussion >jointly derived
- c) *communication* :superior collects comments from subordinates
- d) *secures employee commitment to attaining organizational goals*
- e) *monitoring* :review plan +regular feedback >control progress

**III. Disadv.**

- a) *time-consuming*: meetings until consensus
- b) *increased managers' workload* : discussion + keep records of meetings
- c) *focus on short-term goals* :easier >subordinates long-term goals



**LIMITATIONS OF MBO**

- Lack of Support of Top Management
- Resentful Attitude of Subordinates
- Difficulties in Quantifying the Goals and Objectives
- Costly and Time Consuming Process
- Emphasis on Short-term Goals
- Lack of Adequate Skills and Training
- Poor Integration
- Lack of Follow-up
- Difficulty in Achieving Group Goals
- Inflexibility
- Limited Application
- Long Gestation Period





## Principles of effective management

### 1. Division of labour (specialization)

- the production process is broken down into many different tasks and each worker concentrates on one or a few tasks
- workers can perform more efficiently → increases production efficiency.

### 2. Unity of command

- Each worker has only one superior to whom he is directly responsible.
- avoid conflicting instructions being given by two or more supervisors.

### 3. Unity of direction

- One plan is led by only one manager
- There should be only one plan for a group of activities that have the same objectives.

### 4. Authority and responsibility

- Parity of authority and responsibility: go hand in hand and in balance

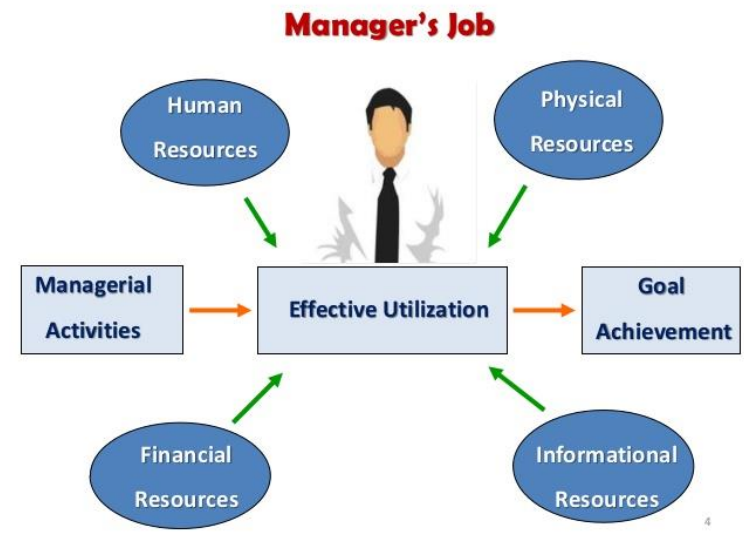
### 5. Management by objectives (MBO)

- Managers set objectives together with succeeding level
- discuss action plan together
- subordinate carry out the plan (regular meeting)
- review performance

## Introduction to Management Chapter 5-Key Business Functions

1. Human resources management	<ul style="list-style-type: none"> <li>• Human resources planning</li> <li>• Recruitment &amp; Selection</li> <li>• Training &amp; development</li> <li>• Performance appraisal</li> <li>• Compensation &amp; benefits</li> </ul>
2. Marketing management	<ul style="list-style-type: none"> <li>• Forecast Market demand</li> <li>• Market segmentation, select target market</li> <li>• Develop marketing strategy(4P): Product, Place, Price, Promotion</li> <li>• Carry out marketing activities</li> <li>• Carry out Market Research</li> </ul>
3. Operating management	<ul style="list-style-type: none"> <li>• Design effective production processes (capacity, facility location, facility layout, scheduling work)</li> <li>• Inventory management (raw material, work-in-progress and products)</li> <li>• Quality assurance</li> </ul>
4. Financial management	<ul style="list-style-type: none"> <li>• Developing and carrying out financial plans</li> <li>• Obtaining funds (equity financing or debt financing)</li> </ul>
5. Information management	<ul style="list-style-type: none"> <li>• Gathering data</li> <li>• Transform into information</li> <li>• Storing and distributing useful information</li> <li>• Enhance information flow (communication) among workers</li> </ul>
6. Risk management	<ul style="list-style-type: none"> <li>• Identify and measure risks (potential losses)</li> <li>• Control loss by: Risk avoidance, risk assumption, risk reduction, risk transfer</li> </ul>

**Introduction to Management Chapter 5-Key Business Functions**



**A. Human Resources -dealing with people employed within business**

*Human Resources: people who put effort to achieve business goals*

**I. Importance**

- a) *Attract sufficient ,qualified &relevantly experienced manpower*
- b) *Maintain quality employers :efficient daily operations*
- c) *Motivate employees: morale >committed*

**I. Functions**

- a) *Manpower Planning : current & future needs>types & quantity >operations &development*
- b) *Recruitment & Selection: attract potential candidates>choose suitable >fill vacancies*
- c) *Performance Management :appraisal>monitor>improve*
- d) *Remuneration & Benefit Management :reward &motivate*
- e) *Training & Development :knowledge &techniques>productivity & sense of belonging*
- f) *Maintaining Employee Relations :listen to opinions &resolve disputes >job satisfaction*



**B. Financial Management-managing business' funds effectively**

**I. Importance**

- a) *Obtain &maintain sufficient funds for operations*
- b) *Monitor costs & expenditure to profitability*
- c) *Plan uses of funds*
- d) *Make appropriate investment decisions to returns*

**II. Functions**

- A) *Working Capital Management :sufficient funds >short-term debts & upcoming expenses*  
 #(Working Capital - amount used to pay for recurrent expenditure in daily operations)  
 ->Avoid bankruptcy/idle cash
- B) *Capital Budgeting :long-term investments*
- C) *Financial Planning: budget>future revenue>allocate funds*
- D) *Financial Control :compare performance with budget >effective use of funds>corrections*



**Operations (/production) Management-maintaining effective and efficient operation operations system**

**I. Importance**

- a) Goals & services of high quality to retain & attract customers
- b) Maintain optimum inventory level to minimize costs
- c) Meet production & delivery schedule
- d) Utilize production resources better

**Function**

- A) **Effective Operations System** :smooth & efficient production>avoid bottleneck
- B) **Inventory Control** : sufficient >meet demand +no excess >carrying & storing costs  
Inventory-goods stoned by business for resale (&raw materials for production)
- C) **Quality Control** : retain customers



**Steps for Designing Effective System**

1. Forecasting Customers ' Demand
2. Planning for Production Capacity (ability :avoid wastage of resources)
3. Designing Layout (factory/office>operational efficiency)
4. Developing Production Schedule

**D. Marketing Management-identifying, foreseeing and satisfying customers' needs profitably**

**I. Importance**

- a) Understand &satisfy customers 'needs better
- b) Build up good relationship with customers to maintain loyalty
- c) Keep alert of &respond to market changes
- d) Develop marketing strategies to adapt to market changes

**Functions**

- A) **Market Analysis**: environment & customers' tastes (research /situational analysis(e.g. SWOT)
- B) **Market Objective**: direction & standards
- C) **Market Strategies** :target markets > ways to achieve objectives > positioning
- D) **Marketing Max** :4Ps (product ,price ,place, promote)
- E) **Control &Review** :customers ' feedback > modify strategies





**E. Information Management-**

**Give right information to right person at right time and place for decision-making**



**I. Importance**

- a) Build information system & collect information for decision-making
- b) Provide decision-makers with up-to-date & reliable information
- c) Share information with firm

**Functions (handling information)**

- A) **Collection & Storage** : easily identified
- B) **Organisation** : systematically
- C) **Processing & Analysis** : reports > decisions & strategies
- D) **Distribution** : transmit to relevant parties
- E) **Access** : common place (e.g. intranet)



**F. Risk Management-applying systematic method to identify, assess, control and monitor risks**

- Common risks : *shortage of resources , natural disasters, loss of key personnel , political instability*

**I. Importance**

- a) Identify possible risks in daily operations
- b) Minimize loss from risks
- c) Develop measures to control risks at acceptable level
- d) Maintain & enhance image

**Functions**

- A) Identifying & Assessing risks: probability, frequency & severity
- B) Developing Risk-handling Measures
- C) Controlling Risks at Acceptable Level
- D) Developing Risk Awareness



**Risk-handling Measures**

- a) **Risk Avoidance**-avoid risk by not engaging in risky activities
- b) **Risk Assumption**-choose not to take measures and bear risks (low probability /little loss)
- c) **Risk Reduction** -reduce risk of loss
- d) **Risk Transfer** - transfer risk of loss to another party

**Process: Risk Transfer (Insurance Company)**

1. Estimate probability of claim & Determine premium
2. Charge premium when customer purchases
3. Collect premium to make investments
4. Assess claim & Pay compensation to insured after approval



**Chapter 6 - Small and Medium Enterprises (SMEs)****E. Small and Medium Enterprises (SMEs) [Most of HK SMEs : import/export/wholesale]****I. Characteristics and Advantages**

[HK: manufacturing(<100 employees) /non-manufacturing(<50 employees)]

- (a) Low capital requirements : usually sole proprietorship // partnership, Owned and managed by single individuals and/or their families
- (b) Simple organizational structure : few layers→ owner make most decisions
- (c) High management flexibility : self decision→ quick response to market change
- (d) Innovative : creative & unique features → competitive→ retain/attract customers
- (e) Focus on small markets : large firms X interest → no direct competition but new opportunities, (niche market that large companies are not interested)
- (f) Close customer relationship : direct contact → better understanding of customer needs→ Tailor-made goods
- (g) Limited resources and capital
- (h) Greater flexibility (quick respond to market change)

SMEs accounted for **98%**  
of total business

**Importance (Contributions of SMEs to the local economy)**

- (i) Stimulate technological advancements : new goods and service→ competitiveness raise, Introducing new products and services
- (j) Support large firms : subjoin tract production stage to SMEs→independent, Providing specialized goods and services
- (k) Job Opportunities: Providing jobs (majority of employment opportunities in HK)
- (l) Complement large firm : Supporting large companies, customize→ fit needs

**II. Difficulties in Operations**

- (a) Limited source of capital : small scale → high risk to lend loans→ only saving/private loans
- (b) Increasing operating costs : rental & wages→limited fund & Bargaining power
- (c) Keen competition : limited resources→hard to build goodwill & attract customers
- (d) Hard to retain talent : limited remuneration & prospects→high staff turnover
- (e) Lack management support : rely on owner→insufficient skills& knowledge

**F. Entrepreneurship ~ human effort made for business creation under risk and uncertainty**

■ **Characteristics [run + manage + bear risks + take rewards]**

who takes risks to start a business for the purpose of making a profit

- (a) Take initiatives: heavy workload
- (b) Seek new opportunities : market innovator→own competitiveness→ long term survival & success
- (c) Independence : own thoughts→ not controlled by others → self-decision
- (d) Innovative : create & accept new idea→ own route to success, may create new market
- (e) Self-disciplined & ambitious[志向]:solely responsible →self motivated→determined & challenges
- (f) Take risk: planning & research → minimis risks

**Importance**

- (g) Job opportunities
- (h) Economic growth : mobilize human & financial resources → income, organize efficient production
- (i) Consumption choices
- (j) Promote creativity: unique→ competitive



**II. Governmental Support ( Trade & Industry Department)**

- (a) SME Loan Guarantee Scheme : finance working capital [productivity & competitiveness raise]
- (b) SME Export Marketing Fund : export-oriented trade fairs
- (c) SME Development Fund : non-profit distributing organizations [Competitiveness raise]

