CHAPTER 3

Influences in the business environment

3.1 Introduction

Your school is part of your learning environment: the surrounding conditions in which you learn. You have some degree of control over the factors that make up part of your learning environment, such as the subjects you choose to study, extracurricular activities you participate in, and your interactions with teachers and other students. There are many other factors within your learning environment, however, over which you have little control but that have a direct influence on your learning. This includes such factors as the syllabus subject matter, the introduction of new technology and the changes in government education policies. As a student, you are part of an ever-changing and complex learning environment within which you must manage your education.

3.2 Business environment

No business — similar to students — operates in isolation. Businesses also have to deal with an ever-changing environment in which they operate. What happens in the larger business environment may have a direct influence on many other firms. If interest rates increase, for example, then some businesses may not be able to afford to purchase new equipment. Alternatively, reduced competition in the market may result in some businesses increasing their individual market share and profitability. All business decisions about how and what to produce are affected by the environment in which the business operates.

Successful business managers have a good understanding of the environment in which the business operates. This allows them to respond positively to changes that take place and prepare for the impact such changes will have on their business operations.
The **business environment** refers to the surrounding conditions in which the business operates, and can be divided into two broad categories: external and internal (see figure 3.2).

- The **external environment** includes those factors over which the business has little control, such as government policy, technology, economic conditions and social attitudes.
- The **internal environment** includes those factors over which the business has some degree of control, such as products, location, resources, management and business culture.

![Influences in the business environment](image)

**FIGURE 3.2** Influences on business

The factors that make up the business environment are not constant and certain. They are continually undergoing change, and a business must keep ‘in tune’ with the changes and adapt its operations accordingly.

### 3.3 External influences

Changes in the external environment make it necessary for managers to make adjustments to business operations. This may include the introduction of new government regulations that require the business to make adjustments; for example, all businesses will need to respond to some type of carbon reduction scheme that will result in organisations paying for the carbon pollution they generate in order to reduce carbon pollution and eventually create a more sustainable economy. Figure 3.3 outlines the main external influences on a business.

![External influences on business](image)

**FIGURE 3.3** External influences on business
Economic influences

Imagine your local shopping centre to be a small-scale representation of the Australian economy. Now, imagine what would happen to the businesses within the shopping centre if all their customers decided to shop at another centre for a day. Economic disaster! If this situation continued for a month then the centre's businesses would close, employees would be laid off, and landlords and suppliers would not be paid. Eventually, as the ‘economy’ plunged into a recession, business owners would lose confidence in the economy’s future. However, at the rival shopping centre, new businesses would open, many new jobs would be created, landlords and suppliers would gain new customers, and the confidence of the local business owners would soar. The ‘economy’ of this shopping centre would boom.

Although such an extreme situation would not happen in reality, the Australian economy does experience economic cycles of ‘booms’ and ‘busts’. These periods of high and low economic activity are referred to as the business cycle. After a period of prosperity, business activity gradually slows until a recession or depression is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle. These cycles are a basic feature of our economic system.

Economic forces have an enormous impact on both business and customers. They influence a business’s capacity to compete and customer’s willingness and ability to spend. The following figure shows the impact of each phase of the economic cycle on a business’s performance.

Information on economic growth, inflation trends, average weekly earnings, consumer confidence, interest rates, consumer spending and unemployment provide businesses with insight into economic trends. This information on the level of economic activity allows businesses to predict possible threats to, and opportunities for, business activity.
No economic system works perfectly all the time under all conditions, and the Australian economy is no exception. The level of economic activity does not remain at a constant level; it fluctuates (moves up and down) over time. In other words, total production, incomes, spending and employment rise and fall.

The state of the economy has a great impact on business. The policies implemented by the government are aimed at keeping the economy growing steadily, without putting pressure on inflation (prices) and wages. The economy is also affected by overseas trends — changes in trade, investment and currency levels all affect Australia’s level of economic activity. The continued growth and development of China’s economy has benefited Australian businesses in relation to exports. Many businesses are supplying not just raw materials such as coal, but finished products and, to a greater extent, quaternary services such as education and training.

When economic problems start to appear, we as consumers become more cautious with the way we spend our money and our overall confidence begins to fall (see figure 3.5). The reduced spending has an impact on business owners — they find profits falling and cost cutting must occur if they are to survive. Unfortunately, this cost cutting can be in the form of retrenching workers; therefore, the economy falls further into recession. Alternatively, when there is evidence of a growing economy, confidence returns. The consumer is more willing to purchase consumer or luxury goods, which in turn sees spending levels rise and business profits improve.

**FIGURE 3.5** The recessionary and ‘boom’ cycles. The government uses its economic policies to stabilise the economy and reduce the fluctuations in the business cycle. It can do this by using monetary and fiscal policies.

One important factor to consider in terms of economic cycles is that not all businesses experience a downturn in revenue and sales during a recession; nor do they necessarily experience an upswing in trade during a ‘boom’ period. The businesses most susceptible to the ‘swings’ are those selling consumer or luxury goods, as consumers will cut back on these when they reduce overall spending. Some businesses fare very well during a recession, for example ‘bargain shops’ or other clearance outlets.
It may seem contradictory, but the businesses most likely to survive an economic downturn are those that take a back-to-basics approach and those who differentiate themselves from competitors through innovation and creativity. Both approaches, however, have the same starting point: deliver a product or service of exceptional quality. This means having the customer front and centre in a comprehensive business plan that is sufficiently flexible to adjust to customers’ expectations and enable fast implementation of innovation.

According to the annual Telstra Australian Business Awards, successful business leaders are those with a passion for their product or service and who differentiate themselves from competitors through the service provided to their customers. This applies irrespective of economic conditions and small businesses can use these qualities to their advantage.

Finding a niche is where innovation and creativity comes in. Publisher Textiles, which won the 2009 NSW Telstra Business Award, found a niche in the market and thrived in spite of poor economic conditions that were affecting larger companies. At the time of winning the award, the judges were impressed with the diversity in the company’s unique product range and the creativity of the designers. Specialising in hand-screen printed wall coverings and fabrics, the business began in a rented corner of a factory and sold its designs at Sydney market stalls.

‘Because of our extensive experience and knowledge of the production, together with a desire to create, it became obvious to us that we would someday start our own textile and wallpaper print studio’, said co-owner Rhymie Cawood.

‘No one could understand why we would get into something so obscure and niche, but if we wanted to have our designs sustainably produced to a high quality we knew we would have to do it ourselves.’

The business is now more than a decade old and remains wholly Australian owned, with a small and dedicated team who keep an eye firmly fixed on the basics. It uses its website, blog and social media to market its product.


**Snapshots questions**

1. Outline what types of business are most likely to survive an economic downturn.
2. List the qualities of a successful business leader.
3. Explain the need for a flexible business plan during a downturn.
4. Analyse why niche businesses might be more successful during a downturn.

**Financial influences**

There have been enormous changes in global financial markets over the past 30 years. Deregulation is the removal of government regulation from industry, with the aim of increasing efficiency and improving competition.
Due to globalisation of the world’s financial markets, it is no longer necessary for many large Australian businesses to use only domestic financial institutions for the raising of finance. For example, News Limited, the global media company, can access finance from worldwide sources.

Global financial markets themselves have undergone rapid change over the last decade. Developments in communications technology have enabled the phenomenon of global financial transactions. Global financial speculators may now easily make transactions spread across the globe.

Geographical influences

Two major factors that have an enormous impact on business activity are Australia’s geographic location within the Asia-Pacific region and the economic growth in a number of Asian nations, especially China. They provide challenging opportunities for business expansion, sales and profit.

Further changes that are likely to have a profound effect on business activity in Australia originate from changing demographic factors. Demography is the study of particular features of the population, including the size of the population, age, sex, income, cultural background and family size. Changes in any of these factors can lead to changes in demand levels and the nature of products and services.

A major demographic issue that has a considerable impact on businesses is changes in the age structure of our population. Commonly referred to as the ‘greying’ of the Australian population, baby-boomers — people born between 1946 and 1964 — are now reaching retirement age, meaning that there are more elderly people living in the community than ever before. This will cause some skill shortages in the workforce as well as an increase in demand for age-related services such as health and aged-care. Any change in population growth will also have major implications for Australian businesses, as research shows there is a clear link between population levels and economic growth (see the Snapshot on the following page).

**BizFACT**

Financial deregulation followed the Campbell Inquiry in the early 1980s. It led to a reduction in government intervention in the financial system, and an end to credit, interest rate and exchange rate controls. The result was increased competition within the banking sector. The Wallis Report in the mid 1990s recommended that the process of deregulation be extended even further, and resulted in the opening up of the financial industry to greater competition.

**FIGURE 3.6** Australia’s ageing population will have a significant impact on businesses and the economy. For example, once people retire, their spending patterns change. Consequently, businesses need to market products to suit the changing preferences of their customers.
Why Australia needs you to keep working

The retirement age may have to be raised to 70 to slow the rate of baby boomers leaving the workforce before they put too much strain on the economy, a Federal Government agency warns.

The National Sustainability Council’s first report predicts a near-doubling in the number of retirees over the next 20 years, straining taxpayer spending on pensions, health and aged care.

Council chairman John Thwaites suggested raising the retirement age as a way to make baby boomers work longer.

‘The decisions and actions we take over the next 10 years will determine whether or not the next generation of Australians will become the first in recent history to be worse off than their parents and grandparents’, he said.

Professor Thwaites called for an ‘intergenerational discussion’ about the baby boomers sharing their wealth with their children and grandkids.

‘The Gen X and Gen Ys will be largely the ones working and raising the money for the baby boomers, who are the ones holding the wealth’, he said.

‘If we have a lot of conflict, you’ll end up seeing the Gen Xs and Gen Ys saying, “We won’t pay taxes to help your health system and aged care”.’

‘People are sitting on valuable houses and their kids’ generation can’t afford it. How are they going to resolve that?’

The Sustainability Council report predicts fewer Australians will be working and paying taxes to support a greying population.

The number of Australians over retirement age has been growing three times faster than the general population over the past 30 years — and is predicted to nearly double to 5.7 million in 20 years’ time.

‘A big challenge will be how to pay for all their health costs with a smaller proportion of the population in the workforce’, Professor Thwaites said.

‘We will need to increase the participation of older workers in the workforce and one way to do that is raising the retirement age.’

‘Or you could support more flexible working conditions and encouragement or incentives for older workers.’

The proportion of over-65s in the workforce has nearly doubled in a decade, to one in four men and one in eight women.

The report says that increasing the pension age to 70 would boost workforce participation rates by 1.4 per cent and increase economic growth by $25bn a year ...


Snapshot questions

1. Identify some of the challenges Australia will face due to the increasing number of baby boomers leaving the workforce.
2. Explain the solution put forward by the National Sustainability Council to deal with this problem.
3. Recommend strategies that could be implemented to help deal with Australia’s ageing population.

Another important geographical influence is that of globalisation. We live in a global world, rather than a world limited by national borders. Consider the news and entertainment we receive from around the planet, the clothing and footwear brands being sold worldwide, the rapid telecommunications access to all parts of the globe, and the large number of products Australia buys and sells on the world market. The Earth is a global community whose individual members are linked through the mechanism of international trade: the buying and selling of goods and services between nations.
This process has been strengthened by the impact of globalisation: a process that sees people, goods, money and ideas moving around the world faster and more cheaply than before. Globalisation, assisted by the technological revolution in communications and computers, is radically altering the shape of world markets, as well as the nature of business and everyday life.

Social influences

Rapid identification and response to changes in tastes, fashions and culture can lead to sales and profit opportunities, and business growth. Failure to respond to social changes can threaten business stability and viability.

Three social issues are leading to significant change or have the potential to influence major change in business practices. The first concerns a growing awareness of our vulnerable environment. Over the past decade, Australians have become aware of a number of practices that lead to deterioration in the environment. The second social issue that is leading to significant change is a growing desire for businesses to provide family friendly workplaces. There is a growing belief that businesses must support families, and the provision of better childcare options and more flexible hours are increasingly being considered by businesses. Conflict between work and family responsibilities is a key factor causing women to leave businesses and this high turnover is expensive for business. Consequently, businesses have been under pressure to implement family friendly workplace practices that assist employees and, at the same time, reduce the associated costs to employers.
Too many ring in the holidays with their work phones and laptops

It is a sound that can drag any holiday-maker to earth just as they begin to float away from the stress and chaos of work: the ping of a BlackBerry or another mobile device.

With the growing prevalence of laptops and smartphones, work is creeping ever further into our private lives. And Unions NSW says it is time to pull the plug.

It is calling on companies to introduce rules requiring staff to ignore emails and leave their work phones and computers in the office when they go on leave, to stop the invasion of work into holiday time.

The secretary of Unions NSW, Mark Lennon, said: ‘There’s a responsibility on employers to set clear guidelines about using BlackBerrys and email and internet during the holidays. The company’s policy should be, “When you’re on leave, you’re on leave.”’

Mr Lennon said he also encouraged employees to break their email addiction.

‘It’s getting harder and harder to unwind and spend quality time with family and friends, given the ever-increasing creep of email, SMS and work calls into our personal time. If you’re taking a break… do yourself a favour: when you’re at home, leave the iPhone alone.’

A workplace expert, Alison Barnes of Macquarie University, said the constant use of electronic devices was ‘an insidious form of work intensification’.

‘There used to be an argument that technology was going to generate all of this leisure time, but in fact the opposite is true — it means work never ends. There’s no distinction between work and family life.’


Snapshot questions

1. Recall how work is creeping into people’s private lives.
2. Outline strategies businesses should adopt to ensure their employees are able to maintain a work–life balance.

The third social issue that is leading to significant change is the growing belief that businesses must cater for workplace diversity. Employees will have different issues that may be related to gender, age, language, ethnicity, cultural background, disability, sexual orientation and religious belief. Businesses are required to effectively manage a diverse range of employees and cater for their specific needs.

FIGURE 3.9 Businesses need to effectively manage workplace diversity, including employees from a range of backgrounds.
Summary

- Business environment is influenced by both internal and external factors.
  - The external environment includes those factors over which the business has very little control.
  - The internal environment includes those factors over which the business has some degree of control.
- External influences on business include: economic, financial, social, legal, political, institutional, technological, competitive situation and changes in the market.
- Economic influences on a business relate directly to their economic environment, which is dependent on changes in economic growth. These changes are characterised by boom and recessionary periods in the economic cycle.
- Changes in the global and domestic financial markets will influence the cost of borrowing money and therefore directly affect the level of investment by a business.
- Three major geographical factors that affect business activity are:
  - Australia’s geographic location within the Asia–Pacific region
  - changing demographic factors
  - the process of globalisation.
- Social influences, such as changes to fashion and culture, have the capacity to affect business sales and profits.

Legal influences

Too much government interference! Too much red tape! Too many regulations! These are familiar cries from many business owners who face an increasing number of legal obligations in every aspect of their businesses. Today, small to medium businesses face levels of regulation similar to those facing large businesses. While most business owners are willing to comply with regulations, compliance is often time consuming and costly, and regulations can be confusing and contradictory.

Society expects business owners to abide by the laws of a country. Consequently, it is essential that they have a sound working knowledge of the laws that will affect their operations (so that they avoid penalties), and that they understand and accept the legal responsibilities they owe to all stakeholders. All levels of government impose legal responsibilities on businesses and these laws govern every aspect of a business’s life.

In the past two decades, a large number of new statutes were introduced, which will have a major impact on business conduct. This legislation includes laws on taxation, industrial relations, work health and safety, equal employment opportunity, anti-discrimination and protection of the environment.

An area of law that has significantly altered business conduct is the Competition and Consumer Act 2010 (Cwlth), which applies to virtually all businesses in Australia. It is administered by the Australian Competition and Consumer Commission (ACCC), which is an independent statutory authority. The ACCC operates nationally for the enforcement and administration of competition and consumer protection laws. A breach of any of the consumer protection provisions of the Competition and Consumer Act can result in the ACCC taking criminal proceedings against the business concerned. The Act allows the courts to impose penalties of up to $1.1 million for companies, and $220,000 for individuals who breach the Act.
Political influences

Government policies have a considerable impact on the business environment (see figure 3.11). Major political change can lead to business uncertainty or business confidence. As governments at all levels in Australia regularly face elections, there is an element of politics in most major issues that affect the business environment.

A political influence that is having an enormous impact on Australian business operations is the policy of free trade. Free trade policies mean that barriers to trade are removed. One such barrier to free trade is a tariff: a tax levied on imported goods. In recent years tariff rates have generally been lowered, meaning that some businesses have been unable to compete with the cheaper imported item and have gone out of business. Other firms have survived the removal of tariffs and compete well with similar imported products that are sold in the Australian marketplace.

Another significant political thrust that has led to widespread changes is the process of deregulation and privatisation. Deregulation is the removal of government regulation from industry, with the aim of increasing efficiency and improving competition. Privatisation is the process of transferring the ownership of a government business to the private sector. Examples of privatisation involve the sale or partial sale of the Commonwealth Bank, Telstra and Qantas.
Influences in the business environment

**Institutional influences**

There are three main institutional influences on business, including government, regulatory bodies and other groups such as trade unions and employer associations.

**FIGURE 3.12 Institutional influences on business**

**Government**

Australia has three levels of government: federal, state and local. Each level of government imposes a range of regulations on businesses to standardise and protect their dealings with consumers and competitors.

**Federal government**

Federal government obligations include:
- payment of taxes for employees (earning above the minimum taxable income level) and for businesses with company tax and GST
- provision of employee superannuation
- observance of customs regulations
- abiding by relevant legislation that would affect business operations.

**State government**

State government obligations include:
- provision of employee entitlements, including workers compensation, work health and safety (WHS) requirements, award rates of pay and entitlements
- payment of payroll taxes
- abiding by relevant state legislation (e.g. health, trade practices, employment)
- abiding by pollution controls.

**Local government**

Local governments (city, municipal and shire councils) have control over the following business activities:
- approving new development and alteration (to an existing building) applications
- fire regulations
- parking regulations (e.g. provision of parking by new businesses)
- size, location and shape of business signs.

**Regulatory bodies**

A regulatory body is one that is set up to monitor and review the actions of businesses and consumers in relation to certain issues (such as advertising) and the appropriate legislation. This is to ensure that businesses conduct themselves fairly in relation to the consumer, the community and other businesses. A number of regulatory bodies operate in New South Wales and Australia. They include:
- the Department of Environment, Climate Change and Water
- the Office of Fair Trading
- the Australian Securities and Investments Commission
- the Australian Competition and Consumer Commission.

The roles of these regulatory bodies are summarised in table 3.1.

**FIGURE 3.13 Some business laws relating to the levels of government**

**BizWORD**

**Regulations** are rules, laws or orders that businesses must follow.

**Weblink**

Use the Department of Environment, Climate Change and Water, Office of Fair Trading, ASIC and ACCC weblinks in your eBookPLUS to visit the websites of these regulatory bodies.
### TABLE 3.1 Major regulatory bodies in New South Wales and Australia

<table>
<thead>
<tr>
<th>Regulatory agency</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSW Environment Protection Authority (EPA):</td>
<td></td>
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</tbody>
</table>
  - Primary environmental regulator for NSW  
  - Their aim is to improve environmental performance and waste management for NSW through a wide range of programs and initiatives.  
  - They offer advice and incentives to help businesses improve their environmental performance.  
  - Governed by the Protection of the Environment Administration Act 1991 |
| NSW Fair Trading |  
  - Is the NSW consumer protection agency  
  - Provides information and assistance to all consumers and business owners on areas such as fair and ethical practices  
  - Services to business include:  
    - Business licence information, e.g. real estate agents, builders, car dealers  
    - Information for builders and tradespeople that covers their responsibilities and offers assistance in relation to disputes between themselves and clients/contractors  
    - Product safety standards  
    - Trade measurements relating to scales/scanners used to weigh and measure products. |
| Australian Securities and Investments Commission (ASIC) (federal) |  
  - Monitors market integrity and provides consumer protection in areas such as payment systems and financial services such as investment advice.  
  - Aims to ensure all businesses comply with the industry standards and codes of practice.  
  - Operates the Business Names Register that allows people to register, renew and search business names nationally |
| Australian Competition and Consumer Commission (ACCC) (federal) |  
  - Is an independent statutory authority that administers the Competition and Consumer Act 2010. This includes monitoring of:  
    - Anti-competitive and unfair market practices such as the misuse of market power (e.g. blocking competitors from entering the market), exclusive dealing and resale price maintenance  
    - Mergers and acquisitions that could decrease the level of competition  
    - Product safety and liability  
    - Misleading and deceptive advertising.  
  - It operates nationally for the enforcement and administration of competition and consumer protection laws. |

**Other institutional influences**

In addition to government bodies, other institutions affect how businesses operate in Australia. Some of these are shown in table 3.2.
Influences in the business environment

### TABLE 3.2 Other institutional influences on businesses in Australia

| Employer associations | - Developed in response to the growth of trade unions  
|                        | - Represent the interest of employers  
|                        | - Assist employers in the following ways:  
|                        |   - formulating policies in line with union activities  
|                        |   - acting on behalf of employers in negotiating enterprise or collective agreements  
|                        |   - promoting industry, trade and commerce  
|                        |   - providing submissions, advice and information to governments.  

| Trade and industry associations | - National bodies that represent larger groups of employers (e.g. lobbying government on certain issues)  
|                                | - Examples include:  
|                                |   - Australian Chamber of Commerce and Industry (ACCI)  
|                                |   - National Farmers’ Federation  
|                                |   - Australian Industry Group.  

| Trade unions | - Main aim was to improve working conditions and pay rates.  
|             | - Union membership declined substantially in the past 20 years because of:  
|             |   - new legislation that outlaws compulsory unionism  
|             |   - changes to work patterns (increased part-time and casual work)  
|             |   - workplace agreements  
|             |   - privatisation and restructuring of union-dominated industries.  

| Australian Securities Exchange | - Operates a sharemarket where companies can raise funds by issuing shares in the company.  
|                                | - A business lists itself with the Australian Securities Exchange to become a public company. The main reason for this is to raise extra capital, usually for expansion and development.  

### Technological influences

Global technological innovation has increased at a remarkable pace, revolutionising the workplace and every aspect of daily life. With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of products and services. The use of hi-tech robotics in many manufacturing industries is improving productivity, reducing operating costs and eliminating many boring and repetitious tasks (see figure 3.14). Rapid advances in information technology (IT) have reduced communications delays and allow suppliers and customers to interact over great distances.

New communications technologies allow information to be rapidly transmitted to an ever-increasing number of customers with a speed that now makes communication almost instantaneous. Since the introduction of fibre-optic cables and digital information transmission in the mid-1980s, the speed and capability of transferring communications data has allowed businesses to reorganise their structure and has fundamentally changed workplace practices.

A business that wants to be locally, nationally and/or globally competitive must adopt the appropriate technology. If slow to use and exploit technology, a business is likely to fail: the competition will strive to capture greater market share and develop a sustainable competitive advantage.

**FIGURE 3.14** The Australian manufacturer, Electrolux, recently implemented an innovative custom designed automation system to create their oven doors. This new system utilises seven robots that each perform different tasks and work together to assemble the doors. Electrolux produces 1300 cookers per day. As a result, Electrolux has reduced their cycle time to 14 seconds, which helps to reduce their overall costs and increase productivity.
SNAPSHOT

“CD and DVD stores may soon face the grim prospect of extinction’

**DVDs dying a death as internet takes over**

DVD rental stores could be headed for the scrap heap as householders turn to the internet for their movie fix.

Research by industry analysts predicts music retailers selling CDs and DVDs could also be endangered species.

‘If on-demand movie and music download services continue to pick up pace in Australia, CD and DVD stores may soon face the grim prospect of extinction’, an analysis by IBISWorld has found.

Experts predicted rental outlets such as Blockbuster and Video Ezy were in trouble, with movie piracy, download services and pay TV eating into revenue.

The report said Blockbuster had slashed the number of stores in Australia from 900 in 2007 to 630.

‘That’s not the behaviour of an industry buoyant about its future’, IBISWorld analyst Ed Butler said.

Mr Butler predicted the video rental industry would be one of the worst-performing in 2011, with revenue expected to fall an average 2.7 per cent a year over the next five years.

Video rental companies had tried to adapt by introducing DVD rental kiosks in areas such as shopping centres. ‘Blockbuster are really starting to dive into this and they’ll be successful for a while, I think, but eventually discs will become passé’, Mr Butler said.

‘The only real way for rental companies to survive is to be entirely online.’

A recent poll of men’s attitudes to technology by AskMen.com revealed 46 per cent of Australian males preferred watching downloaded episodes of TV shows rather than DVDs.

More than 29 per cent also admit to illegally downloading movies.

The arrival of the $36 billion national broadband network with its higher network capacity and fast download speeds, would only exacerbate the trend.

Network Video managing director Keran Wicks, however, denied rental stores were close to oblivion.

Ms Wicks said while revenue was down about 5 per cent, this was more about consumers tightening belts.

But she said there was no doubt consumers would one day prefer downloading a movie to hiring it.

‘Certainly there will be a point where Network Video will get into the (movie) streaming business, because consumers will be demanding it’, she said.

‘The technology is there, but the demand isn’t.’

**Source:** Greg Thom, ‘DVDs dying a slow death as internet takes over’, Herald Sun, 28 July 2011.

**Snapshot questions**

1. **Identify** the technological influences that have had an impact on CD and DVD stores.
2. **Outline** how these stores have tried to respond to these influences.
3. **Identify** other external factors that have influenced CD and DVD stores.
4. **Recommend** strategies stores like Blockbuster could implement to help respond to these challenges.

**Competitive situation influences**

Competition between firms to be the ‘market leader’ or to win customer loyalty can benefit the consumer and the business. It can provide the consumer with more choices, a range of qualities and a variety of prices. From the business point of view, competition can stimulate greater efficiency in production and usually results in a better quality product or service at the lowest cost to the business. Each business aims to achieve a sustainable competitive advantage over its competition in order to capture a larger portion of the market.
Influences in the business environment

**Number of competitors**

The number of competitors refers to the size and number of firms that exist within an industry; it is also known as *market concentration*. There are four main types of market concentration (see Table 3.3).

**Table 3.3 Types of market concentration**

<table>
<thead>
<tr>
<th>Types of market concentration</th>
<th>Features/characteristics</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monopoly</td>
<td>• Complete concentration by one firm in the industry</td>
<td>Australia Post</td>
</tr>
<tr>
<td></td>
<td>• Firm has the ability to decide the price of the good or service because there are no competitors (i.e. the firm is the price maker)</td>
<td>NSW Trains</td>
</tr>
<tr>
<td></td>
<td>• Customer has no influence over the price charged. i.e. the customer is the price taker.</td>
<td></td>
</tr>
<tr>
<td>Oligopoly</td>
<td>• Consists of a small number of larger firms that dominate the market</td>
<td>Banks</td>
</tr>
<tr>
<td></td>
<td>• Are able to stay in control of the market because they spend large amounts of money on advertising and this enables them to restrict the entry of new competitors to the market.</td>
<td>Oil companies</td>
</tr>
<tr>
<td>Monopolistic competition</td>
<td>• Most common type of market in Australia</td>
<td>Clothing manufacturers</td>
</tr>
<tr>
<td></td>
<td>• Large number of buyers and sellers</td>
<td>Local retailing</td>
</tr>
<tr>
<td></td>
<td>• The goods and services sold are differentiated from competitors using methods such as packaging, advertising, brand names and quality.</td>
<td></td>
</tr>
<tr>
<td>Perfect competition</td>
<td>• Large number of small businesses that sell products that are the same or similar</td>
<td>Fruit and vegetable growers</td>
</tr>
<tr>
<td></td>
<td>• Very little advertising is used to increase market share</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The only way to achieve market share is through price competition.</td>
<td></td>
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</tbody>
</table>

**Ease of entry**

Ease of entry refers to the ability of a person (or persons) to establish a business within a particular industry. The ease of entry will be determined by the type of market concentration. When there are many small firms (perfect competition and
monopolistic competition), entry is not difficult as businesses are small and it is more affordable for the business owner to gain some part of the market. When a few firms dominate an industry (oligopolies), entry is difficult because the firms are larger and often more established. Potential competitors must have enough resources to gain some control in the market.

When only one firm (monopoly) dominates an industry, no competitors are able to enter the market because the one firm has control over all resources that are being sold.

Local and foreign competitors
A business will be influenced by both local as well as foreign competitors. Local competitors are those who produce or sell a good or service in the same market. Local competitors must deal with the same variables as each other. These variables include:

• labour costs
• transport costs
• the economy
• cost of stock/raw materials.

Foreign competitors are those businesses located overseas or offshore. They sell their goods or services in Australia and compete with local businesses. One such global company that has seen opportunities in expanding into the Australian market is the fashion retailer Zara.

Global business Zara expands into Australia
Zara launched in Australia in 2011, shaking up the local fashion sector. Since Zara was listed on the Spanish stock market in 2001, they have used expansion to increase their net profit. This global expansion led them to become Spain’s largest company as well as the world’s largest clothing retailer by sales.

Even though Australia is a much smaller market than other parts of the world, Zara made the decision to expand into Australia because they perceived it as a valuable market of fashion-savvy consumers who desire the latest fashion and international brands. Zara already had an enthusiastic following among many Australians who travelled overseas and desired their high-quality fashion and low prices. For its Australian debut, Zara opened a massive three level store in Sydney. Since then, Zara has continued to expand throughout Australia and currently has seven stores across the nation.

Zara does not simply rely on its recognisable brand name to aid its expansion into Australia and other countries. The company works hard to research and understand the different local markets, then tailors its retail strategies to suit those different needs. Zara adapted its European style to suit Australian taste and weather, creating custom weather-appropriate collections to complement the climate for its Australian stores.

So, how did Zara’s entry into Australia affect other Australian retailers? Other brands such as Witchery and Sportsgirl have seen their sales impacted by Zara’s entrance into Australia, especially because they share a similar target market. In order to survive, these retailers have been forced to differentiate themselves and re-evaluate their product range, pricing and promotional strategies.

Zara has maintained its tight adherence to its strategy even as it pursues its aggressive global expansion. They have successfully expanded into 86 countries and have over 1770 stores worldwide.

Snapshot questions
1. Outline why Zara decided to expand into Australia.
2. Discuss the impact Zara has had on the Australian fashion industry.

SNAPSHOT

“Zara launched in Australia in 2011, shaking up the local fashion sector.”
Marketing strategies
A business will be influenced by the type of marketing measures taken by a competitor. For example, the business that uses television advertising extensively will have greater exposure to the market than a business that relies on flyers or word of mouth. Of course, the type and extent of marketing will depend on:
• the size of the market — the number of existing and potential customers
• the size of the business — the larger the business the more likely it is to invest in a range of marketing activities, especially more expensive forms of marketing such as television and newspapers. Smaller businesses may rely on simple marketing methods such as pamphlets, local paper advertisements and word of mouth.
• number of competitors — usually the more competitors that there are in a market, the greater the need for marketing. This is necessary to maintain or increase market share.
• the nature of the product — this refers to the type of product and whether it requires extensive marketing. Some products, such as postage stamps, don’t need to be advertised in order to make sales.

Markets
Changes in financial/capital markets
Finance (capital) is now more mobile and flows relatively easily between countries, especially since the 1970s when many countries phased out their controls on foreign exchange trading. As a result, international financial flows have expanded very rapidly over the last three decades. Consequently, the world capital market is now more integrated than ever before.
Capital flows to those countries where the investment opportunities and returns are favourable. It is now much easier for individuals and businesses to access overseas share markets and purchase equity in foreign companies.

Changes in labour markets
The labour market has not been ‘freed up’ to the same degree as other markets. If anything, the labour market has become less global in the last 60 years.
Due to political barriers, the flow of people between countries is now more restricted than it was from 1850 to 1900, when waves of migration occurred. This trend seems likely to continue, especially the restrictions placed on the movement of low or unskilled labour. For example, even within the European Union, which gives citizens of any member nation the right to work and live in any other, only a small proportion of workers travel across national borders.

Figure 3.17 Skilled migrants on temporary work visas help to meet the demands for labour in Australia.

However, two trends in the labour market have resulted in the movement of workers. First, the movement of large numbers of temporary skilled migrant workers has been very important in Australia, Europe and Asia. For example, large numbers of unskilled Turkish and Filipino workers work in numerous countries. Second, the growing demand for highly trained employees means that such people are increasingly mobile.

Changes in consumer markets

There has been phenomenal growth in the amount and value of world trade, especially since the end of World War II. For example, during the period from 1995 to 2005, global trade in goods and services increased by approximately 150 per cent. In 2008–09, however, the global financial crisis saw a fall in global output and trade, which was the first of its kind since the Great Depression during the 1920s and 1930s. After the sharpest decline in more than 70 years, global trade is set to rebound over the next few years and grow at 9.5 per cent. Countries are achieving cost savings by specialising in products they can produce efficiently. This results in cheaper prices on the world market and, in turn, generates increased sales in existing markets. New consumer markets also emerge, particularly in developing countries, like China and India.

Improved technologies and communications have also changed consumer markets. With the advent of the internet, innovative and visionary Australian businesses may reach much larger markets and take advantage of economies of scale. Consumers around the world will just as readily browse an online store as examine a catalogue delivered to their private letterboxes.
Summary

- Legal influences are the regulation (legal framework) within which a business must operate.
- Political influences are derived from state and federal government policies and include free trade policies and the process of deregulation.
- Institutions that influence business include government, regulatory bodies and other groups such as trade unions and employer associations.
- Technological influences can increase business productivity and communication.
- Each business is influenced by their competitors and should aim to achieve a sustainable competitive advantage.
- Factors influencing a business's competitiveness include the ease of entry into a market for a new business, local and foreign competition, the marketing strategies employed by competitors and the number of competitors.
- Other external influences include changes in financial, labour and consumer markets.

Revision

1. Define the term ‘business environment’.
2. Distinguish between internal and external business environments.
3. In small groups, use the brainstorm technique to identify the elements that determine the environment of your Business Studies class. Choose a spokesperson to share the group’s comments with the rest of the class.
4. State what you understand by the ‘economic cycle’.
5. Clarify why the level of economic activity fluctuates over time.
6. Outline the impact of globalisation.
7. Justify why businesses should offer family friendly workplace practices.
8. Account for why the ACCC is so important to business in Australia.
9. Explain why it is important for a small business owner to comply with the consumer protection provisions of the Competition and Consumer Act.
10. Recall the legal penalties or remedies that might apply after a successful prosecution for breaches of the Act’s restrictive trade practices provisions.
11. Use the NSW Environment Protection Authority, NSW Fair Trading, Australian Securities and Investments Commission, and Australian Competition and Consumer Commission weblinks in your eBookPLUS to investigate these government agencies and then complete the following questions.
   (a) State their role.
   (b) Briefly outline their importance to Australian businesses.
12. Outline how information communication technology, especially the internet, has changed existing consumer shopping practices.
13. Define the term ‘sustainable competitive advantage’.
14. Describe what is meant by the term ‘market concentration’. Give examples.
15. Identify four types of market concentration.
16. Explain why the marketing strategies of a competitor will impact on a business’s competitive situation.
17. List five different products you use regularly, such as your computer, DVD player, shoes etc. and:
   (a) identify the brand name of the product
   (b) identify the company that made it
   (c) identify in which country it was made
   (d) determine why it was made there.
   Compare your list with other class members, noting similarities and differences.
   Propose a conclusion you can derive from this investigation about global consumerism.
18 Identify which external influence is affecting the small business in each of the following cases:

(a) Julie runs a small busy restaurant. She recently introduced technology that allows waiting staff to electronically send orders to the kitchen. This means better service for the customer because the order is taken more efficiently and more time can be devoted to other tasks such as the prompt delivery of food and drinks.

(b) John is the manager of a function centre that hosts large weddings and conferences. He makes sure to include an acknowledgement of the traditional owners of the land, the Wurundjeri people and their elders, in his opening remarks.

(c) Mia has to design and print new labels for the foods sold in her deli. This is because changes to the food labelling laws require that all foods list the ingredients by particular portion size. This allows customers to more easily compare different food items. She thinks that this may affect which foods customers choose.

(d) Michael, the owner of a local bottle shop, is no longer allowed to sell imported premixed alcoholic drinks because of a government ban on food and beverage imports from particular countries.

Extension

1 Explain the impact each of the external influences has on a business and how the business’s management responds. The first factor has been completed for you.

<table>
<thead>
<tr>
<th>Factor influencing the internal environment</th>
<th>Brief explanation</th>
<th>Management response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political influences</td>
<td>Elected governments at all levels in Australia regulate markets and have the power to make or change laws.</td>
<td>Must comply with the laws and regulations introduced by governments</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

2 Using an example, determine how the development of global consumers encouraged the process of globalisation.

3 (a) Demonstrate how technology has affected the way consumers can purchase goods and services.

(b) Predict what will happen if an Australian business does not provide the opportunity for consumers to purchase online.

4 In small groups, examine and report on a social issue confronting businesses in your local area. You may wish to either prepare a PowerPoint presentation or use a word-processing package for your report.

(a) Outline the issue.

(b) State how the local businesses have reacted to the situation.

(c) Determine what indicators you would use to decide the success or failure of a business’s response to the situation.

3.4 Internal influences on business

Internal influences relate to the specific factors within the business that will affect its operations. These factors can be identified and adjusted via feedback and evaluation processes that provide the business with information for change.
Product influences

Product influences affect a range of internal structures and operations within the business. The main product influences on a business are as follows.

1. The type of goods and services produced will affect the internal operations of a business. If the goods are physically large or require many raw material inputs, there will need to be structures in place to organise and monitor the processes involved in production. In contrast, a service may be delivered by a home-based business or a franchise business, such as Jim’s Mowing, and will influence the internal structures or processes differently.

   The range of goods and services refers to the number produced by the business. The larger the number, the more internal impact it will have on the business as it will need to expand operations and internal structures to accommodate the changes. Companies such as Coca-Cola have continually expanded their product range over the last 20 years, and this has meant that internal changes to operations and management have been necessary to allow this expansion to occur.

2. Product influence will be reflected in the type of business (service, manufacturer or retailer). Internally, a service provider will be structured differently to a manufacturer or retailer, and the influences will vary. Some goods or services require extensive preparation, while others are merely deliverers. Consider the difference between the product influences of a clothing manufacturer and that of a clothing retailer.

3. The size of the business, as previously mentioned, will be based on the range and type of goods and services produced, the level of technology utilised, and the volume of goods and services produced. The larger the business the more goods and services being produced, which will in turn influence the internal structures and operations of the business. A café will operate at a different scale to a club bistro and therefore the influence on business functions will be relative.

Location influences

Location can make the difference between success and failure. A good location is an asset and will lead to high levels of sales and profits. A bad location is a liability that adversely affects sales and profits.

The choice of location is therefore important. This is particularly true for retail and service-oriented businesses, which need a constant flow of people walking past the store — the passing trade — and thus need to be located in a shopping centre, mall or main street. Locating next to complementary businesses may be beneficial because more customers may be attracted to a single site, as demonstrated by the clustering of retail outlets.
Each individual small business must satisfy its own criteria when deciding on the ‘best’ location. Figure 3.21 outlines the factors to consider when choosing a location.

The factors in figure 3.21 vary in importance from business to business, and depend on a business’s main activity. To understand each factor, it is necessary to consider the differences in a location decision for a retail business (such as a clothing store or café) and for a non-retail business (such as manufacturing or wholesaling).

For a retail business, location is extremely important to its overall success. The location must be convenient for potential customers and central to customers’ own location — that is, the business must have passing customer traffic.
Location for non-retail businesses such as manufacturers is about position and convenience. This means being close to transport facilities, which allow for shipping goods to customers and receiving supplies necessary for production. Many wholesalers and manufacturers locate in industrial estates or parks, which have been set up by local councils (see figure 3.22).

**Visibility**

If a business is not visible, customers may not make the effort to find the business and optimum customer flow will not be achieved. A business wanting high visibility would locate in a prime shopping area such as a shopping centre or main street. Companies concerned with manufacturing would not consider this to be a crucial consideration, so may choose a low-visibility location ‘out of town’ and then advertise their location to appropriate customers.

**Cost**

Cost is another factor to consider when determining the location of a business. Leasing or purchasing a central location in a busy shopping centre will be far more expensive than in a location with lower levels of passing customer traffic. If the business relies on passing customer traffic and maximum exposure, then the cost factor is unavoidable. These types of businesses include coffee shops or cafés, fast food outlets and retail shops. The business owner will need to be confident of generating sufficient business to justify the higher cost.

On the other hand, location may not be a key consideration if the business does not rely on passing customer traffic. Such businesses search for a low-cost site, especially if they are related to manufacturing and require large premises. These types of businesses include mechanics, car yards, equipment hire, and even solicitors and doctors.

Given the rapid changes in technology, many businesses do not consider their location as important at all. They are able to communicate with their customer base through computers, especially with the internet (which has become the fastest growing avenue for consumer sales). These types of businesses include telemarketers or businesses that wish to sell their products via the Web.

**Proximity to suppliers**

Proximity to suppliers is an important consideration for some businesses but not others. The main issue is the size and quantity of the raw materials needed for
production, or the size of the finished goods to be supplied. A business that relies on bulky raw materials or finished goods — such as a logging company or steel manufacturer — has significant transport costs and will locate closer to the supplier in an attempt to reduce costs. However, for a business that does not transport bulky goods, proximity to suppliers is not a major consideration. These businesses include florists, bakeries and video hire shops.

**Proximity to customers**

The importance of proximity to customers depends on the type of business being established. A retail business must be convenient for their customers and locate close to their customer base, so shopping centres or a shopping strip with off-street parking will be the primary choice. A manufacturing or wholesaling business may decide it is more cost effective to transport the product to the customer, particularly if bulky raw materials are needed. Other location cost factors could include leasing costs in ‘prime shopping areas’, incentives offered by local councils and general overheads such as rates or utilities.

**Proximity to support services**

Support services are the activities needed to assist the core operations or prime function of a business. They include accountants, solicitors and government agencies such as Austrade and the Business Enterprise Centre. Small businesses traditionally tend to use external services (mainly as a result of limited finance) whereas medium-sized and larger businesses often provide their own support services internally. But this trend is changing, with businesses now preferring to downsize their work force (in an attempt to reduce costs) and outsource many activities.

Today, proximity to support services is not the most important location factor, because advancements in technology have enabled all businesses (large or small) to access a range of support services through the use of computers (the internet and email), faxes, mobile phones, and phone and video conferences.

**Resource influences**

The four main resources available to a business are:

- **Human resources.** These are the employees of the business and are generally its most important asset.
- **Information resources.** These resources include the knowledge and data required by the business such as market research, sales reports, economic forecasts, technical material and legal advice.
- **Physical resources.** Include equipment, machinery, buildings and raw materials.
- **Financial resources.** Are the funds the business uses to meet its obligations to various creditors.

Although the quantity and quality of these resources varies amongst businesses, it is by combining them that all the goods and services demanded by consumers are produced.

It is important to realise that these are only general categories of resource. Within each category there may be hundreds of more specific resources from which the manager must choose. Gathering, selecting and coordinating the appropriate resources from a complex array requires knowledgeable and efficient managers. The skills and expertise of the management team in coordinating the business's resources will largely determine whether the objectives of the business are achieved.
Management influences

Rapid advances in technology, coupled with the significant pressures on businesses from increased competition due to forces of globalisation, have resulted in businesses flattening their structures. This means that there are fewer levels of management. Such businesses can adapt quickly to meet changing consumer needs and market conditions because there are fewer managers who need to approve decisions.

Businesses that adopt a flatter organisational structure reduce the number of levels of management, giving greater responsibility to individuals in the business.

The trends and changes in organisational structures are summarised in figure 3.24. The characteristics listed on the left-hand side apply to the traditional structures, whereas those on the right apply to the most modern structures. Many businesses are in transition — they have adopted the traditional design and taken on elements of the newest designs.

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**BizFACT**

If a business adopts a traditional hierarchical approach, management may allocate supervisors who have direct control and authority to ensure work processes are carried out. However, if a business adopts a flat management structure, it will emphasise teamwork and shared responsibility for achieving business goals. In today's global environment, there is an ongoing emphasis on 'virtual teams'. Such teams work without time, space or organisational boundaries by making use of sophisticated communications technology.
The characteristics of the two organisational structures (see page 27) reflect the important influence management has on business. Collaborative workplaces allow for a more cohesive and inclusive business culture. The management style that the business adopts will depend on its size and main activity — for example, retail, manufacturing or service (see the following Snapshot).

**SNAPSHOT**

‘Morgan Stanley has developed a strong culture...’

Morgan Stanley is a global company that provides financial services to other corporations, governments, financial institutions and individual customers. The financial services that the company provides are numerous, but to give just one example, Morgan Stanley provides a financial advisory service regarding corporate lending. The company has its headquarters in New York City, but it started operations in Australia more than 50 years ago. It currently has more than 300 employees located in its offices in Sydney and Melbourne. Morgan Stanley operates in 37 countries around the world, with over 1200 offices and more than 61,000 employees globally. It has a relatively flat management structure (few levels of management) and a positive corporate culture.
Morgan Stanley has developed a strong culture based on diversity (recognising individual differences) and inclusion. The company creates a culture of inclusion by bringing together and valuing staff with diverse backgrounds, talents, perspectives, cultural identities and experiences.

One of Morgan Stanley’s basic business principles is ‘keep your balance’. The company encourages staff to enjoy a life outside of work, and realises the importance of personal events in its employees’ lives. In 2010, Morgan Stanley Australia was listed as one of BRW magazine’s top 50 places to work in Australia. The annual Best Companies list recognises the achievements of companies that have implemented creative approaches to developing trust, pride and camaraderie within their workplaces.

Snapshot questions
1. Describe Morgan Stanley’s internal environment.
2. Assess the impact this management style would have on employees.

Business culture

All businesses have their own business (corporate) culture — the values, ideas, expectations and beliefs shared by the staff and managers of the business. Each business develops its own particular way of doing things. The style or character of a business is consequently reflected in its culture.

Business culture can be revealed officially in the policies, goals or slogans of a business. It can also be seen in the unwritten or informal rules that guide how people in the business behave, such as the way staff dress, the language staff use and the way that staff treat each other and customers.

FIGURE 3.26 The corporate culture of Domino’s is based on the idea of having fun at work, which leads to great things happening.

A manager must understand and assess all facets of a business’s unique culture as this is a powerful tool for achieving goals. Knowing and appreciating a business’s culture makes it easier to get things done faster or to initiate a change to routine
or procedures. Competent, effective managers will use the business’s culture as a force for positive change. Research has shown that businesses with a healthy, well-developed and strong culture are more likely to be successful, because such a workplace is perceived by the employees to be more positive and personalised. Employees who have clear expectations feel better about their work — they develop a sense of belonging. A manager who does not understand a business’s culture may experience failure or disappointment.

## Elements of a business culture

A business culture normally consists of four essential elements:

1. **Values.** These are the business’s basic beliefs, shared among its employees. Business values can include honesty, hard work, teamwork, quality customer service, employee participation and innovation.

2. **Symbols.** These consist of events or objects that are used to represent something the business believes to be important. It is a case of ‘actions speaking louder than words’. For some businesses, competitive sports are a key feature of the business’s culture. Other businesses have encouraged employee development and loyalty through the use of training and development programs.

3. **Rituals, rites and celebrations.** These are the routine behaviour patterns in a business’s everyday life. Regular social gatherings can be held to help develop a sense of belonging among employees who normally work in small teams during the week.

4. **Heroes.** Heroes are the business’s successful employees who reflect its values and, therefore, act as an example for others.

## Culture and organisational structures

The culture of a business is often evident in its organisational structure. Formal businesses with an emphasis on bureaucracy, line authority, hierarchical management structures, and defined job titles and areas of responsibility often have prevailing cultures that emphasise accountability, communication and cooperation. They also tend to conform to a culture of loyalty and respect for superiors (or, if not for superiors, at least for the positions they may hold). A culture that values and expects defined career pathways may be evident in formal organisations.

Less formal businesses with flatter management structures, less departmentalisation and fewer defined spans of control often exhibit highly flexible, innovative and risk-taking cultures. Apple Inc. is an example of a company that values innovation. Steve Jobs, the company’s co-founder, created the atmosphere of innovation that allowed the company to successfully introduce new products such as the Apple Mac, iPod, iPhone and iPad.

## Management’s role in developing a business culture

Once a positive business culture is established, it needs to be kept alive. This is where management comes in. Management must ensure that staff members are given sufficient training to reflect the values of the business. For example, if treating customers respectfully is important in the business, then this might become part of customer service training.

For a change in business culture to be successful and sustainable, it is vital that senior management be role models for staff in those important values. Management must continually reinforce what the values are by communicating with staff, rewarding employees who display the appropriate values, and recruiting staff who already fit in with the values of the business.

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**BizFACT**

A business may express its core values with statements such as: ‘We show respect for the law and perform our roles accordingly’, ‘We conduct ourselves with integrity and act in a fair and honest manner’, ‘We value people and show them respect’, ‘We use the funds and assets of the company responsibly and in its best interests’ or ‘We are accountable for our own actions and their consequences’.

**BizFACT**

Origin Energy Australia is an energy company. Its employees are expected to reflect the company values, which include caring, listening, learning and delivering.

**BizFACT**

Management consultants Terrence Deal and Allan Kennedy wrote that having a positive business culture is essential for a business’s survival given:

- the rapid rate of social, technological and environmental change
- an increasingly competitive macro environment
- intensified global competition.
Google’s unique culture

Google has a unique culture and is one of the most sought-after employers worldwide. They were ranked number one in Fortune’s annual list of 100 best companies to work for in 2012. Wondering why? It’s because of their unique corporate culture.

The Googleplex is Google’s corporate headquarters. Just by looking at pictures inside the Googleplex, you can see that the workplace looks more like an adult playground as opposed to a place of work. Some of the amenities you can find there include:

• snack rooms stocked with lots of goodies
• several cafés where Googlers (employees) can gather to eat free food and talk
• exercise rooms
• swimming pools
• game rooms
• a childcare centre.

In addition to these amenities, Googlers receive a wide range of benefits such as free medical and dental benefits, an on-site doctor, valet parking, free haircuts, oil change and bike repair, subsidised massages, tuition reimbursement, free meals and nap pods (where employees who put in long hours are allowed to nap in sleep stations to recharge themselves).

Googlers come from a wide variety of backgrounds and speak dozens of languages. The Googleplex is designed to be fun and inspiring and has a very casual and relaxed work environment. Google provides bicycles for employees to ride around the campus and employees are even encouraged to bring their pets to work.

Google maintains an open culture in which everyone is made to feel comfortable to share their ideas and opinions. They have a very flat management structure with no middle managers. In their weekly meetings, as well as over email, Googlers can ask questions directly to Larry Page and Sergey Brin (Google’s co-founders) and other managers about any company issues. The physical layout of the company and the cafés are designed to encourage interactions between Googlers. No one has a private office except for the executive chairman.

Snapshot questions

1. Identify the features that make this workplace unique.
2. Assess the effect this workplace culture would have on Googlers.

Summary

• The internal influences on a business include product, location, resources, management and business culture.
• Product influences affect a range of internal structures and operations within the business.
• Location will have a direct impact on the sales and profits of some businesses.
• Factors to consider when choosing a location are:
  – visibility
  – cost
  – proximity to suppliers
  – proximity to customers
  – proximity to support services.
• The four main resources that influence a business are human, information, physical and financial.
• Businesses can adopt a traditional hierarchical structure or a flat organisational structure.
Business culture can be seen in the unwritten or informal rules that guide how people in the organisation behave.

There are four essential elements of a business culture: values, symbols, rituals and heroes.

**Revision**

1. **Summarise** one way in which product influences affect a business.
2. **Identify** and **outline** three factors a business must consider when choosing a location.
3. **Describe** the four main resources available to a business. Choose one of these resources and **explain** how it will influence a business.
4. **Distinguish** between a traditional and flat organisational structure.
5. **Define** the term ‘business culture’.
6. **Describe** the culture of your school.
7. **Explain** how business culture can influence the success of a business.
8. **Briefly explain** how a manager can influence a business’s culture.
9. **Summarise** the four elements of a business culture.

**Extension**

1. **Analyse** the relationship between a business’s structure and its culture.
2. **Determine** how the choice of a good or service that a business sells will influence the business’s legal structure, size and operations.

### 3.5 Stakeholders

Businesses have many **stakeholders**: the people and groups that interact in some way with the business and have a vested interest in its activities. In this sense you are a stakeholder of your school.

Businesses are expected to be enterprising, to comply with the law, and be socially just and ecologically sustainable in their operations. They are expected to practise ethical management and do the ‘right’ thing in the interests of all stakeholders.

**BizWORD**

A **stakeholder** is any group or individual who has an interest in or is affected by the activities of a business.

![Figure 3.27: The main stakeholders of a business](image-url)
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 goals that align with the interests and expectations of their main stakeholders. Every business must be aware of and take into account the needs of the stakeholders.

**Shareholders**

Shareholders purchase shares in a company, so they are partial owners. Shareholders have a direct influence on a business because they have voting rights on major business decisions. In addition, companies have a duty to hold an annual general meeting where shareholders are able to voice their concerns and are given an opportunity to ask questions of the Board of Directors. Major shareholders can therefore impact on major decisions.

Companies with shareholders also have to ensure that they maximise the return on the shareholders’ investment in a sustainable way. Shareholders want the organisation 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 an organisation’s shares increases.

Since shareholders desire immediate returns and profits, managers of public companies usually feel greater pressure to generate revenue quickly. Shareholders will therefore influence managers’ decisions and can affect the growth or long-term expansion plans of a company.

**Managers**

Managers obviously have a major influence on the business. Management has the responsibility of running a profitable or successful organisation. Most managers today understand that ethical and socially responsible activities should lead to increased sales. There are many complex legal issues that managers must understand and contend with today and it is their responsibility to introduce the policies and procedures that will affect the workplace.

A manager’s approach or leadership style can have a major influence on employees and their productivity. This will affect the culture of the business and can impact on employee morale.

**Employees**

Employees are vital to an organisation as they manufacture or produce the product the organisation sells. Employees will influence businesses since the quality of the product depends on their skill and commitment to the process. When employees are valued, paid fairly, trained properly and treated ethically, they will become more valuable to the organisation. If organisations can provide for their needs, employees will be more inclined to put effort into work tasks and will be motivated to meet customer expectations.

**BizFACT**

Presently, over 6 million Australians, or 38% of the population, own shares. These shareholders have instant access to vast amounts of information about companies and the market. The result has been the development of new shareholder groups, many of which focus their attention on environmental and ethical issues.

**Figure 3.28** Employees need to feel valued and know that their job is secure in the long term. Employees need a safe and psychologically rewarding work environment. Such an environment would respect individual differences and be concerned for employees’ goals, aspirations and welfare. In this sense it is more than just providing a ‘pay packet’.
Employees of Southern Cross Alliance affecting revenue

Southern Cross Austereo (SCA), part of the publicly listed company, the Southern Cross Media Group, is a prime example of a company where ratings and advertising earnings have been influenced by their employees.

SCA is a national owner and operator of radio, television and internet media outlets. One of their most popular radio brands is the Today Network, which is currently Australia’s number 1 FM radio network and one of SCA’s leading brands. However, over the past few years, some of their high profile employees have been involved in scandals that have affected their ratings as well as the company’s profits.

In December 2012, a nurse from a London hospital committed suicide after 2Day FM radio presenters Mel Grieg and Michael Christian broadcast a prank call pretending to be the Queen and Prince of Wales. The nurse was taken in by the call and transferred the call to another person, who revealed private medical details about the Duchess of Cambridge who was being treated at the hospital. The hoax was widely publicised and SCA suspended all advertising on 2Day FM for some time after the scandal. This affected their market share and advertising revenues, and led some in the media to estimate that this could have cost the company $2.8 million in lost profit (part of this loss was because Austereo responded by donating advertising revenue from 2Day FM to a charity related to the nurse).

Kyle Sandilands, who was another host of 2Day FM, has also been involved in numerous scandals over the years, causing SCA many problems. Many of his comments on air have been described as derogatory, offensive and sexist by media commentators and some of his behaviour has led to major brands pledging not to advertise on his programs.

At the end of 2013, Kyle and Jackie O announced their resignation from 2Day FM where they held the number one spot for over six years in a row. Despite Sandilands’s contentious on-air behaviour, this has led media sources to conclude that it has the potential to have an impact on the company since their successful show generated millions of dollars in advertising revenue. Without Kyle and Jackie O, it has been argued that the network may lose big ratings and millions of dollars’ worth of advertising.

Snapshot questions
1. Discuss the impact SCA’s employees have had on the company.
2. Deduce how other stakeholders have also been affected by SCA’s employees.

Customers

Successful businesses know that the consumer is a powerful stakeholder in the external operating environment. Today’s consumers are astute, better educated and informed. They are increasingly prepared to seek compensation if they believe they have either been unfairly treated or purchased a product that did not perform as promised. Consumer groups are also prepared to mount publicity campaigns aimed at embarrassing those businesses that do not act ethically or responsibly.

One recent example was the consumer backlash against a manufacturer of sports shoes that was perceived to be exploiting cheap labour in a developing country. Consumers are increasingly putting pressure on businesses (through their spending decisions) to be environmentally aware, demanding products that are ‘clean, green and safe’. Examples include recycling, environmentally friendly packaging, reduced packaging and lower factory emissions. An example of consumer power was the pressure put on supermarkets to change their plastic bags to reusable bags.
To ensure its future viability and profitability, a business needs to recognise and assess changes in consumer tastes so it can constantly satisfy the consumers’ needs and wants.

**Society**

Members of the community increasingly expect organisations to show concern for the environment. Some might be worried about organisations using valuable land resources or showing disregard for carbon emissions. They may be concerned about waste disposal or pollution. Others may be concerned about their future welfare through their own employment within organisations.

Therefore, socially responsible businesses will participate in a range of community projects and activities. For example, The Body Shop organises for its employees to assist with a local charity of their choice. AGL Limited supports a range of educational, fundraising and social welfare programs.

**Figure 3.29** Vocal interest groups can force businesses to change their operations. The protesters are concerned about live animal exports and animal cruelty.

**Figure 3.30** Dexus is a property trust that manages and invests in a portfolio of diversified properties, including office and industrial properties, retail shopping centres and car parks. Dexus is listed on the 2010 Corporate Knights Global 100 Most Sustainable Corporations in the World. One of the ways in which Dexus engages in the community is by helping the charity Barnardos Australia pack Christmas gifts for disadvantaged families.
Environment

There is growing pressure for businesses to adopt **ecologically sustainable** operating practices. This is in response to concerns about climate change and the destruction of the natural environment. Concern for our environment operates at both the local level as well as on a global scale.

Over the last two decades, the business community has undertaken many initiatives to put the principle of sustainable development into practice. For example, the jeans manufacturer Levi Strauss and Co. has developed its own environmental philosophy and guiding principles. Levi Strauss will conduct business only with partners who share its commitment to the environment.

Businesses that have been successful in their environmental management have learned that new processes, procedures and strategies are often needed. For example, one particular organisational element that many proactive ‘green’ companies share is the development and implementation of an environmental policy.

Through communication and training, responsible businesses can ensure that all employees and contractors are environmentally aware.

**Summary**

- Businesses have many stakeholders that will influence their operations.
- Shareholders have a direct influence on a business because they have voting rights on major business decisions.
- Companies need to ensure that they maximise returns on their shareholders’ investments.
- Managers will influence organisational policies and procedures as well as employees’ productivity.
- Employees will influence the quality of an organisation’s products.
- To ensure its future viability, a business should consider the needs of its customers.
- Members of the community increasingly expect organisations to show concern for the environment and to be socially responsible.
- There is growing pressure for businesses to adopt ecologically sustainable operating practices.

**Revision**

1. Define the term ‘stakeholders’.
2. Identify the stakeholders of your school. Compare your answer with other class members.
3. Identify the stakeholders of your school. Summarise the influence each of these stakeholders has on the school.
4. Are a shareholder and a stakeholder the same thing? Explain your answer.
5. Outline the influence managers have on a business.
6. ‘Employees are the most valuable resource of any business.’ Discuss the accuracy of this statement.
7. ‘Businesses that respect and satisfy their customers have a much greater chance of success.’ Explain why this is so.
8. Define the term ‘ecological sustainability’.
9. In small groups, use the brainstorm technique to identify reasons businesses should adopt ecologically sustainable operating practices. Share your answer with the rest of the class.
10 Use a table like the one below to summarise a business’s main stakeholders and their influence.

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Influence</th>
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**Extension**

1 ‘The shareholder should take precedence over all the other stakeholders. They are the ones who have invested their money; they take the risks. Therefore, they should be rewarded with as high a return as possible.’ **Evaluate** this statement. **Compare** your answers with other members of the class.

2 Recently, consumer groups, some church organisations and trade unions have publicised the harsh conditions of outworkers in the clothing industry. Outworkers are usually women who work from home sewing garments on a contract basis. These workers have little or no protection regarding their working conditions. **Evaluate** the impact of such campaigns. To help you, use the **Fair Wear Campaign** weblink in your eBookPLUS.

3 What do you think motivates a business to engage in socially responsible business programs? Is it:
   (a) altruism — an unselfish concern for others?
   (b) enlightened self-interest?
   (c) avoidance of government regulation?
   (d) fear of being sued?

**Justify** why you chose the one you did. Share your answer with other class members.
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