

4.7 Legal obligations

LEARNING OUTCOMES



Did you know?

The maximum number of hours that a person can be asked to work varies a great deal between countries. For example, in Denmark it is 37 hours, in the UK it is 48 hours and in the Central African Republic it is 52 hours.

Learners should be able to:

- ▶ understand why laws and regulations to protect stakeholders are needed in the areas of:
 - employment
 - production
 - marketing and selling
 - finance.

There are always going to be legal issues when setting up and running an enterprise. Such legal issues may bring an element of risk to an enterprise. There are likely to be a range of ways in which clients, consumers, employees and employers are protected, and affected, by the law in a number of different areas, such as in relation to employment, production, marketing and selling and finance.

Employment

The law can affect employment in enterprises in a number of different ways. For example, laws can apply to the recruitment of employees, their contracts as workers and the termination of their contracts. There is a risk to an enterprise of dismissing a worker incorrectly, leading to possible court action by the employee.

Laws can also relate to health and safety at work. An enterprise will need to ensure that an appropriate working environment is provided for all employees. If this does not happen, an enterprise risks being taken to court if an employee is injured at work.

In some countries, there is a law that establishes a minimum wage. Any enterprise must ensure that it complies with such legislation, otherwise it risks being accused of operating illegally.

The law can also establish the rights and responsibilities of trade unions. If this is the case, an enterprise must ensure that such rights and responsibilities are respected, otherwise there is a risk that it could be taken to court by a trade union for the infringement of such rights and responsibilities.



▲ A demonstration on respecting union rights

ACTIVITY 4.12

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to the employment of workers.

ACTIVITY 4.13

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to production.



Did you know?

There is a law in the UK called the Trade Descriptions Act, which states that a product must correspond to the claims that are made about it in an advertisement.



Study tip

You do not need to know in detail any particular laws affecting employment, production, marketing and selling, but you should have an understanding of the range of ways in which different people are affected, and protected, by the law.

Case studies

Refer to the five case studies on pages 6–10. Consider to what extent legal factors in relation to employment, production, marketing and selling have contributed to the risks the enterprises have faced.

Production

The law can also apply to production. Health and safety laws, in particular, can affect the production process of an enterprise. For example, protective clothing and certain equipment may need to be provided by an enterprise to meet such laws. This can increase the costs for an enterprise, but it risks being taken to court by an employee if such laws are not respected.



▲ A worker who requires protective clothing

Marketing and selling

Laws can also relate to the marketing activities of an enterprise. For example, in some countries there are restrictions on what an enterprise can say in an advertisement and there is likely to be an organisation which monitors this. In the UK this organisation is called the Advertising Standards Authority. Such a law can pose a risk to an enterprise in that if it attempts to make false claims about a product in an advertisement, it may be punished in some way, perhaps by a fine.

In some countries, pressure groups exist to try to influence the advertising of particular products. For example, in the UK, Action on Smoking and Health campaigns against the advertising of cigarettes.

ACTIVITY 4.14

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to marketing.

Another area where the law can restrict the freedom of an enterprise is in relation to selling. In many countries, there are laws that aim to protect the consumer in different ways.

For example, there may be laws that relate to what is sold by an enterprise, such as in the following ways:

- the product or service is fit to sell, e.g. they should be safe
- they are suitable for the purpose indicated
- they perform and operate in the way described

There will be a risk to an enterprise of being taken to court if it attempts to make claims about a product it is selling that do not correspond to reality.

Finance

One final area where legal obligations can affect an enterprise is in relation to finance. Laws and regulations can apply to how enterprises run their financial affairs, how they report on them, the roles and responsibilities of directors, the payment of taxes, the provision of credit and how they present their financial statements.

ACTIVITY 4.15

Working in a pair or group, consider ways in which enterprises in your region and/or country have been affected by laws in relation to selling.

Key points

- 1 Enterprises can be affected by laws in relation to employment.
- 2 Enterprises can be affected by laws in relation to production.
- 3 Enterprises can be affected by laws in relation to marketing and selling.
- 4 Enterprises can be affected by laws in relation to finance.

Summary questions

- 1 Explain how laws in relation to employment and production could affect an enterprise.
- 2 Explain how laws in relation to marketing and selling and finance could affect an enterprise.

4.8 Ethical considerations

LEARNING OUTCOMES

Learners should be able to:

- ▶ understand how an enterprise may have an impact on communities and society
- ▶ understand the ethical considerations within an enterprise, such as choosing to run an enterprise following moral values and beliefs
- ▶ understand the impact of ethical considerations on the operation of an enterprise.

Key terms

Corporate social responsibility: the willingness of an enterprise to accept responsibility for its actions and how they may have an impact on a variety of stakeholders

Pressure group: an organisation that aims to influence governments and enterprises to adopt the policies and actions it favours

How an enterprise may have an impact on communities and society

It is important to have an awareness of how an enterprise may have an impact on communities and society. The impact on society may be positive or negative.

A positive impact could be through supporting community activities. Many enterprises support such community activities as sporting events and productions by amateur dramatic societies. This positive approach of an enterprise to social and community issues is part of what is generally known as 'corporate social responsibility'.

A negative impact could be through creating pollution. It is possible that some enterprises have contributed to traffic congestion, noise pollution, air pollution, water pollution, the use of non-renewable natural resources and emissions of gases that can possibly lead to the process of global warming.

Ethical considerations within an enterprise

Ethical considerations can apply within an enterprise, such as in relation to choosing to run an enterprise following moral values and beliefs and ethical principles. Such enterprises aim to behave in a socially responsible way by applying ethical and moral principles to what they do and how they do it.

Examples of such enterprises include:

- Fairtrade
- enterprises dedicated to organic farming, where traditional farming methods are employed that use environmentally sound techniques free from synthetic pesticides, growth hormones and antibiotics
- enterprises that donate a proportion of their profits to charities.



Study tip

You need to know how an enterprise can demonstrate ethical and moral principles in carrying out its work.

Key terms

Ethical principle: a way of doing something according to a set of moral principles, values and beliefs

Social impact of enterprise: the impact, either positive or negative, that an enterprise may have on communities and society



Did you know?

There are now over 1.4 million farmers and workers in 1,140 producer organisations within Fairtrade. They are spread across 74 countries throughout the world.



▲ A Greenpeace scientist monitoring outflow into a river

Fairtrade

Fairtrade refers to a product that is bought which carries the Fairtrade Mark. This signifies the following:

- the producers have received a fair price for their produce
- this price covers the cost of sustainable production, irrespective of market prices
- a long-term relationship with buyers, helping producers plan for the future with confidence
- the producers receive an extra sum of money, called the Fairtrade Premium, which can be spent on what is needed in the local communities, such as improved sanitation, health centres or educational facilities
- producers are accountable for their use of the Fairtrade Premium.

In addition to these relationships with producers, there are also relationships with workers:

- they must be paid a fair wage
- they must be provided with decent working conditions, such as minimum health and safety standards
- they are guaranteed the right to join trade unions
- they are provided with good housing, where relevant.

In many countries, there are groups who support the ethical and moral principles of Fairtrade. For example, in the UK, all such groups in the county of Oxfordshire are joined together through 'Fairtrade in Oxfordshire'. One town in the north of Oxfordshire, Banbury, has been designated a Fairtrade Town since 2006.

ACTIVITY 4.16

Working in a pair or group, consider ways in which enterprises in your region and/or country have demonstrated ethical and moral principles.

ACTIVITY 4.17

Working in a pair or group, find out which enterprises in your region and/or country are part of Fairtrade.

CASE STUDY

Agrocel

Agrocel is an Organic & Fairtrade Cotton Project in India. The cotton farmers produce a Fairtrade product through traditional methods. The Project Manager at Agrocel, Sailesh Patel, stresses the importance of using traditional, rather than modern, methods of farming: 'Modernisation has come along and tried to impose methods that use lots of natural resources like water, chemical fertilisers and pesticides which ultimately make the soil less fertile. This modernisation has taught the farmers bad practices that are not sustainable.'



- ▲ What is the Fairtrade Mark?
The Fairtrade Mark is the only independent consumer guarantee that disadvantaged producers in the developing world are getting a better deal. By choosing to buy Fairtrade, you can be sure that you're making a difference

Sailesh Patel also emphasises the importance of Fairtrade to the workers, especially the concept of a fair wage: 'Farmers receive up to 30% more money for their cotton when it is organic and fair-trade. This is important in India where 64% of the population depends on agriculture to make a living.'

Sailesh Patel believes that the ties between Fairtrade and sustainable production are very important: 'Handweaving does not damage the environment. Handlooms do not give off CO₂, unlike machine looms which do through burning oil – another reason why it is important to support these kinds of hand skills.'

Sailesh Patel is keen to spread the benefits of Fairtrade to more farmers: 'Agrocel is expanding its Fairtrade and organic networks. Many people now come to us asking for advice on how to set up projects like ours. Maybe one day we will help African farmers too!'

He believes that Fairtrade and sustainable farming are very important to India: 'There is a desperate need to do things differently and improve the situation for the farmers. With proper planning and development activities like Fairtrade, we can change this. Organic farming creates much more employment than conventional farming.'

Extension question

Explain why Sailesh Patel believes that Fairtrade is so important to India.



Study tip

Make sure you know what is distinctive about Fairtrade products.



Skills signpost

If you joined a pressure group to campaign in favour of environmental issues, which skills do you think you would need in order to be influential?



- ▲ Organic cotton farming in India

The impact of ethical considerations on the operations of an enterprise

Ethical and moral principles can apply to all aspects of an enterprise, including the following:

- who it buys its supplies from
- how it treats its employees
- how it acts towards its competitors
- what impact it has on the environment
- what impact it has on the local community.

ACTIVITY 4.18

Working in a pair or group, consider ways in which enterprises in your region and/or country have supported community activities.

Key points

- 1 Enterprises may have an impact, either positive or negative, on communities and society.
- 2 Ethical considerations can apply within enterprise, such as through choosing to run an enterprise following moral values and beliefs.
- 3 Ethical considerations can have an impact on the operation of an enterprise.

Case studies

Refer to the five case studies on pages 6–10. Consider to what extent they demonstrate a commitment to ethical and moral principles.

Summary questions

- 1 Explain how an enterprise can demonstrate a commitment to ethical and moral principles, values and beliefs.
- 2 Discuss how Fairtrade can make a difference to people's lives.

Unit 4 Practice questions

- 1 Explain how an enterprise can have a social impact. (4)
- 2 Explain how changes in real income can create opportunities for enterprise to arise. (4)
- 3 Distinguish between a risk-keen and a risk-averse entrepreneur. (6)
- 4 Discuss how a SWOT analysis could be of use to an enterprise. (10)
- 5 Evaluate how a PEST analysis could be of use to an enterprise in identifying potential risks. (15)