

Business Environment Cheat Sheet

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Business Processes and Environment: Comprehensive

1. The Nature and Types of Business

- **Definition of Business:** Business refers to organised activities performed by individuals or groups to produce and distribute goods and services for the purpose of earning a **profit**.
- **Fundamental Components:** Every business is defined by its **purpose** (reason for existence), **activities** (daily operations), **scale** (size of reach), **stakeholders** (involved parties), **economic contribution** (impact on GDP), **risks** (dynamic challenges), and **legal structure**.
- **Core Business Types (by Product):**
 - **Service Business:** Provides intangible products such as professional expertise (e.g., accounting, legal, or fitness facilities).
 - **Merchandising Business:** Involved in buying products at wholesale and selling them at retail without changing their form.
 - **Manufacturing Business:** Converts raw materials into new products through labour and overhead costs (e.g., food processing or metal works).
- **Business Objectives:**
 - **Economic Objectives:** Focus on **profit earning**, capturing **market share**, innovation, resource utilisation, and **increasing productivity**.
 - **Social Objectives:** Include providing quality goods at reasonable prices, **employment generation**, fair remuneration for employees, and **community service**.

2. Forms of Business Ownership

- **Sole Proprietorship:** The oldest and simplest form; owned and managed by one individual who has **unlimited liability**, meaning personal assets can be used to pay business debts.
- **Partnership:** An agreement between two or more persons (usually up to 20) to operate a business for profit; it is governed by a **Partnership Deed**.
- **Limited Liability Partnership (LLP):** A separate legal entity from its partners with **perpetual succession**; partners have limited liability based on their contributions.
- **Limited Liability Company (LLC):** An association where the business is a **distinct legal person** from its owners; ownership is represented by shares, and liability is limited to the amount invested.
 - **Private Limited Company:** Membership is usually limited to 50, and shares cannot be sold to the general public.
 - **Public Limited Company (Plc):** Can invite the public to subscribe for shares and is often listed on a stock exchange.
- **Non-Governmental Organisations (NGOs):** Mission-driven entities operating independently of government control to address humanitarian or environmental issues.
- **Public Sector Organisations:** Entities owned or controlled by the government to provide essential public services (e.g., schools, hospitals, and the military).
- **Alliances and Joint Ventures:** Strategic partnerships between two or more companies to achieve mutually beneficial goals while maintaining separate identities.

3. Organisational Structures and Choices

- **Centralised Structure:** Decision-making authority is concentrated at the **top management level**, promoting consistency and tight control but often slowing down responsiveness.
- **Decentralised Structure:** Authority is spread across various levels, increasing **employee autonomy** and allowing for faster decision-making in fast-paced industries.
- **Matrix Structure:** Employees report to **more than one boss** (e.g., a functional manager and a project manager), fostering cross-functional collaboration and flexible resource use.
- **Network Structure:** Groups employees based on common specialisations who form partnerships for specific projects; it is often **non-hierarchical** and relies heavily on outsourcing.
- **Virtual Arrangement:** Leverages technology to support remote work and global operations, often outsourcing specific functions to independent entities.
- **Organisational Chart:** A visual representation of an organisation's structure, showing reporting lines, roles, and how teams fit together.

4. The Board of Directors and Committees

- **Key Board Roles:**
 - **Chairman:** Provides leadership to the board and acts as a link between the board and top management.
 - **Company Secretary:** Responsible for **governance advice**, meeting preparation, compliance oversight, and record-keeping.
 - **Managing Director (CEO):** Wields significant authority to turn the board's vision into reality and oversee daily operations.
 - **Non-Executive Director (NED):** Acts as an independent advisor, providing objective oversight and challenging management strategies.

- **Board Committees:**
 - **Audit Committee:** Oversees financial reporting, **risk management**, and internal controls while facilitating external audits.
 - **Remuneration Committee:** Supervises and decides the **compensation packages** for executive directors and senior managers.

5. Business Functions

- **Definition:** High-level groupings of a company's capabilities and processes.
- **Examples:**
 - **Strategy:** Developing the long-term approach to reach business goals.
 - **Finance:** Handling funding, budgets, and financial oversight.
 - **Sales and Marketing:** Promoting the company and generating revenue.
 - **Human Resources (HR):** Managing recruitment, performance, and employee relations.
 - **Operations:** The core business process that varies by industry.

6. The Business Environment and Analytical Models

- **Characteristics:** The environment is **complex, dynamic, multifaceted, and uncertain**.
- **PESTEL Analysis (External Macro Environment):**
 - **Political:** Government policy, stability, and tax laws.
 - **Economic:** Interest rates, inflation, and growth dynamics.
 - **Social:** Demographic shifts, cultural practices, and lifestyle trends.
 - **Technological:** Automation, R&D, and speed of technology adoption.
 - **Environmental:** Climate change and ecological regulations.
 - **Legal:** Employment laws, safety acts, and consumer protection.
- **SWOT Analysis (Internal & External):**
 - **Strengths & Weaknesses:** Internal factors like resources, capabilities, and gaps.
 - **Opportunities & Threats:** External factors like market developments or legislative changes.
- **Porter's Five Forces (Industry Competition):**
 - Competition in the industry.
 - Potential of **new entrants**.
 - Power of **suppliers**.
 - Power of **customers**.
 - Threat of **substitute products**.

7. Stakeholders and Social Responsibility

- **Stakeholders:** Individuals or groups with an interest in the business; can be **internal** (employees, owners) or **external** (customers, government).
- **Mendelow's Matrix:** Maps stakeholders based on **power and interest** to determine management strategies (e.g., Key Players vs. Minimal Effort).
- **Corporate Social Responsibility (CSR):** Self-regulation where businesses engage in philanthropic, environmental, or ethical practices to benefit society.
- **Types of CSR:** Philanthropy, environmental conservation, diversity/labour practices, and supporting volunteer efforts.

The Role of Accountancy in Business and Society

The Finance Function and Business Operations

The finance function acts as the "financial intelligence" of an organisation, providing both historical data for external review and forward-looking analysis for internal strategy.

- **Financial Reporting:** This is the process of documenting and communicating financial performance over specific periods, typically quarterly or yearly. It serves to **monitor income and expenses**, ensuring effective debt management and budget allocation. Furthermore, it ensures **compliance with mandatory regulations**, simplifies tax processes, and provides essential data for **investors and creditors** to assess profitability and risk. Primary reports include the **statement of financial position** (assets/liabilities), the **income statement** (revenue/profit), and the **statement of cash flow**.
- **Management Accounting:** Unlike financial reporting, management accounting is primarily for **internal use**. It involves applying professional skills to assist management in **planning** (budgets/forecasting), **controlling** (variance analysis), and **decision-making** (e.g., make-or-buy analysis). It also focuses on **performance measurement** using key performance indicators (KPIs) and managing costs to improve overall profitability.
- **Treasury Management:** This involves the strategic oversight of financial resources to ensure **liquidity** and manage financial risks. Key roles include **cash management** (maintaining daily flows), **liquidity management** (cash pooling), and **risk management**, such as hedging against currency fluctuations or interest rate changes.

2. Internal Control and Audit Mechanisms

Accountancy provides the structural "checks and balances" needed to protect organisational assets and maintain the integrity of financial information.

- **Internal Control:** These are the processes and mechanisms designed to provide reasonable assurance regarding **operational efficiency**, reliable reporting, and compliance. Key measures include the **separation of duties (SoD)**—ensuring no single person controls a transaction from start to finish—and **access controls** to protect sensitive data.
- **Internal Check:** This is a sub-element of internal control where work is **automatically checked** by another person as part of the normal workflow to prevent errors and fraud.
- **Internal Audit:** This is an independent, unbiased review of operations to improve effectiveness. It includes various types, such as **compliance audits** (adherence to rules), **financial audits** (payroll/benefits), and **operational audits** (process improvement).
- **Statutory Audit vs. Assurance:** Statutory audits are **mandated by law** to ensure financial statements are accurate for public disclosure. **Assurance** is a broader concept that provides confidence in both financial and non-financial systems, such as **cybersecurity** or **sustainability reporting**.

3. Accountancy and Society: Ethics and Public Interest

Accountancy plays a vital role in society by building trust through ethical conduct and professional standards.

- **Ethical Principles:** Professional accountants are guided by a code of conduct established by bodies like **ICAN and IFAC**. The fundamental principles include:
 - **Integrity:** Being straightforward and honest in all relationships.

- **Objectivity:** Avoiding bias or conflicts of interest in professional judgment.
- **Professional Competence and Due Care:** Maintaining the skills needed to provide competent service and acting diligently.
- **Confidentiality:** Refraining from disclosing sensitive information without proper authority.
- **Professional Behaviour:** Complying with laws and avoiding actions that discredit the profession.
- **Acting in Public Interest (API):** This refers to making decisions and taking actions that **prioritise the overall welfare of society** over personal or narrow organisational interests. The accountancy profession furthers the public interest by developing **technical and behavioural standards**, establishing training infrastructures, and promoting programs that contribute to the welfare of the community.
- **The Importance of Ethics:** Ethical accounting prevents **fraud and financial crimes**, ensures the accuracy of reports that fuel the economy, and builds a culture of **professionalism**. When accountants fail to act ethically—through actions like **creative accounting, nepotism, or abuse of authority**—it creates ethical conflicts that can damage the trust of the entire society.

Management and Organisational Behaviour

Management is fundamentally the act of getting people together to accomplish desired goals and objectives by using available resources efficiently and effectively. It is often described as the "art of getting things done through people," involving the coordination of human, financial, technological, and natural resources.

Core Functions and Skills of Management

Effective management is built upon six basic functions: **planning** (defining goals and actions), **organising** (assigning authority and resources), **controlling** (measuring performance and correcting deviations), **coordinating** (harmonising activities), **directing** (guiding and motivating), and **supervising** (overseeing daily performance). To perform these functions, managers must possess three primary types of skills as identified by **Robert Katz**:

- **Technical Skills:** The ability and knowledge to use specific techniques and tools to achieve objectives.
- **Conceptual Skills:** The capacity for abstract thinking, diagnosing complex problems, and finding creative solutions.
- **Human or Interpersonal Skills:** The ability to interact, work with, and motivate people for better results.

Furthermore, **Henry Mintzberg** classified the specific behaviours of managers into ten roles within three categories: **Interpersonal** (figurehead, leader, liaison), **Informational** (monitor, disseminator, spokesperson), and **Decisional** (entrepreneur, disturbance handler, resource allocator, negotiator).

Individual and Organisational Behaviour

Organisational behaviour focuses on how individuals and groups act within a company and how these actions impact efficiency.

- **Individual Behaviour:** Influenced by a person's **personality** (traits like extroversion or conscientiousness), **values** (core principles), **attitudes** (feelings toward work), **motivation**, **perception** (how they interpret situations), **emotions**, and **social influences**.
- **Group Behaviour:** Driven by **group norms** (unwritten rules), **defined roles**, **leadership approach**, and **cohesion**. Groups can create **synergy**, where combined efforts surpass individual capabilities.
- **Formal vs. Informal Organisation:** A **formal organisation** is bound by strict rules, defined hierarchies, and official objectives. Conversely, an **informal organisation** arises naturally from social interactions and personal relationships, often enhancing employee morale and innovation.
- **Organisational Culture:** This is the "collective programming of the mind" consisting of shared values, beliefs, and norms that distinguish one organisation from another. A strong culture fosters collaboration, drives innovation, and attracts top talent.

Leadership and Motivation

While often used interchangeably, **leadership** and **management** have distinct focuses: leadership centres on vision, inspiration, and people-orientation, while management focuses on planning, processes, and task-orientation.

Motivation theories explain what drives employees to work hard and remain resilient. These are split into:

- **Content Theories: Maslow's Hierarchy of Needs** suggests humans are motivated by five levels of needs ranging from physiological to self-actualisation. **Herzberg's Two-Factor Theory** distinguishes between **hygiene factors** (which prevent dissatisfaction, such as salary) and **motivators** (which create satisfaction, such as achievement). **McClelland's Needs Theory** identifies three dominant needs: achievement, power, and affiliation.
- **Process Theories: Vroom's Expectancy Theory** posits that motivation is a product of **Valence** (desire for reward), **Expectancy** (belief that effort leads to performance), and **Instrumentality** (belief that performance leads to reward).
- **Other Theories: McGregor's Theory X** (authoritarian) and **Theory Y** (participative) highlight different managerial assumptions about employee motivation.

Conflict and Team Management

Conflict in the workplace is inevitable and arises from role ambiguity, incompatible objectives, personality differences, and poor communication. Resolution mechanisms include **Negotiation** (direct compromise), **Mediation** (neutral third party), **Arbitration** (third party makes a final decision), and **Litigation** (legal resolution).

Teams typically progress through **Bruce Tuckman's** five stages of development: **Forming** (orientation), **Storming** (conflict and individual personalities), **Norming** (unity and role clarification), **Performing** (peak efficiency), and **Adjourning** (task completion and reflection).

Management Theories and Communication

Historical theories provide the foundation for modern management:

- **Scientific Management (F.W. Taylor):** Focused on work efficiency through division of labour and specialisation.
- **Administrative Management (Henri Fayol):** Established fourteen principles of management, including unity of command and esprit de corps.
- **Bureaucracy (Max Weber):** Defined an "ideal" structure based on a hierarchy of authority, impersonal rules, and technical competence.
- **Human Relations School (Elton Mayo):** Discovered through the **Hawthorne Experiments** that social relationships and employee self-esteem significantly impact productivity.

Effective **communication** is vital for these theories to function. The process involves a **sender, message, encoding, channel, receiver, decoding, and feedback**, which can be disrupted by **noise**. In business, communication flows in four main patterns: **Downward** (orders), **Upward** (feedback), **Horizontal** (peer collaboration), and **Diagonal** (cross-functional).

Elements of Microeconomics and Macroeconomics

1. Fundamental Economic Concepts

- **Economics** is the science studying human behaviour as a relationship between **limitless ends** and **scarce means** with alternative uses.
- The **Basic Economic Problem** consists of **scarcity** (resources are insufficient for human needs), which necessitates **choice**.
- **Scale of Preference** is a list of desires ranked by priority, reflecting the rational behaviour of economic agents.
- **Opportunity Cost** refers to the **next best alternative forgone** when a choice is made; it is also known as "economic cost" or "alternative forgone".
- The **Production Possibility Curve (PPC)** graphically displays the maximum combinations of two goods an economy can produce when resources are fully utilised.
- Points **inside the PPC** indicate **unemployment or underemployment** of resources, while points **outside the curve** represent **unattainable output levels**.

2. Microeconomics: Markets and Price Mechanisms

- **Microeconomics** focuses on individual units, specifically how **consumers, firms, and industries** make decisions and allocate resources.
- The **Law of Demand** states that, *ceteris paribus*, quantity demanded is **inversely related** to price.
- **Determinants of Demand** include consumer income, prices of related goods (**complements and substitutes**), tastes, population, and borrowing costs.
- **Movement along the demand curve** is caused solely by a change in the commodity's **own price**, whereas a **shift of the curve** is caused by changes in other determinants.
- The **Law of Supply** posits that producers will offer more of a good at higher prices and less at lower prices, all other things being equal.
- **Market Equilibrium** occurs at the price where the quantity demanded equals the quantity supplied; any price above this creates **excess supply (surplus)**, while any price below creates **excess demand (shortage)**.
- **Price Controls** include **Price Ceilings** (maximum prices set below equilibrium to protect consumers, causing shortages) and **Price Floors** (minimum prices set above equilibrium to protect producers, causing surpluses).

3. Costs and Market Structures

- **Economic Cost** is the sum of **explicit costs** (out-of-pocket payments) and **implicit costs** (monetary value of owner-utilised resources).
- **Short-run costs** include **Total Fixed Costs (TFC)** (overhead costs like rent that do not change with output) and **Total Variable Costs (TVC)** (costs that vary with production levels).
- **Marginal Cost (MC)** is the change in total cost resulting from producing one additional unit of output.
- **Perfect Competition** features many small firms, **homogeneous products**, perfect knowledge, and no barriers to entry; firms are **price-takers**.
- **Monopoly** is a market structure with **one firm**, unique products without close substitutes, and high barriers to entry; the firm is a **price-maker**.
- **Monopolistic Competition** involves many firms selling **differentiated products** that are near substitutes, with freedom of entry and exit.

4. Macroeconomics: National Economy and Policy

- **Macroeconomics** studies the economy as a whole using **aggregate variables** like total output, inflation, and employment.
- **Gross Domestic Product (GDP)** measures the total monetary value of all finished goods and services produced **within a country's borders**.
- **Gross National Product (GNP)** measures the value of all goods and services produced by a **nation's citizens**, regardless of their location.
- **National Income (NI)** is calculated as **GNP minus Depreciation (Capital Consumption Allowance)**, reflecting output at factor cost.
- **Monetary Policy** is the regulation of money supply and interest rates by the **Central Bank** to achieve price stability and growth.
- **Monetary Policy Tools** include **Open Market Operations (OMO)**, **Reserve Requirements**, the **Discount Rate**, and **Moral Suasion**.
- **Fiscal Policy** involves the use of **government spending and taxation** to influence economic activity.
- **Inflation** is a sustained increase in the general price level; types include **Demand-Pull** (rising demand) and **Cost-Push** (rising production costs).
- **Unemployment Types** include **Frictional** (transitioning between jobs), **Structural** (technological changes rendering skills obsolete), and **Cyclical** (lack of aggregate demand).

Technology and Data Analysis

1. Key Business IT Tools

- **Information Technology (IT)** is the backbone of modern business, enabling process automation, global connectivity, and data-driven decision-making.
- **Enterprise Resource Planning (ERP)** systems integrate all core business processes (finance, HR, supply chain) into a **single unified system**.
- **Customer Relationship Management (CRM)** systems manage interactions with current and potential customers to enhance loyalty and drive sales.
- **Artificial Intelligence (AI)** involves machines performing tasks that usually require human intelligence, such as **reasoning, perception, and problem-solving**.
- **Database Management Systems (DBMS)** act as an interface for structured data storage, retrieval, and manipulation while ensuring **data integrity**.
- **Spreadsheet Applications** (e.g., Microsoft Excel) are essential for **numerical data manipulation**, budgeting, and scenario modelling.

2. Big Data and Data Analytics

- **Big Data** refers to extremely large datasets that require advanced computational analysis; it is defined by the **6 Vs: Volume** (amount), **Velocity** (speed), **Variety** (formats), **Veracity** (accuracy), **Value** (insights), and **Variability** (context).
- **Data Analytics** involves techniques to extract useful patterns from raw data to support **evidence-based decision-making**.
- The **Analytics Workflow** includes **Data Collection, Storage, Cleaning, Processing, Modelling, and Visualisation**.

- Common tools for analytics include **Hadoop** (distributed processing), **Python/R** (programming), and **Tableau/Power BI** (visualisation).

3. Cybersecurity and Risk Management

- **Cybersecurity** is the practice of protecting systems and data from digital attacks, unauthorised access, and damage.
- **Key Cyber Threats** include **Data Breaches**, **Ransomware** (locking files for payment), **Phishing** (fraudulent emails), and **Malware**.
- **Mitigation Strategies** involve **Multi-Factor Authentication (MFA)**, **Data Encryption**, regular **Software Patching**, and **Employee Training**.
- **Disaster Recovery (DR) Plans** are essential for business continuity and include **hot sites** (immediate availability) and **cloud backups**.

4. E-Commerce and Digital Business

- **E-Commerce** is the buying and selling of goods/services over the internet, while **E-Business** is broader, involving the digital transformation of internal processes.
- **E-Commerce Models** include **B2B** (Business-to-Business), **B2C** (Business-to-Consumer), and **C2C** (Consumer-to-Consumer, like Jiji or eBay).
- The **Digital Middleman** evolution involves platforms like **Amazon or Konga** aggregating sellers and providing integrated logistics and payments.
- **Payment Gateways** (e.g., Paystack, Remita) enable real-time, secure online financial transactions.

5. Emerging Technologies in Accountancy

- **Cloud Computing** provides on-demand access to computing resources via the internet; models include **SaaS** (Software as a Service), **PaaS** (Platform), and **IaaS** (Infrastructure).
- **Blockchain** is a **distributed ledger technology (DLT)** that records transactions in a permanent, unmodifiable, and transparent manner.
- In accounting, blockchain offers **Triple-Entry Accounting**, where transactions are cryptographically signed and shared among all parties to prevent fraud.
- **Fintech** describes digital innovation in financial services, including **Customer Chatbots**, **Mobile Wallets**, and **Biometric ATMs**.
- **Internet of Things (IoT)** refers to a network of "smart" devices (sensors, appliances) that share data over the internet for real-time monitoring.
- **Statistical Modelling** uses mathematical frameworks to forecast data relationships, assisting in **audit sampling**, financial analysis, and market segmentation.