Business Management Units 3 & 4

Chapter 2 — Stakeholders and corporate culture

Aboriginal and Torres Strait Islander content has been excluded as accuracy cannot be guaranteed, and it is better to be respectful than cover the entire curriculum inaccurately.

Significant effort has been made to ensure this content is legal. Please send any areas of concern to admin@vwx.au with appropriate document/legal references so errors can be verified and changes be made.

Contents

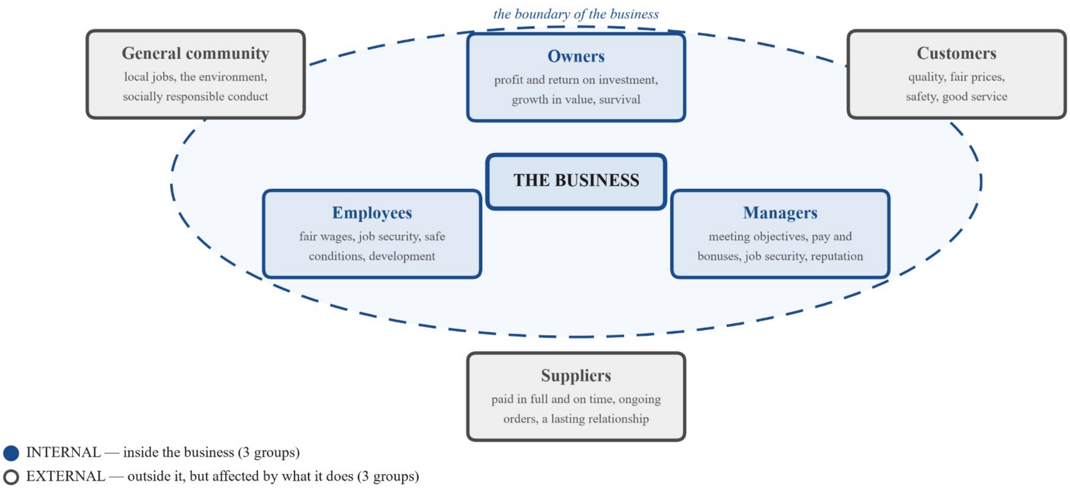
Chapter 2 Stakeholders and corporate culture — 2A Stakeholders — interests and conflicts

Theory

A **stakeholder** is any individual or group that has a direct or indirect **interest in** a business, or is **affected by** its activities and performance. Stakeholders both influence a business and are influenced by it, so managers must understand what each group wants. It is useful to separate **internal** stakeholders — those inside the business (owners, managers and employees) — from **external** stakeholders — those outside it who still have a stake in what it does (customers, suppliers and the general community). The study design prescribes **six** stakeholder groups.

Every stakeholder has its own **interests** — the outcomes it wants the business to deliver. Because these interests differ, and a business has only limited resources, satisfying one group more fully often means satisfying another less fully. This is why **conflicts between stakeholders** are a normal and expected feature of business, and why balancing them is a central task of management.

Stakeholders of a business — who is inside the boundary, and what each wants



Customers buy from the business; the general community is everyone the business affects, whether they buy from it or not. Both are external.

- **Owners.** The people who **own** the business and have contributed its **capital** — the sole trader, the partners, or, in a company, the **shareholders**. Because they have invested their own money and carry the **risk** of failure, owners are chiefly interested in the business's **profitability and return on their investment** (profit or dividends), the **growth in the value** of the business, and its ongoing **success and survival**.
- **Managers.** The people **employed to run** the business day to day and make decisions on the owners' behalf. They are interested in **achieving the business's objectives** (which they are accountable for), in their own **remuneration, bonuses and job security**, in their **professional reputation and career advancement**, and in having the **authority and resources** needed to do the job well.
- **Employees.** The people who **work for** the business in return for payment. They are interested in **fair wages**, **job security**, **safe working conditions**, **reasonable hours and workloads**, opportunities for **training and career development**, and **job satisfaction** and fair treatment.
- **Customers.** The people who **buy and use** the business's goods or services. They are interested in **quality** products, **fair and reasonable prices** (value for money), **safe** goods, reliable supply, and good **customer service**.
- **Suppliers.** The businesses that **provide the inputs** (materials, stock, components or services) the business needs. They are interested in being **paid in full and on time**, in receiving **regular, ongoing orders**, in a **long-term trading relationship**, and in the **continued success** of the business so that it keeps buying from them.
- **The general community.** The wider **society and local area** in which the business operates — residents, local groups and society at large — who are affected by the business even if they never buy from it. The community is interested in the business providing **local employment**, protecting the **natural environment**, behaving in a

socially responsible way (for example minimising pollution, noise and traffic), and **contributing** to the community.

Interests at a glance.

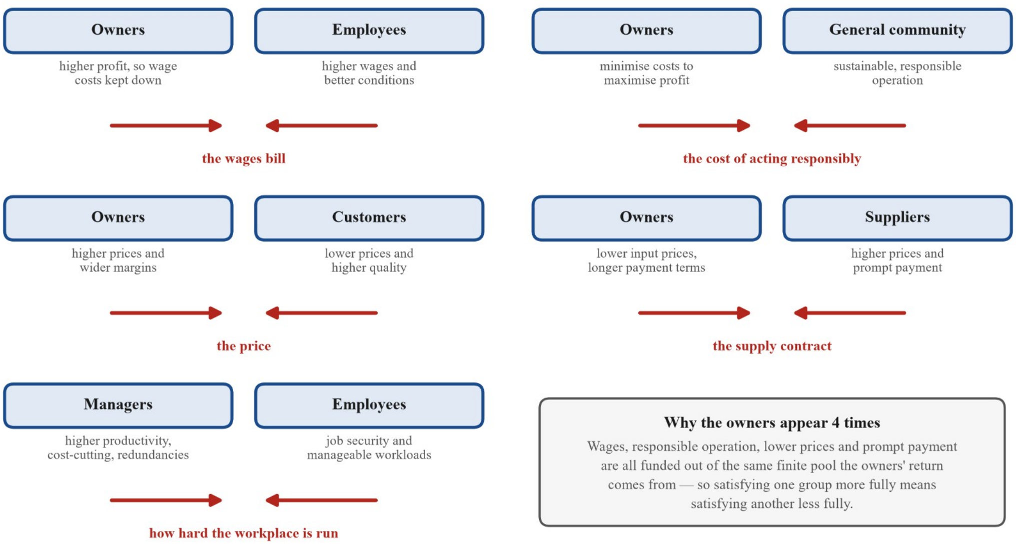
Stakeholder	Internal/external	Main interests
Owners	Internal	Profit / return on investment, growth in value, business success
Managers	Internal	Meeting objectives, remuneration and bonuses, job security, reputation
Employees	Internal	Fair wages, job security, safe conditions, development, satisfaction
Customers	External	Quality, fair prices, safety, good service, value for money
Suppliers	External	Prompt and full payment, ongoing orders, a lasting relationship
General community	External	Local jobs, environmental protection, socially responsible conduct

Why conflicts arise. A **conflict between stakeholders** occurs when the interests of two (or more) groups are **incompatible**, so that satisfying one comes at the expense of the other. It does **not** mean the groups are literally arguing — it means their goals **pull the business in different directions**. Conflicts arise because different stakeholders want different things and the business's resources (money, time, capacity) are **finite**, so a dollar or a decision that satisfies one group is often a dollar or a decision unavailable to another. Common conflicts include:

- **Owners vs employees.** Owners want **higher profit**, which is helped by keeping wage costs down; employees want **higher wages and better conditions**, which increase costs and reduce profit.
- **Owners vs the general community.** Owners want to **minimise costs** to maximise profit; the community wants the business to operate **sustainably and responsibly** (for example installing pollution controls or sourcing ethical inputs), which usually **costs money** — a conflict of **cost versus the community and environment**.
- **Owners/managers vs customers.** Owners want **higher prices and margins** to lift profit; customers want **lower prices** and higher quality.
- **Owners vs suppliers.** Owners want **lower input prices** and **longer payment terms** to protect their cash and profit; suppliers want **higher prices** and **prompt payment**.
- **Managers vs employees.** Managers under pressure to meet targets may push for **higher productivity, cost-cutting or redundancies**; employees want **job security** and manageable workloads.

Where stakeholder interests conflict — 5 pairs the business must balance

A conflict is competing interests over a finite resource, not an argument — two groups can be in conflict without ever speaking.



Balancing competing interests. Because a business usually cannot satisfy every stakeholder fully at once, managers must **balance** competing interests by making **trade-offs** — deciding which interests to prioritise in a given decision, negotiating and **compromising**, and looking for **win–win** outcomes where possible. For example, paying **fair** (not minimal) wages costs the owners more in the short term, but can improve **productivity and retention**, which benefits the owners in the long term. Managers weigh how important each stakeholder is to achieving the business's objectives, communicate openly, and often draw on **corporate social responsibility** to reconcile the demands of owners, employees, customers, suppliers and the community.

Keep these straight.

- **Customers vs the general community. Customers actually buy and use** the business's goods or services; the **general community** is the wider society and local area affected by the business — residents, local groups, the environment — who are **not necessarily customers** at all. A person worried about factory pollution is acting as a member of the community, not as a customer. Confusing these two groups is a common and costly error.
- **Owners vs shareholders vs managers. Owners** are whoever owns the business; in a **company** the owners are the **shareholders** — "shareholders" is simply what owners are called once a business is incorporated, not a separate stakeholder. **Managers** are **employed to run** the business for the owners. In a small business one person may be **both** owner and manager, but in a large company ownership (shareholders) is **separated** from control (managers), and a manager who owns no shares is **not** an owner.
- **Conflict ≠ argument.** A stakeholder conflict means **competing or incompatible interests**, not a verbal or physical dispute. Two groups can be in conflict without ever speaking.
- **Interest ≠ influence.** Every stakeholder has an *interest*, but they differ in how much *power* they have to affect the business; a manager balances both what each group wants and how much it can help or hinder the business's objectives.

Contemporary example — Woodside Energy, April 2024

Woodside Energy Group Ltd is an ASX-listed oil and gas producer based in Perth. At its annual general meeting on 24 April 2024, the board put its *Climate Transition Action Plan and 2023 Progress Report* to an advisory (non-binding) vote of shareholders. Woodside's own announcement of the voting results recorded 448,470,207 votes (41.64%) in favour and 628,547,852 votes (58.36%) against, and the resolution was not carried.

This is a **conflict between stakeholders** with a recorded date and outcome. In a company the **owners** are the **shareholders**, and a majority of the votes cast opposed a plan the **board** running the business on their behalf had put forward. The interests in tension are the **general community's** interest in **protecting the natural environment** and the owners' interest in **profit and return on investment**: reducing emissions faster generally **costs money**, and a dollar spent on it is a dollar not returned as profit. That is the familiar **cost-versus-community/environment** conflict, and the split result shows the owners themselves were **not united** on where the balance should sit.

The vote also shows that **interest is not the same as influence**. Because the resolution was **advisory**, the majority against did not by itself compel any change: in a large company **ownership is separated from control**, so shareholders could register an interest while the decision remained with the board and managers.

Source: Woodside Energy Group Ltd, 2024 Annual General Meeting Voting Results (ASX announcement), 24 April 2024 — https://www.woodside.com/docs/default-source/asx-announcements/2024/2024-annual-general-meeting-voting-results.pdf. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

BrightPack Pty Ltd, a packaging manufacturer, is considering a large pay rise for its warehouse staff. Identify the two stakeholder groups whose interests would most directly conflict over this decision, and explain why.

Working	Comment
A pay rise increases **wage costs**, which reduces **profit**, but improves employees' **pay**.	Start by identifying whose interests the decision touches.
The two groups most directly affected are the **owners** (who want profit/return) and the **employees** (who want higher wages).	Name the two stakeholder groups in conflict.
Their interests are **incompatible** here: higher wages satisfy employees but cut the profit owners want, so a gain for one is a cost to the other.	Explain *why* the interests conflict — competing, not merely different.
∴ the conflict is between **owners and employees**, because higher wages benefit employees but reduce the profit that owners seek.	State the conclusion clearly.

Example 2 — scaffolded

Distinguish between the interests of a business's **customers** and the interests of the **general community**.

Working	Comment
Customers are the people who **buy and use** the business's goods or services.	Define the first group by what it does.
Their interests are **quality, fair prices, safety and good service** — the value they receive from what they purchase.	State the customers' interests.
The **general community** is the **wider society and local area** affected by the business, whether or not they buy from it.	Define the second group — note it need not purchase anything.
Its interests are **local employment, protection of the environment and socially responsible conduct** — how the business affects society, not what it sells them.	State the community's interests, contrasting the focus.

Example 3 — unscaffolded

Explain why a conflict may arise between a business's **owners** and its **suppliers**.

A conflict may arise because the two groups have **incompatible financial interests**. **Owners** want to **maximise profit**, which is helped by paying **lower prices** for inputs and by delaying payment to suppliers so the business can hold onto its cash for longer. **Suppliers**, however, want to be paid a **fair (higher) price** for their goods and to be paid **in full and on time**, because that is how they earn their own profit and manage their cash flow. Because money paid to a supplier is money that leaves the business, what benefits the owners' profit directly **reduces** what the supplier receives, and vice versa. ∴ the conflict arises from the owners' desire for lower input costs and slower payment clashing with the suppliers' desire for higher prices and prompt payment.

Example 4 — unscaffolded

Evaluate the view that a business should always prioritise the interests of its **owners** above all other stakeholders.

There is some justification for the view: the **owners** provide the **capital** and bear the **risk** of failure, and a business that does not make an acceptable **profit** for its owners will struggle to attract investment and may not survive, which would harm every other stakeholder as well. **However**, the view is too absolute. Consistently sacrificing other stakeholders to boost owner returns tends to **backfire**: underpaying or overworking **employees** raises turnover and lowers productivity; overcharging or misleading **customers** damages sales and reputation; squeezing **suppliers** can break the supply chain; and ignoring the **general community** or the environment can trigger boycotts, fines and lost social licence — all of which ultimately **reduce** the owners' own returns. The most successful businesses treat owner profit as **one** important interest to be **balanced** against the others, recognising that satisfying employees, customers, suppliers and the community is often what *produces* sustainable profit. ∴ while owners' interests are important and cannot be ignored, always prioritising them above all others is short-sighted; a business should balance owner returns against its other stakeholders to succeed over the long term.

Practice questions

Scaffolded

Q1. Define the term *stakeholder*.

Q2. List the six stakeholder groups of a business prescribed in the study design.

Q3. For each of the following interests, name the stakeholder group most associated with it: (a) receiving a return on their investment in the business; (b) being paid in full and on time for goods delivered; (c) local employment and protection of the environment.

Q4. Identify whether each of the following is an **internal** or an **external** stakeholder: (a) employees; (b) suppliers; (c) the general community.

Q5. A café is deciding whether to increase the wages of its staff. (a) Identify **two** stakeholder groups whose interests may conflict over this decision. (b) Explain why their interests conflict.

Q6. Explain the difference between a business's **customers** and the **general community** as stakeholders.

Unscaffolded

Q7. Describe the interests of **suppliers** as a stakeholder of a business. *(2 marks)*

Q8. Distinguish between the interests of **owners** and the interests of **employees**. *(4 marks)*

Q9. Explain **one** way the interests of a business's **customers** differ from those of the **general community**. *(3 marks)*

Q10. Explain why the pursuit of higher **profit** by owners can create a conflict with **employees**. *(3 marks)*

Q11. A manufacturer is considering relocating its factory overseas to reduce its costs. Explain how this decision could affect the interests of **two** different stakeholder groups. *(4 marks)*

Q12. Explain what is meant by a **conflict** between stakeholders, and why such conflicts arise. *(4 marks)*

Q13. Compare the interests of **customers** and **owners** in relation to price and quality. *(4 marks)*

Q14. *Case study.* **Harbour Crest Seafoods** is a fish-processing business on a small coastal bay. To lift its profit, the owners are planning to pipe untreated processing waste into the bay rather than pay for a filtration system, and to cut casual staff hours. Local residents, who fish and swim in the bay, have raised concerns, and several long-serving employees are worried about their income. (a) Other than the owners, identify **one** stakeholder group whose interests are threatened by the plan to discharge waste into the bay. *(1 mark)* (b) Analyse the conflict between the **owners** and the **general community** in this scenario. *(3 marks)* (c) Propose and justify **one** action Harbour Crest Seafoods could take to balance the competing interests of these stakeholders. *(4 marks)*

Q15. Analyse how a decision to **reduce prices** to attract more customers could affect the interests of the business's **owners** and its **suppliers**. *(6 marks)*

Q16. Justify the view that a business **cannot fully satisfy all of its stakeholders** at the same time. *(4 marks)*

Q17. Evaluate the claim that **owners** are the most important stakeholder of a business. *(6 marks)*

Q18. Propose and justify **one** way a business could **reduce conflict** between its owners and its employees over wages and conditions. *(4 marks)*

Q19. *Extended response.* Businesses must manage the competing demands of many stakeholders. Analyse the potential conflicts that can arise between the different stakeholders of a business, and evaluate the view that managers can never satisfy all stakeholders equally. *(10 marks)*

Q20. *Contemporary business.* At Woodside Energy's annual general meeting on 24 April 2024, a majority of the votes cast (58.36%) opposed the company's Climate Transition Action Plan in an advisory, non-binding vote. Analyse this outcome as a **conflict between stakeholders**, referring both to the interests involved and to the difference between a stakeholder's **interest** and its **influence**. *(5 marks)*

Answers

Q1. Any individual or group that has a direct or indirect interest in a business, or is affected by its activities and performance. **Q2.** Owners; managers; employees; customers; suppliers; the general community. **Q3.** (a) owners; (b) suppliers; (c) the general community. **Q4.** (a) internal; (b) external; (c) external. **Q5.** (a) Owners and employees. (b) Higher wages increase costs and reduce the profit owners want, while employees want the higher pay — the interests are incompatible. **Q6.** Customers buy and use the business's goods or services (interested in quality, price, service); the general community is the wider society affected by the business (interested in jobs, the environment and responsible conduct) whether or not they buy from it. **Q7.** Prompt and full payment; regular ongoing orders; a lasting trading relationship; the continued success of the business. See solutions. **Q8.** Owners want profit/return on investment; employees want fair wages, job security and good conditions — higher wages reduce profit. See solutions. **Q9.** Customers are interested in the value they receive from purchases (quality, price); the community is interested in the business's wider impact (jobs, environment). See solutions. **Q10.** Higher profit is helped by lower wage costs, but employees want higher wages — the two pull in opposite directions. See solutions. **Q11.** e.g. owners — lower costs/higher profit (positive); employees/community — job losses locally (negative). See solutions. **Q12.** A conflict is a clash of **incompatible interests** (not an argument); it arises because stakeholders want different things and the business's resources are finite. See solutions. **Q13.** Both want the business to succeed and remain competitive; but customers want low prices and high quality, while owners want high margins/profit. See solutions. **Q14.** (a) The general community (or employees). (b) Owners want lower costs/higher profit by dumping waste; the community wants a clean, safe bay — the interests are incompatible. (c) e.g. install the filtration system / phase it in — justified by protecting reputation and long-term profit. See solutions. **Q15.** Lower prices may lift sales volume but cut the margin/profit owners want, and may pressure the business to demand lower prices from suppliers. See solutions. **Q16.** Because stakeholders' interests are incompatible and resources are finite, so satisfying one group more fully means satisfying another less fully. See solutions. **Q17.** Owners are important (provide capital, bear risk) but not automatically the *most* important; ignoring other stakeholders harms the owners too. Judgement required. See solutions. **Q18.** e.g. genuine negotiation / consultation / profit-sharing — justified by reaching a fair compromise that protects both profit and morale. See solutions. **Q19.** Model response in solutions. **Q20.** Owners (shareholders) opposed a plan the board had put forward; the community's interest in environmental protection sits against the owners' interest in profit — a cost-versus-community conflict. Because the vote was advisory, interest did not translate into influence. See solutions.

Fully-worked solutions

Q7. Suppliers are the businesses that provide a business's inputs, and their interests centre on the **trading relationship**. They want to be **paid in full and on time**, to receive **regular, ongoing orders**, and to build a **long-term relationship** with the business, since they rely on its **continued success** to keep selling to it and earning their own profit.

Q8. Owners are interested in the **profitability** of the business — the **profit or return on investment** they receive, the **growth in the value** of the business and its ongoing success — because they have contributed the capital and carry the risk. **Employees** are interested in **fair wages, job security, safe working conditions and opportunities for development**. The two sets of interests often **conflict**: wages are a **cost** to the business, so the higher pay and conditions that employees want **reduce** the profit owners seek. The key difference is that owners are focused on the **financial return** from the business, whereas employees are focused on **their pay, security and treatment** as workers.

Q9. The interests of **customers** relate to the **value they receive from what they buy** — they want **quality goods and services, fair prices and good service**. The interests of the **general community** relate to the business's **wider impact on society**, such as providing **local employment** and **protecting the environment**, and this applies **whether or not** community members ever purchase from the business. One clear way they differ, then, is that a customer's interest arises from a **purchase** (getting value for money), while the community's interest arises from **living alongside** the business and being affected by how it operates.

Q10. The pursuit of **higher profit** by owners can create a conflict with employees because **wages are a cost** that reduces profit. To increase profit, owners may prefer to **restrain wages, limit overtime or keep staffing lean**, whereas employees want **higher wages and better conditions**. Since every extra dollar paid in wages is a dollar less profit, the owners' goal and the employees' goal **pull in opposite directions**, which is why a conflict of interest arises between them.

Q11. Relocating the factory overseas would affect two stakeholder groups in opposing ways. For the **owners**, moving to a lower-cost location would **reduce production costs** and therefore **increase profit**, which serves their interest in a strong return on investment. For the **employees** (and the **general community**), however, the relocation would likely mean **job losses** at the local factory, threatening employees' interest in **job security** and the community's interest in **local employment**. The same decision therefore **benefits** one stakeholder's interest while **harming** another's, illustrating a conflict between stakeholders.

Q12. A **conflict** between stakeholders occurs when the interests of two or more stakeholder groups are **incompatible**, so that pursuing what one group wants means the business is **less able** to give another group what it wants. Importantly, this is a **clash of interests**, not a verbal or physical argument — the groups may never even interact. Such conflicts **arise** because different stakeholders naturally want **different things** (owners want profit, employees want higher pay, the community wants environmental protection) and the business has only **finite resources** (money, time and capacity). Because a decision or a dollar directed towards satisfying one group is **unavailable** to satisfy another, the competing interests come into conflict, and managers must decide how to balance them.

Q13. In relation to price and quality, customers and owners share **one interest** but diverge on another. A **similarity** is that both want the business to be **successful and competitive** — customers need it to keep trading so they can keep buying, and owners need it to survive to earn a return — so both benefit from a business that offers a **good product at a viable price**. The **difference** is in the direction each pushes: **customers** want the **lowest possible price** for the **highest possible quality** (maximum value for money), whereas **owners** want **prices high enough** to protect the **profit margin** and may resist adding costs that raise quality. So while both want the business to do well, their interests **conflict** over exactly how price and quality should be set.

Q14. (a) The **general community** (accept: employees). (b) The **owners'** interest is in **increasing profit**, which they plan to do by avoiding the cost of a filtration system and dumping waste into the bay. The **general community's** interest is in a **clean, safe environment** — a bay they can fish and swim in — and in the business behaving responsibly. These interests are **incompatible**: the cost saving that raises the owners' profit is achieved by **polluting** the very bay the community values, so a gain for the owners is a direct loss for the community. The conflict is therefore a classic **cost-versus-community/environment** clash, in which the owners' short-term financial interest works against the community's interest in environmental protection. (c) Harbour Crest Seafoods could **install the filtration system (or phase it in over time) and retain the staff hours**, treating waste before discharge rather than dumping it. This is justified because it protects the community's interest in a clean bay while safeguarding the owners' **longer-term** interest: avoiding pollution protects the business's **reputation and social licence**, reduces the risk of **fines or forced closure**, and preserves the healthy bay the seafood business itself depends on. By absorbing a **short-term cost** the owners protect **long-term profit**, striking a balance between the two stakeholders rather than sacrificing one entirely.

Q15. Reducing prices to attract more customers sets off a chain of effects for both owners and suppliers. For the **owners**, a lower price **cuts the profit margin** on each sale; whether their overall interest in profit is served then depends on **volume** — if the lower price attracts **enough extra customers**, higher sales can offset the thinner margin and **increase total profit**, but if it does not, the owners' profit **falls**, harming their interest. To protect their margin, the business may in turn try to **cut its own costs**, which draws in the **suppliers**: the business may **pressure suppliers to lower their prices** or demand **longer payment terms**. This **threatens the suppliers' interests** in receiving a fair price and prompt payment, potentially squeezing their own profit and straining the relationship. The relationships are causal: the price cut **reduces** margin, which **drives** cost pressure, which **transmits** to suppliers. So a single pricing decision can benefit or harm the owners depending on volume, while creating downward pressure that works **against** the suppliers' interests.

Q16. A business **cannot fully satisfy all of its stakeholders at once** because their interests are **incompatible** and its resources are **finite**. The argument runs as follows: owners want higher profit, employees want higher wages, customers want lower prices, suppliers want higher prices and prompt payment, and the community wants responsible, sometimes costly, conduct. Money used to satisfy one of these interests — for example, paying **higher wages** — is money **not** available to satisfy another, such as the owners' **profit** or the customers' desire for **lower prices**. Because the business has a **limited** amount of money, time and capacity, it must make **trade-offs**, giving some groups more of what they want at the expense of others. It is therefore **logically impossible** to maximise every stakeholder's interest simultaneously; the best a business can do is **balance** the competing demands. This justifies the view: fully satisfying all stakeholders at once would require resources the business does not have.

Q17. The claim that **owners are the most important stakeholder** has real merit but should be **qualified**. In its favour, the owners **provide the capital** and **bear the risk** of failure, and the business exists in large part to generate a **return** for them; without owners willing to invest, there would be no business, and a firm that fails to make an acceptable profit cannot survive to serve anyone else. **However**, treating owners as automatically the *most* important is misleading, because the owners' own interest **depends on** the other stakeholders: profit is generated by **customers** who buy, produced by **employees** who work, supplied by **suppliers** who deliver inputs, and permitted by a **community** that grants the business its social licence. Neglecting any of these groups to favour owners tends to **reduce** owner returns — through lost sales, high staff turnover, broken supply chains or reputational damage. Which stakeholder is "most important" also **varies with the situation**: during an environmental crisis the community may dominate; during a strike, employees do. **On balance**, owners are a **critically important** stakeholder whose interests can never be ignored, but they are **not** the single most important in every circumstance; a manager serves the owners best by **balancing** their interests with those of the stakeholders who ultimately generate the profit.

Q18. A business could **introduce genuine negotiation and consultation** with employees over wages and conditions — for example, agreeing pay through good-faith bargaining and consulting staff before changing conditions, rather than imposing decisions. This is justified because it addresses the **root** of the owner–employee conflict: employees feel their interest in fair pay and security is **heard and respected**, which improves **morale, cooperation and retention**, while owners retain a say in keeping wage costs **sustainable** so that profit is protected. By reaching an agreed **compromise** — for instance, a modest pay rise linked to improved productivity — both interests are partly satisfied: staff gain fairer pay and stability, and owners gain a motivated, stable workforce that supports profit. (Accept alternatives such as **profit-sharing or performance-based pay**, provided the justification shows how it aligns employees' pay with the business's profit and so **reduces** the conflict.)

Q19. *Model response (10 marks).* The stakeholders of a business — **owners, managers, employees, customers, suppliers and the general community** — each hold their own interests, and because a business has only **finite resources**, these interests frequently **conflict**. **Owners** want **profit and a return on investment**; **managers** want to meet objectives and secure their remuneration and careers; **employees** want **fair wages, job security and good conditions**; **customers** want **quality goods at low prices**; **suppliers** want **fair prices and prompt payment**; and the **general community** wants **local jobs, a protected environment and responsible conduct**. A conflict occurs wherever satisfying one of these interests **reduces** the business's ability to satisfy another. The clearest example is **owners versus employees**: wages are a cost, so the higher pay employees want directly lowers the profit owners seek. Similar tensions run throughout the business — **owners versus customers** over price, **owners versus suppliers** over input costs and payment terms, and **owners/managers versus the general community** where cost-cutting (such as avoiding pollution controls) conflicts with the community's interest in the environment. These conflicts are **causal**, not incidental: the same limited pool of money and capacity is being pulled towards **incompatible** ends, so a decision that advances one group's interest tends to set back another's.

The view that managers can **never satisfy all stakeholders equally** is **strongly supported**, though it needs careful expression. Because stakeholder interests are **incompatible** and resources are **scarce**, it is **impossible** to maximise every interest at the same time — paying the highest wages, charging the lowest prices, paying suppliers the most and returning the greatest profit all at once cannot be done. Managers must therefore make **trade-offs**, prioritising the stakeholders most critical to the business's objectives at any given time. **However**, "cannot satisfy equally" does not mean managers are powerless: skilful managers reduce conflict by seeking **win–win** outcomes and taking a **long-term** view — for instance, paying fair wages that lift productivity and retention, or investing in sustainability that protects reputation and profit — so that several interests are advanced together even if none is fully maximised. **On balance**, the evidence supports the view: managers can **balance** and partly satisfy competing stakeholders, but they can **never satisfy them all equally**, because the groups' interests fundamentally compete for the same limited resources. The mark of good management is not the impossible goal of pleasing everyone equally, but the deliberate, justified **balancing** of competing interests in pursuit of the business's objectives. *(Full marks require: accurate coverage of the six stakeholders and their interests; genuine analysis of the causal conflicts between them; and a sustained, two-sided evaluation reaching a justified judgement about balancing stakeholders.)*

Q20. The vote makes a **conflict between stakeholders** visible in a single decision. In a company the **owners** are the **shareholders**, and on 24 April 2024 a majority of the votes cast (58.36%) opposed the **Climate Transition Action**

Plan that the **board** running the business on their behalf had put forward. The interests in tension are the **general community's** interest in **protecting the natural environment** and in **socially responsible** conduct, and the owners' interest in **profit and return on investment** — because reducing emissions faster generally **costs money**, and a dollar spent on it is a dollar not available as profit. This is the standard **cost-versus-community/environment** conflict, and the split result (41.64% in favour, 58.36% against) shows that the owners themselves were **not united** on where that balance should sit. The outcome also illustrates that **interest is not the same as influence**: because the resolution was **advisory**, the majority against did not oblige the business to change anything. In a large company **ownership is separated from control**, so the shareholders could register their interest while the decision itself remained with the **board and managers**, who must still **balance** the competing demands of every stakeholder group.

Theory

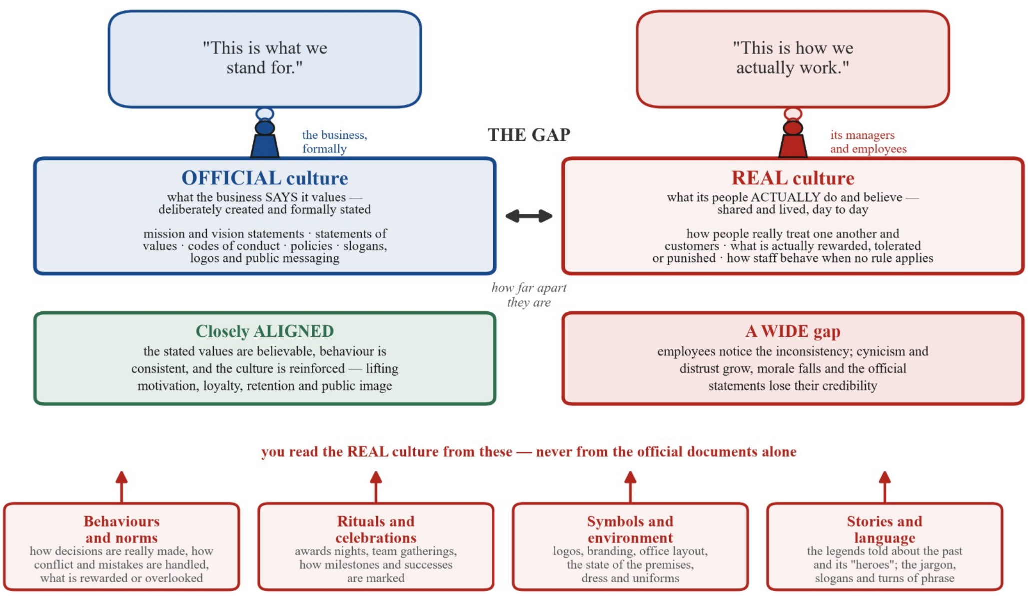
Corporate culture (also called organisational culture) is the shared **values, beliefs, attitudes and behaviours** that characterise a business and shape how the people within it think and act. It is often described as the "personality" of a business, or the largely unwritten understanding of "the way things are done around here". Culture develops over time out of a business's **history, its founders and leaders, the industry it operates in, and the everyday interactions of its people**. Because much of it is intangible — a matter of habit, expectation and attitude rather than formal rules — corporate culture is powerful but not always easy to see directly.

The study design distinguishes **two forms** of corporate culture: the **official** culture and the **real** culture.

- **Official culture.** This is the culture a business **formally states and espouses** — the values and beliefs it publicly says it stands for and wants to be known for. It is deliberately created and communicated through visible, formal artefacts such as **mission and vision statements, statements of values, codes of conduct, policies, slogans, logos and public messaging**. Official culture is, in short, **what the business says it values**.
- **Real culture.** This is the culture that is **actually shared and lived day-to-day** by employees and managers — the values, attitudes and behaviours genuinely practised when work is done and decisions are made. It shows in **how people really treat one another and customers, what is actually rewarded, tolerated or punished, and how staff behave when no formal rule applies**. Real culture is, in short, **what the members of the business actually do and believe**.

The gap between official and real culture. Ideally the two forms align: the values a business proclaims are the same values its people live by. Often, however, a **gap** opens up — for example, a business whose values statement declares "our people come first" but whose managers routinely overwork staff and reward only sales figures. When the real culture **contradicts** the official culture, employees notice the inconsistency, cynicism and distrust grow, morale falls and the official statements lose credibility. When the two are **closely aligned**, the stated values are believable, behaviour is consistent and the culture is reinforced. This is why the distinction matters: the official culture tells you what a business *intends*, but only the real culture tells you what it is *actually like*.

Official culture and real culture — and the gap that decides whether either is believed



Culture is largely intangible, so it is judged through observable indicators. The official culture tells you what a business INTENDS; only the real culture tells you what it is actually LIKE. Ideally they say the same thing — often they do not.

How corporate culture is shown. Because culture is largely intangible, it is "read" through observable **indicators**:

- **Symbols and physical environment** — logos, branding, the office layout, the state of the premises, and **dress** (uniforms or a formal/informal dress code) all signal what a business values.

- **Rituals and celebrations** — awards nights, team gatherings, how milestones, birthdays or successes are marked, and the routines of meetings reveal what behaviour is honoured.
- **Stories and language** — the stories and "legends" people tell about the business's past and its "heroes", along with the jargon, slogans and turns of phrase staff use.
- **Behaviours and norms** — how managers and employees **actually behave**: how decisions are made, how conflict and mistakes are handled, how customers and colleagues are treated, and what is rewarded or overlooked. These behaviours are the clearest window onto the **real** culture.

How corporate culture affects performance. A **strong, positive** culture can lift business performance: it **motivates** employees and raises job satisfaction, builds **loyalty** (reducing absenteeism and staff turnover), encourages **cooperation and shared purpose**, helps **attract talent**, and can strengthen the business's **public image and customer loyalty** — all of which support the achievement of business objectives. A **negative or weak** culture, or a wide gap between official and real culture, tends to do the reverse: **low morale, high turnover, conflict, disengagement, poor service and reputational damage**.

Keep these straight.

- **Official is not real.** Official culture is what a business **says** it values (mission statements, codes, slogans); real culture is what its people **actually do** day-to-day. The dividing line is **stated versus lived**.
- **Culture is shown, not merely stated.** You judge the **real** culture from **indicators** — behaviours, rituals, symbols, dress and stories — not from the official documents alone.
- **The gap matters.** When real culture matches official culture the stated values are credible and reinforced; a **gap** between them breeds cynicism, erodes trust and undermines the official message.
- **Culture cuts both ways.** A strong **positive** culture can raise motivation, retention and image and help achieve objectives; a **negative** culture, or a wide official–real gap, can damage all of these.

Contemporary example — EY Oceania, July 2023

EY Oceania is the Australian and New Zealand arm of the EY professional services network, providing audit, tax and consulting services to corporate and government clients.

In September 2022 the firm commissioned an independent review of its workplace culture, led by Elizabeth Broderick AO of Elizabeth Broderick & Co. The reviewers surveyed 4,171 staff and partners — about 36% of the workforce at the time — and held 216 confidential one-to-one listening sessions. On 27 July 2023 EY Oceania published the report in full and stated that it accepted all 27 of its recommendations.

The review is an unusually public measurement of the distance between an **official** and a **real** culture. EY Oceania's **espoused** purpose, to "build a better working world", is the culture the firm formally **states**, and the report found the two aligned in much of the firm: 94% of respondents agreed they always felt safe at work. It also found **behaviours** the stated purpose does not describe — over the previous five years, 15% reported experiencing bullying, 10% sexual harassment and 8% racism, while only 31% were confident the firm could change its culture of long working hours. The reviewers concluded that practice "does not yet align" with the firm's values and purpose. The **gap** was identified not from the official documents but from what employees reported actually experiencing — the clearest **indicator** of a real culture.

Source: EY Oceania, EY Oceania releases EB&Co.'s Independent Report into workplace culture, 27 July 2023 — https://www.ey.com/en_au/newsroom/2023/07/elizabeth-broderick-co-independent-review-into-workplace-culture-at-ey. Accurate as at July 2026.

Worked examples

Example 1 — scaffolded

BrightLeaf Grocers displays a large sign in its staffroom stating "Here, every voice matters", yet staff report that managers never act on their suggestions and employees who raise concerns are quietly overlooked at promotion time. Distinguish between the official and real culture at BrightLeaf Grocers.

Working	Comment
The sign proclaiming “every voice matters” is a value the business **formally states** → this is the **official culture** (what BrightLeaf says it stands for).	Identify the stated/espoused value as official culture.
Suggestions being ignored and concern-raisers overlooked is how people **actually behave** day-to-day → this is the **real culture**.	Identify the lived behaviour as real culture.
The official culture claims employee input is valued, but the real culture shows it is **not** — the two do not match.	Point out the **gap** between stated and lived.
∴ BrightLeaf’s official culture (espoused on the sign) differs from its real culture (lived behaviour); they are distinct because one is **stated** and the other is **practised**.	State the distinction as the conclusion.

Example 2 — scaffolded

Ryde Digital runs a “Friday wins” ritual where teams share their successes each week, staff and managers address one another informally by first name, and customer thank-you notes are pinned across the office walls. Explain what these features suggest about Ryde Digital’s corporate culture.

Working	Comment
The “Friday wins” gathering is a **ritual**, first-name informality is a **behavioural norm**, and the displayed thank-you notes are **symbols**.	Recognise the features as **indicators** of culture.
Celebrating shared successes and staying informal suggests a culture that values **recognition, teamwork and openness**, with little distance between managers and staff.	Interpret what the rituals and norms reveal.
Displaying customer thank-you notes suggests a culture that takes **pride in customer service** and treats it as something to be celebrated.	Link each indicator to the underlying value it reveals.

Example 3 — unscaffolded

Distinguish between the official and real culture of a business.

The **official culture** is the set of values and beliefs a business **formally states and espouses** — the culture it publicly claims and wants to be known for — communicated through **mission and vision statements, codes of conduct, policies and slogans**; official culture is **what the business says it stands for**. The **real culture** is the set of values, attitudes and behaviours **actually shared and lived** by employees and managers day-to-day — how people **genuinely behave**, and what is really rewarded or tolerated, regardless of the formal statements; real culture is **what the members of the business actually do**. The two therefore differ in that official culture is **stated (espoused)** while real culture is **lived (practised)**, and the two may either align closely or diverge. ∴ the distinction turns on stated values versus lived behaviour, not on two different sets of values existing side by side.

Example 4 — unscaffolded

A manager claims, “Our corporate culture is excellent, because our values statement says we are ethical and caring.” Evaluate this claim.

The claim **confuses official culture with real culture**. A values statement describing the business as ethical and caring is part of the **official culture** — the values the business **espouses** — and it is a genuine and useful thing to publish, because it sets an intended direction and signals values to stakeholders. **However**, a strong official statement does **not by itself** prove a positive culture: the **real culture** is what employees and managers **actually do** day-to-day, which may or may not match the words. If the business’s actual behaviours — how staff and customers are treated, and what is rewarded — align with the statement, the culture may indeed be positive; but if there is a **gap** between the espoused values and the lived behaviour, the statement is hollow and can breed **cynicism and distrust**. ∴ the manager cannot judge the culture "excellent" from the values statement alone; the real culture must be assessed from **actual behaviour and indicators**, and from how closely it aligns with the official culture.

Practice questions

Scaffolded

Q1. Define the term *corporate culture*.

Q2. Identify **three** formal ways in which a business communicates its **official** culture.

Q3. For each of the following, state whether it reflects a business's **official** culture or its **real** culture: (a) a slogan printed on staff uniforms; (b) the way managers actually respond when an employee makes a mistake; (c) a published statement of company values.

Q4. Identify **four** indicators through which a business's **real** culture can be observed.

Q5. RideRight Couriers' website states that "safety always comes first", yet drivers are set delivery targets so tight that many skip their breaks and speed to keep up. (a) Identify the business's **official** culture regarding safety. (b) Explain what its **real** culture regarding safety appears to be, and why.

Q6. Explain why a **gap** between a business's official and real culture can matter.

Unscaffolded

Q7. Describe **two** ways in which a business's corporate culture can be shown. *(4 marks)*

Q8. Distinguish between the **official** and **real** culture of a business. *(4 marks)*

Q9. Explain how a business's corporate culture can affect the **motivation** of its employees. *(3 marks)*

Q10. Outline **one** way a positive corporate culture can benefit a business and **one** way a negative corporate culture can harm it. *(4 marks)*

Q11. Northwind Outdoors states in its code of conduct that it values environmental responsibility, but staff routinely dispatch half-empty delivery trucks and throw out returned stock rather than reselling it. Explain what this suggests about the gap between the business's official and real culture. *(4 marks)*

Q12. Discuss the view that a business's **real** culture is more important than its **official** culture. *(4 marks)*

Q13. Explain why the day-to-day behaviour of managers is a strong indicator of a business's real culture. *(3 marks)*

Q14. Compare official culture and real culture. *(4 marks)*

Q15. *Case study.* **Zenmark Solutions** is a software business. Its website proudly displays the values "collaboration, openness and respect", and every new employee is given a printed values booklet. In practice, however, managers make all decisions behind closed doors, employees are discouraged from questioning their supervisors, and the largest bonuses go to those who work the longest hours regardless of how well they work with others. Staff turnover has risen sharply, and several departing employees have described the workplace as "two-faced". (a) Identify Zenmark's **official** culture. *(1 mark)* (b) Analyse **one** problem the gap between Zenmark's official and real culture is creating for the business. *(3 marks)* (c) Explain how Zenmark's **real** culture is revealed through the behaviours described in the case study. *(4 marks)*

Q16. Analyse the relationship between a positive corporate culture and the achievement of business objectives. *(4 marks)*

Q17. Evaluate the importance of aligning a business's official and real culture. *(6 marks)*

Q18. The owner of a small architecture firm believes that displaying a new set of company values on the office wall will instantly create a positive corporate culture. Explain why this belief may be mistaken. *(4 marks)*

Q19. *Extended response.* Businesses often promote a set of official values, yet the culture employees actually experience can be very different. Analyse how a business's corporate culture is expressed through its official and real forms, and evaluate the importance of the relationship between them for business performance. *(10 marks)*

Q20. *Contemporary example.* In July 2023, EY Oceania published an independent review of its workplace culture and stated that it accepted all 27 of the review's recommendations. Analyse what the review's findings reveal about the relationship between the firm's official and real culture. *(5 marks)*

Answers

Q1. The shared values, beliefs, attitudes and behaviours that characterise a business and shape how its people think and act ("the way things are done around here"). **Q2.** Any three of: mission/vision statement; statement of values; code of conduct; policies; slogans; public branding/messaging. **Q3.** (a) official; (b) real; (c) official. **Q4.** Any four of: behaviours/norms; rituals and celebrations; symbols and physical environment; dress; stories and language; what is actually rewarded or tolerated. **Q5.** (a) That safety is the first priority ("safety always comes first"). (b) In reality safety is **not** the first priority — the tight targets lead drivers to skip breaks and speed, showing that speed of delivery is what is actually rewarded, so the real culture prioritises delivery times over safety. **Q6.** Because the real culture is what employees actually experience, a gap makes the official values appear hypocritical: employees notice the inconsistency, so trust and morale fall, cynicism grows and the stated values lose credibility — with reputational damage if the gap becomes public. **Q7.** e.g. behaviours/norms — how managers and staff actually treat one another and customers, and what is rewarded or overlooked; and rituals/celebrations — team gatherings or awards nights that signal which behaviour is honoured (or symbols and physical environment, dress, stories and language). See solutions. **Q8.** Official = stated/espoused values (mission statements, codes, slogans); real = lived, day-to-day behaviour. See solutions. **Q9.** Positive culture raises motivation (belonging, recognition, shared purpose); negative culture or a gap lowers it. See solutions. **Q10.** Benefit: motivation/retention/cooperation/image. Harm: low morale, high turnover, conflict, poor service, reputational damage. See solutions. **Q11.** Official = environmental responsibility; real = wasteful practice; the gap risks cynicism and reputational harm. See solutions. **Q12.** Both sides: real culture drives behaviour and experience, but official culture sets direction and communicates values; ideally aligned. See solutions. **Q13.** Staff judge culture by what managers do, not what documents say; managers model and reward behaviour. See solutions. **Q14.** Similarity: both are aspects of the same culture / concern the business's values. Difference: stated vs lived. See solutions. **Q15.** (a) Collaboration, openness and respect. (b) e.g. rising turnover / loss of trust from the gap. (c) Closed-door decisions, discouraging questions, rewarding long hours over teamwork reveal a real culture of secrecy, low respect for input and individualism. See solutions. **Q16.** Positive culture → motivated, committed, loyal staff → higher productivity/quality and lower turnover → objectives achieved. See solutions. **Q17.** Alignment builds trust, credibility and motivation; a gap is damaging; perfect alignment is hard — judgement that alignment is important. See solutions. **Q18.** A wall poster changes only the official culture; real culture is built over time through actual behaviour and what is rewarded. See solutions. **Q19.** Model response in solutions. **Q20.** Official = the espoused purpose "build a better working world" and the values around it; real = what staff actually reported (aligned in part — 94% felt safe — but bullying, sexual harassment, racism and long working hours); the review measured the gap, and publishing it and accepting all 27 recommendations was an attempt to close it. See solutions.

Fully-worked solutions

Q7. Corporate culture can be shown through observable **indicators**. First, through the **behaviour and norms** of the people in the business — for example, how managers and employees treat customers and one another day-to-day, which reveals what the business truly values. Second, through **rituals and celebrations** — such as regular team gatherings or awards that honour particular achievements and so signal what behaviour is prized. *(Other acceptable indicators: symbols and physical environment such as logos and office layout; dress; and the stories and language staff use.)*

Q8. The **official culture** is the set of values and beliefs a business **formally states and espouses** — communicated through **mission and vision statements, codes of conduct, policies and slogans** — and represents **what the business says it stands for**. The **real culture** is the set of values, attitudes and behaviours **actually shared and lived** by employees and managers day-to-day — how people genuinely behave and what is really rewarded or tolerated — and represents **what the members of the business actually do**. The two therefore differ in that official culture is **stated (espoused)** whereas real culture is **lived (practised)**, and they may align closely or diverge.

Q9. A business's corporate culture influences employee **motivation** through the attitudes and behaviours it encourages. A **positive** culture — one in which employees feel valued, share a common purpose and see their contributions recognised — tends to **raise motivation**, because employees feel a sense of belonging and pride, become more engaged and are more willing to work towards the business's objectives. A **negative** culture — marked by mistrust, poor treatment, or a gap between stated and lived values — tends to **lower motivation**, as employees become disengaged or cynical. Culture therefore shapes how motivated employees feel to contribute.

Q10. *Benefit of a positive culture:* a positive corporate culture can **motivate and retain employees** — because staff feel valued and share a common purpose, they are more engaged, cooperate more readily and are less likely to leave, which lifts productivity and lowers recruitment and training costs. *Harm of a negative culture:* a negative corporate culture can **damage morale and drive up staff turnover** — mistrust, poor treatment or a credibility gap leave employees disengaged and cynical, leading to conflict, poorer customer service and reputational harm as capable staff leave.

Q11. Northwind's **official culture** — the value it formally states in its **code of conduct** — is one of **environmental responsibility**, so it publicly claims to care about minimising its environmental impact. Its **real culture**, revealed by how staff **actually behave**, is quite different: dispatching half-empty trucks and discarding returnable stock are **wasteful practices** that contradict the stated value. There is therefore a clear **gap** between what Northwind says and what it does. This matters because employees can see the inconsistency, which can make the code of conduct appear **hypocritical** and breed **cynicism**; it also exposes the business to **reputational damage** should customers or the public learn that its environmental claims are not matched by its behaviour.

Q12. In **favour** of the view: the **real culture** is what employees actually experience each day, and it is what shapes their behaviour, morale and performance — an impressive values statement achieves nothing if the day-to-day reality contradicts it, so in practice the real culture arguably matters more. **However**, the **official culture** is also important: it **sets the intended direction**, communicates the business's values to employees and other stakeholders, and provides a **benchmark** against which the real culture can be judged. The most effective position is that the two should be **aligned**, so that the values the business espouses are genuinely lived — rather than treating one as simply more important than the other. *(As a "discuss", this requires both sides; a judgement is not required.)*

Q13. The **day-to-day behaviour of managers** is a strong indicator of the **real** culture because employees take their cues from **what managers actually do**, not from what the formal documents say. Managers **model** the behaviour that is acceptable and, through what they **reward, tolerate or discipline**, signal what the business genuinely values. If managers behave in ways that contradict the official statements — for example, ignoring the safety rules they publish — employees conclude that the **real** priorities differ from the stated ones and behave accordingly. Managers' conduct therefore both **shapes and reveals** the real culture more reliably than any written statement.

Q14. *Similarity:* official culture and real culture are **both aspects of the same business's corporate culture** — both concern the **values and beliefs** of the business, and in a well-run business they are **intended to align**. *Difference:* they differ in **stated versus lived** — the **official** culture is what the business **formally states and espouses** (through mission statements, codes and slogans), whereas the **real** culture is what employees and managers **actually practise** day-to-day. So while both describe the culture of the one business, official culture captures what it **says** it values and real culture captures what it **actually does** — and the two may or may not match.

Q15. (a) Zenmark's **official culture** is **"collaboration, openness and respect"**, as stated on its website and in the values booklet. (b) The **gap** between Zenmark's stated values and its actual behaviour is **causing rising staff turnover**. Because managers make decisions behind closed doors and discourage questions while the business publicly claims to value openness and respect, employees experience the workplace as **"two-faced"**; this **contradiction erodes trust and morale**, so capable employees become disillusioned and **leave**. The rising turnover then imposes recruitment and training costs and the loss of experienced staff — a direct problem flowing from the official–real gap. (c) The behaviours described reveal Zenmark's **real culture**. Making decisions **behind closed doors** is a behavioural norm showing that, in reality, the culture is **closed and secretive** rather than open. **Discouraging employees from questioning supervisors** shows that input is **not genuinely respected**, contradicting the espoused "respect". Awarding the **largest bonuses for the longest hours regardless of teamwork** shows what is **actually rewarded** — individual effort over collaboration — so the real culture prizes long hours and hierarchy rather than the "collaboration" it advertises. Read together, these indicators show a real culture of **secrecy, low respect for input and individualism** — the opposite of Zenmark's official culture.

Q16. A **positive corporate culture** is related to the **achievement of business objectives** through a chain of effects. A positive culture, in which employees feel valued and share a common purpose, **raises motivation and job satisfaction**, which in turn **improves productivity and the quality of work** and **reduces absenteeism and staff turnover**. Motivated, stable, cooperative staff also tend to deliver **better customer service** and are more willing to support change and contribute ideas. These outcomes feed directly into business objectives — higher productivity and quality support **improved efficiency and effectiveness** and, ultimately, **profit and market share**, while a strong culture and reputation can also help attract customers and talent. The relationship is therefore **causal and positive**: a stronger, more positive culture drives the behaviours that help a business meet its objectives. *(Analyse requires the causal relationships, not a list of strengths and weaknesses.)*

Q17. Aligning a business's **official and real culture** is **highly important**, though not without qualification. *Why it matters:* when the values a business espouses are the values its people genuinely live, the official statements are **credible**, behaviour across the business is **consistent**, and employees are more likely to feel **trust, pride and motivation**; alignment also protects the business's **reputation** with customers and other stakeholders. Conversely, a **gap** between official and real culture is damaging: employees perceive **hypocrisy**, trust and morale fall, cynicism grows and the official message loses all force — and the business is exposed to reputational harm if the gap becomes public. *Countervailing points:* **perfect** alignment is difficult to achieve, because real culture evolves gradually from everyday behaviour and cannot simply be declared; some gap between aspiration and reality is almost inevitable, and an ambitious official culture can still be valuable as a **goal to strive towards** even before it is fully lived. *Judgement:* on balance, alignment is **important**, because the real culture is what actually drives behaviour and a visible credibility gap is genuinely harmful — so a business should actively work to **close the gap** between what it says and what it does, while recognising that this is an ongoing effort rather than a one-off fix. *(A full-mark answer weighs both sides and reaches an evidence-based judgement.)*

Q18. The belief is **mistaken** because displaying values on the wall changes only the business's **official** culture — the values it **states** — whereas a **positive** culture depends on the **real** culture, which is the way people **actually behave** day-to-day. Real culture is built **gradually**, through the everyday conduct of managers and employees and through **what the business actually rewards, tolerates and celebrates** — it cannot be created **instantly** by a poster. If the displayed values are not matched by genuine changes in behaviour, they remain **official only**, and a **gap** opens between the stated and lived culture that can actually breed **cynicism** rather than positivity. To create a positive culture the owner would need the firm's **behaviours, rituals and incentives** to reflect the new values over time, not merely to announce them.

Q19. *Model response (10 marks).* **Corporate culture** is the shared values, beliefs, attitudes and behaviours that characterise a business and shape how its people think and act — in effect its "personality", or "the way things are done around here". It is expressed in **two forms**. The **official culture** is what the business **formally states and espouses**: the values it publicly declares through its **mission and vision statements, statements of values, codes of conduct, policies and slogans**. The **real culture** is what is **actually lived** day-to-day: the values and attitudes genuinely practised by employees and managers, visible in **how people behave, treat customers and one another, and what is really rewarded or tolerated**. Because the real culture is largely intangible, it is read through **indicators** — the **behaviours and norms** of staff, the **rituals and celebrations** the business holds, its **symbols, dress and physical environment**, and the **stories and language** its people use. The relationship between the two forms is central: they may be **aligned**, so that the business genuinely lives the values it proclaims, or a **gap** may open in which the lived behaviour contradicts the stated values.

The **importance of this relationship for performance** is considerable. Where official and real culture are **aligned**, the stated values are **credible**, behaviour is **consistent**, and employees are more likely to feel **trust, belonging and motivation** — which lifts productivity and quality, reduces absenteeism and turnover, improves customer service, and strengthens the business's reputation, all of which support the achievement of objectives such as **efficiency, effectiveness, profit and market share**. Where a **gap** exists, the effect is the reverse: employees perceive the official values as **hypocritical**, morale and trust fall, **cynicism and disengagement** grow, turnover rises, and the business risks **reputational damage** if the gap becomes public. On balance, the relationship between official and real culture matters greatly, because it is the **real** culture that drives behaviour and performance, while the **official** culture sets the direction and the benchmark; a business performs best when it works to **close the gap** between the two so that what it says and what it does are one and the same — recognising that this alignment is built gradually through everyday behaviour rather than declared. *(Full marks require: an accurate account of corporate culture and its official and real forms; genuine analysis of how each is expressed and how they relate, including the indicators of culture; and a sustained, two-sided evaluation of the relationship's importance for performance that reaches a justified conclusion.)*

Q20. EY Oceania's **official culture** is the culture it **formally states and espouses** — its published purpose of building "a better working world", together with the values and policies built around it. Its **real culture** is what staff and partners **actually experienced** day-to-day, which the independent review measured by surveying them rather than by reading the firm's own documents. The review found the two **partly aligned**: 94% of respondents agreed they always felt safe at work, so across much of the firm the lived behaviour matched the stated values. **However**, it also found a

gap — over the previous five years 15% reported experiencing bullying, 10% sexual harassment and 8% racism, and only 31% were confident the firm could change its culture of long working hours. These are **behaviours** and attitudes the espoused purpose does not describe, and because they are what employees actually experience they are a far stronger **indicator** of the real culture than the published purpose is. The gap matters because it erodes the **credibility** of the stated values and can breed **cynicism**, lowering morale and lifting staff turnover. By publishing the report and accepting all 27 recommendations, the firm acted on the **real** culture rather than restating the official one. ∴ the review shows an official culture is only credible so far as the real culture matches it. *(Analyse requires the links between the stated values, the measured behaviours and the consequences — not a list of the findings.)*