7 The interdependent nature of business

Interdependent nature of business	refers to the links between different areas of business that affect decision making, the risks and rewards of business activity and the use of financial information to aid business decision making
Financial information	Includes information about revenues, costs, profit, rates of return, break-even and cash flow. These help the business to make decisions
Non-financial rewards	To owners, this includes the satisfaction of running a successful business, being in charge, being independent and having an impact on what consumers buy
Non-financial risk	To business owners this includes their health due to stress and strained relationships with family and friends
Business performance	A measure of how well a business is doing. Key measures are sales, profits and rates of return
Financial reward	The profit made by the business
Financial risk	The possibility the business will lose money from decisions it makes. Owners may lose money they invested

How well the functional areas of a business work together can have a significant impact on the decisions that a business makes. If they cannot work well together this may result in the business not making the correct decisions, resulting ultimately in losses and possible closure. (See risks on the next sheet)

Functional area	How it would work on a new product launch with: **Marketing**	How it would work on a new product launch with: **Human resources**	How it would work on a new product launch with: **Operations**	How it would work on a new product launch with: **Finance**
Marketing		Will liaise with human resources if additional staff are required for market research or marketing activity for the new product.	Will work closely with operations to provide market research that tells operations what features the product needs to have.	Will request budgets from finance so as to be able to plan a marketing campaign for the new product that stays within budget.
Human resources	Will recruit new staff if needed, or provide training for marketing staff about the new product.		Will organise training for any new production equipment, and ensure that the production process adheres to employment regulations (eg health and safety laws).	Will seek a budget for the training and development of staff involved in the production of the new product, or the costs of any redundancies.
Operations	Will liaise with marketing on the expected sales of the new product, to ensure that enough can be produced for the launch.	Will ask for new staff to be hired. Or, if new technology will be used and staff must be made redundant, will ask human resources to ensure that relevant employment laws are complied with.		Will set production targets based on break-even information and provide supplier payment information.
Finance	Will monitor marketing budgets and set sales targets to ensure that break-even levels are achievable.	Will monitor training and development budgets, and advise on redundancy payments if required.	Will identify suitable sources of finance for any new equipment that is required, and control payments to suppliers as part of cash flow.	

Risk and Reward

Risk		Reward	
Financial loss	When the business starts the owners/shareholders invest either their own money or borrowed money. The need to make a profit to pay this back. If the business isn't profitable then the entrepreneur/lenders risk losing money that has been used in the business.	**Profit**	Making money is the driving force behind many start-ups. Money can be put back into the business to help it grow. It can also provide an incentive, if they believe they can earn more money than working for someone else.
Lack of security	Entrepreneurs often give up previous jobs to pursue their business idea, along with the security of regular income. They also have to work long, irregular hours and it may be difficult to take holidays.	**Business success**	This can mean different things, for some its simply seeing their idea become popular. Others see it in the form of; growing a business, positive reputation, winning business awards and becoming well-known.
Business failure	This is the biggest risk. If they do not make enough money to survive they will be forced to close.	**Independence**	Some entrepreneurs set up as they don't want to work for someone else. This gives them full control and can be a reward.

Minimising risks:
Carrying out market research
Write a business plan
Ensure there is sufficient money

Financial information that can help inform decisions:

See 5.3-5.5 KO's

- Costs and revenues
- Gross and net profit
- Profit margins
- Cash flow
- Break-even
- Average rate of return

The first 3 points are also used to understand the business' performance.

Understanding business performance:

1. Business often compare their accounts each year as measure of performance
2. They compare their accounts with competitors if possible (Limited Companies)

When making decisions it is important any information used is:

1. Accurate – needs to be correct as wrong decisions could be made resulting in business loss
2. Sufficient – there needs to be a lot of information to make the comparison effective
3. Up to date – this is not just about passing time but also changes in the market. If it is not up to date it can be irrelevant

Limitations:
The way that such information is used may have limitations. For example, the average rate of return is often used to help a business make decisions by comparing the profitability of different investment options. However, this technique does not consider the effects of inflation on the value of cash.