**Could you be a successful entrepreneur?**

Do you have what it takes to be a successful entrepreneur? An entrepreneur is someone who undertakes a new business venture and assumes the risk of its success or failure. One important characteristic many entrepreneurs share is the ability to be highly motivated. Amanda Wong is an example of an entrepreneur with plenty of motivation.

At age 15, Amanda Wong was already turning a profit. In her spare time she designed brochures and posters for local rock bands and concert events. Today, aged 29, Amanda is the driving force behind Eclipse Publishing & Design, a graphic design business specialising in advertising, brochures, digital photography, logos and publication design. Amanda started the business in 2006, and at the time had no idea it would eventually employ 15 people and have nine overseas clients. ‘The business is successful because we offer a diverse range of unique designs not available from many other graphic design businesses.’

In the beginning, cash flow was tight and Amanda had little experience in operating a business. However, she was highly motivated and keen to learn. ‘Creating an idea in my head and then seeing it actually appear out there in the world, that’s huge to me,’ Amanda says. ‘I get enormous satisfaction from creating products that delight my clients.’

‘If you want to go into business, then you have to realise there will be good days and bad days,’ she says. ‘I understood there would be risks but good entrepreneurs should take only calculated risks, which is what I did.’ In addition to Amanda’s self-confidence is her ability to identify business opportunities when they arise. ‘If I become aware of an opportunity that will be profitable and help grow the business, it is my responsibility to act. That’s the life of an entrepreneur.’

‘I knew that commencing a business would require hard work and long hours, but I was totally committed to the idea. I was determined to succeed. Ultimately, it comes down to self-belief. If you want it to work, you’ve got to believe it will.’

Amanda’s venture into the business world has been financially and personally rewarding. She says, ‘Successful entrepreneurs are motivated and passionate about what they do and where they want to go’.

<table>
<thead>
<tr>
<th>AREA OF STUDY</th>
<th>OUTCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Introducing business</strong></td>
<td>Explain a set of generic business characteristics and apply them to a range of businesses.</td>
</tr>
<tr>
<td><strong>2 Small business decision making, planning and evaluation</strong></td>
<td>Apply decision-making and planning skills to establish and operate a small business, and evaluate the management of an ethical and a socially responsible small business.</td>
</tr>
<tr>
<td><strong>3 Day-to-day operations</strong></td>
<td>Discuss one or more of the day-to-day operations associated with an ethical and a socially responsible small business, and apply the operation/s to a business situation.</td>
</tr>
</tbody>
</table>
CHAPTEr 1

Introducing business

WHY IT IS IMPORTANT
Did you know that small businesses make up over 96 per cent of all businesses in Australia? Take a look around your local area and you will see plenty of examples of businesses that are considered small because they have fewer than 20 employees. A small business starts with an idea, and usually a very excited business person who strives to turn their dream into reality. Software company Atlassian is one such business. Co-founders, friends Scott Farquhar and Mike Cannon-Brookes (pictured opposite), started their business in 2002 as university drop-outs, working in a garage with some servers and $10 000 on a credit card. Selling software used by some of the world’s largest companies, this young technology company has grown from two to more than 800 employees. It is currently valued at $3.5 billion.

Use the Atlassian weblink in your eBookPLUS to watch a video clip and find out more about this company’s business success. Could you start a small business with your passion or a big idea?

WHAT YOU WILL LEARN

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

- Features of organisations including for-profit and not-for-profit organisations
- Business ethics and socially responsible management and their impact on various stakeholders
- The internal and external (operating and macro) environments of a business
- The contribution of small business to the economy
- Objectives of different types of organisations
- Distinctions between small, medium and large businesses

INTRODUCING BUSINESS

KEY SKILLS
These are the skills you need to demonstrate. Can you demonstrate these skills?
- accurately use relevant management terms
- recognise and classify types of businesses
- acquire and exchange business information and ideas
- research aspects of business management using print and online sources
- apply business management knowledge to practical and/or simulated business situations
- analyse business information and data.
The world of business: it reads like a novel!

Thousands of Australian businesspeople are involved every day in making decisions about how best to plan and manage their businesses. Each one has their own story to tell in the world of business. Such stories often read like a best-selling novel. The ‘script’ of business includes:

- **challenge** — for example, Amanda Young and Matt Braithwaite drew on their previous experience working for companies in the beverage industry to start Springleaf iced tea. With three small children, they wanted a better work–life balance. The learning curve has been steep, but they have succeeded in creating a profitable business as well as having more time for their children.

- **innovation** — for example, Diana Williams, founder and chairwoman of Fernwood Women’s Health Clubs, started her first all-female gym in Bendigo in 1989. She had no business experience, simply a desire to provide an exercise venue for women only. Fernwood now employs more than 2000 people, and has an annual turnover of more than $75 million.

- **social and ethical responsibility** — for example, Nick Savaidis, the founder of Etiko, believes that businesses should make a positive contribution to society. Consequently, from sales of its products, Etiko is able to help fund community development, micro-credit and health care programs around the world.

- **sense of fun** — for example, Stuart Crumpler started making the now famous crumpler bags in his parents’ East Kew garage, and now sells one million bags every year through about 60 stores in Australia. His business partners used graffiti in order to draw attention to their products, and the company’s logo, a rasta figure, was something the art school trained Crumpler used to doodle.

- **excitement** — for example, Chris Humphrey’s enthusiasm for animals saw him turn his dream into a reality when he created Wild Action Productions. This mobile educational zoo brings Australian wildlife such as snakes, insects and reptiles into classrooms and communities.

These are just a few of the thousands of individual stories behind every business. The world of business is most definitely an exciting and interesting one.
1.1 For-profit and not-for-profit organisations and their features

**KEY CONCEPTS** Businesses are organisations that provide goods and services to fulfil our needs and wants and in return most businesses seek to make a profit.

Not-for-profit organisations may make a profit but the main reason they exist is to pursue a social objective, such as helping others.

You probably belong to many organisations, such as your school or a local football or netball team. An organisation is a group of people who come together to achieve a common goal or set of objectives. Some organisations have a common goal of making a **profit** (the difference between what it costs to produce a good or service and its price). Those organisations that exist to make a profit are usually referred to as a **business**. Other organisations might be classified as not-for-profit organisations and that means that their common goal is based on objectives other than making a profit. For example, the Brotherhood of Saint Laurence’s main objective is to keep Australians free from poverty. While many not-for-profit organisations do make a profit, it is for the purpose of furthering the work of the organisation and profits do not go to individual members. Let’s first take a look at businesses that aim to make a profit.

A business makes a **profit** when the income earned (revenue) is greater than the costs of production (expenses).

A **business** is an organisation that provides goods and/or services to consumers in order to make a profit.

Are you a compulsive shopper; someone who was ‘born to shop’? Or are you an unenthusiastic shopper? Whichever you are, as a consumer, you rely on a large number of businesses to supply goods and services in order to satisfy your needs and wants.
A business — a for-profit organisation

The main activities of a business

Rarely do we stop and think about all the operations that have occurred to transform raw materials into finished goods that we regularly buy, or about the work involved in providing a service to customers. Business enterprises undertake many activities to provide goods and services demanded by customers, as shown below.

- **Forecasting sales, expenses and profit** (e.g. café changes to a supplier providing cheaper coffee)
- **Organising natural, capital and human resources** (e.g. separate rosters are drawn up for the employees who work in the café and the antiques section)
- **Distributing goods and services** (products) (e.g. the owner employs a delivery business to transport antiques to various customers at a cost)
- **Planning finances, production and business needs** (e.g. permission sought from local council to have tables on footpath)
- **Controlling production — quantity and quality** (e.g. café manager seeks feedback from customers)
- **Marketing products** (e.g. online store website established to show full range of antiques available)
- **Production — creating products** (e.g. new reproduction furniture line is created featuring chairs with a ‘well worn’ look)
- **Management — coordinating the business’s limited resources in order to achieve specific goals** (e.g. the owner buys a new machine that makes coffee faster and saves on labour)

The main activities undertaken by this business, an antiques dealer with an on-site café, include more than selling furniture and serving coffee. To satisfy the needs and wants of its customers, the business has to produce the products (goods and services) the customers demand.

DID YOU KNOW?

In Australia there are approximately 2.1 million separate business enterprises which respond to the needs and wants of around 23.5 million Australian customers and millions of overseas customers.

Finished goods are those that are ready for customers to buy and use.
Not-for-profit organisations

Not-for-profit organisations operate to provide social, educational, religious or other benefits, rather than the sole pursuit or objective of earning a profit. It could be said that many not-for-profit organisations have a social mission. The Australian Conservation Foundation, for example, works with businesses, the community and government to protect, restore and sustain our environment. Other well-known not-for-profit organisations include the Salvation Army, The Smith Family and World Vision.

You might think that not-for-profit organisations don’t make a profit, but many of them do. It is what they do with the profit from their commercial divisions that makes them different from other businesses. For example, Amnesty International has a mail-order/online ‘shop’ and The Smith Family generates income by selling donated, recycled goods. The income from these operations is usually used to expand the organisation’s operations. Because the commercial divisions generate significant income this means that the operations need to be run as a business. Not-for-profit organisations may be run by both paid employees and volunteers.

Similarities and differences between for-profit and not-for-profit organisations

There are many similarities between for-profit and not-for-profit organisations. Both must ensure that finances are available to allow the organisation to survive and pay its bills and both must be accountable for their actions. All organisations must also maintain high ethical standards in terms of behaviour that is considered to be right (acceptable) and wrong (unacceptable). In fact, the distinction between for-profit and not-for-profit organisations seems to have blurred a little, with many companies taking on the role of contributing to their community and being more socially responsible (see page 29). Distinctions do, however, exist and these are outlined in the following table.

<table>
<thead>
<tr>
<th>Feature</th>
<th>For-profit organisation</th>
<th>Not-for-profit organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>The aim of the organisation is to make a profit. For example, BHP Billiton’s half-yearly net profit was A$8.6 billion (April 2014).</td>
<td>The aim of the organisation is to achieve its social mission. For example, the Salvation Army in its annual report (released 2013) stated that in the previous 12 months it had assisted more than 1.1 million people.</td>
</tr>
<tr>
<td>Owners</td>
<td>The owners of a large-scale organisation like a company are shareholders (those people who own shares in the company). In many small businesses there may be one owner (called a sole trader) or the business may be owned by several people (a partnership).</td>
<td>No one really owns the organisation except for the organisation’s stakeholders (those who will benefit from the organisation’s work).</td>
</tr>
<tr>
<td>How profits are distributed</td>
<td>Profits are distributed to owners. For example, if a company makes a profit it may distribute some or all of these profits to its shareholders by what is known as dividends. If the organisation is owned solely by one person, all profit will go to that owner.</td>
<td>Profits are used to pay for the expenses of the organisation and any surplus may be used to further the work of the organisation.</td>
</tr>
<tr>
<td>Employees</td>
<td>Employees are usually paid for their work.</td>
<td>Employees may be either paid or unpaid (i.e. volunteers).</td>
</tr>
</tbody>
</table>
The St Vincent de Paul Society is an example of a not-for-profit organisation. It has 45,000 members and volunteers who assist people in need. The organisation runs ‘Vinnies Centres’ that provide affordable clothing and goods to the community, and the profits are used to provide resources and support for people in need. For example, Vinnies Youth Camps are run to provide support to struggling families — they provide respite for families and a much-needed holiday for some children.

**TEST your understanding**

1. What is the common feature shared by all for-profit organisations?
2. Which of the following businesses has made a profit?
   A. Pete’s Pet Shop has expenses of $2000 per week and revenue earned is $4000 per week.
   B. Jo’s Gardening Supplies takes revenue of $3500 each week for a month but has weekly expenses of $3500 the first week, $4000 the second and third week and $3000 for the fourth week.
3. ‘Not-for-profit organisations don’t make profit.’ Comment on this statement.

**APPLY your understanding**

4. Ho Chi is the owner of a handcraft shop. Read about his daily business activities (at right) then fill in the table by giving an example of each business activity Ho Chi undertakes in order to run his business successfully. The first two examples have been completed for you.

<table>
<thead>
<tr>
<th>Activity undertaken by business</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production — creating products</td>
<td>Making jewellery boxes</td>
</tr>
<tr>
<td>Marketing products</td>
<td>Advertising products on website</td>
</tr>
<tr>
<td>Controlling production — quantity and quality</td>
<td></td>
</tr>
<tr>
<td>Forecasting sales, expenses and profit</td>
<td></td>
</tr>
<tr>
<td>Planning production and business needs</td>
<td></td>
</tr>
<tr>
<td>Organising natural, capital and human resources</td>
<td></td>
</tr>
</tbody>
</table>

5. List at least three organisations you belong to and state whether they are for-profit or not-for-profit organisations. Give reasons for your answers.

6. If you were to start your own business, what type of business would it be and what would you hope to achieve?

7. Use the Not for profit weblinks in your eBookPLUS to choose one of the not-for-profit organisations and explain its primary objective (the reason it operates).
1.2 Distinctions between small, medium-sized and large businesses

**KEY CONCEPT** Businesses come in many different sizes — small, medium, large or somewhere in between.

You would expect businesses, like soft drinks, to come in three different sizes: small, medium and large. This is true, however there is an additional category of business size called small to medium-sized enterprises (SMEs). An enterprise is just another name for a business. SMEs are defined by the Australian Bureau of Statistics as firms with less than 200 full-time equivalent employees and/or less than $10 million turnover (this usually refers to the business’s total sales).

What size shoe do you take? Businesses, like shoe sizes, cannot be categorised simply as small, medium or large. SMEs, for example, fit somewhere between small and medium.

**Market share** refers to the business’s share of the total industry sales for a particular product.

While there is no one 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 organisation
- the number of owners (of the business) — for example, a sole trader is a type of business that has one owner
- **market share** — the proportion of total market sales the business has compared to competitors
- the legal structure — for example, is the organisation set up as a sole trader, partnership or company (see case study on page 9)?

We’ve looked at how we can distinguish the size of a business, but there are other factors that help us to determine the size of a business, such as:

- the owner makes most management decisions, such as who to hire, what to produce, how to advertise a product
- the owner provides most of the capital (finance)
Bartlett Precision Manufacturing: small, but big in its own way

Ever wondered what type of machine makes the plastic cards you have in your purse or wallet? Well, Troy Bartlett of Bartlett Precision Manufacturing is the person to ask, for his small business makes the intricate dies that punch out the distinctive card shapes.

Although many small businesses are keen to expand, Troy wants his business to remain small. ‘I often wonder whether I should grow or not, but the more the business expands, the more I’ll lose control. I want to keep the personal contact with my customers. I can design and manufacture to their specific requirements. This is my business’s main competitive advantage; I take a personal interest in the project so that high levels of engineering are maintained.’

‘I’m very much a hands-on type of business owner. I get enormous satisfaction from working on a job from beginning to end. I just want to continue doing what I do. Bigger is not always better.’

• the business has little control within the market (smaller businesses do not usually have a large share of the total market sales and therefore have less control over such things as price. If, for example, a business has a monopoly it means they are the only seller of that product and will be able to dictate price because there are no cheaper alternatives.)
• it is independently owned and operated (for example, the local hamburger shop is run by the owner, who does not answer to a larger organisation such as McDonald’s)
• the business is locally based. (This does not mean that it doesn’t export, because many SMEs are based in the one location and, unlike a multinational corporation or company, do not have offices around the world.)

The table below also outlines the features, and distinctions between, the different sized businesses.

Distinctions between small, medium-sized and large businesses

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business type</td>
<td>Corner store</td>
<td>Services club</td>
<td>Woolworths</td>
</tr>
<tr>
<td></td>
<td>Local mechanic</td>
<td>Motel/hotel</td>
<td>Qantas</td>
</tr>
<tr>
<td></td>
<td>Hairdressing salon</td>
<td>Engineering factory</td>
<td>National Australia Bank</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Less than 20 employees</td>
<td>20–199 employees</td>
<td>200 or more employees</td>
</tr>
<tr>
<td>according to the Australian Bureau of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statistics (ABS) business register</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>definition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Type of ownership</td>
<td>Independently owned and operated by usually</td>
<td>Owned and operated by a</td>
<td>Owned usually by thousands of public</td>
</tr>
<tr>
<td></td>
<td>one or two people</td>
<td>few people and/or private</td>
<td>shareholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td>shareholders</td>
<td></td>
</tr>
<tr>
<td>Most common legal structure</td>
<td>Sole trader</td>
<td>Partnership</td>
<td>Public company (numerous)</td>
</tr>
<tr>
<td></td>
<td>Partnership</td>
<td>Private company</td>
<td></td>
</tr>
</tbody>
</table>

(continued)
### 1.2 Distinctions between small, medium-sized and large businesses (continued)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Small</th>
<th>Medium-sized</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision making</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>Sources of finance</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>Market share</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>

### TEST your understanding

1. State whether the following businesses are small, medium or large, and the reason for your decision.
   A. Qantas employs approximately 33,000 people.
   B. National Australia Bank is an international financial services organisation 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.

2. Are the following statements true or false?
   A. A micro business is a business that only sells miniature products.
   B. SME stands for small to medium enterprise.
   C. Small businesses do not usually have a large share of a particular market.
   D. In small businesses, decisions are usually made by the owners of the business.
   E. A partnership is a business owned by a husband and wife.

### APPLY your understanding

3. 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. One example has been entered for you.

<table>
<thead>
<tr>
<th>Business name</th>
<th>Business activity</th>
<th>Number of employees</th>
<th>Small business</th>
<th>Medium-sized business</th>
<th>Large business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Redback café</td>
<td>Food and drink</td>
<td>4</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
1.3 Objectives of different types of organisations

**KEY CONCEPTS** People who belong to an organisation want to achieve something; they have objectives that they wish to accomplish. An objective is also an outcome or result an organisation expects to achieve over a set period.

In most cases a driver of a car knows his or her final destination and has a plan of how to get there. All organisations, whether they are for-profit or not-for-profit, should set objectives — this increases their chances of success. As mentioned on page 6, it is important to note that not-for-profit organisations may have an objective to make a profit, just like business organisations. The difference is that the pursuit of profit is not the overriding concern among not-for-profit organisations.

All large organisations tend to have broad objectives that state what they wish to achieve. For instance, Billabong — a large organisation manufacturing and selling surfwear and boardsport products — states its objectives on its website. Billabong's objectives include: ‘a commitment to brand protection and enhancement, the manufacture of design-relevant and functional products, marketing in the core boardsports channels, the professional development of staff and ongoing customer service and relationships’. In contrast Oxfam, a not-for-profit organisation, has these objectives: ‘We aim to increase the number of people who have a sustainable livelihood, access to social services, an effective voice in decisions, safety from conflict and disaster, and equal rights and status’.

Objectives have one thing in common — they are the motivating force behind an organisation. Many business organisations strive to achieve three broad types of objective: financial objectives, social objectives and personal objectives.

**Financial objectives**

Let’s take a closer look at a financial objective that is central to many business organisations — making a profit. 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 set several objectives to achieve its main objective of maximising profit:

1. **Increase sales.** This may be done by lowering price so consumers purchase more. Alternatively, the business may seek to increase sales through more clever marketing or creating more innovative products or delivering better service.

2. **Increase market share.** As mentioned on page 8, market share is a business’s share of total industry sales. 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.
3 Expand the business. Most businesses want to grow. Growth might be achieved by opening more outlets, employing more staff, starting new projects or introducing innovative products. A business can also expand by merging with another business so that they become one organisation. A merger occurred when airline company Qantas joined with Jetset Travel. Expansion can also take place through acquisition. This means that one business purchases another; for example, when Coca-Cola Amatil purchased Neverfail Springwater, which supplies bulk bottled water to Australian homes and offices.

Making profit is the primary objective of many business organisations. This is particularly important for investors in a company. If the part of the profit gained by the business is returned to investors, then the return on their investment is important. The return on investment is a ratio that relates the money gained or lost on an investment relative to the cost of the investment. It is expressed as a percentage.

Social objectives

All organisations operate within a community and, like individuals, have certain social responsibilities. On page 6 we saw that not-for-profit organisations consider their social objectives to be of utmost importance. Many business organisations also develop social objectives and adopt strategies that will benefit the community as well as achieving financial objectives. Among the main social objectives are:

1 Community service. Business sponsorship of a wide range of community events, promotions and programs rapidly increased during the past decade. Many businesses financially support educational, cultural, sporting and welfare activities.

2 Provision of employment. Most large businesses do not regard employment of people as a main objective. Many small business owners, however, look at the continuity of their business, sometimes employing family members who otherwise might be unemployed.

3 Social justice. Everyone has the right to be treated fairly. A business may be concerned for social justice — that is, it adopts a set of policies to ensure employees and/or other community members are treated equally and fairly.

4 Ecological sustainability. Organisations have to take increasing responsibility for the protection of the environment. Earth is a fragile ecosystem, and we need to take care so it can sustain itself. The social conscience of responsible business owners leads them to adopt policies of conservation, recycling and restoration.
Personal objectives of managers and owners

Business owners normally have a number of personal objectives. Often, the nature and operation of the business tend to reflect these personal objectives, especially in small businesses. Personal objectives of a higher income and improved financial security, for example, complement the business objectives of growth and diversification.

Personal objectives for business owners are not normally made public. However, this does not diminish their importance because they motivate the business owner and may underpin the viability of the organisation.

To use an example, Jordan Belfort was a 31-year-old multi-millionaire stockbroker in America whose greed for more material possessions eventually landed him in prison, charged with fraud (deceiving others). He says there was a time when he didn’t know the difference between right and wrong. He is now a motivational speaker and believes he is now channeling his energies into helping others.

Jordan Belfort is now paying back approximately US$100 million he defrauded from shareholders.

TEST your understanding

1. What is an objective?
2. Name the three main objectives of most for-profit organisations.
3. Explain how objectives set by for-profit and not-for-profit organisations may differ.
4. ‘We plan to expand our market into Asia, increasing worldwide market share by 2 per cent.’ Is this objective more likely to belong to a large or small business organisation? Give reasons for your answer.
5. In the following examples state the business objective/s the company is trying to achieve and how it seeks to achieve them.
   A. The business owner wishes to increase the number of retail customers, so a large sale is conducted.
   B. Employees participate in visiting a retirement home so that elderly people gain some contact with other people. This takes place on a rotating basis so that employees spend one afternoon at the retirement home once a month.
   C. Senior executives knew there was only one way to expand the business and that was by buying the opposition.
   D. An uncle who owns a small printing company employs his nephew in the full knowledge that he may need extended periods of time away from work to pursue his sports career.
   E. An office manager decides to use only recycled paper in the office and employs the services of a recycling company to take away the paper discarded around the office.
   F. A legal firm offers advice to homeless people as part of an outreach program that visits a homeless shelter.

APPLY your understanding

6. Construct a mind map (started below) summarising the four main social objectives of a business and provide a real-life example of a business that has sought to achieve each objective.

   Social objectives
   • Community service
   • Ecological sustainability
   • Social justice
   • Provision of employment

7. Comment on the statement ‘All businesses care about is making money’.
EXTEND YOUR KNOWLEDGE: Business helping the community

KEY CONCEPT Businesses that help the community can benefit socially and financially.

Socially responsible management — everyone wins

Late one evening in 2008, Harriet Michaels, owner of OzInteriors, a furniture store in a large regional town, was showing some overseas guests around her neighbourhood. As Harriet and her friends drove past the central park, they were stunned to see some homeless young people sleeping at the back of the maintenance block.

Harriet was puzzled by what she had seen: why didn’t the young people want to go to the local welfare shelter? Over the next few days she went to investigate. Nothing she had seen or read prepared her for what she discovered. The welfare officer at the local hostel described how difficult it was to accommodate all those who needed shelter. The rooms were overcrowded, the bathroom facilities needed repairing and the dining room was basic. The hostel was severely underfunded. Harriet soon realised that living conditions in the hostel were draining the hope the young people may have once had.

OzInteriors was one small business that decided to practise socially responsible management and consider the welfare of the community and not just the objective of making a profit. Socially responsible management is sometimes referred to as ‘corporate social responsibility’, but you don’t have to be a large corporation in order to be socially responsible — many small businesses make a worthwhile contribution to their communities. As a successful businessperson, Harriet wanted to give something back to the community, and so began the Welcome Home program. Harriet contributed both time and money (a portion of her business’s profits) to help with the refurbishment of the hostel. She also organised and funded a program that gave the hostel residents vital living skills.

Harriet is motivated by a desire to use her business to bring about a positive change within her community. To date, the Welcome Home program has assisted 58 homeless young people to complete their secondary education and move into employment.

Apart from the personal feeling of satisfaction from contributing part of the business’s profits to the community, there is overwhelming evidence that being a good corporate citizen can actually be good for business. For example, Ira Jackson and Jane Nelson propose in their book Profits with principle: seven strategies for delivering value with values that businesses combining a desire to maximise profit with a concern for the welfare of the broader community perform better than those that focus only on profit-making.

Through her business OzInteriors, Harriet Michaels decided to fund a program to assist the homeless young people of her town.

TEST your understanding
1 What does socially responsible management in business mean?
2 Identify the factors that motivated Harriet Michaels to establish the Welcome Home program.
3 Predict the ways that OzInteriors might benefit from funding the Welcome Home program.
4 In small groups, describe how three businesses in your local area have provided community services.
5 Does your school provide help to those in the local community? If so, explain what help is given and why it is given.

EXTEND your understanding
6 Use the Social responsibility weblink in your eBookPLUS to examine the seven principles put forward by Ira Jackson and Jane Nelson. Select and summarise the principle that most interests you. Justify your selection.
The Welcome Home program has assisted 58 homeless young people of her town. Through her business OzInteriors, Harriet Michaels decided to fund a program to assist the homeless. To date, the program has given the hostel residents vital living skills. Harriet was puzzled by what she had seen: why didn't businesses combine a desire to make profit with a concern for the welfare of the broader community? Socially responsible management is sometimes referred to as corporate social responsibility, but you don't have to be a large corporation in order to be socially responsible — many people may have once had.

Socially responsible management and consider the welfare of people may have once had.

Over the next few days she went to investigate. Nothing was working, the rooms were overcrowded, the bathroom facilities needed repairing and the dining room was basic. The hostel was severely underfunded. Harriet soon realised that living conditions in the hostel were draining the hope the young people of her town.

In small groups, describe how three businesses may have once had.

4. Identify the factors that motivated Harriet Michaels to establish the Welcome Home program.

5. Predict the ways that OzInteriors might benefit from the Welcome Home program.

6. Use the FareShare weblink in your eBookPLUS to watch the video about FareShare.

(a) Explain the mission of FareShare.

(b) How many tonnes of food a year are estimated to be wasted?

(c) How many volunteers work for FareShare? Why do you think people volunteer to work for no wages?
1.4 The contribution of small business to the economy

KEY CONCEPT Small businesses in Australia make a significant contribution to the economy.

An economy is a system set up to determine what to produce, how to produce and to whom production will be distributed.

Before we can discuss small business’s contribution to the economy we must first gain an understanding of what an economy is. An economy is a system set up to answer three basic questions:

1. What goods and services are produced?
2. How do we produce those goods and services?
3. How are those goods and services distributed; that is, who will receive the goods and services produced?

Many different economic systems have been used, but the type of economic system we have in Australia is called a market capitalist economy. This means that most answers to the economic questions are provided by private buyers and sellers.

Now that we understand what an economy is, let’s consider how small businesses in Australia actually contribute to our economy.

DID YOU KNOW?
Around 61 per cent of small businesses do not employ staff; 24 per cent employ 1–4 people and 15 per cent employ 5–19 people, according to Australian Bureau of Statistics figures.

The economy in action: consumers (buyers) and businesses (sellers) come together in a marketplace to buy and sell a wide variety of goods and services.

Small business contribution to employment and taxation revenue

Employment keeps the economy healthy. Employed Australians will use the wage they have earned to buy goods and services to meet their needs and wants, supporting business and opening up further opportunities for job creation. In June 2014, small businesses employed approximately 50 per cent — 4.9 million — of all private (non-government) sector employees, making the small business sector the largest employer in Australia. Small businesses also drive employment growth in Australia, hiring more staff than large businesses. During the last 20 years, the small business sector has also been the major generator of new jobs in the Australian economy. Small businesses, therefore, have an important role to play in supporting employment growth in Australia and in reducing unemployment. In addition to providing employment, small businesses contribute to revenue raised through taxation. Not only do they pay tax, their employees also pay income tax. Taxation is used to provide goods and services that may benefit the whole community, such as a better education system.

Small business contribution to economic growth

Economic growth occurs when the real value of goods and services increases over a set period of time.

Economic growth sounds good, but what is it? Growth occurs when a nation increases the real value of goods and services over a period of time. One common measure to check whether economic growth has occurred is to see whether our
Gross domestic product or GDP has grown. GDP is the total market value of all final goods produced by a country over a set period of time. Small business plays an important role in contributing to our overall economic growth. In 2013 it contributed to around 40 per cent of GDP. The total output of the nation’s diverse collection of small businesses, ranging from highly specialised and technical firms to the local corner store, make a significant contribution to the national economy.

**Small business contribution to export earnings**

Exports refer to the sale of our goods and services to other countries. Small businesses in agribusiness, manufacturing, professional services and entertainment are all experiencing rapid export growth contributing approximately $1.2 billion to Australia’s export earnings. The flexibility of small businesses makes them more responsive to the needs of overseas markets. One example of this is the Collingwood-based Circus Oz, the highly acclaimed Australian circus company. Oz Circus has toured the world with its talented ensemble of leading artists, acrobats, performers and musicians, and generated important export earnings. Since its first world tour in 1980, Circus Oz has performed in 26 countries across five continents to over 3.5 million people.

_Circus Oz has successfully exported its world-class, distinctly Australian work for the national and international stage._

**TEST your understanding**

1. Write this sentence into your book and fill in the blanks.
   Small business contributes to the economy by boosting economic growth as measured by _______. Small business also contributes to taxation revenue because it _______ approximately 4.7 million people. The _______ earnings that small businesses generate through selling goods and services overseas are also significant.
2. What are the three basic questions that all economic systems must answer?
3. How would you describe Australia’s economic system?
4. Small businesses produce goods and services we need. Give examples of three small businesses that provide a good and three that provide a service.
5. Small businesses contribute to the economy by providing goods and services. What advantages might some small businesses have over larger enterprises when producing goods or services?

**APPLY your understanding**

6. Use the Small business export success weblink in your eBookPLUS to undertake research about a small business that has been successful in exporting its products or services. Write a short report using the following headings:
   - Name of the business
   - What the business does
   - What the business exports
   - Where the business exports its products or services
   - Reasons for success.
7. You have been asked by the local newspaper to write an article on the importance of small businesses to the Australian economy. Your article will appear in a special supplement dealing with small business. Prepare your article exactly as you would like it to be published, using a desktop publishing program for layout if possible. Use your imagination and choose a thought-provoking headline. After you have prepared your first draft, confer with a partner to edit your article to publishing standard. Display the articles around the room.
1.5 The internal environment of a business

**KEY CONCEPT** The internal environment refers to influences that come from within the business itself and can affect business performance.

The surrounding conditions in which the business operates are called the **business environment**. This can be divided into two broad categories: internal and external.

The **internal environment**, or the micro environment, includes those factors over which the business has some control, such as employees, managers, management style, corporate culture and company policies.

The **external environment** includes those factors over which the business has little control, such as economic conditions, government policy, competitors and technology. It may be further divided into the operating environment (see section 1.6) and the macro environment (see section 1.7).

Employees are integral to business success at Google. The office culture is part of an internal environment that is designed to be fun and inspiring. At Google’s Australian office, employees can take their pets to work. As well as an onsite doctor and dentist, massage and yoga are available. Google looks after its employees by supplying free snacks and free lunch.

The factors that make up the business environment are continually undergoing change, and a business must keep ‘in tune’ with the changes and adapt its processes accordingly.
The internal environment

The internal environment is made up of elements created by the people within the business. The internal environment of your classroom, for example, is determined by the interactions of the people within it. Teachers and students can shape and influence what occurs. Over time, these forces interact with each other to give each business its unique characteristics.

The following are among the main elements making up the internal environment:

1. **Employees.** Employees are a business's most important resource. It is important to recruit and select appropriate employees. Those businesses that provide a work environment that maximises employee satisfaction achieve high levels of output.

2. **Managers.** Every business — for-profit or not-for-profit; small, medium-sized or large — needs effective management to succeed. The skills and expertise of the management team in coordinating the business's resources largely determine whether the objectives of the business are achieved.

3. **Management style.** Some managers value employee participation, and they delegate authority to those below them in the hierarchy. Such an approach empowers employees and creates self-managing teams. This management style normally results in more productive employees. Alternatively, some managers are authoritarian or autocratic, and ‘rule with an iron fist’. These managers are often feared by their employees, which results in workers not achieving their best.

4. **Corporate culture.** The belief, values, expectations, attitudes and behaviours of the people within the business combine to give a business its distinctive personality, known as corporate culture, or organisational culture. This culture could be positive or negative.

5. **Company policies.** A company policy is an established set of broad guidelines to be followed by all employees when dealing with important areas of decision making. Such policies ensure fair treatment in matters such as disciplining, promoting and compensating employees.

**TEST your understanding**

1. What is meant by the term ‘business environment’?
2. Using an example, explain the difference between the internal and the external business environments.
3. Read the following scenarios and explain what factor in the internal environment is either likely or unlikely to lead to the organisation’s success.
   A. Employees at Southbound Logistics are encouraged to work in teams in order to brainstorm creative solutions. A person’s position within the organisation is not considered a barrier because everyone is asked to provide ideas about how to improve the business.
   B. At Lancowen Legal Practice they’ve been serving customers in the same way for years and the manager, Bill Beaumont, says there is no need to change the recipe. He regularly briefs his employees on the direction he thinks the business should take and demands that employees get on with their designated duties and leave the big ideas to him.
   C. At Kaywood they have no stated position on equal opportunity in the workplace, or any other issue for that matter. The human resource manager says he makes it up as he goes along.
   D. When Kay Edwards started work at Bellgowan she felt ill at ease. There were so many rules and regulations to follow. Drinks were held every Friday night for employees but it wasn’t a case of come along if you would like’, it was a case of ‘you must come’. The company has designated this hour as ‘fun time’ and everyone must be involved.

**APPLY your understanding**

4. In a small group, brainstorm the elements that determine the environment of your Business Management class. Choose a speaker to share your comments with the other groups in your class.
5. Choose a business that you have heard about and use the Internet to research the internal policies of the business. For example, you could find out about their ethical standards or equal opportunity policy. Do these policies make it clear what you would do if you were an employee of the company facing these issues?
A business's operating environment, sometimes called the task environment, refers to the specific outside stakeholders with whom the business interacts in conducting its business.

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

A business's suppliers are those organisations and individuals that supply the resources that the business needs to conduct its operations.

The external operating environment refers to influences that come from outside stakeholders and can affect business performance.

A business's operating environment, sometimes called the task environment, is made up of stakeholders external to the business who have a direct impact on the operation of the business. The four main stakeholders are:

- customers
- suppliers
- competitors
- interest groups.

Each of these stakeholders has a self-interest in the business and places different demands on the business. Sometimes, their interests may be similar or in conflict. Management, therefore, must balance the interests of all stakeholders in its decision making. Let's now take a closer look at each of the stakeholders in the external operating environment.

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.

Suppliers

A business’s suppliers provide the resources that the business needs to conduct its operations. Examples of such resources are raw materials, equipment, machinery, finance and information. Suppliers may be individuals or organisations. Good relations with suppliers are important to guarantee the efficient running of the business. Usually, businesses prefer to have a number of suppliers. This arrangement means they are less vulnerable to supply difficulties and the impact of price rises. Consequently, it is important for any business to develop a reliable network of suppliers. For a business to rely on just one supplier puts it at a distinct disadvantage.

To improve productivity, cut costs and improve the bottom line, downsizing (the elimination of jobs and positions) and outsourcing (the contracting of some business operations to outside suppliers) have been widespread practices in a large number of Australian businesses. For example, major places for outsourcing call centres are India, the Philippines and South Africa.
Competitors

Competition is rivalry among businesses that try to supply the needs and wants of a market. Competitors, therefore, are other businesses that offer rival products or services. 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. Business owners should aim to achieve a sustainable competitive advantage over their competitors so as to capture a larger share of the market.

A business needs to respond to any change in the actions of its competitors. The free-to-air commercial television networks, for example, face increasing competition from pay television, which is taking away some of the networks' market share. As a result, the networks' advertising revenue is falling. In response, the networks have had to modify their business practices in relation to their clients: the advertisers.

Interest groups

The operating environment is affected and influenced by a number of large institutions and interest groups. Interest groups attempt to directly influence or persuade an organisation to change its policies. Three of the most common groups attempting to influence businesses are:

• trade unions, which employees may join in an attempt to improve their pay and conditions
• consumer groups, which are lobby groups such as the Australian Consumers' Association that monitor a business's performance in terms of product safety, packaging, pricing and advertising
• specific issue groups, which combine to focus on one specific area such as youth unemployment, social justice, civil liberties, anti-globalisation or environmental protection.

Vocal interest groups can force businesses to change their operations. The protestors here are concerned about

TEST your understanding

1 What is meant by the term 'external operating environment'?
2 List the four main stakeholders in the external operating environment.
3 Fill in the gaps in the following definitions.
   (a) A ________ is any group or individual who has an interest in, or is affected by, the activities of a business.
   (b) A business's ________ are those organisations and individuals that supply the resources that the business needs to conduct its operations.
   (c) ________ ________, are groups of people who attempt to directly influence or persuade an organisation to adopt particular policies.

4 Why do businesses prefer to have a number of suppliers?
5 Why is it important for a business to maintain good relations with its suppliers?
6 Why should businesses aim to achieve a sustainable competitive advantage over their competitors?

APPLY your understanding

7 Write a two-paragraph response to the following: 'Large businesses have no control over the external environment in which they operate. They are at the mercy of any external change.'
8 ‘Competitors can be a threat to a business but they can also ultimately lead to business success.’ Explain how competition may in fact be good for a business.
1.7 The external macro environment of a business

**KEY CONCEPT** All businesses are affected by the external environment in which they operate.

As mentioned on page 18, the macro environment is the wider environment in which the organisation operates. The organisation has less control over these factors than internal environment factors. Nevertheless, organisations need to be able to adapt to change caused by these external macro factors when they occur.

### Political forces

In Australia, each level of government imposes its own direct and indirect regulations, to which all businesses must adhere. Some political influence could act as inducements, such as government grants, encouraging businesses to expand. Influences may also force a business to review its activities, for example if taxes become too high.

One important political influence, which 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 influence is the need for all businesses to respond to some type of carbon pollution reduction scheme in order to reduce carbon pollution and eventually create a more sustainable economy.

### Economic forces

Economic forces have an enormous impact on both business and customers. They influence a business’s capacity to compete and customers’ willingness and ability to spend. Economies do not always experience constant growth. Rather, the level of economic activity changes from periods of growth (‘boom’) to recession (‘bust’) and back to boom conditions. The following figure shows the impact of each phase of the business 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.
**Legal forces**

In the past two decades, significant changes have occurred in the legal framework within which businesses must operate. In addition to new interpretations of existing laws, a large number of new statutes were introduced, which will have a major impact on business conduct. This new legislation includes laws on taxation, industrial relations, occupational health and safety, equal employment opportunity, anti-discrimination and protection of the environment.

An area of law that has significantly altered business conduct is legislation to provide consumer protection. The legislation provides explicit guidelines for trade practices, fair trading, advertising and credit. Specifically, it states that consumers have the right to purchase goods that are of good quality and fit for the purpose for which they were bought. These rights are part of the contract between the retailer and the consumer. If goods are faulty, then the retailer has breached the contract and the consumer is entitled to a replacement or a cash refund.

**Technological forces**

Technological change leads to the development of new products or processes, and is a major factor in the creation of opportunities for businesses. Over the past two decades, the pace of technological change has increased enormously. For survival, businesses must monitor and adapt rapidly to technological innovations. Failure to detect and adopt new technology could result in products and businesses becoming rapidly obsolete.

Information technology is at the heart of modern businesses, and it is a driving force for change. Advances in information technology allow an increased flow of ideas and information across borders, so customers learn about overseas-made goods. Global communications systems make it possible for businesses to coordinate design, production and distribution worldwide. The cost of global communications is declining and the tools of information technology are becoming easier to use. The Internet, mobile phones, interactive video and electronic funds transfer, for example, are helping to open up the global marketplace at an unprecedented rate.

**DID YOU KNOW?**

Bill Gates, founder of Microsoft, comments on changes in technology.

‘It’s pretty incredible to look back 30 years to when Microsoft was starting and realise how work has been transformed. We are finally getting close to what I call the digital workstyle.’
1.7 The external macro environment of a business

Social forces

Another factor in the external macro environment that businesses should consider is social force or change that may impact on the success of a business. One social factor that should be considered by businesses is demographics. Demographics are the characteristics of the human population. You may have heard of population ageing, where the median age of the population rises. This means that there are more elderly people living in the community than ever before. For a small business, the effect of this social change might provide an opportunity, particularly in the area of healthcare. On the other hand, it could provide some challenges if there is a labour shortage in some areas.

Another social force that may affect a business is the 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. There is also a 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. For example, if a business employed a person with a disability, it would be expected that the business takes some steps to ensure the needs of that employee are met in order for them to perform their job appropriately.

TEST your understanding

1 Identify which external macro force 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 wine.
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 Wurunjeri 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 imports from particular countries.

2 How might free trade affect Australian businesses?
3 Explain how the issue of workplace diversity impacts on the role of a manager.
4 In what way can economic forces influence the actions of customers?

APPLY your understanding

5 Form a small group and choose one of the phases in the business cycle diagram on page 23. Consider each bullet point from that phase and suggest what impact each issue could have on a business. Choose a presenter to report your findings to the whole class.
6 The tariff on footwear imported from Thailand has been steadily falling and was reduced to zero in 2010.
   (a) Explain in your own words what this means.
   (b) Why would a small shoe-manufacturing business worry about a reduction in tariffs on imported shoes?
   (c) Make a list of the stakeholders involved in the shoe market. What will be the effect on each of them?
7 There are so many new applications of technology. For example, some supermarkets have equipment that allows you to scan your own groceries and pay for them using a debit or credit card. QR codes can allow you to easily access complicated URLs by scanning with a mobile phone. Can you think of any ways that the technology you use might impact on the small businesses that you interact with?
8 In groups of four or five, research 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) How have local businesses reacted to the situation?
   (c) What indicators would you use to determine the success or failure of a business’s response to the situation?
1.8 Business ethics and socially responsible management

**KEY CONCEPT** Behaving ethically and with social responsibility are increasingly important in today’s business environment.

### Defining ethics and socially responsible management

Ethics are standards that define what is acceptable and unacceptable behaviour. **Business ethics** are standards that apply to business, such as being honest in business dealings with others. In many decisions involving ethical questions, it is sometimes difficult to give a definitive answer as to what is acceptable and what is unacceptable. It often depends on the individual circumstances surrounding the situation. For example, what does a business do in the following situations?

- A loyal, long-serving employee cannot adapt to new technology.
- Confidential information about a competitor’s pricing policy has been leaked by a disgruntled employee.
- The business is asked for a cash payment to help hasten a decision about a tender contract.

**Socially responsible management** involves the leaders in an organisation taking steps to ensure that the broader social welfare of people and the environment is taken into consideration in business dealings. Socially responsible management therefore involves ethics, because an organisation that is socially responsible will consider its impact on people and the environment rather than just making a profit. For example, Zenith Corporation provides each employee with one day of paid leave per month, to assist in local volunteer agencies such as Red Cross.

### The impact of ethical and socially responsible management on key stakeholders

Like individuals, businesses and their owners are frequently confronted with ethical dilemmas. These ethical questions may arise because of the organisation’s relationship with its **stakeholders**. The figure on page 26 shows the stakeholders that might exist in a business organisation and how they are affected by business ethics and socially responsible management.

### Ethical issues

Now that we have a broad understanding of ethics and socially responsible management let’s take a closer look at four main ethical issues that may occur in the world of business.

### Behaving fairly and honestly in business

Society expects businesspeople to tell the truth and avoid using misleading or deceptive information. Customers and suppliers expect to be dealt with honestly and fairly. If, for example, a business arranges for a delivery of certain items and promises to pay within a set period of time then, apart from exceptional circumstances, the business should honour this commitment to the supplier. Customers should also display honest and fair practices when dealing with a business.
1.8 Business ethics and socially responsible management

**Employees — those who work for an organisation**
Employees are affected by business behaviour related to:
- a safe and healthy workplace
- fair treatment (such as fair pay) and promotion.

**Shareholders — those who own shares in a business**
Shareholders are affected by business behaviour related to:
- accountability and honesty
- Businesses that are unethical may go out of business and are unlikely to provide the shareholder with an adequate return on their investment.

**Suppliers — those who supply business needs** (such as raw materials)
Suppliers are affected by business behaviour related to:
- being paid for goods or services provided
- payment on time.

**Consumers — those who purchase goods and services from a business**
Consumers are affected by business behaviour related to:
- product safety and reliability
- misleading information about perceived benefits of a good or service.

**Government — those elected to run the state or country**
Government is affected by business behaviour related to:
- payment of taxes
- adherence to laws
- employment issues.

**Society — those people who live in our community**
Society is affected by business behaviour related to:
- the impact of the business on the environment
- how the business ‘gives back’ to the community, for example, charitable donations, education.

### Truthful communication in business

Advertising can represent real ethical dilemmas for the small business manager. False or misleading advertising is not only unethical, but also illegal. Terms such as ‘special’, ‘sale’, ‘low fat’ or ‘light’ can often be misleading. These terms, for example, may simply mean that the business believes their products are special, are for sale or have low fat content compared to some other products. If the businessperson uses words attempting to knowingly mislead customers, then this behaviour is unethical.

In Australia, one in three TV advertisements during children’s program times is for food that is high in fats, sugars and salt. Some members of the community see these ads as unethical as they encourage children to want food that is not good for them.
Dealing with employees ethically

Workplace relations (the relationship between the employer and employee) can sometimes result in ethical problems. For instance, confidential information is not always kept secret, obligations are not always fulfilled, and subtle forms of harassment or discrimination may occur. Occasionally, an organisation may become aware of an unethical business practice of one of its employees. This can place the business in a difficult position, especially if the employee is important to the successful operation of the business. At other times, an employee may be placed in a difficult ethical position by other employees, such as when older employees decide to play a practical joke on a young apprentice. Sometimes, these ‘practical jokes’ get out of hand and may develop into a serious harassment or negligence case.

Pizza with the works?

A case was brought to a local court in Melbourne, in which a 19-year-old pizza delivery boy charged his employer with assault. The pizza store manager allegedly:

- locked him in the freezer for almost half an hour, ignoring his pleas to be released because of his asthma
- tied the boy to the bonnet of his car while he drove it back and forwards
- sprayed a fire extinguisher under the door of a toilet cubicle where the boy was hiding
- hit the boy in the head, jammed his ankle in a door and cut his face with a wristwatch during a scuffle.

In court, the 27-year-old manager defended his actions, claiming they were part of the teenager’s ‘initiation’ into the company. He argued that initiation ‘ceremonies’ had been common practice in all the businesses he had worked in. He further claimed most people regarded such pranks as just a bit of a joke. The manager was found guilty on four counts of criminal assault. He was fined $650 and placed on a 12-month $500 good behaviour bond.

Conflict of interest

Conflict of interest occurs when a person in a position of trust has competing personal or professional interests. Such conflicts can often occur when gifts or payments are offered. There is a fine line between what is regarded as a gift and what may become a bribe. Corruption undermines the integrity of the business and, if unchecked, infiltrates the workplace culture.

Once a pattern of corruption takes hold and is perceived to be acceptable behaviour, it quickly becomes entrenched within the organisation. Changing the attitudes and practices of individuals within such an organisation is extremely difficult. What start off as small incidents to which most people turn a blind eye may soon develop into corruption on a grand scale. When such corrupt practices are eventually exposed, the business’s image will be severely damaged.

Encouraging ethical business behaviour

It is not always easy to maintain a consistently high degree of ethical behaviour in the real world. Employees who want to act ethically sometimes find it difficult to do so, especially if unethical practices are ingrained in their workplace’s culture.
A code of conduct is a set of ethical standards by which managers and employees should abide.

One strategy that can be implemented to encourage ethical behaviour is to devise a code of conduct. This is a set of rules or proper practices that managers and employees should put into practice. Many businesses now document and distribute their codes of conduct or core values, so as to provide internal stakeholders with ethical guidelines for workplace behaviour and practices.

Corruption undermines the integrity of the business.

**DID YOU KNOW?**

A business may express its core values with statements such as: ‘We show respect for the law and perform our roles accordingly’ or ‘We conduct ourselves with integrity and act in a fair and honest manner’.

**TEST your understanding**

1. Explain in your own words what ‘business ethics’ are.
2. Provide a real-life example of how each stakeholder in the following table may be affected by how a business behaves in relation to ethics and social responsibility. One example has been completed for you.

<table>
<thead>
<tr>
<th>Key stakeholder</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Society</td>
<td></td>
</tr>
<tr>
<td>Employees</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td></td>
</tr>
<tr>
<td>Shareholders</td>
<td></td>
</tr>
<tr>
<td>Consumers</td>
<td>McDonald’s now offers healthier choices for consumers on its menu</td>
</tr>
<tr>
<td>Suppliers</td>
<td></td>
</tr>
</tbody>
</table>

3. What is a business code of conduct? Explain why all businesses should establish a code of conduct.

4. Discuss what you believe to be the most ethical way to behave in the following situations:
   (a) A customer is unaware that you have accidentally overcharged her. Do you inform the customer and give back the money or keep it yourself?
   (b) Your boss has told you not to record all the cash payments, so as to reduce his taxation payments. Do you comply with these instructions? As an employee, what difficult position have you been placed in? How could you justify your decision?
   (c) A disgruntled employee from your main competitor offers to provide you with confidential information of the other business’s marketing strategy. Would you accept such information? Give reasons for your answer.

5. Prepare a list of five principles that could be included as part of the code of ethics for your school.
A business’s social responsibility includes obligations to the community, above and beyond making a profit, obeying laws or honouring contracts. It is the awareness of a business’s management of the social, environmental, political and human consequences of its actions. A socially responsible business will attempt to achieve two goals simultaneously: (1) expanding the business and (2) providing for the greater good of society. It recognises that business activities have an impact on society globally and, as such, that it needs to give careful consideration to its actions. The central theme is ‘above and beyond’ making a profit and obeying the law.

It is important to note that social responsibility is not just about helping the local community. A business that is truly socially responsible will be mindful of the welfare of its employees through providing benefits such as child-care or flexible working arrangements.

Social responsibility is good business — customers eventually find out which businesses are acting responsibly and which are not. Customers can react and stop purchasing an organisation’s products if they learn that the business is exploiting employees, accepting bribes or polluting the environment. At the same time, customers will reward socially responsible businesses by purchasing more of their products. Obviously, socially responsible business behaviour costs money in the short term, but it turns out to be in the company’s own interest.

Kristen Lowe, owner of the highly successful small business cut n curl hair studio, is aware of the business’s social responsibilities towards her employees and the wider community.

**Interviewer:** What must you do to be a socially responsible employer?

**Kristen:** I have fantastic employees who are one of the main strengths of my business. I have a responsibility for their welfare at work, as well as their future development. All my employee processes, therefore, must meet rigorous criteria. I have policies that encourage equal employment opportunities and anti-discrimination. I am also conscious of my employees having to balance their work and family responsibilities. Consequently, I use a flexitime roster, which allows an employee, within specified limits, to select the hours she will work. The benefit to the business is that I am able to retain my experienced, dedicated staff.

**Interviewer:** Do you have a social responsibility to the wider community?

**Kristen:** Definitely. The community is where my customers and I live so I must always be mindful of the business’s reputation. One of my main business goals is for cut n curl to have a good reputation within the wider community; something I feel very proud about. Consequently, I must act honestly and ethically in all my business dealings. I must also constantly monitor and evaluate how I operate the business in order to maintain this good reputation. Being a reputable business is good business, as it results in a large number of loyal, repeat customers.
**TEST your understanding**

1. What is meant by the term ‘social responsibility’?
2. Do you consider cut n curl to be a socially responsible business? Give reasons for your answer.
3. Discuss why it is important for Kristen to maintain a socially responsible business.

**APPLY your understanding**

4. (a) Find two businesses that you consider are known for their socially responsible actions. Name them and explain why you think they are socially responsible.
   
   (b) How might their actions in turn assist the business?

5. Working in a small group, copy the table on the right. In the first column, list examples of actions taken by businesses that you consider to be socially irresponsible. Complete the second column with a list of the affected stakeholders. In the third column list the possible consequences for that business. One example has been completed for you.

**Socially irresponsible action**

| Soft drink manufacturer produces an energy drink with excessive sugar and caffeine content |
| • retail outlets  
| • consumers  
| • health authorities  
| • employees |

**Stakeholders**

| Effects |
| • decreased orders for that manufacturer’s products  
| • negative media image  
| • consumers will not buy products from that manufacturer  
| • loss of customers and profit  
| • employee dissatisfaction |

6. Choose one of the examples from your table for question 6. Form a small group to role-play what you imagine would happen if the business was considering taking the socially irresponsible action. Ensure that each of the stakeholders is represented by one or more members of your group.
Summary

Features of for-profit and not-for-profit organisations
• Some organisations are businesses, which aim to make a financial profit.
• Not-for-profit businesses may have divisions that make a profit, but profit is not the main objective of this type of organisation.
• A stakeholder is anyone who is affected by the operations of an organisation.

Distinctions between small, medium-sized and large businesses
• Business can be classed as small, medium-sized and large, or somewhere in between these categories. Their classification will depend on such things as number of employees and market share, as well as ownership and who makes the decisions.
• The most common legal structures for small businesses are sole trader or partnership; for medium-sized businesses partnership or company; and for large businesses company.

Objectives of different types of organisations
• Many business organisations strive to achieve three broad objectives: financial, social and personal.

Contribution of small business to the economy
• Small businesses provide employment, contribute to taxation revenue and boost economic growth and export earnings.

The internal environment of a business
• Businesses work within two environments — internal (micro) and external (operating and macro).
• The internal environment is made up of elements created by people within the business, therefore allowing the business to have control over it. These elements could be the policies, culture, management style and people working in the business.

The external environment of a business
• The external environment is made up of elements created by people or situations outside the business, therefore the business may have little or no control over these factors.
• The operating part of the external environment comprises customers, suppliers, competition and interest groups that impact on business performance.
• The macro part of the external environment involves forces from the legal system, economics, political climate, technology and society.

Business ethics and socially responsible management
• Businesses must act ethically. This means they must comply with standards that establish what is acceptable and what is unacceptable behaviour.
• Socially responsible management means that business decisions and actions take into consideration the greater welfare of society and not just the relentless pursuit of profit.

Review questions
1 Complete the following statements by selecting the correct word from the choices given. Write the sentences into your notebook.
(a) According to the ABS, a small business has less than 20/200 employees.
(b) Small businesses have a complex/simple management structure with few/many rules and regulations.
(c) The number of employees in a business is a quantitative/qualitative measure.
(d) A small business has a large/small market share.
(e) An example of an SME would be Wesfarmers/a boutique brewery.
(f) Over 95/less than 50 per cent of all Australian businesses are classified as small.
2 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>Type 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>

3 List three quantitative measures and three qualitative measures used to determine the size of a business.
4 How is income from a not-for-profit business used?
5 Define ‘micro businesses’.
6 List and explain three business objectives of businesses.
7 Why do many for-profit organisations have social objectives as well as the objective of making a profit?
8 What contribution does small business make to the economy?
9 What are the two parts which make up the business environment? Give examples.

School-assessed coursework

OUTCOME 1

Explain a set of generic business characteristics and apply them to a range of businesses.

ASSESSMENT task — case study analysis and business research

The Wall Sticker Company

Flying the flag for Melbourne is The Wall Sticker Company, founded by friends Fiona Gathercole (35) and Jen Menz (36), who decided to cash in on the growing trend for vinyl wall stickers, which could transform a room for very little cost, as well as being removable, so great for the rental market. Revenue has tripled in the three years since they started the business, and the team has grown from just the two of them to five members of staff. The business is using social media to create a community feel to its website and keep regulars coming back for more.

‘An online business just made sense to us’, said Fiona. ‘You have less overheads so your margins are higher and there’s more flexibility with what you can offer. These days, the majority of customers look online before going to an actual shop, so I think you need have an online presence.

‘It’s really important to keep the website looking fresh and interesting, which we hope will encourage people to revisit. We launch new designs each month and have competitions going, as well as encourage our customers to give feedback and send images in.

‘I think it is essential to be part of the social media world. You can gain a lot of knowledge from this as well as reach many people that you would not normally be able to. I think it’s important for both online and regular businesses as it allows you to network with such a wide variety of people and businesses.’

1 What external influences prompted Fiona Gathercole and Jen Menz to establish The Wall Sticker Company?

2 Explain whether Fiona Gathercole and Jen Menz’s business The Wall Sticker Company would be considered to be a small, medium or large business.

3 What evidence is provided to show that the business has been successful over the past few years?

4 Identify the advantages of taking the business online.

5 Why would Fiona and Jen:
   (a) launch new designs each month?
   (b) encourage customers to give feedback and send images?

6 Identify three internal and three external factors in the business environment that would impact on Fiona and Jen’s business.

7 Use the Internet to find a for-profit or not-for-profit organisation that interests you. Alternatively, you could talk to a small business owner in your local area. Complete the following table for your chosen business and then write two paragraphs about why you think the business is so successful.

<table>
<thead>
<tr>
<th>Name of organisation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Is the organisation for-profit or not-for-profit?</td>
<td></td>
</tr>
<tr>
<td>Is the organisation small, medium or large?</td>
<td></td>
</tr>
<tr>
<td>Number of employees, if any</td>
<td></td>
</tr>
<tr>
<td>Number of years in business</td>
<td></td>
</tr>
<tr>
<td>Does the organisation have any other branches or stores?</td>
<td></td>
</tr>
<tr>
<td>Does the organisation export its goods or services?</td>
<td></td>
</tr>
<tr>
<td>Does the organisation have a code of conduct? If so, give examples of how the code ensures ethical standards are met.</td>
<td></td>
</tr>
<tr>
<td>What are the financial, social and personal objectives of the managers or owners of the organisation?</td>
<td></td>
</tr>
<tr>
<td>Describe the culture of the organisation — in other words, what would it be like to work there?</td>
<td></td>
</tr>
<tr>
<td>Why are customers so important to the organisation?</td>
<td></td>
</tr>
<tr>
<td>Are there any interest groups (for example, consumer groups, unions, special interest groups) that affect the organisation?</td>
<td></td>
</tr>
<tr>
<td>How has the economic climate affected the organisation?</td>
<td></td>
</tr>
<tr>
<td>Give examples of some ethical issues the organisation has had to deal with.</td>
<td></td>
</tr>
<tr>
<td>Is the organisation socially responsible? If so, in what way does the organisation help society?</td>
<td></td>
</tr>
<tr>
<td>Why is the organisation a success?</td>
<td></td>
</tr>
</tbody>
</table>