Evaluating the performance of a small business involves more than just ticking boxes. Evaluation should be an ongoing process in a business. It involves identifying whether or not the objectives that were established have been achieved and determining areas of the business that need to be improved or modified. A business that fails to achieve its objectives may not last very long. There are many measures that can be used to measure the performance of a business, such as profitability, liquidity and cash flow. These are referred to as performance indicators. A business can also evaluate its performance through its adherence to government and legal regulations as well as how ethical and socially responsible its management is.

**WHAT YOU WILL LEARN**

**KEY KNOWLEDGE**

Use each of the points below from the Business Management study design as a heading in your summary notes.

- Strategies used to undertake ongoing evaluation of small business, including key performance indicators
- Practices which contribute to ethical and socially responsible management with respect to evaluation
- An overview of key legal and government regulations affecting the operation of a small business

**KEY SKILLS**

These are the skills you need to demonstrate. Can you demonstrate these skills?

- accurately use relevant management terms
- research aspects of small business management using print and online sources
- acquire and exchange business information and ideas
- explain the importance of complying with legal and government regulations relevant to the small business
- apply small business management knowledge to practical and/or simulated business situations
- evaluate management practices with respect to decision making and planning.
Alex Gillan evaluated the performance of his kite boarding business and relocated to Torquay to ensure the survival and future growth of Stonker.

Alex Gillan — Stonker Boards

‘The Stonker competition team gives me feedback — shorter, wider, more flexible — while I lead the construction. We are always trying new materials, new chemicals and new construction techniques. Work comes first. Then we go surfing,’ says Alex Gillan. Alex founded Stonker, an Australian manufacturer of kite boards and surfboards, in 1998.

Alex produced a board on his own in a garage in Port Melbourne, using the skills he already had in making surfboards. He made another one for a friend and put a website together. Then Stonker received an order from a French distributor for 50 boards. Alex was not in a position to match the order — he had managed to make fewer than 10 boards at that point.

He initially hoped to outsource the manufacture of boards locally. But the quality of the product locally was substandard, so he found a large Thai manufacturer who sold boards to retailers in the United States and Europe. Because Stonker was a small business, the orders did not receive a high priority and there was little opportunity to negotiate on price. The result was long lead times on orders which created cash flow problems. The business was losing money.

After evaluating the performance of Stonker, Alex decided to produce his boards in Torquay. This became a sea change for him and his family. The decision to move enabled Alex to extend the Stonker brand. Stonker now has a retail shop (with a factory behind it) selling handmade boards, imported kite accessories and its own label of locally made and imported clothing and accessories.

Today, Stonker earns annual revenue of over $500,000, selling hundreds of boards (at about $750 each) and kites ($1000 to $2000) a year through local surf shops. Stonker employs four people and exports represent 50 per cent of sales. In the beginning kite boarding was a new sport. Stonker now has many competitors, mostly from overseas. This means that it must be constantly evaluating its performance and being innovative to remain competitive.

Alex believes that it is vital to keep up with the latest trends in graphic designs and board shapes. He takes careful note of customer tastes. Stonker put together a team-rider program which helps young people to take part in kite boarder competitions. Alex is also planning to launch an online store which will help Stonker to achieve significant growth in the future.

‘Work comes first. Then we go surfing.’
Small businesses evaluate their performance using various strategies including the use of key performance indicators (KPIs).

Sometimes things do not turn out exactly as planned. This is what Mick and Simone McGrath, the owners of Moregolf, discovered after they evaluated the performance of their business. Moregolf, located in Oakleigh, is a wholesale business. This means that it sells golf products to retailers.

“We print out profit and loss statements every month and regularly check our stock inventory and sales person summaries,” Simone says. “We started off selling a range of hardware, such as golf bags and clubs. But we found that we could not continue to compete with the larger golf equipment outlets.”

They decided to change direction and focused on specialised or niche products instead. These are products that appeal to a specific group of people with a common interest. Moregolf now wholesales products such as Golf Pride and Lamkin grips, golf club shafts and repair gear. They also offer repairs and sell accessories.

“We also started off employing staff on contracts, and we found that wasn’t profitable,” Mick says. “Now we sub-contract work to employees so that they are paid on commission rather than by wages.”

Small business owners evaluate their business’s performance to determine whether the objectives have been achieved. They do this by constantly asking:

- how the business is performing in terms of profit etc.
- whether the business is performing as planned
- whether its performance has improved over time
- how its performance compares to that of similar businesses.

When a small business owner undertakes this task, he or she is engaged in evaluation — that is, the process of assessing whether or not the business has achieved its stated objectives.

Once measurements have been collected, the small business owner can compare them with the planned objectives. The small business owner needs to ask whether the business operations achieved the desired results and, if not, where and why he or she failed. If the business plan was successful, the small business owner should examine what strategies made it a success and re-use them. By evaluating a successful business plan, the small business owner may also identify weak spots that could be improved and modify the plan to fix them.
Both quantitative measures (facts and figures) and qualitative measures (observations and comments) can be used to gain a full understanding of the situation. Decreasing sales, for example, are evidence of a problem but do not identify the cause. Further qualitative measurements could be used to provide information about the causes.

**Strategies used to undertake ongoing evaluation of small business**

Unfortunately, the response seen in this cartoon is common from many small business owners. They really do not know whether their business’s performance is good or not. To make matters worse, the owner in this situation is not in a position to determine what steps need to be taken to do better. This can lead to failure. What, then, should a small business owner measure to determine how the business is going?

A small business owner can measure whether or not a business has been effective in achieving its objectives; that is, if the business achieved its goals. An example of **effectiveness** is when a business has made a profit. A small business owner can also measure how efficiently the business used resources available to it as it achieved its objectives; that is, how well the business achieved its objectives. Examples of **efficiency** include the costs saved or the time saved.

Business owners use **performance indicators** to actually measure whether the performance of the business has been effective or efficient. These are statements which use measurable data to help the owner evaluate performance. The most common measure of performance for a small business is the information provided in its accounting records — the **financial indicators**. These are often expressed in dollar terms. Financial indicators by themselves are not enough for a complete performance evaluation, however, and **non-financial indicators** are used to broaden the evaluation process. This information is commonly expressed in real terms (numbers) and often makes use of qualitative data gathered from customer and employee feedback.

Many business owners do not really know how their business is performing.

**Effectiveness** is the degree to which a business has achieved its objectives.

**Efficiency** refers to ‘how well’ a business uses resources to achieve objectives.

**Performance indicators** are measurable statements which businesses use to evaluate performance.

**Financial indicators** are found in the accounting records and are expressed in dollar terms.

**Non-financial indicators** are commonly expressed in real terms and often make use of qualitative data.
UNIT 1 • Small business management

4.1 Evaluation of performance — an introduction

Financial and non-financial indicators

**Financial indicators**
- Profitability
- Liquidity
- Solvency
- Cost of goods sold
- Return on owner’s investment

**Non-financial indicators**
- Quality standards
- Customer satisfaction
- Sales
- Productivity
- Number of workplace accidents
- Market share
- Employee satisfaction

Financial statements summarise the activities of a business over a period of time.

All small businesses have to provide some form of written account of the business’s activities. Usually, this information consists of a set of financial statements. The main purpose of financial statements is to summarise information in a way that is useful for interested parties. The two main types of financial statements for evaluating a business’s performance are the income statement (which is used to determine the profit or loss the business has incurred for a period of time) and the balance sheet (which is a statement of overall financial stability). The information provided by the financial statements is analysed so a business’s performance can be evaluated.

Key performance indicators need to be measurable, and they should relate in some way to the objectives of the business. When using indicators, the main types of analysis are:
- comparing figures within one year — for example, expressing gross profit as a percentage of sales
- comparing figures from different years — for example, comparing 2014 sales figures to 2015 sales figures
- comparing the business’s results with those of similar businesses.

TEST your understanding
1. List the indicators used by Mick and Simone McGrath to evaluate their business’s performance.
2. Why would Mick and Simone need to have such information?
3. Explain how Mick and Simone improved the performance of Moregolf.
4. Why should small business owners constantly evaluate their business’s performance?
5. What is the difference between quantitative measurement and qualitative measurement?
6. What is the most common measure of performance for a business?
7. What two sources can a small business use to compile non-financial indicators?

APPLY your understanding
8. Assume you have decided to commence a small business supplying bottled spring water to local households.
   (a) Set out three objectives for your business. (Remember, they have to be realistic and measurable.)
   (b) How will you determine whether your business has achieved its objectives?
9. Recall a situation in which you evaluated your performance. An example could be an assessment task, a part-time job or a sports event.
   (a) What was your objective for this activity?
   (b) Did you achieve your objective? Give reasons for your answer.
   (c) What corrective action, if any, were you required to take?
10. Use the Australian Accounting Standards Board weblink in your eBookPLUS to find out how many standards or rules are listed. How many are being developed?
4.2 Financial indicators 1: The income statement

**KEY CONCEPT** Small businesses use indicators from the income statement to evaluate performance.

The income statement (also called the revenue statement or the profit and loss statement) is used primarily to help a business to calculate how much net profit it has made over a period of time.

**Net profit** is what remains when expenses related to running the business are deducted from the revenue earned. Revenue is what the business has earned from customers (such as from sales and fees) and from other sources (such as interest on savings or investment or rent collected). Expenses are what it has cost the business to provide its services or sell its products, or what the business has consumed to earn its revenue.

The following income statement shows how expenses are deducted from revenue to determine net profit. This income statement is for a trading business (a business which purchases goods from suppliers and then sells them at higher prices to customers). Service businesses (ones which provide a service) do not calculate cost of goods sold (and therefore do not show gross profit).

<table>
<thead>
<tr>
<th>Kiji Cottage T-shirts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income statement for year ended 30 June 2015</td>
<td></td>
</tr>
<tr>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Revenue</td>
<td>240 000</td>
</tr>
<tr>
<td>less Cost of goods sold</td>
<td>180 000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>60 000</td>
</tr>
<tr>
<td>less Expenses</td>
<td></td>
</tr>
<tr>
<td>Rent</td>
<td>8 000</td>
</tr>
<tr>
<td>Wages</td>
<td>14 000</td>
</tr>
<tr>
<td>Advertising</td>
<td>9 000</td>
</tr>
<tr>
<td>Office expenses</td>
<td>7 000</td>
</tr>
<tr>
<td>Expenses</td>
<td>38 000</td>
</tr>
<tr>
<td>Net profit</td>
<td>22 000</td>
</tr>
</tbody>
</table>

**Typical format of a simple income statement for a trading business**

For the owner of a small business, profit represents a return on their contribution to the business in terms of both labour and funds. The owner can either withdraw profits from the business as a reward for taking the risk of running the business or leave the profits within the business so that the business grows.

The income statement can be used to answer the following questions:
- Is revenue high enough to cover expenses?
- Is the profit mark-up on purchases sufficient?
- Is the business making an adequate profit?
- Are the expenses in proportion to the revenue they are earning?

By examining figures from previous income statements, small business owners can make comparisons and analyse trends to help evaluate the business’s financial performance.

**Profitability**

One important financial indicator is **profitability**, which measures the earning performance of the business and indicates its capacity to use its resources to maximise profits. Profitability depends on the revenue earned by a business and the ability of the business to increase selling prices to cover purchase costs and other expenses incurred in earning revenue. The ability of the business to generate profits is one of its most important financial objectives.
4.2 Financial indicators 1: The income statement

Figures from the income statement can be used to measure the profitability or earning performance of the business, such as:

- the net profit ratio (see page 106 for how this is calculated)
- the gross profit ratio (see page 106 for how this is calculated). Gross profit is only used by a trading business.

A number of parties are interested in a business’s profitability, including:

- owners and shareholders, who want to know whether the business is earning an acceptable return on their investment
- creditors, who want to know whether they will be paid and whether they should offer credit in the future
- lenders, who want to know whether the money borrowed will be repaid and whether to lend to the business in the future
- management, who use profitability to decide on the need to adjust policies.

Other performance indicators

Other indicators from the income statement, such as the level of revenue from sales and the cost of goods sold (for a trading business) can also be used by the small business owner to evaluate the performance of the business.

TEST your understanding

1 (a) What is the main use of an income statement by a business?
   (b) What are the two other names for an income statement?

2 Complete the following accounting equations:
   (a) Revenue − Cost of goods sold = _______
   (b) Gross profit − _______ = Net profit.

3 In groups of three or four, brainstorm a list of questions to which the following groups of people may seek answers about a business’s profitability. The first question has been completed for you.

<table>
<thead>
<tr>
<th>Group</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners/shareholders</td>
<td>Is the business earning an acceptable return on our investment?</td>
</tr>
<tr>
<td>Creditors</td>
<td></td>
</tr>
<tr>
<td>Lenders</td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
</tr>
</tbody>
</table>

4 Besides profitability, list some other performance indicators which can be found in the income statement.

APPLY your understanding

5 What financial information would you request in the following situations?
   (a) to determine whether a business is a good investment
   (b) to determine whether you would offer credit to a business
   (c) to determine whether you would lend money to a business.

6 Performance indicators are used to evaluate performance; to measure whether the objectives of the business have been achieved. Outline how the financial indicators that you have learned about so far can be used to evaluate performance, using the following table. The first entry has been completed for you.

<table>
<thead>
<tr>
<th>Business objective</th>
<th>Financial indicator</th>
<th>How the financial indicator can be used to evaluate performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximise profit</td>
<td>Profitability</td>
<td>An increase in profitability means that the business has improved its profit, by earning more revenue or by reducing costs.</td>
</tr>
<tr>
<td>Good return on investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimise costs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
A balance sheet is like a snapshot (assets) and owes (liabilities), and at a particular date. Its heading includes what 'at that point in time net worth (equity) of the business. It shows the financial stability of a business. The statement is prepared at the end of the financial period.

The main purpose of the balance sheet is to help owners watch their debt and equity levels, evaluate their overall financial position against that of previous periods and undertake financial decision making. A simplified balance sheet is shown in the figure below.

Analysis of the balance sheet can indicate whether the business:

- has enough assets to cover its debts
- is using its assets to maximise profit
- is making a good return on the investment of the owners.

Two areas of performance commonly evaluated using information from the balance sheet are liquidity and solvency.

**Kiji Cottage T-shirts**

**Balance sheet as at 30 June 2015**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>$</th>
<th>LIABILITIES</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>5 000</td>
<td>Current liabilities</td>
<td></td>
</tr>
<tr>
<td>Debtors</td>
<td>7 500</td>
<td>Creditors</td>
<td>2 500</td>
</tr>
<tr>
<td>Stock</td>
<td>11 500</td>
<td>Mortgage</td>
<td>7 000</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td>Credit cards</td>
<td>1 500</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>38 000</td>
<td>Non-current liabilities</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>15 000</td>
<td>Mortgage</td>
<td>61 000</td>
</tr>
<tr>
<td>Premises</td>
<td>57 000</td>
<td>Capital</td>
<td>40 000</td>
</tr>
<tr>
<td>Total assets</td>
<td>134 000</td>
<td>Profit</td>
<td>22 000</td>
</tr>
<tr>
<td>Total equities</td>
<td>134 000</td>
<td>Equity</td>
<td>62 000</td>
</tr>
</tbody>
</table>

A balance sheet shows a business’s assets and liabilities at a point in time using the heading ‘as at’ to pinpoint when it was created.

**Assets** are items of value owned or controlled by the business and that can be given a monetary value.

**Liabilities** are items of debt that the business owes.

**Owner’s equity** refers to money given to the business by the owner for the purchase of resources and for undertaking operations. An owner’s equity in a successful business will increase in value over time.

Like an acrobat — it must always balance on one side with liabilities on the other side. This is the accounting equation:

Assets = Liabilities + Owner’s equity.
Liquidity

Liquidity is the ability of the business to meet its debts in the short term (less than 12 months). This is essential to the survival of the business. The business must have sufficient resources to pay its debts and enough funds for unexpected expenses. To assess a business's liquidity, its owner must ask whether the business can pay its debts when they are due. Is there sufficient cash and a level of assets (such as stock) that can be converted to cash quickly to repay the business’s debts (that is, the business's creditors, interest and loans)? There is no point in having a profitable business if there is no cash flow.

A common ratio to measure liquidity is the working capital ratio (see page 107). This indicator compares the current assets and current liabilities of the business to measure whether the business has sufficient resources to cover its present obligations. This ratio is determined by dividing current assets into current liabilities (both of which come from the balance sheet).

How important is cash flow?

Cash flow is like blood pumping through your body. It keeps a business alive. Profit is also vital to the business. Failing to make a profit will lead to the long-term demise of the business. A small business owner needs to manage a profitable business and make sure that there is enough cash available to pay debts and expenses on time. Just how important is cash flow? Is it more important than profit?

The Australian Taxation Office (ATO) says that it is very important for a business to maintain sufficient cash flow to be able to meet obligations, such as bills and tax. It suggests that the best way to do this is to prepare a cash flow budget. This can be as simple as adding up all the cash receipts over the course of a year, such as sales and other income, then adding up all the cash payments, including payments for salaries and interest. By comparing the totals, a business can calculate its surplus or deficit of cash. A deficit means that the business will need to take corrective action to avoid problems.

A common solution to a cash flow problem is to send reminder notices to debtors, but another way is to encourage early payment. A business might change their terms of trade of 30 days from the date a statement is issued, for example, to offering a discount of 10 per cent on seven-day payment terms. This strategy can impact on profit.

A business that has a healthy cash flow, but is not making profit, will find over time that cash will disappear. This is because a business can delay paying expenses, for example by making late payments to creditors, but they will need to be repaid at some stage. If there is no revenue coming in to the business, eventually the only way will be to use cash. A business can return to profit by increasing revenue or by reducing costs, and if done successfully, should result in cash coming in to the business again. Making a profit is very important, but so too is cash flow. As already discussed, a business can continue to operate for some time without making a profit, but lacking cash, it will be unable to meet its immediate needs.

Solvency

Solvency (or stability) is the extent to which the business can meet its debts in the longer term (more than 12 months). Solvency is particularly important for the owners, shareholders and creditors of a business because it indicates the risk of their investment in terms of how reliant the business is on external finance.
Solvency indicates whether the business can repay amounts that have been used for capital investment — for example, the purchase of a new factory that might have been financed from borrowings. The business needs to determine whether it can service these borrowings — for example, its mortgage repayments — over a sustained period of five to 10 years.

A good indicator to measure solvency is to use **gearing**, which measures the percentage of the assets of the business which are funded by external sources (see page 107). This way, it measures the business's reliance on outside finance.

This indicator compares the total liabilities and total assets of the business to measure how much of the assets are funded by liabilities. Gearing is determined by dividing total liabilities into total assets (both of which come from the balance sheet) and converting the result into a percentage. A highly geared business will face pressure on its cash flow as it attempts to repay its debt as well as interest.

### Other performance indicators

The following two indicators are actually measures of profitability, but they both use information from the balance sheet as well as from the income statement. The **return on owner's investment** (determined by dividing net profit into owner's equity and converting into a percentage) measures how profitable the owner's investment has been by assessing how many cents of net profit the business earns for every dollar invested by the owner. The **return on assets** (determined by dividing net profit into total assets and converting into a percentage) measures how well the business has used its assets to earn net profit. It basically measures how many dollars of net profit are earned per dollar of assets controlled by the business.

**Did you know?**

According to a survey by Dun & Bradstreet, 26 per cent of 410 Australian businesses identified cash flow as the issue most likely to influence their operations.

---

**Test your understanding**

1. What does a balance sheet show?
2. Briefly outline the purpose of the balance sheet.
3. Complete the following accounting equation:
   
   Assets = 

4. Explain the difference between assets and liabilities.
5. An analysis of the balance sheet can indicate what three aspects of a business?
6. Outline the difference between liquidity and solvency.
7. How important is cash flow to a small business, and what can be done to improve it?
8. List some of the financial performance indicators which can be sourced from the balance sheet.

**Apply your understanding**

9. After looking at performance indicators found in the balance sheet, what financial information would you now request in the following situations?
   (a) to determine whether a business is a good investment
   (b) to determine whether you would offer credit to a business
   (c) to determine whether you would lend money to a business.

10. Outline how the financial indicators that you have learned about in the balance sheet can be used to evaluate performance, using the following table. The first entry has been completed for you.

<table>
<thead>
<tr>
<th>Business objective</th>
<th>Financial indicator</th>
<th>How the financial indicator can be used to evaluate performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sufficient cash to cover expenses</td>
<td>Liquidity (measured by the working capital ratio)</td>
<td>If the business has sufficient current assets such as cash, it will be able to pay for short-term expenses.</td>
</tr>
<tr>
<td>Good return on investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repay long-term debt</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
KEY CONCEPT Ratios can be used to measure a business’s financial performance.

Financial ratios are used to analyse the information about business performance more closely. This assists the small business owner to answer key questions about the business.

Gross profit ratio

The gross profit ratio is used by trading businesses (businesses that purchase goods from suppliers and then sell them at a higher price to customers). It is one way that a business can measure profitability. The ratio below shows the amount of sales revenue that results in gross profit. Gross profit is the difference between sales revenue and the direct cost of goods sold. Other expenses incurred, however, such as employee salaries and advertising costs, are then deducted from gross profit to determine the net profit. Net profit gives a more accurate account of the real profit earned. It is important to note that gross profit is only calculated for businesses that sell stock, not service businesses. Gross profit must be sufficient to pay the expenses of a business and still provide a profit for the small business owner. The gross profit ratio shows the effectiveness of planning policies, particularly of the profit mark-up on sales.

\[
\frac{\text{Gross profit}}{\text{Sales}} \times 100
\]

For example, using the figures from Kiji Cottage T-shirts on page 101, the business has made a gross profit of $60,000 and sales of $240,000. By dividing $60,000 into $240,000 and converting the result into a percentage, the gross profit ratio is determined as being 25 per cent. This means that for every dollar of sales revenue the business earned, it retained 25 cents as gross profit. Another way of looking at this ratio is that cost of goods sold consumed 75 cents of every dollar of sales revenue.

Net profit ratio

Net profit represents the profit or return to the owners, which is revenue less expenses. For sole traders and partnerships, it represents a return on their contribution to the business.

The net profit ratio shows the amount of sales revenue that will result in net profit. The amount of sales must be sufficiently high to cover the expenses of the business and still result in a profit. A business would aim for a high net profit ratio. A low net profit ratio indicates that the business owner should examine expenses to determine whether reductions could be made.

\[
\frac{\text{Net profit}}{\text{Sales}} \times 100
\]

For example, using the figures from Kiji Cottage T-shirts on page 101, the business has made a net profit of $22,000 and sales of $240,000. By dividing $22,000 into $240,000 and converting the result into a percentage, the net profit ratio is 9 per cent. This means that for every dollar of sales revenue the business earned, it retained 9 cents as net profit. Another way of looking at this ratio is from the expense perspective — expenses consumed 91 cents ($1 less 9 cents profit) of every dollar of sales revenue.
Liquidity ratios

Liquidity is the ability of the business to meet its financial commitments in the short term. A number of ratios show liquidity (short-term financial stability), calculated from figures in the balance sheet. One of the most common examples is the working capital ratio.

\[
\text{Working capital ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

Current assets are assets, such as stock, which will be used up within 12 months. Liabilities such as the business's creditors, who need to be paid within a similar period, are current liabilities.

It is generally accepted that a ratio of 2:1 indicates a sound financial position for a business. That is, the business should have double the amount of its current liabilities in current assets. However, an ‘acceptable’ ratio also depends on factors such as the type of business, how other businesses in the industry are operating, and the external environment.

For example, using the figures from page 104, Kiji Cottage T-shirts has current assets of $24,000 and current liabilities of $11,000. By dividing $24,000 into $11,000 and converting the result into a ratio, the working capital ratio is determined as being 2.18:1. This means that this business has $2.18 of current assets to cover every $1.00 of current liabilities. This ratio indicates that the business is in a sound financial position — that is, the business is liquid and will be able to pay its short-term debts.

Solvency ratios

Solvency is the ability of the business to meet its financial commitments in the long term. A leverage or gearing ratio is commonly used to measure the solvency of a business.

\[
\text{Gearing} = \frac{\text{Total liabilities}}{\text{Total assets}}
\]

Gearing shows the extent to which the business is relying on debt or external sources to finance the business. The ratio is an important financial indicator for the owner, because the relationship between debt and equity must be carefully balanced.

The higher the gearing ratio, the less solvent the business. That is, the higher the ratio of debt to equity, the higher the risk. The business must look carefully at interest rates, business confidence and economic indicators to determine whether the balance between debt and equity is appropriate. A highly geared business — a business that has used more debt than equity — carries more risk in terms of longer term financial stability. Investors would be less attracted to a business with a higher debt-to-equity ratio because such a ratio indicates a greater financial risk for their money.

For example, using the figures from page 104, Kiji Cottage T-shirts has total liabilities of $72,000 and total assets of $134,000. By dividing $72,000 into $134,000 and converting the result into a percentage, gearing is determined as being 54 per cent. This means that 54 per cent of the business's assets are financed by external debt (liabilities), with the remaining 46 per cent funded by the owner's capital. A ratio (assets financed by external debt: assets financed by owner's capital) of 1:1 often indicates a sound financial position. Depending on the type of business, the industry and past trends, the business may be able to increase its rate of external debt.
**TEST your understanding**

1. Explain how the gross profit and net profit ratios are calculated, and what both can be used to indicate.

2. Bruce Moloney owns and operates the Blue Hills Corner Store. Last year, he made a gross profit of $40,000 from sales revenue of $178,000. His expenses were: electricity $1800, advertising $2500, interest charges $3000, salaries $8200 and rent $15,000.
   (a) Calculate whether or not Bruce has made a net profit.
   (b) Calculate the gross profit and net profit ratio for Bruce. Comment on the profitability of Bruce’s business.
   (c) Comment on the profitability of this business if the industry standard is a gross profit ratio of 40 per cent and a net profit ratio of 18 per cent.
   (d) Advise Bruce how he could increase his net profit.

3. Explain how the working capital ratio and gearing are calculated, and what both can be used to indicate.

4. In 2015, Johnson Plumbing recorded current assets of $38,000 and current liabilities of $12,000.
   (a) Calculate the working capital ratio for 2015.
   (b) Comment on the liquidity of Johnson Plumbing.

5. In 2014, Banwells’ Service Centre recorded gearing of 50 per cent. In 2015, this changed to 150 per cent.
   Comment on the change to the solvency of the business.

**EXTEND your understanding**

6. Your friends Tony and Yung have a small business that makes novelty party accessories. They are worried about how the business is doing. They provide you with the following figures:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit ratio</td>
<td>15%</td>
<td>18%</td>
<td>22%</td>
</tr>
<tr>
<td>Net profit ratio</td>
<td>12%</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

(a) Evaluate the financial performance of the business over the three years.
(b) Suggest why these trends might have occurred.
(c) List questions that Tony and Yung should ask about the changes that have occurred.
(d) Explain how Tony and Yung may affect the way in which their business is managed.

7. Complete the missing amounts in the following table (for financial year 1 July 2014 – 30 June 2015).

<table>
<thead>
<tr>
<th></th>
<th>Business A</th>
<th>Business B</th>
<th>Business C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets 1 July 2014</td>
<td>275,000</td>
<td>221,000</td>
<td>—</td>
</tr>
<tr>
<td>Liabilities 1 July 2014</td>
<td>135,000</td>
<td>—</td>
<td>353,000</td>
</tr>
<tr>
<td>Owner’s equity 1 July 2014</td>
<td>—</td>
<td>114,000</td>
<td>206,000</td>
</tr>
<tr>
<td>Assets 30 June 2015</td>
<td>293,000</td>
<td>—</td>
<td>481,000</td>
</tr>
<tr>
<td>Liabilities 30 June 2015</td>
<td>141,000</td>
<td>153,000</td>
<td>—</td>
</tr>
<tr>
<td>Owner’s equity 30 June 2015</td>
<td>—</td>
<td>189,000</td>
<td>242,000</td>
</tr>
<tr>
<td>Sales</td>
<td>484,000</td>
<td>521,000</td>
<td>—</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>385,000</td>
<td>—</td>
<td>292,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>—</td>
<td>174,000</td>
<td>145,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>—</td>
<td>135,000</td>
<td>105,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>39,000</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Using this information, answer the following questions, giving reasons for your answers.
(a) Which owner is making the highest gross profit?
(b) Which owner is making the highest net profit?
(c) In which business would you invest? Why?
(d) In what information would employees be interested?
(e) Each business has applied for a loan of $50,000 from a bank. Which business is most likely to be successful in its application?
4.4 Non-financial indicators

KEY CONCEPT  Small businesses use non-financial indicators to evaluate performance.

Imagine if a plumber, after carrying out an analysis of his financial reports, observes that his profitability has fallen by 28 per cent over the past six months. If left unchecked, the business could soon experience a severe cash flow shortage. In response, the plumber might reduce his expenditure on advertising or put off one of his part-time employees. However, both these actions could reduce the business’s capacity to generate more sales, making the situation even worse. The financial data have highlighted a symptom, but the plumber detects the cause of the problem only after measuring some non-financial indicators.

An analysis of customer satisfaction — based on responses from a recently completed customer survey — revealed that he was losing sales because the business did not provide a 24-hour emergency service — something that 82 per cent of surveyed customers wanted. This information helped provide an alternative management strategy — that is, the provision of a 24-hour emergency service.

Customer satisfaction

A small business needs customers a lot more than the customers need a small business. Consequently, customer satisfaction should be the main aim of all of the business’s activities. Customer satisfaction is a measure of how well the business has met a customer’s expectations. If a business’s performance does not meet the customer’s expectations, the customer is dissatisfied. However, if performance matches expectations, the customer is satisfied. A small business should attempt to exceed these expectations and aim to thrill customers, developing a base of highly satisfied customers.

DID YOU KNOW?
‘Take care of customers and the profits will take care of themselves.’
Soichiro Honda, founder of Honda Motor Corporation

Customer satisfaction is the degree to which the business’s perceived performance meets a customer’s expectations.
Customer satisfaction is best measured by gaining feedback from customers. Businesses commonly use performance indicators such as results from customer surveys or numbers of customer complaints. Information can also be gathered from conversations with customers.

At the heart of customer satisfaction is the level of service provided, and good customer service requires staff to be adequately trained. A highly satisfied customer generates a healthy profit by remaining loyal to the business, generating repeat sales, remaining a customer for longer and generating word-of-mouth business. Maintaining an established customer base is more cost-effective in the longer term than always trying to attract new customers. Research reveals that a small business can spend up to six times more to attract a new customer than it costs to keep an existing customer.

Quality standards

The Australian Consumer Law (see chapter 8, page 234) states that goods are of acceptable quality if they are fit for the purposes for which goods of that kind are commonly supplied, acceptable in appearance and finish, free from defects, safe and durable. To meet this, a business must maintain consistent standards of quality. You would probably not continue to use the services of a plumber who usually performed an excellent job, but occasionally was awful. To help achieve consistency of quality, the small business owner has to develop a set of standards in relation to product quality and customer service. The standards act as targets that have to be continually met.

The maintenance of quality standards usually involves focusing on two important areas:

1. internally set criteria — to make sure goods and services are produced to predetermined standards
2. externally set criteria — to assess how the business’s performance compares with that of other similar businesses (a process known as benchmarking).

A small business might, for example, attempt to make or deliver its product with a minimum number of faults or errors (which would be set internally). It
would then benchmark this standard against those of other successful businesses, with the aim of reforming those processes that are not achieving the business’s objectives. This is a method of continuous improvement. It involves copying and comparing best practice processes, services and products from other businesses in Australia and overseas.

**Other non-financial indicators**

Many other non-financial indicators, such as the level of sales, productivity and the number of workplace accidents, can also be used by the small business owner to evaluate the performance of the business. Sales figures can be used to determine the **market share** of the business, which is the percentage of the total sales in a market that a business has, compared to its competitors. It is calculated by dividing a business’s sales (from that market) by the total sales of all businesses in that market.

Other non-financial indicators include:
- level of employee satisfaction
- level of employee motivation and morale
- degree of teamwork and cooperation
- degree of employee participation in decision making
- number of industrial disputes
- level of staff turnover
- level of production
- number of repeat customers.

**Market share** is the share of the total market that a business has, expressed as a percentage.

---

**TEST** your understanding

1. Make a concept map of all of the non-financial indicators mentioned in this section.
2. What happens when:
   - (a) the business’s performance does not meet customer expectations?
   - (b) the business’s performance meets customer expectations?
   - (c) the business’s performance exceeds customer expectations?
3. Why is it important to get feedback from customers?
4. Why is it important to include non-financial indicators when assessing a business’s performance?
5. A small business is facing a cash flow shortage. Suggest a possible non-financial cause of such a problem.
6. Outline the benefits of benchmarking.
7. Explain how monitoring quality standards would assist a business in maintaining or improving its performance.

**APPLY** your understanding

8. Outline how the desired level of customer service would differ between an exclusive, boutique fashion store and a discount clothes shop. Suggest reasons for the differences.
9. A friend has asked you to help her design a customer survey questionnaire for her child-care business. Work in groups of three or four to design this questionnaire. She specifically wants feedback on the:
   - level of customer service
   - range of services
   - child developmental activities
   - safety features
   - preferred methods of payment.
10. In groups of three or four, arrange to interview a small business owner to research the following aspects of his or her business:
    - (a) non-financial indicators used to measure the business’s overall performance
    - (b) how quality standards were determined
    - (c) the importance of benchmarking.
    Present your research as a business report. You may wish to use a multimedia application to prepare your report.
11. Use the MAUS Business Systems weblink in your eBookPLUS to answer the following questions:
    - (a) What service does this company provide?
    - (b) How could a benchmark guide assist a small business owner?
12. In what ways are quality, customer satisfaction and profitability linked?
This was a surprise to Jan, because none of her customers had raised any complaints with her.

It is very important to maintain customer service, otherwise customers will become dissatisfied and the business will be left with too much stock, expenses to pay and no sales.

Jan’s new café had captured the attention of the right crowd. Situated in the inner suburbs of Melbourne, it experienced strong growth in its first year of operation. Over the second year of business, her café experienced a rise in sales revenue of 25 per cent, with a 20 per cent increase in net profit. Jan made an effort to work with suppliers to keep operating expenses, such as electricity and her ingredients, down. She calculated that she had reduced her operating expenses by 10 per cent in her second year of business.

However, customer service was becoming a problem. Jan heard from an acquaintance one day that customers had become dissatisfied with the café’s service and were beginning to take their business elsewhere. This was a surprise to Jan, because none of her customers had raised any complaints with her.

To make matters worse, some of the staff were beginning to talk about finding jobs in other workplaces, saying that they were not happy with their conditions in Jan’s café. Sales started to drop and Jan began to wonder whether she would be better off selling the business.

It is very important to maintain customer service, otherwise customers will become dissatisfied and the business will be left with too much stock, expenses to pay and no sales.

---

**TEST your understanding**

1. List three indicators used by Jan to evaluate the business’s financial performance.
2. Why would Jan need to have such information?
3. At first glance, what can you tell about the business’s non-financial performance?
4. Why are customers going to other cafés?

**APPLY your understanding**

5. Using the following table, suggest what methods could be used to evaluate the performance of Jan’s café and how each performance area could be improved:

<table>
<thead>
<tr>
<th>Performance area</th>
<th>Method to evaluate</th>
<th>How the area could be improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability</td>
<td>Compare profit from previous year to current year</td>
<td>Profitability has improved because of reduction in costs.</td>
</tr>
<tr>
<td>Revenue from sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff satisfaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount of sales</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Do you think that Jan should sell or continue on in her business? Recommend a strategy to Jan which would improve her café’s financial and non-financial performance.
Lemonade stand

A very old and popular online game is the lemonade stand game. The game allows you to purchase the ingredients needed to run a lemonade stand and then sell to customers over the space of a month. You need to work out your secret recipe in order to keep your customers satisfied. Decide on your recipe by setting up a table with the following columns.

<table>
<thead>
<tr>
<th>Recipe</th>
<th>Day 1</th>
<th>Day 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lemons per pitcher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sugar per pitcher</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ice per cup</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price per cup</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

You must keep control of your inventory, so set up a table like this one.

<table>
<thead>
<tr>
<th>Inventory</th>
<th>Day 1</th>
<th>Day 2</th>
<th>Day 3</th>
<th>Day 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper cups</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lemons</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cups of sugar</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ice cubes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Use the Lemonade stand weblink in your eBookPLUS to set up a lemonade stand and run your business.

TEST your understanding

1. At what level was your customer satisfaction and popularity after your first day of selling lemonade? How many sales did you make?
2. What did you do to improve these results?
3. What was your net profit (or net loss)? How could you improve this?
4. Estimate how much you lost from your inventory through the game? How could you improve this?

APPLY your understanding

5. Explain the various situations which occurred in the game to change the way that customers behaved towards your product.
6. If you were to run a lemonade stand in real life, what other performance indicators could you use to measure your success?
KEY CONCEPT  Small businesses can evaluate their performance in terms of compliance. That is, their performance based on the extent to which they have observed laws and regulations.

There are many licences, permits, approvals and authorities which must be taken into account by small business owners, as shown in the figure opposite. All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business. Fulfilling all legal obligations may be frustrating at times, particularly when more than one level of government is involved. However, businesses that do not obey the law risk losing customers and their reputation, being fined, or losing the right to continue trading. Businesses can evaluate their performance according to the extent to which they have observed laws and regulations. Observing the law, and indeed, exceeding legal expectations, can lead to a business outperforming competitors.

The three levels of government (federal, state and local) all have regulations to which small business owners must adhere. The regulations are imposed primarily to promote fairness, protect consumers and encourage efficiency. Business name registration, company registration, local government regulations, employment regulations, taxation regulations and privacy regulations are examples of some of the main regulations which we will explore.

Business name registration

The Australian Securities and Investments Commission (ASIC) is now responsible for a national business name registration service. Businesses need to register their business name, except when the name is that of the owner, and then it is optional. If something is added to a personal name, such as ‘Pty Ltd’, ‘Motors’, ‘and Associates’ or ‘and Co.’, then the business name must be registered. This is to prohibit anyone else from trading under a similar name, and to protect consumers by allowing them to identify the owner of a business name.

Registration of a business name does not protect or establish any specific rights to that name. If the business name is a crucial part of the business’s operation, then it should also be registered as a trademark with the federal agency responsible for intellectual property (IP Australia), which administers the Trade Marks Act 1995 (Cwlth).

Company registration (incorporation)

For companies that go through the process of incorporation, the following four regulatory steps are involved:

1. Lodge an application with ASIC and receive a Certificate of Registration.
2. Decide if the company will operate under replaceable rules, a constitution or a combination of both. (The basic rules for the way the company will be managed are included in the Corporations Act 2001 as replaceable rules. A constitution is like a contract between the company, its members, its directors and the company secretary.)
3. Receive a unique nine-digit Australian company number (ACN) that becomes part of the company name and must be displayed on all official correspondence.
4. Pay the required fee to ASIC.

Once these steps are complete, the company is ready to begin trading.
Local government regulations

Many small business owners overlook the importance of local government regulations. Any business using premises or land must first seek local government approval. Commencing trading before approval is obtained could result in the closure of the business and wasting time, money and energy. Local governments have control over the following business activities:

- Land zoning and the purpose for which a building or land can be used
- New development applications and alterations to existing premises
- Fire regulations, especially the provision of adequate fire prevention facilities
- Parking regulations governing the number of parking spaces that need to be provided
- Health regulations
- Business signs — their size, shape and location.

Two of their most important business activities are zoning and health regulations.

Zoning regulations

Local government ensures activities that do not belong together, such as those associated with factories and residential areas, are kept separate. This function assists the local community in terms of planning.

When commencing a small business, the owner must inquire with the local council to determine which zoning regulations will affect the business now and in the future. A manufacturing business that uses heavy equipment and wants to operate a 24-hour shift, for example, would need to be located where zoning regulations allow it to operate in this way. It would not be suitable close to a residential area, mainly because of the noise problems.

Health regulations

Local government also imposes health regulations under the Food Act 1984 (Vic.) (see chapter 8, pages 242–3). Each local council supplies businesses (primarily those dealing with food, such as cafés, restaurants, butcher shops and bakeries) with the regulations and standards they have to meet in order to obtain a licence to operate. Some regulations relate to:

- Temperature for food storage
- Kitchen layout
- Employee clothing requirements
- Correct food handling.

A health inspector will assess premises regularly and often without warning to ensure the small business owner maintains standards. If problems occur, then the business is given a period of time to rectify the situation or it will be closed down.
4.5 Legal and government regulations

Employment regulations

While the majority of small businesses are owner operated, many employ casual, part-time or permanent staff and, therefore, must comply with a variety of employment laws and regulations. Legislation covers conditions of employment, unfair dismissal, dispute settling methods, protection of human rights in employment, and employer responsibilities for tax payments on behalf of employees. Employee welfare is provided for through occupational health and safety legislation. Small business owners also need to be aware of their legal responsibilities when recruiting and selecting staff, especially in regard to discrimination and equal employment opportunities.

Anti-discrimination regulations

Several federal and state laws aim to end discrimination in the workplace (see chapter 6, page 185). One of the most important pieces of legislation in this area is the Equal Opportunity Act 2010 (Vic.). This Act makes it unlawful to discriminate against an employee on the basis of attributes such as age, impairment, marital status, physical features, political belief, race, religious belief, sex or sexual orientation.

Under this Act, an employer must take reasonable steps to eliminate discrimination, sexual harassment and victimisation from the workplace. An employer may be held liable if discrimination occurs in the workplace, or if the obligation to make any adjustments necessary is not met.

Work health and safety regulations

The Work Health and Safety Act 2011 (Cwlth) commenced on 1 January 2012. The Act provides a nationally consistent framework to ensure the health and safety of workers. Each state is expected to pass its own laws consistent with the Commonwealth Act so that occupational health and safety laws are uniform across all states. The principle objectives of the Act include:

• protecting workers or other persons against harm to their health, safety and welfare arising from work
• ensuring that there is fair and effective representation, consultation and issue resolution when it comes to work health and safety
• encouraging unions and employer organisations to promote improvements in work health and safety practices, and helping those conducting businesses to achieve a healthier and safer work environment
• promoting the provision of advice, information, education and training in relation to work health and safety
• setting up a framework to ensure continuous improvement to achieve higher standards of work health and safety.
Taxation regulations

Taxation is the compulsory payment of a proportion of earnings to the government. Many different taxes apply to different types of businesses, and it is important that a person starting a business becomes familiar with all appropriate tax regulations. Some of the main taxes that affect a small business are imposed by the federal and state governments and are shown in the tables on the right.

Privacy regulations

The Privacy Act 1988 (Cwlth) regulates the way in which businesses can gather, use, keep secure and disclose personal information. This Act stipulates that businesses should collect only information that is directly related to their business activities. Individuals must be told why the information has been collected and what other third parties might have access to it. A business cannot use or disclose sensitive personal information such as sexual preferences or political and religious beliefs, unless the individual has given consent. Non-sensitive information such as name, email or home address can be used for direct marketing, unless the individual has prohibited this use.

<table>
<thead>
<tr>
<th>Major federal taxes that apply to business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax</strong></td>
</tr>
<tr>
<td>Group tax — pay as you go (PAYG)</td>
</tr>
<tr>
<td>• Taken from an employee’s salary or wage directly</td>
</tr>
<tr>
<td>• Imposed on the employee</td>
</tr>
<tr>
<td>Goods and services tax (GST)</td>
</tr>
<tr>
<td>• A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia</td>
</tr>
<tr>
<td>• Imposed on all consumers</td>
</tr>
<tr>
<td>Fringe benefits tax (FBT)</td>
</tr>
<tr>
<td>• Tax on the provision of a benefit to an employee — such as a car for private use, a low-interest loan — in place of a wage or salary</td>
</tr>
<tr>
<td>• Imposed on the employer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Major state taxes that apply to business</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax</strong></td>
</tr>
<tr>
<td>Stamp duty</td>
</tr>
<tr>
<td>• Placed on documents that give evidence to transactions</td>
</tr>
<tr>
<td>• Imposed on the individual or business</td>
</tr>
<tr>
<td>Land tax</td>
</tr>
<tr>
<td>• Annually levied on the owner of the land</td>
</tr>
</tbody>
</table>

TEST your understanding

1. What are the main objectives of imposing government regulations?
2. When is it compulsory to register a business name?
3. List three business activities over which local government has control.
4. You and your partner in a fast-food outlet decide to incorporate. List the steps you would follow to form your company.
5. What is the purpose of zoning?
6. List the types of health regulations that local councils would enforce.
7. Outline the features of some of the other legal and government regulations by completing the table below.
8. Why is it important to comply with legal and government regulations?

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Explanation</th>
<th>Application to business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-discrimination regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work health and safety regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxation regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Privacy regulations</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPLY YOUR SKILLS: The importance of complying with legal and government regulations

PRACTISE YOUR SKILLS

- accurately use relevant management terms
- research aspects of small business management using print and online sources
- explain the importance of complying with legal and government regulations relevant to the small business.

Workplace bullying

Bullying unfortunately doesn’t just take place in the schoolyard. Bullying can occur in the workplace, and according to WorkSafe Victoria (a state government organisation committed to workplace safety) it is ‘repeated unreasonable behaviour directed towards a worker or group of workers that creates a risk to health and safety. In most cases this behaviour is persistent and happens over a period of time.’ When considering whether behaviour is unreasonable, you should apply the test of whether an impartial person observing the situation would think that behaviour was unacceptable.

Small business owners are no exception when it comes to providing a safe and healthy workplace. It may well be that persistent bullying can result in a breach of occupational health and safety legislation. In addition to this, the Crimes Act 1958 (Vic) has recently been amended to include cyber and workplace bullying, such as threats, abusive language and performing offensive acts. Small business owners should have policies and procedures to prevent bullying in the first place. If bullying does occur, the business should appropriately respond to the allegations.

A most serious case of bullying in the workplace occurred at Cafe Vamp in Melbourne in 2006. Brodie Panlock took her own life in 2006 after enduring bullying at the café in which she worked. One incident involved pouring fish sauce over Brodie’s hair and clothes. The café’s owner pleaded guilty to charges that included not providing and maintaining a safe work environment. The owner and three employees working in the business were fined $335,000. It was found that the owner told staff to ‘take it out the back’ when abuse was being carried out, and this sent the message to employees at the café that bullying was acceptable.

The diagram suggests some ways small business owners can prevent bullying in the first place.

Train managers appropriately to deal with problem behaviour
Create a policy that clearly identifies inappropriate behaviour
Ensure workers are comfortable talking about bullying
Strategies for preventing bullying behaviour in the workplace

TEST your understanding

1. Under what legislation do small business owners have an obligation to ensure workers are not bullied?

2. Janine worked as a casual assistant and had some difficulty understanding the procedure required at the end of the day regarding the cash register and closing the shop. Which of the following scenarios is clearly a case of bullying, and which is not? Provide reasons for your answer.
   A. Janine’s manager said that she needed more assistance and training so that mistakes did not continue to occur. Janine felt she was being bullied.
   B. Janine’s manager shouted at her every morning when she found that the appropriate closing procedure had not been used. Janine was repeatedly given a dunce hat and told to wear it. When Janine said she needed more training she was told she needed a new brain. Janine’s health was beginning to be affected as she was so stressed and felt hopeless.

APPLY your understanding

3. Explain why the owner of Cafe Vamp was also responsible for the bullying that occurred in his workplace.

4. What can businesses learn from this case study in terms of providing a safe work environment?

5. If bullying in the workplace has occurred and a complaint is made to WorkSafe Victoria, an inspector may come out to the workplace. Use the WorkSafe weblink in your eBookPLUS to explain the procedure that will take place if an inspector arrives to investigate claims of bullying.
Business owners fined for cruelty to animals

The owner of an illegal puppy farm in Cannon’s Creek, located 54 kilometres south-east of Melbourne, appeared in the Dandenong Magistrates’ Court at the end of 2013. He faced 37 charges including conducting an unregistered domestic animal business and failing to provide adequate vet treatment to dogs and a horse. John Max Tresize, the operator of the business, pleaded guilty to most of the charges.

A customer who purchased a dog from the owner became suspicious when he discovered that the dog was not vaccinated as advertised, and was infested with fleas. He made a complaint after discovering that Tresize was selling other dogs.

The City of Casey and Victoria Police executed a search warrant on the property in December 2012. Accompanied by police, Casey Council inspectors raided the property and seized 11 border collie dogs, seven of which were pregnant at the time. They also ordered veterinary treatment for a number of horses.

The magistrate convicted Tresize of 23 offences under the Domestic Animals Act and 16 offences under the Prevention of Cruelty to Animals Act. He was prohibited from owning more than two registered dogs or having an unregistered dog in his possession for a period of 10 years. He was also ordered to make a $400 donation to the RSPCA and pay witness costs of $900.

‘The penalty of a 10-year ban on ownership was introduced as part of the Victorian Government’s crackdown on illegal puppy farming,’ said Peter Walsh, Minister for Agriculture and Food Security. ‘The law changes we introduced also gave council officers and RSPCA inspectors powers to enter and inspect breeding premises, to seize animals from unregistered and non-compliant facilities, and to shut down such facilities.’

City of Casey Mayor Cr Geoff Ablett said, ‘The outcome of this case provides justice for the animals that were made to live in a sub-standard environment due to their owner’s neglect.’

TEST your understanding

1 Under what Acts (or laws) was the owner of the puppy farm charged?
2 List some of the offences that the owner was charged with.
3 What consequences did the owner receive?
4 Explain how the owner was treating the animals.

APPLY your understanding

5 Would you say that running a business is complicated, in terms of all of the laws that you need to know? Explain.
6 Victoria has legislation in place to prevent cruelty to animals. Use the DPI weblink in your eBookPLUS to list at least two areas of legislation that small business owners dealing with animals should be aware of.

The outcome of this case provides justice for the animals that were made to live in a sub-standard environment...
Small businesses have ethical, legal and social responsibilities in relation to the evaluation they do. As society's expectations of acceptable business behaviour change, socially aware small business owners recognise the need to evaluate their business objectives with an awareness of their social and ethical responsibilities. Businesses that take their social and ethical responsibilities seriously are often ‘rewarded’ with improved business performance. Businesses today are very much concerned with reporting on the triple bottom line. This means that they are no longer simply focused on making a profit at all costs, but rather, they recognise that environmental and social performance are also important.

It is increasingly common for businesses to produce a sustainability report. This provides information about financial, environmental and social performance. Large-scale organisations including BHP Billiton, Commonwealth and Wesfarmers publish annual sustainability reports.

For small businesses, it is generally accepted that financial management decisions must reflect its objectives and the interests of owners and shareholders. Today, many small businesses would also include ethical and social responsibility concerns. For example, Pennicott Wilderness Journeys offers cruises along the coast of Bruny Island and Tasman Island, both of which are located on the south-eastern coast of Tasmania. The business also provides a land-based day tour of Bruny Island. The goal of this small business is ‘to use our financial success to reinvest into the local community and the environment that we live and work in’.

The company, which is operated by Robert Pennicott and his wife Michaye Boulter, has a very strong focus on sustainability. It attempts to employ members of the local community and source services from local businesses. Twenty-five per cent of the profits from the business are donated to local, national and international conservation, community fundraising and humanitarian projects.

The business is Ecotourism Australia Accredited and is a Green Globe Lite Operator. This means that it observes efficient fuel, water and waste practices.

It is no coincidence that the business has won many awards, including the Qantas Award for Excellence in Sustainable Tourism for 2010, 2011 and 2012. Their Bruny Island Cruise was also the winner of Australia’s Best Tourist Attraction in 2012.
A highlight of the cruises offered by Pennicott Wilderness Journeys is observing sea and coastal wildlife in its natural habitat, including these fur seals off Bruny Island. As well as operating with the environment and local community in mind, the business also donates to a range of conservation projects. It has donated more than $100 000 towards coastal conservation projects undertaken by the Tasmanian Parks and Wildlife Service.

When small business owners are at the stage where they are evaluating their business’s performance, some good questions to ask are:

- Are we being socially responsible in all that we do?
- Do we conduct our business in ways that respect the values and customs of society?
- Do we respect and obey the government’s legislation and policies?
- Are we responsive to the emerging social and ethical issues within society?
- Are we responsive to all the stakeholders?
- Are all our employees aware of, and following, the business’s social corporate strategy?
- Are our production processes ecologically sustainable?

Businesses have specific ethical, legal and social responsibilities in relation to the evaluation of their performance. There are many responsibilities to be aware of when considering the information that they record, how the information is used to evaluate the business’s performance, and the way in which staff, customers, finances and other resources are managed.

Ethical considerations are closely related to legal aspects of financial management. Legislation is in place to guard against unethical business activity, but there is often a time lag between the recognition of a problem and implementation of a solution through law. In relation to financial management of companies, for example, directors have a duty to:

- act in good faith
- exercise power for proper purposes in the name of the corporation
- exercise discretion reasonably and properly
- avoid conflicts of interest.

**TEST your understanding**

1. Why are more businesses reporting on the triple bottom line?
2. What is a sustainability report?
3. Outline what Pennicott Wilderness Journeys does that makes it ethically and socially responsible.
4. What are the benefits of managing a business in an ethical and socially responsible manner?
5. Why are ethical aspects important to consider in the way a business records information and uses it to evaluate its performance?

**APPLY your understanding**

6. In groups of three or four, research the arguments for and against social and ethical responsibility. Which set of arguments do you support? Provide reasons for your answer.
7. A business decides to undervalue its inventories and debtors to indicate favourable liquidity and thus better short-term financial stability of the business. In groups of three or four, record the advantages and disadvantages of this decision and its ethical implications. Choose a spokesperson to share the group’s comments with the rest of the class.
The environment is one element of the ‘triple bottom line’. Many businesses now have a policy where they either supply recyclable bags, or consumers who do not bring their own bag must pay for them.

### Understanding the triple bottom line

Being sustainable means taking into account the impact your business has on the environment and communities in which it operates. By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. This can have a positive impact on your financial bottom line, and it makes good business sense.

Sustainability expert John Elkington coined the term ‘triple bottom line’ and argued that there should be three bottom lines:

1. The ‘profit’ bottom line, which is a measure of the traditional ‘profit and loss’ financial bottom line.
2. The ‘people’ bottom line, which is a measure of how socially responsible a business has been.
3. The ‘planet’ bottom line, which is a measure of how sustainable and environmentally responsible the business has been.

All of us understand the basic concept of living within our means. If we spend more than we earn, then at some point we hit the wall financially. However, when it comes to the environment and our use of its resources, the people of the world are not living within their means.

According to the Global Footprint Network, we currently use the equivalent of 1.4 planets to provide the resources we use and to absorb the waste we produce. This is not sustainable. Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that between 2035 and 2050 we will reach the point where we need the equivalent of two planets to support us.

The fundamental issue is that as the world’s population increases and consumerism continues to grow, the demand for the planet’s limited resources will also increase. In 1950, global population stood at 2.55 billion people. In 2010 it is more than 6.8 billion, and by 2020 it is estimated that it will exceed 7.6 billion.

The 1950s signalled the beginning of a consumer spending boom that started in the United States and quickly spread across the globe. This consumer-led boom generated major improvements in the quality of people’s lives, but it also changed the way we interacted with, and impacted on, the environment.

Today, it means that the world is living on ‘environmental credit’. At some point, future generations are going to have to pay a price for the over use of our natural resources.

The number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 50 million in 2007. At the same time, oil consumption has increased by tens of millions of barrels per day. In addition to using up the world’s limited supply of oil, this has led to increased exhaust emissions that harm humans and contribute to global warming.

### Sustainability and your business

Managing your business sustainably means managing it in a way that maximises the bottom line but optimises environmental, economic and social benefits for society as a whole. The initiatives that sit under such a sustainability strategy are what many large businesses call ‘corporate responsibility’, ‘corporate social responsibility’ or ‘corporate citizenship’.

### Business is changing

A 2008 IBM worldwide survey of senior executives highlights this business shift towards sustainability. Sixty-eight per cent of business respondents said they were...
implementing sustainability ‘as an opportunity and platform for growth’, and more than 50 per cent said their company’s sustainability activities were giving them an advantage over their top competitors.

Despite this positive shift, nearly two-thirds of businesses questioned by IBM admitted they didn’t fully understand their customers’ concerns around sustainability. Understanding and responding to your customers on this issue is vital for your business relationships. As it currently stands, only 17 per cent of the IBM survey respondents said they really engaged and collaborated with customers regarding their sustainability activities.

The report also highlighted the need to involve employees in any sustainability initiatives. A key reason for this is your customers will increasingly be asking your employees about the actions your business is taking for the community and the environment.

What do Australians think about businesses and sustainability?

In 2008 Unilever Australia commissioned AMR Interactive Research and Newspoll to look at Australians’ attitudes towards corporations and sustainability. It found:

• 90 per cent wanted Australian businesses to invest more in sustainable practices
• 72 per cent thought companies had a broad responsibility to act responsibly
• 81 per cent thought companies could still make a profit while being environmentally responsible and taking the welfare of their workers into consideration
• 64 per cent thought companies needed to focus on sustainability to maintain their future profits.

The Net Balance/Australian Fieldwork Solutions (AFS) SME Sustainability Index

The Net Balance/AFS SME Sustainability Index was compiled from interviews with 800 decision makers from across 14 industries, with companies that employ 5 to 199 people. When asked which challenges they considered a major concern for their businesses, compliance and economic sustainability issues scored highest:

• maintaining revenues — 74 per cent
• finding the right talent for your industry — 70 per cent
• meeting government regulations — 55 per cent.

However, the results also suggest that some Australian SMEs were not yet fully aware of the cost-saving benefits that come from improving the efficiencies of their operations. Six out of 10 SMEs did not consider energy efficiency a major concern when it came to saving money, yet this is one of the easier money-saving actions businesses can implement as part of their sustainability strategy.

There’s an old saying that ‘waste is another word for lost profit’, yet only a third of SMEs had a major concern about managing their waste. And despite the extensive media coverage about the need for businesses to reduce their greenhouse emissions, only 25 per cent of SMEs said this was a major concern.

The survey did, however, uncover some positive indications. On the recruitment front, 26 per cent of organisations nationally said a ‘sustainable image’ helped them to recruit the best employee talent. On a very positive note, 65 per cent of SME managers said they wanted to take action on climate change.

The research showed there was a gap between perception and reality when it came to how SMEs saw themselves on environmental issues. Asked if their business was ‘environmentally friendly’, 72 per cent of those surveyed indicated that they were. However, less than 15 per cent were actually undertaking relevant activities that are sustainable enough to be considered environmentally friendly. Clearly there is still a long way to go. According to the Index, those SMEs that had undertaken sustainability-related actions had experienced cost savings.

Those who were experiencing success were very positive about the sustainability results that were being obtained. New business opportunities, manufacturing

DID YOU KNOW?
The Australian Bureau of Statistics defines SMEs as:
• a micro business, employing fewer than five people
• other small businesses, employing five or more but fewer than 20 people
• a medium business, employing 20 or more but fewer than 200 people.

SMEs employ more than four million people in Australia, and contribute 46 per cent of the value of Australia’s GDP. For more about SMEs, see chapter 1, page 8.

By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. (continued)
efficiencies, improved employee morale, cost savings and resource savings were just some of the benefits outlined by SMEs interviewed by AFS.

The results also show more than one in five SMEs were being pressured directly by customers to be more sustainable.

How will sustainability benefit my business?

It is reasonable for Australians to want the same lifestyle and opportunities they have right now, but, as the research reveals, they want business to fix the problems caused by their current lifestyles. This is where the opportunity lies. Businesses that respond to this concern with a price-sensitive quality product or service that makes a difference will stand a better chance of getting a sale.


Plantic fantastic

Plantic Technologies Limited manufactures a cutting-edge bioplastic, made from corn starch. The product is 100 per cent compostable and dissolves in water. Plantic's head office, principal manufacturing and R&D facility is located in Australia. It was founded in 2003 and now employs 50 people worldwide in sales offices in Germany, the United States and the United Kingdom.

All of Plantic's bioplastic is produced organically. Plantic chief executive Brendan Morris says, 'when our starch is produced we take a portion: another portion goes to animal feed; another to compost or fertiliser, so the whole crop is used. There's no waste.'

Among other purposes, Plantic can be used in plastic trays, such as the ones you might have eaten chocolates from. Once finished, the tray can simply be thrown on to a compost heap. Plantic's customers include Nestle, Cadbury and British retailer Marks & Spencer.

Use the Plantic Technologies weblink to watch video clips of some innovative ways Plantic Technologies is helping companies to achieve the ‘triple bottom line’.

Businesses produce goods and services and must endeavour to minimise their environmental impact. Plantic Technologies is helping companies choose more sustainable packaging. Plantic Technologies produced biodegradable chocolate box packaging for British retailer Marks & Spencer. The packaging is biodegradable and also disperses in water.

TEST your understanding

1 Read ‘Understanding the triple bottom line’. What does being sustainable mean?
2 Why is sustainability important?
3 List some of the expected benefits of implementing a sustainability strategy.
4 Read ‘Plantic fantastic’. Outline the socially responsible strategy that Plantic Technologies has implemented.

EXTEND your understanding

5 Do you think that sustainability is something that needs to be added to the list of things to do, or should it be something that business owners do naturally?

6 Using the articles, suggest strategies that business owners can use to meet the following socially responsible and ethical expectations.

<table>
<thead>
<tr>
<th>Socially responsible and ethical expectations</th>
<th>Strategy that a small business can use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers demand healthy lifestyle products</td>
<td></td>
</tr>
<tr>
<td>Society wants a clean environment</td>
<td></td>
</tr>
<tr>
<td>Society expects businesses to treat employees appropriately</td>
<td></td>
</tr>
<tr>
<td>Customers expect businesses to understand their needs</td>
<td></td>
</tr>
</tbody>
</table>
Summary

Evaluation of performance
• Small businesses evaluate their performance using various strategies, including key performance indicators.
• Small business owners can ask themselves:
  – How is my business performing?
  – Is my business performing as planned?
  – Has the performance of my business improved over time?
  – How does the performance of my business compare to that of similar businesses?
• When a small business owner uses performance indicators, they need to be measurable and they should relate in some way to the objectives of the business.
• When using indicators, the main types of analysis are:
  – comparing figures within one financial year — for example, expressing gross profit as a percentage of sales
  – comparing figures from different financial years — for example, comparing 2009 sales figures to this year's sales figures
  – comparing the business's results with those of similar businesses.

Financial indicators: Income statement
• Small businesses use financial indicators from the income statement to evaluate performance. These include profitability (which can be measured using the gross profit ratio or net profit ratio), the level of revenue from sales and the cost of goods sold.

Financial indicators: Balance Sheet
• Small businesses can use financial indicators from the balance sheet to evaluate performance. These include liquidity (the ability of the business to meet its financial commitments in the short term) and solvency (the extent to which the business can meet its financial commitments in the longer term).
• Liquidity can be measured using the current assets to liabilities ratio or working capital ratio; solvency can be measured using gearing ratios.
• Other indicators from the balance sheet which can be used to evaluate the performance of a small business include the return on the owner’s investment and the rate of return on total assets.

Non-financial indicators
• Small businesses also use non-financial indicators to evaluate performance. These include customer satisfaction (measured by customer surveys or by the number of complaints) and quality standards (making sure that products are produced to predetermined standards or comparing the performance of the business with that of other similar businesses).
• Other non-financial indicators are: level of sales, productivity, the number of workplace accidents, the market share of the business, and the level of employee satisfaction.

Legal and government regulations
• Small businesses can evaluate their performance based on the extent to which they have observed laws and regulations.
• Of the many laws and regulations which small business owners need to comply with, some important ones are business name registration, company registration, local government regulations (including zoning and health regulations), employment regulations (including anti-discrimination regulations and occupational health and safety regulations), taxation regulations and privacy regulations.

Ethical and socially responsible management with respect to evaluation
• Small businesses must be ethically and socially responsible as they evaluate their performance.
• Businesses today increasingly evaluate using the triple bottom line (where the focus is on financial, environmental and social performance).
• Businesses should not mislead stakeholders when they report information.
**Review questions**

**TEST your understanding**

1. Why should small business owners constantly evaluate their business’s performance?
2. In what ways can small business owners evaluate their business’s performance?
3. What is the difference between quantitative measurement and qualitative measurement?
4. Distinguish between efficiency and effectiveness.
5. Outline what is meant by a performance indicator.
6. List the four main types of analysis used with performance indicators.
7. What sources can small businesses use to obtain financial indicators?
8. Why should businesses also use non-financial indicators?
9. List some of the financial indicators which come from the income statement.
10. Explain what is meant by profitability and how it can be measured.
11. List some of the financial indicators which come from the balance sheet.
12. Explain what is meant by liquidity and how it can be measured.
13. Explain what is meant by solvency and how it can be measured.
14. Outline what is meant by customer satisfaction.
15. How can customer satisfaction be measured?
16. Outline what is meant by quality standards.
17. How can quality be measured?
18. List some other non-financial indicators.
19. Explain the main objectives of imposing government regulations.
20. Outline some of the regulations which small businesses need to comply with.
21. Why do small businesses need to act ethically and socially responsibly as they evaluate their performance?
22. What is meant by the triple bottom line?
23. What sorts of things can small businesses do to make sure that they are evaluating in an ethical and socially responsible manner?

**APPLY your understanding**

24. Maurice is having problems with his music business. His income statement reveals that his business is profitable; however, his customers often do not pay on time and this leads to cash flow problems. Advise Maurice on what objectives he could set for his business, and how he could use performance indicators to improve the performance of his business.

25. Complete the following table. List (and explain where necessary) performance indicators that a small business owner could use to evaluate the achievement of business objectives. Explain how the performance indicators could be used to evaluate performance. The first answer has been completed for you.

<table>
<thead>
<tr>
<th>Business objective</th>
<th>Performance indicator</th>
<th>How the performance indicator can be used to evaluate performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase the quality of the product</td>
<td>Quality standard (measured by check of products against set standards)</td>
<td>Products which constantly are up to standard suggest that the business is selling quality products, now it can raise its standards</td>
</tr>
<tr>
<td>Good return on investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve customer service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximise profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduce the number of accidents</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
26 What information would be needed in the following situations?
   A Ritva is interested in buying a new horticulture business.
   B Lisa supplies toy trains to retailers. She needs to know whether or not she should offer credit to a local toy shop.
   C Ali is the general manager of a small IT company. He needs to know whether or not he should change the company’s occupational health and safety policies.
   D Ramanan is not sure whether or not he needs to register the name of his new small business.

27 Analyse aspects of ethics and social responsibility by completing the following table.

<table>
<thead>
<tr>
<th>Arguments for</th>
<th>Arguments against</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>Costs</td>
</tr>
</tbody>
</table>

School-assessed coursework

OUTCOME 2
Apply decision-making and planning skills to establish and operate a small business, and evaluate the management of an ethical and a socially responsible small business.

ASSESSMENT task — school-based, short-term business activity

School-based business wins award

A business made up of Year 11 students called Ya Ya Bitsi won three Young Achievement Australia (YAA) national awards for creating a booklet called ‘Gen Y care: Tips we want to share’. The booklet contains environmental tips and other facts set to entertain and amuse the reader. Ya Ya Bitsi didn’t just write about the environment, they practised what they preached, taking into consideration the environment in the printing business they chose, the inks chosen and the recycled paper used to print the booklet.

Students from Mt Maria College Petrie win an award for their business idea.
Description of activity
This activity involves planning a business within school time, and running it at school. The aim of this activity is to apply the skills and theory learned from studying the management and operation of a small business by:
- planning a school-based business activity
- working cooperatively and/or individually on a business activity
- performing the business activity
- evaluating the quality of the performance of the activity.

You will need to form groups of up to four, make initial decisions to establish your business idea, produce a detailed business plan and then run the business activity. After this, you will need to evaluate the performance of your business enterprise. Your teacher will let you know about the date or dates on which your business activity can run.

Some things to consider before you start
Due to the potential implications of this activity on the students’ time within and outside of school, financial issues, and potential implications on the wider school community including parents, it is advised that principal and key stakeholder permission and approval be sought before conducting a student school-based business activity.

Initial decision making
1. Decide what your idea is (what are you going to sell?).
2. Will you work by yourself or with someone else?
3. If you are in a group, you should sign a partnership agreement (agreeing to who will do what tasks and how profits will be distributed).
4. Produce a business submission covering the following points:

<table>
<thead>
<tr>
<th>Name of your business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name/s of the owner/s</td>
</tr>
<tr>
<td>Brief description of your idea</td>
</tr>
<tr>
<td>Business objectives devised for your business (at least three)</td>
</tr>
<tr>
<td>How will you measure whether or not your business has been successful? (List at least three performance indicators.)</td>
</tr>
<tr>
<td>Where will you locate your business activity?</td>
</tr>
<tr>
<td>Estimate the quantity of products that you intend to sell.</td>
</tr>
<tr>
<td>Who are your competitors?</td>
</tr>
<tr>
<td>Identify your target market (who are you selling to?).</td>
</tr>
<tr>
<td>How will your product be different to the products of your competitors?</td>
</tr>
<tr>
<td>What market research will you carry out?</td>
</tr>
<tr>
<td>Will you require extra staff (and will you pay them or will they volunteer)?</td>
</tr>
<tr>
<td>What contacts will you need to make (inside and outside of school)?</td>
</tr>
<tr>
<td>What furniture/equipment/materials will need to be borrowed by your business?</td>
</tr>
<tr>
<td>Which staff members in the school will need to give you approval to use furniture, equipment or materials?</td>
</tr>
<tr>
<td>What items will you need to purchase (and how much do they each cost)?</td>
</tr>
</tbody>
</table>

Some suggestions on the possible scope and range of small business ventures include:
- a sausage sizzle stall
- a market day with student stalls competing against each other in a lunchtime market
- planning and running a year-level formal
- running a school comedy night
- constructing and selling student designed websites to local businesses.
List any other costs that your business will need to meet.

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much money will you require to commence your business?</td>
<td></td>
</tr>
<tr>
<td>Where will the funds to cover your costs come from?</td>
<td></td>
</tr>
<tr>
<td>How will you package your product?</td>
<td></td>
</tr>
<tr>
<td>How will you make the product, or where will you get it from?</td>
<td></td>
</tr>
<tr>
<td>How will you price your product?</td>
<td></td>
</tr>
<tr>
<td>How will you promote your product?</td>
<td></td>
</tr>
<tr>
<td>Explain how profits will be distributed.</td>
<td></td>
</tr>
<tr>
<td>Will you need to leave the school grounds or leave class on the day of the business activity?</td>
<td></td>
</tr>
<tr>
<td>Who will supervise your business activity?</td>
<td></td>
</tr>
</tbody>
</table>

5 Once your submission has been approved by an appropriate person in authority, you can move on to the next stage.

**Planning**

6 Use the Business Victoria weblink in your eBookPLUS to locate a Business Plan template (a Word document) and a Marketing Plan template (a Word document).

7 Download both of these documents and complete as much of each as you can. Some of the questions or tasks will need to be modified to suit the school-based business activity.

8 Submit your business plan and marketing plan.

9 Make any changes necessary.

10 Make final preparations to run your business activity.

**Evaluation**

After running your business activity, think about how you and your business performed. Submit an individual report, responding to the following questions:

11 What was your business idea?

12 Why did you or your group choose this business idea?

13 Did you or your group do any research to support your business plan? Outline the research you did.

14 How did your business differentiate its product from the competition’s product?

15 Where did you or your group locate the business activity and why did you choose this location?

16 How did your business cover its startup and operating costs?

17 Explain your own contribution in terms of time, effort and responsibility to the planning of the small business activity.

18 Evaluate your overall contribution to the small business activity (what were your strong points, things you learned, things you did well, things that need improving?).

19 How well did your group manage the business activity?

20 What were the strong points about your group’s planning, organisation, leadership and control of the business activity?

21 How could the management of your business activity be improved?

22 What criteria did you establish to suggest that your business would be successful?

23 Report your financial results. Were your financial results the same as those you had forecast or expected? Why or why not?

24 List ways you could improve the financial performance of your business.

25 Do you think that you managed an ethical and socially responsible business activity? Why or why not?