Your notes

Cambridge (CIE) IGCSE Business

1.2 Classification of Businesses

Contents

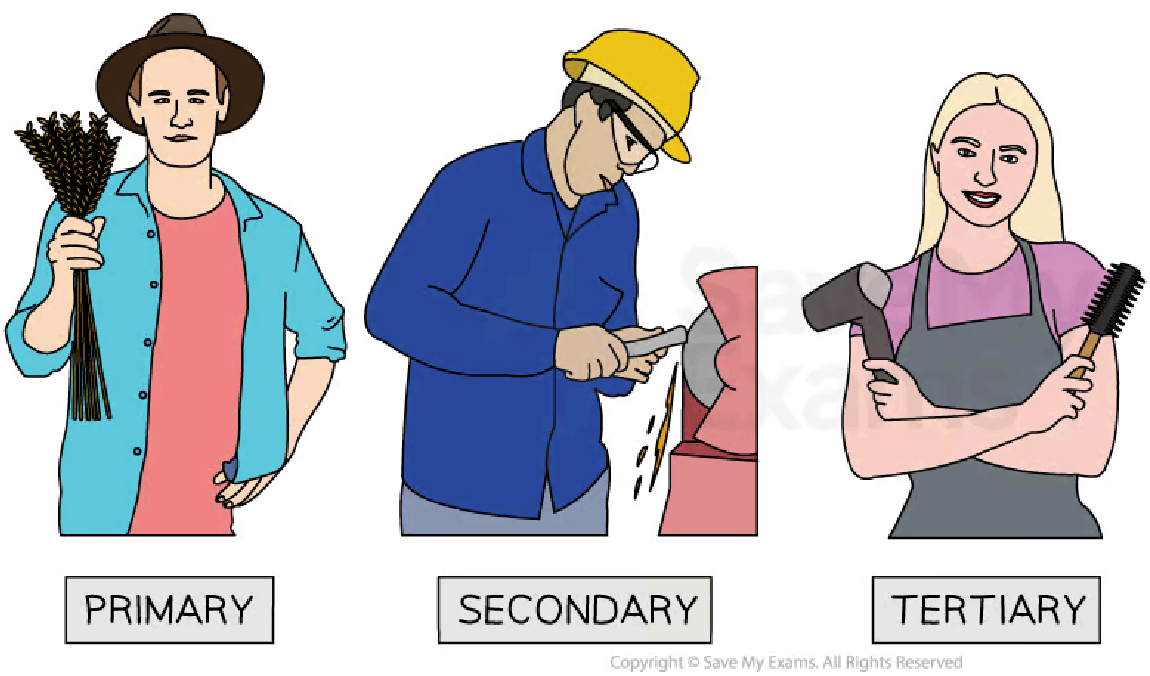
Classification Using the Economic Sector

Your notes

Primary, Secondary and Tertiary Sectors

The Three Main Business Sectors

- Businesses can be classified according to the **type of business sector** in which they operate
- Classification into these sectors is a **simplified way of categorising industries**
  - It helps to provide a means of making **comparisons** between firms in the same sector
- However, it **does not capture the full complexity** of the business world
  - Many businesses **operate across multiple sectors** or may not fit neatly into a single category



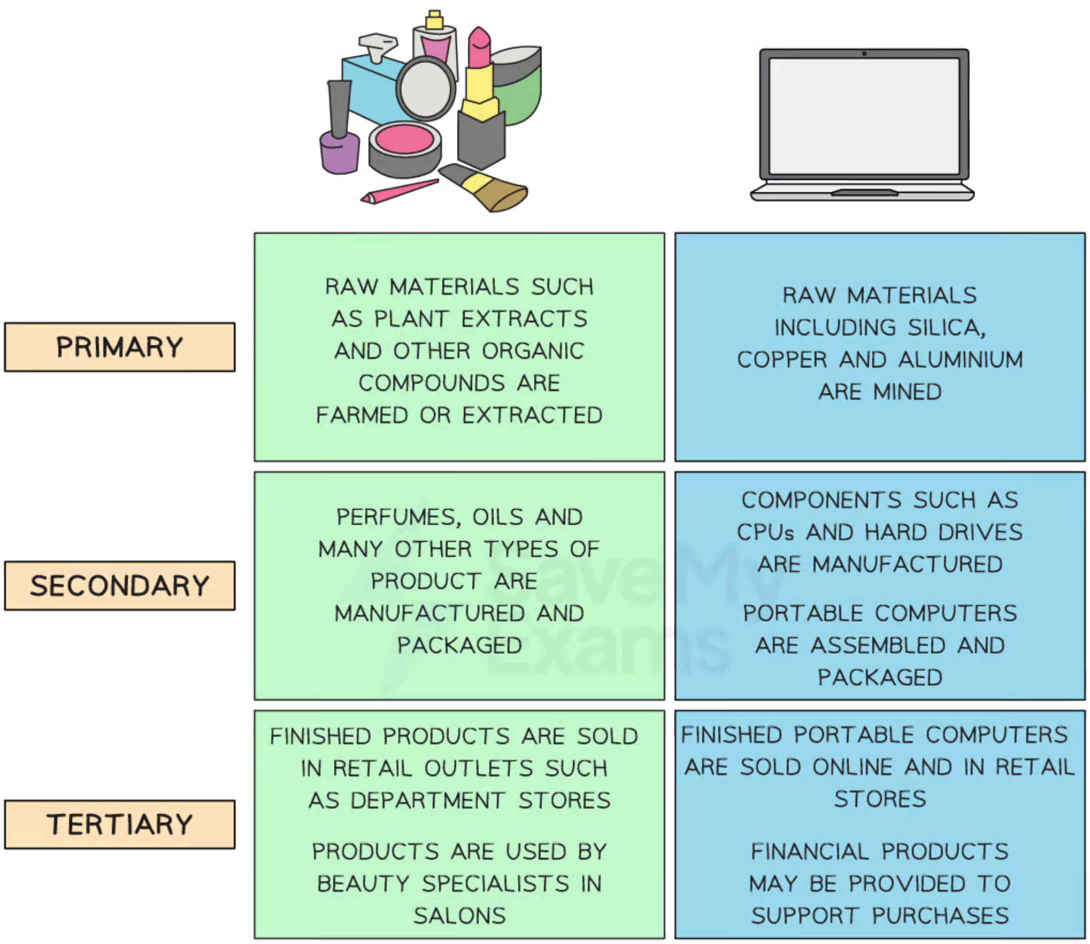
Farming in the primary sector, manufacturing in the secondary sector and hairdressing in the service sector

- The **primary** sector is concerned with the **extraction** of raw materials from land, sea or air
  - Examples include farming, mining or fishing
- The **secondary** sector is concerned with the **processing** of raw materials and the **manufacture** of goods

  - Examples include oil refinement and vehicle manufacture
- The **tertiary** sector is concerned with the provision of a wide range **services** for consumers and other businesses
  - Examples include leisure, banking or hospitality businesses

The chain of production

- The **chain of production** is the series of steps taken to **turn raw materials into finished products** that can be marketed and sold



The chain of production in the manufacture of cosmetics and computers

Changes in Sector Importance

- As economies **grow and develop**, many of the firms within that economy will **change their sector of operation** (sectoral change)

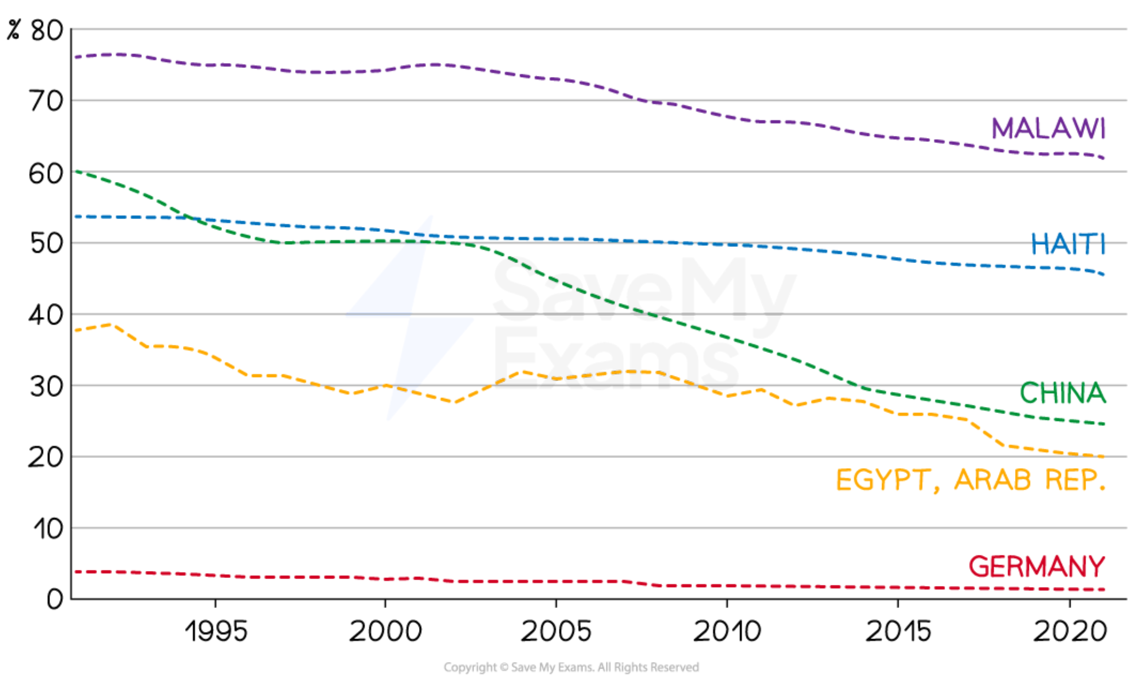
Your notes

- Generally speaking, their are successively higher levels of profits to be made in **each subsequent sector**
  - The reason for this is that each sector **adds more value** than the previous sector
  - Higher **added value** equates to higher profits

Less-developed economies

- A **less developed economy** will primarily be focused on the **primary sector** – with most people employed in agriculture and the production of food
  - Countries with large primary sectors include **Ethiopia**, **Laos** and **Afghanistan**
- There has been a **global trend away from employment in primary sector** industries over the last two decades
  - Only in the least developed nations is the proportion of the workforce employed in the primary sector consistently high
  - This is partly as a result of **lower participation rates in education** and a **lack of infrastructure** to support manufacturing or service provision

Diagram: employment in agriculture in a range of economies since 1991



The graph shows a comparison of levels of employment in the primary sector between countries at varying stages of development

(Source: WorldBank)

Your notes

Diagram analysis

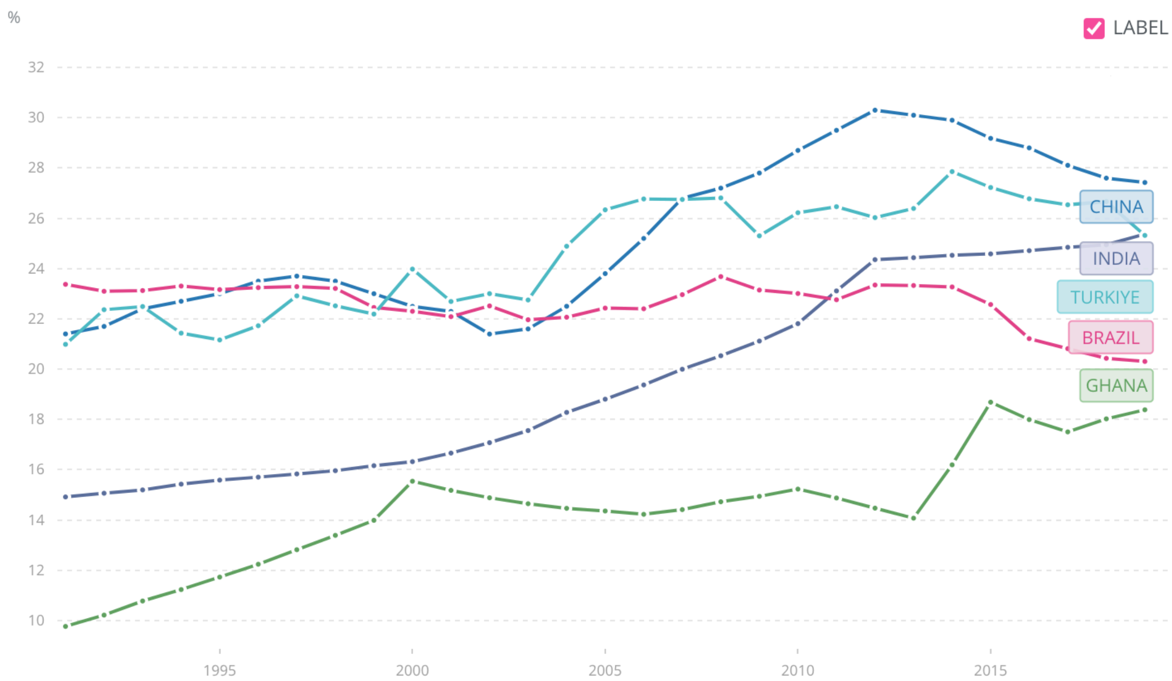
- Malawi still retains the highest proportion of employment in the primary sector
- China has seen a significant decrease in primary sector activity since 1991
- Germany has had very low primary sector, having built significant manufacturing and service industries well before 1991

Emerging economies

- In **emerging economies**, technology means that less labour is required in the primary sector, and more workers are involved in manufacturing
  - The proportion of workers employed in manufacturing has risen over the last few decades, especially in countries such as Vietnam and Cambodia
  - Many businesses have relocated production facilities to take advantage of the **lower average wage rates** in these economies
- **Emerging economies** have experienced growth in the tertiary and quaternary sectors in recent years, with many businesses now focused on the provision of consumer services

Diagram: secondary sector employment in a range of economies since 1991

Your notes



The graph shows a comparison of levels of employment in industry between countries at varying stages of development

(Source: WorldBank)

Diagram analysis

- China has the highest proportion of employment in the secondary sector
- Ghana and India have seen significant increases in secondary sector activity
- Brazil and Turkey's secondary sectors have remained relatively stable over the period 1991 to 2019

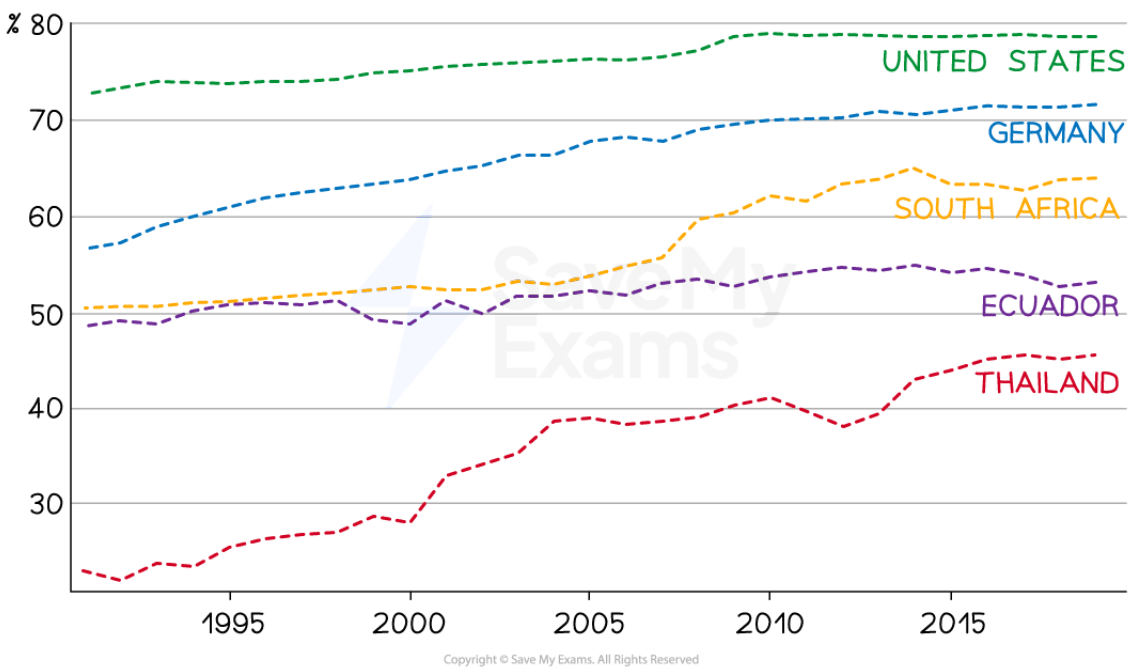
Developed economies

- The **most developed economies** have a very high proportion of the workforce employed in the provision of services
  - There is an increasing focus on the **quaternary** sector, including the provision of knowledge-based services such as information technology.
    - Developed economies use their wealth to fund advanced **education** and **higher-level skills training**, which further supports the growth of these industries

- Some **exceptions**, such as Australia (wine production) and Norway (forestry and oil extraction) continue to have significant primary sectors

Your notes

Diagram: employment in services in a range of economies since 1991



The graph shows a comparison of levels of employment in services between countries at varying stages of development

(Source: WorldBank)

Diagram analysis

- The most developed countries, such as the US and Germany, have the highest proportion of their workforces employed in the service industry
- Thailand's service sector employed twice as many employees in 2019 compared to 1991
- Around half of Ecuador's workforce is now employed in service delivery

Examiner Tips and Tricks

As economies develop, we see a movement away from the primary sector towards the secondary sector. Post-industrial economies are focused on the tertiary and quaternary sectors.

Your notes

It is easy to assume that tertiary sector employment is higher-paid than jobs in the secondary sector. This is not necessarily the case. Value-added is certainly higher in most tertiary industries than in secondary sector industries but in many tertiary sectors (such as hospitality and healthcare) pay is very low and a cause for concern.

Portugal and Greece, whose economies depend upon tourism, as well as the UK suffer from low pay in the tertiary sector with many workers relying on government support to cover basic living costs.

In contrast, high-paid secondary sector engineering and construction sectors in economies such as Germany and Norway make employees in these economies some of the highest-paid in the world.

Classification Using the Public & Private Sector

Your notes

Differences between the Public and Private Sector

Public and Private Sector Firms

- **Public sector firms** are owned and controlled by the Government
- **Private sector firms** are owned and controlled by other firms and private individuals (entrepreneurs and shareholders)
- **Privatisation** occurs when government-owned firms are sold to the private sector
- Many government owned firms have been **partially privatised**
  - The government retains a share in them so they can influence decision-making and receive a share of the profits
  - E.g. **Singapore Airlines** shares are 55% government owned and 45% privately owned

The Characteristics of Public and Private Sector Firms

Public Sector Firms	Private Sector Firms
▪ Their main goal is usually to provide a service ▪ Public sector firms can operate on a local, regional or national government level ▪ E.g. Transport for London (local); Agricultural State Service in India (regional); Caribbean Airlines (national)	▪ The objective of most private sector organisations is profit maximisation ▪ This often causes the private sector to be more efficient than the public sector with higher levels of **productivity** ▪ Types of business ownership vary from sole trader to partnerships to company shareholders

Reasons Why Public Firms Exist

- Public firms are government-owned
  - They are often referred to as **state-owned enterprises (SOEs) or government corporations**
  - Public firms exist to
    - Ensure **public service provision** of goods and services that are not profitable enough to be provided in the private sector

Your notes

- Protect **strategic industries** and national security, such as energy production or water supply
- Create **jobs**
- Encourage **economic growth**

Public service provision

- Government-owned firms are often established to provide essential public services such as **transportation**, **healthcare, education, and utilities**
- They ensure that critical services are accessible to the public, and their operations may **prioritise social welfare over profit maximisation**

Strategic industries and national security

- Governments may own firms operating in strategic industries, such as **defence, energy, telecommunications, and natural resources**
- This ownership allows the government to exert control over sectors vital to national security, economic stability, and long-term development

Employment and economic development

- Government-owned firms can play a role in promoting employment and economic development
- By investing in and owning enterprises, **governments can stimulate economic activity**, create jobs, and support industries that contribute to the overall growth and stability of the economy