CHAPTER 1
The nature of business

1.1 Overview

1.1.1 Why it is important
There are approximately 2.2 million businesses in Australia. Of these, the vast majority are sole traders and partnerships. If you look around your local area you will see plenty of examples of businesses. Some are considered small because they have fewer than 20 employees. They might be sole traders and partnerships. There are also companies, social enterprises and government business enterprises. Have you ever heard of Wesfarmers? It is one of Australia’s largest companies and any one of its 100,000 employees might work for Bunnings, Officeworks, Target, Kmart or one of Wesfarmers’ coal, energy, fertiliser or insurance interests. All of these different types of businesses have some things in common. They all have objectives and stakeholders with vested interests in the business. In this chapter, you will be studying the different types of businesses and the various objectives and stakeholders they have.
NBN CO LIMITED — A GOVERNMENT BUSINESS ENTERPRISE

Many of Australia’s businesses are household names. You may have heard of the National Broadband Network in the media. What you may not know is that NBN Co Limited, a company established by the government, was created in 2009 to design, build and operate the infrastructure (basic facilities, services and installations) that will enable advanced digital services to be provided to Australians.

NBN Co is a government business enterprise (GBE). This means that it is owned by the federal government. Currently, NBN Co employs over 6000 people and has estimated that thousands of local jobs will be created as they continue to build the $38 billion network.

The National Broadband Network is the largest infrastructure project in Australia’s history to date. It has to be carefully designed and executed to ensure it delivers maximum value to customers. When the National Broadband Network is finally completed, it will allow people and businesses to access high-speed broadband services all across Australia.

1.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.

- Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises
- The nature of business
- Characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations
- Business objectives including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations

Key skills

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

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations


Resources

- Digital doc: Key terms glossary (doc-29432)
1.2 BACKGROUND KNOWLEDGE Introduction to business

BACKGROUND INFORMATION Businesses can be categorised by size, sector and the industry in which they operate.

A business is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making profit. As well as making profit for owners, businesses make important contributions to the economic and social wellbeing of our nation. As you study this subject you should realise that businesses can be classified in a variety of ways. Just like soft drinks, businesses come in different sizes. They also come in different flavours; that is, they can be classified by the part of the economy that they operate in and also according to the particular good or service that they produce.

Classifying business

Businesses can be categorised by size, as well as the sector and industry in which they operate. Myer, Australia’s largest department store group by revenue and store count, is a privately owned retailer, employing over 14,000 people.

1.2.1 Business size

While there is no single universally accepted definition of a small, medium or large business, a number of measurements can be used to determine the size of a business, including:

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as ‘non-employing’. In the past, a small business has been defined by the ABS as one that employs fewer than 20 people. Many people continue to use this definition. However, the Fair Work Commission defines a small business as one that has less than 15 employees. Historically, the ABS has defined a medium business as one that employs 20 or more people, but fewer than 200 people; a large business has been considered to be one that employs 200 or more people.
• the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or shareholders).
• the legal structure — for example, is the business set up as a sole trader, partnership or company?
• the amount of revenue earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than $10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above $250 million.
• the amount of assets owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than $200 million.
• market share (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.

We’ve looked at a number of measurements for distinguishing the size of a business, but there are many other factors that can help us to make a final judgement about the size of a business, such as:
• who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
• who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
• is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company’s strategic goals.
• how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

The table on the next page summarises the features of, and distinctions between, the different sized businesses.

---

**DID YOU KNOW?**

In June 2017 there were more than 2 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as micro businesses. Almost 1.4 million of these businesses are non-employing — they have no employees.

---

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
</tr>
</thead>
</table>
| **Business type** | Corner store  
Local mechanic  
Hairdressing salon | Services club  
Motel/hotel  
Engineering factory | Woolworths  
Qantas  
National Australia Bank |
| **Number of employees according to the ABS business register definition** | Fewer than 20  
20–199 | 200 or more |
### Characteristics

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of ownership</strong></td>
<td>Independently owned and operated by usually one or two people</td>
<td>Owned and operated by a few people and/or private shareholders</td>
<td>Owned usually by thousands of public shareholders</td>
</tr>
<tr>
<td><strong>Most common legal structure</strong></td>
<td>Sole trader Partnership</td>
<td>Partnership Private company</td>
<td>Public company (numerous)</td>
</tr>
<tr>
<td><strong>Decision-making</strong></td>
<td>Owner responsible for majority of decisions; simple and quick implementation of decisions</td>
<td>Owner basically responsible for majority of decisions; more complicated decision-making with slower implementation, due to influence of directors</td>
<td>Complex decision-making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management</td>
</tr>
<tr>
<td><strong>Sources of finance</strong></td>
<td>Owner (usually from own savings or a loan); difficulty in accessing loans</td>
<td>Owners’/partners’ own savings or a loan and/or private shareholders; easier accessibility to larger loans</td>
<td>Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions</td>
</tr>
<tr>
<td><strong>Market share</strong></td>
<td>Small, usually local area; not dominant in the industry</td>
<td>Medium-sized, due to dominance within a geographic region; some market dominance</td>
<td>Large, especially for multinational corporations that dominate the markets of many countries</td>
</tr>
</tbody>
</table>

Australia Post is a large business because it employs more than 34,000 people and earned revenue of $6.8 billion in 2016–17. As of June 2015, the business owned assets of more than $5.5 billion. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.

### 1.2.2 Public or private sector

According to the ABS, just over 2.2 million businesses were operating in the private sector in June 2017. The private sector is the part of Australia’s economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia’s economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. It estimated that in 2016–17, there were only 393 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.
The top five public listed companies in Australia in relation to total revenue in 2017 were Wesfarmers (including Bunnings, Target and Kmart), Woolworths, Commonwealth Bank of Australia, BHP and Westpac Banking Corporation.

1.2.3 Business activity

Businesses can also be classified under the industry sector in which they operate. These sectors are known as primary, secondary and tertiary, and are determined by the good or service that businesses produce. Businesses such as OZ Minerals Ltd are involved in primary industry (farming, mining, forestry). These are industries concerned with extracting resources directly from nature. Manufacturers such as Kellogg (Aust.) Pty Ltd operate in the secondary industry (where raw materials are turned into finished or semi-finished products). The secondary industry takes raw materials from the primary sector and adds value to them, by processing or manufacturing materials, or through assembly and construction. The third category is the tertiary industry, which involves the provision of services. For example, businesses in the tertiary industry will operate in wholesaling, retailing and transport. Optus is a large company that works in the tertiary industry. The tertiary sector can be further divided into the quaternary sector, which involves the provision of information in areas such as the media, computing, finance, property and education, and the quinary sector, which involves paid and voluntary domestic services.

Australian businesses can also be categorised by the individual industries in which they operate. When it gathers data, the ABS will typically group businesses that provide a particular good or service into 19 industries. These are made up of, for example, mining, manufacturing, retail, construction, education and health. The table below shows these industries and the number of businesses operating within each industry in Australia.

<table>
<thead>
<tr>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>176 140</td>
<td>Financial and insurance services</td>
<td>202 110</td>
</tr>
<tr>
<td>Mining</td>
<td>7853</td>
<td>Rental, hiring and real estate services</td>
<td>246 664</td>
</tr>
</tbody>
</table>

8 Jacaranda Key Concepts in VCE Business Management Units 3 & 4 Fifth Edition
<table>
<thead>
<tr>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
<th>Industry division</th>
<th>Number of businesses operating June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>83,789</td>
<td>Professional, scientific and technical services</td>
<td>270,654</td>
</tr>
<tr>
<td>Electricity, gas, water and waste services</td>
<td>6,591</td>
<td>Administrative and support services</td>
<td>85,760</td>
</tr>
<tr>
<td>Construction</td>
<td>371,599</td>
<td>Public administration and safety</td>
<td>74,277</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>78,989</td>
<td>Education and training</td>
<td>29,724</td>
</tr>
<tr>
<td>Retail trade</td>
<td>130,387</td>
<td>Health care and social assistance</td>
<td>128,543</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>92,757</td>
<td>Arts and recreation services</td>
<td>27,248</td>
</tr>
<tr>
<td>Transport, postal and warehousing</td>
<td>149,544</td>
<td>Other services</td>
<td>94,220</td>
</tr>
<tr>
<td>Information media and telecommunications</td>
<td>21,017</td>
<td>Currently unknown (a)</td>
<td>27,283</td>
</tr>
<tr>
<td>All industries</td>
<td>2,238,299</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) This category consists of those businesses that are yet to be coded by the ATO to an industry.

Source: Table 1 Businesses by industry division, from ABS 8165.0, Counts of Australian businesses, including entries and exits, June 2013–June 2017.

The industry sector in which a business operates is determined by the goods or services it produces. Arnott’s is Australia’s largest producer of biscuits (secondary sector), while Optus is Australia’s second-largest telecommunications company (tertiary sector).

1.2 Activities

TEST your understanding

1. Distinguish between revenue and assets.

2. State whether the following businesses are small, medium or large, and the reason for your decision.
   (a) Qantas employs approximately 27,000 people.
   (b) National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
(c) Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
(d) Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.

3. Are the following statements true or false?
   (a) Large businesses employ a small number of people.
   (b) Small businesses do not usually have a large share of a particular market.
   (c) In small businesses, decisions are usually made by the owners of the business.

4. Explain the difference between the private sector and public sector.

5. Outline the key characteristics of the primary, secondary and tertiary industries.

APPLY your understanding

6. Prepare a database of 10–15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions that follow. One example has been entered for you.

<table>
<thead>
<tr>
<th>Business name</th>
<th>Business activity</th>
<th>No. of employees</th>
<th>Business size</th>
<th>Industry sector</th>
<th>Industry division</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Redbank Café</td>
<td>Food and drink</td>
<td>4</td>
<td>Small</td>
<td>Tertiary</td>
<td>Retail trade</td>
</tr>
</tbody>
</table>

(a) What percentage of the businesses in your database are small? What percentages are medium-sized and large?
(b) How do the percentages compare with the figures for Australia?
(c) Provide two reasons for the differences/similarities between the figures.

7. Using the internet or newspapers, look for articles about small, medium-sized and large businesses that interest you. Start a file of news clippings or printouts and write an information page to attach to each article. Include the following:
   (a) what the article is about
   (b) background information about the business
   (c) the section of the VCE Business Management course to which the article relates, e.g. Area of Study 1, Outcome 1.

1.3 Types of businesses: sole traders and partnerships

O KEY CONCEPT There are a number of types of businesses, including sole traders and partnerships. Each type of business has certain advantages and disadvantages.

1.3.1 Types of businesses
There are a number of different types of businesses. Three common legal structures used by businesses in Australia are: sole traders, whereby an individual owns and runs a business; partnerships, whereby a group of people will own and run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public listed companies in the next subtopic. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in subtopic 1.5.
1.3.2 Sole trader

A sole trader business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish, as the only legal requirement specific to a sole trader is that the name of the business must be registered with the Australian Securities and Investments Commission (ASIC), but only if it is different from the name of the owner. A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as unlimited liability, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

The advantages and disadvantages of being a sole trader

**Advantages**
- Low cost of entry
- Simplest form
- Complete control
- Less costly to operate
- No partner disputes
- Owner’s right to keep all profits
- Less government regulation
- Profit is taxed as personal income

**Disadvantages**
- Personal (unlimited) liability for business debts
- End of business when owner dies
- Difficult to operate if sick
- Need to carry all losses
- Burden of management
- Need to perform wide variety of tasks
- Difficulty in raising finance for expansion
1.3.3 Partnership

A partnership is a business owned by two or more people. Most partnerships have a maximum of 20 partners. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, the partners in a business are also subject to unlimited liability, and so could be personally responsible for the debts of the business.

A partnership can be made verbally or in writing, or by implication (that is, if two people set up a business together without a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see the following ‘Did you know?’ feature).

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in running the partnership. In this case, the partner is referred to as a silent or sleeping partner. The main reason for their investment is to add more capital or finance to an existing partnership.

The advantages and disadvantages of a partnership

- Low start-up costs
- Less costly to operate than a company
- Shared responsibility and workload
- Pooled funds and talent
- Minimal government regulation
- No taxes on business profits, only on personal income
- On death of one partner, business can keep going

- Personal unlimited liability
- Liability for all debts, including partner’s debts, even before the partnership has begun
- Possibility of disputes
- Difficulty in finding a suitable partner
- Divided loyalty and authority

While a sole trader pays tax using his or her personal tax file number, a partnership has its own tax file number — separate from those of each of the partners — and lodges its own tax return. Once the ATO has assessed the partnership’s tax return and all taxes have been paid, the profits are divided among the partners according to the partnership agreement. Each partner then adds their share of the profit (or loss) to their personal income to be assessed by the ATO.

DID YOU KNOW?

A partnership agreement may contain any of the following points:
- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- methods of resolving disputes.
1.3 Activities

TEST your understanding

1. Define the following terms in your own words:
   (a) unlimited liability
   (b) shareholders.
2. Explain the difference between a sole trader and a partnership.
3. Under what circumstances will a sole trader not need to register a business name?
4. Identify three advantages and three disadvantages of setting up a business as a sole trader. For each advantage and disadvantage, explain why you believe it is an advantage or a disadvantage.
5. Outline the advantages and disadvantages of a partnership.

APPLY your understanding

6. Using the internet, find:
   (a) five examples of sole traders or partnerships that would not have to register their business name
   (b) five examples of businesses that would have to register their name.
7. Eve operates a successful homemade-casserole business as a sole trader. She is interested in taking on partners in her business.
   (a) What advantages will Eve gain from a partnership arrangement that she does not have as a sole trader?
   (b) What disadvantages could Eve experience from the partnership arrangement?

EXAM practice

8. Define the term ‘partnership’. (1 mark)
9. Distinguish between a sole trader's business and a partnership. (2 marks)
10. Explain two reasons why a business may choose to operate as a sole trader rather than as a partnership. (4 marks)
1.4 Types of businesses: private limited companies and public listed companies

**KEY CONCEPT** There are a number of types of businesses, including private limited companies and public listed companies. Each type of business has certain advantages and disadvantages.

1.4.1 Incorporation

Many businesses which have begun as sole traders or partnerships may find that, as their business grows, there are advantages in changing the ownership structure to that of a company. This process is known as **incorporation**.

The process of incorporation is governed by the Commonwealth **Corporations Act 2001**, and is administered by the Australian Securities and Investments Commission (ASIC). In order for a business to become incorporated, a company name must be registered with ASIC, which will issue a certificate of incorporation and an Australian Company Number (ACN). Directors must be appointed to run the company on behalf of the owners. Once incorporated, the company has a separate legal identity to its owners, who are now known as shareholders (referred to in the Corporations Act as ‘members’).

Incorporation also brings to the shareholders the benefits of **limited liability**. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for their shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders.

Financial institutions often ask directors to give personal guarantees for some business loans. Under some circumstances, therefore, directors can be forced to sell their personal assets to help pay for business debts. To offset this risk, companies can insure against such an event.

The letters ‘Ltd’ signify that a business is a company that has limited liability. A company can be organised as either a proprietary (private) or public company.

**DID YOU KNOW?**

If directors make false or misleading statements or omissions, if they fail to appoint a secretary or if they recklessly borrow money knowing that the debts probably will not be repaid, then the protection offered by the company in being a separate legal entity will not cover the directors. Directors accused of such unlawful behaviour may face common law suits and criminal charges.

1.4.2 Private limited companies

A **private limited** (or proprietary) **company** is the most common type of company structure in Australia. Private limited companies must have at least one shareholder and a maximum of 50 non-employee shareholders (members who aren’t employees of the company). A private company must also have at least one director. Therefore, it is quite possible for a private limited company to be owned by a single shareholder, who is also the director of the company. Private companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a private company.

Shares in a private company are offered only to those people whom the business wishes to have as part owners. Shareholders can sell their shares only to people approved of by the other directors. This is why such a company is called a ‘private’ company. It is not listed on, and its shares are not sold through, a stock exchange. A private company must have the words ‘Proprietary Limited’, abbreviated to ‘Pty Ltd’, after its name.
Sometimes, the decision is taken to close a business. However, closing a private company is much more complex than closing a sole trader business or a partnership. All shareholders of the company must agree to the company being wound up. A liquidator will manage the process of selling the company’s assets, paying its debts, and distributing funds from the asset sales among the shareholders.

The advantages and disadvantages of private limited companies

**Advantages**
- Easier to attract finance
- Limited liability — separate legal entity
- Easy transfer of ownership
- A long life/perpetual succession—a company does not have to be wound up in the event of the death, disability or retirement of any person involved
- Experienced management through board of directors
- Greater spread of risk
- Company tax rate is lower than personal income tax rate
- Growth potential
- Can have one shareholder and one director

**Disadvantages**
- Cost of formation
- The company is taxed on any profits and dividends, and the income from the company to the shareholder is taxed as personal income
- Personal liability for business debts if directors knew that debts could not be paid
- Requirement to produce an annual report of audited accounts
- Public disclosure — reporting of certain information
- Rapid growth may lead to inefficiencies

---

**1.4.3 Public listed companies**

The shares for public listed companies are listed on the Australian Securities Exchange, and the general public may buy and sell shares in those companies. Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products — for example, Telstra, BHP, Woolworths, Virgin Australia and Westpac.

A public company has:
- a minimum of one shareholder, with no maximum number
- no restrictions on the transfer of shares or raising of money from the public via share offers
- a requirement to provide certain information when selling its shares for the first time
- a minimum requirement of three directors (of whom two must live in Australia)

There are almost 2200 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a ‘good buy’, its share price is likely to rise (green indicates the stock or share price is rising, and red indicates the share price is falling).
• the word ‘Limited’ or ‘Ltd’ in its name
• a requirement to publish its audited financial accounts each year — included in an annual report.

The advantages and disadvantages of public listed companies are much the same as for private limited companies. Furthermore, public listed companies can attract extra capital by issuing shares on the share market. A private limited company must not offer its shares to the public. Because a public company has the ability to raise capital from the public, there is a greater potential for growth. However, because of this capital-raising capacity, public listed companies are required to abide by stringent compliance rules and disclose corporate financial information. A public listed company is a highly complex business structure and it requires greater accountability and compliance than for a private limited company.

1.4 Activities

TEST your understanding
1. Explain the legal steps that are required to incorporate a business.
2. Explain what limited liability is and how it affects shareholders in a company.
3. In what circumstances might directors be held personally responsible for debts incurred by a company?
4. Explain the key differences between a private limited company and a public listed company.
5. Identify what you believe to be the three main advantages and three main disadvantages of a private limited company. Explain each selection.
6. Outline the advantages and disadvantages of a public listed company.

APPLY your understanding
7. Identify the types of business that are most appropriate for each of the following scenarios. In each case, explain why you selected that type of business.
   (a) A financial planning, accounting and investment service
   (b) A miner seeking to invest in new exploration and drilling programs
   (c) A retailer of home entertainment products that wishes to expand to numerous locations nationally within five years
   (d) A food manufacturer that requires $67 million to establish a production facility
   (e) A medical practice offering comprehensive healthcare

EXAM practice
8. Define the term ‘private limited company’. (1 mark)
9. Outline two reasons why a business may choose to operate as a private limited company rather than as a public listed company. (4 marks)
10. Discuss the key characteristics of a public listed company. (4 marks)

1.5 Types of businesses: social enterprises and government business enterprises

• KEY CONCEPT There are a number of types of businesses, including social enterprises and government business enterprises. Each type of business has certain advantages and disadvantages.
1.5.1 Social enterprises

A social enterprise is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need. The business may make a profit, but will concentrate on some sort of community or environmental need. A majority of the profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need, or will be distributed to meet the community or environmental need. There are an estimated 20,000 social enterprises in Australia. In 2018, the Victorian Government stated that there were more than 3500 social enterprises trading across metropolitan and regional Victoria — employing approximately 60,000 people and contributing $5.2 billion to the Victorian economy.

In Australia, a social enterprise can operate in many ways — it can take the form of a cooperative (a business that is owned and operated by the group of members), or a privately owned business. A social enterprise will often run just like a commercial business. Unlike charities, social enterprises do not rely on donations as their main source of income. Some social enterprises will obtain funding from the government to support their social goal. Fundamentally, they exist to benefit society, rather than solely for the pursuit of profit. Some examples of typical social needs that may be addressed by social enterprises include:

- providing opportunities for local unemployed people
- developing skills, providing vocational training or lifelong learning opportunities for disadvantaged people in the community
- creating accessibility to a better quality of life for disadvantaged members of the community
- providing essential services to disadvantaged communities
- focusing on waste minimisation and recycling.

The Big Issue magazine is a social enterprise that promotes social inclusion and works to alleviate poverty in Australia. The enterprise employs approximately 500 homeless, marginalised and disadvantaged people who sell the magazine on the street. Each vendor purchases magazines and then sells them for twice the price, earning the difference.

The advantages and disadvantages of social enterprises

Advantages

- Can open up new markets — the social enterprise may meet a need that commercial businesses choose not to.
- Meeting a social need can have a positive effect on profit and market share.
- Difficulty in obtaining capital to start the business — it can be hard to find finance.
- Significant operating costs — social enterprises will often take on costs that conventional businesses would not.
- It can be difficult to focus on both social and financial objectives.

Disadvantages
**DID YOU KNOW?**
When the sole petrol station in the town closed down in 2002, Yackandandah Community Development Company was established to secure the future supply of local fuel. The local community wholly owns it, with most of its shares held by residents of Yackandandah. The enterprise now sells hardware, produce and farm products as well as fuel. Fifty per cent of the profits are returned to the shareholders and the rest is invested in community projects.

1.5.2 Government business enterprises

A government business enterprise (GBE) is a type of business that is government owned and operated. Like companies, GBEs participate in commercial activities with the goal of making a profit. We may not always think of them as being businesses, but they actually run just like companies. However, GBEs carry out government policies while they deliver community services. They operate at both the federal and state level of government.

GBEs also aim to increase the value of their assets and returns to their shareholder (the government). A board of management or board of directors usually controls a GBE, with government input into the board. The government maintains a strong interest in the performance and financial returns of the GBE.

Typically, GBEs are large businesses that employ many people. Some of the largest employers in Australia are GBEs. Australia Post, NBN Co and VicRoads are examples of GBEs in Australia. VicRoads is also a statutory corporation — an Act of Parliament (a law) had to be passed to establish it.

NBN Co was established as a business in April 2009, tasked with designing, building and operating Australia’s National Broadband Network. Like a privately owned enterprise, a GBE will have a chief financial officer (CFO). In February 2018, Stephen Rue (CFO at NBN Co) announced revenue of $891 million for the second half of 2017.
The advantages and disadvantages of government business enterprises

**Advantages**
- A GBE is able to carry out government policies delivering community services in areas where private sector businesses might hesitate to invest
- A GBE can operate with some independence from government
- Provision of healthy competition to businesses operating in the private sector — this can lead to lower prices in the markets where GBEs are competing

**Disadvantages**
- Political interference in the day-to-day operation of the GBE
- Inefficiencies caused by government ‘red-tape’ — excessive regulation or rigid conformity to rules
- Management of GBEs can be less effective than that of the private sector
- There can be less accountability within a GBE, resulting in less productivity

**DID YOU KNOW?**
Over the past 30 years, there has been a worldwide trend to privatise GBEs. This means they are sold to the private sector, and then run as profit-making businesses. This process is known as privatisation. During the 1990s, the Australian Government privatised a number of public sector businesses, including Telstra, Qantas and the Commonwealth Bank.

The Victorian Government has privatised gas, Melbourne rail services and electricity.

**1.5 Activities**

**TEST your understanding**
1. In what ways does a social enterprise differ from a company?
2. Summarise the advantages and disadvantages of a social enterprise.
3. What is the main purpose of a government business enterprise?
4. Outline the advantages and disadvantages of a government business enterprise.

**APPLY your understanding**
5. Shane is planning to manufacture home water filtration units and sell the products locally. He then wants to use the proceeds of these sales to provide the same product to communities in developing countries. Explain to Shane why a social enterprise would be an appropriate business type for this idea.
6. In your notebook, construct a table with six columns labelled as in the example below. From the list of businesses provided, write each name in the correct column for its particular business type. The first business has been entered for you, as an example.

<table>
<thead>
<tr>
<th>Sole trader</th>
<th>Partnership</th>
<th>Private limited company</th>
<th>Public listed company</th>
<th>Social enterprise</th>
<th>Government business enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ray Coulton Carpentry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fairfax Limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;M Communications</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bigga Community Group</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ozemail Limited</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

7. Use internet sources to research a social enterprise. An example is KereKere. Answer the following questions for the social enterprise that you find.
(a) Who owns the social enterprise?
(b) Who manages this business?
(c) What is the objective of the social enterprise?
(d) How does the business contribute to the community?

8. Use the Defence Housing Australia weblink in the Resources tab to find out what this government business enterprise does. Answer the following questions.
(a) Who owns Defence Housing Australia?
(b) Who manages this business?
(c) What is the objective of Defence Housing Australia?
(d) How many staff does Defence Housing Australia employ?

EXAM practice
9. Explain the key characteristics of a social enterprise. (2 marks)
10. Distinguish between a social enterprise and a government business enterprise. (4 marks)
11. Discuss the use of a government business enterprise as a type of business. (4 marks)

1.6 EXTEND YOUR KNOWLEDGE Changing the type of business through privatisation

**KEY CONCEPT** Businesses can change from one type to another, for example, from a government business enterprise to a public listed company.

The process of privatisation started in Australia in the 1980s, and over the past 20 years there has been a worldwide trend to privatis GBEs. Privatisation involves the transfer of ownership of government assets to the private sector. This often results in government owned corporations being sold to the private sector through a float (the issuing of shares to the public for the first time), and then run as profit-making businesses.
One of the main arguments made to support privatisation is that greater efficiencies can be achieved when an enterprise is transferred away from the public sector to the private sector. The private ownership of a business typically places more importance on maximising profit, as opposed to ownership by government, which is less concerned with profit and more concerned with policy. Critics of privatisation suggest that some goods and services, such as defence, education and health care, should be owned and managed by the government to ensure that everyone in society has equal access to them.

A recent example of privatisation is that of Medibank, which was floated on the Australian Securities Exchange (ASX) in 2014. In this way, Medibank was transformed from a government business enterprise to a public listed company.

**MEDIBANK**

Medibank Private Limited is a company that is listed on the ASX and is headquartered in Melbourne. It employs nearly 3000 people. It provides private health insurance and complementary health services to more than 3.7 million people in Australia and New Zealand through its Medibank and ahm brands.

However, Medibank has not always been a public listed company. The Australian government established Medibank Private in 1976 as a not-for-profit private health insurer that would provide competition for private for-profit health funds. It was a product of the then-Labor government’s decision to establish a universal health scheme. Medibank was originally an operating division of the Health Insurance Commission (HIC) – now known as Medicare Australia.

In early 1997, the Australian government announced that it would incorporate Medibank, transferring ownership from the HIC to the government. The following year Medibank split from the Commission to become Medibank Private Limited. The Commonwealth became its sole shareholder.

The Howard government in 2006 announced that Medibank would be sold if it won the 2007 election. Legislation was passed enabling Medibank’s sale through the Medibank Sale Act 2006. However, the Howard government lost the 2007 election, and in 2009 the Rudd government converted Medibank Private into a ‘for profit’ corporation.

The Coalition government announced that Medibank Private would be sold through an initial public offering (IPO) in March 2014, hoping to raise $4 billion from the sale. IPO refers to the first time that a company sells shares to the open market.

When announcing the process for the privatisation of Medibank, Minister for Finance Mathias Cormann said, ‘Medibank Private is already performing very well as a business, but there are obviously some restrictions that come with being government owned and we believe that in private ownership, Medibank private will be able to perform even better.’

The sale of Medibank commenced with a campaign to convince investors to pre-register their interest. A prospectus was made available in October. More than 750,000 people pre-registered for the shares, including one in six Medibank policyholders, and the IPO ended up being oversubscribed (more people wanted to buy Medibank shares than there were shares available).

The company listed on the ASX in November, with its share price opening at $2.22 – much higher than its IPO price – before closing at $2.14. This meant that the 440,000 retail investors who paid $2 for each share benefited from a 14c rise in the share price. The sale ended up raising $5.7 billion for the Australian government. It was expected that the proceeds from the sale would be invested into infrastructure through the government’s asset recycling initiative.

Critics, such as the federal Labor Opposition, were concerned that the sale would negatively impact on Medibank’s staff members and policy holders, particularly that it might lead to an increase in private health insurance premiums. The Opposition also believed that the sale would increase the budget deficit (because the government would lose Medibank’s annual dividend payment). Some fund managers suggested that Medibank was not a company that was likely to see strong growth.
Medibank Private is now a multi-billion-dollar revenue business, and holds just under 27 per cent of the private health insurance market in Australia. In February 2018, Medibank announced a half-year profit of $245.6 million, an increase of 6 per cent on the previous year’s first-half result. The result was attributed to higher premiums and cost cutting. Medibank chief executive officer (CEO) Craig Drummond said, ‘2018 marks a step change for Medibank. We are now positioning for growth which will allow us to leverage our scale to build the core business and transform into a broader health services company.’

The profit was better than market expectations and Medibank Private’s share price jumped more than 3 per cent to $3.15 by the close of trade.

In response to increasing consumer disquiet about rising premiums, Mr Drummond also announced that Medibank would start a ‘priority program’ to recognise and thank long-term customers. Customers who have maintained hospital and extras cover for more than 10 years will share a one-off $20-million loyalty bonus from June 2018. For example, priority customers will be able to put the bonus towards increasing their extras limits or seeing a physiotherapist.

DID YOU KNOW?
When Medibank Private floated on the ASX, its five female directors made history by sitting on the only board of the 100 largest companies to have more women than men. In 2018, there were still five women on Medibank’s board of eight directors: chairman Elizabeth Alexander, Tracey Batten (a former CEO of St Vincent’s Health Australia, Eastern Health and Dental Health Services Victoria), former premier of Queensland Anna Bligh, Japara Healthcare chair Linda Bardo Nicholls, and CSL and Transurban director Christine O’Reilly.

1.6 Activities
TEST your understanding
1. Define the term ‘privatisation’.
2. Outline the arguments for and against privatisation.
3. Explain why Medibank Private was a government business enterprise.
4. Describe the process of privatisation as it applied to Medibank.
5. Explain why Medibank Private is now a public listed company.
6. Outline what a chief executive officer (CEO) is. Why does Medibank have a CEO?

EXTEND your understanding
7. A good indicator of how well a public limited company is performing is its share price. If it is achieving its objectives, such as making a profit, a company’s share price will often rise. The table on the next page lists the closing share price (closing means the last price the shares sold for at end of the day’s trading) for Medibank shares on the 30th of June since 2015.
   (a) Using online sources, find the most recent closing share price for Medibank shares and draw a line chart of Medibank’s performance.
   (b) If you had purchased shares in Medibank Private when it floated in 2014, would you believe that your investment has performed well?
(c) Using Medibank’s share price as evidence, explain how successful the privatisation of Medibank Private was.

<table>
<thead>
<tr>
<th>Date</th>
<th>Closing share price for Medibank (code MPL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 June 2015</td>
<td>$2.01</td>
</tr>
<tr>
<td>30 June 2016</td>
<td>$2.95</td>
</tr>
<tr>
<td>30 June 2017</td>
<td>$2.80</td>
</tr>
<tr>
<td>30 June 2018</td>
<td>$2.92</td>
</tr>
</tbody>
</table>

8. Use the internet to research another public listed company that was privatised after once being a government business enterprise. Some examples include Telstra, Qantas and the Commonwealth Bank. Prepare a report that covers:
- the full name of the company
- a brief history of the business
- a description of the company’s product/s
- why the business became a public listed company
- the long-term plans for the company.

1.7 APPLY YOUR SKILLS Analyzing and discussing social enterprises

PRACTISE YOUR SKILLS
- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations

There is an increasing group of entrepreneurs across the globe setting up businesses to tackle social issues, ranging from unemployment to empowering women and girls and fighting poverty. These businesses are referred to as social enterprises: commercially viable businesses that are established to achieve social objectives, rather than focus on making profit for shareholders or owners. A social enterprise will typically seek to generate a profit from its trading activity to continue to tackle social problems and improve communities or the environment.

VANGUARD DOES THE LAUNDRY TO PROVIDE JOBS

Luke Terry’s friends laughed when he decided to set up a business that would recruit unemployed people with mental illnesses to do laundry for a hospital in eastern Australia. The commercial laundry service that he founded in Toowoomba, Vanguard Laundry Services, now employs more than 40 people and cleans 20 tonnes of linen a week for 90 commercial clients.

In his former role as CEO of Toowoomba Clubhouse, a not-for-profit organisation supporting people with a lived experience of mental illness and struggling to secure employment, Terry had people from the local community asking him if he could help them to find a job. After searching locally, he received an offer to take care of the washing for St Vincent’s Private Hospital in Toowoomba. He spent three years fundraising — raising $6 million from more than 100 sources — and Vanguard was finally established when the laundry facility opened at the end of 2016. Since then, the social enterprise has experienced rapid growth and has had a substantial social impact.
As a social enterprise, the Vanguard laundry provides jobs to unemployed people who have a lived experience of mental illness. Any surplus it makes is re-invested back into improving the laundry services or supporting local mental health employment projects. As the managing director of the business, Terry believes that the social enterprise business model is healthy for staff and for the wider community.

Many of Vanguard’s employees suffer from bipolar disorder, depression, anxiety or physical health problems. For them, having a job brings a number of benefits. A 2018 Swinburne University study funded by AMP Foundation evaluated the mental health and wellbeing impacts of Vanguard. The study found that fewer than a third of Vanguard’s employees had significant employment experience before starting work at Vanguard. It was also found that after just one year, Vanguard workers were much less likely to rely on welfare. Furthermore, the employees were less likely to visit hospital and almost 80 per cent said they simply felt better now.

One of Vanguard’s goals is for its workers to, eventually, move on to other employment. The business has staff dedicated to supporting welfare and career development, and also offers courses on money management and quitting smoking.

The social enterprise’s custom-built commercial laundry uses state-of-the-art technology. The business also offers a full barrier wall system — a permanent structure that is installed in the laundry facilitating the separation of the dirty (soiled) side of the building from the clean side to avoid any cross contamination and therefore meeting industry health standards.

**CHANGES SUPPORTS RETAILERS IN DONATING TO GLOBAL DEVELOPMENT PROJECTS**

Jeremy Meltzer, a Melbourne-based entrepreneur, founded i = Change in 2013. It is a social enterprise that funds global development projects — typically ones that aid impoverished women and girls. The business partners with online retailers to encourage them to integrate social responsibility into their e-commerce platforms.

Meltzer was inspired to establish i = Change after becoming increasingly aware of the systemic violence and abuse facing women and girls across the globe. He lived for some time in Cuba and was shocked at how violence against women appeared to be considered ‘normal’ across Latin America.

Since then, every time that he has had the opportunity to travel, Meltzer has visited non-governmental organisations (NGOs) that work with women and girls around the world. To better understand the issue, he has met with the NGOs and women’s rights activists, sat with communities and spoken to media around the world. Meltzer has pointed out that the United Nations (UN) states that violence against women and girls is rooted in structural inequality in power relations between women and men. According to the UN, it persists in every country in the world and is one of the most systematic and widespread human rights violations.

With these issues in mind, Meltzer decided to incorporate a charitable component into a business he had already established with his father — an olive oil company, Yellingbo, that sells products online. Meltzer had woken up early one morning with an idea — what if sales could be turned into a force for good, and customers could give to charities and communities in need with every purchase? He spent weeks working on the idea, speaking to IT people about how a platform could be created, and then tweaking the initiative.
Instead of inviting customers to donate to a charity after completing a purchase, Meltzer flipped the model. Partnering with a small number of NGOs that have a focus on women and girl’s development, such as the Nike Foundation and Women for Women International, Meltzer created an online platform for the olive oil business where, for every bottle that the customer purchased, the business donated two dollars to a charity of the customer’s choice. There was an amazing response, with approximately 20 per cent of customers adding extra donations as well as people talking about it on social media.

Meltzer decided to develop the idea into something bigger that could be offered to other e-commerce businesses. He returned to the drawing board to transform his lightbulb moment into a bona fide social enterprise. i=Change was born.

Shoe retailer Nine West became i=Change’s first retail partner. Together they tested, refined and improved Meltzer’s cause marketing platform. The company soon experienced the value of appealing to customers who want to support brands that give back to society.

The i=Change platform is a simple plug-and-play application that customers experience after their purchase. It involves online retailers committing to a donation with every sale, usually $1, and customers choosing where the donation goes, via the i=Change platform, at checkout. The customer can click a link to read about the life-changing project that the business will be donating to, or can choose to donate more if they wish. Customers can also share their choice. The entire donation is forwarded to the charity project of the customer’s choice — the social enterprise does not keep any proportion of a donation. Instead, i=Change charges its retail partners a separate fee for use of the platform.

Meltzer believes strongly that social enterprises need to be successful businesses in order to have an impact on the area of social change that is being focused on. He says a social enterprise needs to be profitable to be able to pay employees and continue to use the profits to achieve its chosen social objectives. i=Change currently has more than 40 participating retailers, including brands such as Pandora and Camilla, and recently hit $600,000 in donations. It has partnered with over 20 charities and NGOs across the world, donating to causes ranging from providing housing for refugee families in Australia, to preventing child marriage in Bangladesh, to keeping girls in Zimbabwe in school.

The social enterprise is now focused on raising capital with the aim of expanding into the US market.

1.7 Activities

TEST your skills
1. Define the term ‘social enterprise’ in your own words.
3. What is Vanguard’s objective?
4. Explain what Vanguard does with any surplus it makes.
5. Outline the benefits that Vanguard brings to the Toowoomba community.
6. Read ‘i=Change supports retailers in donating to global development projects’. Explain where Jeremy Meltzer’s idea for i=Change came from.
7. What is i=Change’s objective?
8. Outline how Meltzer’s online cause-marketing platform works.
9. Why does Meltzer believe that social enterprises need to be profitable businesses?

APPLY your skills
10. Using internet sources, find an example of a social enterprise. For example, you might use the ‘Social Traders’ website to identify names of social enterprises in Australia.
   (a) What is the objective of the social enterprise?
   (b) Explain how the social enterprise achieves its objective.
11. Identify whether or not the following businesses are social enterprises. Justify each response.
   (a) Sports4U Pty Ltd designs, develops and sells sporting apparel including compression wear and general fitness garments. Its mission is to advance human performance through the development of the best available athletic garments at the lowest possible prices.
   (b) Delia is a sole trader operating a landscape gardening business. She started the business to pay off her and her husband’s mortgage.
12. The task word (sometimes referred to as command word or instructional word) ‘discuss’ generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Vanguard Laundry Services or i = Change, discuss the use of a social enterprise as a type of business.

1.8 Business objectives

**KEY CONCEPT** There is a range of different business objectives, including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations. Objectives and related business strategies vary according to the type of business.

### 1.8.1 Business objectives

Every business aims to achieve an **objective**. An objective gives a business direction; that is, it provides the business with a path to follow, increasing its chances of being successful. The Port Arthur Historic Site Management Authority is a government business enterprise with objectives that relate to conserving, managing and promoting the Port Arthur historic sites in Tasmania as cultural tourism places of international significance. As a GBE, its objectives are very different to those of other types of businesses. Just as there are several types of businesses, there is a range of different objectives.

![Business objectives diagram]

### To make a profit

Making a profit is an objective that is central to many businesses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue). A loss occurs when the expenses exceed the revenue. For example, if business expenses totalled $100,000 per year and revenue from sales was $300,000, the business would have made a profit.

A major indicator of a business’s success is the size of its profit, so many businesses not only want to make a profit, they want to maximise their profit. A business may have other objectives that will support it in achieving its main objective of making profit, such as increasing sales, expanding the business, or increasing market share.
Port Arthur Historic Site Management Authority is responsible for the Port Arthur, Coal Mines and Cascades Female Factory historic sites. The GBE has objectives, so that its management and employees know what to do to ensure that the enterprise is successful.

To increase market share
As mentioned in section 1.2.1, market share is a business’s proportion of total sales in a market or an industry. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. In most industries, market share is usually an objective only for large businesses. Such businesses often develop an extensive product range, using many different brand names, to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

To fulfil a market need
For many businesses, their purpose is to fulfil some sort of market need. For example, a business may exist to meet customer expectations or provide a good or service that is not otherwise available to a market. In some cases, it is quite possible that small businesses may be able to meet specific market needs more efficiently than larger businesses. For example, a small general store in a rural area may have the objective of meeting the specific needs of a local community, whereas larger food retail businesses might struggle to meet these needs. A business may have other objectives that will support it in fulfilling a market need including objectives related to the function of the product as well as quality, price and convenience.

To fulfil a social need
Sometimes a business will aim to fulfil a social need. This objective involves the production and/or selling of goods and services for the purpose of making the world a better place. A business with such a focus may generate an income, but its primary purpose is the common good. Objectives related to fulfilling social needs might include improving human wellbeing, such as providing opportunities for local unemployed people or assisting disadvantaged people in the community, or focusing on the environment, such as minimising waste and recycling.
To meet shareholder expectations

Making profit is the primary objective of many businesses. This is particularly important for investors in a company — its shareholders. Shareholders expect to make a return on their investment. They expect the business that they have invested in to make a profit as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of a company’s shares increases. If the part of the profit gained by the company is returned to shareholders, or the value of a company’s shares increase, then shareholders will have their expectations met.

1.8.2 Setting business objectives

As businesses seek to achieve different things, each business will have different objectives. It is obvious that many businesses exist to make a profit and will consequently measure their performance against objectives established around profitability (sales, market share, returns on investment). However, profits are not the only objective.

Many businesses today, such as Bendigo and Adelaide Bank, include customer service, community involvement, the environment and concern for employees within their objectives. Bendigo and Adelaide Bank focuses on customers, communities and partners, and sustainable earnings and growth.

Government business enterprises will, of course, have objectives reflecting the provision of services to the community. VicRoads’ objective is to deliver social, economic and environmental benefits to communities. It does this by managing Victoria’s roads and transport.

Social enterprises exist to achieve objectives in addition to making a profit. If there is a profit motive, that profit is used to further help those in need. The primary objective of a social enterprise is not to make profit to distribute to shareholders. For example, The Social Studio is a social enterprise; its objective is to raise awareness of the refugee experience.

Although making a profit is crucial for the long-term survival of most businesses, concentrating on this objective to the exclusion of all others may eventually harm the business. Poor customer service, low staff retention rates, and damage to the environment or to the business reputation are some likely consequences, when a business is focused solely on making profits.
Objectives from a range of businesses

<table>
<thead>
<tr>
<th>Business</th>
<th>Type</th>
<th>Vision/Mission/Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakers Delight</td>
<td>private limited company</td>
<td>Vision: ‘To be the world’s best fresh bread retailer.’</td>
</tr>
<tr>
<td>VicRoads</td>
<td>government business enterprise</td>
<td>Purpose: ‘... to deliver social, economic and environmental benefits to communities throughout Victoria by managing the Victorian arterial road network and its use as an integral part of the overall transport system.’</td>
</tr>
<tr>
<td>The Social Studio</td>
<td>social enterprise</td>
<td>Objective: ‘To create awareness and change public perceptions for people who have experienced being a refugee.’</td>
</tr>
<tr>
<td>Commonwealth Bank</td>
<td>public listed company</td>
<td>Vision: ‘To excel at securing and enhancing the financial wellbeing of people, businesses and communities.’</td>
</tr>
</tbody>
</table>

**COMMUNICATING OBJECTIVES**

Businesses communicate their objectives in many different ways. The objectives of a small business are often found in the business plan. The objectives of larger businesses are often clarified in a vision statement, which broadly expresses what a business hopes to become; or a mission statement, which formally expresses the reasons for a business’s existence, its purpose and its method of operation. Sometimes business objectives may be expressed in a ‘purpose’, a ‘values statement’ or as ‘strategic priorities’. In whatever form they take, the objectives are usually communicated to stakeholders using noticeboards, websites or annual reports.

**1.8.3 Developing business strategies**

Once a business has established a set of specific objectives, the next step is to determine what needs to be done to achieve the objectives. Strategies outline how the business will attempt to achieve its objectives — they are a series of actions undertaken to achieve an end result. For example, a strategy to achieve the objective of increased profit may be the introduction of a new product range.

Successful businesses develop a range of different strategies to achieve objectives in different areas of management responsibility. A marketing objective, for example, might be to increase market share by 10 per cent. Strategies to achieve this might include:

- targeting a new group of customers
- increasing sales by using a new promotional campaign
- increasing the number of distribution outlets
- improving the performance or quality of the existing product.

A business needs to make sure all the objectives and strategies are linked. Money will be required, for example, to implement the marketing strategies, so the finance strategies need to reflect this link.
1.8.4 Analysing performance

After determining the business’s objectives and strategies, management will eventually need to ask, ‘How well did we do?’ Performance is analysed by determining whether the business objectives have been achieved. This can be done by constantly asking:

- How is the business performing?
- How does the business’s performance compare to that of similar businesses?
- Is the business performing as planned?
- Has the business’s performance improved over time?

Once measurements have been collected, businesses can identify and investigate any discrepancies in comparison with original planned objectives. The business needs to ask whether the desired results were achieved and, if not, where and why they failed. If strategies were successful, the business should examine what made them a success and reuse these strategies. By analysing successful operations, the business may also identify weak spots that can be improved.

A business can analyse its performance by assessing whether it has been effective as well as efficient. **Effectiveness** indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is ‘doing the right things’. If a business’s objective was to make profit, then improving profit from one year to the next would be seen as effective. **Efficiency** refers to how well a business uses the resources needed to achieve an objective. The most efficient use of resources occurs when benefits are greater than the costs of resources employed. If a business reduced the amount of waste it produced while achieving its objective of profit, for example, then this may be considered to be efficient.

Businesses use **key performance indicators** (KPIs) to precisely analyse performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business’s operations. Examples of key performance indicators that relate to some of the business objectives we have explored can be seen in the table below. Key performance indicators are covered in more detail in chapter 6.

<table>
<thead>
<tr>
<th>Business objective</th>
<th>Key performance indicator</th>
<th>How the KPI can be used to evaluate performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>To make a profit</td>
<td>Net profit figures</td>
<td>An improvement in net profit means that the business has improved its performance, either by earning more revenue or by reducing expenses and costs.</td>
</tr>
<tr>
<td>To increase market share</td>
<td>Percentage of market share</td>
<td>An increase in market share suggests that the business is performing successfully, as it has a greater proportion of the sales in the market.</td>
</tr>
<tr>
<td>To fulfil a social need</td>
<td>Level of wastage</td>
<td>If the amount of unwanted or unusable material created by the production process is reduced, then the business has reduced its impact on the environment. It has also improved efficiency.</td>
</tr>
</tbody>
</table>

1.8 Activities

**TEST your understanding**

1. Outline the difference between an objective and a strategy.
2. Explain the importance of business objectives.
3. Examine the four businesses’ objectives outlined in the figure at the end of section 1.8.2, and then answer the following questions.
   (a) Are there common features of these objectives? What are they?
   (b) What are the differences between these objectives?
   (c) Would it be important for employees, managers and customers to be familiar with a business’s objectives? Why?
4. Complete the following sentences by filling in the blanks.
   (a) Making a __________ is a central objective for many businesses.
   (b) Fulfilling a __________ involves producing and/or selling goods and services for the purpose of making the world a __________ place.
(c) Fulfilling a __________ involves meeting customer expectations or providing a good or service that is not available to a market.

(d) Shareholders expect to receive a proportion of the profits (called ________) as well as make a capital ______ if the value of a company's shares increases.

(e) Market share is a business’s ______ of total industry _________.

5. Why should businesses analyse their performance?

6. Differentiate between effectiveness and efficiency.

7. What is a key performance indicator and what is it used for?

APPLY your understanding

8. Working with a partner, write a suitable business objective for the following businesses.
   (a) Your local fish and chip shop
   (b) Your local accounting firm
   (c) A company that exports products
   (d) A social enterprise employing the homeless

9. What are your objectives for this year? Do you have a strategy to achieve those objectives? Complete the table below to see how strategies are linked to objectives (both personal and business ones). The table has been started for you.

10. Use the NAB weblink in the Resources tab to determine NAB’s objective. List the strategies you find.

11. Use the Australia Post weblink in the Resources tab to find out what type of business it is. Outline Australia Post’s objectives.

<table>
<thead>
<tr>
<th>Personal objective</th>
<th>Strategy to achieve it</th>
<th>Business objective</th>
<th>Strategy to achieve it</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get an ‘A’ in VCE Business Management</td>
<td>1. Read textbook 2. Complete homework</td>
<td>Increase profit 1. Launch new advertising campaign</td>
<td>2. Improve customer service training</td>
</tr>
<tr>
<td></td>
<td>3.</td>
<td></td>
<td>3.</td>
</tr>
<tr>
<td></td>
<td>4.</td>
<td></td>
<td>4.</td>
</tr>
</tbody>
</table>

EXAM practice

12. Distinguish between the objectives to make a profit and to increase market share. (2 marks)

13. Explain the business objective ‘to meet shareholder expectations’. (2 marks)

14. Anja has established a social enterprise called ‘Social Bikes’. Describe two business objectives that Social Bikes will need to achieve. (4 marks)

1.9 APPLY YOUR SKILLS Business objectives and KPIs

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
1.9.1 Business objectives

OBJECTIVE: GIVE AWAY ONE MILLION MEALS A YEAR

FareShare is a small social enterprise that gives away healthy, nutritious meals to hungry and homeless people in Victoria using food donated by businesses. Its vision is 'a society where food is not wasted and no one goes hungry'. FareShare 'rescues' food that would otherwise have ended up as waste in landfill.

The enterprise started in 2000 with volunteers cooking 300 pies a week. For some time, its aspirational target has been to cook one million meals in a year. It finally achieved this in 2015, with its volunteers and staff cooking approximately 5000 meals every day. FareShare now employs 20 paid staff and has eight vans that supply meals to more than 400 Victorian charities including Vinnies vans, the Salvos and the Asylum Seeker Resource Centre.

FareShare's major food and kitchen donors include Woolworths, Coles DC, Bakers Delight, Fonterra, Corona Manufacturing and Linfox Logistics. Moorabbin Airport recently donated a block of land to FareShare. This land was transformed into an enormous vegetable garden to supply the enterprise's kitchen in Abbotsford with fresh produce. FareShare spokeswoman Lucy Farmer said, 'The one thing that really constrains us is a reliable source of ingredients, specifically vegetables'.

'We want our food to be nutritious. One of the best ways to do that is have vegetables in it, but they are often tough to source on a regular basis. But this should help solve that issue,' she said.

FareShare does have other objectives. Part of its mission relates to raising awareness about food insecurity and the value of food rescue. FareShare also helps the environment, as reducing waste that ends up in landfill reduces methane pollution and the demand for new food products.

In 2017, FareShare rescued 821 tonnes of food, which it used to cook 1,158,569 meals!

1.9.1 Activities

TEST your skills

1. Define the term ‘business objective’.
2. Explain what a ‘vision’ is.
3. Describe what FareShare does and how its work benefits the community.
4. Explain why FareShare’s mission is very different from that of other businesses that have a main focus on making a profit.
5. Using evidence from the case study, has FareShare achieved its objectives?

APPLY your skills

6. Use the FareShare weblink in the Resources tab to watch the video about FareShare.
   (a) What objectives are businesses such as Woolworths achieving by donating food to FareShare?
   (b) Approximately how many tonnes of food are wasted each year in Australia?
   (c) How many volunteers work for FareShare? Why do you think people volunteer to work for no wages?
   (d) Explain what would happen to the surplus food if FareShare did not collect it.

7. The task word (sometimes referred to as command word or instructional word) ‘discuss’ generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Discuss the strengths and weaknesses of FareShare as a social enterprise.

8. The task word (sometimes referred to as command word or instructional word) ‘evaluate’ generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the need for social enterprises in our society.
1.9.2 Goal!
Ask your teacher for permission to complete this activity in class time. The aim of this activity is to apply your theoretical understanding of business management to a practical activity.

Materials required
• Basketballs
• Basketball rings
• Space

Instructions
1. Arrange your class into groups of three or four.
2. Find a place where your class can set up to have shots at basketball rings. You or your teacher may need to book the school gym or the basketball court. *(Note: Other sports can be substituted, as long as it is possible to achieve the objective of the activity — to score a goal.)*
3. Work out an order among the members of your group. Every student should have 10 shots at goal.
4. As each student is shooting at goal, record the result. Did they score a goal, hit the ring or miss completely?

1.9.2 Activities
TEST your skills
1. How did your group manage the task? Did you work well together?
2. What was the objective for your group?
4. What does ‘efficiency’ mean?

APPLY your skills
5. How can you measure the effectiveness of your group’s performance in this activity?
6. Can you think of a way to measure your group’s efficiency?
7. Complete the following table, using the results from your goal shooting. The table has been started for you.

<table>
<thead>
<tr>
<th>Efficient</th>
<th>Inefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective</td>
<td>Score a goal from every shot</td>
</tr>
<tr>
<td>Ineffective</td>
<td></td>
</tr>
</tbody>
</table>

8. Is it possible for a business to be effective but inefficient?
   Is it possible for a business to be efficient, but ineffective?
   Explain your answer using business examples.
1.10 Business stakeholders in the internal environment

**O KEY CONCEPT** Businesses have many stakeholders, with varying interests. Internal stakeholders include owners, shareholders, directors, management and employees.

Businesses have many stakeholders. “Stakeholders” refers to the people and groups that interact in some way with the business and have a vested interest (or stake) in its activities.

Many of these stakeholders are found in the internal environment — inside the business. These stakeholders are part of the business itself, including owners, shareholders, directors, management and employees as well as any formal or informal groups that are created within the business. Other stakeholders are found in the external environment — outside the business and beyond its full control. These stakeholders include government, competitors, interest groups (such as trade unions, consumer groups and specific issue groups), customers, suppliers and members of the community. All of these groups and individuals can be affected by the activities of a business. They can also influence the activities of the business they have an interest in.

<table>
<thead>
<tr>
<th>Internal stakeholder</th>
<th>Interest</th>
</tr>
</thead>
</table>
| Owners              | Want the business to make profit — they may depend on the success of the business for their income or wealth  
                      | Will typically want the business to conduct itself in a socially responsible manner                                                    |
| Shareholders        | Want the business that they have invested in to make profit as this affects the value of their shares and the amount of dividends they receive  
                      | Many will want the business to be socially responsible                                                                                 |
| Directors           | Have responsibility for developing and overseeing the strategic direction of the company in return for status and remuneration          |
| Management          | Want the business to perform financially, and in return, expect to be fairly remunerated                                                
                      | Will typically want the business to be socially responsible as this is likely to lead to increased sales                                 
                      | Need to satisfy as many stakeholder expectations as possible while making sure that their position in the business is secure           |
| Employees           | Expect to be paid fairly, trained properly and treated ethically in return for their contribution to production                           
                      | Need to know that their job is secure in the long term                                                                               |
1.10.1 Owners

A business may be owned by a sole trader, by partners or by a number of shareholders. The extent to which the owner is involved in the management or daily operations of the business will affect his or her vested interest in its activities. For example, a sole trader or a partner is likely to have a direct say in what the business does.

The owners who manage or operate the business on a day-to-day basis will possibly have a very personal vested interest in the business — they are likely to depend on the success of the business for their income or wealth. Furthermore, the performance and conduct of the business can affect the reputation of the owner. For example, operating a business that is known to have dishonest dealings with other stakeholders is likely to reflect poorly on the characters of the owners of the business. Alternatively, the failure of a small business might leave a sole trader or partner in debt.

1.10.2 Shareholders

Shareholders purchase shares in a company, so they are partial owners of businesses. Despite not usually being involved in the day-to-day operations of a business, shareholders do have some say in the running of a business, for example, by voting at a company’s annual general meeting. In this way, they can influence major decisions. For example, shareholders may vote for the directors of the company or to approve an annual report. It is also quite possible that a shareholder can also be a director, manager or employee of a company.

Shareholders want the company that they have invested in to be profitable as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of a business’s shares increases. Many shareholders realise that by being socially responsible a business can improve its reputation, but they know that this can also increase financial costs to the business.

There are shareholders who will only invest in companies they see as socially responsible, which is known as socially responsible investing. Other shareholders might think that it would be best to ignore social responsibility. Most would be pleased, however, about the introduction of any strategy that improves productivity, boosts sales or leads to increases in profit.

DID YOU KNOW?

In Australia, many industries generate emissions of the most common greenhouse gas — carbon dioxide. The coal and power industries and resource projects have adopted a range of measures to reduce emissions, including the use of energy-efficient technology.
1.10.3 Directors
The directors of a company are the people who have overall responsibility for managing the company’s business activities. A director must be honest and careful in their dealings and be aware of what the company is doing at all times. Small companies must have at least one director. Larger companies may have many directors who are collectively known as the ‘board of directors’. The board’s role is to develop and oversee the strategic direction of the company. In return, members of the board expect to acquire power and status by being the director of a company. The directors of a company also expect to be fairly remunerated, including earning directors’ fees and receiving share options.

DID YOU KNOW?
It is possible for a private limited company to have a single director who is also the sole shareholder of the company. This person must maintain minutes (a written record) of any resolutions made concerning the management of the company’s business. Each resolution must also be passed and signed off by the sole director and shareholder.

1.10.4 Management
Management has the responsibility of running a profitable or successful business. These people must ensure that the strategies that the business has implemented will achieve its objectives. Poor financial performance, for example, would result in management reviewing the business’s strategies, processes and employee performance. In return, management staff expect to be fairly remunerated, including through a salary and other benefits.

Most managers today understand that socially responsible activities should lead to increased sales. There are many complex legal issues that managers must contend with today, however, and introducing new socially responsible policies and procedures can be expensive and time consuming. Management could introduce new technology to reduce waste and improve productivity, so that the business remains competitive, helping to boost sales and profit, but this could mean that employees lose their jobs. Management could offer employees higher wages and better working conditions, but they may be forced to raise the price of products to cover this cost, leading to a fall in sales. Managers must endeavour to satisfy as many stakeholder expectations as possible while making sure that their position in the business is secure.
1.10.5 Employees

Employees are the people who work for the business. Their contribution is vital as they are involved in the manufacture or production of the good or service that the business sells. The quality of the product depends on their skill and commitment to the process. Employees should be valued as members of the business by being paid fairly, trained properly and treated ethically. Employees need to know that their job is secure in the long term. If businesses can provide for their needs, employees will be more inclined to put effort into work tasks and will be motivated to meet customer expectations.

DID YOU KNOW?

Henry Ford, the founder of the Ford Motor Company, purchased a small piece of land in 1929 located along the Amazon river in Brazil. His plan was to establish a prefabricated industrial town named Fordlândia for the purpose of securing a source of cultivated rubber for the company’s car manufacturing operations. Ford had early success in imposing ‘American’ lifestyles and values on the community, but the indigenous workforce soon rejected the strict assembly-line philosophies, refusing to work. Riots ensued and management were forced to flee. Finally, after a botanist hired by Ford to assess the situation concluded that the land was terrible for growing rubber trees, the town was abandoned. Today, the venture is considered a massive failure.

1.10 Activities

TEST your understanding

1. Define the term ‘stakeholder’ in your own words.
2. Explain the difference between internal and external stakeholders.
3. Are a shareholder and a stakeholder the same thing? Explain your answer.
4. Use a table like the one below to summarise details of a business’s internal stakeholders and their interests covered in this subtopic.

<table>
<thead>
<tr>
<th>Internal stakeholder</th>
<th>Description</th>
<th>Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

APPLY your understanding

5. In a small group, brainstorm the internal stakeholders of your school. Choose a representative to share your comments with the other groups in your class.
6. Choose a business that you have heard about and use the internet to research the internal stakeholders of the business. For example, you could find out about how many owners the business has. Do these owners have direct involvement in the operations of the business?
7. Use the Internal business stakeholder weblinks in the Resources tab to look at the websites of the following businesses. Choose one and complete the table below.

- Scentre Group
- Village Roadshow
- Visy
- Link Housing Ltd

<table>
<thead>
<tr>
<th>Name of business</th>
<th>Number of shareholders/owners</th>
<th>Number of directors</th>
<th>Number of senior managers</th>
<th>Number of employees</th>
</tr>
</thead>
</table>
EXAM practice
8. Define the term ‘stakeholder’. (1 mark)
9. Describe the interests of employees. (2 marks)
10. Distinguish between management and shareholders. (4 marks)

ON Resources
- Weblink: Internal business stakeholder: Scentre Group
- Weblink: Internal business stakeholder: Village Roadshow
- Weblink: Internal business stakeholder: Visy
- Weblink: Internal business stakeholder: Link Housing Ltd

1.11 Business stakeholders in the external environment

**KEY CONCEPT** External stakeholders include government, competitors, interest groups, customers, suppliers and members of the community.

External stakeholders are found outside the business and beyond the full control of the business. Nevertheless, they can still either affect or be affected by the activities of a business. These stakeholders include government, competitors, interest groups (such as trade unions, consumer groups and specific issue groups), customers, suppliers and members of the community.

Qantas CEO Alan Joyce speaks to the media with Australia’s former Foreign Minister Julie Bishop as the new QANTAS Boeing 787 Dreamliner aircraft arrives on its first flight into Sydney in 2017.
1.11.1 Government

Government exists at three levels in Australia (federal, state and local). Elected governments attempt to make or change laws that have an impact on businesses. Governments can regulate or deregulate business activity. Each level of government imposes its own direct and indirect regulations to which all businesses must adhere. These regulations may influence a business to change its activities; for example, if taxes become too high. Government can also encourage businesses to expand by, for example, offering government grants. The government benefits from successful business by receiving a portion of their profits through its collection of taxation revenue.

1.11.2 Competitors

Competition is rivalry among businesses that try to supply the needs and wants of a market. Competitors, therefore, are other businesses or individuals who offer rival, or competing, goods or services to those offered by the business. Business owners or managers need to aim to achieve a sustainable competitive advantage over their competitors to capture a larger share of the market.

A business needs to be constantly prepared to respond to any change in the actions of its competitors, as competitors themselves will attempt to gain a competitive edge over the business whenever they can. When ING Direct Australia, a subsidiary of the Dutch financial services company, ING Group, was launched in Australia, they began to offer customers high returns on savings accounts. To stay competitive, the big four banks — ANZ, Commonwealth, NAB and Westpac — now also offer high-interest online savings accounts.

From the business point of view, competition can stimulate greater efficiency in production and usually results in a better quality good or service at a lower cost to the business.

1.11.3 Interest groups

Interest groups are organisations of people who attempt to directly influence or persuade businesses to adopt or change particular activities, processes or policies. Three common types are trade unions, consumer groups and specific issue groups.

Trade unions

Unions represent employees in many workplaces in Australia. They attempt to negotiate favourable pay and work conditions on the employees’ behalf. Unions work to prevent anything that diminishes employee rights, safety or conditions. They will work with management to resolve workplace issues and act as an advocate for employees. Some people have criticised unions, saying that although they understand that profitability can lead to more jobs, they prefer to seek higher wages for union members rather than new jobs for non-union members.
Trade unions have a lot of power, including the ability to organise strikes if certain demands are not met. While the Australian Council of Trade Unions (ACTU) represents about 1.8 million workers, union membership in Australia more than halved between 1990 and 2016 (from 40.5 per cent of the workforce to just 15 per cent, according to Australian Bureau of Statistics data). The steady decline in union membership is partly due to a shift from blue-collar jobs to those in the service sector, which is less unionised.

Consumer groups
These interest groups, such as CHOICE, Australia’s leading consumer advocacy group, monitor a business’s performance in terms of product safety, packaging, pricing and advertising. Consumer groups pressure businesses to sell products that are safe, appropriately packaged, reasonably priced and advertised with honesty.

Specific issue groups
These groups combine to focus on one specific area, such as youth unemployment, civil liberties, anti-globalisation or environmental protection. Mining companies such as Rio Tinto and BHP, for example, often receive criticism from environmental groups over their mining activities. The companies respond by undertaking environmental impact studies and rehabilitation works.

1.11.4 Customers
Customers expect to purchase quality products at reasonable prices and they expect to receive high levels of service. They are becoming more aware of socially responsible businesses and this is one of the factors they consider when making purchasing decisions. Many customers wish to purchase products from businesses they know have acted in a socially responsible manner. A business needs to be aware of changes in customer preferences and tastes, and respond to these so that it can continue to satisfy their needs. For example, a business might introduce more environmentally friendly products to its range to ensure its future profitability in response to changing customer expectations.
1.11.5 Suppliers

Suppliers provide resources to a business that will be used in its production process. Resources can include raw materials, equipment, machinery, finance and information. It is essential for the business to develop good relationships with suppliers to ensure the timely delivery of quality resources. In return, suppliers expect to be paid promptly and in full. It is also in each supplier’s best interests to ensure that the resources supplied are of high quality, and delivered in the right quantities at the right times, as this will ensure a profitable business. Most businesses will have multiple suppliers providing a range of equipment and materials to ensure a constant supply of resources. Many businesses today expect their suppliers to behave in a socially responsible manner, and believe that their relationships with suppliers also need to meet corporate social responsibility considerations.

1.11.6 Members of the community

A business has a responsibility to the general community to be a good corporate citizen. Members of the community expect that a business will give back to society something of what they take out in generating profit. A socially responsible business is likely to participate in community projects and activities. For example, She Wear — which supplies footwear and accessories for women at work — partners with three charities that the owner, Stacey Head, believes resonate with herself and her customers. These charities are the National Breast Cancer Foundation, mental health organisation R U OK? and the RSPCA. Telstra encourages staff to become involved in issues they are passionate about by providing an annual day of paid volunteering leave and matching every dollar employees donate through payroll, giving up to $1000 per employee per year and $750 000 overall.

Members of the community increasingly expect businesses to show concern for the environment. Some might be worried about businesses using valuable land resources or showing disregard for carbon emissions. They may be concerned about waste disposal or pollution. There is growing pressure for businesses to adopt sustainable operating policies. Increasingly, businesses are making decisions that will allow them, and the rest of society, to continue to interact with the environment. For example, Wesfarmers Ltd strives to source products in a responsible manner while working with suppliers to improve their social and environmental practices, to reduce the emissions intensity of its businesses and to reduce its waste to landfill and water use. In its 2017 Sustainability Report, Wesfarmers outlined how it has reduced its environmental impact. Over the past five years, the company has reduced its greenhouse gas emissions intensity by 16 per cent.

Furthermore, some people within the general community may be concerned about their future welfare through their own employment within businesses. Businesses employ large numbers of people. In June 2016, the Australian Bureau of Statistics (ABS) estimated there were 4.7 million people employed in small businesses, 2.5 million people employed in medium-sized businesses and 3.5 million people employed in large businesses.

<table>
<thead>
<tr>
<th>The external stakeholders of businesses and their interests</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External stakeholder</strong></td>
</tr>
</tbody>
</table>
| Government | Make or change laws that have an impact on businesses  
Want the business to do well because this is good for the economy — the government also benefits from successful business by receiving a portion of their profits through its collection of taxation revenue |
| Competitors | Want to have a competitive advantage over the business  
Likely to be prepared to respond to any change in the actions of the business to gain a competitive edge — this may include changing prices or improving the quality of products |
External stakeholder | Interest
--- | ---
**Interest groups** | Trade unions want to prevent anything that diminishes employee rights, safety or conditions — they work to achieve favourable pay and work conditions for employee members. Consumer groups want to ensure that the business sells products that are safe, appropriately packaged, reasonably priced and advertised with honesty. Specific interest groups want the business to consider their area of interest, whether it is in the area of unemployment, civil liberties, anti-globalisation or environmental protection.

**Customers** | Expect to purchase quality products at reasonable prices and to receive high levels of service. Are becoming increasingly aware of socially responsible businesses and many will purchase products from businesses they know have acted in a socially responsible manner.

**Suppliers** | Must provide quality materials that are delivered reliably (in the right quantities at the right times) to ensure that the business makes a profit. Expect to be paid promptly and in full.

**Members of the community** | Expect that a business will give back to society something of what they take out in generating profit. Expect businesses to show concern for their future welfare through their own employment within businesses. Expect the business to show concern for the environment.

### 1.11 Activities

**TEST your understanding**

1. In your own words, explain what is meant by ‘government’.

2. Explain the importance of:
   a. competitors
   b. customers.

3. Brainstorm as many different types of suppliers as you can in 60 seconds.

4. Identify two examples of:
   a. trade unions
   b. consumer groups
   c. specific issue groups.

5. Use a table like the one below to summarise details of a business’s external stakeholders and their interests covered in this subtopic.

<table>
<thead>
<tr>
<th>External stakeholder</th>
<th>Description</th>
<th>Interest</th>
</tr>
</thead>
</table>

**APPLY your understanding**

6. In a small group, brainstorm the external stakeholders of your school. Choose a representative to share your comments with the other groups in your class.

7. Choose a business that you have heard about and use the internet to research the external stakeholders of the business. For example, you could find out about how many customers the business has. In what ways does the business communicate with its customers?

8. Use the Coles weblink in the Resources tab to find as many of Coles’ stakeholders on its website as you can. Answer the following questions.
   a. What type of business is Coles?
EXAM practice
9. Describe the interests of customers. (2 marks)
10. Outline the characteristics of unions. (2 marks)
11. Distinguish between competitors and suppliers. (4 marks)

1.12 Potential conflicts between stakeholders and corporate social responsibility considerations

**KEY CONCEPT** The varying interests of stakeholders can sometimes conflict. Society expects businesses to act in a socially responsible manner.

1.12.1 Potential conflicts between stakeholders

All stakeholders who interact with a business have an interest in its activities. Some of their expectations are compatible. For example, customers want quality products at reasonable prices. If the business meets this expectation, sales should increase, leading to greater profits. This, in turn, satisfies the shareholders, who are rewarded with higher dividends.

However, some expectations are incompatible; that is, they oppose each other. In this case, satisfying one set of stakeholders will most probably result in other stakeholders being dissatisfied. For example, employees and their unions require safe working conditions and reasonable wages, while customers want reasonably priced products. Providing a wage rise or working conditions beyond what is legally required is socially responsible, but it will cost the business money in the short term. If the business wishes to retain profit margins to satisfy shareholders, it may be forced to raise the prices of its products. This action will upset customers. On the other hand, the business may retain prices at the original level, reducing its profit. Doing this could cause disquiet among shareholders.

In an effort to maintain profit, the management of a business may choose to cut costs, for example, and ignore some of its responsibilities. These types of decisions can endanger employees or society or damage the environment through pollution, raising serious legal and social responsibility considerations. Management might choose to reduce costs by sacking employees or by compromising on product quality or safety, which raises other legal and social responsibility considerations.
Stakeholders and their conflicting interests

Stakeholders have various interests → Interests can conflict → Conflict leads to the concept of corporate social responsibility

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Conflicting interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees and shareholders</td>
<td>Employees require safe working conditions and reasonable wages, but this will reduce the business’s profit and dividends to shareholders.</td>
</tr>
<tr>
<td>Management and customers</td>
<td>Management could attempt to maintain profit and a high dividend to satisfy shareholders by raising the prices of products, but this will upset customers, who expect reasonably priced products.</td>
</tr>
<tr>
<td>Management and members of the community</td>
<td>Management might decide to cut costs by neglecting maintenance, which could possibly put members of the community in danger.</td>
</tr>
<tr>
<td>Suppliers and members of the community</td>
<td>Suppliers expect to be paid fairly and promptly, but they might reduce costs by using unethical or socially irresponsible practices, which can upset members of the community.</td>
</tr>
<tr>
<td>Management and suppliers</td>
<td>Management wishes to keep costs down to improve profit but suppliers providing ethical materials require higher prices to cover their costs.</td>
</tr>
</tbody>
</table>

DID YOU KNOW?
Ethisphere, a research-based international business dedicated to defining and measuring standards of ethical business practices, published its World’s Most Ethical Companies list in 2018. In doing so, it said that companies that focus on transparency and authenticity are rewarded with the trust of their employees, their customers and their investors — the companies that support the rule of law and operate with decency and fair play will always succeed in the long term.

1.12.2 Corporate social responsibility
Society increasingly expects businesses to consider corporate social responsibility and do the ‘right’ thing in the interests of all stakeholders. Modern businesses are expected to be enterprising and comply with the law, as well as being socially just and ecologically sustainable in their operations. Many businesses are now extremely sensitive to public opinion and strive to be recognised as being ‘good corporate citizens’.

Businesses recognise that they increase their chances of success when they pursue objectives that align with the interests and expectations of all stakeholders. However, these interests and expectations are not always compatible.
Corporate social responsibility considerations

Reconciling conflicting interests is not always easy. Senior management must constantly assess the actions of the business and attempt to satisfy as many stakeholder expectations as possible while acting in a socially responsible manner.

As society’s expectations of acceptable business behaviour increase, socially aware businesses recognise the importance and necessity of concentrating on sustainable business objectives; that is, focusing on financial outcomes while also being conscious of environmental and social performance. Many businesses today focus on the **triple bottom line** — financial (or economic), social and environmental performance — where shareholder value increases through the careful management of stakeholder value. More businesses understand that reconciling conflicting interests and increasing stakeholder value ensures long-term growth and survival. That is, businesses that take their social responsibilities seriously are often ‘rewarded’ with improved business performance.

Customers who believe that a business has a reputation for being socially responsible are more likely to continue to deal with the business. They are also likely to refer the business to other customers. Employees will want to work for the business, reducing costs of replacing staff and increasing productivity. While it can be expensive and time-consuming to introduce socially responsible strategies, they would be expected to bring about increased sales and profits. By comparison, a lack of social responsibility can damage a business’s reputation and reduce its competitive advantage. Customers may react and stop purchasing a business’s product if they learn that the business is exploiting employees, accepting bribes or polluting the environment.

One way for a business to be more socially responsible is to act ‘greener’. This can be done by recycling more and investing in renewable and sustainable resources.
Yarra Valley Water is a statutory corporation that provides water and sanitation services to more than 1.8 million people and over 50,000 businesses in the northern and eastern suburbs of Melbourne. The government business enterprise is committed to protecting the environment and prioritises sustainability. In 2017, Yarra Valley Water was awarded the Banksia Sustainability Award for its Waste to Energy project, in the category of Leadership in the Circular Economy Award. The Banksia Sustainability Awards are regarded as the most prestigious and longest running sustainability awards in Australia. The Waste to Energy facility converts commercial organic waste into a renewable and sustainable source of energy.

**DID YOU KNOW?**

It is important to note that the central theme of corporate social responsibility is ‘above and beyond’ making a profit and obeying the law. It is also worth noting that social responsibility is good business — customers eventually find out which businesses are acting responsibly and which are not.

**studyon**

Unit 3 | AOS 1 | Topic 3 | Concept 3
---|---|---|---
Corporate social responsibility considerations Summary screen and practice questions

### 1.12 Activities

**TEST your understanding**

1. Define the term ‘corporate social responsibility’ in your own words.
2. Explain why there are potential conflicts between the interests of stakeholders.
3. Looking at the information in the table in section 1.12.1, in what ways do the interests of stakeholders conflict?
4. Suggest ways in which a business could reconcile the following pairs of conflicting interests.
   a. Consumers demanding cheaper products and employees wanting higher wages
   b. Shareholders desiring a higher return on their investment and society wanting a clean environment
   c. Managers being required to keep costs of production down and socially responsible suppliers wanting higher prices for inputs
5. List some business activities that could involve corporate social responsibility considerations.

6. Complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers are more likely to want to deal with a socially responsible business.</td>
<td>It can be expensive to introduce and implement socially responsible strategies.</td>
</tr>
</tbody>
</table>

**APPLY your understanding**

7. Campbell Anderson, former president of the Business Council of Australia, said: ‘Business is acutely aware that being out of step with community expectations can mean losing market share and poor employee morale and productivity, all of which can dramatically affect the bottom line.’ Discuss this statement, using business examples.

8. You have been asked by a friend whether it is a good idea to purchase shares in businesses that have good environmental performance. What advice would you give to your friend?

9. ‘To be effective, corporate strategy must take into account the interests, needs, and expectations of all the business’s stakeholders. Companies should have a strategy that combines business goals and broad social interests.’ Do you agree? Explain your answer.

**EXAM practice**

10. Outline the competing demands that two stakeholders may place on a business.  
(2 marks)

11. Explain one potential conflict between the demands of shareholders and employees.  
(2 marks)

12. Describe the positive and negative consequences of a business implementing socially responsible practices.  
(4 marks)

13. ‘Corporate social responsibility considerations are an unwelcome constraint on businesses.’ Discuss this statement.  
(4 marks)

### 1.13 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility

**KEY CONCEPT** Businesses attempt to work with all stakeholders in an effort to act in a socially responsible manner.

1.13.1 Stakeholder engagement

Stakeholder engagement refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision-making. Businesses anticipate that, by discovering the social and environmental issues that are important to their stakeholders, the business is more likely to act in a socially responsible manner.

There are conflicts between some stakeholder interests, of course. Employees want high wages, which is a cost to business, but customers want cheap products. Shareholders want high dividends generated from high profits. However, by addressing expectations such as customer wishes and employee and shareholder interests, businesses expect that both of the latter groups would benefit from the increased sales. Businesses also anticipate that a positive image will be maintained if all stakeholders have their expectations satisfied. This leads to increased sales and an improved reputation for socially responsible management.
STAKEHOLDER ENGAGEMENT AT BHP

With more than 60,000 employees and contractors working in more than 25 countries, BHP (known formerly as BHP Billiton Ltd) is the world's largest mining company. It was formed in 2001, following a merger between BHP and Billiton. BHP’s major businesses include coal, copper, iron ore, uranium and titanium minerals, and it also has substantial interests in oil, gas, liquefied natural gas and diamonds. The headquarters for BHP is located in Melbourne. BHP identifies its stakeholders in its sustainability reporting, as well as explaining how it engages them.

BHP claims that it regularly consults employees and contractors, local and Indigenous communities, shareholders and customers. It realises that other groups, such as the investment community, business partners, community organisations, unions, non-government organisations, suppliers, governments, media and industry associations have an influence on the business. Some of BHP's stakeholder engagement methods are described under the following headings.

Community organisations

Community organisations often represent local and Indigenous communities near BHP's operations. Community organisations need to be assured that any potential environmental and social impacts associated with BHP's operations are kept to a minimum, and that opportunities arising from the operations are maximised. BHP says that individual sites work with their own host communities, using community consultation and engagement groups.

Customers

BHP's customers are mostly other large businesses. BHP says that they are usually interested in product quality, cost and delivery. The marketing area regularly communicates with customers. Technical support assists in the use and handling of products. Customers receive information about products and have the opportunity to visit BHP operations sites to learn more about its products.

Employees and contractors

Employees and contractors are very much concerned with their own health and safety as well as working conditions in general. Members of staff need to be provided with career and training opportunities to maintain employee satisfaction. BHP realises that an operation's employees and contractors, who live locally, will also be concerned about such things as local employment, business creation and social infrastructure, schooling and health care. Quality of housing is also important to staff who live in remote communities. Processes need to be in place to enable employees and contractors to participate in performance improvement initiatives, and to take part in performance reviews and employee surveys. Communication is vital.
Government
BHP respects the authority of government at national, state (or regional) and local levels. It attempts to work openly and constructively with the government of the country in which it is operating.

Shareholders
BHP has shareholders in Australia, Europe and North America. Shareholders are interested in seeing suitable business performance and governance, leading to profit. BHP communicates with shareholders at annual general meetings, through regular print and electronic communications, and through its website.

Suppliers
BHP’s suppliers include local businesses close to its operations as well as large international suppliers. Its suppliers are interested in supply agreements and payment processes as well as the standards that BHP requires of them. A single point of contact at BHP ensures that regular reporting and communications are maintained between the company and its suppliers. BHP attempts to use local suppliers and supports these suppliers in enhancing community development opportunities.

### 1.13.1 Activities

**TEST your understanding**

1. What is meant by the term ‘stakeholder engagement’?
2. List BHP’s stakeholders.
3. Outline some of the conflicts that could occur between the stakeholders of BHP.

**EXTEND your understanding**

4. Complete the following table to demonstrate how BHP engages with its stakeholders.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Explanation</th>
<th>Interests</th>
<th>Engagement method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community organisations</td>
<td>They often represent local and Indigenous communities near BHP’s operations.</td>
<td>They need to be assured that environmental and social impacts will be minimised and that opportunities are maximised.</td>
<td>Individual sites work with communities, using community consultation and engagement groups.</td>
</tr>
</tbody>
</table>

5. Explain how the management of conflicting stakeholder interests can lead to a business being viewed as socially responsible.
6. Use the BHP weblink in the Resources tab to find information about sustainable development as it applies to BHP. Write a report explaining how BHP performs in the area of socially responsible management.

**Resources**

🔗 Weblink: BHP
1.13.2 Environmental damage

BHP is often criticised for the massive amounts of greenhouse gas emissions resulting from its mining of fossil fuels. In 2013, it was listed as one of 90 global companies responsible for producing nearly two-thirds of the greenhouse gas emissions generated since the beginning of the industrial age. Geographer Richard Heede’s research found that the vast majority of these companies produced oil, gas or coal.

BHP has also had some involvement in a number of significant accidents, one of which, in 2015, caused an environmental disaster in Brazil.

**SAMARCO DAM FAILURE**

In November 2015, the Fundão tailings dam located in south-eastern Brazil, which was holding back waste from an iron ore mine, failed. A company named Samarco, a joint venture between BHP and Vale (a Brazilian multinational), operated the dam.

The incident, which is considered to be the worst environmental disaster in Brazil’s history, caused a mudslide and the flooding of the communities of Bento Rodrigues, Gesteira and Paracatu. Nineteen people were killed and more than 50 were injured. Families were left without homes and the local environment was damaged by mining waste. For example, the water supply in hundreds of other municipalities was interrupted and could possibly be polluted for generations. As the mine is no longer operating, thousands of people were left without work.

It was believed early on that the weaknesses in the dam that led to its collapse were brought to management’s attention in a 2013 report, but BHP denied this. Samarco, Vale and BHP commissioned an investigation that was published in 2016 — it found that construction flaws had damaged the dam’s original drainage system and described attempts to correct the problems. Three small seismic shocks in the area about 90 minutes before the dam failed were cited as accelerating the failure process. The companies have defended their employees and executives against accusations that they had previous knowledge of the risk to the dam’s structures.

BHP continues to face government investigations and legal action in Brazil relating to the dam failure. In October 2016, it was reported that Brazilian prosecutors had charged 21 people, including executives of Vale and BHP, with homicide for their roles in the collapse of the dam. Following delays, a court in Brazil at the end of 2017 decided to resume criminal proceedings.

As well as facing criminal charges, the costs to Samarco of repairing the damage caused by the disaster and rebuilding the community could be several billions of dollars. The three companies face class actions. Samarco, BHP and Vale have established a foundation (the Renova Foundation) to develop and execute environmental and socio-economic programs to restore the environment, local communities and social conditions of the affected areas. Samarco has already agreed to a multibillion-dollar settlement with Brazilian authorities, spread out over several years. For example, in March 2016, Samarco agreed to pay the Brazilian Government US$2.3 billion — with US$500 million paid in 2016 and US$300 million in 2017 and 2018.

BHP chief executive officer (CEO) Andrew Mackenzie has said that rebuilding the local Brazilian community and restoring the environment impacted by the disaster is a priority. He said, ‘Our team in Brazil are focused on doing everything they can to support the response efforts, repair and maintain existing dams, rebuild communities and restore the environment impacted by the dam failure.’

In late 2017, BHP agreed to fund a total of up to US$181 million to support the Renova Foundation and Samarco. In a media statement, BHP said that, ‘Funds will be released to Samarco only as required, and subject to achievement of key milestones.’ In June 2018, Samarco and parent companies Vale and BHP signed a deal with Brazilian authorities settling a lawsuit related to the dam burst. The parties will continue to attempt to reach another settlement.
1.13.2 Activities

TEST your understanding

1. Where is the Fundão tailings dam located?
2. Describe BHP’s role in the dam failure.
3. Outline the consequences of the dam failure.

EXTEND your understanding

4. Use the following table to outline the effect of the Samarco dam failure on BHP’s stakeholders.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Effect of the dam failure on the stakeholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members of the local community</td>
<td>Lives have been lost, homes destroyed, livelihoods lost, water supply polluted,</td>
</tr>
<tr>
<td></td>
<td>environment damaged</td>
</tr>
</tbody>
</table>

5. Explain the costs of a business not meeting corporate social responsibility considerations.

6. Use internet sources to find BHP’s Samarco media webpage. The page is designed to keep stakeholders up to date with the efforts to rebuild local communities and restore the environment impacted by the dam failure in Brazil. Find the latest update and summarise the information you locate.

1.14 Review

1.14.1 Summary

Types of businesses

- Businesses can be categorised by size (they can be small, medium or large), by sector (they can operate in the public or private sector), and also by the industry that they operate in.
- A sole trader is a business owned and operated by one person.
- A partnership is a business owned and operated by a minimum of two people.
- A private limited company is an incorporated business that has a minimum of one shareholder and a maximum of 50 non-employee shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners.
- A public listed company is an incorporated business with a minimum of one shareholder and whose shares are openly traded on the Australian Securities Exchange.
- A social enterprise is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need.
- A government business enterprise is a type of business that is government owned and operated.
- Each type of business has certain advantages and disadvantages.

Business objectives

- An objective is a desired outcome or specific result that a business intends to achieve.
- A vision statement states what the business aspires to become.
- A mission statement expresses why a business exists, its purpose and how it will operate.
- The main objective of businesses is to make profit. Profit is not the only objective, however, as many businesses also pursue goals such as increasing market share, fulfilling a market need, fulfilling a social need and meeting shareholder expectations.
- Strategies are the actions that a business takes to achieve specific objectives.
• A business will analyse performance by assessing whether it has been effective as well as efficient.
• Effectiveness is the degree to which a business has achieved its stated objectives. In other words, the business is ‘doing the right things’.
• Efficiency refers to ‘how well’ a business uses its resources to achieve its objectives.
• Businesses can use key performance indicators to analyse performance.

Stakeholders of businesses
• Businesses have many stakeholders, with varying interests, and these interests can conflict.
• Stakeholders for a business include owners, shareholders, directors, management, employees, government, competitors, interest groups, customers, suppliers and the community.
• Businesses attempt to satisfy all stakeholder expectations, anticipating that this will result in them acting in a more socially responsible manner.
• Corporate social responsibility refers to the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment.

1.14.2 Key terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>assets</td>
<td>items of value owned by a business</td>
</tr>
<tr>
<td>business</td>
<td>any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit</td>
</tr>
<tr>
<td>competitive advantage</td>
<td>occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.</td>
</tr>
<tr>
<td>competitors</td>
<td>other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business.</td>
</tr>
<tr>
<td>corporate social responsibility</td>
<td>the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment</td>
</tr>
<tr>
<td>customers</td>
<td>the people who purchase goods and services from the business, expecting high quality at competitive prices</td>
</tr>
<tr>
<td>directors</td>
<td>(of a company) the people who have overall responsibility for managing the company’s business activities</td>
</tr>
<tr>
<td>effectiveness</td>
<td>the degree to which a business has achieved its stated objectives</td>
</tr>
<tr>
<td>efficiency</td>
<td>how well a business uses resources to achieve objectives</td>
</tr>
<tr>
<td>employees</td>
<td>the people who work for the business and who expect to be paid fairly, trained properly and treated ethically in return for their contribution to production</td>
</tr>
<tr>
<td>government</td>
<td>the group of people with the authority to govern a community. In Australia, this exists at three levels (federal, state and local).</td>
</tr>
<tr>
<td>government business enterprise</td>
<td>a type of business that is government owned and operated</td>
</tr>
<tr>
<td>incorporation</td>
<td>the process that businesses go through to become a registered company and a separate legal entity from the owner/shareholder</td>
</tr>
<tr>
<td>industry</td>
<td>the classification of groups of businesses related to the particular good or service they produce</td>
</tr>
<tr>
<td>interest groups</td>
<td>organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies</td>
</tr>
<tr>
<td>key performance indicators</td>
<td>specific criteria used to measure the efficiency and/or effectiveness of the business’s performance</td>
</tr>
<tr>
<td>limited liability</td>
<td>the shareholders in a company will not be held personally responsible for the debts of that business</td>
</tr>
<tr>
<td>management</td>
<td>the people who have the responsibility for successfully achieving the objectives of the business</td>
</tr>
<tr>
<td>market share</td>
<td>the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time</td>
</tr>
<tr>
<td>mission statement</td>
<td>expresses why the business exists, its purpose and how it will operate</td>
</tr>
<tr>
<td>objective</td>
<td>a desired outcome or specific result that a business intends to achieve</td>
</tr>
<tr>
<td>partnership</td>
<td>a business owned by two or more people</td>
</tr>
</tbody>
</table>
private limited company  an incorporated business that has a minimum of one shareholder and a maximum of 50 non-employee shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners
profit what is left after business expenses have been deducted from money earned from sales (revenue)
public listed company  an incorporated business with a minimum of five shareholders, and whose shares are openly traded on the Australian Securities Exchange
revenue the income that a business earns from the sale of goods and services to customers
shareholders (or members) the owners of a company
silent or sleeping partner contributes financially to the business but takes no part in the running of the business
social enterprise a business with the objective of fulfilling a social need
sole trader a business owned and operated by one person
stakeholders groups and individuals who interact with the business and have a vested interest in its activities
strategies the actions that a business takes to achieve specific objectives
suppliers businesses or individuals who supply materials and other resources to a business so that it can conduct its operations
triple bottom line the economic, social and environmental performance of a business
unlimited liability the business owner is personally responsible for all the debts of his or her business
vision statement states what the business aspires to become

1.14.3 Review questions
TEST your understanding
1. Distinguish between the three main business sizes.
2. Provide one example of a business that operates in the private sector and one example of a business that operates in the public sector.
3. Define the term ‘industry’ and outline the three main areas of industry.
4. Describe the key characteristics of the following types of business.
   (a) Sole traders
   (b) Partnerships
   (c) Private limited companies
   (d) Public listed companies
   (e) Social enterprises
   (f) Government business enterprises
5. Identify and explain three advantages and disadvantages of each type of business.
6. Does every business have profit as its main objective?
7. Outline the difference between a vision statement and a mission statement.
8. Describe the five main business objectives.
9. Explain what a strategy is, using an example.
10. Explain the difference between effectiveness and efficiency.
11. Define the term ‘key performance indicator’ and explain what they are used for.
12. What is a stakeholder?
13. Distinguish between internal and external stakeholders.
14. List the main stakeholders of businesses.
15. In what ways can stakeholder interests potentially conflict?
16. Outline what is meant by the term ‘corporate social responsibility’.
APPLY your understanding

17. Copy and complete the table below, listing several businesses that you know of in each category. The first example has been completed for you.

<table>
<thead>
<tr>
<th>Size of business</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large</td>
<td>Over 200 employees</td>
<td>Coca-Cola Amatil, which makes Coca-Cola</td>
</tr>
<tr>
<td>Medium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

18. Summarise the characteristics and objectives of the various types of businesses, by completing the following table.

<table>
<thead>
<tr>
<th>Business type</th>
<th>Ownership</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole trader</td>
<td></td>
<td>To make profit</td>
</tr>
<tr>
<td>Partnership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private limited company</td>
<td>From one to fifty shareholders</td>
<td></td>
</tr>
<tr>
<td>Public listed company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social enterprise</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government business enterprise</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

19. Compare the following types of business (how are they similar and how are they different).
(a) Sole traders and public listed companies
(b) Private limited companies and social enterprises
(c) Partnerships and government business enterprises

20. Using an example of a real business, outline how the interests of its stakeholders can affect its activities. Try to cover at least three stakeholders.

21. Explain how attempting to meet all stakeholder expectations can lead a business to behave in a socially responsible manner.

EXAM practice

22. VicEd is a government business enterprise. Explain the difference between a government business enterprise and one other type of business. (2 marks)

23. Koda is planning to establish his own bakery business. He prefers to work on his own and has decided to operate as a sole trader.
(a) Discuss Koda’s decision to operate his business as a sole trader. (4 marks)
(b) Explain one business objective that Koda’s business might aim to achieve. (2 marks)

24. Distinguish between the objectives to fulfil a market need and to fulfil a social need. (2 marks)

25. The demands of stakeholders on a business potentially conflict. Explain why this may occur. (2 marks)

26. Karratha Resources Ltd is a large mining company. It is currently experiencing financial difficulties and the CEO has decided that 100 employees will need to lose their jobs.
Describe the interests of two stakeholders in the business and how Karratha Resources should take this into account when considering its corporate social responsibilities. (6 marks)
1.14.4 School-assessed coursework

OUTCOME 1

Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.

Note: This assessment task is for the first half of Outcome 1 only.

ASSESSMENT task — structured questions

Time allowed: 30 minutes

Marks allocated: 20 marks — The task contributes 10 marks out of a total of 20 marks for Outcome 1.

(The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Qantas

Qantas is the world's second oldest continuously operating airline. The business was founded in the Queensland outback in 1920 and is Australia's largest domestic and international airline. It is also recognised as being one of the world's foremost long distance airlines, having pioneered services from Australia to North America and Europe. Shares in Qantas have been available to the public since the airline was floated in 1995.

The business now employs approximately 30,000 people and covers 86 destinations in 36 countries. A Qantas transformation program was announced in 2012, following a period of poor financial results. The goal of the program is to build a strong, sustainable business for the long term. One of Qantas's most important objectives is enhancing long-term shareholder value.
The Qantas Group’s main business is transporting passengers. As well as its Qantas and Jetstar brand flying operations, Qantas operates a diverse portfolio of airline-related businesses. These include Qantas Link, Q Catering, Qantas Freight Enterprises, Express Ground Handling and Qantas Holidays.

For the full year ended 30 June 2017, Qantas reported a before-tax profit of $1401 million, down 8.6 per cent compared to the previous year’s record profit before tax. Net profit after tax was $853 million. Qantas CEO, Alan Joyce, said, ‘Three years ago, we started an ambitious turnaround program to make the Qantas Group strong and profitable. We tackled some difficult structural issues, became a lot more efficient and kept improving customer service. Today’s announcements show this plan has well-and-truly paid off.’

Read the case study above, then answer the following questions.

1. Define the following terms and provide an example for each.
   - Stakeholders
   - Shareholders (2 marks)

2. (a) What type of business is Qantas? Explain your answer in terms of ownership and objectives. (3 marks)
   (b) Discuss the use of this type of business. (4 marks)
   (c) Explain the characteristics of one other type of business. (2 marks)

3. Using Qantas as an example, identify and explain one business objective. (3 marks)

4. Describe the key characteristics of management as a stakeholder. (2 marks)

5. Analyse the potential conflicts between Qantas’ employees and customers. (4 marks)