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Executive
Preview

Business Management

for the IB Diploma

MULTI-COMPONENT SAMPLE



Digital Access

Cambridge
Panel 
Together with IB teachers

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Brighter Thinking

Better Learning

Dear teacher,

Help your students become the business leaders of the future, with our *Business Management for the IB Diploma* series! These new editions are updated for the revised syllabus (M2024) for examination from 2024. They offer in-depth syllabus coverage and have been shaped by experienced teachers, examiners and syllabus experts.

This executive preview gives you a first look at our new resources and shows you how the components work together to support you and your learners.

The executive preview contains:

- a guide explaining how to use the series
- a guide explaining how to use each resource
- the table of contents from each resource
- a chapter from each resource, including the Coursebook and Teacher's Resource.

In developing the series, we carried out extensive research with teachers around the world to make sure we understood your needs and challenges and how to best support you and your learners. Students are supported for exam success with numerous exam-style questions, model exam papers and end-of-chapter tests. International settings and a clear, manageable delivery of business theory create an engaging and accessible learner experience.

The Coursebook contains many case studies, examples of business data and business references taken from many different countries.

- Each chapter starts with a 'Business in context' real-world case study to introduce the topic and engage learners, followed by questions for discussion.
- Scaffolded and varied activities with visual aids help develop students' critical thinking and evaluation skills, as well as providing differentiated learning experiences and opportunities for collaborative work.
- Reflection questions and Theory of Knowledge (TOK) links connect the content of the resources to the concepts in the new guide, with model answers to all questions.
- The IB learner profile feature helps students understand and apply their knowledge of the attributes from the learner profile, with a case study and questions based around a particular attribute.
- New exam tips and exam-style questions provide plenty of opportunities to incorporate exam practice in lessons, including essay writing and quantitative skills.
- Projects at the end of each chapter help learners develop skills for the new assessment.

The Teacher's Resource is at the heart of this new series, helping you to use the resources in the series effectively. These include teaching notes, lesson plans, learning objectives and success criteria aligned to the IB Diploma Approaches to Learning (ATL) principles for each chapter. Syllabus overviews map the content of each chapter to the syllabus, so you can be confident you have full syllabus coverage. The resource also includes differentiation and assessment ideas, suggestions for how to tackle common misconceptions, language support ideas as well as a lesson plan template. There is a range of downloadable resources such as language worksheets, editable PowerPoint presentations and tests and answers for every Coursebook chapter. These supporting resources will help you to deliver the topics to your class or provide additional support in key areas, saving you much-needed time.

We're very pleased to share these sample chapters from our forthcoming Coursebook and Teacher's Resource. We hope you enjoy looking through them and considering how they will support you and your learners. If you would like more information or have any questions, please contact your local sales representative: cambridge.org/education/find-your-sales-consultant

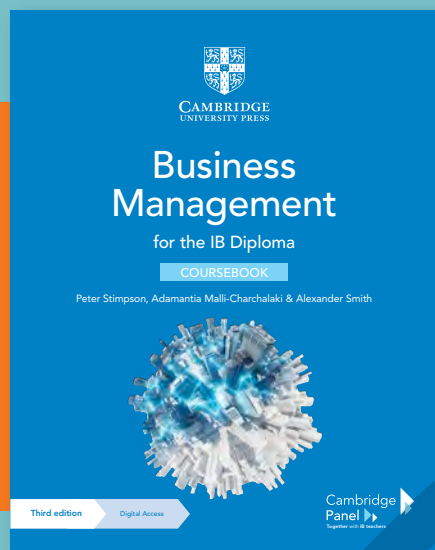
Biljana Savikj

Commissioning Editor for Business Management for the IB Diploma
Cambridge University Press

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> How to use this series

This suite of resources supports students and teachers following the Business Management for the IB Diploma syllabus (M2024). The components in the series are designed to work together and help students develop the necessary knowledge and skills for Business Management. With clear language and style, they are designed for international students.



The Coursebook is designed for students to use in class with guidance from the teacher. It offers complete coverage of the Business Management for the IB Diploma syllabus (M2024). Each chapter contains clear explanations of business theory with a variety of activities, case studies and questions to engage students, help them to make real-world connections and to develop their critical thinking and evaluation skills.

The Teacher's Resource is the foundation of this series because it offers inspiring ideas about how to teach this course. You'll find everything you need to deliver the course in here, including teaching guidance, lesson plans, suggestions for differentiation, assessment and language support, answers and extra materials including downloadable worksheets, tests and PowerPoint slides for each chapter.





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Business Management

for the IB Diploma

COURSEBOOK

Peter Stimpson, Adamantia Malli-Charchalaki & Alexander Smith



Third edition

Digital Access

Cambridge
Panel 
Together with IB teachers

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> How to use this book

Throughout this Coursebook, you will notice recurring features that are designed to help your learning. Here is a brief overview of what you will find.

LEARNING OBJECTIVES

Learning objectives open each chapter. These help you with navigation through the Coursebook and indicate the important concepts in each topic.

BUSINESS IN CONTEXT

Business in context introduces you to the content in a chapter. These place some of the key ideas contained in the chapter into a real-world business context. They raise important issues for discussion, with questions that allow you to look in more detail at the topic.

KEY CONCEPT LINK

These explain how the Coursebook's topics are integrated with the key concepts in the Business Management for the IB Diploma syllabus.

KEY TERMS AND FORMULAE

Key vocabulary and formulae are highlighted in the text when they are first introduced. An accompanying definition explains the meanings of these words and phrases. You will also find definitions of these words in the Glossary at the back of this book. There is also a separate appendix for all key formulae.

THEORY OF KNOWLEDGE

Theory of knowledge links throughout are designed to stimulate critical thinking, allowing you to consider how you can say you know what you claim you know.

ACTIVITY

There are various activities throughout this Coursebook. These include short case studies with evaluative or analytic questions, as well as opportunities to produce your own work individually, in pairs or in groups.

CASE STUDY

Case studies use international business examples to provide an opportunity for you to engage with the subject, and develop your skills of application, analysis and evaluation in a real-world context.

LEARNER PROFILE

Learner profiles throughout illustrate links to how the IB learner profile can be applied in different contexts.

TIPS

Tips are provided throughout this coursebook to help with your learning. The tips might cover how to avoid common errors or misconceptions, advice on essay writing, evaluation and analysis, or guidance on how answers are arrived at.



SELF-EVALUATION CHECKLIST

At the end of each chapter, you will find a series of statements outlining the content that you should now understand. You might find it helpful to rate how confident you are for each of these statements when you are revising. You should re-visit any topics that you rated 'Needs more work' or 'Almost there'.

PROJECT

Opportunities for varied pair or group project work are designed to give you practice in producing different outputs, such as posters, presentations and debates, allowing you to build on a range of skills.

EXAM-STYLE QUESTIONS

Questions at the end of each chapter provide more demanding exam-style questions, some of which may require you to use your knowledge from previous chapters. The questions focus on knowledge and understanding, application, analysis and evaluation.

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> Introduction

Nature of the subject

The International Baccalaureate Diploma Programme for Business Management is designed to develop an understanding of essential business theory and the ability to apply business principles, practices and skills. It encourages students to understand and analyse the diverse range of business organisations and activities and the cultural and economic context in which businesses operate. A clear emphasis is placed on strategic decision-making both for the whole business organization as well as within the business functions of marketing, production, human resource management and finance. Business Management is the study of both the way in which individuals and groups interact in an organisation and of the transformation of resources. It is, therefore, perfectly placed within the group 3 subject area (individuals and societies) of the IB Diploma Programme hexagon.

Who is this book for?

This book accurately and comprehensively follows the 2022 International Baccalaureate (IB) higher level (HL) and standard level (SL) syllabus for Business Management.

If you are a student preparing for the assessments based on this syllabus, or a teacher preparing students for these assessments, you can be confident that this book provides comprehensive coverage of the course. Other students of business management courses at equivalent levels could also greatly benefit from the subject content, international business case studies, activities and advice that this book contains.

What are the aims of the book?

Apart from providing the appropriate subject content for the IB Business Management course, this book aims to:

- introduce business management as a study of ways in which individuals and groups interact in an organisation and of how resources are transformed by businesses

- explain that business management is a rigorous and rewarding subject that examines dynamic decision-making processes and assesses how decisions impact on and are affected by internal and external environments
- help students develop an understanding of business theory and the ability to apply business principles, practices and skills
- encourage students to develop international-mindedness by evaluating the activities of business in global markets and appreciating cultural diversity
- evaluate the diverse range of business organisations and activities
- develop in students an awareness of the cultural and economic context in which businesses operate
- encourage the appreciation of ethical issues and the concept of social responsibility in the global business environment
- enable the development of decision-making skills through the use of case studies that enhance students' ability to make informed business decisions
- make a clear distinction between higher-level and standard-level content
- help students improve their performance on the internal and external assessments used in the Business Management syllabus
- show how the Business Management syllabus relates to the Theory of Knowledge part of the IB Programme.

Skills needed by Business Management students

The skills acquired and developed by successful students of Business Management interlink with the IB learner profile. In particular, the decision-making, risk-taking and thinking skills needed to weigh up and make judgements on a wide range of business strategies and options, will be transferable both to other disciplines and to undergraduate study at university.

The assessments used in the IB Business Management course will test the following skills:

- **Knowledge and understanding** of business terminology, concepts, principles and theories
- **Application** of skills and knowledge learned to hypothetical and real-business situations
- **Analysis and evaluation** of business decisions and business strategies and practices using critical thinking
- **Decision-making** by identifying the issue(s), selecting and interpreting data, applying appropriate tools and techniques, and recommending suitable solutions
- **Synthesise** knowledge in order to develop a framework for business decision-making.

Difference between higher and standard levels

The HL course in Business Management differs from the SL course in a number of important ways. These differences are reflected in this book by the clear

distinction made between SL and HL material with several chapters specifically devoted to HL content. The HL material is supported by more evaluative questions and strategic decision-based tasks within the activities and exam practice questions.

IB assessment

The exam-style questions at the end of each chapter are questions designed to give students practice at answering examination questions.

The final chapter of the book gives clear guidance on the forms of assessment used at both SL and HL. It explains the requirements for the extended essay coursework, internal assessment and examination papers. Written by a senior examiner with many years' experience in preparing students for both levels of the IB Diploma, it will be invaluable for all those preparing for the assessment in IB Business Management.

Peter Stimpson
Alex Smith
Mando Harhalaki



› Chapter 2

Types of business entities

LEARNING OBJECTIVES

On completing this chapter you should be able to:

Analyse and apply:

- the distinction between the private and public sectors (AO2)

Evaluate:

- the main features of the following types of organisations: sole traders, partnerships, privately held companies and publicly held companies (AO3)
- the main features of the following types of for-profit social enterprises: private sector companies, public sector companies and cooperatives (AO3)
- the main features of the following types of non-profit social enterprises: non-governmental organisations (NGOs) (AO3).

BUSINESS IN CONTEXT

Pague Menos converts to public limited company

In 2020, Brazil recorded a high number of companies selling **shares** to the public for the first time. Converting a **private limited company** to a **public limited company** is usually undertaken by arranging an **initial public offering (IPO)**. Many of these companies were originally owned and operated by families that now want to sell shares to the public to raise substantial capital sums.

One such company is Pague Menos, which operates a large chain of drug stores (pharmacies) in Brazil. The controlling **shareholders** are the Queiros family. The decision was taken in 2020 to try to raise around 1.2 billion reais (around US\$224 million) by the sale of Pague Menos shares to the public. IPOs convert privately held (owned) companies into publicly held (owned) companies. The plan was to use the capital raised to fund further growth of the business. Opportunities for increased sales of pharmaceutical products increased following growing public concern about health following the Covid-19 pandemic.

Discuss in pairs or a group

- Why do you think the owners of Pague Menos arranged an IPO?
- What are the likely advantages and disadvantages of the existing owners of a company of converting a privately held company to a publicly held company?



The finance raised from selling shares to the public could be used to increase the number of Pague Menos stores

KEY TERMS

share: a certificate confirming part ownership of a company and entitling the shareholder to dividends and certain shareholder rights

private limited company: a business that is owned by shareholders who are often members of the same family; this company cannot sell shares to the general public

public limited company: a limited company with the legal right to sell shares to financial institutions and the general public; its share price is quoted on the national stock exchange

initial public offering (IPO): the process of offering for sale the shares of a privately held company to financial institutions and the general public

shareholder: individual or institution that buys/owns shares in a limited company

KEY CONCEPT LINK

Ethics

All businesses have ethical responsibilities, but charitable non-profit organisations owe their very existence and long-term survival on their ethics and transparency. If the public loses trust in charities, charities stop receiving donations. In the US, the National Council of Non-profits supports charities with practices to be followed to demonstrate accountability, ethics, and transparency to the public. This is very important from the perspective of the council, because if one of their members behaves unethically, 'that's one too many': people could lose trust in non-profit charities overall.

2.1 Distinction between the private and public sectors

The first chapter looked at the classification of business into different economic sectors. This chapter further classifies business activity into:

- the **private sector** and **public sector**
- for profit and non-profit organisations.

The relative importance of the private sector compared to the public sector is not the same in all **mixed economies**. Those economies that are closest to **free-market** systems have very small public sectors. Those countries with central planning **command economies** will have very few businesses in the private sector.

In most mixed economies, certain important goods and services are provided by state-run organisations – they are in the public sector. It is argued that they are too significant to be left to private sector businesses. They include health and education services, defence and law and order (police force). In some countries, important 'strategic' industries are also state-owned and controlled,

such as energy, telecommunications and public transport. These public sector organisations therefore provide essential goods and services for individual citizens and organisations in the private sector. They often have objectives other than profit, for example:

- ensuring supplies of essential goods and services – perhaps free of charge to the user, e.g. health and education services in some countries
- preventing private sector monopolies – single firms that dominate an industry – from controlling supply
- maintaining employment
- maintaining environmental standards.

In recent years, there has been a trend towards selling some public sector organisations to the private sector – called **privatisation** – this means that they then put profit-making as one of their main objectives.

Private sector organisations are owned and operated by individuals or groups of people. These organisations are usually operated for a profit but not all are. For example, charities are non-profit-making organisations in the private sector; they are not owned and controlled by the government or state.

KEY TERMS

private sector: comprises businesses owned and controlled by individuals or groups of individuals

public sector: comprises organisations accountable to and controlled by central or local government (the state)

mixed economy: economic resources are owned and controlled by both private and public sectors

free-market economy: economic resources are owned largely by the private sector, with very little state intervention

command economy: economic resources are owned, planned and controlled by the state

privatisation: the sale of public sector organisations to the private sector

2.2 The main features of business organisations in the private sector

Figure 2.1 shows the main types of private sector businesses that are operated for profit.

Sole trader

This is the most common form of business organisation. Although there is a single owner in this business organisation, there may be employees, but the firm is likely to remain very small. Although they are great in number, **sole traders** account for only a small proportion of total business turnover. All sole traders have unlimited liability. This means that the owner's personal possessions and property can be taken to pay off the debts of the business should it fail. This can discourage some potential entrepreneurs from starting their own businesses.

Another problem faced by sole traders involves finance for expansion. Many sole traders remain small because the owner wishes to remain in control of their own business, but another reason is the limitations that they have in raising additional capital. As soon as partners or shareholders are sought in order to raise finance, then the sole trader becomes another form of organisation

altogether. In order to remain a sole trader, the owner is dependent on their own savings, profits made and loans for injections of capital.

This type of business organisation is most commonly established in construction, retailing, hairdressing, car servicing and catering. The advantages and disadvantages of sole traders are summarised in Table 2.1.

Partnership

A **partnership** agreement does not create a separate legal unit; a partnership is just a grouping of individuals. Partnerships are formed in order to overcome some of the drawbacks of being a sole trader. When planning to go into partnership it is

KEY TERMS

sole trader: a business in which one person provides the permanent finance and, in return, has full control of the business and is able to keep all of the profits

partnership: a business formed by two or more people to carry on a business together, with shared capital investment and, usually, shared responsibilities

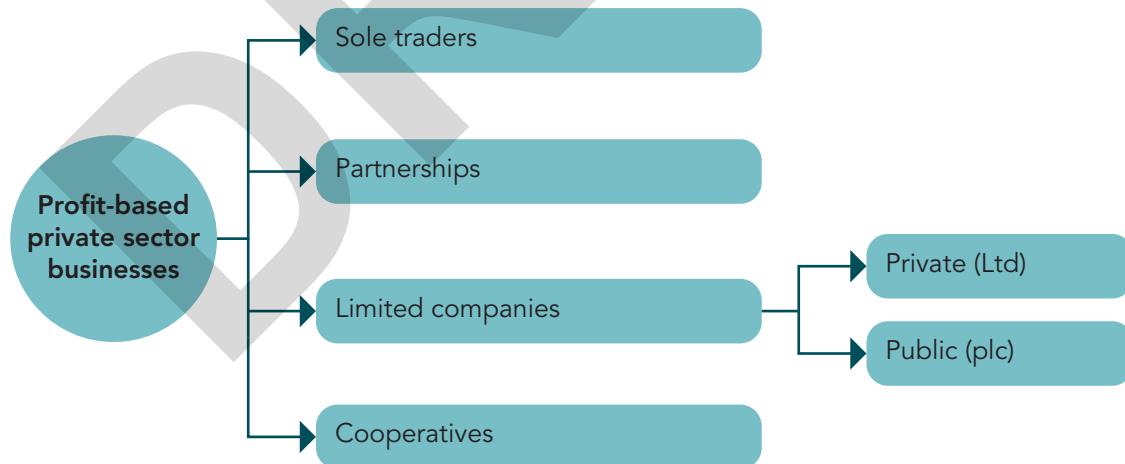


Figure 2.1: Private sector businesses

Advantages	Disadvantages
<ul style="list-style-type: none"> • Easy to set up – no legal formalities • Owner has complete control – not answerable to anyone else • Owner keeps all profits • Able to choose times and patterns of working • Able to establish close personal relationships with staff (if any are employed) and customers • The business can be based on the interests or skills of the owner, rather than working as an employee for a larger firm 	<ul style="list-style-type: none"> • Unlimited liability – all of owner’s assets are potentially at risk • Often faces intense competition from bigger firms, e.g. food retailing • Owner is unable to specialise in areas of the business that are most interesting – is responsible for all aspects of management • Difficult to raise additional capital • Long hours often necessary to make business pay • Lack of continuity – as the business does not have separate legal status, when the owner dies the business ends too

Table 2.1 Sole traders – advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • Partners may specialise in different areas of business management • Shared decision-making • Additional capital injected by each partner • Business losses shared between partners • Greater privacy and fewer legal formalities than corporate organisations (companies). 	<ul style="list-style-type: none"> • Unlimited liability for all partners (with some exceptions) • Profits are shared • As with sole traders, no continuity and the partnership will have to be reformed in the event of the death of one of the partners • All partners bound by the decisions of any one of them • Not possible to raise capital from selling shares • A sole trader, taking on partners, will lose independence of decision-making.

Table 2.2 Partnerships – advantages and disadvantages

important to choose business partners carefully – the errors and poor decisions of any one partner are considered to be the responsibility of them all. This also applies to business debts incurred by one partner; in most countries there is unlimited liability for all partners should the business venture fail. It is usual, although not a legal requirement, to draw up a formal ‘Deed of Partnership’ between all partners. This would provide agreement on issues such as voting rights, the

distribution of profits, the management role of each partner and who has authority to sign contracts.

Partnerships are the most common form of business organisation in some professions, such as law and accountancy. Small building firms are often partnerships too. Many other owners of businesses prefer the company form of organisation, and this is considered next. The advantages and disadvantages of partnerships are summarised in Table 2.2.

CASE STUDY 2.1

Martha's digital marketing agency

After being crowned entrepreneur of the year at the 2020 'Women in Business' Awards, Martha's digital marketing agency has gone on to beat her revenue target and win new clients. She has been nominated for the awards again this year, in the small business of the year and inspirational woman categories. Martha set up 'Catchy Internet' as a sole trader in 2009 to help businesses be more successful on the internet. She decided to grow the business in 2015, and by 2020 the business expanded from having three employees to 18.

She said: 'I am very pleased to be nominated again this year. The awards ceremony itself is a great chance to network with other successful businesspeople. Winning the award raised the visibility of Catchy Internet, which is growing fast. We are working with a lot of exciting clients. Our goal was a revenue of \$1million in 2021, but we are now already ahead of that target. The next goal is to grow outside our local geographical area. We have already signed contracts with two multinational customers.'

Martha is now considering the possibility of changing the type of organisation from a sole trading business to a partnership with her friend Alan, who specialises in financial management and **business planning**. However, Martha's has been advised by one of her most loyal employees to avoid the partnership and to incorporate the business by turning it into a **privately held company**.



- 1 Define the term 'privately held company'. [2]
- 2 Outline **two** advantages for Martha of running her business as a sole trader. [4]
- 3 Outline **two** problems that Martha may face because of being a sole trader. [4]
- 4 Discuss the possible advantages and disadvantages for Martha if she decides to change her business organisation from a sole trading business to a partnership. [10]

Limited companies

There are three important differences between companies (both privately held and publicly held) and sole traders and partnerships: **limited liability**, legal personality and continuity.

KEY TERM

limited liability: the only liability – or potential loss – a shareholder has if the company fails is the amount invested in the company, not the total wealth of the shareholder

Limited liability

The ownership of companies is divided into small units called shares. People can buy these and become 'shareholders' – they are part-owners of the business. It is possible to buy just one share, but usually these are owned in blocks, and it is possible for one person or organisation to have complete control by owning more than 50% of the shares. Individuals with large blocks of shares often become directors of the business. All shareholders benefit from the advantage of limited liability.

Nobody can make any further claim against shareholders should the company fail. This has two important effects:

- People are prepared to provide finance to enable companies to expand.
- The greater risk of the company failing to pay its debts is now transferred from investors to creditors (those suppliers/lenders who have not been paid). Creditors, as a result, are very interested in both ensuring that the word 'limited' appears in the company name and scrutinising the company's accounts for signs of potential future weakness.

Legal personality

A company is legally recognised as having an identity separate from that of its owners. This means, for example, that if the products sold by a company are found to be dangerous or faulty, the company itself can be prosecuted but not the owners, as would be the case with either a sole trader or a partnership. A company can be sued and can sue others through the courts.

Continuity

In a company, the death of an owner or director does not lead to its break-up or dissolution. All that happens is that ownership continues through the inheritance of the shares, and there is no break in ownership at all.

Privately held companies

The protection that comes from forming a company is therefore substantial. Small firms can gain this protection when the owner(s) create(s) a privately held company. In many countries, these are referred to as private limited companies.

Usually, the shares will be owned by the original sole trader (who may hold a majority of the shares to keep control of the company), relatives, friends and employees. New issues of shares cannot be sold on the open market to the public. Existing shareholders may only sell their shares with the agreement of the other shareholders.

Legal formalities must be followed in setting up a privately held company and these can be expensive and time-consuming in some countries. The advantages and disadvantages of privately held companies are summarised in Table 2.3.

Publicly held companies

Publicly held companies are the most common form of legal organisation for large businesses, for the very good reason that they have access to very substantial funds for expansion. Converting a privately held company to publicly held company status is referred to as a stock market flotation.

A publicly held company has all the advantages of privately held company status plus the right to advertise its shares for sale and have them quoted on the stock exchange. Publicly held companies have the potential to raise large sums from public issues of shares. Existing shareholders may quickly sell their shares if they wish to. This flexibility of share buying and selling encourages the public to purchase the shares in the first instance and thus invest in the business.

The other main difference between these two types of company organisations concerns the 'divorce between ownership and control'. The original owners of a business are usually still able to retain a majority of shares and continue to exercise management control when it converts to privately held company status. This is most unlikely with publicly held companies, due to the volume of shares issued and the number of

Advantages	Disadvantages
<ul style="list-style-type: none"> • Shareholders have limited liability • Separate legal personality • Continuity in the event of the death of a shareholder • Original owner is still often able to retain control • Able to raise capital from sale of shares to family, friends and employees • Greater status than an unincorporated business. 	<ul style="list-style-type: none"> • Legal formalities involved in establishing the business • Capital cannot be raised by sale of shares to the general public • Quite difficult for shareholders to sell shares • End-of-year accounts must be sent to Companies House (in UK) – available for public inspection there (less secrecy over financial affairs than sole trader or partnership).

Table 2.3 Privately held companies – advantages and disadvantages

people and institutions as investors. These shareholders own the company, but they appoint, at the annual general meeting, a board of directors who control the management and decision-making of the business.

This clear distinction between ownership and control can lead to conflicts over the objectives to be set and direction to be taken by some publicly held companies. The shareholders might prefer short-term maximum-profit strategies, but the directors may aim for long-term growth of the business, perhaps in order to increase their own power and status. Many privately held companies convert to publicly held status to gain the benefits referred to in Table 2.4. It is also possible for the directors or the original owners of a business to convert

it back from public ownership to privately held company status. Richard Branson and the Virgin group is one of the best-known examples. The reasons for doing this are largely to overcome the divorce between ownership and control – in a privately held company it is normal for the senior executives to be the major majority shareholders. In addition, the owner of a privately held company can take a long-term planning view of the business. It is often said that the major investors in a publicly held company are only interested in short-term gains. ‘Short-termism’ can be damaging to the long-term investment plans of any business.

A summary of the advantages and disadvantages of publicly held companies is given in Table 2.4.

Advantages	Disadvantages
<ul style="list-style-type: none"> • Limited liability • Separate legal identity • Continuity • Ease of buying and selling of shares for shareholders – this encourages investment in plcs • Access to substantial capital sources due to the ability to issue a prospectus to the public and to offer shares for sale. 	<ul style="list-style-type: none"> • Legal formalities in formation • Cost of business consultants and financial advisers when creating a plc • Share prices subject to fluctuation – sometimes for reasons beyond business’s control, e.g. state of the economy • Legal requirements concerning disclosure of information to shareholders and the public, e.g. annual publication of detailed report and accounts • Risk of takeover due to the availability of the shares on the stock exchange • Directors influenced by short-term objectives of major investors.

Table 2.4 Publicly held companies – advantages and disadvantages

CASE STUDY 2.2

Airbnb ‘goes public’

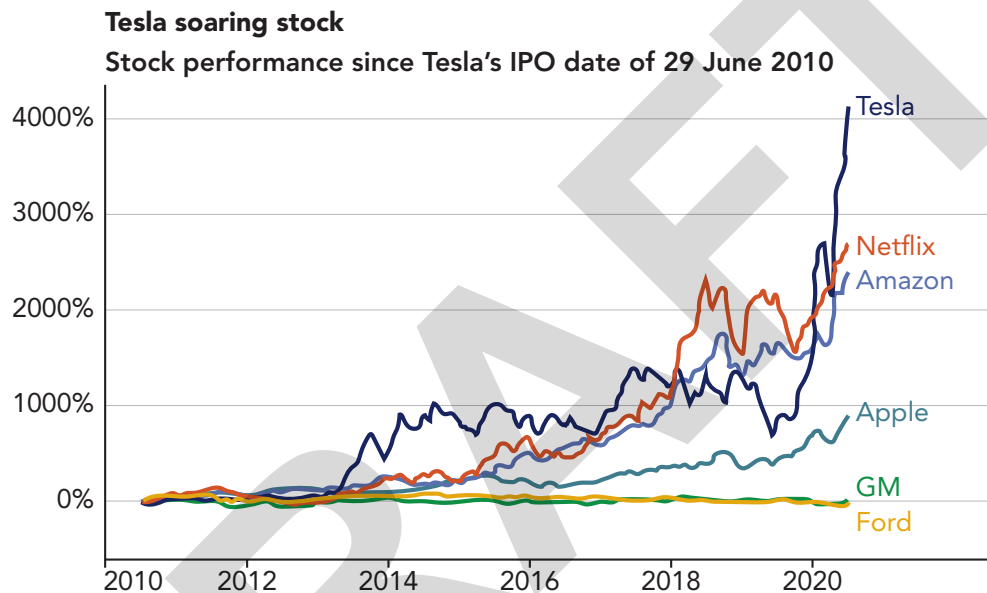
Airbnb went public in December 2020, amid conditions of reduced demand for travelling due to the public health crisis. The initial public offering (IPO) was very successful, as Airbnb shares traded at \$146, more than doubling the price of \$68 per share set for the IPO one day earlier. The decision of Airbnb to become a public limited company offered a great financial return to its investors. The financial resources raised from the stock market will help Airbnb’s management to invest in more innovation around its cloud-based application, offering advanced services for vacation rentals and tourism activities to its users in a market which is becoming increasingly competitive.



CONTINUED

- | | | | |
|---|---|---|--|
| 1 | Define the term 'publicly held company'.
[2] | 3 | Analyse two potential disadvantages to Airbnb of becoming a publicly held company.
[4] |
| 2 | Analyse two potential advantages to Airbnb of becoming a publicly held company.
[4] | | |

ACTIVITY 2.1



The above diagram shows the return of shareholders on a monthly basis between 29 June 2010 (the day Tesla Motors floated in the NASDAQ stock exchange) and 29 June 2020.

- 1 If an investor had spent \$100 on Tesla's shares on the day of the IPO, how much would be their return by selling their shares on 29 June 2020?
 - a More than \$400
 - b More than \$1000
 - c More than \$4000
- 2 Which other two car manufacturers appear on the stock performance graph? How do they perform in terms of returns to the shareholders compared to Tesla?
- 3 Which factors do you think explain the difference between the returns of Tesla's shareholders and the returns of the two other car manufacturers?
- 4 What does the soaring price of Tesla mean for the business as a plc and its ability to raise money through the stock exchange?
- 5 Would you have bought Tesla's shares on 29 June 2020, if you were an investor? Justify your answer.

THEORY OF KNOWLEDGE

Knowledge question: How can we decide whether a type of business activity is ethical or not? For example, based on how expensive the product is for consumers.

The personal loan market in many economies has seen the emergence of a huge number of so-called 'payday' lenders. These organisations provide very short-term loans (up to 30–40 days) to borrowers who urgently need cash to cover their living costs or a particular expense until, in theory, they get paid.

Research conducted in the US suggests that 12 million Americans take out payday loans each year, with interest rates ranging from 300–500%, which are commonly disguised as 'fees'.

Compare this with 15–30% interest rates on credit cards to see how customers are financially drained by payday lenders. The main targeted consumers are low- to medium-income workers who do not qualify for credit cards or personal loans due to financial problems. Typical reasons why consumers would use a payday loan is to pay utilities and/or rent.

Yet, 'payday' is legal in 32 states in the US. Payday lenders claim that the very high rates are justifiable by the very high risk of borrowers eventually not being able to repay the loans. Moreover, lenders say that payday lending is a valuable service for US society. Numerous low-income consumers have avoided eviction and homelessness because of receiving payday loans while they were being denied access to the traditional banking system.

Discuss in class:

- 1 Is it unethical to charge high interest to consumers if they are willing to accept it?
- 2 Is it ethical for a 'payday' business to trap consumers in loans that are very hard and expensive to repay, to save them from huge problems such as homelessness?

2.3 For-profit social enterprises – private sector companies

Social enterprises

Social enterprises are not charities, but they do have objectives that are often different from those of an entrepreneur who is only profit motivated. Making a profit may be one of the objectives of a social enterprise, but it is usually much less important than the organisation's social objectives. **Social entrepreneurs** cannot, however, abandon business disciplines in their desire to improve society as they need to earn profits to allow for survival and growth.

A social enterprise is therefore a business that makes its money in socially responsible ways and uses most of any surplus made to benefit society. Social entrepreneurs are not running a charity – they can and often do keep some of any profit made for themselves.

Social enterprises compete with other businesses in the same market or industry. They use business principles to achieve social objectives. Most social enterprises have these common features:

- They directly produce goods or provide services.
- They have social aims and use ethical ways of achieving them.
- They need to make a surplus or profit to survive as they cannot rely on donations as charities do.

KEY TERMS

social enterprise: a business with social and/or environmental objectives that reinvests most of its profits into benefiting society rather than maximising returns to owners

social entrepreneur: a person who establishes an enterprise with the aim of solving social problems or achieving social change

Objectives of social enterprises

Social enterprises often have three main aims:

- Economic – to make a profit or surplus to reinvest back into the business and provide some return to the owners.
- Social – to provide jobs or support for local, often disadvantaged, communities.
- Environmental – to protect the environment and to manage the business in an environmentally sustainable way.

These aims are often referred to as the **triple bottom line**. This means that profit is not the sole objective of these enterprises.

KEY TERM

triple bottom line: the three objectives of social enterprises: economic, social and environmental

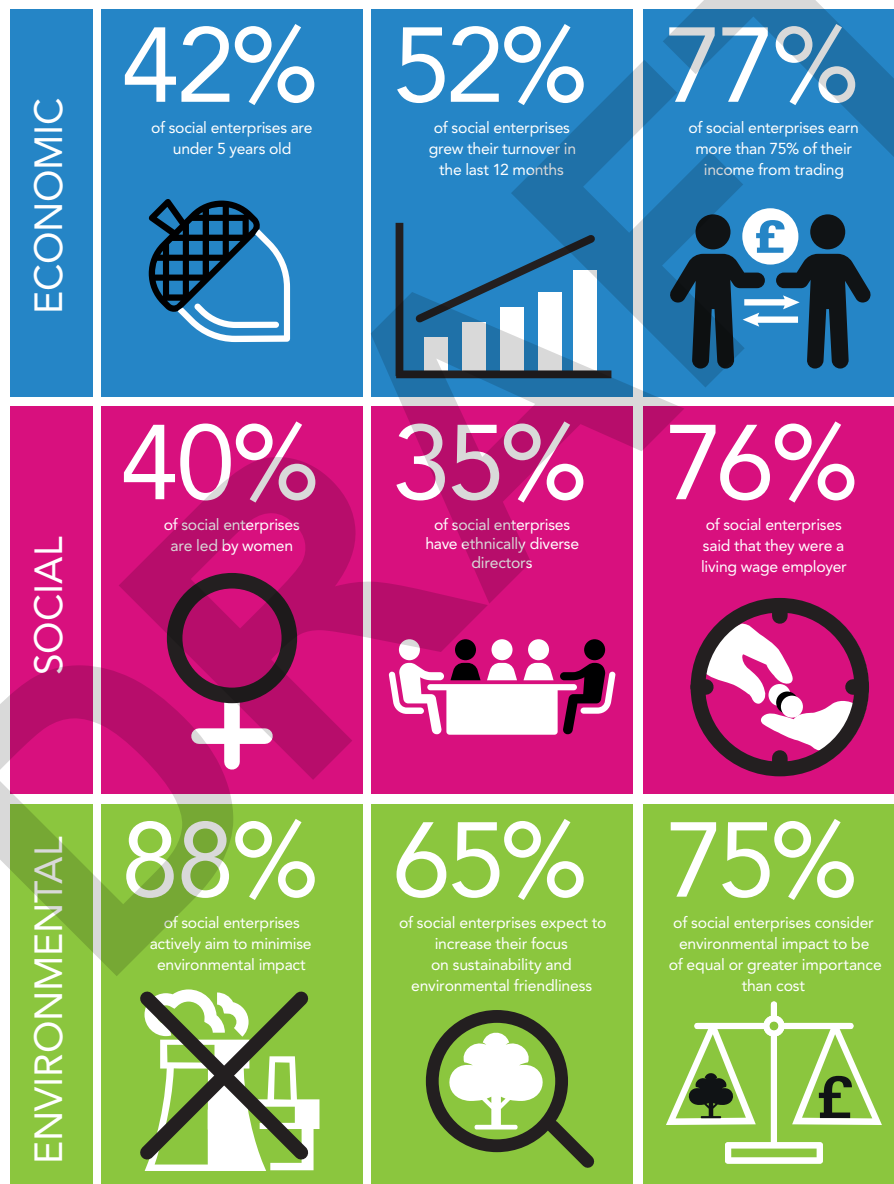


Figure 2.2 A recent report on private sector social enterprises recorded this data

Below are two examples of social enterprises.

- SELCO in India provides sustainable energy solutions to low-income households and small businesses. In one scheme, solar-powered lighting was provided by SELCO to a silkworm farmer who depended on dangerous and polluting kerosene lamps. The farmer could not afford the upfront cost, so SELCO helped with the finance too.
- The KASHF Foundation in Pakistan provides very small loans and social support services to women entrepreneurs who traditionally find it very difficult to receive help. This enables the women to set up their own businesses in food production, cloth-making and other industries. The loans have to be repaid with interest, but the interest rates are much lower than a profit-maximising international bank would charge.

The advantages and disadvantages of the social enterprise form of business organisation are summarised in Table 2.5.

Social enterprise business structures – private sector, public sector and cooperatives

As with all business owners, social entrepreneurs must set their business up in a legally recognised structure. The great majority of social enterprises operate in the private sector. They can be organised as sole traders, partnerships, limited companies or as mutual organisations such as cooperatives.

2.4 For-profit social enterprises – public sector companies

In every country, there will be some enterprises that are owned by the state – usually central or local government. These organisations are therefore in the public sector and they are referred to as **public corporations**.

Public sector organisations can be operated as social enterprises. They often do not have profit as a major objective. In many countries, the publicly owned TV channels have as their main priority the quality of public service programmes. State-owned airlines have safety as a priority. Selling off public corporations to the private sector, known as privatisation, often results in changing objectives from socially orientated ones to profit-driven goals. A summary of the potential advantages and disadvantages of public corporations as social enterprises is given in Table 2.6.

KEY TERM

public corporation: a business enterprise owned and controlled by the state – also known as nationalised industry or public sector enterprise

Advantages	Disadvantages
<ul style="list-style-type: none"> • Most governments want to encourage this form of business structure so they provide a range of financial incentives to social entrepreneurs. • The objectives of social enterprises encourage like-minded and committed people to want to be employed by them, and this helps to create a cohesive workforce. • There are increasing trends towards 'responsible consumerism' so marketing social enterprises and their products may become easier because there is a growing potential market. 	<ul style="list-style-type: none"> • Social enterprises have to compete with other businesses organisations that might have lower costs if they do not have the social/environmental objectives that social enterprises have. • Social enterprises often offer unusual ideas and products that are targeted towards distinct communities. Since communities and consumer tastes are always changing, social enterprises have to constantly research and monitor their target market. • Complete transparency of the operations of the enterprise is essential to gain and keep the trust of investors, employees and customers to ensure that the social mission is being pursued effectively.

Table 2.5 Social enterprises – advantages and disadvantages

Advantages	Disadvantages
<ul style="list-style-type: none"> • Managed with social objectives rather than solely with profit objectives • Loss-making services might still be kept operating if the social benefit is great enough • Finance raised mainly from the government so not subject to limitations from banks or shareholders 	<ul style="list-style-type: none"> • Tendency towards inefficiency due to lack of competition and lack of strict profit targets • Subsidies from government can encourage inefficiencies • Government may interfere in business decisions for political reasons, e.g. by opening a new branch in a certain area to gain popularity

Table 2.6 Public sector social enterprises – advantages and disadvantages

TIP

Avoid a common error by remembering that publicly held companies are in the private sector of industry – but public corporations are not.

Cooperatives

Cooperatives are not about making big profits for shareholders but creating value for customers and secure employment for workers; this is what gives cooperatives a unique character, and influences their values and principles.

Cooperatives tend to fall into one of these three groups:

- Retail cooperative – also called consumers' cooperatives. This is a cooperative business owned by customers for their mutual benefit. It is a private sector enterprise that is oriented towards service rather than financial profit. It often takes the form of retail outlets operated and owned by their consumers. The consumers or customers are the people who have provided the capital required to launch or purchase the enterprise and profits are shared either by discounts on products or by a payout to customer owners each year.
- Agricultural cooperative – this exists when farmers pool resources for mutual benefit, for example in the buying of fertiliser or the marketing of key food products.

KEY TERM

cooperative: a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically

- Worker cooperative – often engaged in manufacturing. Workers collectively own the business and make the important decisions.

CASE STUDY 2.3



The 'Aegina Agricultural Cooperative of Pistachio Growers'

Pistachio trees arrived in Greece in around 1850. Aegina is a small Greek island on which local farmers yielded a special variety and produced superb pistachio nuts. Today, 'Aegina **Agricultural Cooperative of Pistachio Growers**' handles harvesting, packaging and distribution of Aegina pistachios all over Greece and the rest of the world. The cooperative was first set up in 1947, initially with many problems, such as the lack of marketing skills. Yet, through the effective collaboration of its members, the cooperative grew, and by 2020 it included 347 members, producing roughly 30% of the island's pistachio production.

Many of the members of the cooperative are not full-time professional farmers. They are just small-scale producers who wish to sell their products to

CONTINUED

increase their household income. The members pool resources for mutual benefit for the production and the distribution and promotion of their products. However, the democratic management of the cooperative is not without problems. There are often disagreements among the members on issues such as the growth and marketing strategy of the cooperative. Producers outside the cooperative prefer to remain free to decide on how to package, promote and price their products.

- 1 Define the term 'agricultural cooperative'. [2]
- 2 Suggest the advantages for pistachio producers who join the Aegina Agricultural Cooperative of Pistachio Growers. [6]
- 3 With reference to the case study, identify **two** problems associated with agricultural cooperatives. [4]

CONTINUED

- 1 Find more information on the case of privatisation of British Rail.
- 2 Search for evidence on the impact of this privatisation on stakeholders.
- 3 Discuss your findings in class.

REFLECTION

- 1 When finding information, did you make sure that you used a variety of sources and not just one article?
- 2 Is the evidence you collected trustworthy? Does it include any statistical data or research evidence, for example on the evolution of ticket prices after privatisation? Have you tried to identify both positive and negative aspects of the privatisation example under investigation?

ACTIVITY 2.2

The privatisation of British Rail started back in the 1990s and it has been the subject of much debate. Supporters of the decision identified benefits for the public such as improved customer services and increased capital investment in infrastructure. However, not all stakeholders agree. According to their perspective, the 'private sector efficiency vision' did not work well for this example of privatisation.



2.5 Non-profit social enterprises

Not all organisations in the world aim to make profits. There are many thousands of **non-profit organisations** that have objectives other than profit – for example, charities and pressure groups. Many of these are also termed **non-governmental organisations (NGOs)**.

KEY TERMS

non-profit organisation: an organisation that has aims other than making and distributing profit and which is usually governed by a voluntary board

non-governmental organisation (NGO): a legally constituted body, with no participation in or representation of any government, which has a specific aim and purpose, e.g. supporting disadvantaged groups in developing countries or advocating the protection of human rights

Non-governmental organisations (NGOs)

A non-governmental organisation (NGO) is a not-for-profit group, independent from government, which is organised on a local, national or international level to tackle issues that support the public good. They are task-focused and made up of people sharing a common interest. NGOs perform a variety of services and humanitarian functions, bring public concerns to governments and encourage participation of society's stakeholders at the community level. The objectives of NGOs are not profit-based but are specifically focused on social, environmental or humanitarian objectives.

Examples of NGOs include the following:

- Amnesty International is a worldwide campaigning movement that works to promote internationally recognised human rights for all. It undertakes research and action focused on preventing and ending grave abuses of human rights, to promoting physical and mental integrity, freedom of conscience and expression, and freedom from discrimination.
- Article 19 is a human rights organisation with a specific mandate and focus on the defence and promotion of freedom of expression and freedom of information worldwide.
- Avocats Sans Frontières ('Lawyers Without Borders' (ASF)) is mostly made up of lawyers, solicitors and magistrates, and aims to contribute, completely independently, to the establishment of a fair, equitable and united society.
- Médecins Sans Frontières (MSF) is an international humanitarian aid organisation that provides emergency medical assistance to populations in danger in more than 70 countries. According to its charter, MSF 'provides assistance to populations in distress, to victims of natural or human-caused disasters and to victims of armed conflict. We do so irrespective of race, religion, creed or political convictions.'
- The Ford Foundation is a resource for innovative people and institutions worldwide, with a view to strengthening democratic values, reducing poverty and injustice, promoting international cooperation, and advancing human achievement.
- The MacArthur Foundation supports creative people and effective institutions committed to building a more just, verdant and peaceful world. Among other things, it seeks to further the development of an international system of justice and advance human rights around the globe.
- The International Committee of the Red Cross (ICRC) is an impartial, neutral and independent organisation whose exclusively humanitarian mission is to protect the lives and dignity of victims of armed conflict and other situations of violence and to provide them with assistance.



Médecins Sans Frontières (MSF) is an international humanitarian aid organisation

LEARNER PROFILE

Principled

Médecins Sans Frontières (MSF) or Doctors Without Borders is a not-for-profit NGO that provides medical aid and support to developing countries in conflict situations and humanitarian crises. Between March and August 2021, it provided medical care to 6000 malnourished children across Madagascar, a country that was hit by the worst food and nutrition crisis in its recent history. To deal with the catastrophic humanitarian crisis, MSF set up mobile clinics in approximately 20 locations after overcoming many problems, including the country's geography, which makes it difficult to access remote villages.

MSF's actions are based on the principles of medical ethics, independence and impartiality. Their primary aim is to go to the most difficult places and situations around the world and provide support to sick and injured people.

- Why can the people of Médecins Sans Frontières be described as 'principled'? Discuss in class.
- Find another example of an organisation that you would describe as principled and explain to your class why you think your choice of organisation is principled.

Charities

Most countries have laws about what constitutes charitable work, as **charities** are usually allowed tax benefits. The following list is typical of activities accepted as being for 'charitable purposes':

- prevention or relief of poverty
- advancement of education
- advancement of religion
- advancement of health or the saving of lives
- advancement of citizenship or community development
- advancement of the arts, culture, heritage or science
- advancement of human rights conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- advancement of environmental protection or improvement
- relief of those in need, by reason of youth, age, ill health, disability, financial hardship or other disadvantage
- advancement of animal welfare.

Charities often perform useful social and environmental functions that would not be undertaken by private businesses or government-funded organisations. They are dependent on private contributions and these can vary in amount, making it difficult for charity managers to plan. Some charitable work is duplicated, for example in social care or medical research, and it is argued that such situations can lead to wasteful duplication.

KEY TERM

charity: an organisation set up to raise money to help people in need or to support causes that require funding

ACTIVITY 2.3

1 Identify the type of business activity that most likely matches the description provided.

	For-profit private sector	For-profit social enterprise	Non-profit	Public sector business
Women's rights' Legal and human rights bureau				
Production of straws made from sugar cane				
Ophthalmic hospital				
Office for National Statistics				
Financial consulting				

2 One of the business activities above can be either a for-profit private sector or a public sector business. Which one do you think, and why?

SELF-EVALUATION CHECKLIST

After studying this chapter, complete this table.

I am able to analyse and apply:	Needs more work	Almost there	Ready to move on
the distinction between the private sector and public sector (AO2)			
I am able to evaluate:			
the main features of the following types of organisations: sole traders, partnerships and companies/corporations (AO3)			
the main features of the following types of for-profit social enterprises: private sector companies, public sector companies, cooperatives (AO3)			
the main features of the following types of non-profit social enterprises: non-governmental organisations (AO3)			

REFLECTION

- 1 If you were planning to set up a business, would you create a social enterprise? Justify your decision to another learner.
- 2 What factors did you consider when making this decision? Which was the most important factor, and why?

PROJECT

- 1 As a class, find an NGO specialising in any social cause that you think is important in your country.
- 2 Find out as much information on this NGO and its goals from the internet.
- 3 Split into two groups.

One group should organise a visit to the NGO, for an interview with a manager. The interview should include structured open and closed questions, aiming to understand:

- the scope of the business activity
- how it is organised
- how it differs from for-profit businesses

- how it finds resources to cover its needs
- what kind of problems it finds when trying to reach its goals.

The interview findings should be presented to the other group, which will need to organise a practical way to support the NGO. Ideas include: offering voluntary work, organising giving lotteries or other events, etc.

- 4 The two groups will meet to create a visual presentation of the project, e.g. a video, to be shared with their peers at school to increase awareness of the social goals of the non-profit organisation.

EXAM-STYLE QUESTIONS

Alejandro and Santiago become partners

Alejandro and Santiago are best friends and graduates from university. They have decided to set up a partnership, to start a business organising experiential events. They came up with the idea when they saw a video on YouTube, in which IKEA offered a big sleepover event to 100 people in one of their stores. They were also inspired by the fact that some famous partnerships were so successful that they ended up becoming huge public limited companies, such as the partnership between Larry Page and Sergey Brin, the two computer science graduate students who founded Google. However, they also read statistics which suggested that partnerships have many disadvantages and that only 30% survive in the long run.

In 2018, the two friends started the partnership, under the name XEvent. As a start-up, XEvent faced many problems. Competition in the market was more intense than the partners expected, and the business had cash flow problems, but banks were not happy to offer a loan. The business plan initially set up by the partners proved inaccurate. In 2020, Alejandro managed to convince Maria, another friend from university, to invest in the business. However, Maria demanded that the business be incorporated by becoming a private limited company. Initially, the partners were sceptical about it because the incorporation process is quite costly. Yet, they knew that the decision would solve many of their problems. Eventually, the partners became shareholders with limited liability in XEvent.

The business started growing and soon became very profitable. Maria was interested in transforming XEvent from a traditional for-profit business to a for-profit social enterprise by investing some of their profit in organising events for children with special needs as part of their social integration program. Santiago and Alejandro were enthusiastic about the idea. They also suggested that XEvent would help non-profit businesses by supporting them with their goals. Alejandro contacted an NGO working on animal rights and volunteered to organise an event to help them spread awareness on animal welfare issues.

- 1 Define the term ‘partnership’. [2]
- 2 Identify the economic sector in which XEvent operates. [2]
- 3 Suggest **two** reasons why Santiago and Alejandro decided to set up their business as a partnership. [4]
- 4 Suggest **two** problems the two owners faced from setting up XEvent as a partnership. [4]

CONTINUED

- 5 Describe **two** common steps of setting up a new business that the partners must have followed when starting XEvent. [4]
- 6 Suggest **two** reasons why Maria did not want to invest in a partnership but wanted XEvent to become a private limited company. [4]
- 7 Explain **two** possible disadvantages for Alexander and Santiago from changing their partnership into a private limited company. [4]
- 8 Explain **one** difference and **one** similarity between a typical for-profit business and a for-profit social enterprise. [4]
- 9 With reference to the case study, explain **one** difference and **one** similarity between an NGO and a for-profit business. [4]
- 10 Should XEvent become a social enterprise? Justify your answer. [4]

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Business Management

for the IB Diploma



Digital Teacher's Resource

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> 2 Types of business entities

Teaching plan

Sub-chapter	Approximate number of learning hours	Learning content	Resources
2.1 Private and public sectors	2 hours	Distinction between the private and the public sectors	Coursebook Section 2.1 Teacher's Resource PowerPoint slides 2, 3 and 4
2.2 The main features of private sector organisations	2 hours, 10 minutes	The main features of sole traders, partnerships, privately held companies and publicly held companies	Coursebook Section 2.2 Business in Context Case studies 2.1 and 2.2 Teacher's Resource PowerPoint Slide 5
2.3 For-profit social enterprises – private sector companies	1 hour, 20 minutes	Evaluate the main features of the following types of for-profit social enterprises: <ul style="list-style-type: none"> • public sector companies • cooperatives 	Coursebook Section 2.3 Case study 2.3 Activities 2.1 and 2.2 TOK exercise on Ethics Teacher's Resource Vocabulary building worksheet: activity 2.1
2.4 For-profit social enterprises – public sector companies	1 hour	Organisational structures in the public sector <ul style="list-style-type: none"> • The strengths and weaknesses of public corporations 	Coursebook Section 2.4 Table 2.6 Teacher's Resource PowerPoint Slides 6 and 7
2.5 Non-profit social enterprises	1 hour	The main features of the following types of non-profit social enterprises: <ul style="list-style-type: none"> • non-governmental organisations (NGOs) 	Coursebook Section 2.5 Learner profile Médecins Sans Frontières (MSF) Activity 2.3 Teacher's Resource Vocabulary building worksheet: activity 2.2 PPT Slide 7

BACKGROUND KNOWLEDGE

- Learners should be encouraged, wherever possible, to draw on their current knowledge when completing their work. Many of the students will be familiar with the level of service in both sectors and will also have family members and friends working in different organisations.
- Many of the students will also be aware of different attempts by businesses to embrace corporate social responsibility and will also have some knowledge of the difference between objectives in the public and private sectors.

Syllabus overview

This chapter covers Units 2.1 and 2.2, the distinction between the private sector and public sector, and evaluates the different types of for-profit commercial businesses, for-profit social enterprises and non-profit social enterprises.

This chapter connects with the TOK syllabus via the payday loan market as well as the question of the degree of government control that is desirable in a modern economy.

2.1 Private and public sectors

LEARNING OBJECTIVES

Learning objective	Success criteria
<ul style="list-style-type: none"> • Analyse and apply the distinction between the private sector and public sector. 	<ul style="list-style-type: none"> • Learners will be able to evaluate the differences between organisations in the private and public sector and provide examples of organisations in both sectors. • Learners will be able to explain why the size of the private and public sectors differs between nations with different economic systems.

LANGUAGE FOCUS

Public sector: comprises organisations accountable to and controlled by central or local government (the state)

Command economy: economic resources are owned, planned and controlled by the state

Free-market economy: economic resources are owned largely by the private sector, with very little state intervention

Private sector: comprises businesses owned and controlled by individuals or groups of individuals

Mixed economy: economic resources are owned and controlled by both private and public sectors.

Privatisation: the sale of public sector organisations to the private sector.

Common misconceptions

Misconception	How to identify	How to overcome
Many learners confuse the terms 'public sector corporation' and 'public limited company'.	Ask the learners to list different businesses in both categories and check that they have not confused the terms.	Provide examples of public corporations and public limited companies to illustrate the difference between the two.

Assessment ideas

- When completing the starter activity, have learners compile as many different examples as they can and ensure that they are aware of the difference between public limited companies and public corporations, as students sometimes get these confused. You might also wish to consider limiting the number of each to just ten public and ten private companies and set the task as a race to finish.
- In the first main activity, stress that learners are not required to have an in-depth knowledge of all the characteristics of the business, for example scope, mission statement, etc. All this information can be obtained from the company website, and you might also wish to direct some learners to individual websites, for example Nike, Apple, etc. – businesses they know well and will feel confident writing about.
- After completing the arrow activity (Main activity 2), ask students to justify their placing of the different countries, especially when they differ from the answer provided in the Teacher's Resource.

Starter idea

1 Private and public sectors (10 minutes)

Resources: Whiteboard, PowerPoint slides 2, 3 and 4.

Description and purpose: Recognising different organisations in the public and private sectors of the economy.

On the whiteboard write, 'Different organisations in the economy' and then put the students in pairs and give them just 5–6 minutes to write down as many public and private sector organisations as they can, listed under the correct sector. Ask one or two groups to share their lists and have the other learners determine whether each of the organisations chosen has been placed in the correct sector.

Learners can then use the traffic light system to indicate their level of understanding of differences between the two sectors from **red** = don't understand, **amber** = some understanding, to **green** meaning complete understanding.

Main teaching ideas

1 Investigate two contrasting organisations (60 minutes plus time required for presentations and reflection)

Resources: Coursebook Sections 2.1, internet sources.

Description: Ask the students to work in pairs collect information on two contrasting organisations, one from the public sector and one from the private sector. A detailed presentation is not required at this stage; the primary aim of the exercise is to enable students to research different businesses and divide up the work as a pair.

Learners should prepare a short (4–5 minutes) presentation comparing the two organisations according to the following:

- the ownership, scope, sector and size of the business
- the business mission, vision and values
- a brief comment on how successful the organisation has been at meeting the objectives set out in their mission statement and how can this be measured.

› **Assessment ideas:**

This task would be a good one to use peer assessment on, with the other learners asked to provide feedback on each presentation, highlighting one thing they liked and another they believe showed room for improvement. Presentations should be assessed on the quality of the work students have produced.

Have they included all of the three criteria above? Is the information easy to understand? The slides from exemplar work could be used as an in-class wall display to use as examples in future lessons. Consideration should be given to the fact that this will be the learners' first experience of some of the terminology and that a detailed presentation is not required.

› **Differentiation ideas:**

Support: If learners need support in selecting organisations, prepare a short list of organisations where the required information is relatively easy to discover and direct students to those sites.

Stretch and challenge: Some groups could be challenged to go beyond the brief by examining more than one of the objectives of each organisation and addressing these in their presentation.

› **Reflection:**

Description: Ask learners to consider the following question: Is it necessarily the case that firms in the public service prioritise service and those in the private sector prioritise profit? Have learners write their answers down briefly and invite some students to share their thoughts.

Answers: Consider the following: the core objectives of private social enterprises such as charities, cooperatives and NGOs; why large private sector businesses allocate vast sums of money to corporate social responsibility.

2 Different economic systems (30 minutes)

Resources: Whiteboard, Coursebook Section 2.1.

Description: Draw an arrow on the whiteboard and have learners place the following nations on the arrow diagram:

Canada, France, Venezuela, Hong Kong, North Korea, USA, India, Cuba, Sweden

Free market system

Mixed economic system

Planned economic system



Answers:

Free market system

Mixed economic system

Planned economic system



Hong Kong

India

USA

Canada

France

Sweden

Venezuela

Cuba

North Korea

> **Assessment idea:** This task can be self-assessed by each learner, comparing their responses with the answers, which you should write on the whiteboard.

> **Differentiation ideas:**

Support: Support students having difficulty by providing one or two examples, for example Hong Kong as the 'most' free market nation, to get them started.

Stretch and challenge: Learners should be encouraged to research using the internet and list some of the advantages and disadvantages of each economic system

Answers include:

Economic system	Advantages of the economic system	Disadvantages of the economic system
Free market system	Resources are not wasted unnecessarily because profit acts as a signal to producers to produce more of the goods or service	Unregulated markets can lead to vast income inequalities as well as poor regulation of factories, leading to excessive pollution and other externalities.
Mixed economic system	Most of the advantages of both planned and free market economic systems are also present in a mixed economy.	Mixed economies also include most of the disadvantages of other economic systems.
Planned economic system	Income inequality and social inequality are much lower.	With no incentives for entrepreneurs and innovators, productivity and economic growth are low.

> **Reflection:** Finish this exercise by leading a short conversation as to why no country is either 100% planned or free market and that nations instead exist somewhere on the scale, with elements of both systems present in their economies.

Plenary idea

1 Learning mind map (10 minutes)

Resources: None.

Description: Write the question, 'What did we learn today?' on the board. Ask the learners to come up and write one thing that they learnt on the board. This can then be turned into a revision resource from the lesson and learners could take a photo of the finished work for their future studies.

> **Assessment idea:** Support learners by identifying any gaps in the completed mind map and make a note of these to use a starter for the next lesson.

2.2 The main features of business organisations in the private sector

LEARNING OBJECTIVES

Learning objectives

- Evaluate the main features of the following types of organisations: sole traders, partnerships, privately held companies and publicly held companies.

Success criteria

- Learners will be able to describe the characteristics and provide examples of different types of for-profit (commercial) organisations.
- Learners will be able to evaluate the effectiveness of each type of legal structure for a given situation.

LANGUAGE FOCUS

Sole trader: a business in which one person provides the permanent finance and, in return, has full control of the business and is able to keep all of the profits

Share: a certificate confirming part ownership of a company and entitling the shareholder to dividends and certain shareholder rights

Shareholders: individuals or institutions that buy/own shares in a limited company

Publicly held company (plc): a limited company with the legal right to sell shares to the general public; its share price is quoted on the national stock exchange

Initial public offering (IPO): the process of offering for sale the shares of a privately held company to financial institutions and the general public.

Partnership: a business formed by two or more people to carry on a business together, with shared capital investment and, usually, shared responsibilities

Limited liability: the only liability – or potential loss – a shareholder has if the company fails is the amount invested in the company, not the total wealth of the shareholder

Privately held company: a business that is owned by shareholders who are often members of the same family; this company cannot sell shares to the general public

Assessment ideas

- You could begin this exercise by asking the class where either of their parents work, and then ask them to explain the likely legal structure of their place of work as a way of introducing the sub-chapter.
- This sub-chapter is designed to be completed alongside Case Studies 2.1 and 2.2. Each of these focus on the material from this sub-chapter and will help develop students' understanding of the unit.
- An additional activity for this unit might be to have learners research the IPOs of Netscape and Uber and explain why they were less successful than both businesses hoped. This will help learners complete the second main activity in this section.

Starter idea

1 Martha's digital marketing agency (20 minutes)

Resources: Coursebook Section 2.2, Case Study 2.1, PowerPoint Slide 5.

Description and purpose: Discuss the challenges faced by Martha's digital marketing agency, a sole trader. In pairs, learners should read about sole traders and partnerships in Section 2.2 and write down any terms or concepts they are unsure of. Once they have done this, learners should discuss the questions on Martha's business in Case Study 2.1 and then share their answers with another pair. Do they agree with each other? Make sure the learners explain their answers fully to try to develop their speaking skills. Check that learners understand the concept and relevance of the terms limited and unlimited liability.

Main teaching ideas

1 Features of different private sector business (50 minutes + additional time for presentations)

Resources: Coursebook Section 2.2, Tables 2.1–2.4.

Description: Classify organisations by business ownership. Ask learners to work in pairs or small groups, depending on class size (the ideal number of groups is four, one for each type of private sector business), and allocate each one a type of private sector business: sole trader, partnership, private limited company and public limited company.

Each group needs to prepare a five-minute presentation (with accompanying slides capable of supporting other learners) on the business structure they are allocated. This needs to include the following information:

- a definition of relevant key terms
- the advantages and disadvantages of this type of business
- limited or unlimited liability and what this means for the business
- examples of businesses with this structure.

› **Assessment ideas:** Learners should be assessed on the extent to which the key information on each business structure is presented in an easy-to-understand way. Each group should also present a summary of their slides to support learners in developing their understanding of key terms and provide them with a useful revision tool.

› Differentiation ideas:

Support: Direct learners to Tables 2.1–2.4 of the Coursebook, which contain information to support them in the task.

Stretch and challenge: Learners could be encouraged to prepare a slightly longer presentation, with an explanation of why the legal structure is particularly relevant to different industries, for example which type of firm or industry is most appropriate for the type of legal structure they are researching and presenting on.

› **Reflection:** In pairs, learners should discuss possible reasons why certain industries normally operate under the same legal structure. For example:

- Why are legal firms and accountants generally partnerships?
- Why are many telecommunications, water and power industries public corporations?
- Why do many restaurants belong to a franchise?
- Why do businesses with low start-up costs, such as window cleaners and builders, often operate as sole traders?

2 Converting from private to public – the popularity of IPOs (40 minutes)

Resources: Coursebook Business in Context feature: Pague Menos arranges an IPO, internet sources.

Description: Investigate one of the following IPOs: Alibaba Group Holding Limited (2014), General Motors (2010), Facebook (2012) or Visa (2008) and then in pairs evaluate the success of each share offering. This should be written in the form of a short report, including answers to the following questions:

- Why did the owners arrange the IPO, and was the sale successful? Calculate the degree to which both sales revenue and profit have grown since the IPO. Have there been any negative consequences from its public offering?
- What might be the concerns for a business considering converting from a private limited to a public limited company?
- Are there any IPOs which have failed to raise sufficient capital from their initial floatation?

Answers:

Answers will depend on the business chosen, but all of the four examples provided have seen significant rises in revenue and profits since going public. Netscape and Uber are examples of failed IPOs, in both cases losing their shareholders money through reduced share value.

› **Assessment idea:** Have each pair share their findings with the class, and then collect in the individual reports for grading.

› **Differentiation ideas:**

Support: You may have to guide some learners by showing them where they can access the information on one of the IPOs mentioned above.

Stretch and challenge: Learners could be encouraged to write beyond the brief by detailing in more depth why their chosen IPO succeeded and an explanation of why another IPO, for example Uber or Netscape, failed.

› **Reflection:** Based on what the students have learnt consider why some IPOs fail and some succeed.

Plenary idea

1 Legal structures of private businesses (20 minutes)

Resources: Coursebook Section 2.2, Vocabulary Building Worksheet Activity 2.1.

Description: This activity on the vocabulary building worksheet contains three simple revision exercises relating to the legal structures of businesses. Each should be completed as an individual exercise and are designed as simple revision practise. In Questions 1 and 2, learners will complete the paragraphs, filling in the blank spaces. In Question 2, learners will use the words: *public / private / profit / not for profit* to complete each of the sentences. Finally, in Question 3, learners can complete the table by stating whether each of the statements are true or false.

› **Assessment ideas:** You can assess learner's responses to check that key messages from the sub-chapter have been learnt. Key learning points can be self-graded and any gaps in knowledge can be noted as the basis for the starter of the following lesson.

› **Differentiation ideas:**

Support: You may need to help some learners to get them started. You could also refer them to the relevant sections of the Coursebook, which provide additional help with this exercise.

Stretch and challenge: Learners can be given this additional question and then share their answers with the rest of the class, once completed. This can also be used as a starter question for the following lesson.

2.3 For-profit social enterprises – private sector companies

LEARNING OBJECTIVES

Learning objectives

- Evaluate the main features of the following types of for-profit social enterprises:
 - public sector companies
 - cooperatives.

Success criteria

- Learners will be able to identify the main features of social enterprises and evaluate the appropriateness of this type of organisation for different situations.

LANGUAGE FOCUS

Social enterprise: a business with mainly social objectives that reinvests most of its profits into benefiting society rather than maximising returns to owners

Social entrepreneur: a person who establishes an enterprise with the aim of solving social problems or achieving social change

Triple bottom line: the three objectives of social enterprises: economic, social and environmental

Cooperative: a group of people acting together to meet the common needs and aspirations of its members, sharing ownership and making decisions democratically

Assessment ideas

- A good way to begin this section would be to ask learners to research examples of NGOs, non-profit organisations and charities before inviting them to discuss the differences between the three types of organisations, before completing the activities in this section.
- This sub-chapter is designed to be completed alongside Case Study 2.3. This focuses on the material from this sub-chapter and will help develop students' understanding of the unit.

Starter idea

1 Introducing for-profit social enterprises (15 minutes)

Resources: Coursebook Sections 2.3 and 2.4, PowerPoint Slide 7.

Description and purpose: Learners should start by reading Sections 2.3 and 2.4 in the Coursebook and then in pairs discuss answers to the following question:

- 1 Social enterprises refer to the term *triple bottom line* – what does this phrase mean when applied to social enterprises?

Answers:

- 1 Whereas business enterprises have one bottom line (profit), social enterprises have three – economic, social and environmental.

> **Assessment idea:** This can be self-graded based on the answers above, with learners indicating their level of understanding using the traffic light system before moving on.

Main teaching idea

1 Different types of for-profit social structures (50 minutes)

Resources: Coursebook Section 2.3.

Description: In pairs, learners create a mind map on the for-profit social structure, identifying the differences between this structure and other for-profit businesses.

Answers: While most for profit organisations will typically have a hierarchical organisational structure, often very formal with clear lines of authority, the structure in many for-profit social structures reflects the cooperative nature of the organisation. As a consequence, the structure tends to be less hierarchical and more matrix in style. Under UK law, such businesses are prohibited from deviating from their original social mission.

> **Assessment ideas:** This activity can be peer assessed, with each group/individual reading out their answers and other learners asking questions as a method of feedback. Mind maps can also be added to the walls of the classroom for future learning opportunities.

> **Differentiation ideas:**

Support: Some learners may require additional support and may benefit from searching for-profit social enterprises online before beginning the exercise. Learners may also benefit from being shown an example of an appropriate structure before beginning their response.

Stretch and challenge: To build on this mind map, learners could also identify examples of each type of organisational structure. Learners could also complete the three questions in Case Study 2.3 'Aegina Agricultural Cooperative of Pistachio Growers'.

> **Reflection:** Direct learners to the TOK exercise in Section 2.2 of the Coursebook. After they complete the discussion activity, ask learners to discuss the following question: Is it inevitable that businesses based on a for-profit model will always put profits before ethics?

Plenary idea

1 Types of legal structure (15 minutes)

Resources: Coursebook Sections 2.1–2.4, access to the internet for research.

Description and purpose: Recognising the different legal structures of different businesses in the public and private sectors of the economy.

Research the following types of business structure and then place each under the correct heading of the table below:

- Cooperatives
- Franchise
- Partnership
- Public–private partnerships (PPP)
- Non-governmental organisations (NGOs)
- Sole trader
- Microfinance providers
- Public services, e.g. hospitals, schools
- Private limited company (Ltd)
- Government departments
- Charities
- Public limited company (plc)

For-profit social enterprises	Non-profit social enterprises	For-profit enterprise	Public sector corporation

Answers

For-profit social enterprises	Non-profit social enterprises	For-profit enterprise	Public sector corporation
Cooperatives	Non-governmental organisations (NGOs)	Sole trader	Government departments
Microfinance providers	Charities	Partnership	Public services, e.g. hospitals, schools
Public–private partnerships (PPP)		Private limited company (Ltd)	
		Public limited company (plc)	
		Franchise	

2.4 Public sector enterprises

LEARNING OBJECTIVES

Learning objectives

Evaluate the main features of the following types of for-profit social enterprises:

- public sector companies
- cooperatives

Success criteria

- Learners will be able to evaluate the strengths and weaknesses of public vs private sector corporations against a range of prescribed criteria.

LANGUAGE FOCUS

Public corporation: a business enterprise owned and controlled by the state – also known as nationalised industry or public sector enterprise

Common misconceptions

Misconception	How to identify	How to overcome
Many learners confuse the terms 'public sector corporation' and 'public limited company'.	Ask the learners to list different businesses in both categories and check that they have not confused the terms.	Direct learners towards the beginning of Section 2.4 on public sector enterprises, which explains the difference between the two concepts.

Assessment ideas

Begin this sub-chapter with a short discussion about some of the public corporations operating in the learners' country. Who controls these organisations and who owns them? Stress the idea that the answer is not the government for both – governments control public sector organisations, but they are owned by the public, including everybody in this classroom. Do governments sometimes appear to forget this distinction, and do governments also require checks and balances to moderate how they operate?

Starter idea

1 Organisational structures in the public sector (20 minutes)

Resources: Internet sources for research, whiteboard, PowerPoint Slide 5.

Description and purpose: The following list includes some of the characteristics of both government departments and public sector corporations. Both are different components of the public sector, and distinguishing between the two is a good way to start this sub-chapter. Place each of these characteristics under one of the two headings:

- state instruments created to administer specific services
- at least 51% of the capital is owned by the government
- shares many of the characteristics of a private company
- their primary objectives include providing a service to the public
- under the control of parliament, government and the public
- examples include British Telecom and Turkish Airlines
- directly controlled by government/civil servants
- examples include departments such as the police force, national defence or public schools.

Government departments	Public corporations

Answers:

Government departments	Public corporations
State instruments created to administer specific services	Shares many of the characteristics of a private company
Their primary objectives include providing a service to the public	At least 51% of the capital is owned by the government
Directly controlled by government/civil servants	Under the control of parliament, government and the public
Examples include departments such as the police force, national defence or public schools	Examples include British Telecom and Turkish Airlines

Main teaching ideas

1 The strengths and weaknesses of public corporations (30 minutes)

Resources: Coursebook Section 2.4, Table 2.6.

Description: Learners should read Coursebook Section 2.4 on public sector enterprises. In pairs, learners should review the advantages and disadvantages of public corporations. In pairs, learners should make a list of the main strengths and weaknesses of public sector organisations and then decide whether they would support increased government control of the economy or not.

› **Assessment idea:** Ask some groups to share their response and then have the assessment peer reviewed, with groups deciding on the effectiveness of each response based on how well they justify and explain their reasons for selection.

› **Differentiation ideas:**

Support: Direct learners to Table 2.6 in the Coursebook showing the advantages and disadvantages of public corporations. This provides more information for learners who may need examples to help answer the question.

Stretch and challenge: Learners should be challenged to think beyond the examples in the Coursebook in their response.

Plenary idea

1 Recap on what they have learned so far (10 minutes)

Resources: None.

Description: To support learners in reviewing their learning, ask them to write down at least two things they learned from the lesson, either a strength or weakness of public sector businesses that they fully understand, and one question they still have about public corporations.

› **Assessment idea:** Take in the responses, which will provide you with an indication of what the learners did and did not understand. Then make a list of the most important questions and provide answers to each at the start of the next lesson.

2.5 Non-profit social enterprises

LEARNING OBJECTIVES

Learning objectives	Success criteria
<ul style="list-style-type: none"> Evaluate the main features of the following types of non-profit social enterprises: non-governmental organisations (NGOs). 	<ul style="list-style-type: none"> Learners will be able to identify the main features of non-profit social enterprises and evaluate the appropriateness of this type of organisation in different situations.

LANGUAGE FOCUS

Non-profit organisation: an organisation that has aims other than making and distributing profit and which is usually governed by a voluntary board

Charity: an organisation set up to raise money to help people in need or to support causes that require funding

Non-governmental organisation (NGO): a legally constituted body, with no participation in or representation of any government, which has a specific aim and purpose, e.g. supporting disadvantaged groups in developing countries or advocating the protection of human rights

Assessment ideas

- Coursebook Activity 2.3 includes an exercise which will reinforce the learners' understanding of this section and would be a good activity to complete after the reflection and just before the plenary exercise.
- During this sub-chapter, also have learners research and then discuss the differences between the organisations in this sub-chapter and the for-profit organisations studied in Section 2.4.

Starter idea

1 Introducing non-profit social enterprises (10 minutes)

Resources: Coursebook Section 2.5, internet sources for research.

Description and purpose: Learners should start by investigating one of the following non-profit social enterprises:

Guildford Bike Project

Changing Perceptions Furniture Upcycling

Seagulls Reuse Paint

PBS4 Positive Behaviour Support

Thrive charity - Gardening for Health

What to do next: In pairs or small groups, learners should provide a brief report, outlining the purpose of each social enterprise and what they do. Ideas can be read out and then discussed as an introduction to the next unit. You can then get some groups to explain the difference between the above enterprises and the for-profit enterprises.

Answer:

Primarily one of size and therefore scale of operation as well as purpose. In many cases, larger charities and NGOs also use fundraising as a way of raising awareness of their cause.

Main teaching idea

1 Médecins Sans Frontières (MSF) (30 minutes)

Resource: Coursebook Learner Profile Médecins Sans Frontières (MSF) (30 minutes)

Description: Learners should start by reading the Coursebook Section 2.5 on non-profit social enterprises and the learner profile activity on Médecins Sans Frontières (MSF). After completing the discussion activities in the Coursebook, learners should then be asked to investigate *one* of the other non-profit social enterprises described in this section:

- Amnesty International
- Article 19
- Avocats Sans Frontières
- Ford Foundation
- MacArthur Foundation
- International Committee of the Red Cross (ICRC).

What to do next: Compare the activities of their chosen organisation, and using the learner profile state which of the learner profile attributes are clearly in evidence in the practices of the organisation.

› **Assessment idea:** Learners will deliver their own responses but must be able to justify their findings. Reward learners able to go beyond a simple identification of learner profile attributes and those able to justify their response, particularly learners able to provide an original perspective.

Answer:

May include tax advantages to being not-for-profit as well as access to grants/government support. On the for-profit side, an advantage could be access to larger funds, allowing them to complete more of the charitable work they were set up to do.

› Differentiation ideas:

Support: Allow some learners to complete the task as one of a pair so they can discuss their ideas with another learner before completing the task.

Stretch and challenge: Learners can be challenged to research their own non-profit organisation and complete the same exercise for it.



Answers: While many learners will select the obvious learner profile trait of 'principled' there are others that may well be in evidence, e.g. thinker, reflective, communicator, risk taker, knowledgeable, etc.

› **Reflection:** Consider why some social enterprises operate for profit while others run on a not-for-profit basis. Outline one advantage of each legal structure.

Plenary idea

1 Revision of key terms (20 minutes)

Resources: Vocabulary Building Worksheet Activity 2.1.

Description and purpose: The language worksheet contains a list of key terms for this chapter, with a correct definition for each. The learners will need to unjumble the key terms so that they match the definitions. The purpose of this activity is to check for understanding of the necessary key terms, and it is an effective revision exercise. Once completed, learners should turn their responses into a revision sheet or set of flashcards for future learning opportunities. This exercise could also be turned into a revision poster to display on the walls of the classroom.

Project guidance: When completing the project, the learners' first stop should be a charity or NGO where either a family member or family friend of one of the learners works. It is much easier for learners to gain access to an organisation, especially to the manager, if a member of the class has a contact with the company in question.

The class should aim to turn this information into a poster or video capable of being presented to other learners and contain sufficient information to be used as a revision prompt for later in the course. The poster and / or video will include all of the features requested, as well as any additional information they may collect independently. This means that the information contained must not be too descriptive, i.e. focusing on the history of the company and the work they do, but should also include the implications of the precise legal structure of the organisation and its relationship with the government and other stakeholders – how does each stakeholder contribute to the workings of the organisation, and what are its main sources of funding?