

The purpose of this chapter is to introduce students to the world of business. It explores concepts that are not specifically covered by the study design but assist the student in developing a strong foundation for further learning in the subject. Teachers and students should be aware that this chapter is not included in the print version of the textbook. It acts as an online supplementary resource that helps contextualise some of the concepts covered in the book.

Introduction to business

WHY LEARN THIS?

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.

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Knowledge

While this chapter is not directly linked to the study design, grasping the following concepts will provide a context within which businesses operate.

- Features of an organisation including for-profit and not-for-profit
- Objectives of different types of organisations
- Distinctions between small, medium and large businesses
- Business ethics and socially responsible management

Skills

These are the skills you will develop as you cover the chapter. 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

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Inquiry sequence

- 1.1 For-profit and not-for-profit organisations and their features
- 1.2 Distinctions between small, medium-sized and large businesses
- 1.3 History of the Australian business environment

Extend your knowledge: Business helping the community

- 1.4 Business ethics and socially responsible management

Apply your skills: Socially responsible management

CHAPTER REVIEW





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 world of business is something that you are already familiar with. As a school student, perhaps you have even operated your own 'business' — mowing neighbours' lawns, baby-sitting, washing windows or setting up a stall at a local community market. You may be employed on a part-time basis to work in a local corner store or fast-food outlet — both examples of business organisations. It is not necessary to be a large multinational corporation operating in many countries and employing thousands of people to be classified as a business. In fact, over 96 per cent of all Australian businesses are classified as 'small', employing only a few people. All businesses, regardless of size, produce a good (physical product such as a cake) and/or

🗨️ DID YOU KNOW?

In Australia there are approximately 2.1 million separate business enterprises which respond to the needs and wants of around 24 million Australian customers and millions of overseas customers.

1.1 For-profit and not-for-profit organisations and their features

service (non-material benefits for the consumer such as training, car repairs) which is sold in a market where buyers and sellers meet. Making a profit from the sale of these goods and/or services is one of the business's basic goals.

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.

Finished goods are those that are ready for customers to buy and use.



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.

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 section 1.3). Distinctions do, however, exist and these are outlined in the following table.

| Feature | For-profit organisation | Not-for-profit organisation |
|-----------------------------|--|---|
| Objective | The aim of the organisation is to make a profit. For example, Woolworths Ltd. 2015 financial year profits were A\$2.156 billion. | The aim of the organisation is to achieve its social mission. For example, the Salvation Army in its annual report stated that it helps over 1 million Australians each year. |
| Owners | 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). | No-one really owns the organisation except for the organisation’s stakeholders (those who will benefit from the organisation’s work). |
| How profits are distributed | 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. | Profits are used to pay for the expenses of the organisation and any surplus may be used to further the work of the organisation. |
| Employees | Employees are usually paid for their work. | Employees may be either paid or unpaid (i.e. volunteers). |



The St Vincent de Paul Society is an example of a not-for-profit organisation. It has over 40 000 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.
- 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).

eBookplus

Weblinks
Not for profit

Ho Chi completes the staff roster and then checks whether any online orders have been received from customers. There are five requests for the handmade jewellery boxes he has advertised on his website. All the requests are for the largest size and there is a query about obtaining an even larger box. Ho Chi phones the jewellery box designer to discuss making a new, larger sized box. He then completes a draft business plan incorporating the new design.

| Activity undertaken by business | Example |
|---|---------------------------------|
| Production — creating products | Making jewellery boxes |
| Marketing products | Advertising products on website |
| Controlling production — quantity and quality | |
| Forecasting sales, expenses and profit | |
| Planning production and business needs | |
| Organising natural, capital and human resources | |

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).



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?

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)

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.

1.2 Distinctions between small, medium-sized and large businesses

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.'



🗨️ DID YOU KNOW?

In June 2015 there were 2 121 255 small business in Australia, which represented 96 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as a micro business.

A **multinational corporation** (sometimes referred to as a transnational corporation) is a company that has branches in many different countries.

- 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 do export. It just means that many SMEs are based in the one location and, unlike a **multinational corporation** or company, do not have offices around the world.)

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

Distinctions between small, medium-sized and large businesses

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

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

| Characteristics | Small | Medium-sized | Large |
|--------------------|---|---|--|
| Decision making | Owner responsible for majority of decisions; simple and quick implementation of decisions | Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors | 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 |
| Sources of finance | Owner (usually from own savings or a loan); difficulty in accessing loans | Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans | Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions |
| Market share | Small, usually local area; not dominant in the industry | Medium-sized, due to dominance within a geographic region; some market dominance | Large, especially for multinational corporations that dominate the markets of many countries |



TEST your understanding

- State whether the following businesses are small, medium or large, and the reason for your decision.
 - Qantas employs approximately 33 000 people.
 - National Australia Bank is an international financial services organisation that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
 - Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
 - 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.
- Are the following statements true or false?
 - A micro business is a business that only sells miniature products.
 - SME stands for small to medium enterprise.
 - Small businesses do not usually have a large share of a particular market.
 - In small businesses, decisions are usually made by the owners of the business.
 - A partnership is a business owned by a husband and wife.

APPLY your understanding

- 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.
 - What percentage of the businesses in your database are small?
 - How does the percentage compare with the figure for Australia?
 - Provide two reasons for the difference/similarity between the two figures.
- Look for articles about small and medium-sized businesses that interest you on the internet or in newspapers. Start a file of news clippings or printouts and write an information page to attach to each article. Include on the information page the following:
 - what the article is about
 - background information about the business
 - the section of the VCE Business Management course to which the article relates, e.g. Area of study 1, Outcome 1.

| Business name | Business activity | Number of employees | Small business | Medium-sized business | Large business |
|----------------|-------------------|---------------------|----------------|-----------------------|----------------|
| 1 Redback café | Food and drink | 4 | ✓ | | |
| | | | | | |

1.3 A history of the Australian business environment



KEY CONCEPTS While business has evolved gradually in Australia, there were certain events and periods of time that shaped the business environment into what it is today. By understanding this past we may develop a better understanding of what the Australian business environment might look like in the future.



Indigenous communities traded in items such as pearls.



The flag depicting the Southern Cross was adopted by the rebels and is to this day considered an important symbol of the Australian working class and workers' unions.



The gold rush also saw a wave of immigration to Australia, particularly from China. Many successful miners used their wealth to establish successful businesses in retail and manufacturing.

Indigenous Australians

Prior to British arrival in Australia, Indigenous Australians lived in a very different society to that of most Australians today. Theirs was based on a subsistence economy, producing enough products to satisfy the basic needs and wants of their communities. Indigenous communities also traded items such as tools, stones, pearls and ochres with other tribes as well as visiting Asian merchants. While this idea may seem quite foreign to modern-day Australians, Indigenous Australian societies maintained their natural environment and community-focused way of life for tens of thousands of years.

Early European Australia

Business and trade were a fundamental part of European life and played an important role in the newly established Australian colonies. Businesses grew to cater for local demand as well as thriving exports, such as wool. Business became such a central part of colonial Australian society that by 1826 the Sydney Chamber of Commerce was established.

The gold rushes

While the mining and resources boom has played an important role in the Australian economy in recent decades, the nation's rich mining history began with the original gold rushes during the second half of the nineteenth century. Events such as the Eureka Stockade in 1854 showed how workers could unite to protest against unfair treatment. When Ballarat miners took up arms after their requests for the government to abolish the hefty mining licence tax were denied, troops led a surprise attack against the rebel camp, killing 22 miners. In the aftermath of the massacre, however, none of the miners put on trial were convicted and the mining licence tax was abolished.

Two world wars

World War I and World War II saw a great loss of life as well as a cultural shift in Australia. The need for women to enter the workforce in the absence of the male population paved the way for the diverse workplaces of today.

The real threat of invasion during World War II also shifted Australia's immigration policy to a 'populate or perish' way of thinking. The Australian government

encouraged migration so that Australia would be militarily and economically strong enough to stand on its own two feet. This led to many business opportunities, as the new migrants provided cheap labour and greater demand for goods and services.



Becoming an equal part of the workforce was an important stepping stone towards equality for women.



Australia's population boomed after World War II largely due to the federal government's encouragement of migration.

Trade liberalisation

In the 1970s the Australian government began to adopt more liberal trade policies. By removing trade barriers such as import quotas and tariffs, Australia became an integrated part of the global economy. These free trade agreements led to business opportunities for internationally competitive Australian businesses, particularly in

1.3 A history of the Australian business environment



Australia's iconic car manufacturer Holden shut its doors in 2017 as it was unable to compete with international producers with lower production costs.

mining and agriculture. It also resulted in the closing of many manufacturing businesses that could not compete with international producers, often due to their cheaper production costs resulting from lower wages.

Labour reforms

During the 1990s and 2000s, various federal governments reformed the labour market. It had formerly been a centralised system, whereby wages and conditions were determined by Awards, which were specific to each type of job or industry. With the introduction of enterprise bargaining in 1993, workers and employers were given flexibility to negotiate wages and working conditions themselves, but with a safety net of minimum conditions.

In 2005, the Australian government under Prime Minister John Howard introduced laws, known as WorkChoices, which restricted the power of unions to negotiate better pay and working conditions with employers, and took away minimum standards for individual agreements. While this is credited with making Australian businesses more competitive, it has also been criticised for widening the gap between high and low income earners. In 2007, a new Labor government under Kevin Rudd effectively reversed some of the WorkChoices reforms, with the intention of preventing employers from taking advantage of employees.

Despite extensive campaigns, unions were not able to prevent the WorkChoices labour reforms from being introduced by the Howard government.



TEST your understanding

- 1 What kind of an economy did the Indigenous people of Australia have prior to the arrival of the British?
- 2 How did businesses play a part in early British settlements in Australia?
- 3 What was the Eureka Stockade and why is it an important part of Australian history?
- 4 How did World War II change the Australian economic and business environment?
- 5 Distinguish between the labour reforms of John Howard and Kevin Rudd.

APPLY your understanding

- 6 Create a timeline showing the significant events that affected the business and economic environment of Australia.
- 7 Make a list of benefits and costs of trade liberalisation.
- 8 Provide an example of an Australian business that you believe would have benefited from trade liberalisation and why.
- 9 Provide an example of an Australian business that you believe would have lost out as a result of trade liberalisation and why.



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.

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Weblink
Social responsibility

Mission: give away 1 million meals a year

FareShare is a not-for-profit organisation that operates Australia's largest charity kitchen. FareShare cooks free, nutritious meals for the hungry, homeless and those struggling to put food on the table. FareShare rescues food that may otherwise be wasted. Not only is FareShare's work supporting those in need, but it is also helping the environment by reducing waste that ends up in landfill where it produces methane — a powerful greenhouse gas. FareShare also saves unnecessary food production by reducing the need for new food products.

A range of food businesses donate surplus product to FareShare, including Woolworths, Ausfine Foods, Boscattle, Costa Farms, Fonterra, Kinross Farm and Ward McKenzie. Its food donors and large volunteer workforce enable FareShare to distribute its meals free of charge to around 400 Victorian charities, including soup vans, crisis centres, community food banks and schools in disadvantaged areas.

In addition to its regular volunteers, some 3000 corporate volunteers and 3000 secondary school students help out in the FareShare kitchen every year under the supervision of experienced chefs.



FareShare is a not-for-profit organisation that gives away healthy meals to the hungry and homeless. It is run by staff and many volunteers.



TEST your understanding

- 1 What type of small business is FareShare?
- 2 Explain what FareShare does and how its work benefits the community.
- 3 How can other small businesses that sell food help an organisation like FareShare?
- 4 Explain why FareShare's mission is very different from that of other businesses that have a main focus on making a profit.
- 5 Explain how Woolworths and Linfox could be said to be practising corporate social responsibility.

EXTEND your understanding

- 6 Use the **FareShare** weblink in your eBookPLUS to watch the video about FareShare.
 - (a) Explain how businesses such as Dench's bakery and the Fruitbox are practising socially responsible management.
 - (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?

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**Weblink
FareShare**

1.4 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.

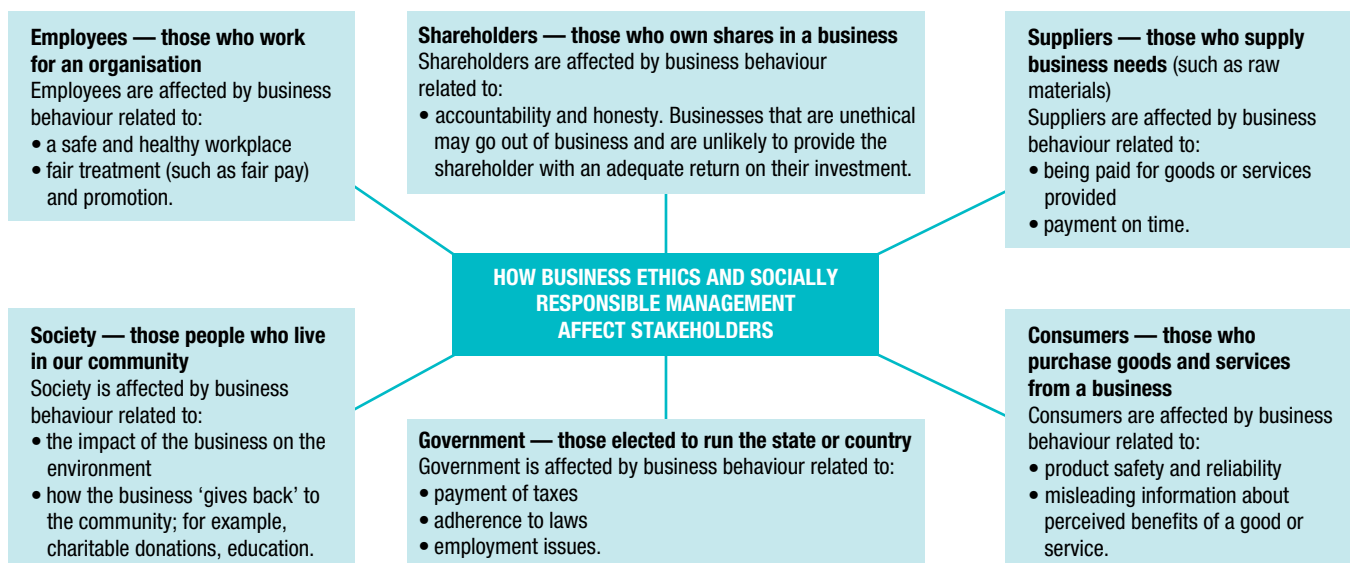
Business ethics is the application of moral standards to business behaviour.

Socially responsible management is managing an organisation in such a way that the broader social welfare of the community is taken into consideration when making business decisions.

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 below shows the stakeholders that might exist in a business organisation and how they are affected by business ethics and socially responsible management.

Stakeholders are individuals or groups with an interest in the success of the business.



The impact of business ethics and socially responsible management on key stakeholders

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.

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 sometimes not 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.



DID YOU KNOW?

Of the 60 000 calls to WorkSafe's advisory service each year, 3000 are from workers, health and safety representatives, and business operators seeking information about workplace bullying, and how it can be prevented, or to report it.

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.

Conflict of interest occurs when a person takes advantage of a situation or piece of information for his or her own gain rather than for the employer's interests.

Corruption is a lack of honesty or integrity; using a position of trust or authority to receive favours, often financial bribes.

1.4 Business ethics and socially responsible management

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.

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'.



Corruption undermines the integrity of the business.



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.

| Key stakeholder | Example |
|-----------------|--|
| Society | |
| Employees | |
| Government | |
| Shareholders | |
| Consumers | McDonald's now offers healthier choices for consumers on its menu. |
| Suppliers | |

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

APPLY your understanding

- 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. Compare your answers with those of other class members. Discuss any similarities or differences.
- 5 Prepare a list of five principles that could be included as part of the code of ethics for your school.

APPLY YOUR SKILLS

Socially responsible management

PRACTISE YOUR SKILLS

- Accurately use relevant management terms
- Recognise and classify types of businesses
- Research aspects of business management using print and online sources
- Apply business management knowledge to practical and/or simulated business situations

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 childcare 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.

Skin Smart Australia

Two in three Australians are diagnosed with skin cancer by the age of 70. In 2012, Jane Homberger and Hillary McGregor-Potter made a commitment to helping Australians beat skin cancer. These socially conscious entrepreneurs developed a business model that would make early detection and education its main focus. Skin Smart Australia provides regular checks, education and other skin-cancer related services to workplaces all around Australia. It takes into account the busy lifestyles of Australian workers who would otherwise not find the time to get regular checks.

Skin Smart Australia took a socially responsible business idea and developed it into a rapidly growing business, with turnover increasing by almost ten-fold in just three years. Skin Smart Australia has secured contracts with health insurance company Bupa as its preferred provider of skin cancer assessments. In 2015, the company was recognised for its outstanding work, receiving Telstra's Victorian Regional Business Award. Skin Smart Australia is on track to helping countless more Australians stay cancer-free in the future.



Jane Homberger and Hillary McGregor-Potter, founders of Skin Smart Australia



TEST your understanding

- 1 What is meant by the term 'social responsibility'?
- 2 Do you consider Skin Smart Australia to be a socially responsible business? Give reasons for your answer.
- 3 Discuss the benefits of developing a business around a socially responsible idea.

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 following table. In the first column, list examples of actions taken by businesses that you consider to be socially irresponsible. Complete

| Socially irresponsible action | Stakeholders | Effects |
|--|--|---|
| Soft drink manufacturer produces an energy drink with excessive sugar and caffeine content | <ul style="list-style-type: none"> • retail outlets • consumers • health authorities • employees | <ul style="list-style-type: none"> • 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 |

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.

- 6 Choose one of the examples from your table for question 5. 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.

CHAPTER 1 REVIEW

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.

History of the Australian business environment

- The business environment in Australia has been shaped by many historic events. Understanding them gives us an insight into Australia's past as well as how it may change in the future.

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.

| Type of business | Description | Example |
|------------------|--------------------|---|
| Large | Over 200 employees | Coca-Cola Amatil, which makes Coca-Cola |
| Medium | | |
| Small | | |

- 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?

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