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Cambridge IGCSE®

Enterprise

Coursebook

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Contents

How to use this book	iv
Foreword	vii
Section 1: Identifying your enterprise project	1
Introduction to enterprise	2
Chapter 1: Setting up a new enterprise	11
Chapter 2: Skills and behaviours of enterprising people	25
Chapter 3: Opportunities, risk, legal and ethical considerations	33
<i>Template 1: How to conduct a PEST analysis</i>	47
<i>Template 2: How to conduct a SWOT analysis</i>	48
Chapter 4: Market research	49
<i>Template 3: Conducting market research</i>	60
Section 2: Planning your enterprise project	62
Chapter 5: Business planning	63
<i>Template 4: Action planning checklist</i>	76
Chapter 6: Sources of finance	78
<i>Template 5: Choosing sources of finance</i>	87
Chapter 7: The concept of trade credit	88
Chapter 8: Cash flow, break-even and income statement	92
<i>Template 6: Projected income and expenditure</i>	102
Chapter 9: Marketing	103
Section 3: Implementing your enterprise project	116
Chapter 10: Negotiation	117
Chapter 11: Communication	130
<i>Template 7: Planning and holding effective meetings</i>	146
Chapter 12: Help and support for enterprise	148
Section 4: Evaluating your enterprise project	158
Chapter 13: Evaluation	159
Glossary	182
Index	187
Acknowledgements	191



Introduction to enterprise

Learning summary:

In this chapter you will learn about:

- the meaning of enterprise
- stakeholders
- enterprise capability
- different ways of being enterprising at home and at school.

What is enterprise?

Enterprise is another word for an organisation or business managed by one or more individuals who are able to take the initiative to make decisions and take calculated risks. All business activities use resources like land, labour, capital and enterprise to produce goods and services that people want to buy.

Enterprise also refers to the characteristics/qualities that make people want to set up and run a business. It is the ability to be innovative, take initiative, make decisions and bear the risk of setting up and running a business.

Purpose and characteristics of enterprise

There are mainly two types of enterprise: business and social.

A **business enterprise**'s main aim is to make a profit. Any profits that are generated are reinvested into the business to grow it further or distributed to its owners/shareholders.

While the purpose of most enterprises is to make profits, there are some organisations that are started up for social causes, for the improvement of society and are not-for-profit. These are known as **social enterprises**. A social enterprise may generate profits, but that is not its main aim and profits are just seen as a way to sustain itself. Any profits made by a social enterprise are reinvested into things that benefit the community (see Chapter 1).



KEY TERMS

Enterprise: An organisation or business managed by one or more individuals who are able to take the initiative to make decisions and take calculated risks.

Business Enterprise: An organisation that has profit as its main aim.

Social Enterprise: An organisation that is started up for social cause for the betterment of society.

Enterprise capability

An **entrepreneur** is a person who starts up a new business or enterprise. Entrepreneurs are self-driven and innovative individuals who have a new idea for a good or service.

Entrepreneurs need to be multiskilled, self-confident, initiators, leaders and results-driven.

The key attributes that comprise enterprise capability are:

- **Risk-taking:** Though entrepreneurs recognise the risk of failure, it is the possibility of high returns and belief in themselves and their new idea that enable them to take a calculated risk. A calculated risk is a risk that is taken with an expectation that potential returns will be a lot more than the possible losses.
- **Decision-making:** Entrepreneurs should make sure they use the available resources in the best possible way and thus have to make decisions wisely. Decision-making and risk-taking are related as making a decision can involve many risks. Every time a decision is made there is a risk of losing the factors of production as well as the possible cost of not having used these resources in a more successful way.
- **Innovation:** While entrepreneurs can introduce a totally new product or service when setting up a new business, innovative entrepreneurs can spot opportunities for enterprise in existing products or services. They can do this by rebranding an existing product or a service and presenting it in a different way or in a different location or market.
- **Positive attitude:** A positive attitude is what drives entrepreneurs towards taking risks and facing and overcoming challenges.



KEY TERMS

Entrepreneur: A person who starts up a new business or enterprise.

Stakeholder: An individual, group or organisation with an interest in the activities of a business.

Stakeholders

An entrepreneur who starts up a business may be the main owner, but there are many other **stakeholders**. A stakeholder is an individual, group or organisation with an interest in the activities of a business. An entrepreneur should make decisions with the interest of all stakeholders in mind. Stakeholders can be internal (directly involved with the running of the company) or external (outside parties that can affect and be affected by the business). Figure 0.1 shows the main stakeholders in an enterprise.

TIP

Never dismiss an idea as being too simple or not good enough. Always give it a go and find out how you can develop it further.

The main stakeholders in an enterprise

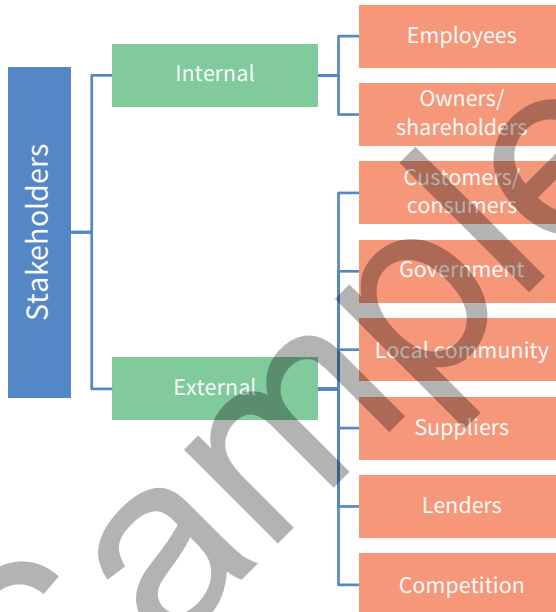


Figure 0.1: The main stakeholders in an enterprise

Employees: Employees are the people who do the work in an enterprise and earn a living from the operations of a business. To keep employees happy and productive an enterprise must provide them with fair wages, job security and good working conditions.

Owners/shareholders: Having invested in the enterprise, owners and shareholders want the business to grow and make profits. Healthy profits and the growth of an enterprise are important to attract further investment.

Customers/consumers: It is very important for an enterprise to satisfy its customers as they generate revenue for them by buying their products or services. To have a stable and loyal customer base an enterprise should provide a good quality product/service at a fair price.

Government: All businesses and individuals have to pay taxes to the government. In order to be law abiding and benefit from possible government grants and subsidies, an enterprise should follow all tax, labour and environmental laws. The government of a country is also interested in the employment generated by the operations of a business.

Local community: These are the people who live in the area near the business. They are affected by the impact that the business activity has on traffic, pollution and infrastructure in the area. In order to avoid complaints and opposition, an enterprise should aim to keep its negative impact to a minimum. The local community, on the other hand, can also gain from the infrastructural developments and jobs created by businesses in their area.

Suppliers: These are the businesses that supply the raw materials/products needed by an enterprise. They should be paid on time in order to ensure a timely and continuous supply of the needed supplies.

Lenders: These are the people or organisations that lend money to an enterprise, such as banks, other financial institutions and investors. It is important for an enterprise to repay the lenders on time so that they can borrow from them in the future.

Competition: These are businesses that operate in the same industry providing a similar product or service, targeting the same market. A business can both affect and be affected by the actions of its competition. To gain market share, an enterprise can set marketing and pricing strategies in line with (or even better than) that of the competition.

Ways of being enterprising at home and at school

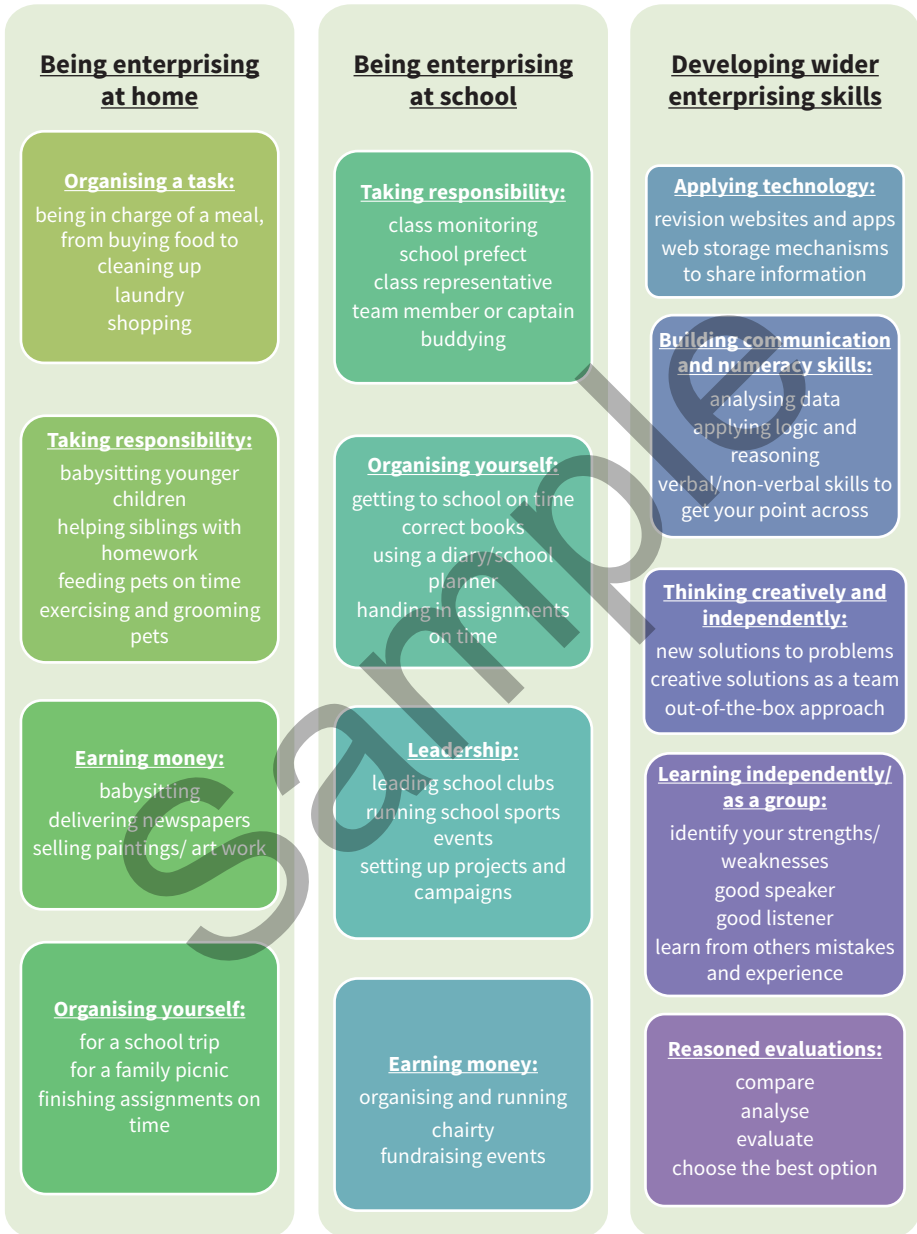


Figure 0.2: Ways of being enterprising



KEY TERMS

Analyse: Examine in detail to show meaning, identify elements and the relationship between them.

Evaluate: Judge or calculate the quality, importance, amount, or value of something.

Identify: Name/select/recognise.

Explain: Set out purposes or reasons/make the relationships between things evident/provide why and/or how and support with relevant evidence.

ACTIVITY 0.1

Think of yourself as a social entrepreneur and identify a need or challenge faced by your school or community, and develop ideas to solve it.

An example of a challenge faced by a school might be the shortage of funds to buy enough computers and sports equipment. You could run an event to raise awareness of or raise funds for your cause. Remember the different ways of being enterprising discussed earlier.

- 1 What initiatives/different fundraising events could the different stakeholders (such as the school, students and parents) take part in to solve this challenge?
- 2 What do you think the different stakeholders have to gain from helping your school raise funds?

TIP

Make sure your spoken and written communication is simple and clear.

PROJECT PROMPT

- What is the aim of your enterprise?
- Will your enterprise be a social or profit-making enterprise?
- Identify and explain the role of the external stakeholders in your enterprise.
- Identify some ways in which you can be enterprising to make your enterprise project a success.

Nirali Someshwar, India

An architect by qualification but with a passion for dance, today Ms Nirali Someshwar is an entrepreneur. She has successfully run her dance academy Happy Feet in Pune and Mumbai, India for the last 10 years. The setup of this creative enterprise was completely unplanned: she performed at a few festivals



and events but her great performances immediately attracted a group of parents who wanted her to train their children. She decided to pursue her passion and took the initiative to set up her academy. With effort, dedication and planning she began classes at five different locations in Pune, India. Happy Feet teaches various forms of Indian and Western dance and does choreography for various school and corporate events and weddings. With art and dance gaining popularity and becoming a mainstream profession, there is a lot of competition in this industry. However, Nirali feels her love for what she does, her determination and hard work will help her expand further.

Questions:

- 1 Identify the different ways in which Nirali Someshwar has been enterprising.
- 2 How can she continue to be enterprising in order to face the challenges of a competitive industry?
- 3 What risk factors do you think she may have considered before taking the decision to set up her dance academy?
- 4 Identify the different stakeholders of the enterprise.
- 5 With reference to this case study, explain whether this is a business or a social enterprise. Outline the difference between a social and a business enterprise.

Summary

You should know:

- the two main types of enterprise: a social enterprise (not-for-profit) and a business enterprise (where the aim is to make a profit)
- making well-thought-out decisions, being innovative and taking risks are the three main characteristics of an enterprise
- entrepreneurs who start up an enterprise have to be mindful of the interests of all stakeholders
- stakeholders are people and organisations that have an interest in the activity of a business. They can be internal (within the organisation) or external (outside of the organisation). Employees and shareholders are internal stakeholders, whereas lenders and suppliers are some examples of external stakeholders.
- you can be enterprising in everything you do at home and at school by taking more initiative and responsibility and being organised and creative.

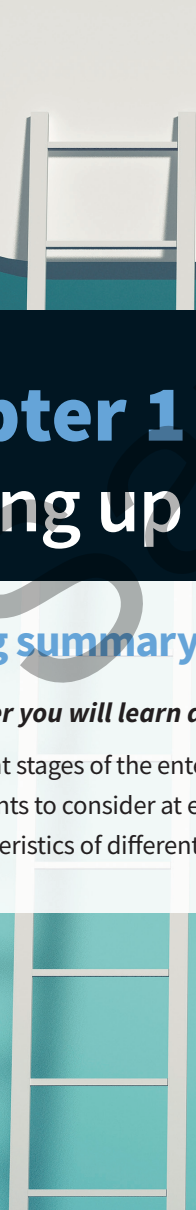


Chapter 1

Setting up a new enterprise

Learning summary

In this chapter you will learn about:

- the different stages of the enterprise process
 - the key points to consider at each stage
 - the characteristics of different types of business organisations.
- 

The enterprise process

To be successful in an enterprise activity, an enterprising person needs to follow various steps in order. This is called the **enterprise process**. Make sure you consider each of these steps as you plan and implement your own enterprise project.



KEY TERM

Enterprise process: The various stages involved in starting and running an enterprise.

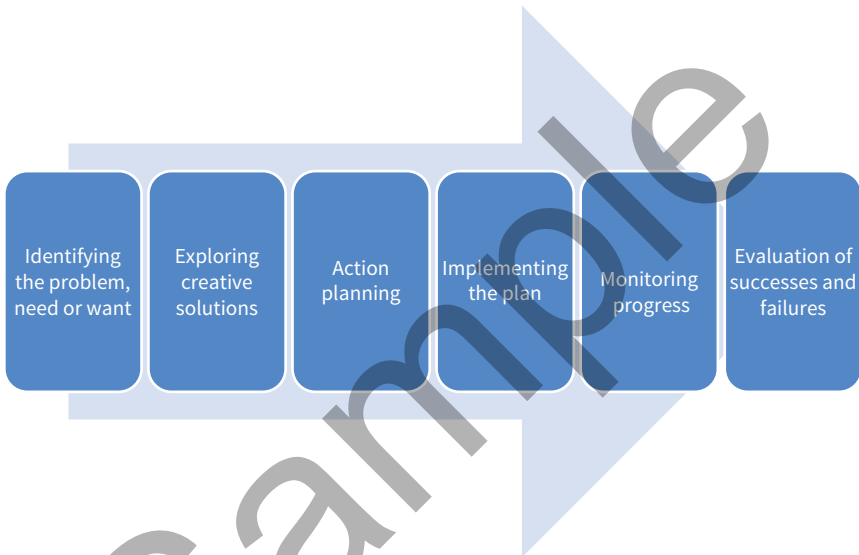


Figure 1.1: The enterprise process

Identifying the problem, need or want:

- A combination of group discussion, brain storming and individual reflection should be used to identify and understand the problem, need or want. Collecting ideas and thoughts from different people involved/stakeholders will ensure many different aspects of the business opportunity have been considered.
- A suitable risk assessment needs to be carried out before starting an enterprise activity.
- The identification of the enterprise opportunity/idea should be backed up with thorough research about the market need. This helps the enterprise have a clear aim and vision that it can work towards. The expected rate of return if it is to be a business enterprise, should also be considered.

- Recognition of the skills required and reflection on whether an entrepreneur and his associates have them is important for the success of the enterprise. If there are any skills gaps then there should be a plan in place to fill them.

Exploring creative solutions

- When aiming to solve a problem or meet a need, creative and innovative ways need to be looked at and evaluated. Creativity and innovation are key traits of a successful enterprise. They help entrepreneurs find new ways of solving existing problems and meeting needs.
- These creative ideas then need to be analysed and evaluated to help choose the most effective solution. Mind maps can be used to explore the links between ideas which can then be very helpful in developing an effective enterprise plan.

Action planning:

- This involves, making plans for the enterprise activity keeping the costs, budget and financial capability in mind.
- Breaking down goals into achievable tasks.
- Using resources and team members most efficiently. Allocating roles according to people's strengths, skills and attributes to increase the chances of success.
- Setting appropriate timescales and milestones, working towards the goals set out earlier.

Implementing the plan

- To be successful, enterprise activities must be carried out efficiently, effectively, lawfully and with due regard to health and safety.
- All milestones, timescales and health and safety issues identified in the plan should be frequently referred to. This ensures that the activities and tasks are focused and directed towards meeting objectives.
- Things don't always work out as planned and unexpected events do happen. In such a case, decision-making needs to be quick, flexible and responsive.

Monitoring Progress

- Constantly monitoring and evaluating progress against the objectives set out is a way to make sure that projects are tracked and any deviations identified.

- If tasks are not done and objectives not met on time, corrective action/ adjustments need to be done in response to any deviations from the plan. This is essential to ensure that objectives are met and goals achieved within the allocated budget and time.

Evaluation of successes and failures

- This involves reviewing the final outcomes against achievement criteria. This is done in order to draw lessons from the activity and come up with suggestions for improvement in the future.
- Skills, attitudes, qualities, understanding acquired and lessons learned should also be assessed and reflected on to enhance the success of future enterprise projects or activities.

TIP

Word processing and spreadsheet software tools can be very useful for recording ideas and plans, and for creating timelines for target setting and monitoring.

Putting data and figures into tables makes it easier to understand the information. Use a spreadsheet to store information and perform calculations.

ACTIVITY 1.1

Your group has been given the task of starting a new club in school. Brainstorm for ideas with your team. Some examples of new clubs that could be offered are:

- helping children in the lower classes with maths/science/English
- sports club offering a popular or sport of your choice
- debating club.

Once you have decided on which club your group will be starting, discuss all the things you need to consider to get it running. Consider the various stages of the enterprise process and what you need to do. You can make an enterprise process mind map or make a list of the points.

- 1 Which club has your group decided to start? How did you identify this club as the best one to start?
- 2 What planning do you need to do in order to start the club? One of the things to think about is the venue where the club will meet. What other things should be considered?
- 3 How will you implement the plans that you have made?
- 4 How will you ensure that your club is running successfully?

PROJECT PROMPT

As you start your enterprise project, have an overview about how your project will develop through various stages of the enterprise process

- 1 When identifying the problem/need of your project, identify the various factors that you will have to consider. Think about the research you will have to do to make informed decisions. What will be the aim/vision of your enterprise? Consider the risks involved in starting and running your enterprise.
- 2 Analyse how the solution that you have found to the need/problem identified in your project is the most creative and effective.
- 3 When making your action plan, think of all the financial and marketing aspects of your enterprise.
- 4 Find out about all sources of help and support from the government and other organisations that you could use.
- 5 Think about what milestones you might set to be able to monitor the progress of your project.
- 6 At each stage, remember to reflect on what worked well and what could have been improved.

Types of business organisations

Businesses may be organised in many different ways, each with its own legal status, advantages and disadvantages.

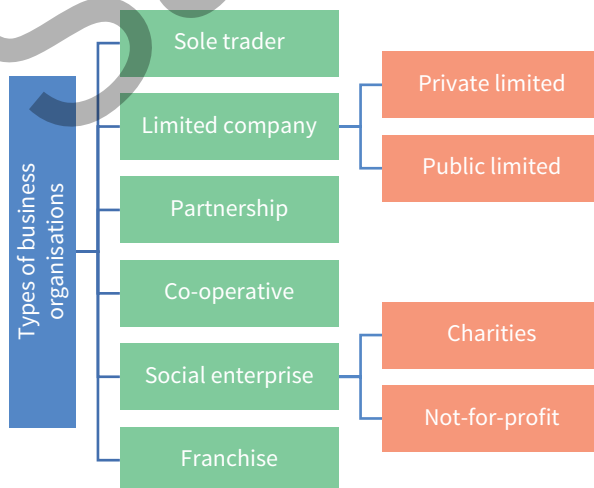


Figure 1.2: Types of business organisations

Sole trader

This is a business that is owned and run by just one person though it may employ staff. A **sole trader** is an **unincorporated business**. This means it is not a separate entity from the owner. The owner has **unlimited liability** and is liable for all the debts of the business and stands to lose his/her investment as well as personal assets if the business goes into debt.

However, this is one of the most common types of business organisations, mainly because it is cheaper and simpler to start. Examples include hairdressers, photographers, freelance writers and artists.



KEY TERMS

Sole trader: A business that is owned and run by just one person though it may employ staff. It is an unincorporated business in which the owner has unlimited liability for all the debts of the business.

Unincorporated business: A business that does not possess a separate legal identity from its owner. The owner(s) have full liability for the business.

Unlimited liability: Shareholders/owners are liable for all the debts of their organisation and stand to lose their investment as well as personal assets if the business goes into debt.

Advantages of being a sole trader:

- Cheap, quick and simple (less documentation and legal formalities) to start.
- The owner can keep all the profits.
- The owner can make his/her own decisions and has full control of their business.

Disadvantages of being a sole trader:

- The owner is fully responsible for all debt, also known as unlimited liability
- It is difficult to raise finance, so often the owner has to rely on personal savings.

Partnerships

This is a business that is owned by two or more people, who are known as the partners. **Partnerships** cannot normally have more than 20 partners though this can vary from country to country. This sort of a business organisation is also unincorporated and so the partners have unlimited liability. Lawyers, accountants and small businesses owned by two or more people are usually set up as partnerships.



KEY TERM

Partnership: A business that is owned by two or more people, known as the partners. This sort of a business organisation is unincorporated and so the partners have unlimited liability.

Advantages of partnerships:

- Cheap, quick and simple (less documentation and legal formalities) to start.
- The partners can keep all the profits.
- The partners have full control of their business.
- The decision-making and workload is shared.

Disadvantages of partnerships:

- The partners are fully responsible for all debt (also known as unlimited liability).
- It is difficult to raise finance, so often entrepreneurs have to rely on personal savings.
- Disagreements and conflicts between partners can slow down the business.
- The decision made by one partner is legally binding on all the others.

Limited companies

Limited companies are incorporated businesses that are a separate legal entity from their owners. A limited company is owned by its shareholders who own a share of the company. There are two types of limited companies.

Private limited company

The shares of a private limited company are usually held by friends and family so there are a small number of shareholders.

Public limited company

Shares are offered to and often owned by the public and other organisations.

Advantages of a limited company:

- The shareholders have a **limited liability**, which means they are not fully liable for the debts of the business. Shareholders/owners are only liable to pay/lose the amount they have invested.
- It is easier to raise finance than it is for sole traders and partnerships as they can sell their company's shares.



KEY TERMS

Limited company: An incorporated business that is a separate legal entity from its owners.

Limited liability: Shareholders/owners are only liable to pay or lose the amount they have invested.

- Since the company is a separate unit from the owners, it will continue to exist even if one of the owners leaves or dies.

Disadvantages of a limited company:

- Limited companies are not so easy to set up as there are a lot of legal formalities, rules and regulations to be followed.
- The original owners may lose control of the business as shares are sold to the public.
- The accounts of the company have to be published for the public to see.

Co-operatives

This type of business organisation is owned and managed by people who use its services and who work there. There are different types of **co-operative**.

- A consumer co-operative is owned by consumers who buy its goods or services.
- A producer co-operative is owned by producers of goods who have come together to sell their goods.
- A worker co-operative is one which is run by its employees.



KEY TERM

Co-operative: A type of business organisation that is owned and managed by people who use its services or who work there.

Advantages of co-operatives:

- Co-operatives are democratic.
- The members (whether consumers or employees) work together. There are fewer chances of conflict as members share a common interest.
- The owners/shareholders in a co-operative usually have limited liability.
- Co-operatives usually get some sort of tax relief from the government.
- Most co-operatives are treated as separate legal units and so the death of a member does not affect its continuity.

Disadvantages of co-operatives:

- It is difficult to raise finance as co-operatives cannot issue shares.
- Accounts have to be made accessible to the public.
- Members may not necessarily have the required skills to run the business and so have to hire professionals who may be expensive.

Franchises

A **franchise** is a form of business organisation that allows a company (franchisee) to buy the right to use an existing company's (franchisor) brand name and products/service. For example, Subway, the sandwich shop opened its first franchise in Connecticut, USA in 1965. Other Subway franchises soon followed and now there are more Subway restaurants in the world than any other restaurant chain.



KEY TERM

Franchise: A form of business organisation that allows a company (franchisee) to buy the right to use an existing company's (franchisor) brand name and products/service.

Advantages of franchises:

- The franchisee has a greater chance of success as they are selling a well-known product/service.
- The franchisor may provide some support to the franchisee by providing advice and training.
- The franchisor may contribute funds or do some advertising at national level, reducing the franchisee's costs.
- Easier to gain loans from bank, as the business is seen to be low-risk.

Disadvantages of franchises:

- The franchisee will have to pay a license fee and possibly a percentage of the revenue to the franchisor.
- The initial costs of setting up a franchise business may be high.
- The franchisee will not have full control over how he can run his business as he will have to follow the controls set by the franchisor.

Social enterprises

A social enterprise is a business with social objectives and ethical values aimed at benefitting the community. The money earned is reinvested in the business or used for a social cause. There are different types of social enterprise.

Not-for-profit enterprises

- Not-for-profit enterprises are directly involved in producing goods or providing services, but in a socially responsible way.
- They often sell products or services in order to reinvest their profits into the business for the benefit of the community and not-for-profit maximisation of its owners/shareholders.

- They generate their own income and do not rely on donations to survive.
- A not-for-profit organisation's aim is to improve social conditions. The aims may be short-term or may last for decades.



KEY TERM

Income: All the money that comes in to an enterprise.

Charities

- Charities raise money by doing fundraising activities and collecting donations.
- Charities work to provide quick solutions to immediate disasters/adversity and their impact is often short lived.

Advantages of social enterprises:

- Committed employees: employees who work for a social enterprise often feel for the cause and have a personal interest in its social aims and objectives.
- Job satisfaction for employees is high as they know they have made a difference to people in need.
- They bring about a positive change to people and communities.

Disadvantages of social enterprises:

- Social enterprises may be less competitive in the market due to limited capital.

TIP

Consider your skills and personality when deciding what type of organisation your enterprise will be.

ACTIVITY 1.2

In a group, research and discuss an enterprise that has come up internationally or in your own country recently. You may use the internet or a business magazine/journal for your research. What type of an organisation is it? What is the main product/service offered by the enterprise? What are the risk factors/challenges faced by the enterprise? Is it successful so far?

PROJECT PROMPT

What type of a business organisation will best suit your enterprise? Explain why you think this sort of organisation will be best suited to you.

It isn't a requirement for the coursework, but it would still be useful to think about which type of organisation will best suit your enterprise.

What are the disadvantages of this sort of organisation and how could you minimise them?

Betty Makoni, Zimbabwe



Having suffered abuse as a child, Betty Makoni founded the Girl Child Network Zimbabwe in 1998. It started as an informal discussion group/club in a classroom. Its main aim was to allow girls a safe space to meet and talk freely about their problems and find possible solutions. In collaboration with the social services department and other government regulatory bodies, it is now at the forefront of identifying and tackling abuse and has mentored thousands of girls around Zimbabwe. Its model is being used in other parts of Africa and it has grown into an international charity, Girl Child Network Worldwide. It is a not-for-profit organisation with the social aim to protect and promote the rights of girls all over the world.

Questions:

- 1 What characteristics of the Girl Child Network make it a social enterprise?
- 2 Using the case study, explain the main differences between a sole trader and a social enterprise.
- 3 What do you think are the main challenges faced by a social enterprise like the Girl Child Network?
- 4 What do you think are the driving factors behind people working for such an enterprise?

Richard and Maurice McDonald, USA

The McDonald brothers, Richard and Maurice, opened their first restaurant in 1940 in San Bernardino, California as a barbecue restaurant focused on quality and quick service. Having spotted its potential to expand throughout the



United States and beyond, Ray Kroc joined the company in 1954. He grew the business by offering franchises. There are now more than 29 000 McDonald's restaurants in over 120 countries and it is one of the largest food service companies in the world.

McDonald's, the franchisor, grants the right to sell McDonald's branded goods to someone wishing to set up their own business: the franchisee. To ensure consistent quality standards across all McDonald's restaurants all franchisees have to use standardised McDonald's branding, menus, design layouts and administrative systems. McDonald's also provides the franchisees with initial training, continuous support and coordinated marketing. For the franchising to be a success there is a special three-way relationship that exists between McDonalds, the franchisee and the suppliers.

Using franchising as a means to expand has proven to be very beneficial for McDonald's as franchises bring entrepreneurs, full of determination and ideas, into the organisation along with a monthly rent. Responding to local consumer tastes, many new items on McDonald's menus have come from franchisees.

The role of the supplier is critical to the success of the franchise operation. As McDonald's considers the quality of its products to be of absolute importance, it sets very high standards for its suppliers and believes in developing close relationships with them. Suppliers who have been able to meet McDonald's standards have been able to share in the growth and success of McDonald's.

Questions:

- 1 Discuss the main advantages to a business entering the restaurant industry either by buying a franchise or opening a restaurant as a limited company.
- 2 Discuss the challenges that may be faced by a McDonald's franchisee.
- 3 What are some of the advantages to McDonald's when expanding by offering its franchises?
- 4 Explain the role and importance of suppliers as stakeholders in McDonald's.

Exam-style questions

- 1 State one advantage and one disadvantage of a partnership. [2]
- 2 What type of a business organisation is your enterprise?
Explain two of its main features. [4]
- 3 In the McDonald's case study above, identify two stakeholders and explain their involvement in the enterprise. [4]
- 4 Describe the different stages of the enterprise process. [6]
- 5 With reference to your own enterprise, explain the importance of planning in the enterprise process. [6]
- 6 Compare and contrast the characteristics of a sole trader and a limited company. [10]



KEY TERMS

Describe: State the points of a topic/give characteristics and main features.

Discuss: Write about issue(s) or topic(s) in depth in a structured way.

State: Express in clear terms.

Summary

You should know:

- the six stages in the enterprise process: identification of problem/need, exploring different solutions, action planning, implementing the plan, monitoring and evaluating success and failures
- sole traders, partnerships, limited companies, franchises and co-operatives are different types of business organisation that exist to maximise profit for the owners. Each has their own legal status, advantages and disadvantages.
- social enterprises work for the benefit of the community and not for the maximisation of the owners' profit
- charities and not-for-profit organisations are examples of social enterprises.

Sample