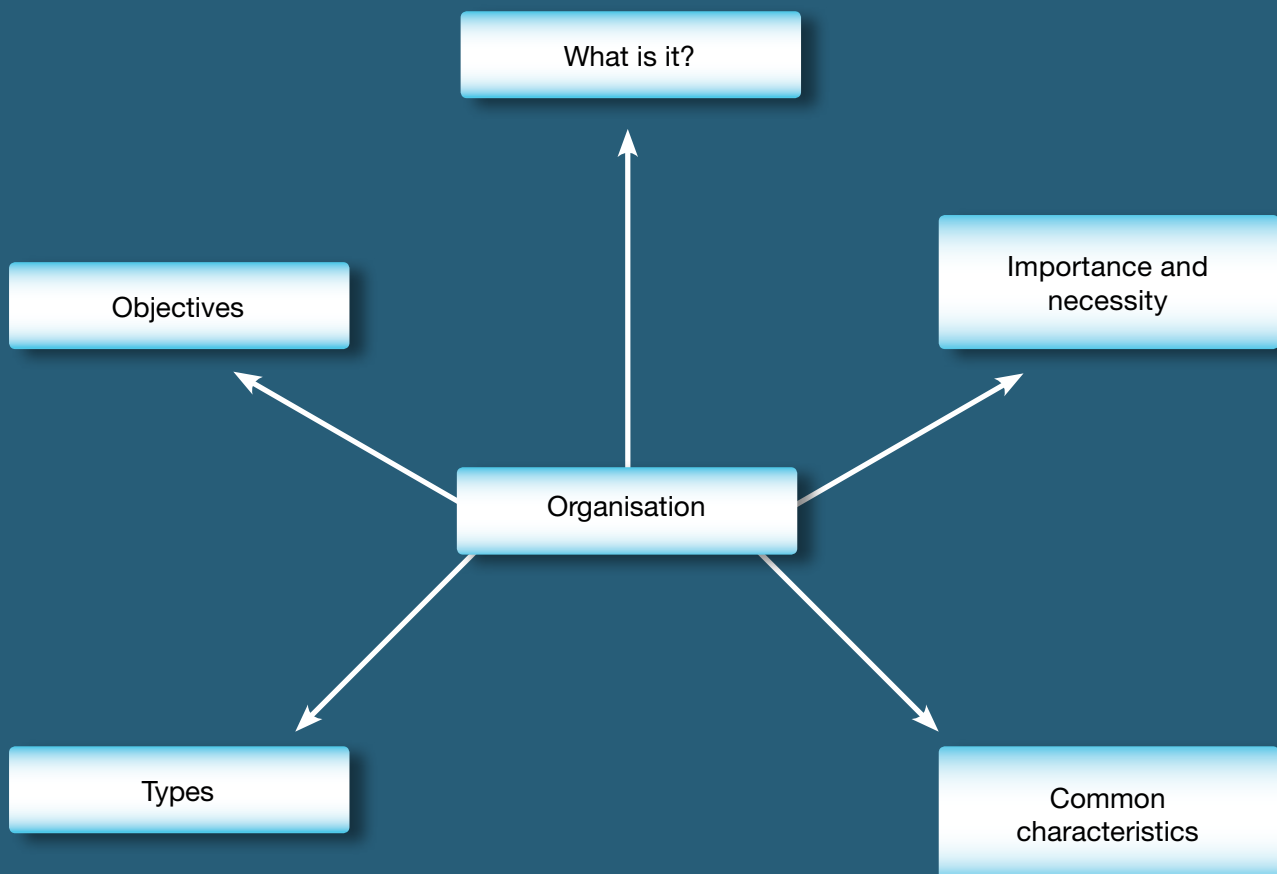


1

BUSINESS ORGANISATIONS

WHAT'S AHEAD





INTRODUCING BUSINESS

KEY KNOWLEDGE

Students will learn the following introducing them to business organisations:

- the features of organisations, including for-profit and not-for-profit organisations
- the objectives of different types of organisations.

AREA OF STUDY

1

For most of our lives we are part of some form of organisation. In the simplest form, we are part of our family, whether it is our immediate family (parents, brothers and sisters) or our extended family (grandparents, aunts, uncles and cousins). We may also be involved in social groups such as sports clubs (e.g. swimming, netball, basketball, cricket or football) or a church or charity group, such as the Australian Red Cross. By going to school or having a part-time job, we are involved in business organisations.



What is an organisation?

organisation

two or more people who work together in a structured way to achieve a specific objective or set of objectives

An **organisation** is a formal or structured arrangement where two or more people work together to accomplish some specific purpose or set of objectives.

Importance and necessity of organisations

Organisations enable people to achieve things that they could not achieve as individuals. By being cohesive as a group, a common objective or purpose can be achieved. This highlights the importance of the team approach, where it is said that 'Together Everyone Achieves More' (**TEAM**). Imagine a football or basketball team at the start of the season deciding that the Premiership Cup is theirs. If only one or two individual players work consistently during the season towards this objective, the result at the end of the season will be disappointment. If the entire team works consistently towards this objective, success is far more likely.

Organisations help to provide a continuity of knowledge between past and future

generations. Having people of varying ages and life experiences within an organisation allows for the passing down of valuable knowledge while also providing the future members and leaders of the group with a diverse range of opinions and experiences. The important elements of wisdom or hindsight can then be incorporated into the decision making or planning undertaken by the group.

Organisations serve to manage complex social and technological change. In our everyday changing world it is important for people to share, and not to individually carry the responsibility of responding to the pressures of both social and technological change.

Organisations are also an important source of employment and career direction. Membership of an organisation could initially come from an individual having an interest in some form of social organisation. During a person's teenage years they may be a member of a sporting team, such as netball or football. This initial sporting interest may turn into a career opportunity, as they have now decided to study sports management at a university or TAFE, and wish to then work at managing a sporting complex for the YMCA or a local council. Being part of an organisation, such as your school or sports club, may create employment opportunities as it will provide a connection with prospective **employers** who may be past students of your school or members of your club. This is referred to as 'using your network' of contacts.

employer

a person who hires another to work under their authority and control, in return for payment of a regular wage or salary



Figure 1.1 The champions

ACTIVITY 1.1

- 1 Compile a list of 10 organisations that you have been involved with over the past week.
- 2 Describe your involvement with each organisation.
- 3 Describe how each organisation is important to you.

Common characteristics of organisations

All organisations have a distinct purpose, which is generally expressed as a goal or set of objectives that the organisation wishes to accomplish. They usually comprise two or more people, and adopt a distinct form of structure, which may be either formal or informal. A formal structure will involve clear and carefully defined rules, regulations and procedures, whereas a simple network of loose work relationships is regarded as an informal structure.

Differences between organisations

Organisations can be differentiated by the following five factors.

- 1 Size, which may vary as to number of employees or members, revenue and assets:
 - Number of employees or voluntary workers. Organisations can vary in size from a minimum of two employees to thousands of workers. The number of people employed at an organisation will affect the way it is structured and operated.
 - The size of **revenue** or gross income of an organisation can vary from being a very small business generating income of thousands of dollars to a very large multinational corporation with revenue in the scale of billions of dollars.
 - **Assets** are what the organisation actually owns. The value (or size) of assets, like revenue, can vary enormously. For instance, for a small lawn mowing business, the car used to get from one **job**

to the next is a vital asset to the business operation. In the same way, a shopping centre complex that the shopping centre owner leases out to tenants to generate income is a vital asset.

- 2 Nature of operations refers to whether the organisation has been established as a business enterprise or for social interaction. Similarly, does the organisation produce or sell goods or provide a service to customers and/or clients?
- 3 Form of legal ownership. If the organisation is a business, does it operate as a sole trader/proprietor, as a partnership, a company, a cooperative or as a trust? A detailed description of these various forms of ownership is provided in chapter 4.
- 4 Extent of their market share. In a competitive marketplace, organisations are compared based on the percentage of the particular market they command; that is, the extent of their **market share**. Organisations within the same industry develop strategies to entice customers away from their **competitors**, thereby capturing a larger share of the market. Coca-Cola and Pepsi are seen in the soft drink industry as fierce rivals, always developing strategies to try to gain market share over the other.
- 5 Contribution to the economy. This is measured in terms of how much monetary value it provides to the **gross domestic product (GDP)** of Australia. Australia has a very large and diverse range of businesses operating in its economy. To assist in the understanding of these businesses, in both the nature of their operations and the assistance they may require, the government has classified them into specific industries. These are then grouped into 17 **industry sectors**, which are listed in table 1.1.

revenue

what a business earns in the way of sales or fees

assets

items of monetary value owned by the business

job

a group of tasks performed by an employee

market share

the percentage of total sales in a market held by one brand or business

competitor

a business rival in the same market for products or services offered by an organisation

gross domestic product (GDP)

total value of output produced in a country in one year

industry sector

different types of organisations and enterprises producing goods and services in the same industry or business area

Table 1.1 The 17 main industry sectors

- Accommodation, cafés and restaurants
- Agriculture, forestry and fishing
- Communication services
- Construction
- Cultural and recreation services
- Education
- Electricity, gas and water supply
- Finance and insurance
- Government administration and defence
- Health and community services
- Manufacturing
- Mining
- Personal and other services
- Property and business services
- Retail trade
- Transport and storage
- Wholesale trade

ACTIVITY 1.2

Identify the relevant industry sector for the organisations listed below. The first two have been done for you. (Hint: www.asx.com.au and www.google.com.au are useful sites to assist you in completing this activity.)

Name of organisation	Industry sector
a NAB	Finance and insurance
b David Jones	Retail trade
c Newscorp	
d Melbourne Water	
e Lend Lease	
f Linfox	
g Grocon	
h Wesfarmers	
i Visy	
j Qantas	
k DuluxGroup	
l The University of Melbourne	
m City of Melbourne	
n CSL	
o Telstra	
p RACV	
q Reserve Bank	
r Flight Centre	
s Murray Goulburn	
t Rio Tinto	

Types of organisations

The focus of **for-profit** organisations is profit attainment, market share and growth. This classification of business organisations makes up the majority of enterprises in Australia. Wesfarmers, NewsCorp and Lend Lease are in this category.

The focus of **not-for-profit (NFP)** organisations is on providing specific service to the community. For example, the Australian Red Cross provides a free blood donation and transfusion service. The most recent official figures provided by the Australian Bureau of Statistics to the Australian Productivity Commission's research report (11 February 2010) identified that in 2007 there were 600 000 NFP organisations in Australia, of which 59 000 made economically significant contributions to Australia's GDP and 8 per cent of employment.



Figure 1.2 The Salvation Army is a not-for-profit organisation

Some NFP organisations are government businesses.

Other large welfare organisations are church-sponsored. The Salvation Army is an example that acts through their nationwide networks to meet the needs of their particular communities. Others, such as the Australian Red Cross, are independent, non-denominational community organisations. These organisations gain the

majority of funds through generous donations from the Australian business community and the general public.

Objectives of different types of organisations

All organisations, whether they are for-profit or not-for-profit, need to set objectives they wish to achieve in line with their **mission statement** or **vision statement**. These objectives can be broadly categorised as financial and social objectives.

Financial objectives

A commercial organisation is usually judged on its financial success:

- Profit or surplus – this amount needs to be sufficient to provide owners and shareholders with a return on their investment (dividend), if it is a profit-making organisation. For an NFP organisation, surplus must be sufficient to allow it to perform its social objectives.
- Product sales and market share – a business may want to increase its sales in the hope of making the business more profitable. Market share is the percentage of total product sales made by a business in a given market over a set period of time. An increase in market share usually leads to an increase in profitability in the long term. For example, Virgin Blue Airlines, in its initial bid to gain market share in the Australian domestic market, was willing to offer cut-price fares. The length of time that these lower-price fares could be sustained depended on what profit margin Virgin was seeking from its Australian operations. It is now conducting a similar pricing strategy with the introduction of its international route carrier, V Australia. For an NFP organisation, the important objectives are to ensure that their organisation attracts

mission statement
a global statement that reflects an organisation's reason for being or purpose and the way it will be managed

vision statement
a statement that outlines the aspirations of the organisation

sufficient donations, sponsorship or support, and not lose their share to another NFP organisation.

- Growth – this relates to a combination of both market share and profit. Businesses decide whether their domestic market will provide sufficient growth potential or whether they need to ‘go global’ in their operations. Another option for growing a business is to diversify into other areas of operation. This involves moving away from its core business into other activities and can be a risky strategy, particularly if the new business area is one where the organisation has no prior knowledge or experience. Similarly, NFP organisations may be called upon to offer assistance in unfamiliar areas, and therefore they must decide whether they really are the best organisation to offer the needed assistance, or if it would be better to redirect the donations being offered to another NFP organisation that has the **infrastructure** and experience to best serve the needs of an individual or community.

infrastructure

physical resources of an area, e.g. power, transport, utility services, that benefit the entire community

retailer

business that sells products, usually in small quantities, to households or individual consumers

Social objectives

Social objectives are relevant for both for-profit and NFP organisations. They relate to establishing objectives that are of benefit to employees and the wider community. Examples of these objectives are:

- To ensure ongoing employment, training and development and career paths for employees.
- To provide services to the community or be actively involved in supporting community projects.
- To assist in improving employment prospects for disadvantaged groups in the community, e.g. youth, migrants, or those with criminal records.
- To produce environmentally friendly products and not produce or release any pollutants into the air or waterways.

Many organisations (for-profit and

not-for-profit) are able to successfully combine both financial and social objectives. The actions of these organisations often go unnoticed by the general public, but are not unappreciated by those in the community who are being helped.

The Body Shop Australia, as an ethical **retailer**, is an example of a business that has successfully combined these objectives. Since 1987, The Body Shop has supported fair trade in the toiletries and cosmetics industry. It has established a Community Trade program, where trading relations to source high-quality, natural ingredients are fostered directly with marginalised communities around the world. The Body Shop aims to maximise sustainable benefits to its supplier communities while also meeting customer expectations. As the pioneer of fair trade in the toiletries and cosmetics industry, its vision is to present a model to industry that others can follow. It also contributes resources towards positive social and environmental change through its donations and sponsorship of community support programs.

Another organisation, Toll Holdings Limited, one of the Asian region’s leading providers of integrated logistics services, is involved in a supported employment program called Second Step, where it offers, on an annual basis, employment to former criminals and drug addicts in the hope of assisting them to turn their lives around.



Figure 1.3 The Body Shop strives to combine both financial and social goals.

ACTIVITY 1.3

Read the extract and answer the questions that follow.

Second Step

The Second Step employment program continues to offer a supported employment opportunity with Toll for people whose employment prospects are limited as a result of a history of addiction or criminal offences.

Toll's Second Step is a program started by Mr Paul Little AO who remains a passionate supporter. The program now offers 30 positions a year throughout Australia in a variety of supported and mentored employment positions. The pleasing statistic is that the majority of our Second Steppers are offered full-time positions at the end of their initial 12 months of supported placement. This is testimony to the success of the program.

Second Steppers – both First Step candidates and those who are recommended to us through our other partner programs (White-lion, Port Phillip Prison Youth Unit, Melbourne City Mission, Brisbane City Council and The MacKillop Foundation) have benefited from the services made available to them through First Step and St Vincents Hospital.

We are also in discussion with a number of agencies both in Australia and in other countries to establish the program throughout the Toll Group globally and hope to report back



Figure 1.4 Step into a new life with the Second Step employment program

with further growth opportunities in the year ahead.

To date Toll has helped over 240 people get their lives back on track and maintain satisfying and rewarding employment.

Our hope is that Toll's leading role in these initiatives will encourage other corporates to be involved in supporting people dealing with what would otherwise be insurmountable problems.

Source: www.toll.com.au/community.html

Questions

Visit the website of Toll Holdings Limited (www.toll.com.au) to assist in completing questions 1 to 4.

- 1 Identify whether Toll Holdings is a for-profit or not-for-profit organisation.
- 2 The First Step program is referred to in the extract. Outline what this program is aiming to achieve.
- 3 Outline what the Second Step program is aiming to achieve.
- 4 Identify the two directions in which Toll Holdings would like the Second Step program to progress.
- 5 Identify two other for-profit organisations that assist not-for-profit organisations in achieving their objectives, e.g. McDonald's Australia and Ronald McDonald House.
- 6 Describe the forms of assistance one of these organisations is providing.

- Organisations occur in every part of our lives, both socially and in our business or work life.
- Organisations are a deliberate arrangement of people to accomplish some specific purpose.
- Organisations are necessary, as they enable individuals to achieve more through a team environment. They provide continuity of knowledge and experience and help us to manage complex social and technological change. Employment and career opportunities can result from being part of an organisation.
- Organisations have common characteristics, including:
 - a distinct purpose or objective(s)
 - comprise two or more people
 - a distinct form of structure.
- The structure may be formal, with clearly defined rules, regulations and procedures, or informal, with a simple network of loose relationships.
- Organisations can vary according to:
 - size (number of employees, revenue, assets)
 - extent of market share
 - contribution to the economy
 - nature of operations (goods or services)
 - form of legal ownership and structure.
- To assist in classifying and meeting the needs of organisations, they are grouped into 17 main industry sectors.
- There are two types of organisations: for-profit and not-for-profit.
- There are two main types of objectives set by organisations: financial and social.
- Financial objectives relate to profit or surplus, product sales, market share and business growth.
- Social objectives relate to employment security and opportunities, training and development, provision for community services, assistance to disadvantaged groups and the production of environmentally friendly products.
- Organisations are able to effectively combine both financial and social objectives.

- 1 Outline the four main reasons why organisations need to exist.
- 2 Define the following terms and then use each in a sentence to demonstrate your understanding.
 - a Organisation
 - b Objective
 - c Assets
 - d Market share
 - e Revenue
 - f Not-for-profit organisation.
- 3 Identify the features that are commonly used to distinguish different types of organisations.
- 4 Explain the importance of classifying industries into distinct industry sectors.

'A for-profit organisation should only focus on meeting its financial objectives. Social objectives are only for not-for-profit organisations.' Discuss this statement. (The following sample plan may provide you with some ideas on how to handle this task.)

Sample plan

Introduction

Define the key terms: for-profit organisation, not-for-profit organisation, financial objectives, social objectives.

Body

Describe the importance of setting financial objectives.

Describe the importance of setting social objectives.

Conclusion

Discuss your opinion on the statement.

