Business Management

Understanding Business

H

N5

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 NEEDS AND WANTS*
- *PRODUCTION*
- *FACTORS OF PRODUCTION*
- *CONSUMPTION*
- *IMPACT OF BUSINESS* ^{H}
- *THE BUSINESS CYCLE*
- *CUSTOMER SATISFACTION* ^{N5}

Business differences

- *BUSINESS SIZE*
    - *Small, Medium and Large*
    - *Methods of Growth (internal and external)* ^{H}
    - *Direction of Growth (horizontal, vertical and conglomerate)* ^{H}

- *SECTORS OF THE ECONOMY*
    - *PRIVATE*
        - *Sole Trader* ^{N5}
        - *Partnership* ^{N5}
        - *Private Limited Company*
        - *Public Limited Company* ^{H}
        - *Multinational* ^{H}
        - *Franchise* ^{H}
    - *PUBLIC*
        - *National Government Organisations* ^{H}
        - *Devolved Government Organisations* ^{N5}
        - *Local Government Organisations* ^{N5}
    - *THIRD*
        - *Charity*
        - *Social Enterprise*

Business differences

- *BUSINESS OBJECTIVES*
  - *Profit Maximisation*
  - *Public Service*
  - *Social Responsibility*
  - *Enterprise*
  - *Survival*
  - *Maximise Customer Service*
  - *Increase Market Share*
  - *Corporate Social Responsibility* [H]
  - *Satisficing* [H]
  - *Managerial Objectives* [H]
  - *Growth* [H]

- *SECTORS OF INDUSTRY*
  - *Primary*
  - *Secondary*
  - *Tertiary*
  - *Quaternary* [H]

- *INTERNAL STRUCTURE* [H]
  - *Staff Groupings (function, product, customer, territory)* [H]
  - *Management Structures (tall, flat, matrix, entrepreneurial)* [H]
  - *Structure Changes (delayering, downsizing, outsourcing)* [H]

[N5] *– N5 ONLY*

[H] *– HIGHER ONLY*

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**.*

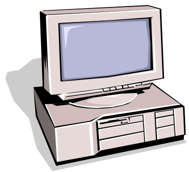
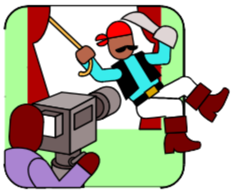
*A **BUSINESS** is an organisation that is formed to provide **GOODS** and **SERVICES**.*

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

Item	Description	Examples
GOODS 	These are physically **TANGIBLE** things. This means that they can be seen and touched.	• Car • Newspaper • Washing Machine
SERVICES 	These are things that are done for others. Services are **INTANGIBLE**. This means that they CANNOT be seen and touched after they are provided.	• 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.	• Car • Computer • Fridge • Washing Machine
NON-DURABLE 	These goods and services **DO NOT** last for a long period of time.	• Newspaper • Cinema Ticket • Meal
CONSUMER 	These goods and services are consumed by individual private **PEOPLE** to satisfy their needs and wants.	• Food • CD's • Games • Clothing
CAPITAL 	These goods and services are consumed by **BUSINESSES** so that they can provide other goods and services.	• Robotics • Tools • Vehicles

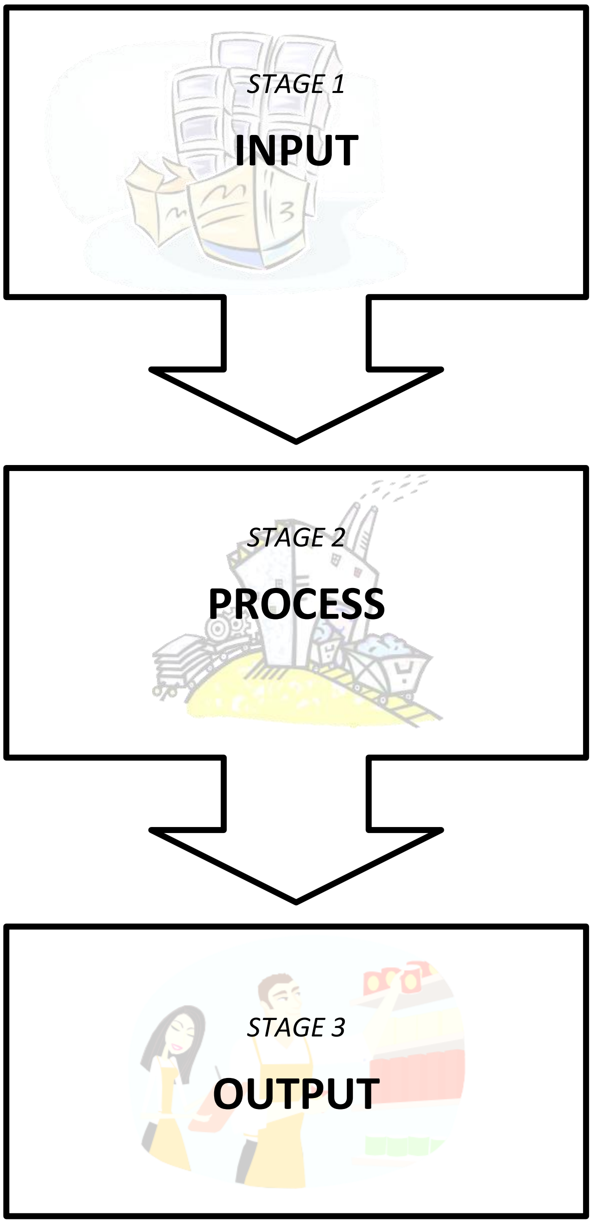
Almost all services are **NON DURABLE**, and some goods and services can be several types all at once.

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.



Further information about what happens in each of these stages can be seen over the next few pages.

1 INPUT STAGE

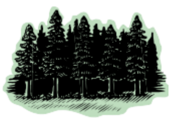
At the input stage, a business will have to gather together the following items that it will need to make a good or service.

a RAW MATERIALS

RAW MATERIALS are the parts that have to be "put together" to make the good or service. For example, a business making cars will need to get the body, wheels, engine, etc before they can make a car.

b FACTORS OF PRODUCTION

FACTORS OF PRODUCTION are **RESOURCES** (useful things) that are used to put the raw materials together 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
CAPITAL 	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.
ENTERPRISE 	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**.
LAND 	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).
LABOUR 	Labour is all of the work that is done by **PEOPLE** (aka HUMAN RESOURCES). Labour is paid for by **WAGES**.

Businesses must decide carefully about which factors of production they will use because they are **SCARCE**. This means that 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.

2 PROCESS STAGE

At the process stage, a business transforms the raw materials into the good or service that it is producing. It does this through the use of the factors of production. For example, a business making cars will use capital and labour to build the body of the car, add the engine and mechanics, add the seats and windows, etc.

The process stage is the most important stage of production because it creates **WEALTH**. Wealth represents the value of goods or services available.

Production creates wealth because the **TOTAL VALUE** of the good or service produced should be more than the cost of the raw materials and factors of production used to make it. This increase in wealth from production is known as **VALUE ADDED**, and is can be calculated as follows.

VALUE ADDED = OUTPUT VALUE – INPUT VALUE

For example, when a chip shop buys £1 of potatoes and produces £5 of chips, the value added (and increase in overall wealth) from production is £4 (£5 – £1).

Production should always aim to create wealth because if it doesn't then it has been a waste of the money spent on raw materials and factors of production it used.

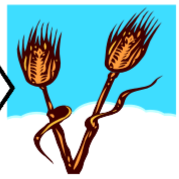
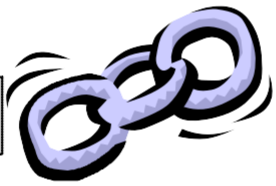
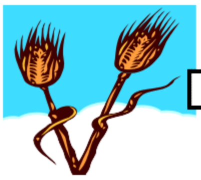
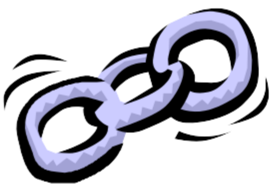
3 OUTPUT STAGE

At the output stage, a business will have created the final good or service that it wants to provide. For example, a business making cars will now have a finished working car.

For many goods and services, the output stage for one business is the start of the input stage for another.

This is because production and wealth creation for these goods and services has to be repeated in several different "linked" businesses before they are finally ready. This is because most businesses do not have the skills or materials to carry out every process required to completely create a good or service.

When this is the case, all of the businesses whose production processes are "linked" together to make one good or service are said to form a **PRODUCTION CHAIN**. An example of the production chain needed just to make bread can be seen below.

Chain "link"	Inputs	Process	Output
FARMER 	**SEEDS** 	**FARMING** 	**WHEAT** 
MILLER 	**WHEAT** 	**MILLING** 	**FLOUR** 
BAKER 	**FLOUR** 	**BAKING** 	**BREAD** 

WHY DO WE USE BUSINESSES TO PROVIDE GOODS AND SERVICES?

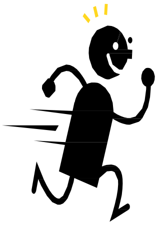
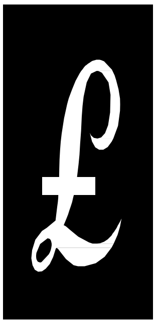
In every **ECONOMY** (an area where goods and services are produced and used) there are **CONSUMERS.** These are people who buy goods and services to satisfy the following.

Item	Description	Examples
NEEDS 	These are **BASIC** goods and services that we must have if we are going to be able to **SURVIVE**.	• **FOOD** • **CLOTHING** • **SHELTER**
WANTS 	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.	• 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.

However, most economies usually prefer to satisfy consumers' needs and wants though having businesses provide goods and services for the following positive reasons.

Benefit	Description
EFFICIENCY 	Almost every business **SPECIALISES** in providing certain goods and services. This means that the business does what it is best at. Specialisation means that businesses can be **EFFICIENT**. This means that they use minimum inputs for maximum outputs and so can produce their goods and services quickly, with little wastage and to a good standard because "practice makes perfect" for them! For the economy this **EFFICIENCY** means that more goods and services can be made with the limited factors of production it has available.
ECONOMIC BENEFITS 	Economic benefits are **MONEY** based advantages that occur for a business itself or the people living and working around it. They happen due to the efficiency from using businesses to produce goods and services instead of self-sufficient individuals. Examples of economic benefits that can arise include: • *MORE EMPLOYMENT* • *MORE WAGES FOR STAFF TO USE TO BUY GOODS AND SERVICES* • *MORE WEALTH FOR BUSINESS OWNERS* • *MORE TAXES FOR GOVERNMENT TO PROVIDE SERVICES WITH* • *MORE GOODS AND SERVICES TO CHOOSE FROM*
SOCIAL BENEFITS 	Social benefits are things that **IMPROVE** the **QUALITY OF LIFE** for the people living and working around a business because it is producing there. Examples of social benefits include: • *INCREASED SATISFACTION OF NEEDS/WANTS* • *MORE LEISURE TIME BECAUSE WE DON'T HAVE TO DO EVERYTHING FOR OURSELVES* • *POSITIVE ACTION TO IMPROVE WORKING CONDITIONS (eg Fairtrade businesses)* • *BETTER FACILITIES (eg schools, roads to support businesses)*

Even though most economies agree that the use of businesses can result in the above benefits, some people feel that certain businesses can instead cause the following negative impacts (known as **EXTERNALITIES**).

<table>
<tr><th>Cost</th><th>Description</th></tr>
<tr><td>SOCIAL COST
</td><td>Social costs are things that WORSEN the QUALITY OF LIFE for the people living and working around a business because it is producing there.

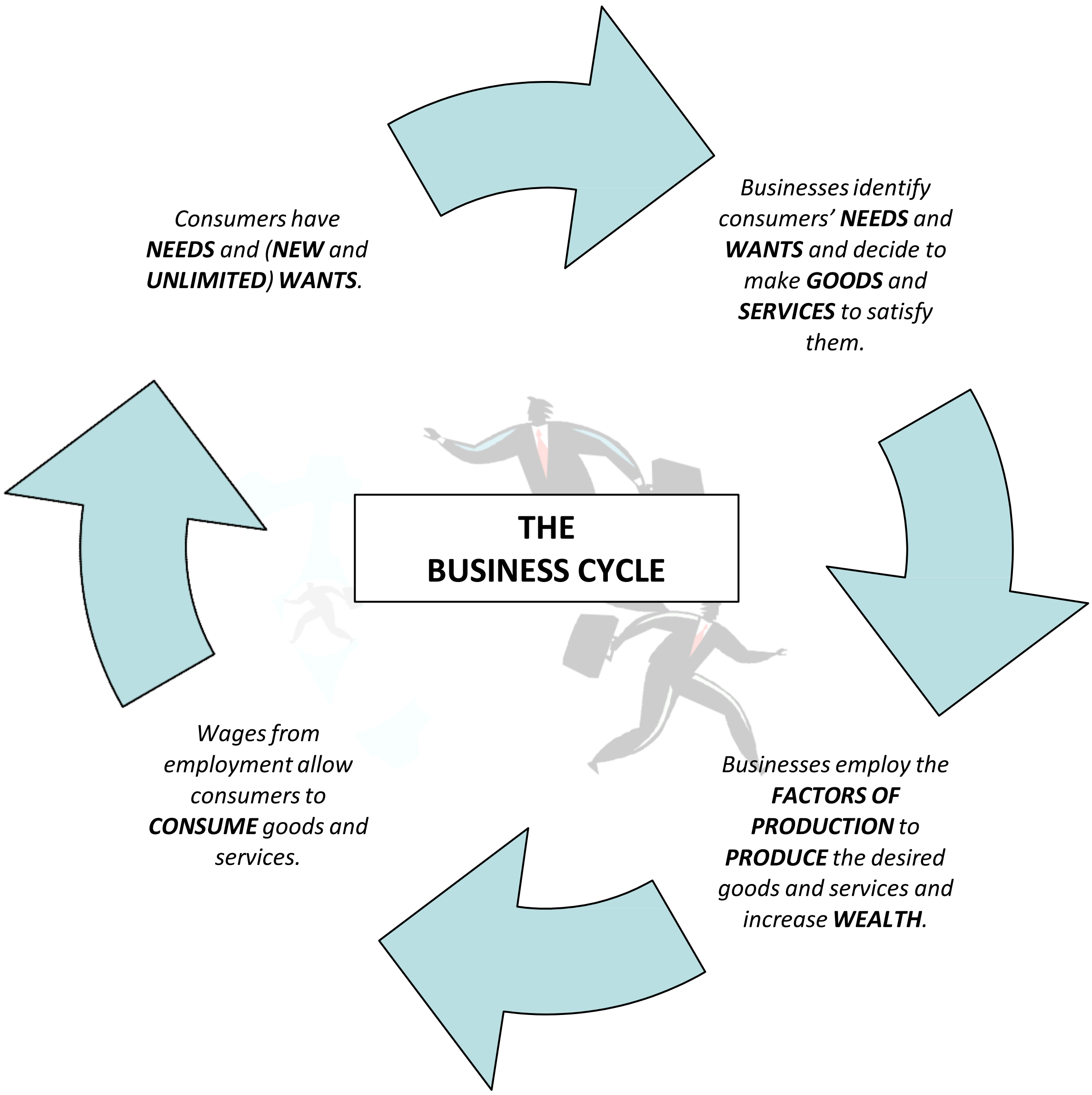
Examples of social costs include:
NOISE POLLUTION
WATER AND AIR POLLUTION
TRAFFIC CONGESTION
OVERCROWDING DUE TO LOTS OF PEOPLE MOVING NEAR THE BUSINESS</td></tr>
<tr><td>OPPORTUNITY COST
</td><td>OPPORTUNITY COST exists when you have to make a choice. It measures the amount of extra “benefit” that you lose out on when you sacrifice one thing in order to get something that you desire more. For example, imagine you were thirsty and only had enough money for a bottle of water or a carton of fruit juice. You decide to buy the water rather than the fruit juice. This decision has an opportunity cost because choosing only the water means you have lost out on the extra benefit from getting the fruit juice too.

This idea means that businesses that make bad production decisions will create a negative “opportunity cost” for society. This is because they will have wasted valuable limited resources and so society will have lost the benefit these resources could have provided if they had been used in a better way.</td></tr>
</table>

These externalities mean that economies should keep an eye on the activities of the businesses within them to make sure that they have more benefits than costs for the economy and the people in it.

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 minimising its externalities and 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.

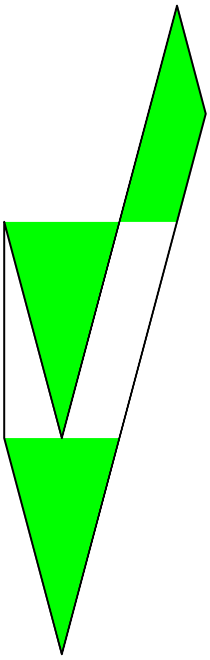
This will be achieved through activities such as:

- ***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.

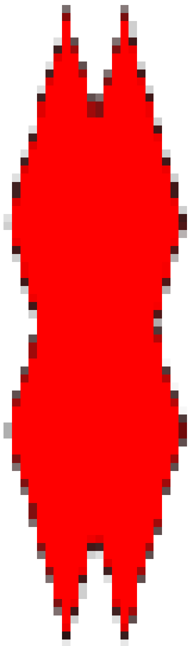
Activities	Description
SERVICE STANDARDS 	Businesses will want to provide their staff with training in the following areas to ensure that they provide high standards of customer service. • *EXPECTED STANDARDS OF POLITENESS WHEN DEALING WITH CUSTOMERS* • *MINIMISING THE TIME TAKEN TO BE SERVED* • *PRODUCT KNOWLEDGE TO BE ABLE TO ADVISE CONSUMERS* These standards of customer service may be shared with consumers to make them confident that the business will treat them properly.
COMPLAINTS PROCESS 	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.
PRODUCT SUPPORT 	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. • *CUSTOMER SUPPORT HELPLINES* • *WARRANTIES AND GUARANTEES*

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)*
- *INTERNAL STRUCTURE*

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 "big" the operations of a business are.*

A common way of measuring the "size" of a business is through the number of staff it employs. However, other methods that are sometimes used include the following.

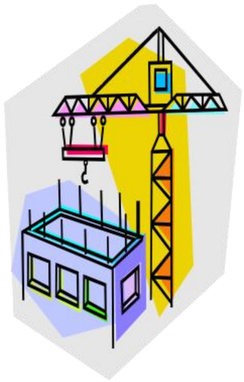
- *NUMBER OF SALES*
- *AMOUNT OF MONEY MADE*
- *AMOUNT OF EQUIPMENT BOUGHT/USED*
- *AMOUNT OF MONEY IBNVESTED IN THE BUSINESS (eg shares)*

The 3 main size categorisations of business based on staffing 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 it affects the management of staff and activities.

Although most businesses are small when they start up, they do tend to become larger over time if they are successful. The main **METHODS OF GROWTH** that small businesses use to do this can be seen below.

Method of Growth	Description
INTERNAL 	Internal growth (aka **ORGANIC GROWTH**) involves a business becoming bigger through continued investment in its **OWN RESOURCES AND ACTIVITIES**. Examples of activities that can result in internal growth can be seen below. • *BUILDING NEW PREMISES (increases output and sales)* • *EMPLOYING NEW STAFF (increases the scale of the workforce)* • *PURCHASING NEW EQUIPMENT (increases output and sales)* • *SELLING NEW PRODUCTS (increases the scale of output and sales)* • *MANAGEMENT BUY OUT (current managers buy control of the business from the owners as they believe they can improve or expand existing business activities)*
EXTERNAL 	External growth involves a business expanding by **JOINING TOGETHER WITH ANOTHER BUSINESS** in the following ways. • *MERGER* A merger (or **AMALGAMATION**) involves businesses agreeing to form one large combined business that they can work together in as a "partnership". Mergers can often be recognised from the merged business name using elements of the orginal separate businesses. For example, Halifax and Bank of Scotland merged to become HBOS. • *TAKEOVER* A takeover involves one business buying control of another so that it has the only say in the new larger business. Takeovers can be **AMICABLE** (where the business being bought over is happy about it and allows the takeover) or **HOSTILE** (where the business being bought over is NOT happy about it and tries to persuade the owners not to sell in order to prevent the takeover). For example, Pixar Studios was amicably taken over by Disney Studios. • *MANAGEMENT BUY IN* A management buy involves an external group of managers buying control of a business from its' current owners and replacing the current management team in charge of the business.

Businesses have to look at which method of growth best suits their particular situation. For example, a business may have to grow internally as there are no other businesses suitable for them to take over or merge with. However, many UK businesses are keen on using **EXTERNAL** methods of growth for the following reasons.

- *Businesses may be able to experience the benefits of growth MORE QUICKLY through external growth. This can be the case because the legalities of a takeover or merger can often be completed in less time than it would take to grow internally by waiting on premises to be built, staff to be employed, new products developed, etc.*

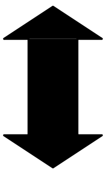
- *Businesses may be able to experience the benefits of growth MORE CHEAPLY through external growth. This can be the case because it may be possible to takeover a business in trouble cheaply and for less than the internal costs of building equivalent premises, developing new products, etc.*

- *Businesses may be able to use mergers and takeovers to ACCESS BENEFICIAL AND/OR UNIQUE ASSETS. This can be the case because external growth can give access to BRAND NAMES, COPYRIGHTS and PATENTS that would otherwise be legally protected and unusable by other businesses.*

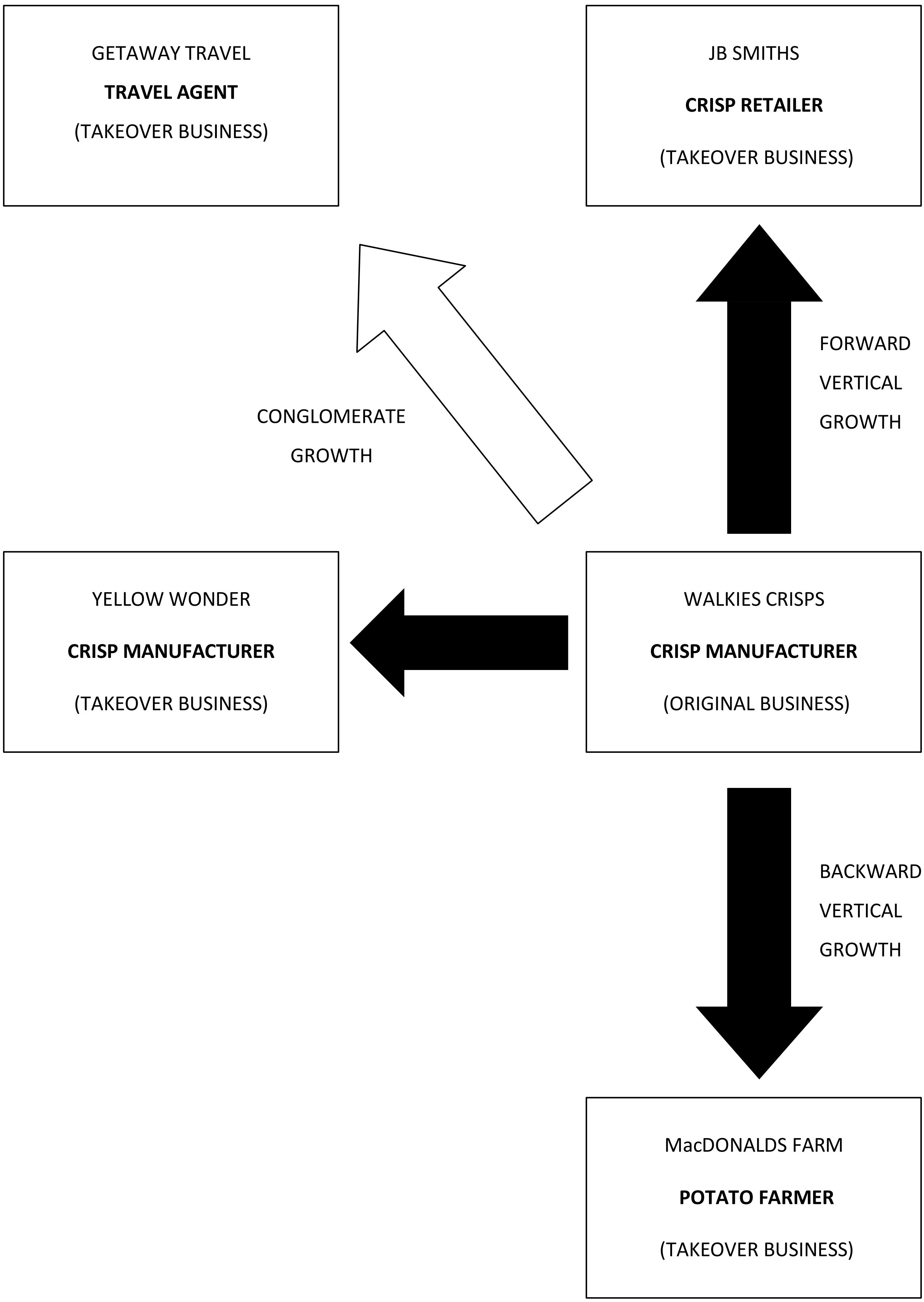
- *Businesses may be able to use mergers and takeovers to DESTROY COMPETITION IN THE MARKET. This can mean more customers and increasing returns for a business.*

- *Businesses may be able to use mergers and takeovers to ASSET STRIP. This means that a business makes extra money by selling the ASSETS (valuable things like premises, etc) of a takeover target for more than they bought them for. This is usually only possible when the business that is taken over is in trouble and so is cheap to buy.*

When a business grows internally or externally, the activities of the business as well as its sheer size will be affected. The ways that growth affects the activities of a business is known as a **DIRECTION OF GROWTH** or **INTEGRATION**. The main directions of growth can be seen below.

Direction of Growth	Description
HORIZONTAL INTEGRATION 	Horizontal integration (growth) involves a business growing by investing in something that is the **SAME** as what it already does. For example one newspaper company taking over a rival newspaper (EXTERNAL) or a newspaper company launching its own new paper (INTERNAL).
VERTICAL INTEGRATION 	Vertical integration involves a business growing by investing in something that is **NOT THE SAME** as what it already does, but is **RELATED** to it. Vertical growth can take place in the following 2 directions. • *FORWARD VERTICAL (growth towards the buyer, away from supplier)* • *BACKWARD VERTICAL (growth away from buyer, towards supplier)* For example, a newspaper company buys a chain of newsagents and so gets closer to the buyer (FORWARD vertical) or a newspaper company buys the company that makes and supplies its paper (BACKWARD vertical).
CONGLOMERATE INTEGRATION 	Conglomerate integration (growth) involves a business growing by investing in something that is **UNRELATED** to anything it already does. For example, a newspaper company buying over a clothes manufacturer.

An example of the different directions of growth can be seen below.



BUSINESS DIFFERENCES – ECONOMIC SECTOR

*The term **ECONOMIC SECTOR** describes a group of businesses 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**.*

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 	• *INCOME TAX (money paid from wages earned)* • *COUNCIL TAX (money paid for the use of Local Council Services)* • *STAMP DUTY (tax on buying a house)*
BUSINESS 	• *CORPORATION TAX/INCOME TAX (money paid on business profits)* • *VALUE ADDED TAX [VAT] (money paid on most goods you buy)* • *DUTIES (extra taxes above VAT on specific items – eg alcohol)*

The elected Prime Minister, Cabinet Ministers and Parliament make up the National Government. This means that they make decisions about how public goods and services should be provided for the whole of the UK. The large Government organisations which have been set up to deliver these goods and services for National Government are as follows.

a *NATIONAL GOVERNMENT DEPARTMENTS*

Government Departments are paid for by Parliament and are staffed by employees known as civil servants. Their job is to set up and manage activities which will implement the decisions made by National Government about the provision of certain goods and services for the whole country.

Examples of Government Departments include:

- *THE MINISTRY OF DEFENCE*
- *THE DEPARTMENT FOR EDUCATION*
- *THE DEPARTMENT OF HEALTH*
- *HM TREASURY*
- *THE DEPARTMENT FOR WORK AND PENSIONS*

The work of Government Departments is monitored by Parliamentary **MINISTERS** who are made responsible for them.

b *EXECUTIVE AGENCIES*

An Executive Agency is an organisation that has been set up by a Government Department to carry out the day to day work that is needed to actually deliver the public goods and services that it is responsible for providing. For example, Jobcentre Plus is an executive agency for the Department for Work and Pensions which is responsible for getting people jobs.

Other examples of executive agencies include the following.

- *THE UK BORDER AGENCY (regulates entry and exit for the UK at airports, etc)*
- *ACAS (tries to help prevent and resolve disputes between staff and managers)*
- *COMPETITION AND MARKETS AUTHORITY (CMA) (regulates takeovers and mergers).*

c *PUBLIC CORPORATIONS*

A Public Corporation is a Government owned business that makes money from selling goods and services (like a private company) in order to generate revenue. This money can be used to support the development of the Public Corporation or provide funds for Central Government. The day to day management of these businesses is left to employed managers who run it separately from main Government Departments. Examples of public corporations include the BBC and the Post Office.

The number of large Public Corporations in the UK has been in decline since the 1980's due to **PRIVATISATION**. This means that they were turned into PLCs and sold on the stock market. Examples of privatised industires includes British Gas, British Telecom and British Airways. The main reasons behind privatisation were as follows.

- *GENERATE REVENUE FROM THE SALE OF THE SHARES*
- *SELL OF LOSS MAKING CORPORATIONS WHICH WERE COSTING THE GOVERNMENT MONEY*
- *ENCOURAGE EFFICIENCY - CORPORATIONS WOULD HAVE TO MAKE PROFITS OR THEY WOULD CLOSE DOWN (INSTEAD OF BEING SUPPORTED BY THE GOVERNMENT).*

d 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.

e 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 large private businesses 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.

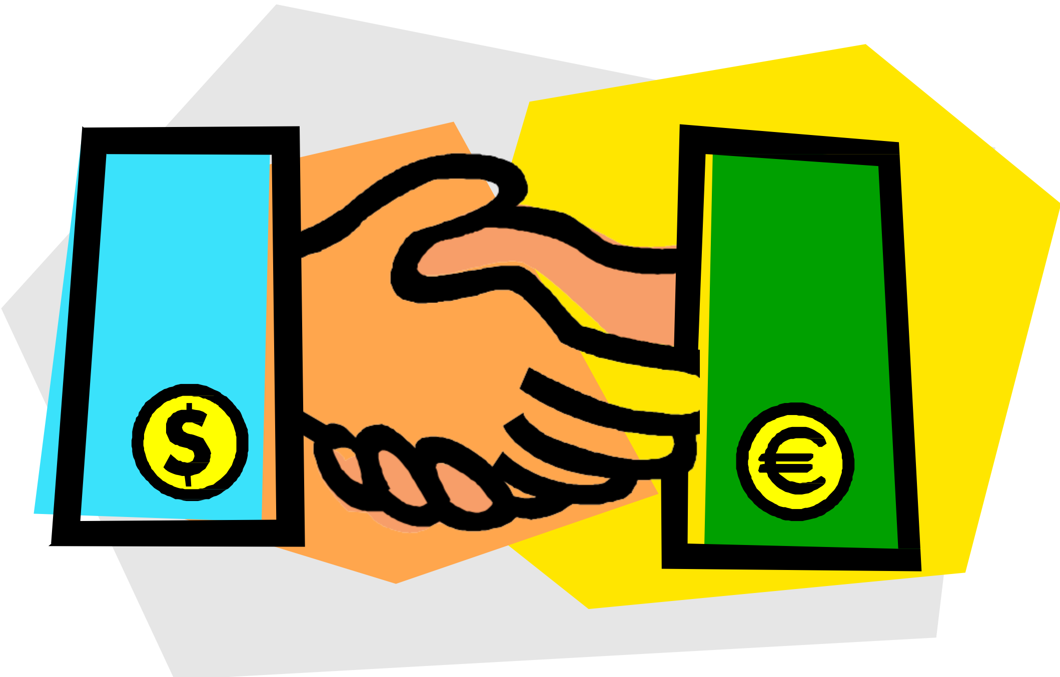
- *Any losses in the business will be shared between all the partners. This means each individual owner will take a smaller personal loss in a bad year.*
- *The decision making and work of the business can be shared between the partners which means less stress for each owner.*
- *The skills of the different 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.*

d *PUBLIC LIMITED COMPANY*

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

- *A public limited company has at least 2 owners who have each invested some of the minimum £50,000 start up capital of the organisation. Owners of a company are called a **SHAREHOLDER** – this is because they own a **SHARE** of the business.*

- *Shares In a public limited company can be bought and sold by any member of the public or another business through the **STOCK MARKET**.*

- *Public limited companies create **MEMORANDUM AND ARTICLES OF ASSOCIATION** to outline all of the rules of the company and provide 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 5% dividend at the end of the year – this means they will get 5p profit on each share.*

- *Decision making in a limited company is made by group of (at least 2) senior managers known as the **BOARD OF DIRECTORS**.*

- *Public limited companies are usually large enough to have several premises and so can usually sell to a **NATIONAL** (countrywide) market.*

- *Public limited companies must register and update details about their Directors, Company 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 trading.*

The main **ADVANTAGES** of being a public 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 easily access lots of shareholders via the stock market. This can allow the business to grow or invest in providing better goods and services.*

- *The expert 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 owner will take a smaller limited loss if the business fails.*

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

- *Public Limited companies have to follow lots of legal rules in the **COMPANIES ACTS**. For example, they must include the term "PLC" after their name in all documents so that people know that there is limited liability and must have their accounts **AUDITED** (checked by outside accountants). This means that public limited companies can be complicated and difficult to set up and operate*.

- *Public Limited companies have to share information about their business by registering it annually with Companies House. This means they cannot keep information about performance and profits private.*

- *Public Limited companies have to share information about performance with shareholders every year by printing and publishing a **FINANCIAL REPORT** and having an **ANNUAL GENERAL MEETING (AGM)** which allows shareholders to speak to the Board about activities. This is expensive and means they cannot keep all their information about performance and profits private.*

- *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.*

- *Shareholders can lose control of their business if someone buys a majority of the company's shares in the stock market in order to carry out a takeover.*

e MULTINATIONALS

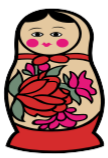
The main **FEATURES** of this type of private sector business are as follows.

- *A multinational business is one which has expanded beyond its initial home country to not only sell in other countries but to actually have premises and production activities in them. These overseas activities are usually known as **SUBSIDIARIES** of the original **PARENT** business. For example, Ford was originally an American company but it now has subsidiary factories in many different countries in the world (including the UK) which produce cars for each of these territories.*

- *Most multinationals are public limited companies as this type of business can use the stock markets to raise the significant amounts of money required for such large scale activities.*

- *Multinationalism is linked to the idea of **GLOBALISATION**. This term refers to the idea that some businesses and consumers can see the world as one large joined up market to operate in rather than lots of separate national or local markets.*

The number of multinational businesses has been increasing over time due to the following factors which have made it easier for them to grow and operate in this way.

Development	Description
COMMUNICATIONS 	Developments in ICT (like e-mail, the internet, networks, video-conferencing, etc) have made it easier for businesses to communicate with and coordinate staff operating in other countries. ICT (eg the Internet) has also allowed consumers to become aware of products that are available in other countries and so create a demand for them in their own.
TRANSPORT 	Developments in transport (like supertankers, improving infrastructures, broadband access, etc) have made it easier and cheaper for businesses to transport goods and services between countries.
TRADE BARRIERS 	A decline in trade barriers (ie limits on foreign investment and imports) has made it easier and cheaper for businesses to set up and trade in foreign countries.
NEW MARKETS 	New markets (such as China and Russia) have become available for businesses to operate in due to political changes. This means that businesses can now expand to operate in places they previously could not.

The main **ADVANTAGES** of being a multinational business are as follows.

- *By growing to operate in many different countries multinationals can increase the number of sales and profits that they make. This minimises the risk of failure and maximises returns to owners.*

- *A multinational can increase brand loyalty and sales from widespread brand recognition and support by operating a "global" brand that people in many countries know about.*

- *By operating in many different countries a multinational can vary the products that they sell in each territory to suit local tastes and demand (this is sometimes called* ***GLOCALISATION****). This should increase consumer satisfaction with products and so increase sales.*

- *By operating on a very large scale multinationals can make use of* ***INTERNAL ECONOMIES OF SCALE****. An internal economy of scale is something INSIDE of a business that increases profits by lowering unit production costs due to the large size (or scale) of the activities of the business. Common internal economies of scale can be seen below.*

    - *FINANCIAL (lower interest rates due to amount of money banked by the large multinational)*
    - *PURCHASING (discounts on materials due to importance of large orders placed by multinational)*
    - *TECHNICAL (globalised sales provide more money to purchase better machines that lower costs)*
    - *MANAGEMENT (managers in each territory can lead to better control and work)*
    - *MARKETING (lots of money available for product development, adverts, etc)*

- *A multinational business can set up production facilities in countries where wages are low or laws about the use of labour are lax. This can allow the multinational to decrease the cost of labour used in production and so increase overall profits (especially if the products made are sent to a "richer" economy to be sold at a high price).*

- *A multinational business can increase profits by setting up extraction facilities in countries where raw materials come from. This can boost profits as it will minimise the cost of purchasing materials as the multinational is directly extracting them instead of buying them commercially from someone else. They can also make money from selling surplus raw materials that they have extracted to other businesses.*

- *A multinational business can increase profits by lowering transport costs if products made in the country are sold there and not transported to it from somewhere else.*

- *By setting up and producing goods in a country instead of importing them from another territory a multinational can avoid expensive extra taxes on imports (****TARIFF****) and limits to what can be brought into a country for sale (****QUOTA****). This can help a multinational increase sales and profits by increasing the amount of products for sale and keeping the price of them low.*

- *Multinational businesses can sell products that they make in one territory to another part of the business in another territory at any price they like. This is known as* ***TRANSFER PRICING*** *and can help a multinational lower tax bills by manipulating prices to shift profits out of high tax rate countries and into low tax rate ones.*

- *Many countries have Government rules about how big a business can become. This is to try and prevent a business becoming a **MONOPOLY** (the only business to buy from) which could force consumers to pay too much for products due to a lack of choice. By becoming a multinational, a business can make more sales than they would be allowed to in their parent country alone by spreading their large scale activities across many different territories.*

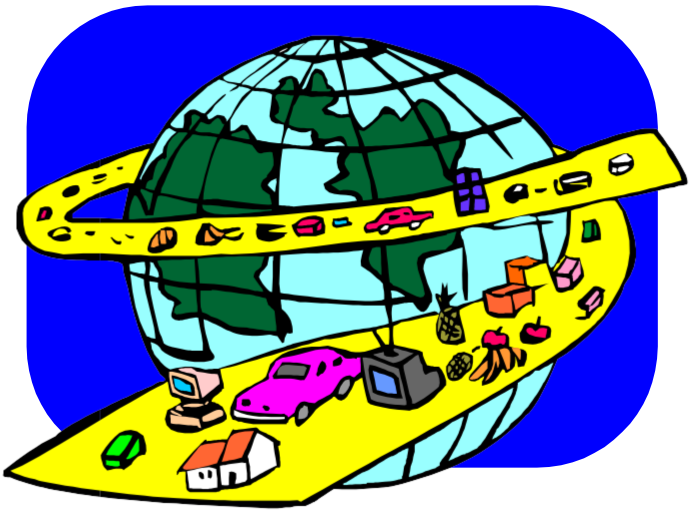
- *The exchange rate for a currency affects how much it will cost to buy and sell currency and goods between countries. For example, if more people wanted the US Dollar then its value would increase and so the exchange rate against the UK Pound would become stronger as fewer people want the pound – ie £1 might have bought $1.50 dollars of currency or goods but now it would only buy $1.25. Be becoming a multinational, a business can avoid the impact of exchange rates on the costs and profits of a subsidiary as they will be based there and so only need to use the currency of the country they are operating in.*

- *Many Governments around the world are keen to encourage businesses from other countries to set up and operate in their economies. This is known as **INWARD INVESTMENT** and is popular with Governments for the following reasons.*

    - *INCREASED ECONOMIC ACTIVITY (subsidiary sales generate taxes for the Government to spend)*
    - *INCREASED EMPLOYMENT (this generates income tax and decreases benefit payments)*
    - *INCREASED RANGE OF GOODS AND SERVICES (can make consumers happier)*
    - *INCREASED COMPETITION (can increase choice and lower process for consumers)*
    - *NEW IDEAS (inward investing companies can bring new techniques and ideas to a country)*

    The enthusasm of some Governments for inward investment can bring the following benefits to multinationals which set up subsidiaries in their country.

    - *FINANCIAL BREAKS (eg reduced business rates)*
    - *GRANTS (finance which is given and doesn't have to be given back)*
    - *STAFF SUPPORT (eg assistance with staff recruitment and training costs)*
    - *INFRASTRUCTURE DEVELOPMENT (eg Government may pay for new roads to premises, etc)*
    - *SIMPLIFIED PLANNING PROCEDURES (which makes it easier to build and operate premises)*

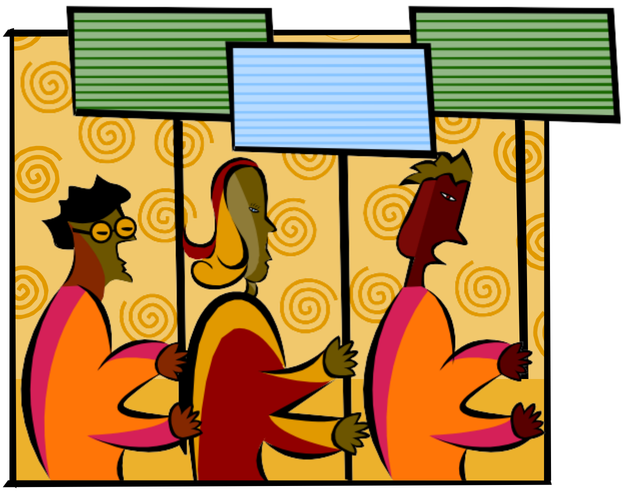


The main **DISADVANTAGES** of being a multinational business are as follows.

- *Some multinational businesses may become so large that they start to experience **DISECONOMIES OF SCALE**. This describes the situation where the size of the business is starting to interfere with its efficiency and so unit producation costs are increasing. Common sources of diseconomies of scale include the following.*
    - *LANGUAGE BARRIERS (communication to staff in different languages can be costly and difficult)*
    - *LEGAL SYSTEMS (it is complicated to make sure the business follows the laws of all territories)*
    - *MANAGEMENT (large numbers of workers makes efficient management difficult)*
    - *PRODUCTION (large scale of activities can make workers feel mistakes won't be noticed)*
    - *GLOCALISATION (the costs of supporting many different products can be inefficient)*

- *Multinational businesses may face negative publicity, falling sales and declining profits in countries that they operate in if they abuse their size and economic importance to carry out the following activities which can be seen as **UNETHICAL**.*
    - *ABUSE OF LOW WAGES AND LAX LABOUR LAWS IN SOME TERRITORIES*
    - *CREATING UNEMPLOYMENT BY MOVING JOBS FROM ONE COUNTRY TO ONE WITH LOWER WAGES*
    - *ENVIRONMENTALLY DAMAGING PRODUCTION (eg pollution)*
    - *WASTAGE OF LIMITED RAW MATERIALS*
    - *USE OF TRANSFER PRICING AND OTHER TECHNIQUES FOR TAX AVOIDANCE*
    - *MONOPOLY POWER (use of multinational resources to lower prices and close local businesses)*
    - *GOVERNMENT BRIBERY AND CORRUPTION*

- *Multinationals may find it difficult to operate as they would like to in some countries because their Governments have rules and regulations that the multinational may find difficult to follow. They can also force the business (in certain circumstances) to undertake the following changes.*
    - *DEMERGER (business is split into 2 separate smaller businesses)*
    - *DIVESTMENT (sell off of a major part/brand of the business entirely)*



f *FRANCHISES*

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

- *A franchise is a license that one business buys (**FRANCHISEE**) so that they have the right to sell the products of another usually better known organisation (**FRANCHISOR**). Examples of franchise businesses include McDonalds, Pizza Hut, Subway, etc.*

- *Most franchisee businesses are sole traders as the limited liability and ease of decision making helps to reassure the franchisor that their brand name will be looked after (as the franchisee has a lot to lose if it isn't).*

The main **ADVANTAGES** and **DISADVANTAGES** of franchising can be seen below.

Party	Advantages	Disadvantages
FRANCHISEE *(license buyer)* 	• *Increased sales from recognised product.* • *Increased sales from franchiser support (eg adverts).* • *Increased product quality and sales from franchiser training.* • *Reduced risk of failure due to high sales and franchisor support.*	• *Must make initial payment to franchisor to buy license.* • *Must make regular payments to franchiser from profits.* • *Franchisee is not in total control of the business because they must follow franchiser's rules or lose the franchise license.*
FRANCHISOR *(license seller)* 	• *Revenue from initial license payment.* • *Regular revenue from ongoing franchisee profit payments.* • *New ideas from franchisee can increase sales in all outlets.* • *Growth of brand name without the trouble or expense of opening new branches.*	• *Risk of damage to brand reputation from poor franchisees.* • *Franchiser is obliged to provide support to franchisee.* • *Do not get all profits from franchised branches.*

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 large third sector businesses (ie organisations with **MORE 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.*

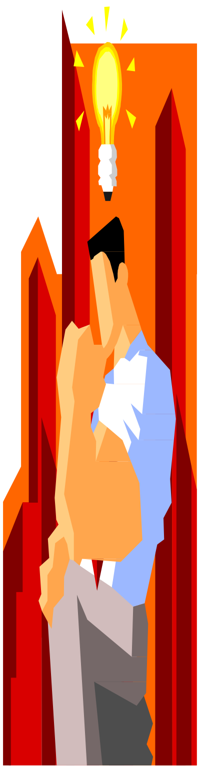
- *Social Enterprises must be run in an **ETHICAL** manner which reflects their aim to be of benefit to society. This will be seen though actions such as offering their staff satisfactory wages, terms and conditions, and clear environmental policies.*

- *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
SOCIAL FIRMS 	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.
CO-OPERATIVES	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.
INTERMEDIATE LABOUR MARKET COMPANIES 	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.
COMMUNITY BUSINESS 	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.
CREDIT UNION 	Credit unions are finance co-operatives that help people to **SAVE** and **BORROW** money at reasonable rates.

A summary of the ownership and control of the above large UK businesses can be seen below.

Economic Sector	Organisation	Finance	Decision Making
PUBLIC SECTOR 	National Government Organisations	Central Government (from public taxation)	Prime Minister, Cabinet and Parliament
	Public Corporations	Trading Activities (and Central Government)	Directors
	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
	Public Limited Company	2+ stock market shareholders investing at least £50,000	Board of Directors
	Multinational Business	-	-
	Franchise Business	-	-
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
PUBLIC SECTOR 	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.
PRIVATE SECTOR 	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.
THIRD SECTOR 	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.

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

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

Objective	Description
SURVIVAL 	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. 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.
MAXIMISE CUSTOMER SATISFACTION 	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. To create and maintain high levels of consumer satisfaction, businesses will be interested in dealing positively with consumers in the following ways. • *POSITIVE TREATMENT OF THE ENVIRONMENT (eg low pollution, recycling)* • *FAIR USE OF RESOURCES (eg fair wages in 3rd world countries, etc)* • *HIGH QUALITY MARKETING WORK* • *HIGH QUALITY PRODUCTS* 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.
INCREASE MARKET SHARE 	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**. To do this, organisations will usually have to: • *CUT PRICES TO MAKE THEIR PRODUCTS MORE AFFORDABLE* • *INCREASE THE MONEY SPENT ON ADVERTISING PRODUCTS* • *INCREASE THE AMOUNT OF PRODUCTION* • *INCREASE THE NUMBER OF PLACES THE PRODUCT IS BEING PROVIDED IN* 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.

<table>
<tr><th>Objective</th><th>Description</th></tr>
<tr><td>ENTERPRISE
</td><td>Enterprise involves all of the following activities.

• COMING UP WITH IDEAS FOR NEW PRODUCTS (INNOVATION)
• ORGANISING THE RESOURCES NEEDED FOR PRODUCTION
• COMPLETING PRODUCTION AND ACTUALLY PROVIDING THE PRODUCT
• ACCEPTING THE RISK THAT THIS NEW PRODUCT COULD FAIL

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.

• CREATIVITY
• FLEXIBILITY
• UNDERSTAND WHEN AND HOW TO USE INITIATIVE AND INNOVATION
• A POSITIVE ATTITUDE TO CHANGE
• BEING ABLE TO EVALUATE RISK TO HELP MAKE GOOD DECISIONS
• HAVE THE ABILITY TO PERSUADE OTHERS TO HELP THEM IN THEIR VENTURE

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.

• THERE WOULD BE NO NEW GOODS OR SERVICES WITHOUT ENTERPRISE
• SOCIETY WOULD FAIL TO ADVANCE WITHOUT NEW GOODS AND SERVICES
• WITHOUT ENTERPRISE SOME NEEDS AND WANTS WILL BE UNSATISFIED
• WITHOUT ENTERPRISE BUSINESSES COULD "FALL BEHIND" COMPETITION AND SO LOSE CUSTOMERS</td></tr>
<tr><td>SATISFICING
</td><td>Sometimes the owner of a business will be happy to accept less than maximum profit in order to have a smaller but satisfactory business. For example a sole trader may be happy with the profits of working for 5 days a week rather than maximising them by working every day. This objective may be pursued in order to provide the business owner with a better "work-life" balance which minimises their stress and provides more leisure time.</td></tr>
</table>

Objective	Description
CORPORATE SOCIAL RESPONSIBILITY 	Corporate social responsibility refers to actions that a business pursues to try and meet not only the demands of the owners but to satisfy the needs of all of the other different groups of people (both inside and out) that are involved with it. This extent of this kind of action will be affected by the **ETHICS** of the business. These are the values and principles which influence what is “right” and “wrong” when making decisions. Examples of work which can be undertaken as part of corporate social responsibility include the following. • *STOPPING ANIMAL TESTING* • *REDUCTION, RECYCLING AND REUSE OF PRODUCTS* • *REDUCTION IN THE USE OF HARMFUL PRODUCTION CHEMICALS* • *EQUALITY OF EXPERIENCE FOR STAFF AND CUSTOMERS* • *SUPPORT OF CHARITIES* • *USE OF FAIR TRADE* Despite the likely increase in costs that are involved with pursuing corporate social responsibility, many businesses are indeed spending time and money on this objective for the following reasons. • *IMPROVED PUBLIC IMAGE (can increase long term sales and profits)* • *PREVENTS LOST SALES FROM NEGATIVE PUBLIC IMAGE* • *IMPROVED STAFF MORALE (can improve production and customer service)* • *PREVENTS LEGAL ACTION (from breaking environmental and equality laws)* • *AVOIDS PRESSURE GROUP ACTION (which can create bad publicity and lost sales for irresponsible businesses)*
MANAGERIAL OBJECTIVES 	Managerial objectives are things that managers would like to do for their own benefit, eg quick business growth to improve their reputation, increased wages, better company car, etc. When the managers are also the owners then this is not a problem as the business is theirs to do as they please with. However, when the day to day managers are not the owners then there is what is known as a **SEPARATION OF OWNERSHIP AND CONTROL**. If this is the case then managers and owners may be in conflict as mangers try to spend the owners’ profits on themselves. This may result in the managers being in conflict with the owners when they find out about this situation.

Objective	Description

GROWTH

	Many organisations will be interested in growing in size over time for the following reasons.
	
	• *Higher profits from making and selling more products than a small business could.*
	
	• *Access to **ECONOMIES OF SCALE** which will lower unit costs and so increases unit profits as the business grows. Example of economies of scale include the following.*
	
	    o *FINANCIAL (lower interest rates due to amount of money banked)*
	    o *PURCHASING (discounts on materials due to importance of orders)*
	    o *TECHNICAL (more money for better machines can lower costs)*
	    o *MANAGEMENT (more managers can lead to better control and work)*
	    o *MARKETING (more output means lower unit costs for adverts, etc)*
	
	• *Increased **MARKET POWER** can allow a business to maximise profits by having the ability to increase market prices. This means that a business has become so large that there is little competition left in the market and so consumers will have to purchase from them no matter what price they charge.*
	
	• *Lowered risk of failure from **DIVERSIFYING** into selling a variety of different products. This is because if the demand for one product drops, a diversified business has others that it can continue to sell in order to keep cash coming in.*
	
	• *Lowered risk of failure from increased funds for **RESEARCH AND DEVELOPMENT (R&D)** that can lead to the development of new products that can generate revenue.*
	
	In general this growth is supported by society as it leads to increased employment, a wider range of goods and services and low prices (from economies of scale).
	
	However, there may be times where the high prices that large businesses can charge due to market power can become harmful to society. Therefore, in order to protect consumers, the UK Government often prevents extreme growth that would damage competition through market power. One of the main ways that the Government protects competition is through the **COMPETITION AND MARKETS AUTHORITY**. This is a Government body which can investigate a merger and prevent it if the growth from it would result in market power.

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

Sector	Organisations	Common Objectives
PUBLIC SECTOR 	• Central Govt • Devolved Govt • Local Govt	• PROVIDE PUBLIC SERVICE • ENTERPRISE • MAXIMISE CUSTOMER SERVICE • GROWTH • CORPORATE SOCIAL RESPONSIBILITY
PRIVATE SECTOR 	• Sole Trader • Partnership • Private Limited Company • Public Limited Company • Multinational • Franchise	• MAXIMISE PROFITS • SURVIVAL • ENTERPRISE • MAXIMISE CUSTOMER SERVICE • INCREASE MARKET SHARE • SATISFICING (Sole Traders and Partnerships) • MANAGERIAL OBJECTIVES (Limited Companies) • GROWTH • CORPORATE SOCIAL RESPONSIBILITY
THIRD SECTOR 	• Charity • Social Enterprises	• SOCIAL RESPONSIBILITY • SURVIVAL • ENTERPRISE • MAXIMISE CUSTOMER SERVICE • SATISFICING • CORPORATE SOCIAL RESPONSIBILITY

INDUSTRIAL SECTORS

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

There are 4 main industrial sectors –
***PRIMARY SECTOR, SECONDARY SECTOR, TERTIARY SECTOR** and **QUATERNARY 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 the service of sales for the **GOODS** from the **SECONDARY** sector.

Examples of secondary sector businesses include:

- *TRANSPORT PROVIDERS (eg rail networks and airlines)*
- *HAIRDRESSERS*
- *SALES STAFF*
- *RETAIL STAFF*

4 QUATERNARY SECTOR BUSINESSES

Sometimes certain types of service businesses are described as belonging to the **QUATERNARY** sector. This is a knowledge-based sub category of the tertiary sector which is responsible for development activities rather than providing a simple or discreet service to consumers.

Examples of quaternary business activities include:

- *CONSULTATION SERVICES*
- *EDUCATION*
- *RESEARCH AND DEVELOPMENT ACTIVITIES*
- *FINANCIAL PLANNING SERVICES*

Businesses usually invest in quaternary activities to help them grow through producing innovative ideas, developing new production methods (that will cut costs), creating future branded products (that will tap into new markets), etc.

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.

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.

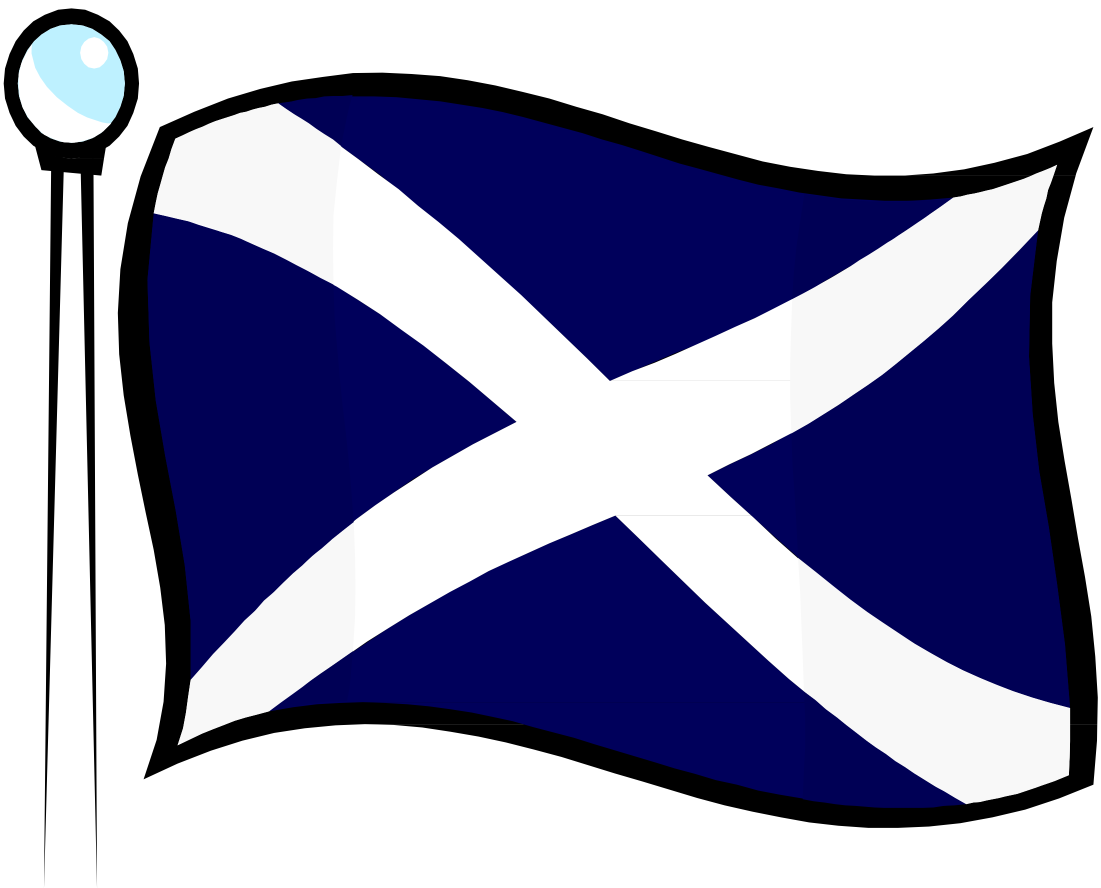
Over time in the UK economy, there has been a decrease in the number of businesses working the primary and secondary sectors (eg coal mining, steel working, ship building), and in increase in the number of businesses working in the tertiary and quaternary sectors (eg computer gaming, banking, retail). 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 UK 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 British ones.

- *INCREASED SCOTTISH EXPERTISE IN THE TERTIARY AND QUATERNARY SECTORS*

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



INTERNAL STRUCTURE

> *The term **INTERNAL ORGANISATION** describes how a business has chosen to organise its' staff and management so that it runs effectively and efficiently.*

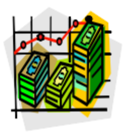
The internal organisation of a business is concerned with the following.

1 STAFF GROUPINGS

The term **STAFF GROUPINGS** refers to the different ways that businesses can organise the activities of their staff. The main staff groupings which can be used by businesses are as follows.

a FUNCTIONAL GROUPING

Here a business organises its' staff into teams based on their **FUNCTION** (the type of work that they are responsible for). These teams are often known as **DEPARTMENTS** or **DIVISIONS**. The most common **FUNCTIONAL** departments that businesses create can be seen below.

Worker Type	Description	Examples of Work
FINANCE 	These workers will look after the money of the business.	• Paying bills • Paying wages • Banking money • Financial records
MARKETING 	These workers will come up with ideas for new goods or services and how they will be sold.	• Creating products • Setting prices • Advertising • Market research
OPERATIONS 	These workers will actually make the goods and services that have to be sold.	• Storing materials • Making products • Checking quality
HRM 	These workers will help to make sure there are enough workers and that they are working well.	• Recruiting workers • Training workers • Workers records • Workers discipline

The main **BENEFITS** of using a functional grouping can be seen below.

- *Staff are recruited to carry out work that best suits their skills and qualifications. This will maximise the quality of their work and in turn the output and profitability of the business.*
- *Staff are recruited to carry out work that best suits their skills and qualifications. This can increase job satisfaction for staff and so motivate them to work to their full potential. In turn the output and profitability of the business can increase.*
- *Staff can concentrate on one type of task and so become experts in this kind of work. This will increase the quality of their work and the efficiency of the business.*
- *Specialised departmental knowledge can be used by other staff – eg HRM can assist other departments with staffing issues. This pool of expertise can can be used to increase the decision making and effectiveness of all departments and the perfromance of the business as a whole.*

The main **DRAWBACKS** of using a functional grouping can be seen below.

- *Staff specialisation can create inflexibility. This can limit how the business can deploy and use its' overall workforce to respond to customers changing needs.*
- *Functional departments may become focused on their own priorities and objectives. This can cause conflict and so decrease the effectiveness of the business as a whole. For example, finance may focus on lowering costs and so not be willing to assist HRM by supporting a rise in wages.*
- *In large organisations, functional departmental teams may become very large and so communication delays and problems can occur which will decrease their effectiveness.*

b *PRODUCT OR SERVICE GROUPING*

Here a business organises its' staff into teams based on the **PRODUCT** or **SERVICE** that they provide to consumers. For example, Virgin could have one group of staff dealing with air travel, one group of staff dealing with financial services, one group of staff dealing with music, etc.

The main **BENEFITS** of using a product or service grouping can be seen below.

- *Staff can become experts in the best way to provide one specific product. This expert provision will increase product quality and in turn sales and profits.*

- *By having seprate groupings for each product, the performance of each product can be easily tracked. This can help the business identify which products should be kept and developed in order to maximise profits.*

- *By having seprate groupings for each product, the performance of each product can be easily tracked. This can help the business identify which products are unsuccessful and so should be droppped to minimise losses.*

- *By having seprate groupings for each product, the performance of each product can be easily tracked. This can be used to develop motivational competition between departments as they try to improve the performance of their particular product compared to others. This can result in an increase in sales across the product range and so increased profits.*

The main **DRAWBACKS** of using product or service groupings can be seen below.

- *Competition between product groupings can result in teams being unwilling to help each other. This can negatively affect overall business performance.*

- *Each product grouping may require their own functional sub group (ie staff for marketng , finance, etc). This duplication of functional activities across all of the different product grouings can be very costly and inefficient.*

c *CUSTOMER GROUPING*

Here a business organises its' staff into teams based on the different types of **CUSTOMER** that they deal with. An example of customer grouping could be Direct Line which has sales staff to help private insurance customers and other staff to deal with business customers.

The main **BENEFITS** of using customer groupings can be seen below.

- *Staff can become experts in the best way to satisfy a particular type of customer. This expert provision can increase customer satisfaction and loyalty. This can mean increased profits from repeat sales and recommendations to others about using the business.*

- *Staff can get to know the changing needs and wants of their specific customers. This can allow them to update the products of the business accordingly. This can result in greater customer satisfaction, sales and profits.*

- *By having seprate groupings for each customer, the profitability of each customer type can be easily tracked. This can help the business identify which customers may require additional attention in order to prevent losing their business.*

The main **DRAWBACKS** of using customer groupings can be seen below.

- *Competition between customer groupings can result in teams being unwilling to help each other. This can negatively affect overall business performance.*

- *Each customer grouping may require their own functional sub group (ie staff for marketng , finance, etc). This duplication of functional activities across all of the different customer grouings can be very costly and inefficient.*

d *TERRITORY GROUPING*

Here a business organises its' staff into teams based on the different TERRITORIES (places) that the business sells in. An example of place grouping could be Coca Cola which could have an American division, a UK division, an Asia division, etc.

The main **BENEFITS** of using territory groupings can be seen below.

- *Staff can become experts in the best way to satisfy the demands of local people. This expert provision can increase customer satisfaction and loyalty. This can mean increased profits from repeat sales and recommendations to others about using the business.*

- *Staff can get to know the changing needs of their specific territories. This can allow them to update the products of the business accordingly. This can result in greater customer satisfaction, sales and profits over time.*

- *By having seprate groupings for each territory, the business can maximise profits by identifying which territories are successful (and so can be further developed) and which territories should be withdrawn from to minimise losses.*

- *By tracking the performance of each territory, motivational competition between territories as can be developed they try to improve the performance of their particular area compared to others. This can result in an increase in sales and profits across the differnet territories.*

The main **DRAWBACKS** of using territory groupings can be seen below.

- *There can be language, time zone and legal differences which make it hard for staff in different territories to support each other effectively. This can decrease the flexibility and performance of the overall business.*

- *Each territory grouping may require their own functional sub group (ie staff for marketng , finance, etc). This duplication of functional activities across all of the different territory grouings can be very costly and inefficient.*

The decision about which staff grouping which should be used by a business is usually influenced by the following factors.

- *SIZE OF BUSINESS MARKET (eg multinational businesses may wish to use territory groupings)*
- *TYPES OF CUSTOMERS SERVED (eg variety in customers may suit customer grouping)*
- *RANGE OF PRODUCTS SOLD (eg product grouping does not suit single product businesses)*

In many businesses (especially large ones), this decision about what will be the best grouping will involve a combination of groupings rather than one alone. For example, a large company may choose to use product groupings first and then geographical groupings within these larger divisions to allow them to tailor these products to specific areas.

The decision about which staff grouping to use to organise activities is important. This is the case because the following problems can arise from a poor choice.

- *LACK OF CUSTOMER SATISFACTION AND LOYALTY*
- *FALLING SALES DUE TO INFLEXIBILITY AND DIFFICULTIES IN COPING WITH CHANGES*
- *HIGH COSTS OF UNNECESSARY DUPLICATION OF RESOURCES*
- *COMMUNICATION BREAKDOWNS WHICH AFFECT EFFICIENCY*
- *LOST PROFITS FROM STAFF DIVISION AND A LACK OF CO-OPERATION*
- *POOR STAFF MOTIVATION REDUCING OUTPUT AND PROFITS*

2 MANAGEMENT STRUCTURE

The term management structure refers to the **PLANNED** way that a business is **MANAGED** and **CONTROLLED**.

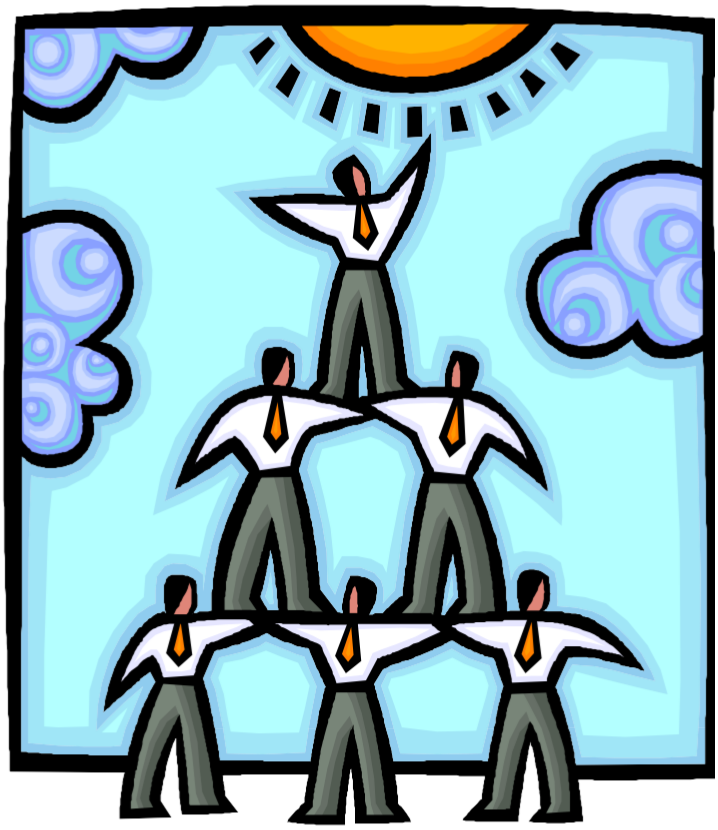
To create the management structure for a business, the following decisions will have to be made.

- *WHICH PEOPLE WILL BE IN CHARGE (at various levels)*
- *WHO WILL HAVE DECISION MAKING AUTHORITY (at various levels)*
- *HOW INFORMATION IS TO BE COMMUNICATED*

The answer to each of the above decisions will depend on the following factors.

- *THE ORGANISATION TYPE (eg PLCs will managed by the Board rather than owners)*
- *THE SIZE OF THE ORGANISATION (eg bigger businesses usually have more managers)*
- *MANAGEMENT STYLES USED (eg controlling managers may not share decision making)*
- *THE PRODUCT MARKET (eg fast moving markets will require flexible management)*
- *TECHNOLOGY AND ICT AVAILABLE (eg using ICT to communicate may mean less managers)*

This situation means that (due to different results to the above decisions) the management structure of businesses will vary. This is even the case when businesses have similar features (ie similar size, financing, etc).



The main formal management structures which are used by businesses can be seen below.

a *HIERARCHICAL STRUCTURE*

The hierarchical (aka **TALL** or **PYRAMID**) management structure is the traditional structure for most UK businesses, and the main **FEATURES** of it are as follows.

- *MANY DISTINCT LEVELS OF MANAGEMENT*
- *"PYRAMID" SHAPED STAFFING STRUCTURE (ie many low level staff – few senior managers)*
- *CENTRALISED DECISION MAKING (ie main decisions made by few senior managers)*
- *TOP DOWN DECISION MAKING (ie senior managers get those below them to follow their decisions)*
- *CLEARLY DEFINED SPECIALISED STAFF ROLES*
- *USUALLY INVOLVES FUNCTIONAL STAFF GROUPINGS*

Examples of hierarchical organisations include Multinationals, the Police and the Army. The main **ADVANTAGES** of this structure are as follows.

- *Strong top down leadership from top managers means that all staff are clear on what should be done. This can help the business move forward together in a way that implements decisions effectively and so helps it achieve its objectives.*

- *The senior managers should be well qualified and expereinced in making decisions effectively. This can help the business by improving the overall effectiveness of the decisions and in turn the performance of the business.*

- *The high number of managers in the business can ensure that staff are closely supervised and supported. This can mean that the performance of staff can imporve and so enhance the performance of business.*

- *The large number of management posts creates many opportunities for promotion. This can be motivating for staff who wish to progress and so can increase the quality and quantiity of their work.*

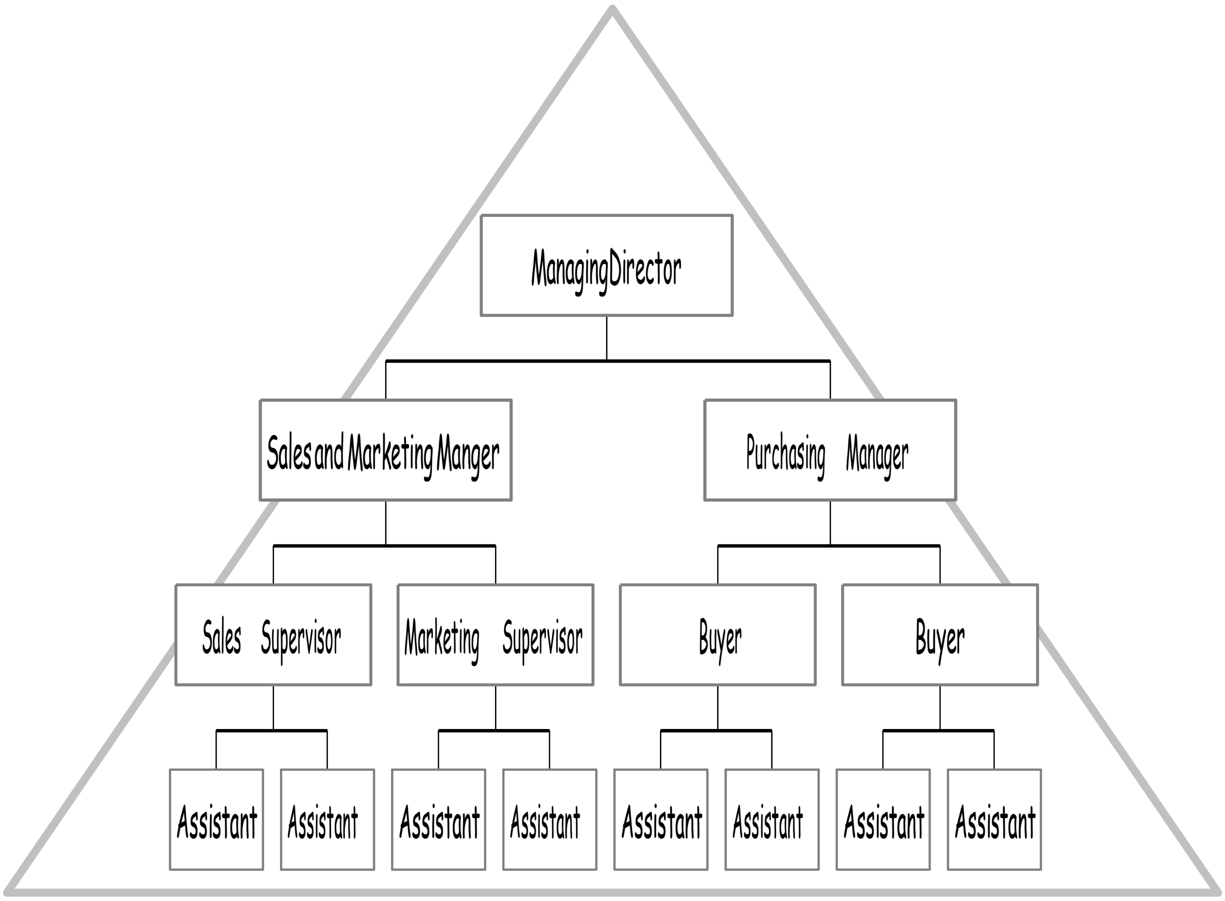
- *The specific posts in this structure can allow staff to focus on their single job in the business – this can decrease staff stress (and so increase job satisfaction and motivation) and improve the quality of their work.*

The main **DRAWBACKS** of the hierarchical organisational structure are as follows.

- *The large number of management layers can slow the ability of senior managers to gather information and implement their decisions. This can mean the busines smay find it difficult to respond to changes in their market and so fall behind more dynamic competitors.*

- *All staff below the senior managers will have to ensure that their actions support the decisions that they have made. This can be demotivating for such staff as they may feel they have no control in the business and/or that their skills may not be fully utilised.*

- *The large numbers of managers at increasingly high salaries can mean that the wage costs in this structure are very high. This can affect the profitbility of the business.*



b *FLAT STRUCTURE*

The flat management structure is a modern structure for businesses, and the main **FEATURES** of this structure are as follows.

- *FEW DISTINCT LEVELS OF MANAGEMENT*
- *DECENTRALISED DECISION MAKING (ie decisions made by different groups of staff)*
- *FLEXIBLE STAFF ROLES*

Examples of flat organisations include doctors surgeries, lawyers, and IT businesses. The main **ADVANTAGES** of this structure are as follows.

- *The few levels of management can speed up the ability of decision makers to gather information and implement their decisions. This can mean the business may find it easier to respond to changes in their market and so stay ahead of competitors.*

- *The low number of managers can mean that the wage costs in this structure are relatively low. This can improve the profitbility of the business.*

- *Many different staff can be involved in decision making. This can be motivating for such staff as they may feel they some control in the business and/or that their skills are being fully utilised.*

The main **DRAWBACKS** of the flat organisational structure are as follows.

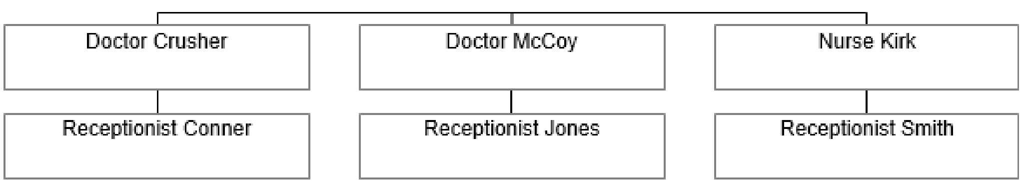
- *Decisions may be based on limited information in particular areas of the business. This can make it difficult to coordinate actions within the business as whole and so make it problematic for it to move forward coherently and achieve its objectives.*

- *Not all managers will be equally qualified and experienced to make decisions. This can affect the quality of decision making and performance in the business as a whole.*

- *The low number of managers in the business can mean that staff are not closely supervised and supported. This can mean that the performance of staff may not be maximised.*

- *The small number of management posts does not create many opportunities for promotion. This can be demotivating for staff who wish to progress.*

- *The variety of responsibilities in many posts in this may increase staff stress (and so decrease job satisfaction and motivation) and impact on the quality of their work.*



c *MATRIX STRUCTURE*

The matrix management structure is a modern structure for businesses, and the main **FEATURES** of this structure are as follows.

- *SEPERATE TEAMS FOR DIFFERENT PROJECTS ARE CREATED FROM A POOL OF MANAGERS*
- *NO DISTINCT LEVELS OF AUTHORITY IN TEAMS – MANAGERS ARE ALL TREATED AS EQUALS*
- *INDIVIDUAL MANAGERS HAVE RESPONSIBILITY FOR PARTICULAR DUTIES*
- *MANAGERS WILL JOIN NEW TEAMS WHEN INITIAL PROJECT ENDS*

Examples of the use of matrix management structures includes oil exploration and development projects. The main **ADVANTAGES** of this structure are as follows.

- *Individual responsibility for decision making will allow the project team to make quick and focused progress. This can mean the business may find it easier to stay ahead of competitors.*

- *The managers in each team are chosen for their relevant skills and abilities. This means that each project has the "best" people on it and so result in positive decision making and performance.*

- *Staff involved can be highly motivated by the varirty in their work, control of decision making and the effective use of their skills. This can increase the quality of their work and business performance.*

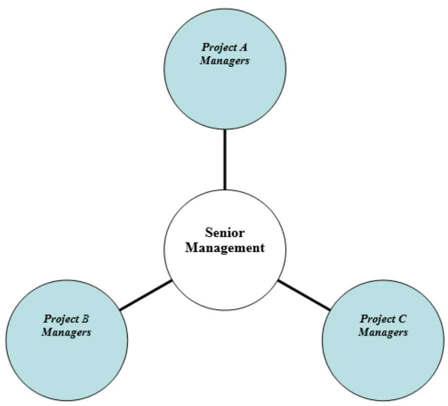
- *The flexibility of staff and ability fo form several teams at once can allow a variety of productive activities to be undertaken at once.*

The main **DRAWBACKS** of the matrix structure are as follows.

- *It may be difficult to coordinate actions of all the different teams and so make it problematic for the business to move forward coherently and achieve its objectives.*

- *Project teams usually need support staff to help them with their work – this costs of several groups of support staff can lower profits.*

- *The flexible and highly effective managers used in the project teams are usually well paid and so their wage costs can be high.*



d *ENTREPRENEURIAL STRUCTURE*

The entrepreneurial management structure (which is often used in small businesses) has the following main **FEATURES**.

- *SINGLE LEVEL OF MANAGEMENT (and in many cases only 1 manager)*
- *CENTRALISED DECISION MAKING (ie main decisions made by few senior managers)*
- *TOP DOWN DECISION MAKING (ie senior managers get those below them to follow their decisions)*
- *MANAGERS WILL JOIN NEW TEAMS WHEN INITIAL PROJECT ENDS*

An example of an entrepreneurial structure organisation is a single owner business like a local shop. The main **ADVANTAGES** of this structure are as follows.

- *Strong top down leadership from managers means that all staff are clear on what should be done. This can help the business move forward together in a way that implements decsions effectively and so helps it achieve its objectives.*

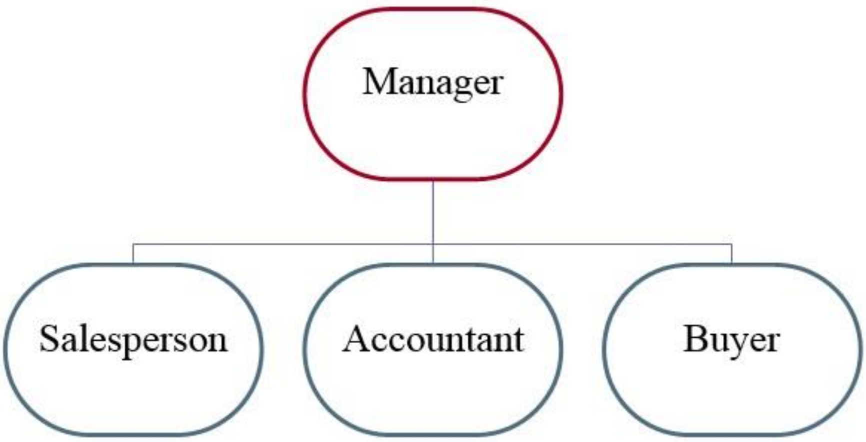
- *The managers should be expereinced in making decisions effectively. This can help the business by improving the overall effectiveness of the decisions and in turn the performance of the business.*

- *The single management level speeds up the ability of decision makers to gather information and implement their decisions. This can mean the business may find it easier to respond to changes in their market and so stay ahead of competitors.*

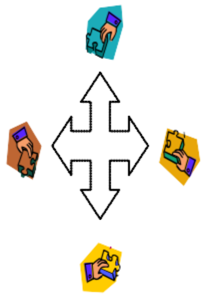
The main **DRAWBACKS** of the entrepreneurial organisational structure are as follows.

- *Each of the few managers will be responsible for many differenet decsions. This can be stressful and so impact on the quality of their work and the performance of the business.*

- *All staff below the managers will have to ensure that their actions support the decisions that they have made. This can be demotivating for such staff as they may feel they have no control in the business and/or that their skills may not be fully utilised.*



As well as the 4 specific examples of management structures for businesses shown above, sometimes the structure used will be described in the following more general terms.

Structure	Description
CENTRALISED MANAGEMENT STRUCTURE 	Centralised management structures mean that only **SOME** (top) managers will be responsible for **ALL** of the decision making and control in a business. Examples of centralised structures include the **HIERARCHICAL** and **ENTREPRENEURIAL** structures. The main **ADVANTAGES** of a centralised structure are as follows. • *STRONG TOP DOWN LEADERSHIP* • *SKILLED DECISION MAKERS (through experience)* The main **DRAWBACKS** of centralised structures are as follows. • *LACK OF CONTROL MAY BE DEMOTIVATING* • *HIGH COSTS OF HAVING MANY MANAGERS*
DECENTRALISED MANAGEMENT STRUCTURE 	Decentralised management structures mean that decision making and control in a business is spread between different managers and in some cases staff. Examples of centralised structures include the **FLAT** and **MATRIX** structures. The main **ADVANTAGES** of a decentralised structure are as follows. • *DECENTRALISED AUTHORITY IS MOTIVATING* • *DECENTRALISATION MAKES BEST USE OF ALL OF THE SKILLS OF STAFF* The main **DRAWBACKS** of decentralised structures are as follows. • *POSSIBILITY OF LACK OF STRATEGIC PERSPECTIVE BY DECISION MAKERS* • *POSSIBILITY OF LACK OF CONTROL DUE TO FEW MANAGERS*

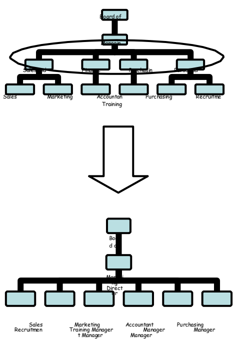
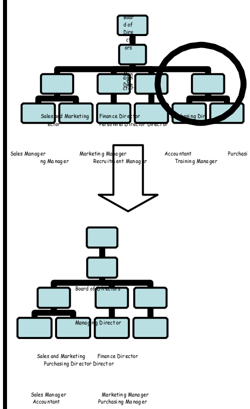
However, no matter which management structure a business choses to use, it is is likely that it will change over time. This can be the case for the following reasons.

- *TO ACCOUNT FOR CHANGES IN SIZE AND ACTIVITIES*
- *TO IMPROVE THE SPEED OF COMMUNICATION*
- *TO IMPROVE THE SPEED OF DECISION MAKING*
- *TO CHANGE THE AMOUNT OF MANAGEMENT CONTROL*
- *TO LOWER MANAGEMENT COSTS*
- *TO IMPROVE STAFF MOTIVATION AND OUTPUT*
- *TO IMPROVE PERFORMANCE AND PROFITABILITY*

Examples of changes in the management structure being used can be seen below.

- *ENTREPRENURIAL/FLAT TO HIERARCHICAL OVER TIME TO ACCOUNT FOR GROWTH*
- *ENTREPRENURIAL/FLAT TO HIERARCHICAL DUE TO DIVERSIFICATION*
- *HIERARCHICAL TO FLAT/MATRIX TO IMPROVE DECISION MAKING*
- *HIERARCHICAL TO FLAT/MATRIX TO IMPROVE EFFICIENCY*
- *HIERARCHICAL TO FLAT/MATRIX TO IMPROVE COMPETITIVENESS*

When such changes to management structure are required, a business must decide on the most suitable strategies to use in order to bring them about. In light of the decline of the use of the hierarchical structure in many modern UK organisations, the following strategies are seen to be important to management of such changes.

Strategy	Description
DELAYERING 	Delayering involves making managers redundant in order to **REMOVE MANAGEMENT LAYERS a**nd so make a business flatter. The main **BENEFITS** of delayering are as follows. • *IMPROVED COMMUNICATION SPEED AND FASTER DECISION MAKING* • *MORE RESPONSIVE AND FLEXIBLE TO MARKET* • *MOTIVATING INVOLVEMENT OF STAFF* • *LOWERED COSTS (from management redundancies)* The main **DRAWBACKS** of delayering are as follows. • *INCREASED PRESSURE ON SURVIVING MANAGERS* • *DEMOTIVATING REMOVAL OF PROMOTION OPPORTUNITIES* • *DEMOTIVATING CONCERNS OVER JOB SECURITY* • *STAFF RESISTANCE and INDUSTRIAL ACTION*
DOWNSIZING 	Downsizing involves **REMOVING A WHOLE AREA** of a business in order to make it smaller. Examples of areas which may be downsized are unprofitable product or place divisions. The main **BENEFITS** of downsizing are as follows. • *LOWERED COSTS (from loss of non necessary activities)* • *IMPROVED PROFITS (from concentration on profitable activities)* The main **DRAWBACKS** of downsizing are as follows. • *DEMOTIVATING CONCERNS OVER JOB SECURITY* • *STAFF RESISTANCE and INDUSTRIAL ACTION*

Strategy	Description
OUTSOURCING  	Outsourcing involves **ISSUING SOME WORK TO OUTSIDE BUSINESSES** (**SUBCONTRACTORS**) for the following reasons. • *BUSINESS IS ALREADY OPERATING AT FULL CAPACITY* • *LACK OF NECESSARY EXPERTISE IN THE BUSINESS* • *LACK OF SPECIALIST EQUIPMENT IN THE BUSINESS* • *ONE-OFF SPECIALIST JOB* • *DOWNSIZING AND THEN USING A SUBCONTRACTOR TO LOWER COSTS* The main **BENEFITS** of outsourcing are as follows. • *ALLOWS CHEAP EXPANSION (as no need for new staff or resources)* • *PROVIDES EXPERT ABILITY (without delay or training costs)* • *ALLOWS QUICK RESPONSE TO CHANGES IN THE MARKET* The main **DRAWBACKS** of outsourcing are as follows. • *MAY BE UNECONOMICAL IN THE LONG RUN COSTS* • *STAFF RESISTANCE TO USE OF SUBCONTRACTORS* • *SUBCONTRACTOR PROBLEMS MAY RESULT IN BAD PUBLICITY FOR BUSINESS*

Any decision to change management structure should be evaluated to ensure that it is constuctive. This evaluation can be carried out through monitoring the following indicators.

- *PRODUCTION OUTPUT (identifies STAFF MOTIVATION)*
- *PRODUCTION QUALITY (identifies STAFF MOTIVATION)*
- *ABSENTEEISM/ATTENDANCE (identifies STAFF MORALE)*
- *STAFF TURNOVER (identifies STAFF MORALE)*
- *INDUSTRIAL ACTION (identifies STAFF MORALE)*
- *SALES DATA (identifies MARKET SHARE)*
- *FINANCIAL DATA (identifies PROFITABILITY)*
- *SHARE PRICE (identifies ORGANISATIONAL WORTH)*
- *COSTS (identifies PROFITABILITY)*