

Understanding Business

1.1 - Business Activity



**Learner's
Notes**

Introduction

In this topic you will find out about the following things.

- Role of business in society**
 - *SATISFACTION OF HUMAN WANTS*
 - *PRODUCTION*
 - *FACTORS OF PRODUCTION*
 - *CONSUMPTION*
 - *THE BUSINESS CYCLE*

- Customer satisfaction**
 - *IMPORTANCE OF MAXIMISING CUSTOMER SERVICE*
 - *METHODS OF MAXIMISING CUSTOMER SERVICE*

- Types of businesses**
 - *SECTORS OF THE ECONOMY*
 - *PRIVATE - sole traders, partners, private limited companies*
 - *PUBLIC - government organisations*
 - *THIRD - charities and social enterprises*

 - *BUSINESS OBJECTIVES*
 - *Profit maximisation*
 - *Provision of a service*
 - *Social responsibility*
 - *Survival*
 - *Customer satisfaction*
 - *Market share*
 - *Enterprise*



 - *SECTORS OF INDUSTRY*
 - *PRIMARY*
 - *SECONDARY*
 - *TERTIARY*

WHAT DO BUSINESSES DO?

*When a group of people work together to try and achieve something that they all want, then they have formed an **ORGANISATION**.*





*A **BUSINESS** is an organisation that is formed to provide **GOODS** and **SERVICES**.*

An explanation of the things that businesses provide can be seen below.

Item	Description	Examples
<p>GOODS</p> 	<p>These are physically TANGIBLE things. This means that they can be seen and touched.</p>	<ul style="list-style-type: none">• Car• Newspaper• Washing Machine
<p>SERVICES</p> 	<p>These are things that are done for others. Services are INTANGIBLE. This means that they CANNOT be seen and touched after they are provided.</p>	<ul style="list-style-type: none">• Hairdresser• Cleaner• Taxi Driver• Bank

WHAT TYPES OF GOODS AND SERVICES DO BUSINESSES PROVIDE?

There are different **TYPES** of goods that businesses can provide. The main ones can be seen below.

Type	Description	Examples
DURABLE 	These goods and services last for a long period of time.	<ul style="list-style-type: none"> • Car • Computer • Fridge • Washing Machine
NON-DURABLE 	These goods and services DO NOT last for a long period of time.	<ul style="list-style-type: none"> • Newspaper • Cinema Ticket • Meal
CONSUMER 	These goods and services are consumed by individual private PEOPLE to satisfy their needs and wants.	<ul style="list-style-type: none"> • Food • CD's • Games • Clothing
CAPITAL 	These goods and services are consumed by BUSINESSES so that they can provide other goods and services.	<ul style="list-style-type: none"> • Robotics • Tools • Vehicles

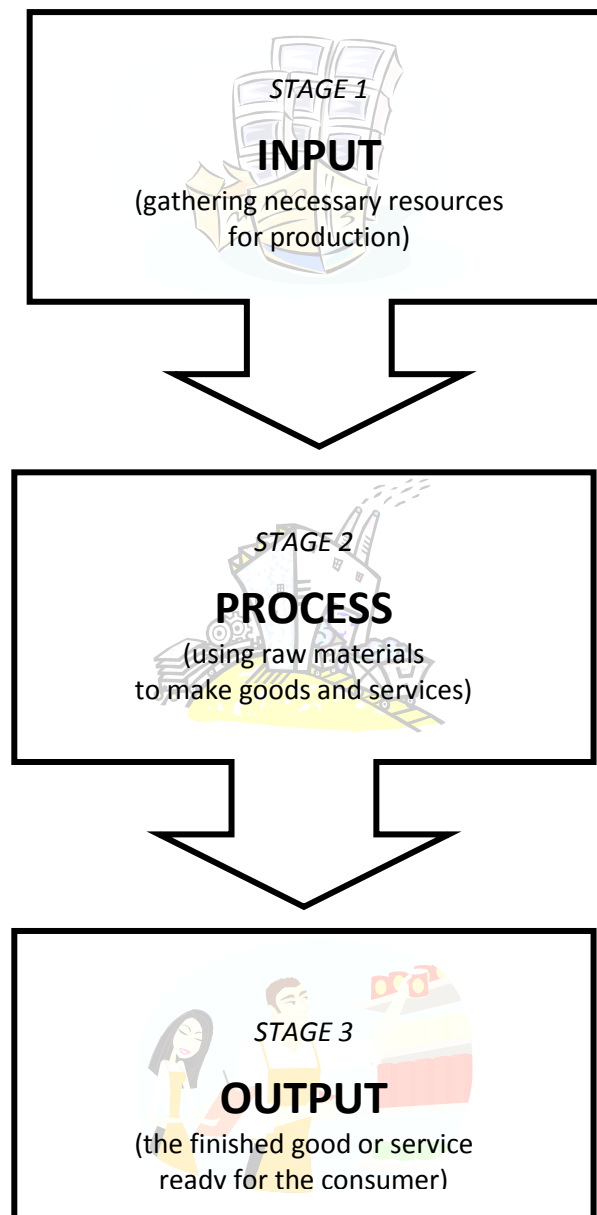
Almost all services are **NON DURABLE**, and some goods and services can be several types all at once.

For example, a van sold to a business for making deliveries will be a **DURABLE CAPITAL GOOD**. A fridge bought for someone's home is a **CONSUMER** good while the same fridge bought for a local ice cream shop would be a **CAPITAL** good.

HOW DO BUSINESSES PROVIDE GOODS AND SERVICES?





*Businesses have to work to provide goods and services through a process known as **PRODUCTION**.*

All **PRODUCTION PROCESSES** are made up of the following 3 linked stages.



At all stages of the production process businesses will have to make use of the **FACTORS OF PRODUCTION**. The **FACTORS OF PRODUCTION** are **RESOURCES** (useful things) that are used to provide and put together the raw materials in order to make a good or service.

The 4 factors of production available for use and how they are paid for can be seen below.



Factor of Production	Description
<p>CAPITAL</p> 	<p>Capital describes MONEY and all of the EQUIPMENT it can be used to buy. Capital has to be paid for through INTEREST (extra money paid from borrowing or lost through spending). Capital is a MAN MADE resource.</p>
<p>ENTERPRISE</p> 	<p>Enterprise covers all of the IDEAS for goods and services a business has and the ORGANISATION OF RESOURCES undertaken by it in order to make these ideas turn into real goods and services. Enterprise earns PROFITS.</p>
<p>LAND</p> 	<p>Land is the Earth and all of the NATURAL RESOURCES in it or on it (eg oil, wood, animals, crops, etc). Land is paid for through RENT (money paid for the use of the land).</p>
<p>LABOUR</p> 	<p>Labour is all of the work that is done by PEOPLE (aka HUMAN RESOURCES). Labour is paid for by WAGES.</p>

Businesses must decide carefully about which factors of production they will use because they are only available in **LIMITED** amounts and so should not be wasted.

For example, a business making cars might decide to pay for workers (labour), capital (equipment) and managers to design the car and supervise the production (enterprise) to allow them to make a car.

WHY DO WE USE BUSINESSES TO PROVIDE GOODS AND SERVICES?

In every **ECONOMY** (an area where goods and services are produced and used) there are **CONSUMERS**. These are people who buy goods and services from businesses to satisfy the following.

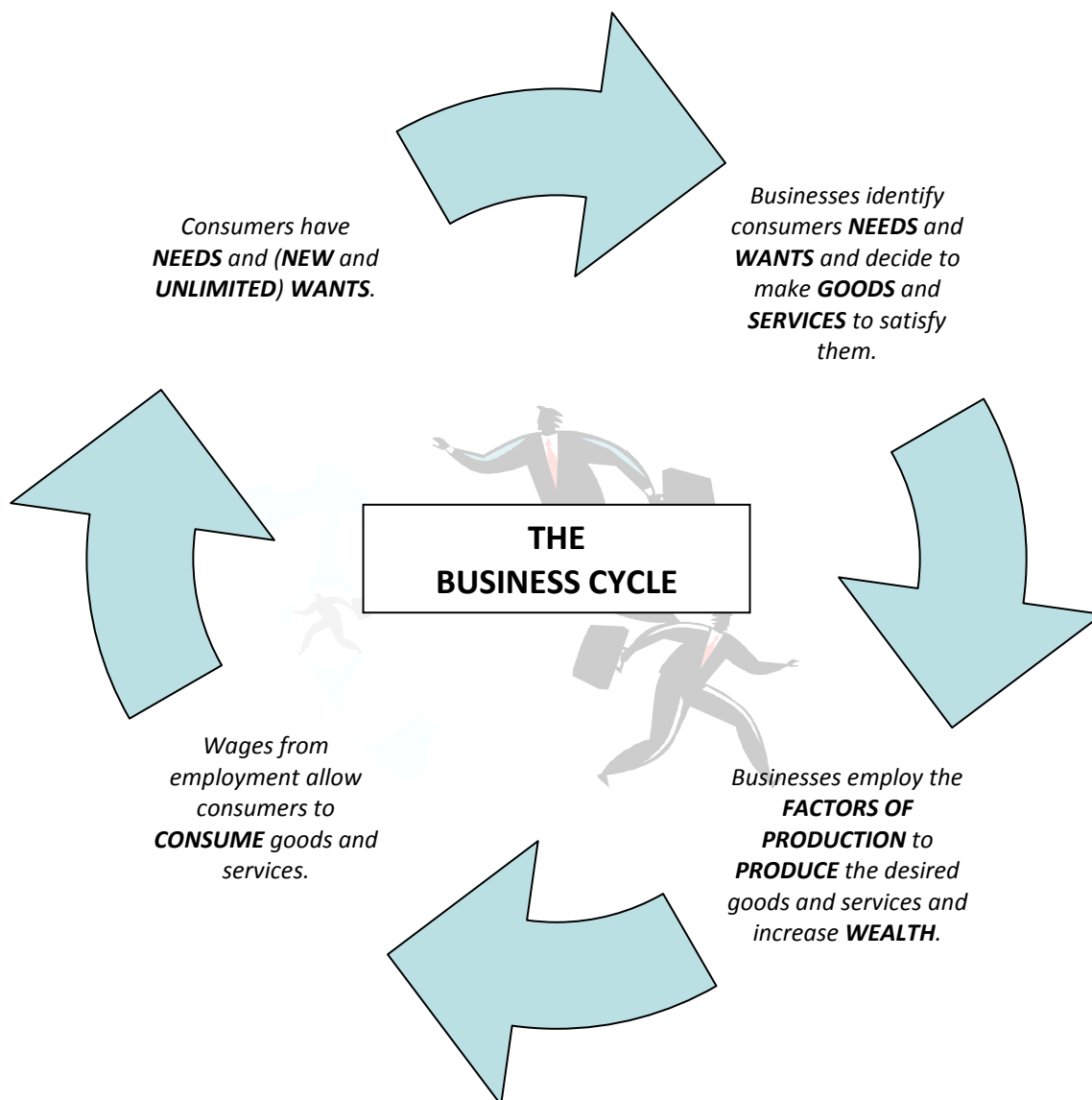
Item	Description	Examples
<p>NEEDS</p> 	<p>These are BASIC goods and services that we must have if we are going to be able to SURVIVE.</p>	<ul style="list-style-type: none"> • FOOD • CLOTHING • SHELTER
<p>WANTS</p> 	<p>These are goods and services that we DO NOT need to have to survive – they are only wanted by us because they would make our lives easier or provide pleasure. They are sometimes called LUXURIES. Consumers' wants are usually thought to be UNLIMITED because when someone satisfies one want, then they will start to think of another one which they believe will make them even happier.</p>	<ul style="list-style-type: none"> • Holidays • Jewellery • Fancy Clothes • Car

This process of consumers creating or buying and then using up goods and services to satisfy their needs and wants is called **CONSUMPTION**.

It is possible that consumers could produce all of the goods and services that they need for themselves. In some developing economies this has to be the case because consumers do not have any other choice. This is because there may be only a limited amount of goods and services available and/or they do not have the money to make purchases.

THE BUSINESS CYCLE

The above process of businesses using the factors of production to produce goods and services that will satisfy the needs and wants of consumers is known as the **BUSINESS CYCLE**. The business cycle can be shown in the following diagram.



This process is known as the business cycle because it goes on over and over again. This is because by the time businesses have provided the original goods and services that consumers needed and wanted, consumers **UNLIMITED** wants will have created new things that businesses could now begin to produce.

This cycle means that if a business is to succeed it **MUST** pay particular attention to satisfying consumers unlimited wants. This is because if they don't do this then the business will fail because the cycle will be broken as consumers begin to use different businesses which do satisfy their particular wants.

SATISFYING CONSUMERS

To ensure that a business is able to successfully continue to satisfy consumers' unlimited wants they must try to do the following.

- *FIND OUT WHAT CONSUMERS WANT*
- *DESIGN GOODS AND SERVICES THAT WILL PROPERLY MEET CONSUMERS NEEDS AND WANTS*
- *PRODUCE THE GOODS AND SERVICES DESIRED BY CONSUMERS TO A PROPER STANDARD*
- *TREAT CONSUMERS IN A POSITIVE WAY WHEN THEY ARE BUYING FROM THE BUSINESS*
- *MANAGE THE MONEY OF THE BUSINESS SO THAT IT CAN CONTINUE TO SATISFY CONSUMERS*

The main way that many businesses try to achieve these things is by employing different teams of specialised workers (known as **FUNCTIONAL DEPARTMENTS** or **AREAS**) to each take on some of these jobs. However, in some small and medium sized businesses, there are not always specific departments for each of these jobs and so it can sometimes be certain individuals who become responsible for them.

The main functional activities that are undertaken in most businesses are as follows.

1 **MARKETING**

The marketing function is responsible for finding out what consumers want and then designing goods and services that will properly meet their needs and wants.

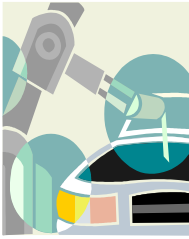


This will be achieved through activities such as:

- *Carrying out **MARKET RESEARCH** (info on customers and competitors)*
- *Designing appropriate features for the **PRODUCT** to be sold*
- *Deciding on a **PRICE** that consumers will pay*
- *Deciding the best **PLACE** to sell to product to consumers*
- *Deciding how to **PROMOTE** the product to let consumers know about it*

2 OPERATIONS

The operations function is responsible for producing the product that marketing has designed to a proper standard for consumers.



This will be achieved through activities such as:

- Organising **QUALITY** raw materials and factors of production
- Completing the **PROCESS** stage of production to high standards
- Making enough finished goods and services to meet consumers **DEMAND**
- Getting finished goods and services **DELIVERED** to consumers on time

3 FINANCE

The finance function is responsible for providing and managing the money that marketing, operations and HRM need for their work. This will ensure that not too much is spent and so the business can afford pay its' bills and so continue providing for consumers.

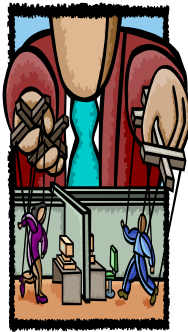


This will be achieved through activities such as:

- **RECORDING FINANCIAL** (money) **TRANSACTIONS**
- **PAYING BILLS** and **WAGES**
- Creating documents to **MANAGE CASHFLOW** (money in and out)
- Creating documents to **TRACK PROFITS**
- Creating documents to **TRACK BUSINESS VALUE**

4 HUMAN RESOURCE MANAGEMENT (HRM)




The HRM function is responsible for making sure that staff effectively help operations produce goods and services to a proper standard for consumers. They also have to ensure that members of staff treat consumers in a positive way when they are buying from the business.



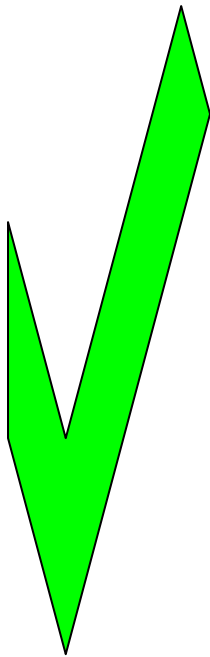
This will be achieved through activities such as:

- **RECRUITING AND SELECTING** well qualified staff
- **MONITORING** and **SUPPORTING** the work of staff
- Providing staff with **TRAINING** to improve their operations skills
- **DISCIPLINING** staff who cause problems for other worker and consumers
- Providing staff with **CUSTOMER SERVICES TRAINING**
- Checking staff follow **CUSTOMER SERVICES POLICY** properly

Common examples of activities which will make up **CUSTOMER SERVICE** training for staff can be seen below.

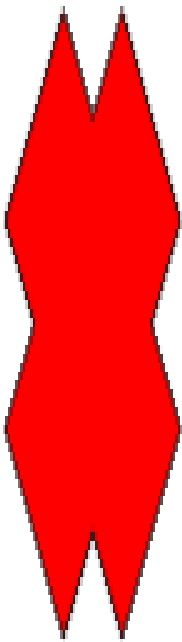
Activities	Description
<p style="text-align: center;">SERVICE STANDARDS</p> 	<p>Businesses will want to provide their staff with training in the following areas to ensure that they provide high standards of customer service.</p> <ul style="list-style-type: none"> • <i>EXPECTED STANDARDS OF POLITENESS WHEN DEALING WITH CUSTOMERS</i> • <i>MINIMISING THE TIME TAKEN TO BE SERVED</i> • <i>PRODUCT KNOWLEDGE TO BE ABLE TO ADVISE CUSTOMERS</i> <p>These standards of customer service may be shared with consumers to make them confident that the business will treat them properly.</p>
<p style="text-align: center;">COMPLAINTS PROCESS</p> 	<p>Businesses may have a publicised procedure or staff for trying to deal with complaints so any that any dissatisfied consumers can be helped and encouraged to use the business again despite their disappointment with something in the past.</p>
<p style="text-align: center;">PRODUCT SUPPORT</p> 	<p>Businesses will may provide assistance to customers to help them understand how to use and get the most use out of their products after they have bought them. Examples of this product support will include the following.</p> <ul style="list-style-type: none"> • <i>CUSTOMER SUPPORT HELPLINES</i> • <i>WARRANTIES AND GUARANTEES</i>

Businesses spend so much time, money and effort trying to provide high levels of consumer satisfaction through their functional areas because this can bring them the following **BENEFITS**.



- *Satisfied customers will continue to use the business – this is known as **CUSTOMER LOYALTY**. This is good because it means continued sales in the future and so profits that will allow the business to continue.*
- *Satisfied customers may recommend a business to others – this can allow the business to **INCREASE SALES**. This is good because it means more profits and less chance of running out of money and failing.*
- *Satisfied customers will mean fewer complaints. This can mean staff will be happier at work and so **MOTIVATED** to do more which can increase profits.*
- *Motivated and happy staff will be less likely to leave – this means that a business can avoid the lost work and the cost of finding new workers.*
- *Having a motivated and happy place to work can attract high quality new staff to the business. They may have new ideas which can further improve business profits.*

Businesses focus on providing high standards of consumer satisfaction not only to get the above benefits but to also prevent the following **NEGATIVE CONSEQUENCES** from poor customer service.



- *Unhappy customers will not use the business again – this means **DECREASED SALES**. This is bad because it means less profits and more chance of running out of money and failing.*
- *Unhappy customers may tell other people not to use the business – this could mean **REPUTATION DAMAGE**. This is bad because it means less profits and more chance of failing.*
- *Unhappy customers will mean many complaints. This can mean staff will be unhappy at work and so **LESS MOTIVATED** which can decrease profits.*
- *Demotivated and unhappy staff are **MORE** likely to leave – this means that a business can will have to spend time and money finding new workers.*
- *Having a motivated and happy place to work can attract high quality new staff to the business. They may have new ideas which can further improve business profits.*
- *There will be difficulty in recruiting and retaining new quality staff because of the poor reputation of the organisation.*

ARE ALL BUSINESSES THE SAME?

Although all businesses are involved in satisfying consumers' needs and wants through the business cycle, there are different types of business.

The main factors which make businesses different from each other can be seen below.

- *BUSINESS SIZE*
- *ECONOMIC SECTOR (business ownership and purpose)*
- *OBJECTIVES*
- *SECTOR OF INDUSTRY (business output)*

Many businesses formally record information about their specific differences in a document called a **MISSION STATEMENT**. This is to make sure that all people involved with the business understand how it is organised and are encouraged to think **POSITIVELY** about it because they know how it is likely to affect them.



Information about the differences between businesses is very important because they will affect the way it is **MANAGED** and run. For example, a business set up to make money for the owner would not usually decide to provide products for free because this would lose money instead of making more.



BUSINESS DIFFERENCES – SIZE

The term **BUSINESS SIZE** usually refers to how many staff a business employs

The 3 main sizes of business can be seen below.

Size	Description
SMALL 	These businesses are made up of between 1 and 50 workers.
MEDIUM 	These businesses employ between 50 and 250 workers.
LARGE 	These businesses employ more than 250 workers.

Size is an important difference between businesses as businesses with many staff will need to be managed in a different way to one which does not.

BUSINESS DIFFERENCES – ECONOMIC SECTOR

*The term **ECONOMIC SECTOR** describes a group of organisations which are set up and run by their owners for a similar purpose.*



*There are 3 different economic sectors –
PUBLIC SECTOR, PRIVATE SECTOR and **THIRD SECTOR**.*

The businesses in the 3 main Economic Sectors can be seen below.

1 PUBLIC SECTOR ORGANISATIONS

The main features of Public Sector organisations are as follows.

- *They are set up and owned by different levels of **GOVERNMENT** on behalf of the public who have elected them.*
- *They are run by paid workers and managers and have their progress checked by members of the Government.*
- *They are set up to provide goods and services that should improve the quality of life for any member of the public that uses them.*
- *Examples of the goods and services that are provided by public sector organisations include the **HEALTHCARE, EMERGENCY SERVICES, EDUCATION, DEFENCE, ROADS AND TRANSPORT** and the **WELFARE STATE**.*
- *Most public sector goods and services are free (or only cost a small payment). Public goods and services are usually free because the money the Government needs to provide them is collected through the following **TAXES**.*

Tax Payer	Example Taxes
INDIVIDUAL 	<ul style="list-style-type: none"> • <i>INCOME TAX (money paid from wages earned)</i> • <i>COUNCIL TAX (money paid for the use of Local Council Services)</i> • <i>STAMP DUTY (tax on buying a house)</i>
BUSINESS 	<ul style="list-style-type: none"> • <i>CORPORATION TAX/INCOME TAX (money paid on business profits)</i> • <i>VALUE ADDED TAX [VAT] (money paid on most goods you buy)</i> • <i>DUTIES (extra taxes above VAT on specific items – eg alcohol)</i>

The main levels and types of small to medium sized UK public sector organisations that provide these goods and services can be seen below.

a **DEVOLVED GOVERNMENT**

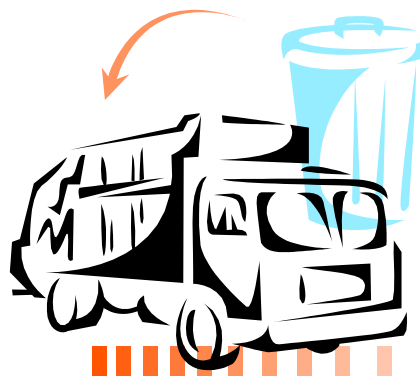
In Scotland, Wales and Northern Ireland, some Government policies and public services are different from those in England. This is because the UK wide Central Government has set up a Devolved Government for these areas which has powers to make decisions for their own areas on certain things known as **DEVOLVED MATTERS**.

In Scotland, the devolved Scottish Government can develop and implement policy on devolved matters such as health, education, justice, business, rural affairs and transport. The work of the devolved Scottish Government is managed by the First Minister, the Scottish Cabinet and Parliament.



b **LOCAL AUTHORITIES**

Local Authorities are responsible for supporting central and devolved Government policies about the delivery of public goods and services by managing their day-to-day delivery at a local level. Examples of Local Authority services include local refuse collections, Sports Centres and Libraries. The work of Local Authorities will be managed by elected **LOCAL COUNCILLORS**.



2 PRIVATE SECTOR BUSINESSES

Private Sector organisations are set up and owned by the individuals who have invested their own personal money (known as **CAPITAL**) in them. They are set up to provide goods and services only to consumers who can afford to pay for them. This is so that these businesses can make extra money (called **PROFIT**) for the private benefit of their owners.

The main types of small to medium sized private businesses (ie organisations which have **LESS THAN 250** workers) in the UK are as follows.

a **SOLE TRADER**

The main **FEATURES** of a sole trader are as follows.

- *Sole traders only have **ONE** owner who invested and organised all of the start up capital for the organisation.*
- *In a sole trader, the single owner has the authority (power) to make all decisions themselves.*
- *Sole traders usually only sell to consumers in a fairly small **LOCAL** area.*
- *Sole traders usually only employ a few workers and sometimes only consist of the owner alone.*

The main **ADVANTAGES** of being a sole trader are as follows.

- *Quick decisions can be made in the business because they are all made by the single owner without interference. This can allow the business to respond to situations that might need dealt with quickly, eg chance to invest in an idea.*
- *There are few laws or rules that have to be followed when setting up a sole trader. This means sole trader businesses can be easier for people with little business experience to set up and operate.*
- *All of the profits from the business can be kept by the single owner. This means that a successful sole trader can make the owner lots of money quickly. Money taken out of the business by the owner is known as **DRAWINGS**.*
- *Sole traders do not have to share information about their business with anyone (except the Government for paying taxes). This means they can keep their information about performance and profits private.*

The main **DISADVANTAGES** of being a sole trader are as follows.

- *The single owner has **UNLIMITED LIABILITY** for any money owed by the business. This means that if the business runs out of money, the debt is **NOT** limited to the money in the business and so the sole trader will have to pay the rest of the debt using their own money and from the sale of their assets (valuable things, eg house).*
- *All losses in the business will have to be accepted by the owner alone which could mean the end up with far less money than they once had.*
- *There may be no-one else to share the decision making and work of the business and so this can be stressful for the owner.*
- *The skills of the owner might limit what the business is able to do.*



b PARTNERSHIP

The main **FEATURES** of a partnership are as follows.

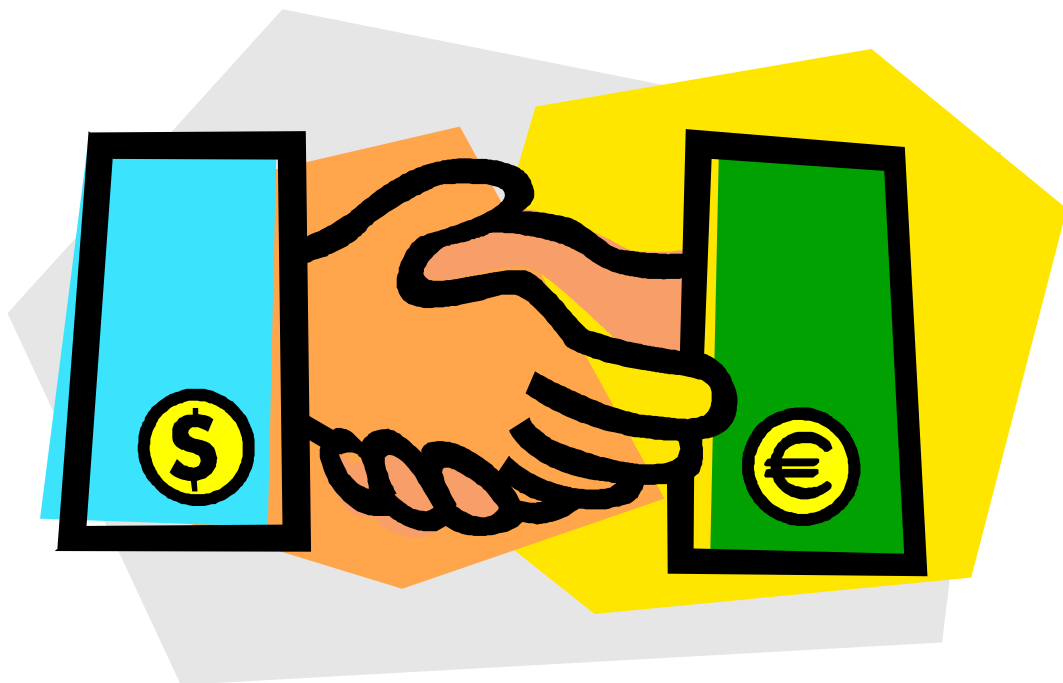
- *A partnership usually has between 2-20 owners who have each invested some of the start up capital for the organisation. Each of these owners is called a **PARTNER**.*
- *In the case of **PROFESSIONAL PARTNERSHIPS** (eg accounting and legal partnerships) there is no limit to the maximum number of owners.*
- *In a partnership, each of the different partners will have a say in the decision making of the business. The specific amount of control each partner has over decision making will be set out in a **PARTNERSHIP AGREEMENT**.*
- *A Partnership Agreement is a legal document that all partners sign when the partnership is created. This document sets out all of the partnership's rules about work to be done and the sharing rights for decisions, profits and losses. Usually the partnership agreement will set out these rights based on the amount of money invested (eg a partner who invests 50% of the capital will normally get 50% of the decision making votes).*
- *Partnerships usually only sell to consumers in a fairly small **LOCAL** area. However, they can become big enough to have several premises and so sell to a **NATIONAL** (countrywide) market.*
- *Partnerships may only employ a few extra workers in addition to the partners and sometimes only consist of the partners alone.*

The main **ADVANTAGES** of a partnership are as follows.

- *Any losses in the business will be shared between all the partners. This means each individual owner will take a smaller personal loss in a bad year.*
- *The decision making and work of the business can be shared between the partners which means less stress for each owner.*
- *The skills of the different partners can allow the business to expand and make more profit.*
- *There is more money available in the business because it has several partners investing. This can allow the business to provide better goods and services.*
- *Partners do not have to share information about their business with anyone (except the Government for paying taxes). This means they can keep their information about performance and profits private.*

The main **DISADVANTAGES** of a partnership are as follows.

- The partners have **UNLIMITED LIABILITY**¹ for any money owed by the business. This means that if the business runs out of money, the debt is **NOT** limited to the money in the business and so the partners will each have to pay the rest of the debt using their own money and from the sale of their assets (valuable things, eg house).
- It can be hard to make quick and easy decisions in the business because there has to be agreement between all the partners before something can be done. This can mean the business can find it hard to respond to situations that might need dealt with quickly.
- The profits from the business are shared between all the partners. This means that each owner can take less money from the business (**DRAWINGS**) than they would have done if they were working on their own.



¹ Some partners are known as **LIMITED PARTNERS** – this means they do not get a say in decision making but they **DO NOT** have unlimited liability and so will only lose the money they have invested in the business if things go badly.

c PRIVATE LIMITED COMPANY

The main **FEATURES** of this type of private sector business are as follows.

- A private limited company usually has at least 2 owners who have each invested some of the start up capital for the organisation. Each of these owners is called a **SHAREHOLDER** – this is because they each have a **SHARE** of the business.
- Shareholders will receive proof of their ownership through a **SHARE CERTIFICATE**. A share certificate is a legal document which shows that a person owns part of a company.
- In a private limited company, shares can only be bought **PRIVATELY** from existing shareholders.
- Private limited companies must create **MEMORANDUM AND ARTICLES OF ASSOCIATION** when they are created to outline all of the rules of the company and information about how many shares will be available in it.
- Each share will entitle its' owner to a share of any profits in a good year. This extra money for the owner is known as a **DIVIDEND**. Dividends are usually given out as a percentage of the original cost of a share. For example, a shareholder with £1 shares in a business may get a 3% dividend at the end of the year – this means they will get 3p profit back on each share.
- Decision making in a limited company is made by group of senior managers known as the **BOARD OF DIRECTORS**.
- In a private limited company, the Board of Directors may be the shareholders who take these jobs for themselves or they can be separate people who are employed by the shareholders. Shareholders might decide to employ Directors because they may be unable to manage the day to day running of the business due to other commitments.
- Private limited companies may only sell to consumers in a fairly small **LOCAL** area. However, they can become big enough to have several premises and so sell to a **NATIONAL** (countrywide) market.
- Private limited companies may employ the shareholders as the Board of Directors and extra workers to carry out day to day tasks. However, they can consist entirely of non owners who have been employed by the shareholders to operate the company.
- Private limited companies must register and update details about their Directors, Secretary, Shareholders and profits with **COMPANIES HOUSE**. This is a Government body which keeps track of all companies in the UK and makes sure that they are following legal rules about the running of companies. Companies House provides each company with its' own unique **COMPANY NUMBER** to help manage this process. If private companies do not follow the rules of Companies House then they will be fined and can be forced to stop working.

The main **ADVANTAGES** of being a private limited company are as follows.

- *The shareholders have **LIMITED LIABILITY** for any money owed by the business. This means that if the business runs out of money, the debt IS limited to the money in the business and so the shareholders can ONLY lose the money they have invested in the business.*
- *There can be lots of money available in the business because it can have lots of shareholders investing. This can allow the business to provide better goods and services.*
- *The decision making and work of the business can be shared between the Board of Directors which means less stress for each individual.*
- *The different skills of the Board of Directors can allow the business to expand and make more profit.*
- *Any losses in the business will be shared between all the shareholders. This means each individual owners will take a smaller personal loss if the business fails.*

The main **DISADVANTAGES** of being a private limited company are as follows.

- *Private Limited companies have to follow the legal rules in the **COMPANIES ACTS**. For example, they must include the term “Ltd” after their name in all documents so that people know that there is limited liability and so they may not get all debts repaid. This can mean that limited companies can be complicated and difficult for people with little business experience to set up and operate.*
- *Private Limited companies have to share some information about their business by registering it annually with Companies House. This means they cannot keep all their information about performance and profits private.*
- *It can be hard to make quick and easy decisions in the business because there has to be agreement between the Board of Directors before something can be done. This can mean the business can find it hard to respond to situations that might need dealt with quickly.*
- *The profits from the business are shared between all the shareholders as dividends. This means that each owner makes less money than they would have done if they were working on their own.*



3 THIRD SECTOR BUSINESSES

The Third Sector consists of non-governmental organisations which have been set up to provide goods and services to benefit specific groups that they feel need special assistance.

The main types of small to medium sized third sector businesses (ie organisations with **LESS THAN 250** employees) in the UK are as follows.

a CHARITY

The main **FEATURES** of Scottish charities are as follows.

- *Charities are organisations which have been set up for the sole purpose of **PROVIDING PUBLIC BENEFIT** in Scotland (or elsewhere) though one or more of the following recognised **CHARITABLE PURPOSES**².*
 - *THE PREVENTION OR RELIEF OF POVERTY*
 - *THE ADVANCEMENT OF EDUCATION*
 - *THE ADVANCEMENT OF RELIGION*
 - *THE ADVANCEMENT OF HEALTH*
 - *THE SAVING OF LIVES*
 - *THE ADVANCEMENT OF CITIZENSHIP OR COMMUNITY DEVELOPMENT*
 - *THE ADVANCEMENT OF THE ARTS, HERITAGE, CULTURE OR SCIENCE*
 - *THE ADVANCEMENT OF PUBLIC PARTICIPATION IN SPORT*
 - *THE PROVISION OF RECREATIONAL FACILITIES*
 - *THE ADVANCEMENT OF HUMAN RIGHTS, CONFLICT RESOLUTION OR RECONCILIATION*
 - *THE PROMOTION OF RELIGIOUS OR RACIAL HARMONY*
 - *THE PROMOTION OF EQUALITY AND DIVERSITY*
 - *THE ADVANCEMENT OF ENVIRONMENTAL PROTECTION OR IMPROVEMENT*
 - *RELIEF OF AGE, ILL-HEALTH, DISABILITY, FINANCIAL BASED HARDSHIP*
 - *THE ADVANCEMENT OF ANIMAL WELFARE*
- *Charities **DO NOT** make their money by trading and earning profits – they encourage the public to give them money to pay for their work through the use of advertising campaigns, fundraising events, etc. This money which is given by the public is known as a **DONATION**.*
- *Charities can also raise some money for their work by setting up a separate special **CHARITABLE TRADING ARM**. This is a part of the Charity which raises money through paid for activities such as restaurants and shops but gives it all back to the main part of the Charity as a donation.*

² These charitable purposes are set out by law in the Charities and Trustee Investment (Scotland) Act 2005.

- *In Scotland, official charities are registered with the Government's **OFFICE OF THE SCOTTISH CHARITY REGULATOR (OSCR)** and are given special **CHARITABLE STATUS**.*
- *Charitable status means the charity does not have to pay as many taxes on the money that it brings in. This is so that it can maximise the money it has to support its' cause.*
- *Once registered with OSCR, charities must meet a number of legal responsibilities set out in charity law, including reporting to them on an annual basis.*
- *The work and status of a charity can be tracked with the OSCR through a unique **CHARITY REGISTRATION** number. This can help prevent people pretending to be a charity and so cheating the public out of money they intended to go to a "real" good cause.*
- *Charities will have volunteer and paid employees who are managed by a group of managers know as **TRUSTEES**.*

Examples of charities operating in Scotland include, overseas support charities (such as SCIAF and Mary's Meals), scout groups, cancer support charities, churches, nurseries and private schools.








b SOCIAL ENTERPRISE

The main **FEATURES** of Scottish social enterprise organisations are as follows.




- *Social Enterprises legally cannot be part of a public sector organisation.*
- *Social Enterprises are different from public sector organisations because they have been set up to openly generate funds in order to benefit only a **SPECIFIC** social, environmental or cultural issue.*
- *Social Enterprises are different from charities because they aim to generate their funds through **GRANTS** (money from agencies that doesn't need paid back) and **PROFIT MAKING** trading activities.*
- *Social Enterprises are different from private sector businesses because they have an **ASSET LOCK** on both their profits and assets. This means that Social Enterprises **MUST** use all of their profits and money from the sale of assets (if it is closed down) for the purpose of its social mission.*
- *Social Enterprises must be run in an **ETHICAL** manner which reflects their aim to be of benefit to society. This will be seen though actions such as offering their staff satisfactory wages, terms and conditions, and clear environmental policies.*
- *Social Enterprises will have volunteer and paid employees who are managed by a **BOARD OF DIRECTORS**.*



The main types of social enterprise organisations in Scotland are as follows.

Social Enterprise Organisation	Description
<p>SOCIAL FIRMS</p> 	<p>These Social Economy organisations are set up to specifically create NEW JOBS for severely disadvantaged people in the labour market (eg individuals with learning difficulties). An example would be Blindcraft which was set up to help blind people find work.</p>
<p>CO-OPERATIVES</p> 	<p>A co-operative is a group of people (known as MEMBERS) who want to work together in a jointly owned social enterprise organisation in order to help them meet their common needs. Examples of co-operatives include the Cooperative grocery store, insurance company and travel firms.</p>
<p>INTERMEDIATE LABOUR MARKET COMPANIES</p> 	<p>These Social Economy organisations provide TRAINING and WORK EXPERIENCE for the long term unemployed and other disadvantaged groups. The aim is to assist these groups to re-enter the labour market through the provision of this paid work together with high quality training, personal development and active job-seeking.</p>
<p>COMMUNITY BUSINESS</p> 	<p>These are social enterprise organisations that are set up in a particular geographical area and focus on PROVIDING GOODS AND SERVICES to that area. They are trading organisations which are set up, owned and controlled by the local community and which aim to be a focus for local development and create self supporting jobs for local people.</p>
<p>CREDIT UNION</p> 	<p>Credit unions are finance co-operatives that help people to SAVE and BORROW money at reasonable rates.</p>

A summary of the ownership and control of the above small to medium sized UK businesses can be seen below.




Economic Sector	Organisation	Finance	Decision Making
PUBLIC SECTOR 	Devolved Government Organisations	Devolved Government (from the public)	First Minister, Devolved Cabinet and Parliament
	Local Authority Organisations	Local Authority (from the public)	Local Councillors
PRIVATE SECTOR 	Sole Trader	1 Owner	1 Owner
	Partnership	2-20 Partners	2-20 Partners
	Limited Companies	2+ Shareholders	Board of Directors
THIRD SECTOR 	Charities	Donations	Trustees
	Social Enterprise	Trading Activities	Board of Directors

BUSINESS DIFFERENCES – OBJECTIVES

An **OBJECTIVE** is specific goal that a business is trying to achieve at a point in time.




We have already seen that, in general, all businesses **EXIST** (are set up) to provide goods and services to satisfy needs or wants.

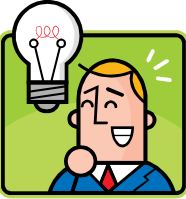
However, we have also seen that the owners of businesses in the various **ECONOMIC SECTORS** want to achieve the following specific and different **OBJECTIVES** in their particular businesses.

Economic Sector	Main Objective
<p>PUBLIC SECTOR</p> 	<p>Public sector businesses are usually set up to achieve the objective of providing a PUBLIC SERVICE. This means that they provide their goods and services in order to improve the quality of life for any member of the public who needs or wants to use them.</p>
<p>PRIVATE SECTOR</p> 	<p>Private sector businesses are usually set up to achieve the objective of MAXIMISING PROFITS for their owners. This means that they only intend to provide their goods and services to consumers who can afford to pay a price for them which will make extra money for the business.</p>
<p>THIRD SECTOR</p> 	<p>Third sector businesses are usually set up to achieve the objective of SOCIAL RESPONSIBILITY. This means that they undertake activities which will improve the quality of life for particular members of society that they think need extra help.</p>

These objectives therefore make these businesses different from each other because they affect the way that each of them operates every day.

There are other objectives that businesses may pursue at different times, and these can be seen below.

Objective	Description
<p>SURVIVAL</p> 	<p>There can be times when any type of business finds that it is running out of money to pay its' bills and survive. Public sector businesses may experience this when budgets are cut due to less money from taxation. Private businesses may experience this when they are losing sales to competitors. Third sector businesses may experience this when funding decreases due to falling incomes.</p> <p>When this is the case businesses must focus on the objective of SURVIVAL until things improve. This means they will have to lower costs by cutting production, moving premises, etc.</p>
<p>MAXIMISE CONSUMER SATISFACTION</p> 	<p>Many organisations will be interested in maximising CUSTOMER SATISFACTION so that the public and their consumers think positively about the business and continue to support it.</p> <p>To create and maintain high levels of consumer satisfaction, businesses will be interested in dealing positively with consumers in the following ways.</p> <ul style="list-style-type: none"> • <i>POSITIVE TREATMENT OF THE ENVIRONMENT (eg low pollution, recycling)</i> • <i>FAIR USE OF RESOURCES (eg fair wages in 3rd world countries, etc)</i> • <i>HIGH QUALITY MARKETING WORK</i> • <i>HIGH QUALITY PRODUCTS</i> <p>In the short term, these activities are not always cheap and so they can prevent maximisation of profit and limit the number of services that can be provided from available budgets.</p>
<p>INCREASE MARKET SHARE</p> 	<p>Many organisations will be interested in increasing the number of paying customers that they have or the amount of help that they can provide. This would be known as increasing their MARKET SHARE.</p> <p>To do this, organisations will usually have to:</p> <ul style="list-style-type: none"> • <i>CUT PRICES TO MAKE THEIR PRODUCTS MORE AFFORDABLE</i> • <i>INCREASE THE MONEY SPENT ON ADVERTISING PRODUCTS</i> • <i>INCREASE THE AMOUNT OF PRODUCTION</i> • <i>INCREASE THE NUMBER OF PLACES THE PRODUCT IS BEING PROVIDED IN</i> <p>In the short term, these activities are not always cheap and so they can prevent maximisation of profit and limit the number of services that can be provided from available budgets.</p>

Objective	Description
<p>ENTERPRISE</p> 	<p>Enterprise involves all of the following activities.</p> <ul style="list-style-type: none"> • <i>COMING UP WITH IDEAS FOR NEW PRODUCTS (INNOVATION)</i> • <i>ORGANISING THE RESOURCES NEEDED FOR PRODUCTION</i> • <i>COMPLETING PRODUCTION AND ACTUALLY PROVIDING THE PRODUCT</i> • <i>ACCEPTING THE RISK THAT THIS NEW PRODUCT COULD FAIL</i> <p>People who are willing to be enterprising are called ENTREPRENEURS. Examples of famous Scottish entrepreneurs include Michelle Moone and Tom Hunter. Successful entrepreneurs usually have the following skills and qualities.</p> <ul style="list-style-type: none"> • <i>CREATIVITY</i> • <i>FLEXIBILITY</i> • <i>UNDERSTAND WHEN AND HOW TO USE INITIATIVE AND INNOVATION</i> • <i>A POSITIVE ATTITUDE TO CHANGE</i> • <i>BEING ABLE TO EVALUATE RISK TO HELP MAKE GOOD DECISIONS</i> • <i>HAVE THE ABILITY TO PERSUADE OTHERS TO HELP THEM IN THEIR VENTURE</i> <p>It is particularly important that a country has entrepreneurs in all sorts of organisations who will help them develop new products for the following reasons.</p> <ul style="list-style-type: none"> • <i>THERE WOULD BE NO NEW GOODS OR SERVICES WITHOUT ENTERPRISE</i> • <i>SOCIETY WOULD FAIL TO ADVANCE WITHOUT NEW GOODS AND SERVICES</i> • <i>WITHOUT ENTERPRISE SOME NEEDS AND WANTS WILL BE UNSATISFIED</i> • <i>SATISFACTION FOR SUCCESSFUL ENTREPRENEURS CAN ENCOURAGE FURTHER BENEFICIAL ENTERPRISING ACTIVITIES</i>

A summary the main objectives of different types of business can be seen below.

Sector	Organisations	Common Objectives
<p>PUBLIC SECTOR</p> 	<ul style="list-style-type: none"> • Devolved Govt • Local Govt 	<ul style="list-style-type: none"> • PROVIDE SERVICE (equally for all) • CONSUMER SATISFACTION • ENTERPRISE
<p>PRIVATE SECTOR</p> 	<ul style="list-style-type: none"> • Sole Trader • Partnership • Private Limited Company 	<ul style="list-style-type: none"> • MAXIMISE PROFITS • SURVIVAL • CONSUMER SATISFACTION • MARKET SHARE • ENTERPRISE
<p>THIRD SECTOR</p> 	<ul style="list-style-type: none"> • Charity • Social Enterprises 	<ul style="list-style-type: none"> • SOCIAL RESPONSIBILITY • CONSUMER SATISFACTION • MARKET SHARE • ENTERPRISE

BUSINESS DIFFERENCES – INDUSTRIAL SECTOR

The term **INDUSTRIAL SECTOR** describes a group of organisations which produce a similar type of good or service.

There are 3 different industrial sectors –
PRIMARY SECTOR, SECONDARY SECTOR and **TERTIARY SECTOR**.

The 3 main Industrial Sectors and their **OUTPUT** of different goods and services can be seen below.

1 PRIMARY SECTOR BUSINESSES

Primary sector organisations are responsible for **EXTRACTING** (getting) from the Earth the **RAW MATERIALS** (eg **WOOD, OIL, COAL**, etc) needed for the input stage of production.



Examples of primary sector businesses include:

- *FARMERS*
- *OIL WORKERS*
- *FISHERMEN*
- *FORESTRY WORKERS*

2 SECONDARY SECTOR BUSINESSES

Secondary sector organisations are responsible for **MANUFACTURING GOODS** using the **RAW MATERIALS** from the **PRIMARY** sector.

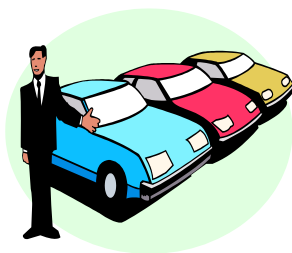


Examples of secondary sector businesses include:

- *CAR MANUFACTURER*
- *FURNITURE MAKER*
- *NEWSPAPER*
- *COMPUTER MANUFACTURER*

3 TERTIARY SECTOR BUSINESSES

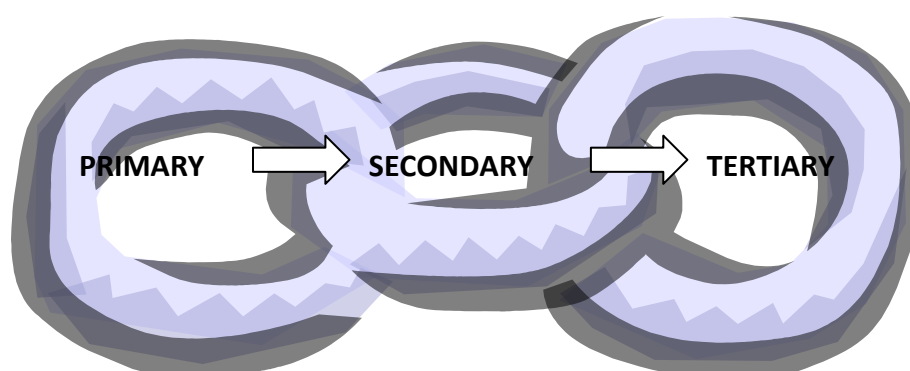
Tertiary sector organisations are responsible for **PROVIDING SERVICES**. This includes sales for the **GOODS** from the **SECONDARY** sector).



Examples of tertiary sector businesses include:

- *SALESPEOPLE*
- *HAIRDRESSERS*
- *BANKS*
- *LAWYERS*

As you can see from the above descriptions of businesses by output, all of the businesses in a country form different parts of the overall **PRODUCTION CHAIN** of that country as follows.



This is an important idea because it means that different businesses in a country are often **INTERDEPENDENT**. This means that they will affect each other by their actions and rely on each other to be able to keep going. This means that they should try and support each other where possible.

Over time in the Scottish economy, there has been a decrease in the number of businesses working the primary and secondary sectors (eg coal mining, steel working, ship building), and an increase in the number of businesses working in the tertiary sector (eg computer gaming, banking, retail). Some of the reasons for these changes include the following.

- *INCREASED OVERSEAS COMPETITION IN PRIMARY AND SECONDARY SECTORS*

Some primary and secondary jobs have been lost in Scotland because businesses in other countries have been able to do this work more cheaply or to a better standard and so consumers have used these businesses instead of Scottish ones.

- *INCREASED SCOTTISH EXPERTISE IN THE TERTIARY SECTOR*

Scotland has become a developed economy which results in an increase in tertiary working due to the consequent high levels of education and employee skill, and expertise in many types of service business.

