

OBM3102

# FOUNDATION IN BUSINESS

SELF INSTRUCTIONAL  
MATERIALS

ACADEMIC YEAR 2023

**FACULTY OF BUSINESS, HUMANITIES &  
HOSPITALITY**

**BACHELOR OF COMMERCE  
(HONS) IN  
INTERNATIONAL BUSINESS**

# Topic 1 ► The business organization (Part 1)

## LEARNING OUTCOMES

By the end of this topic, you will be able to:

1. Explain at least 5 general characteristics of an organization;
2. Explain at least 5 activities that are used to measure the importance of business;
3. Explain the 9 steps used to craft a business plan;
4. Explain at least 4 types of business organization; and
5. Explain at least 5 reasons for success or failure of business organization.

## ► INTRODUCTION

In this topic, you will learn the general characteristics of an organization. You will then learn the importance of business and the activities used to measure the business. You will next learn the steps used to craft a business plan. The last sub-topic will cover the types of business organization.

## 1.1 CHARACTERISTICS OF ORGANIZATION

Let's look at the important characteristics of organization:

1. Division of Labor
2. Common Purpose
3. Communication
4. Authority Responsibility Structure
5. People
6. Environment
7. Coordination
8. Rules and Regulations

### **Division of Labor**

The entire work of an organization is divided into functions and sub-functions. Division of labor leads to specialization because men acquire greater skill and knowledge when they perform a single operation again and again.

Division of labor helps to overcome wastage of efforts and duplication of work. Effective and proper division of labor leads to an increase in the quality and quantity of output.

### **Common Purpose**

The basis of any organization is to achieve some common goal. The structure is bound together by the pursuit of specific and well-defined objectives. An objective cannot be achieved without an organization, likewise, an organization cannot exist for long without goals and objectives. The structure of an organization should reflect these objectives so as to make the entire organization bound by a common purpose.

### **Communication**

Effective communication is vital for success in management. Every organization has its own methods and channels of communication.

These channels are necessary for mutual cooperation and understanding among the members of an organization. The channels of communication may be upward, downward, vertical, formal, or informal.

### **Authority Responsibility Structure**

In an organization, there is a proper arrangement of positions into a graded series. There is a clear definition of authority in each position.

It specifies who is to direct whom and who is responsible for what result. The structure helps an individual in the organization to know what his role is and how he is related to other roles.

### **People**

An organization is made up of a group of people who constitute the dynamic human element of an organization. Therefore, authority provisions and grouping of activities must take into account the customs and limitations of people.

### **Environment**

An enterprise functions in a very dynamic environment which comprises social, political, economic, and legal factors. Thus, the structure is designed to adapt itself to the changing environment.

### **Coordination**

An organizational structure provides for the effective coordination of different activities and parts of an organization so that it functions as an integrated whole.

People in an organization perform different functions but all of them have only one aim i.e. to accomplish the enterprise's objectives for which the organization provides a suitable method to ensure that there is proper coordination of different activities.

### **Rules and Regulations**

Rules and regulations are provided for the orderly functioning of people in every organization. These may be in writing or implied from customary behavior.



#### **SELF CHECK 1.1**

1. Evaluate your current organization you are working for based on the 8 characteristics of an organization. Identify if they do have these characteristics and post your findings in the discussion forum in the LMS.

## 1.2 IMPORTANCE OF BUSINESS

Today business has great importance in our lives, and we can easily see that people who own businesses are much more successful in their lives. Before talking about the importance of business, let's talk about business first. The word "business" means the state of being busy.

So "business" means all those human activities which are related to the production and distribution of goods and services with the object of earning profit.

The business also includes those activities which indirectly help in the production and exchange of goods such as transport, insurance, banking, warehousing, etc. Every business enterprise whether it is carried on a small or a large scale deals in goods and services for earning money.

If an enterprise is to survive, grow and expand, it must yield profit. So business includes all the commercial and industrial activities that provide goods and services to the people to earn profit.

Over the years, the size of the business has expanded. The use of machinery is increased. The working business is being computerized very rapidly. So the importance of business in the present day world can be judged from the following activities:-

### **1. Mass production of goods**

The use of automatic machines, new materials, and new processing methods has not only lowered the cost of production of goods but also helped the producers in producing goods in desired quality and quantity.

### **2. Expansion of market**

In the modern world, goods are produced according to the needs of the customers. The business tries to satisfy the customers both within and outside the country by developing products according to the tastes and purchasing power of the customers. Therefore, markets have expanded consumption of goods due to the increase in the number of customers all over the world.

### **3. Provision of credit by banks**

Commercial banks and specialized institutions are providing credit facilities to traders for producing goods and doing business on large scale.

#### **4. Communication and transport**

The fast-developed means of Communication and transport help traders these days in providing goods to customers at the right times, right place, and at the right price.

#### **5. Innovations**

Today all the time busy in business making improvements by introducing new products as well as new methods are very helpful for the quality of products and reducing cost.

#### **6. Employment**

The business has generated employment on large scale both in rural and urban areas.

#### **7. Source of revenue**

Businesses is providing revenue to the state due to which the government maintains law and order situations, undertakes defense, and carries on welfare and development activities. A business pays a large share of taxes to the government.

#### **8. Raising the standard of living**

The business also helped the people to earn living either as owners of the business or employees. Higher incomes have led to an increase in the standard of living for people.

#### **9. Business supplies services**

Services occupy an important role in modern business life. The major services which are growing in importance are banking and finance, insurance, medical and health, education, legal, domestic servants, engineering, and other professionals, etc. All the services which perform simple or difficult tasks for earning profit are regarded as an important part of the business.

#### **10. Insurance**

The various types of business risks which may happen due to fire, theft, flood, earthquake, strikes, etc. can be insured, and the loss if any arising out of the risks and be recovered. So insurance has given stability to the business.



### SELF CHECK 1.2

You have learnt the 10 activities used to measure the importance of business. Use this knowledge to measure the organization you are currently working for and share your finding in the course discussion forum in your LMS.

## 1.3 CRAFTING BUSINESS PLAN

A business plan is a document that outlines how a company (new or established) will meet its objectives. Sections usually include information on operations, logistics, finance, marketing, and more.

Your plan should be flexible and relies on regular updates as your business develops. Many business plans cover a three-year period but some people prefer a rolling timeline.

Common types of business plans we see include, but are not limited to, the following:

### **Traditional.**

These are the most common business plans. Below, we'll cover the standard elements of a business plan and go into detail for each section. Traditional business plans take longer to write and can be dozens of pages long. Venture capitalist firms and lenders ask for this plan.

### **Lean.**

A lean business plan is a shorter version of a traditional business plan. It follows the same format, but only includes the most important information. Businesses use this plan to onboard new hires or modify existing plans for a specific target market.

### **Nonprofit.**

A nonprofit business plan is for any entity that operates for public or social benefit. It covers everything you'll find in a traditional business plan, plus a section describing the impact the company plans to make. For example, a speaker and headphone brand that aims to help people with hearing disabilities. Donors often request this plan.

### 1.3.1 How To Write a Business Plan

How to write a business plan in 9 steps:

### **1. Draft an executive summary**

A good executive summary is one of the most crucial sections of your plan—it's also the last section you should write.

The executive summary's purpose is to distill everything that follows and give time-crunched reviewers (e.g., potential investors and lenders) a high-level overview of your business that persuades them to read further.

Again, it's a summary, so highlight the key points you've uncovered while writing your plan. If you're writing for your own planning purposes, you can skip the summary altogether—although you might want to give it a try anyway, just for practice.

An executive summary shouldn't exceed one page. Admittedly, that space constraint can make squeezing in all of the salient information a bit stressful—but it's not impossible. Here's what your business plan's executive summary should include:

- Business concept. What does your business do?
- Business goals and vision. What does your business want to do?
- Product description and differentiation. What do you sell, and why is it different?
- Target market. Who do you sell to?
- Marketing strategy. How do you plan on reaching your customers?
- Current financial state. What do you currently earn in revenue?
- Projected financial state. What do you foresee earning in revenue?
- The ask. How much money are you asking for?
- The team. Who's involved in the business?

### **2. Describe your company**

This section of your business plan should answer two fundamental questions: who are you, and what do you plan to do? Answering these questions with a company description provides an introduction to why you're in business, why you're different, what you have going for you, and why you're a good investment bet. For example, clean makeup brand Saie shares a letter from its founder on the company's mission and why it exists.



Clarifying these details is still a useful exercise, even if you're the only person who's going to see them. It's an opportunity to put to paper some of the more intangible facets of your business, like your principles, ideals, and cultural philosophies.

Here are some of the components you should include in your company description:

- Your business structure (Are you a sole proprietorship, general partnership, limited partnership, or incorporated company?)
- Your business model
- Your industry
- Your business's vision, mission, and value proposition
- Background information on your business or its history
- Business objectives, both short and long term
- Your team, including key personnel and their salaries

Some of these points are statements of fact, but others will require a bit more thought to define, especially when it comes to your business's vision, mission, and values. This is where you start getting to the core of why your business exists, what you hope to accomplish, and what you stand for.

To define your values, think about all the people your company is accountable to, including owners, employees, suppliers, customers, and investors. Now consider how you'd like to conduct business with each of them. As you make a list, your core values should start to emerge.

Once you know your values, you can write a mission statement. Your statement should explain, in a convincing manner, why your business exists, and should be no longer than a single sentence.

As an example, Shopify's mission statement is "Making commerce better for everyone." It's the "why" behind everything we do and clear enough that it needs no further explanation.

Next, craft your vision statement: what impact do you envision your business having on the world once you've achieved your vision? Phrase this impact as an assertion—begin the statement with "We will" and you'll be off to a great start. Your vision statement, unlike your mission statement, can be longer than a single sentence, but try to keep it to three at most. The best vision statements are concise.

Finally, your company description should include both short- and long-term goals. Short-term goals, generally, should be achievable within the next year, while one to five years is a good window for long-term goals. Make sure all your goals are SMART: specific, measurable, attainable, realistic, and time-bound.

### **3. Perform a market analysis**

No matter what type of business you start, it's no exaggeration to say your market can make or break it. Choose the right market for your products—one with plenty of customers who understand and need your product—and you'll have a head start on success. If you choose the wrong market, or the right market at the wrong time, you may find yourself struggling for each sale.

This is why market research and analysis is a key section of your business plan, whether or not you ever intend for anyone else to read it. It should include an overview of how big you estimate the market is for your products, an analysis of your business's position in the market, and an overview of the competitive landscape. Thorough research supporting your conclusions is important both to persuade investors and to validate your own assumptions as you work through your plan.

How big is your potential market?

The potential market is an estimate of how many people need your product. While it's exciting to imagine sky-high sales figures, you'll want to use as much relevant independent data as possible to validate your estimated potential market.

Since this can be a daunting process, here are some general tips to help you begin your research:

Understand your ideal customer profile. If you're targeting millennial consumers in the US, you first can look for government data about the size of that group. You also could look at projected changes to the number of people in your target age range over the next few years.

Research relevant industry trends and trajectory. If your product serves retirees, try to find data about how many people will be retiring in the next five years, as well as any information you can find about consumption patterns among that group. If you're selling fitness equipment, you could look at trends in gym memberships and overall health and fitness

among your target audience or the population at large. Finally, look for information on whether your general industry is projected to grow or decline over the next few years.

Make informed guesses. You'll never have perfect, complete information about the size of your total addressable market. Your goal is to base your estimates on as many verifiable data points as necessary for a confident guess.

Some sources to consult for market data include government statistics offices, industry associations, academic research, and respected news outlets covering your industry.

#### **4. Outline management and organization**

The management and organization section of your business plan should tell readers about who's running your company. Detail the legal structure of your business. Communicate whether you'll incorporate your business as an S corporation or create a limited partnership or sole proprietorship.

If you have a management team, use an organizational chart to show your company's internal structure, including the roles, responsibilities, and relationships between people in your chart. Communicate how each person will contribute to the success of your startup.

#### **5. List your products and services**

Your products or services will feature prominently in most areas of your business plan, but it's important to provide a section that outlines key details about them for interested readers.

If you sell many items, you can include more general information on each of your product lines; if you only sell a few, provide additional information on each. For example, bag shop BAGGU sells a large selection of different types of bags, in addition to home goods and other accessories. Its business plan would list out those bags and key details about each.

#### **6. Perform customer segmentation**

Your ideal customer, also known as your target market, is the foundation of your marketing plan, if not your business plan as a whole. You'll want to keep this person in mind as you make strategic decisions, which is why an overview of who they are is important to understand and include in your plan.

To give a holistic overview of your ideal customer, describe a number of general and specific demographic characteristics. Customer segmentation often includes:

- Where they live
- Their age range
- Their level of education
- Some common behavior patterns
- How they spend their free time
- Where they work
- What technology they use
- How much they earn
- Where they're commonly employed
- Their values, beliefs, or opinions

This information will vary based on what you're selling, but you should be specific enough that it's unquestionably clear who you're trying to reach—and more importantly, why you've made the choices you have based on who your customers are and what they value.

For example, a college student has different interests, shopping habits, and pricing sensitivity than a 50-year-old executive at a Fortune 500 company. Your business plan and decisions would look very different based on which one was your ideal customer.

## **7. Define a marketing plan**

Your marketing efforts are directly informed by your ideal customer. Your marketing plan should outline your current decisions and your future strategy, with a focus on how your ideas are a fit for that ideal customer.

If you're planning to invest heavily in Instagram marketing, for example, it might make sense to include whether Instagram is a leading platform for your audience—if it's not, that might be a sign to rethink your marketing plan.

Most marketing plans include information on four key subjects. How much detail you present on each will depend on both your business and your plan's audience.

Price. How much do your products cost, and why have you made that decision?

Product. What are you selling and how do you differentiate it in the market?

Promotion. How will you get your products in front of your ideal customer?

Place. Where will you sell your products?

Promotion may be the bulk of your plan since you can more readily dive into tactical details, but the other three areas should be covered at least briefly—each is an important strategic lever in your marketing mix.

## **8. Provide a logistics and operations plan**

Logistics and operations are the workflows you'll implement to make your ideas a reality. If you're writing a business plan for your own planning purposes, this is still an important section to consider, even though you might not need to include the same level of detail as if you were seeking investment.

Cover all parts of your planned operations, including:

Suppliers. Where do you get the raw materials you need for production, or where are your products produced?

Production. Will you make, manufacture, wholesale, or dropship your products? How long does it take to produce your products and get them shipped to you? How will you handle a busy season or an unexpected spike in demand?

Facilities. Where will you and any team members work? Do you plan to have a physical retail space? If yes, where?

Equipment. What tools and technology do you require to be up and running? This includes everything from computers to lightbulbs and everything in between.

Shipping and fulfillment. Will you be handling all the fulfillment tasks in-house, or will you use a third-party fulfillment partner?

Inventory. How much will you keep on hand, and where will it be stored? How will you ship it to partners if required, and how will you approach inventory management?

This section should signal to your reader that you've got a solid understanding of your supply chain and strong contingency plans in place to cover potential uncertainty. If your reader is you, it should give you a basis to make other important decisions, like how to price your products to cover your estimated costs, and at what point you plan to break even on your initial spending.

## 9. Make a financial plan

No matter how great your idea is, and regardless of the effort, time, and money you invest, a business lives or dies based on its financial health. At the end of the day, people want to work with a business they expect to be viable for the foreseeable future.

The level of detail required in your financial plan will depend on your audience and goals, but typically you'll want to include three major views of your financials: an income statement, a balance sheet, and a cash-flow statement. It also may be appropriate to include financial data and projections.



### SELF CHECK 1.3

1. Explain why it is important to have a good business plan before you create a company. Share your thoughts in the discussion forum in the LMS.

## 1.4 TYPES OF BUSINESS ORGANIZATION

The five types of business organizations include the following:

1. Partnership
2. Corporation
3. Sole proprietorship
4. Cooperative
5. Limited liability company

### Partnership

You can classify a business partnership as either general or limited. General partnerships allow both partners to invest in a business with 100% responsibility for any business debts. They don't require a formal agreement. In comparison, limited partnerships require owners to file paperwork with the state and compose formal agreements that describe all of the important details of the partnership, such as who is responsible for certain debts.

Some advantages of partnerships include:

**Easy to establish:** Compared to other business structures, partnerships require minimal paperwork and legal documents to establish.

**Partners can combine expertise:** With more than one like-minded individual, there are more opportunities to increase their collaborative skillset.

**Distributed workload:** People in partnerships commonly share responsibilities so that one person doesn't have to do all the work.

**Disadvantages to consider:**

**Possibility for disagreements:** By having more than one person involved in business decisions, partners may disagree on some aspects of the operation.

**Difficulty in transferring ownership:** Without a formal agreement that explicitly states processes, a business may come to a halt if partners disagree and choose to end their partnership.

**Full liability:** In a partnership, all members are personally liable for business-related debts and may be pursued in a lawsuit.

An example of a partnership is a business set up between two or more family members, friends or colleagues in an industry that supports their skill sets. The partners of a business typically divide the profits among themselves.

## **Corporation**

A corporation is a business organization that acts as a unique and separate entity from its shareholders. A corporation pays its own taxes before distributing profits or dividends to shareholders. There are three main forms of corporations: a C corporation, an S corporation and an LLC, or limited liability corporation.

**Advantages of corporations include:**

**Owners aren't responsible for business debts:** In general, the shareholders of a corporation are not liable for its debts. Instead, shareholders risk their equity.

**Tax exemptions:** Corporations can deduct expenses related to company benefits, including health insurance premiums, wages, taxes, travel, equipment and more.

**Quick capital through stocks:** To raise additional funds for the business, shareholders may sell shares in the corporation.

**Disadvantages include:**

**Double taxation for C-corporations:** The corporation must pay income tax at the corporate rate before profits transfer to the shareholders, who must then pay taxes on an individual level.

**Annual record-keeping requirements:** With the exception of an S-corporation, the corporate business structure involves a substantial amount of paperwork.

**Owners are less involved than managers:** When there are several investors with no clear majority interest, the management team may direct business operations rather than the owners.

Common examples of corporations include a business organization that possesses a board of directors and a large company that employs hundreds of people. About half of all corporations have at least 500 employees.

### **Sole proprietorship**

This popular form of business structure is the easiest to set up. Sole proprietorships have one owner who makes all of the business decisions, and there is no distinction between the business and the owner.

Advantages of a sole proprietorship include:

**Total control of the business:** As the sole owner of your business, you have full control of business decisions and spending habits.

**No public disclosure required:** Sole proprietorships are not required to file annual reports or other financial statements with the state or federal government.

**Easy tax reporting:** Owners don't need to file any special tax forms with the IRS other than the Schedule C (Profit or Loss from Business) form.

**Low start-up costs:** While you may need to register your business and obtain a business occupancy permit in some places, the costs of maintaining a sole proprietorship are much less than other business structures.

Disadvantages include:

**Unlimited liability:** You are personally responsible for all business debts and company actions under this business structure.

**Lack of structure:** Since you are not required to keep financial statements, there is a risk of becoming too relaxed when managing your money.

**Difficulty in raising funds:** Investors typically favor corporations when lending money because they know that those businesses have strong financial records and other forms of security.



Some typical examples of sole proprietorships include the personal businesses of freelancers, artists, consultants and other self-employed business owners who operate on a solo basis.

### **Cooperative**

A cooperative, or a co-op, is a private business, organization or farm that a group of individuals owns and runs to meet a common goal. These owners work together to operate the business, and they share the profits and other benefits. Most of the time, the members or part-owners of the cooperative also work for the business and use its services.

Advantages of a cooperative include:

**Greater funding options:** Cooperatives have access to government-sponsored grant programs, like the USDA Rural Development program, depending on the type of cooperative.

**Democratic structure:** Members of a cooperative follow the "one member, one vote" philosophy, meaning that everyone has a say, regardless of their investment in the co-op.

**Less disruption:** Cooperatives allow members to join and leave the business without disrupting its structure or dissolving it.

Disadvantages include:

**Raising capital:** Larger investors may choose to invest in other business structures that allow them to earn a larger share, as the cooperative structure treats all investors the same, both large and small.

**Lack of accountability:** Cooperatives are more relaxed in terms of structure, so members who don't fully participate or contribute to the business leave others at a disadvantage and risk turning other members away.

Many cooperatives exist in the retail, service, production and housing industries. Examples of businesses operating as cooperatives include credit unions, utility cooperatives, housing cooperatives and retail stores that sell food and agricultural products.

### **Limited liability company**

The most common form of business structure for small businesses is a limited liability company, or LLC, which is defined as a separate legal entity and may have an unlimited amount of owners. They are typically taxed as a sole proprietorship and require insurance in case of a lawsuit. This form of business is a hybrid of other forms because it has some characteristics of a corporation as well as a partnership, so its structure is more flexible.

Some advantages of an LLC include:

**Limited liability:** As the name states, owners and managers have limited personal liability for business debts, whereas individuals assume full responsibility in a sole proprietorship or partnership.

**Pass-through taxation:** Owners of LLCs may take advantage of "pass-through" taxation, which allows them to avoid LLC and corporation taxes, and owners pay personal taxes on business profits.

**Flexible management:** LLCs lack a formal business structure, meaning that their owners are free to make choices regarding the operation of their businesses.

Some disadvantages include:

**Associated costs:** The start-up costs associated with an LLC are more expensive than setting up a sole proprietorship or partnership, and there are annual fees involved as well.

**Separate records:** Owners of LLCs must take care to keep their personal and business expenses separate, including any company records, whereas sole proprietorships are less formal.

**Taxes:** In regards to unemployment compensation, owners may have to pay it themselves.

Common examples of limited liability companies include start-ups and other small businesses. Family-owned businesses and companies with a small number of members may operate as an LLC because it is a flexible business model that allows members to be active or passive in their roles.



#### SELF CHECK 1.4

1. You have learnt 5 types of business organisation. Can you identify which type your current organisation that you are working for falls under?

1.5	REASON FOR SUCCESS & FAILURE OF BUSINESS ORGANIZATIONS
-----	--

Let's now look at the reason for success and failure of business organizations.

We have identified the following 11 reasons why businesses are successful:

1. Empowering Leadership
2. Well-Defined Vision
3. Relevant Knowledge of the Business Market
4. Detailed Business Plan
5. Assessment of the Direct and Indirect Competition
6. Availability of Financing
7. Solid Customer Relations Management
8. Well-Managed Supply Chain
9. Proper Timing
10. Well-Devised Decision-Making System
11. Government Regulatory Measures

### **1. Empowering Leadership**

The first factor for business success is empowering leadership. This type of business management style has also been called transformational leadership. Transformational leadership is the type of motivational style that draws others in and inspires them to achieve something greater than themselves. However, the employees and staff members do not merely do the work; they also become better people in the process.

More and more enlightened employers are learning that employee satisfaction has a direct impact on the quality and sustainability of the enterprise. In fact, companies like Google have paved a new road of follower-centered leadership by offering services that help employees feel wanted and make their lives more efficient and effective. Such services can include company buses to pick up employees, in-house fry cleaning, and in-house daycare services. When employees are able to worry less about day-to-day issues outside of work, then they feel empowered to think creatively about their work.

### **2. Well-Defined Vision**

The second factor of business success is a well-defined vision. A corporate vision is a scripted understanding of what a company wants to do and how they want to accomplish it. A well-defined vision allows members of an organization to unite for a common cause with a singular aim and all energy focused in one direction.

No matter which leadership theory one espouses, all leadership theories identified with positive outcomes include vision as part of the make-up of a successful company. Organizations that actively scan the horizon and tweak and sometimes redefine their visions will more likely maintain a sustainable competitive advantage.

### **3. Relevant Knowledge of the Business Market**

A third factor for business success is relevant knowledge of the business market. In order to do anything well, a person or company must do their homework to gain a deep understanding of the factors that are essential for success. These days as the World Wide Web continues to expand, there is no excuse for a would-be entrepreneur to lack knowledge of whatever business they feel led to pursue. Sadly, many businesses are dead out of the gate because they do not take the time to gain a proper perspective on the industry.

#### **4. Detailed Business Plan**

Another factor for business success is the formulation of a comprehensive business plan. Knowing about an industry and sketching out a vision is only the beginning of a successful enterprise. The next step is to take what you know and what you want to accomplish and write a detailed strategy for how to make it happen. A business plan covers all the related factors that are essential for a winning enterprise, including vision, description of the market, projected financials, employee relationships, and customer relations management (CRM).

#### **5. Assessment of the Direct and Indirect Competition**

When getting ready to implement a new business, another important factor for success or failure is the nature of the direct and indirect competition for the same product or service. For instance, a person or group wishing to open an online outlet for used furniture should take adequate time to research how many other competitors are trying to do the same thing. When doing the research, the group should ask: Who is the competition? What products and services do they offer? What is their pricing structure? What kind of shipping do they offer? And the like. Gaining a firm grasp of the competition can definitely make the difference between staying alive long-term or filing for bankruptcy.

#### **6. Availability of Financing**

A sixth factor important to the success or failure of a business is available financing. The current economic crisis in America has made venture capital difficult to find. Of course, if a company can manage to avoid using credit altogether, then this is not a problem. Still, most new businesses need some kind of seed money to get them up to speed, and thus the ability to secure working capital is critical to keeping the doors open.

#### **7. Solid Customer Relations Management**

A seventh reason for business success or failure is how a company relates to its customers. This seems like a no-brainer, but the better an organization handles its client base, the more apt it will be to stay in business. Enterprises that take time to think out common and uncommon situations before they encounter them will be more likely to keep customers coming back. Those groups that merely define their customer relationships on the fly or in the heat of the moment are doomed to fail.

#### **8. Well-Managed Supply Chain**

Another reason for business success or failure is how a company manages its inventory. In order to keep the right mix of products on the shelves, an enterprise needs to think through its supply chain processes. Too much inventory can tie up working capital, but too little inventory can lead to shortages and lower customer satisfaction. JIT (or just-in-time) inventory management is one supply chain strategy that has benefited such large organizations like Walmart, Dell Computers, and Toyota Motors.

### **9. Proper Timing**

A ninth reason for business success or failure is timing. In 1998, when the latest housing boom began, it was probably a good time to enter the home mortgage industry; in 2006, when the housing bubble began to burst, it was probably a poor time to set up a new mortgage outfit. Part of learning about an industry is getting a good feel for its business cycle, although trying to time the market can lead to indecision.

### **10. Well-Devised Decision-Making System**

Decision-making is at the heart of any business, and the best organizations have outlined a step of procedures involved in the decision-making process. Those entities that tend to practice participative leadership allow representatives from all departments to be involved in the process and seem to gain stronger employee buy-in. Most poorly led organizations do not encourage participation and often lack a well-defined procedure for making decisions.

### **11. Government Regulatory Measures**

The final reason for business success or failure is how much the owners of an enterprise have a good grasp of the rules and regulations governing their sector of the economy; this includes having a clear understanding of the tax structure. Many would-be entrepreneurs charge into a good idea, not knowing what restrictions apply to the execution of the idea.

If you're starting a business, you may be wondering how many businesses fail either in the short-term or the long run.

Let's look at 12 reason why businesses fail:

#### **1. NOT HAVING AN EFFECTIVE BUSINESS PLAN**

If you don't have an effective business plan, you can't properly communicate your vision to your team. Tony Robbins advocates not just having a business plan, but having a business map for entrepreneurs to take their small businesses to the next level. Your business map will help you master vital stages of the business cycle, like scaling. Explosive growth can be tempting, but not scaling in a mindful manner is one of the biggest reasons why businesses fail – you have to strike the right balance between growth and infrastructure.

## **2. NOT PUTTING THE CUSTOMER FIRST**

One of the top reasons why businesses fail is that they fall in love with their product instead of their customer. To circumvent business failure, fall in love with your client and figure out every single way you can meet their needs. Anticipate what they want, what they need and, when possible, determine what they might not even know they need yet. Turn your customer into a raving fan – somebody who will tell everybody about your product or service or company. Once you grasp that your customer's life is your business' life, you can truly envision how to succeed.

## **3. NOT HIRING THE RIGHT PEOPLE**

Hiring the right people has a massive effect on nearly every area of your business. One of the most obvious examples is sales: If you don't have enough sales, you can't pay your team or yourself and you cannot grow. Confident salespeople are a key to increased sales. It's also astounding how many businesses fail due to inventory mismanagement. Hiring someone who is skilled at inventory management or using a good inventory management software is an easy way to solve this issue.

## **4. DOING IT ALL YOURSELF**

Yes, you are an entrepreneur, but that doesn't mean you have to do everything on your own. A business is only as strong as the psychology of its leader – and the ability to let go and trust others is an essential leadership trait. If you need to control everything, it's likely you won't succeed over the long term. Delegating is a top skill to manage a business effectively: it helps you manage your time, focus your energy on what matters most and spot potential up-and-coming leaders within your company.

## **5. LACK OF FLEXIBILITY**

Remember Blockbuster? Radio Shack? Tower Records? These giants of their industries all fell victim to the same reason for business failure: inability to adapt to a changing market. Entrepreneurs who fall in love with a service or product and refuse to change directions when the market demands it are likely to fail. The key to long-term success – in business and in life – is flexibility and a willingness to pivot when necessary.

## **6. LACK OF INNOVATION**

Peter Drucker and Jay Abraham, among the greatest business minds of our time, maintain that business failure – and success – all starts with two key factors: innovation and marketing.

Innovation means finding a better way to meet your clients' needs than anybody else. Anybody can make some money for some amount of time. But if you want to become successful and sustain that success over years and over decades – if you want to build a brand – then you have to find a way to add more value than anybody else in the game. And that comes from constantly innovating.

## **7. NOT UNDERSTANDING YOUR INDUSTRY**

This is one of the driving factors behind why businesses fail to innovate. Certain industries require more innovation, while others may have different product life cycles. Consider the technology industry. The life cycle on an average product is about six months. And in some sectors, like the app business, it's just one month. People expect continual innovation and improvement, and if you don't deliver that to them, someone else will. It's a different world we live in today, where the only constant is change. And if you aren't staying ahead, you're falling behind.

## **8. FEAR OF BUSINESS FAILURE**

Business failure is one of the main, if not the biggest, fears of any business owner. If it weren't for that fear, we wouldn't even be asking, "Why do businesses fail?" However, as you develop your entrepreneurial and managerial skills, you will find that one of your greatest assets in running a successful business is overcoming your fear of business failure. Without minimizing the validity of your fears, you need to learn to view business failure as a learning opportunity rather than an insurmountable obstacle. Remember, life happens for you, not to you.

## **9. THE WRONG MINDSET**

One of Tony Robbins' central philosophies is that our mindsets create our realities; what we believe influences what we are able to achieve. As entrepreneurs, when we embrace strategies for turning business failure into success, we transform our mindset from one of defeat into one of empowerment. And when we are empowered, a failing business is not the concluding chapter in our story; it is only the beginning. Don't let your limiting beliefs disempower you. Instead, stay hungry in your search for success. Your hunger will inspire you and pay off in the end.

## **10. LACK OF VISION**

Marketing guru Jay Abraham understands the question of why businesses fail. It's a high-velocity and high-leverage mindset that prepares business owners to navigate the ever-changing seas of business. Rather than adapt your dreams to the economy, you must set and

achieve your own goals, independent of circumstances. How can you accomplish this? By recognizing that business success hinges on loyalty to a vision.

### 11. LACK OF PASSION

A passion-driven mindset lets you persist in honing your ethics and beliefs while learning from all the reasons why businesses fail. By adhering to your passions, you're able to see your circumstances clearly – the positives and negatives. With this level of focus, you create an unstoppable drive to accomplish your goals. This focus allows you to take risks, acknowledging that feelings of doom and failure arise not from circumstances but from feeling stuck in the status quo. Don't get stuck – persist.

### 12. INEFFECTIVE MARKETING STRATEGIES

Whether your company is large or small, marketing is the next critical step. Why do businesses fail in their operations? If you cannot find a way to market your product or service, then your business will have a hard time getting off the ground. Because the truth is, you could have the most innovative product or service, but the best product doesn't always win. Do you think McDonald's has the best burger? Probably not. But their marketing strategies are top-notch.



#### SELF CHECK 5.1

1. You have learnt 11 reasons for success of business organisation. In your opinion, from these 11 reasons, which are the top 5 reasons that would determine the success of a company? Share your thoughts in the discussion forum in the LMS.

### Points to Ponder/Takeaways

- There are 8 characteristics of an organization.
- There are 10 activities used to measure the importance of a business.
- There are 9 steps to craft a business plan.
- There are 5 types of business organizations.
- There are 11 reasons why business succeeds.
- There are 12 reasons why business fails.

### References

1. ECOGGINS (May 16, 2023). *11 Reasons for Business Success or Failure - ToughNickel*  
<https://toughnickel.com/business/10-Reasons-for-Business-Success-or-Failure>



2. Robbins. T. (April 13, 2022). *14 proven reasons why businesses fail: Tony Robbins*  
<https://www.tonyrobbins.com/career-business/why-do-businesses-fail/>