

IB Business Management SL 2026 — Business Organization and Environment

IB SL Study Guide

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Introduction to Business

This section covers the nature of business activity, the factors of production, and the distinction between different sectors and types of organizations.

What is a Business?

A **business** is any organization that uses resources (inputs) to produce goods or services (outputs) in order to satisfy the needs and wants of customers. Businesses operate with a purpose — whether profit-driven or mission-driven — and they do so within a broader economic and social environment.

The core functions of a business are:

- Identifying a customer need or want
- Acquiring resources (land, labour, capital, enterprise)
- Combining those resources to produce output
- Delivering that output to customers
- Generating revenue and, where applicable, profit

MEMORISE THIS

The four factors of production (remember: CELL)

C — Capital (man-made tools and machinery) **E** — Enterprise (the entrepreneur who combines the other factors and takes risk) **L** — Labour (human effort — physical and mental) **L** — Land (all natural resources: soil, water, oil, timber, climate)

Business Sectors

Economies organise production into sectors based on the type of activity:

Sector	Description	Examples
Primary	Extraction of raw materials from the natural environment	Farming, fishing, mining, forestry, oil extraction
Secondary	Manufacturing and construction — converting raw materials into finished or semi-finished goods	Car assembly, food processing, house building
Tertiary	Service provision to businesses and consumers	Retail, banking, transport, healthcare, education
Quaternary	Knowledge-based activities — research, information, and intellectual services	IT consultancy, research and development, financial analysis

IB TIP

IB exams frequently ask you to classify a business by sector. Remember: **primary** = extracting from nature; **secondary** = making things; **tertiary** = serving people; **quaternary** = thinking and creating knowledge. A coffee shop is tertiary; the farm that grows the coffee beans is primary; the factory that roasts and packages them is secondary.

EXAM ALERT

Do not confuse sector with type of ownership. A government-owned hospital is a tertiary-sector business in the public sector. A privately owned factory is a secondary-sector business in the private sector. These are two different classification systems.

Public Sector vs. Private Sector

Businesses also operate in either the **public sector** (owned and operated by the government) or the **private sector** (owned by private individuals or groups). A **third sector** (also called the voluntary or non-profit sector) includes charities, NGOs, and social enterprises.

Types of Organizations

The **legal structure** of a business determines who owns it, who controls it, who has liability for its debts, and how it raises finance.

Sole Trader

A **sole trader** is a business owned and operated by a single individual. The owner has unlimited liability.

Advantages:

- Simple and cheap to set up — minimal legal formalities
- Owner keeps all profits
- Full control over decisions — quick decision-making
- Privacy — accounts do not need to be published

Disadvantages:

- **Unlimited liability** — the owner's personal assets (home, savings) are at risk if the business cannot pay its debts
- Limited access to capital — can only use personal savings or personal loans
- Heavy workload — the owner does everything
- Lack of continuity — the business ceases if the owner is ill or dies

EXAM ALERT

Unlimited liability is the most important disadvantage of sole traders and partnerships. Make sure you define it precisely: the owner is personally responsible for ALL debts of the business, and creditors can seize personal assets to recover unpaid debts. This is tested heavily in Paper 1 and Paper 2.

Partnership

A **partnership** is a business owned by two or more people (typically 2–20 partners). Most partnerships have unlimited liability. A **limited partnership** allows some partners (sleeping partners) to have limited liability, but at least one partner must retain unlimited liability.

Advantages:

- More capital than a sole trader can raise (each partner contributes)
- Shared workload and shared decision-making
- Shared expertise — partners may bring complementary skills
- Losses shared between partners

Disadvantages:

- Unlimited liability for general partners
- Potential for conflict between partners
- Profits must be shared
- If one partner leaves or dies, the partnership may need to be reformed
- Partnership agreements can be complex and costly to draft

Private Limited Company (Ltd)

A **private limited company** is a separate legal entity from its owners (shareholders). It has **limited liability** — shareholders can only lose what they invested. Shares can be sold only to invited individuals; they cannot be traded on a public stock exchange.

Advantages:

- **Limited liability** — shareholders' personal assets are protected
- Ability to raise more capital by selling shares (to invited investors)
- Continuity — the company survives the death or departure of shareholders
- Greater credibility with suppliers and lenders

Disadvantages:

- More expensive and complex to set up (legal registration, constitution documents)
- Financial accounts must be filed (reduced privacy compared to sole trader)
- Cannot sell shares to the general public — limits capital raising
- Some decision-making involves shareholders, which can slow the process

Public Limited Company (PLC)

A **public limited company (PLC)** can sell shares on a public stock exchange, meaning anyone can buy shares. This allows very large amounts of capital to be raised.

Advantages:

- Access to very large amounts of capital via the stock market
- Enhanced public profile and brand recognition
- Limited liability for all shareholders
- Easier to buy and sell shares — attractive to investors

Disadvantages:

- Expensive and complex to set up and maintain (legal, regulatory, and listing costs)
- Must publish detailed financial accounts — loss of confidentiality
- Vulnerable to hostile takeover (anyone can buy shares)
- Pressure from shareholders for short-term profits, which may conflict with long-term strategy
- Separation of ownership (shareholders) and control (managers) can create agency problems

MEMORISE THIS

Key difference between Ltd and PLC:

- **Ltd** — shares NOT publicly traded; shareholders are invited individuals; “limited” in the company name
- **PLC** — shares publicly traded on stock exchange; any investor can buy; suffix “plc” or listed on an exchange

Both have limited liability. The key distinction is share tradability and capital-raising ability.

Cooperatives

A **cooperative** is an organization owned and democratically controlled by its members (who may be workers, consumers, or suppliers). Each member has one vote regardless of their investment.

Advantages:

- Democratic and ethical — all members have equal say
- Profits distributed among members (as dividends or reduced prices)
- Strong staff motivation in worker cooperatives
- Community focus — decisions consider member and social wellbeing

Disadvantages:

- Decision-making can be slow (democratic process)
- Difficult to raise large amounts of capital
- Members may have conflicting interests
- May be less responsive to market changes

Examples: The John Lewis Partnership (UK), REI (USA), credit unions.

Social Enterprises

A **social enterprise** is a business that trades primarily to fulfil a social, environmental, or community mission, rather than to maximise profit for shareholders. Surpluses are reinvested into the mission.

Examples: Fair-trade organisations, community energy cooperatives, social care organisations.

IB TIP

Social enterprises are distinct from charities in that they generate revenue through commercial trading, not primarily through donations. For IB purposes, know that they balance commercial activity with a social mission, and that profit maximisation is not their primary objective.

Non-Governmental Organizations (NGOs)

NGOs are non-profit organizations that operate independently of government. They typically pursue humanitarian, environmental, or development goals. Funding comes from donations, grants, and fundraising events.

Examples: Amnesty International, Oxfam, WWF.

► **Watch: Types of Business Organizations**

VIDEO

Organizational Objectives

Organizations set goals at multiple levels — from high-level mission statements to SMART tactical targets — balancing commercial aims with ethical responsibilities.

Mission and Vision

- **Mission statement:** a short declaration of the organization's purpose — what it does, for whom, and how. It focuses on the present.
- **Vision statement:** an aspirational statement about what the organization seeks to achieve in the long run. It focuses on the future.

A mission statement answers: “Why do we exist?” A vision statement answers: “Where are we going?”

SMART Objectives

Business objectives should be **SMART** to be effective:

MEMORISE THIS

S — Specific (clearly defined, not vague) **M** — Measurable (quantifiable, so progress can be tracked) **A** — Achievable (realistic given available resources) **R** — Relevant (aligned with the organization's mission and strategy) **T** — Time-bound (with a clear deadline or time frame)

Example of a SMART objective: "Increase market share in the UK from 8% to 12% within two years by launching three new product lines."

Strategic, Tactical, and Operational Objectives

Level	Time Horizon	Who sets it	Example
Strategic	Long-term (3–5+ years)	Board of Directors	"Expand into three new international markets by 2030"
		/ Senior management	
Tactical	Medium-term (1–3 years)	Middle management	"Launch a new marketing campaign in Q2 to increase brand awareness by 20%"
Operational	Short-term (daily/weekly/monthly)	Supervisors / frontline managers	"Reduce production defect rate to below 1% this month"

Corporate Social Responsibility (CSR)

CSR refers to a business's commitment to operate ethically and contribute positively to society and the environment, beyond its legal obligations. CSR activities may include:

- Reducing carbon emissions and investing in renewable energy
- Ensuring fair wages and safe working conditions in the supply chain
- Donating to community projects or charities
- Ethical sourcing of raw materials

IB TIP

IB examiners want to see both sides of the CSR argument. **For:** improves reputation, attracts talent, reduces regulatory risk, aligns with stakeholder expectations. **Against:** increases costs, reduces short-term profit, may be used as "greenwashing" to distract from genuine ethical failures. Always evaluate with reference to the specific business context.

Business Ethics

Business ethics refers to the application of moral principles and standards of conduct to business decisions. Ethical issues arise in areas such as product safety, fair pricing, marketing to vulnerable groups, environmental impact, and treatment of employees.

A business can face tension between ethical behaviour and profit maximisation — for example, using the cheapest available supplier (lower costs) versus ensuring that supplier provides fair wages and safe conditions (ethical sourcing).

Stakeholders

A **stakeholder** is any individual or group that has an interest in, or is affected by, the activities of a business. Stakeholders can be **internal** (inside the business) or **external** (outside the business).

Internal Stakeholders

Stakeholder	What they want	How they influence the business
Employees	Good pay, job security, safe working conditions, career development	Can strike, leave, or underperform if unhappy
Managers	Bonuses, status, authority, business success	Make day-to-day and strategic decisions
Shareholders (owners)	Profit (dividends), share price growth, information transparency	Can vote to replace directors; sell shares

External Stakeholders

Stakeholder	What they want	How they influence the business
Customers	Good quality, fair prices, reliable service, safe products	Can switch to competitors; leave reviews; complain
Suppliers	Regular orders, prompt payment, long-term contracts	Can raise prices, delay delivery, or withdraw supply
Government	Tax revenue, legal compliance, job creation	Regulate, tax, grant licences, prosecute
Community	Local employment, minimal pollution, community investment	Can campaign, protest, or apply political pressure
Creditors (banks)	Loan repayment, interest income, low risk	Can refuse loans or demand repayment
Pressure groups / NGOs	Ethical behaviour, environmental protection	Can boycott, campaign, and generate media coverage

Stakeholder Conflict

Stakeholders often have **conflicting interests**. The business must manage and prioritise these tensions.

Common conflicts:

- **Shareholders vs. Employees:** Shareholders want cost cuts (including wage cuts); employees want higher wages.
- **Shareholders vs. Community:** Shareholders want profit maximisation; local community wants less pollution and more local investment.
- **Managers vs. Shareholders:** Managers may pursue empire-building or personal bonuses (agency problem); shareholders want dividend income.
- **Customers vs. Employees:** Customers want lower prices; employees want higher wages — both increase pressure on margins.

WORKED EXAMPLE

Worked Example — Stakeholder Conflict

A fast-fashion retailer plans to move production from a domestic factory to an overseas supplier to reduce unit costs by 40%.

- **Shareholders** support the move — lower costs mean higher profit margins.
- **Domestic employees** oppose it — they will lose their jobs.
- **Customers** may support it if prices fall, but some may oppose it on ethical grounds (poorer overseas working conditions).
- **Government (domestic)** opposes it — job losses reduce tax revenue and increase welfare spending.
- **Government (overseas)** may welcome it — new employment.
- **Pressure groups** may campaign against it if the overseas factory has poor labour standards.

In an IB exam, discuss which stakeholder group has the most power to influence the outcome and justify your answer.

►Watch: Stakeholders & STEEPLE Analysis

VIDEO

External Environment: STEEPLE Analysis

The **STEEPLE** framework identifies external factors outside the business's control that can affect its operations and strategy. Each factor can present **opportunities** or **threats**.

Social Factors

Trends in society that affect demand for products and the availability of labour.

Examples:

- Ageing population — increased demand for healthcare and retirement products
- Rising health consciousness — growth of organic food and fitness industries
- Greater diversity and inclusion expectations — businesses adapt recruitment and marketing
- Urbanisation — shifts demand toward city-based services

Technological Factors

Advances in technology that can disrupt industries, reduce costs, or enable new products.

Examples:

- Artificial intelligence — automating data analysis and customer service (chatbots)
- E-commerce — enabling direct-to-consumer sales, disrupting traditional retail
- 3D printing — reducing prototyping costs in manufacturing
- Renewable energy technology — reducing operating costs for businesses with high energy use

Economic Factors

The state of the economy and economic policies that affect purchasing power, costs, and demand.

Examples:

- Interest rates — high rates increase borrowing costs for businesses and reduce consumer spending on credit
- Inflation — rising input costs squeeze profit margins; reduces consumer purchasing power
- Economic growth/recession — affects consumer confidence and spending
- Exchange rates — a strong domestic currency makes exports more expensive and imports cheaper
- Unemployment — high unemployment reduces consumer spending but provides a larger labour supply

EXAM ALERT

Exchange rate changes are a classic IB exam topic. Know the mechanism: if the pound strengthens against the euro, UK exports become more expensive for EU buyers (likely demand falls), while imports from the EU become cheaper for UK buyers. A weaker pound has the opposite effect. Apply this to the specific business in the case study — do not just list the effects generically.

Environmental Factors

Ecological and environmental issues that affect business operations and consumer expectations.

Examples:

- Climate change — businesses face regulatory pressure and reputational risk
- Natural disasters — can disrupt supply chains
- Resource scarcity — rising prices for raw materials like water, rare earth metals
- Environmental legislation — carbon taxes, emissions trading schemes, plastic bans
- Consumer demand for sustainable products — growing market for eco-friendly goods

Political Factors

Government policies and political stability that shape the business environment.

Examples:

- Changes in government and policy direction — e.g., shifts in trade policy, minimum wage legislation
- Political instability — deters foreign investment
- Taxation policy — corporate tax rates affect after-tax profits
- Government spending — stimulus packages can boost demand
- Trade agreements and tariffs — affect import/export costs

Legal Factors

Laws and regulations that businesses must comply with.

Examples:

- Employment law — minimum wage, health and safety, anti-discrimination
- Consumer protection law — product liability, advertising standards
- Competition law — prevents monopoly abuse, cartels, and anti-competitive mergers
- Data protection regulations — GDPR (EU) governs how businesses use customer data
- Environmental regulations — emissions limits, waste disposal rules

Ethical Factors

Moral expectations about how businesses should behave, beyond what the law requires.

Examples:

- Pressure to ensure fair labour practices across global supply chains
- Expectations around executive pay ratios (CEO pay vs. average worker pay)
- Opposition to certain industries (e.g., tobacco, gambling, fossil fuels)
- Expectations around diversity, equity, and inclusion in hiring

IB TIP

In IB Paper 2 case studies, a STEEPLE question will typically ask you to identify and analyse two or three specific external factors relevant to the business in the extract. Select factors that are actually supported by evidence in the extract — do not list all seven categories generically. Then explain the impact on the business and whether it represents an opportunity or a threat.

SWOT Analysis

SWOT is a planning tool used alongside STEEPLE. It categorises internal and external factors from the business's perspective.

Internal (within the business's control)	External (outside the business's control)
Strengths — what the business does well	Opportunities — external trends it can exploit
Weaknesses — areas for improvement	Threats — external risks it must manage

STEEPLE feeds into SWOT: STEEPLE factors become **Opportunities** and **Threats** in the SWOT analysis.

MEMORISE THIS

SWOT: Strengths and Weaknesses are **internal**. Opportunities and Threats are **external**.

A SWOT is only as useful as the analysis built on top of it. In IB exams, always connect SWOT findings to a recommended strategy — what should the business do based on the analysis?

Growth and Evolution

Businesses grow through internal reinvestment or external strategies such as mergers and acquisitions, each with distinct advantages, risks, and scale effects.

Internal (Organic) Growth

Internal (organic) growth occurs when a business expands using its own resources — without acquiring other businesses. Growth is financed from retained profits, reinvested revenue, or borrowing.

Methods of internal growth:

- Developing new products (product development)
- Entering new markets (market development)
- Increasing marketing spend to grow market share
- Expanding production capacity

Advantages: The business retains control; culture is preserved; lower risk.

Disadvantages: Slow; limited by current resources; can miss market opportunities.

External Growth

External growth involves expanding through relationships with or acquisition of other businesses. It is generally faster than organic growth.

Mergers and Acquisitions (M&A)

- **Merger:** Two businesses combine to form a new single entity, by mutual agreement.
- **Acquisition (takeover):** One business purchases another. The acquired business is absorbed. Can be **friendly** (agreed) or **hostile** (resisted by the target).

Types of M&A by direction:

Type	Description	Example
Horizontal	Two businesses at the same stage of production in the same industry	Two supermarket chains merging
Vertical (forward)	A business acquires a customer, distributor, or retailer — moving closer to the end consumer.	A car manufacturer acquiring a car dealership chain
Vertical (backward)	A business acquires a supplier — moving closer to the source of raw materials	A clothing retailer acquiring a fabric manufacturer
Conglomerate	Two businesses in unrelated industries merging	A media company acquiring a food company

EXAM ALERT

Know the difference between **horizontal**, **vertical (forward/backward)**, and **conglomerate** integration. A common exam error is confusing the direction of vertical integration. “Backward” = moving toward raw materials (suppliers). “Forward” = moving toward the end customer (distributors/retailers). If a brewery acquires a hop farm, that is backward vertical integration.

Joint Ventures

A **joint venture** is when two or more businesses create a new, jointly owned and operated entity for a specific project or market. Each party contributes resources and shares risks and rewards.

Advantages: Shared costs and risks; access to partner's knowledge, technology, or market; may satisfy government requirements in some countries.

Disadvantages: Potential for disagreement; profits shared; cultural clashes between partner businesses.

Strategic Alliances

A **strategic alliance** is a cooperative agreement between businesses to achieve shared goals while remaining separate legal entities. It is less formal than a joint venture.

Examples: Code-sharing agreements between airlines; co-marketing agreements.

Franchising

A **franchise** is a licence granted by the **franchisor** (the original business) to a **franchisee** (an independent operator) to use its brand, business model, and support systems in exchange for fees or royalties.

For the franchisor:

- Rapid expansion with lower capital outlay
- Franchisee bears most of the local risk
- Income from franchise fees and royalties

For the franchisee:

- Established brand and business model reduce risk
- Training and ongoing support from the franchisor
- Must pay ongoing fees; less freedom to adapt the business
- Reputation depends on the franchisor's brand integrity

WORKED EXAMPLE

Worked Example — Franchising

A student asks: “Why would a successful business like McDonald’s choose franchising rather than opening company-owned restaurants?”

Answer: Franchising allows McDonald’s to expand globally without funding every new location from its own capital. The franchisee invests their own capital to open and run the restaurant. McDonald’s earns royalties and fees while the franchisee bears the local operating risk. This accelerates growth and reduces McDonald’s financial exposure in unfamiliar markets.

Economies and Diseconomies of Scale

As a business grows in output, its average (unit) costs can fall due to **economies of scale**. However, beyond a certain point, growth may lead to **diseconomies of scale** —

rising average costs.

Economies of scale (causes of falling average costs):

Type	Explanation
Purchasing economies	Bulk buying raw materials at lower unit prices
Technical economies	Larger, more efficient machinery becomes cost-effective at higher output
Financial economies	Larger firms can borrow at lower interest rates (lower credit risk)
Managerial economies	Specialist managers can be employed (e.g., dedicated HR, finance, marketing departments)
Marketing economies	Fixed advertising costs spread over more units

Diseconomies of scale (causes of rising average costs):

- **Communication problems** — information is lost or distorted across too many management layers
- **Coordination difficulties** — large operations are harder to manage efficiently
- **Worker alienation and low motivation** — employees feel disconnected in very large organisations
- **Bureaucracy** — slow decision-making due to excessive rules and procedures

MEMORISE THIS

Minimum Efficient Scale (MES) is the lowest level of output at which a firm can achieve its minimum long-run average cost. Firms that produce below the MES are at a cost disadvantage relative to larger competitors.

HL HL students should also know the **long-run average cost (LRAC) curve** and how economies of scale relate to the downward-sloping portion, the minimum point (MES), and the upward-sloping portion (diseconomies of scale).

Organizational Planning Tools

Effective planning tools help businesses make structured, evidence-based decisions — from formal business plans to analytical frameworks like decision trees and fishbone diagrams.

The Business Plan

A **business plan** is a formal document that outlines a business's objectives, strategies, and financial projections. It is used to guide the business and to secure finance from banks or investors.

Key components of a business plan:

1. **Executive summary** — a brief overview of the plan
2. **Business description** — what the business does, its mission, and its legal structure
3. **Market analysis** — target market, market size, competition, and STEEPLE factors
4. **Marketing plan** — product, price, place, and promotion (the 4Ps)
5. **Operations plan** — production methods, location, suppliers, and technology
6. **Human resources plan** — staffing levels, skills required, recruitment strategy
7. **Financial plan** — projected income statement, cash flow forecast, balance sheet, and break-even analysis
8. **Risk assessment** — key risks and contingency plans



IB TIP

A business plan is especially important for **new businesses** seeking start-up funding, and for **existing businesses** planning significant changes (e.g., entering a new market, launching a new product). IB exams may ask you to evaluate whether a business plan is sufficient or what is missing from one provided in the extract.

Decision Trees HL

A **decision tree** is a quantitative planning tool that helps managers evaluate options by mapping out possible outcomes, their probabilities, and their expected values.

How to construct and use a decision tree:

1. Draw a decision node (square) at the start — this represents a choice.
2. From each choice, draw branches for each option.
3. At the end of each branch, draw a chance node (circle) if the outcome is uncertain.
4. From each chance node, draw branches for each possible outcome, labelled with the probability.
5. At the end of each outcome branch, write the estimated financial payoff (revenue or profit).
6. Calculate the **Expected Monetary Value (EMV)** for each chance node:

$$EMV = \sum(probability \times payoff)$$

7. Subtract the cost of each option from its EMV to get the **net EMV**.
8. Select the option with the **highest net EMV**.

WORKED EXAMPLE

Worked Example — Decision Tree

A business is deciding whether to launch a new product (cost: 200,000 dollars) or upgrade an existing product (cost: 80,000 dollars).

For the **new product launch**:

- 60% probability of high sales: payoff = 500,000 dollars
- 40% probability of low sales: payoff = 100,000 dollars

$$EMV_{new} = (0.6 \times 500,000) + (0.4 \times 100,000) = 300,000 + 40,000 = 340,000 \text{ dollars}$$

$$\text{Net EMV (new)} = 340,000 - 200,000 = \mathbf{140,000 \text{ dollars}}$$

For the **upgrade**:

- 70% probability of moderate success: payoff = 250,000 dollars
- 30% probability of failure: payoff = 50,000 dollars

$$EMV_{upgrade} = (0.7 \times 250,000) + (0.3 \times 50,000) = 175,000 + 15,000 = 190,000 \text{ dollars}$$

$$\text{Net EMV (upgrade)} = 190,000 - 80,000 = \mathbf{110,000 \text{ dollars}}$$

Decision: The new product launch has a higher net EMV (140,000 vs. 110,000 dollars) and should be chosen — based on this analysis alone.

EXAM ALERT

Decision trees have significant **limitations** that IB exams expect you to evaluate:

- Probabilities are **estimates** — if wrong, the decision will be flawed.
- Only **quantitative** factors are considered — qualitative factors (ethics, brand, staff morale) are ignored.
- Payoffs are based on **forecasts** — revenue projections may be optimistic or pessimistic.
- The tree can become very **complex** for multi-stage decisions.

Always conclude a decision tree question with a qualitative discussion of factors not captured by the tree.

Fishbone (Ishikawa) Diagrams

A **fishbone diagram** (also called an Ishikawa or cause-and-effect diagram) is a visual tool for identifying the root causes of a problem. The “head” of the fish is the problem; the “bones” represent categories of causes (e.g., People, Process, Equipment, Materials, Environment, Management).

How it is used in business:

- Quality management — identifying why defects are occurring
- Problem-solving — systematically categorising all potential causes before deciding on a solution
- Team brainstorming — ensuring all possible causes are considered

Limitations:

- Does not indicate which cause is most significant — further investigation is needed.
- The quality of the analysis depends on the knowledge and honesty of the team.

Practice Questions

Short-answer questions:

1. Define the term “unlimited liability” and explain why this is a significant disadvantage for a sole trader. (4 marks)
2. Distinguish between a private limited company and a public limited company. (4 marks)
3. Identify and explain two reasons why a growing business might experience diseconomies of scale. (4 marks)
4. With reference to the STEEPLE framework, identify and explain two external factors that could affect a clothing retailer considering expansion into an emerging market. (4 marks)

Extended response questions (Paper 1 style):

5. (a) Explain two possible conflicts of interest between shareholders and employees of a large PLC. (6 marks) (b) Discuss whether a business should always prioritise the interests of its shareholders over those of other stakeholders. (10 marks)
6. (a) Explain the advantages and disadvantages of franchising as a method of external growth. (6 marks) (b) Evaluate whether external growth through acquisition is always preferable to internal (organic) growth for a business seeking rapid market expansion. (10 marks)

HL HL only — Decision Tree:

7. A company is choosing between two marketing strategies. Strategy A costs 150,000 dollars and has a 55% chance of generating 400,000 dollars in revenue and a 45% chance of generating 120,000 dollars. Strategy B costs 90,000 dollars and has a 70% chance of generating 280,000 dollars and a 30% chance of generating 60,000 dollars. Using a decision tree, advise the company on which

strategy to choose. What qualitative factors should also be considered? (8 marks)

- ▶ Answer guidance — Question 3 (diseconomies of scale)
- ▶ Answer guidance — Question 7 (HL decision tree)