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# Введение

marketing business trade accounting

Что такое деловой английский язык? Это английский, применяемый в ситуациях делового общения.

Чтобы успешно общаться на английском языке в подобных ситуациях, необходимо, во-первых, знать лексику, употребляемую в той или иной сфере деловой жизни, например, в области маркетинга или финансов; и, во-вторых, иметь навыки делового общения, – такие, как навык написания деловых писем или ведения разговоров по телефону.

Исходя из вышеописанного, данное пособие состоит из двух глав – "Business Basics", которая знакомит читателя с базовым вокабуляром, применяемым в деловой практике; и "Business Skills", которая позволяет выработать два основных деловых навыка.

Каждая глава делится на разделы, сопровождающиеся системой упражнений; поскольку пособие предназначено, прежде всего, для самостоятельной работы студентов, обучающихся с применением дистанционных технологий, ключи к упражнениям приведены в конце пособия. Пособие включает задания для проверки результативности самостоятельной работы (tasks), которые следует выполнить и направить в академию.

# Chapter 1. Business Basics

##

## Part 1. Forms of Business Organization

*What is Business?*

Before reading the text try to match the words on the left with their definitions on the right.

Exercise 1.

1. Sole proprietorship a. A legal entity that exists separately from the people who own it.

2. Partnership b. An organization formed by two or more people becoming co-owners of a business.

3. Corporation c. An organization that is owned and managed by one person.

Now read the text and do the true-false exercises after each part of it.

A business is any organization that seeks profit by providing goods and services to the economic system. A nonprofit organization also provides goods and services to the economic system, but does not have profit as an objective.

**Forms of Business Ownership.**

An organization that is owned, and usually managed, by one person is called a sole proprietorship. That is the most common form of business ownership.

When two or more people become co-owners of a business, the organization is called a partnership.

A legal entity that has an existence separate from the people who own it is called a corporation.

**Sole Proprietorships.**

A Sole proprietorship has lots of advantages:

1. **Ease of starting and ending the business**. All you have to do to start a sole proprietorship is buy the needed equipment (for example, a saw, a word processor, a tractor, a lawn mower, or a welder) and put up some announcements saying you are in business. It is just as easy to get out of business; you simply stop. There is no one to consult or to disagree with about such decisions. You may have to get a permit or license from the government, but that is usually no problem.

2. **Being your own boss**. "Working for others simply doesn’t have the same excitement as working for yourself," – that’s the way sole proprietors feel. You may make mistakes, but they are your mistakes – and so are the many small victories each day.

3. **Pride of ownership.** People who own and manage their own businesses are rightfully proud of their work. They deserve all the credit for talking the risks and providing needed goods and services.

4. **Retention of profit**. Other than the joy of being your own boss, there is nothing like the pleasure of knowing that you can make as mush as you can and do not have to share that money with anyone else (except the government, in taxes). Store owners and service people are often willing to start working early in the day and stay late because the money they earn is theirs to keep.

5. **No special taxes.** All the profits of a sole proprietorship are taxed as the personal income of the owner, and he or she pays the normal income tax on that money. Owners do have to file an estimated tax return and make quarterly payments. It is wise for small business owners to pick up a packet of information for small business owners from the local Internal Revenue Service office.

There are also a number of disadvantages:

1. **The risk of losses.** When you work for others, it is their problem if the business is not profitable. When you own you own business, you have the risk of losing almost everything – your time, your money, and your business. What you keek, if you fail, is the pride of having tried, and the experience.

2. **Unlimited liability.** When you own your own business, you and the business are considered one. That is, any debts and damages incurred by the business are your debts and you must pay them, even if it means selling your home, your car, and so forth. This is a serious risk and one that requires careful thought and discussion with a lawyer, insurance agent, and others. As the owner, you are liable for everything.

3. **Difficulty in management.** Most business need some management; that is, someone must keep inventory records, accounting records, tax records, and so on. Many people who are skilled at selling things or providing a service are not so skilled in keeping records. Sole proprietors may have no one to help them. It is often difficult to find good, qualified people to help run the business. Some employees can be careless, tardy, dishonest, unreliable, and incompetent. It is hard to own a business, manage it, train people, and have time for anything else in life.

4. **Overwhelming time commitment.** Perhaps the most common complaint among sole proprietors is the fact that good employees are hard to find. Therefore, the owner must spend long hours working. The owner of a store, for example, may put in 12 hours a day, at least 6 days a week. This is almost twice the hours worked by a salaried laborer, who may make more money.

5. **Few fringe benefits.** If you are your own boss, you lose many of the fringe benefits that come from working for others. For example, you have no health insurance, no disability insurance, no sick leave, no vacation pay, and so on. These benefits may add up to 30% or more of a worker’s income.

6. **Limited growth.** If the owner becomes incapacitated, the business often comes to a standstill. Furthermore, a sole proprietorship relies on its owner for most of its funding. Therefore expansion often is slow and there are serious limits to how much one person can do. That is one reason why many individuals seek partners to assist in business.

7. **You are on your own.** The greatest advantage of a sole proprietorship can also be a major disadvantage. You have nobody to help or to blame if something goes wrong.

8. **Limited life span.** If the sole proprietor dies, the business no longer exists.

Exercise 2. True or false?

1. It is difficult to start a sole proprietorship.

2. A sole proprietor doesn't have to share his profit with anybody except the government, in from of taxes.

3. A sole proprietor has limited liability.

4. Fringe benefits are few.

**Partnerships.**

It is ot difficult to form a partnership, but it is wise to get a counsel of a lawyer experienced with such agreements. Lawyers’ services are expensive, so would-be partners should read all about partnerships and reach some basic agreements before calling in a lawyer. It is often easier to form a partnership agreement than to operate one or end one, and many friendships have ended after friends became partners. With some care, however, partnerships have these advantages.

**1. More financial resources**. Naturally, when two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. There is a concept called limited partnership that is specially designed to help raise capital (money). A limited partner invests money in the business, but doesn’t have any management responsibility or any liability for business losses. The agreement form necessary for a limited partnership is more complex than that needed for a simple partnership (called a general partnership). For example, the agreement must mention the amount of money involved, the share of profits each person receives, and so on. You will need a lawyer’s help with such agreements. The point here is that partnerships feed more money into the business for growth.

**2. Ease of management.** It is simply much easier to manage the day-to-day activities of a business with carefully chosen partners. Partners give each other free time from the business, and provide different skills and perspectives. Many people find that the best partner is a spouse. That is why you see so many husband/wife teams managing restaurants, service shops, and other businesses.

There are also some disadvantages:

1. **Unlimited liability**. Each general partner is liable for the debts of the firm, no matter who was responsible for causing those debts. Like a sole proprietor, partners can lose their homes, cars, and everything else they own if the business fails or is sued by someone. Such a risk is very serious and should be discussed with a lawyer and an insurance expert. A general partner, then, is an owner (partner) who has unlimited liability and is active in managing the firm. (As mentioned earlier, a limited partner risks an investment in the firm, but is not liable for the business’s losses).

2. **Devision of profits.** Let’s say two people form a partnership. One puts in more money and the other puts in more hours. Each may feel justified in asking for a bigger share of the profits. Sharing the risk means sharing the profit, and that can cause conflicts.

3. **Disagreements among partners.** Disagreements over money are just one example of potential conflict in a partnership. Who has final authority over employees? Who hires and fires employees? Who works what hours? What if one partner wants to buy expensive equipment for the firm and the other partner disagrees? Potential conflicts are many. Because of such problems, all terms of partnership should be spelled out in writing to protect all parties and to minimize misunderstanding in the future.

4. **Difficult to terminate.** Once you have committed yourself to a partnership, it is not easy to get out of it. Questions about who gets what and what happens next are often very difficult to solve when the business is closed.

Exercise 3. True or false?

1. It is easier to start a partnership than to stop it.

2. A limited partner has no management responsibility.

3. General partners have equal responsibilities for a firm's debts.

4. Partnership is more difficult to manage than a sole proprietorship.

**Corporations.**

Although the word corporation makes people think of big business like General Motors, IBM, Ford and so on, it is not necessary to be big in order to incorporate (start a corporation). Incorporating may be beneficial for small businesses also.

The purpose of forming a corporation is to get away from the disadvantages of sole proprietorships and partnerships. One of the more worrisome aspects of owing your own business or having a partner is the fear of losing everything you own if someone sues the business or the business loses a lot of money. A corporation is a state-chartered legal entity with authority to act and have liability separate from its owners. What this means for the corporation's owners (stockholders) is that they are not liable for the debts or any other problems of the corporation beyond the money they invest. Owners no longer must worry about losing their house, car, and other property because of some business problem – a very significant benefit. A corporation not only limits the liability of owners, it enables many people to share in the ownership (and profits) of a business without working there or having other commitments to it. The concept of incorporation is not too difficult, even though the procedures for incorporating are often rather complex. Most people are not willing everything to go into business. Yet, for business to grow and prosper and create abundance, many people would have to be willing to invest their money in business. The way to solve this problem was to create an artificial being, an entity that existed only in the eyes of the law. That artificial being is called a corporation. It is nothing more than a technique for involving people in business at a minimal risk. The advantages of such an entity are:

1. **More money for investment**. To raise money, a corporation sells ownership (stock) to anyone who is interested. This means that millions of people can own part of major companies like IBM, Xerox, and General Motors. If a company sold 10,000,000 shares for $50 each, it would have $500 million available to build plants, buy materials, hire people, build products, and so on. Such a large amount of money would be difficult to raise any other way. So a major advantage of corporations is their ability to raise large amounts of money.

2. **Limited liability**. It bears repeating that a major advantage of corporations is the limited liability of owners. Corporations in England and Canada have the letters "Ltd." after their name, as in British Motors, Ltd. The Ltd. stands for limited liability and is probably the most significant advantage of corporations. Limited liability means that the owners of a business are responsible for losses only up to the amount they invest.

3. **Size**. That one word summarizes many of the advantages of corporations. Because they have large amounts of money to work with, corporations can build large, modern factories with the latest equipment. They can also hire experts or specialists in all areas of operation. Furthermore, they can buy other corporations in other fields to diversify their risk. (What this means is that a corporation can be involved in many businesses at once so that if one fails the effect on the total corporation is lessened.) In short, a major advantage of corporations is that they have the size and resources to take advantage of opportunities anywhere in the world. Corporations do not have to be large to enjoy the benefits of limited liability and more money for investment. Many doctors, lawyers, and individuals and partners in a variety of businesses have incorporated.

4. **Tax advantages.** Once a person, partnership, or group of individuals have incorporated, they often receive significant tax advantages. They can deduct expenses for automobiles, meals, trips, and much more from their taxes. They can reinvest profits into the corporation to postpone paying taxes, and more. One of the most important tax advantages is tax-free fringe benefits, such as retirement funds.

5. **Perpetual life.** Because corporations are separate from those who own them, the death of one or more owners does not terminate the corporation.

6. **Ease of ownership change**. It is easy to change the owners of a corporation. All that is necessary is to sell stock to someone else. This means that new owners can be brought in easily as well.

7. **Separation of the ownership from management.** Corporations are able to raise money from many different investors without getting them involved in management, so the owners/shareholders are separate from the managers and employers. The owners elect a board of directors. The directors select the officers. They, in turn, hire managers and employees. The owners thus have some say in who runs the corporation, but no control.

There are also a few disadvantages:

1. **Initial cost.** Incorporation may cost thousands of dollars and involve expensive lawyers and accountants.

2. **Paperwork**. The papers to be filed to start a corporation are just the beginning. Tax laws demand that a corporation prove all its expenses and deductions are legitimate. A corporation, therefore, must process many forms. A sole proprietor or partnership may keep rather casual accounting records; a corporation, on the other hand, must keep detailed records, the minutes of meetings, and more.

3. **Two tax returns**. If an individual incorporates, he or she must file both a corporate tax return and an individual tax return. The corporate return can be quite complex.

4. **Size**. Large corporations sometimes become too inflexible and too tired down in red tape to respond quickly to market changes.

5. **Social security**. A corporation has a high social security and unemployment compensation burden; that is, it must contribute to these funds.

6. **Termination difficult**. Once a corporation is started, it is relatively hard to end.

7. **Double taxation.** Corporate income is taxed twice. First the corporation pays tax on income before it can distribute any to stockholders. Then the stockholders pay tax on the income (dividents) they receive from the corporation.

Exercise 4. True or false?

Small businesses cannot be corporations.

Corporate owners are responsible for business' debts.

Shareholders are separated from company management.

Corporations are taxed only once.

## Part 2. Fundamentals of Marketing

Exercise 5. Match the words and their definitions:

1. Marketing a. Getting goods to the right place at the right time in the right quantity.

2. Product b. A process of studying people's wants and needs and satisfying them by exchanging goods and services, resulting in profits for sellers.

3. Place c. Money paid by customers and received by sellers.

4. Promotion d. A good or a service and everything connected with them– package, guarantee, brand name, etc.

5. Price e. Combination of different tools such as advertising, publicity, personal selling etc in order to sell goods or services.

A popular slogan that describes modern-day marketing is, "Find a need and fill it". What does it mean? It means that business must do some market research to find out what goods and services people and organizations want and need. Listening should come first. Then marketers must do whatever it takes to satisfy those wants and needs. The ultimate goal is to make money (profit) by producing and selling goods and services. Marketing, then, can be defined as follows:

**Marketing** is the process of studying wants and needs and satisfying those wants and needs by exchanging goods and services; this results in satisfied buyers and creates profits for sellers.

When developing programs to satisfy market wants and needs, marketing managers work with several variables known as the marketing mix. **A marketing mix** is the strategic combination of product decisions with decisions on packaging, pricing, distribution, credit, branding, service, complaint handling and other marketing activities. All these activities are often combined under four easily remembered categories called the four P’s: product, place, promotion, and price.

**Product**

From a marketing viewpoint a product is not just the physical good or service. A product consists of all the tangibles and intangibles that consumers evaluate when deciding whether or not to buy something. When people buy a product, they evaluate its price, package, guarantee, image created by advertising, reputation of the producer, brand name, service, buyers’ past experience, store surroundings etc. Therefore a successful marketer must begin to think like a consumer and evaluate the product as a total collection of impressions created by all the factors listed.

The major function of **packaging**, for example, is to attract the attention of the buyer. To do this a package needs visibility. Visibility is achieved through the creative use of colour, shape, texture, design and size. Using these cues, one can easily identify most of the popular consumer products. For example, most people can easily recognize a Coke bottle, a box of Tide, a pack of Marlboro cigarettes from several meters away.

Another function of packaging is to give consumers added convenience for their money through the use of easy-open cans, clear plastic wraps, squeezable ketchup bottles and so on. In the future we may expect to see more packing innovations that will enable us to keep meat and milk without refrigeration, keep fresh vegetables for months etc.

One more function of packaging is to protect the goods from environmental factors such as rain and sun; against breakage and harm from animals.

Packaging also helps the middleman by grouping goods into easily managed sizes; retailers to price items, store them on their shelves, reduce errors etc.

**Branding**, like packaging, changes the product by changing consumer perceptions.

A brand is a name, symbol or design (or a combination of them) that identifies the goods or services of one seller or group of sellers and distinguishes them from those of competitors. A brand name is that part of the brand consisting of a word, letter, or group of words or letters comprising a name that differentiates the goods or services of a seller from those of competitors. Brand names such as Colgate, Sony, Del Monte, Campbell etc. give products a distinction that tends to make them attractive to customers.

A trademark is a brand that has been given legal protection. It includes the brand name and the pictorial design.

People are often impressed by certain brand names, even though they say they know there is no difference between brands in a given product category.

Exercise 6. True or false?

1. Product is just a physical good.

2. A good marketer must think like a consumer.

3. We can identify many consumer products looking at their packaging.

4. People often buy certain products just because of their brand names.

**Place**

Place, or distribution, means getting goods to the right place at the right time in the right quantity. The distribution mix includes eight main functions– research, risk bearing, storage, selling, buying, credit, transportation and grading.

Two institutions have emerged to perform the distribution function: **wholesalers** and **retailers**. They are known as **marketing middlemen** because they are in the middle of distribution network that connects producers with consumers.

Marketing middlemen have always been viewed by the public with some suspicion. Surveys have shown that about half the cost of the thing we buy are marketing costs that are largely to pay for the work of middlemen! But if there are no middlemen, then consumers or someone else will have to perform their tasks, including transportation, storage, finding suppliers etc. Yes, middlemen add costs to products, but these costs are usually more than offset by the values they create. Middlemen, such as retailers, add time utility to products (utility is value added to raw materials) by making them available **when** they are needed; add place utility by having them **where** people want them; add possession utility by doing whatever is necessary to transfer ownership from one party to another, including providing **credit**; add information utility by opening two-way flows of information between marketing participants.

A **retailer** is a marketing middleman who sells to consumers. The success of any retail establishment depends largely on its sales workers. Courteous and efficient service from behind the counter or on the sales floor does much to satisfy customers and build a store’s reputation. Whether selling furniture, electrical appliances or clothing, a sales worker’s primary job is to interest customers in the merchandise. This is done by describing the product’s construction, demonstrating its use, and showing various models and colours.

Different products call for different **retail distribution strategies**. There are three categories of retail distribution: intensive distribution, selective distribution, and exclusive distribution.

Intensive distribution puts products to as many retail outlets as possible. Products that need such distribution include candy, cigarettes, gum etc.

Selective distribution is the use of only preferred group of the available retailers in an area. Such selection helps assure the producers of quality sales and service. Manufacturers of TV sets, furniture and clothing usually use selective distribution.

Exclusive distribution is the use of only one retail outlet in a given geographical area. Because the retailer has exclusive rights to sell the product, he or she is more likely to carry more inventory, give better service and pay more attention to this brand than others. Automobile manufacturers usually use exclusive distribution.

Regardless of the strategy used, manufacturers often ship their goods through wholesalers, because they are more efficient at performing the distribution functions.

A **wholesaler** is a marketing middleman who sells to organizations and individuals, but not final consumers. He purchases, for resale, the best available merchandise at the lowest possible prices and expedite the delivery of goods from the producer to the customer.

There are basically 2 types of wholesalers: full-function wholesalers that do all eight functions and limited-function wholesalers that do only a few.

So, the reason for middlemen is to help perform the physical distribution function, that is movement of goods from producer to customer. Physical distribution begins with raw materials that have to be shipped to manufacturers who change them into useful products; it also includes those functions involved in purchasing goods, receiving them, moving them through the plant, inventorying them, storing them, and shipping finished goods all the way to final users.

Exercise 7. True or false?

1. Middlemen only add cost to products and do no good.

2. A wholesaler is a marketing middleman who sells to final consumers.

3. The success of any retail outlet depends largely on its sales workers.

4. A good distribution strategy for selling expensive cars is intensive distribution.

**Promotion**

**A promotion mix** is some combination of promotional tools (advertising, personal selling, public relations, publicity, sales promotion, a good product or service, and word-of-mouth) that can be used to communicate to various publics.

**Advertising** is limited to paid, nonpersonal communication through various media by organizations and individuals who are in some way identified in the advertising message. When people refer to advertising, they are usually talking about TV advertising; but only about 22% of advertising is on TV. The other media used for advertising are: newspapers, radio, magazines and direct mail.

The public benefits greatly from advertising. First, we learn about new products, new features, sales items, and more. But we also benefit from free radio and TV and subsidized newspapers and magazines. In short, advertising not only informs us about products but pays for us to watch TV and get the news from magazines and newspapers.

**Sales promotion** consists of those marketing activities that stimulate consumer purchasing and dealer interest by means of such things as displays, shows and exhibitions, and contests. Sales promotion programs supplement personal selling, advertising, and public relations efforts by creating enthusiasm for the overall promotional program.

There are two ways to promote the movement of products from producers to customers. The first is called a **push strategy**. In push strategy, the producer uses promotional tools to convince wholesalers and retailers to stock and sell merchandise. If it works, consumers will then walk into the store, see the product, and buy it. The idea is to push the product down the distribution system to the stores. One example of a push strategy is to offer dealers one free case of beer or soda for every dozen cases they purchase. A second strategy is called a **pull strategy**. In this case heavy promotion is directed toward consumers. If it works, consumers will go to the store and order the products. The storeowner will then order them from the producer. Products are thus pulled down through the distribution system. Dr. Pepper has used television advertising in a pull strategy to increase distribution. Of course, a company could use both a push and pull strategy at the same time in a major promotional effect.

**Word-of-mouth** promotion encourages people to tell other people about products they have enjoyed. Word of mouth is one of the most effective promotional tools, but one most marketers do not use to full effectiveness.

Anything that encourages people to talk favourably about an organization is effective word of mouth – music, fairs, clowns and other attention-getting devices. Samples are another way to generate word of mouth. But the best way is to have a good product, provide good services, and keep customers happy. We consumers are happy to tell others where to get good services and reliable products. However, we are also quick to tell others when we are unhappy with products and services. Negative word of mouth hurts a firm badly. Taking care of consumer complaints quickly and effectively is the best way to lessen negative word of mouth.

**Public relations** is defined as the management function that evaluates public attitudes, identifies the policies and procedures of an individual or an organization with the public interest, and executes a program of action to earn public understanding and acceptance. Public relations start with good marketing research. The second step, after listening to the public, is the development of policies and procedures that are in the public interest. The final step is to take action to earn public understanding and acceptance.

**Personal selling** is the face presentation and promotion of products and services plus the searching out of prospects and follow-up service. Effective selling is not simply a matter of persuading others to buy. In fact, it is more accurately described as helping others to satisfy their wants and needs.

Exercise 8. True or false?

1. Advertising is paid, personal communication through different media.

2. Only companies benefit from advertising.

3. Displays, shows and exhibitions are all means of sales promotion.

4. Offering a dealer a free box of goods for every dozen bought is an example of a push sales strategy.

**Price**

Firms must establish realistic and measurable pricing goals if marketing strategy is to be effective. Some firms aim for a **target return on investment** which enables them to determine a required level of profit. This, in turn, helps in the setting of prices and other marketing mix variables.

Some firms use **market share** as a pricing goal. In the search for increased share of the market, firms might cut prices and hurt their profit margins.

Another pricing objective is **to meet competition.** Many firms are suffering greatly from such practices or even go bankrupt.

Some firms set a **profit-maximization objective**, where the goal is **to earn as mush as possible.** Such policy cannot usually be implemented over a long run because of competitive and government forces, but in the short run it can be quite effective.

Pricing objectives are based on a firm’s overall objectives, the market segments being served, competition, market conditions, and many other variables. The basic overall objective is to establish mutually beneficial exchange relationships with selected target markets.

There are different **pricing strategies**. A **skimming price strategy** is one in which the product is priced high to make optimum profit while there is little competition. Of course, those large profits will attract others to produce similar goods so they can’t last long.

**A penetration strategy** is one in which a product is priced low to attract more customers and discourage competitors. This strategy enables the firm to penetrate or capture a large share of the market quickly. Another pricing strategy is called **psychological or odd pricing** when retailers price good at $9.99 instead of $10.00 believing that such odd prices are psychologically more attractive than even prices.

Exercise 9. True or false?

1. To increase market share it is sometimes necessary to decrease the price.

2. A profit-maximization objective can't be used during a long period of time.

3. A penetration strategy is one when a product is priced very high.

4. Odd pricing is based on studying people's psychology.

## Part 3. Management

Exercise 10. Match the words and their definitions:

1. Management a. The art of getting things done through people and other resources.

2. Planning b. Allocating resources, assigning tasks and establishing the organization objectives.

3. Organization c. Anticipating future trends and determining the best strategies and tactics to achieve organizational objectives.

4. Leadership d. Measuring performance relative to objectives and standards and taking corrective actions where necessary.

5. Controle e. Establishing values, sharing visions, creating enthusiasm an maintaining focus on a few, clear objectives.

Management is the art of getting things done through people and other resources.

The four primary managerial functions are planning, organization, leadership, and control. Other functions include stuffing (personnel), directing, reporting, and budgeting.

But management is much more complex than doing a few tasks. A good manager must know about the industry the firm is in and all the technological, political, competitive, and social factors affecting that industry. He or she must also understand the kind of people who work in the industry and what motivates them. Finally, a manager must be skilled in performing various managerial tasks, especially technical tasks, human relations tasks, and communications tasks.

**Planning**

Planning includes anticipationg future trends and determining the best strategies and tactics to achieve organizational objectives. Most planning follow similar patterns. Planning answers three fundamental questions for business:

1. What is the situation now? What is the state of the economy? What opportunities exist for meeting people’s needs? How much competition is there?

2. Where do we want to go? What objectives do we want to accomplish?

3. How can we get there from here? This is the most important part of planning which takes three forms:

1. **Strategic (long-range) planning** determines the major objectives of the organization and the policies and strategies for obtaining and using resources to achieve those objectives. At this stage the company decides which customers to serve, what products or services to sell, and the geographic areas in which the firm will compete.

2. **Tactical planning** is the process of developing detailed, short-term decisions about what is to be done, who is to do it, and how it is to be done.

Whereas strategic planning is done by the top managers of the firm, tactical planning is more often done by managers at lower levels of the organization. Tactical planning may involve setting annual budgets and deciding on the details of how to meet the strategic objectives.

3. **Contingency planning** is the preparation of alternative courses of action that may be used if the primary plans do not achieve the objectives of the organization. The economic and competitive environments change so rapidly that it is wise to have alternative plans of action ready in anticipation of such changes.

Exercise 11. True or false?

1. Strategic planning is the process of making short-term decisions.

2. Strategic planning is mainly done by top managers.

3. Contingency planning is the same as tactical planning.

4. It's necessary to have alternative plans in case of changes in economic environment.

**Organization**

Organization means allocating resources, assigning tasks, and establishing procedures for accomplishing the organization objectives. When organizing, a manager develops a structure or framework that relates all workers, tasks, and resources to each other. That framework is called the **organization structure** and pictures who reports to whom and who is responsible for each task.

An important part of organizing is staffing, getting the right people on the business team. Today it is called **human resources management** because it is as important to develop the potential of employees, as it is to recruit good people in the first place.

Exercise 12. True or false?

1. Organizational structure is a picture showing who reports to whom in the company.

2. Stuffing is a part of an organization structure.

**Leadership**

Leadership today is not just good management. It is also a matter of establishing values, sharing visions, creating enthusiasm, and maintaining focus on a few, clear objectives.

There are different leadership styles.

**Autocratic leadership** means making managerial decisions without consulting others, and implies power over others.

**Bureaucratic leadership** is based on inflexible routine supported by rules, regulations, and policies.

**Diplomatic leadership** is based on skill and tact in convincing employees to follow the leader's decisions.

**Democratic leadership** means that managers set work together to make decisions.

**Laissez-faire leadership** means that managers set objectives and employees are relatively free to do whatever it takes to accomplish those objectives. Many scientists and doctors work best under laissez-faire leadership.

**Employee-controlled leadership** consists of having employees set objectives, and management handle administrative matters. Many universities are run this way.

**Participative management** involves employees in setting objectives and making decisions; consultive, democratic and laissez-faire leadership are all forms of participative management.

One manager may use a variety of leadership styles depending on whom he is dealing with and the situation.

Exercise 13. True or false?

1. Autocratic leadership is based on tact in convincing people to follow the leader's decisions.

2. Every manager uses only one leadership style.

3. Democratic management is an example of participative management.

4. Doctors and scientists usually better work under bureaucratic leadership.

**Control**

The control function involves measuring performance relative to objectives and standards and taking corrective action when necessary. The control function, therefore, is the heart of the management system because it provides the feedback that enables managers to adjust to any deviations from plans and to changes that have occurred in the environment that have affected performance.

Controlling consists of the following steps:

1. Setting clear standards;

2. Monitoring and recording performance (results);

3. Comparing results against plans and standards;

4. Communicating results and deviations to the employees involved;

5. Taking corrective action when needed.

**Tasks and skills at different levels**

**of management**

A manager must have three categories of skills.

**Technical skills** involve the ability to perform tasks of a specific department such as selling or accounting.

**Conceptual skills** refer to a manager’s ability to picture the organization as a whole and the relationship of various parts to perform tasks such as planning and controlling.

**Human relations skills** include leadership, communication, motivation, coaching, and training.

The higher up one goes in management, the more time is spent on conceptual and human relations functions and less on technical functions.

Exercise 14. True or false?

1. Top managers spend more time on technical function than on the others.

2. Conceptual skills refer to ability to perform specific tasks.

## Part 4. Accounting and Finance

Exercise 15. Match the words and the definitions:

1. Accounting A document reporting the results of company operations over a particular period of time.

2. Income statement A financial statement that reports the financial position of a firm at a specific time.

3. Balance sheet Acquiring funds for the firm and managing funds within a firm.

4. Financing Recording data from transactions and preparing financial statements.

**Accounting**

Accounting process consists of two major functions:

1. Recording data from transactions;

2. Preparing financial statements.

**Transactions** include buying and selling goods and services, acquiring insurance, using supplies, and paying taxes. After the transactions have been recorded, they are usually classified into groups that have common characteristics. For example, all purchases are grouped together, as are all sales transactions. Other kinds of accounting documents are: purchasing documents, payroll records, bank documents, travel and entertainment records. The business is thus able to obtain needed information about purchases, sales and other transactions that occur over a given period of time. The methods used to record and summarize accounting data into reports is called an **accounting system**. One purpose of accounting is to help managers evaluate the financial condition and the operating performance of the firm so that they may take better decisions. Another is to report financial information to people outside the firm such as owners, creditors, suppliers, and the government (for tax purposes).

When recording the original transaction documents in a journal the accountant places them in certain accounts.

Accountants use **five major accounts to** prepare financial statements:

**1. Assets.** Assets are what a business owns, property that have money value. Assets include the following:

• Cash (cash on hand and deposits in banks)

• Accounts receivable (money owed to a business from customers who bought goods on credit)

• Inventory

• Investments

• Land

• Equipment

• Buildings

• Motor vehicles

• Patents

• Copyrights

Assets are divided into three categories:

1) Current assets (items that can be converted to cash within one year),

2) Fixed assets (items such as land, buildings and fixtures that are relatively permanent),

3) Other (intangible) assets (patents and copyright).

**2. Liabilities.** Liabilities are what the business owes to others. They include:

• Accounts payable (money owed to others for merchandise and services purchased on credit, but not paid for yet),

• Accrued expenses payable (expenses the firm owes that haven’t been paid),

• Bonds payable (these represent money loaned to the firm that it must pay back).

Liabilities are divided into two categories:

Current liabilities or obligations that must be paid within one year, such as accounts payable.

Long term liabilities or obligations that will not be paid within one year, such as bonds.

**3. Owners’ equity.** It is assets minus liabilities. For sole proprietors, owners’ equity means the value of everything owned by the business minus any liabilities of the owners (for example, outstanding loans). For corporation, the owners’ equity account records the owners’ claims to funds they have invested in the firm (capital stock) plus earnings kept in the business and not paid out in dividends (retained earnings).

**4. Revenues.** Revenues is the value of what is received for goods sold, services rendered, and from other sources. That includes sales revenues, rental revenues, commissions, royalties.

**5. Expenses.** They are costs incurred in operating the business, such as rent, utilities, salaries and wages, insurance, advertising etc.

**Financial documents**

The two most important financial statements are: the income statement and the balance sheet.

**1. The income statement** is also called profit and loss statement. It summarizes all the resources that came into the firm from operating activities (called revenue), money resources that were used up (called cost of goods sold and expenses), and what resources were left after all costs and expenses were incurred (net income or net loss). It reports the results of operating over a particular period of time.

**2. The balance sheet** is the financial statement that reports the financial position of a firm at a specific time. The words "balance sheet" imply, that the report shows a balance, an equality between two figures. That is the balance sheet shows a balance between assets and liabilities plus owner’s equity.

The formula Assets = Liabilities + Owners’ equity is the basis for the balance sheet.

On the balance sheet, you list assets in a separate column from liabilities and owner’s equity. The assets are equal to or are balanced with the liabilities and owners’ equity.

Exercise 16. True or false?

1. Accountants use two major accounts to prepare financial statements.

2. The main financial statements are purchasing documents and payroll records.

3. Liabilities are what a business owns.

4. Long term liabilities must be paid within a year.

5. The basis of a balance sheet is a formula Assets = Liabilities + Owners’ Equity.

**Finance**

Finance is the function in a business that is responsible for acquiring funds for the firm and managing funds within the firm (planning, using and controlling money effectively).

A financial plan for a business specifies the amount of money needed for various time periods and the most appropriate sources and uses of funds.

**Long-term financing** is money, obtained from the owners of the firm and lenders who do not expect repayment within 2 or more years. Long-term capital is used to buy long-term assets such as a plant and equipment and to finance any expansions of the organization. Initial long-term financing comes from three sources:

1. **Equity capital** comes from the owners of the firm in a form of personal savings, friends’ loans, and mainly sale of stock.

Advantages of selling stock are:

• Because stockholders are owners of the business, their investment never has to be repaid.

• There is no legal obligation to pay dividends (a share of the profits) to stockholders; therefore, income can be used for additional growth.

• Selling stock improves the condition of the balance sheet. Because no debt is incurred, the corporation is stronger financially and able to borrow funds more easily.

However, there are some disadvantages:

• Because stockholders are owners of the firm, they can vote through the board of directors, on who will manage the firm and what the policies will be. Having other owners takes away some freedom and control from those who started the firm and invested much time and effort in getting it started.

• Equity financing is relatively expensive form of fund rising. It is more costly to pay dividends than interest because dividend income is taxed twice – it is taxed at the corporate level and taxed again as income to the stockholders.

2. **Retained earnings** is income that the firm earns from its operating. As dividends a taxed twice, both the corporation and the stockholders may prefer that the company keep (retain) those profits and reinvest them. This benefits stockholders because the company can prosper and grow using those profits. It also benefits the firm in that it has more money to use. The profits that the company keeps are called retained earnings, therefore, because they are retained rather than paid out in dividends.

3. **Debt financing.** A financial alternative to selling stock is to sell bonds. A bond is the certificate that shows that a person has loaned money to a firm. With debt financing the company has a legal obligation to pay interest payment to bond holders. The amount of interest a company is willing to pay to borrow funds is written on the bond. How high that interest rate must be depends on how risky the company is and what the prevailing interest rate is.

The advantages of selling bonds are the following:

• Unlike stockholders, bondholders have no vote on corporate affairs, thus management retains control over the firm. Bondholders are creditors, not owners.

• Bonds are more flexible than stock. Whereas stockholders have ownership forever, bondholders represent more temporary sources of funds that can be tapped when needed.

Bonds also have their drawbacks:

• Bonds are an increase in debt (liabilities) and may make it more difficult to obtain other financing.

• Interest on bonds is a legal obligation. A corporation cannot delay or halt such payment as they may do with dividends.

• Interest payments on bonds affect the firm’s cash flow negatively in that they come out of the cash account.

**Short-term financing.** Small business rarely use stocks and bonds as sources of capital. Day-to-day operations of the firm call for careful management of short-term financial needs. Cash may be needed for additional inventory or bills may come due unexpectedly, so a business sometimes needs to obtain short-term funds when other funds run out. Short term funds are those that are scheduled for repayment in less than a year. Short-term financing includes trade credit, family and friends, commercial banks, factoring, commercial paper, and internal sources.

**Trade credit.** Is the most widely used source of short-term funding. This means that a business is able to buy goods today and pay for them sometimes in the future. When a firm buys merchandise it receive an invoice (bill) much like the one you receive when you buy sometimes on credit. A business invoice often contains terms such as "2/10, net 30". This means that the buyer can take a 2% discount for paying within 10 days. The total bill is due in 30 days if the discount is not taken.

A second source of short-term funds for most smaller firms is money lent to them by family and friends. Such loans can be dangerous if the firm does not understand cash flow. Several bills can come due at the same time when there are no other sources of funds. It is better, therefore, if you do borrow from family or friends, to be very professional about the deal and

1) agree on terms at the beginning,

2) write an agreement,

3) pay them back the same way you would a bank loan.

**Commercial banks** usually offer quite low rates in comparison with finance companies, so a small to medium-sized business should have the person in charge of keeping in very close touch with a local bank in case a business suddenly finds itself in a position where many bills come due at once: utilities, insurance, payroll, new equipment and more. Most times commercial banks can help. The most difficult kind of loan to get from a bank or other financial institution is an unsecured loan. This is a loan that is not backed by any collateral.

A secured loan is one backed by something valuable, such as property. If the borrower fails to pay the loan the lender may take possession of the collateral. That takes some of the risk out of lending money. Different property can be used as collateral, including buildings, machinery, stocks or bonds etc.

**Factoring** is a relatively expensive source of funds for a firm. The way it works is this: a firm sells many of its products on credit to consumers and other business. Some of these buyers are slow in paying their bills. The company may thus have a large amount of money due in accounts receivable. A factor buys the accounts receivable from the firm for cash (paying 50% to 70% of the value of the accounts receivable) and then collects the money due the firm. Factoring, then, is the process of selling accounts receivable for cash. How much this costs the firm depends on the rate the factor charges for this service. The discount rate for factoring depends on the age of the accounts receivable, the nature of the business, and the conditions of the economy.

**Commercial paper** is a way to get short-term funds for less than bank rates. It consists of promissory notes, in amount ranging from 25,000 up, that mature in 270 day or less. Commercial paper is insecured, so only the more financially stable firms can sell it.

**Internal sources** of funds is a wise way to generate more cash. For example, inventory and costs may be reduced, expenses can be cut, accounts receivable can be collected more quickly. A good finance team is able to save a business much money by finding such internal sources of funds and freeing them.

Exercise 17. True or false?

1. Friends’ loans is an example of debt financing.

2. Bondholders are only creditors, they don't own the company.

3. Interest on bonds is an obligation for a company.

4. Factoring is cheaper for a company then using commercial banks' services.

5. Reducing inventory and cutting expenses are examples of internal sources of funds.

## Part 5. International Trade

Exercise 18. Match the words and the definitions:

1. International trade a. Exchange of goods and services across national borders.

2. Exporting b. Buying products from another country.

3. Importing c. Relationship of exports to imports.

4. Balance of trade d. Value of one currency relative to the currencies of other countries.

5. Balance of payment e. Difference between money coming into a country and money leaving the country.

6. Exchange rate f. Selling products to another country.

7. Import quota g. Limiting a number of products that can be imported.

8. Embargo h. Complete ban on import or export of certain products.

International trade is the exchange of goods and services across national borders.

There are several reasons why one country would trade with other countries. First, no country, even a technologically advanced one, can produce all the products that its people want and need. Second, even if a country became self-sufficient, other countries would demand trade with that country to meet the needs of their people. Third, some countries have an abundance of natural resources and a lack of technological know-how. Other countries (for example, Japan) have vast technological skills, but few natural resources. Trade relations enable each country to produce what it is most capable of producing and to buy what it needs in a mutually beneficial exchange relationship.

Exchanges between and among countries, however, involve more than goods and services. Countries also exchange art, athletes (for international competition and friendly relations), cultural events (plays, dance performances, and so forth), medical advances, space exploration and labour.

The guiding principle behind international economic exchanges is the economic **comparative advantage theory.** This theory states that a country should produce and sell to other countries those products that it produces most effectively and efficiently and should buy from other countries those products it cannot produce as effectively or efficiently.

A country has an **absolute advantage** if it has a monopoly on the production of a specific product or is able to produce it more cheaply than all other countries.

The following terms refer to international trade:

**Exporting** is selling products to another country.

**Importing** is buying products from another country.

**Balance of trade** is the relationship of exports to imports. A favourable balance of trade occurs when exports exceed imports, an unfavourable balance of trade occurs when imports exceed exports.

**Balance of payments** is the difference between money coming into a country (from exports) and money leaving the country (for imports) plus money flows from other factors such as tourism, foreign aid, and military expenditures.

**Exchange rate** is the value of one currency relative to the currencies of other countries.

An organization may participate in international trade in many ways, including exporting and importing, joint venturing, licensing, creating subsidiaries, franchising, and forming a multinational organization. Firms just beginning to reach the international market are likely to use an independent **export house** (trading company) to handle all such sales. Eventually the function may be absorbed internally in the form of an export department or an export section in marketing.

A firm may decide to service a growing overseas market by **licensing** the manufacture of its product by a foreign producer on a royalty basis. The company sends representatives to the foreign producer to help set up the production process and may provide a variety of services such as marketing advice. Coke and Pepsi often enter foreign markets in this way.

As the size of a foreign market expands, a firm may want to establish a wholly owned foreign **subsidiary.** Such a subsidiary would operate much like a domestic branch.

**Franchising** is popular both domestically and in international markets. Firms such as McDonald’s and Hertz have many overseas units operated by franchisers.

One of the necessary ingredients for successful exchanges in many countries is knowing how to deal with foreign government bureaucracy. It is usually not enough to have a good product or ready markets. Government administrators overseas will often insist on some under-the-table payment to get the necessary permits and the permission to begin trade. Usually only natives to that country are suitably skilled to conduct such matters. They are used to the procedures, know who to see and what to say, and can minimize the necessary fees. To be successful trader in foreign countries, therefore, one might have to begin by contacting local businesspeople and gaining their cooperation and sponsorship.

What is often a much greater barrier to international trade is trade protectionism in a form of tariffs on imports, making them more expensive.

There are two different kinds of tariffs: revenue and protective. **Revenue tariffs** are designed to raise money for the government. **Protective tariffs** are designed to raise the retail price of imported products so that domestic products will be more competitive. These tariffs are meant to save jobs for domestic workers and to keep industries from closing down entirely because of foreign competition.

The term that describes limiting the number of products in certain categories that can be imported is **import quota**.

An **embargo** is a complete ban on the import or export of certain products.

There are two sides of the tariff issue.

Some people feel that tariffs are necessary to protect national markets from foreign competition.

Their arguments include the following:

• Tariffs save jobs.

• They protect industries vital to the country’s security such as aerospace, shipbuilding and automobile industries.

• They are needed to protect new domestic industries from established foreign competitors.

The opponents of tariffs counter argue by presenting the following negative effects tariffs can have:

• Tariffs reduce competition.

• They tend to increase inflationary pressure because they raise consumer prices.

• Tariffs tend to support special interest groups such as local manufacturers, but overall hurt the public who are forced to pay higher prices for imported products.

• Tariffs can lead to foreign retaliation and subsequently to trade wars.

Debates over trade restrictions will evidently stay a major part of international politics for the next decade.

Exercise 19. True or false?

1. Countries only trade when they have a lack of goods.

2. Except goods, countries also exchange art, medical advances, cultural events, etc.

3. Using an independent export house is usually the first step in reaching the international market.

4. Franchising is only used on domestic markets.

5. Trade protectionism only makes goods more expensive.

# Tasks

**Task 1.** Answer the questions:

1. What are three forms of business ownership?

2. What does "unlimited liability" mean?

3. What are "fringe benefits"?

4. Why is it easier to manage a partnership than a sole proprietorship?

5. What is the difference between a limited and general partnership?

6. What points should an agreement between partners include?

7. What is the purpose of forming a corporation?

8. What is the most difficulty in forming a corporation?

9. How can a corporation save money on taxes?

10. What does double taxation of corporations mean?

**Task 2.** Answer the questions:

1. What are functions of packaging?

2. What is brand?

3. What is the difference between a brandname and a trademark?

4. What are two types of middlemen? What is the difference between them?

5. How do they help customers?

6. Can you give any other examples of different distribution strategies than those given in the text?

7. How does the public benefit from advertising?

8. What is the best way to create a favourable word-of-mouth?

9. What are the steps of public relations function?

10. What pricing aims can there be?

**Task 3.** Answer the questions:

1. What knowledge and skills should a good manager have?

2. What questions should be answered in the process of planning?

3. What are three forms of planning and who are they fulfilled by?

4. Why is stuffing now called human resources management?

5. What leadership style do you personally prefer at your workplace and why?

6. Why can the control function be called a heart of the management system?

**Task 4.** Answer the questions:

1. What are the purposes of accounting?

2. What is the difference between assets and liabilities?

3. What does "Owner's equity" mean?

4. What is the difference between the income statement and the balance sheet?

5. What is long-term financing usually used for?

6. What are the differences between stockholders and bondholders?

7. What is short-term financing used for?

8. What are the sources for short-term financing?

**Task 5.** Answer the questions:

1. Can you give examples of countries with lack of natural resources (except Japan)? abundance of human resources?

2. What does "The economic comparative advantage theory" mean?

3. What does "absolute advantage" mean?

4. What are the ways a company can use to participate in international trade?

5. What is usually the first step of a successful trader in a foreign country?

6. What is the difference between two kinds of tariffs?

7. What are your views on tariffs issue?

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