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BUSINESS STUDIES IN ACTION

PRELIMINARY COURSE | SIXTH EDITION

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PRELIMINARY COURSE | SIXTH EDITION

STEPHEN CHAPMAN

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All activities have been written with the safety of both teacher and student in mind. Some, however, involve physical activity or the use of equipment or tools. **All due care should be taken when performing such activities.** Neither the publisher nor the authors can accept responsibility for any injury that may be sustained when completing activities described in this textbook.

This suite of print and digital resources may contain images of, or references to, members of Aboriginal and Torres Strait Islander communities who are, or may be, deceased. These images and references have been included to help Australian students from all cultural backgrounds develop a better understanding of Aboriginal and Torres Strait Islander peoples' history, culture and lived experience

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About this resource

Jacaranda Business Studies in Action Preliminary Course Sixth Edition has been revised and reimagined to provide students and teachers with the most relevant and comprehensive resource on the market. This engaging and purposeful suite of resources is fully aligned to the Stage 6 Preliminary Business Studies Syllabus for New South Wales.

Formats

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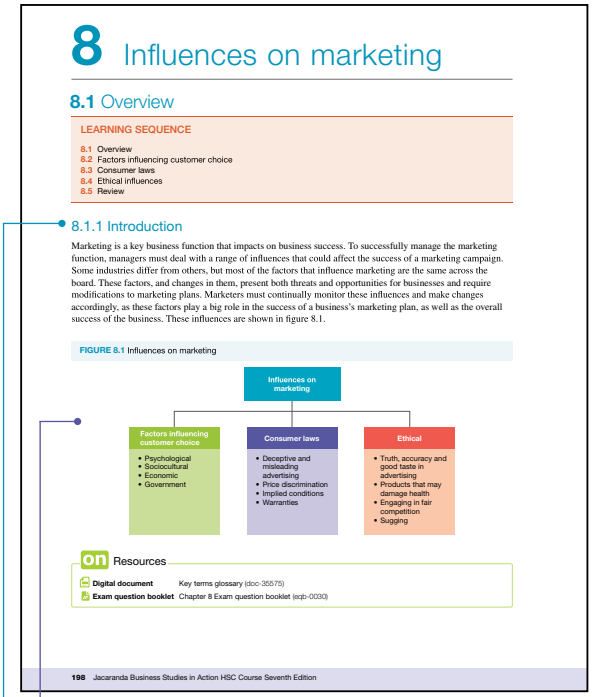
Fully aligned to the Stage 6 Preliminary Business Studies Syllabus for New South Wales

Have confidence that you are covering the entire Stage 6 Preliminary Business Studies Syllabus, with:

- key focus area and outcomes stated at the start of each topic
- syllabus links visible at the start of every subtopic
- tailored exercise sets at the end of every subtopic, including revision and extension questions
- relevant and up-to-date case studies, statistics and examples.
- comprehensive chapter reviews including a detailed summary and key terms glossary, plus chapter review exercises including exam questions.
- exam practice questions at the end of each chapter and a practice examination for each topic.



8 Influences on marketing

8.1 Overview

LEARNING SEQUENCE

8.1 Overview
8.2 Factors influencing customer choice
8.3 Consumer laws
8.4 Ethical influences
8.5 Review

8.1.1 Introduction

Marketing is a key business function that impacts on business success. To successfully manage the marketing function, managers must deal with a range of influences that could affect the success of a marketing campaign. Some industries differ from others, but most of the factors that influence marketing are the same across the board. These factors, and changes in them, present both threats and opportunities for businesses and require modifications to marketing plans. Marketers must continually monitor these influences and make changes accordingly, as these factors play a big role in the success of a business's marketing plan, as well as the overall success of the business. These influences are shown in figure 8.1.

FIGURE 8.1 Influences on marketing

Resources

Digital document Key terms glossary (doc-35575)
Exam question booklet Chapter 8 Exam question booklet (eqb-0030)

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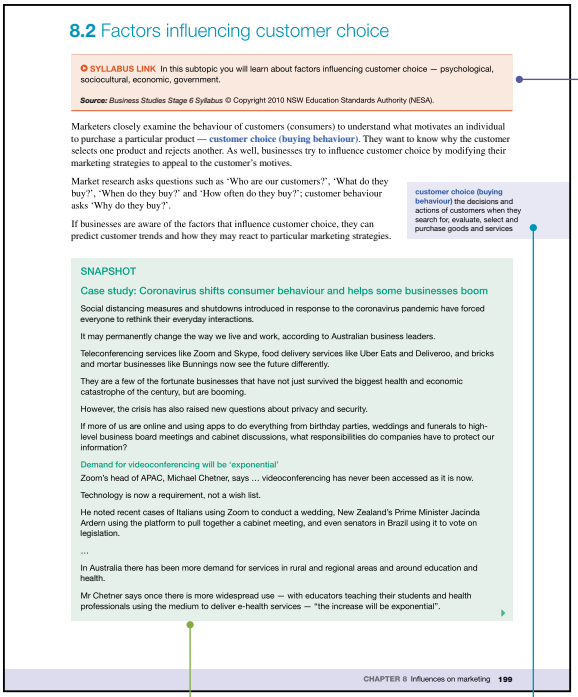

8.2 Factors influencing customer choice

SYLLABUS LINK In this subtopic you will learn about factors influencing customer choice — psychological, sociocultural, economic, government.

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Marketers closely examine the behaviour of customers (consumers) to understand what motivates an individual to purchase a particular product — **customer choice (buying behaviour)**. They want to know why the customer selects one product and rejects another. As well, businesses try to influence customer choice by modifying their marketing strategies to appeal to the customer's motives.

Market research asks questions such as 'Who are our customers?', 'What do they buy?', 'When do they buy?' and 'How often do they buy?'; customer behaviour asks 'Why do they buy?'.

If businesses are aware of the factors that influence customer choice, they can predict customer trends and how they may react to particular marketing strategies.

customer choice (buying behaviour) the decisions and actions of customers when they search for, evaluate, select and purchase goods and services

SNAPSHOT

Case study: Coronavirus shifts consumer behaviour and helps some businesses boom

Social distancing measures and shutdowns introduced in response to the coronavirus pandemic have forced everyone to rethink their everyday interactions.

It may permanently change the way we live and work, according to Australian business leaders.

Teleconferencing services like Zoom and Skype, food delivery services like Uber Eats and Deliveroo, and bricks and mortar businesses like Bunnings now see the future differently.

They are a few of the fortunate businesses that have not just survived the biggest health and economic catastrophe of the century, but are booming.

However, the crisis has also raised new questions about privacy and security.

If more of us are online and using apps to do everything from birthday parties, weddings and funerals to high-level business board meetings and cabinet discussions, what responsibilities do companies have to protect our information?

Demand for videoconferencing will be 'exponential'

Zoom's head of APAC, Michael Chetner, says … videoconferencing has never been accessed as it is now.

Technology is now a requirement, not a wish list.

He noted recent cases of Italians using Zoom to conduct a wedding, New Zealand's Prime Minister Jacinda Ardern using the platform to pull together a cabinet meeting, and even senators in Brazil using it to vote on legislation.

…

In Australia there has been more demand for services in rural and regional areas and around education and health.

Mr Chetner says once there is more widespread use — with educators teaching their students and health professionals using the medium to deliver e-health services — "the increase will be exponential".

CHAPTER 8 Influences on marketing 199

Each Chapter begins with an introduction that grabs students' attention, providing a snapshot of what the topic is about.

Diagrams and images break down content, allowing students to understand complex concepts.

Up-to-date and relevant case studies allow students to apply their knowledge to real world examples.

Glossary boxes to develop and support business literacy.

Syllabus links are visible at the beginning of every subtopic.

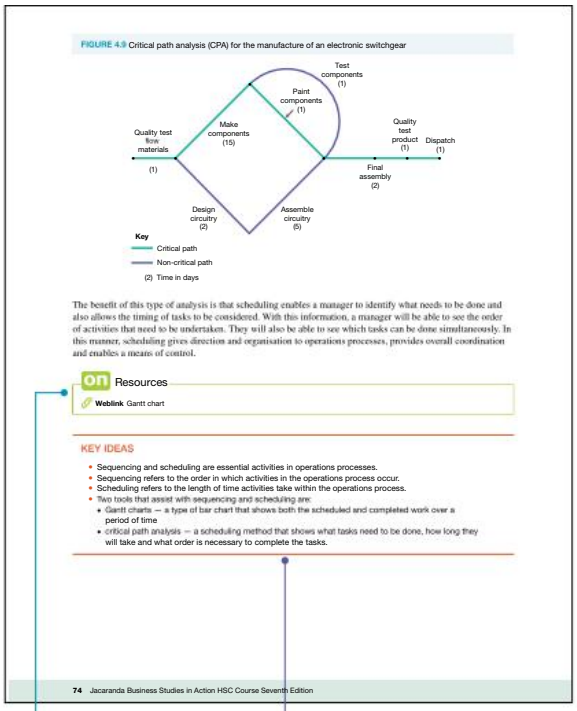


FIGURE 4.9 Critical path analysis (CPA) for the manufacture of an electronic switchgear

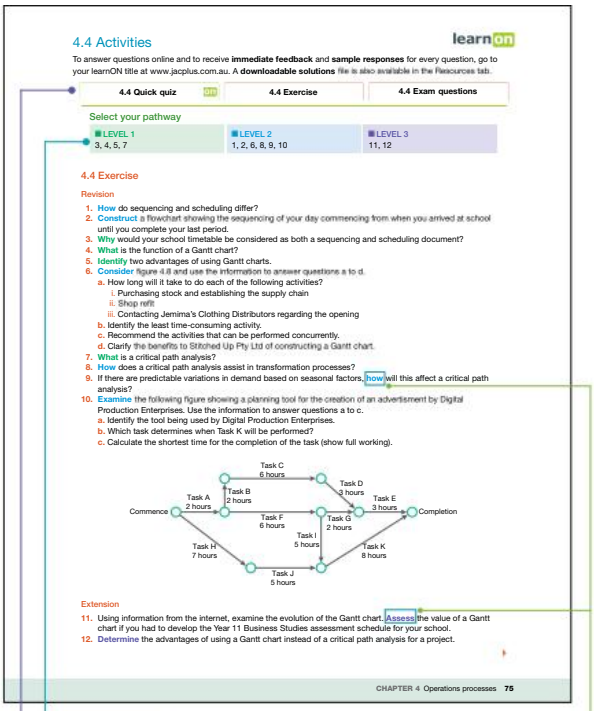
The benefit of this type of analysis is that scheduling enables a manager to identify what needs to be done and also allows the timing of tasks to be considered. With this information, a manager will be able to see the order of activities that need to be undertaken. They will also be able to see which tasks can be done simultaneously. In this manner, scheduling gives direction and organisation to operations processes, provides overall coordination and enables a means of control.

on Resources

Weblink Gantt chart

KEY IDEAS

- Sequencing and scheduling are essential activities in operations processes.
- Sequencing refers to the order in which activities in the operations process occur.
- Scheduling refers to the length of time activities take within the operations process.
- Two tools that assist with sequencing and scheduling are:
  - Gantt charts — a type of bar chart that shows both the scheduled and completed work over a period of time
  - critical path analysis — a scheduling method that shows what tasks need to be done, how long they will take and what order is necessary to complete the tasks.



4.4 Activities

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To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

4.4 Quick quiz on	4.4 Exercise	4.4 Exam questions

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
3, 4, 5, 7	1, 2, 6, 8, 9, 10	11, 12

4.4 Exercise

Revision

1. **How** do sequencing and scheduling differ?
2. **Construct** a flowchart showing the sequencing of your day commencing from when you arrived at school until you complete your last period.
3. **Why** would your school timetable be considered as both a sequencing and scheduling document?
4. **What** is the function of a Gantt chart?
5. **Identify** two advantages of using Gantt charts.
6. **Consider** figure 4.8 and use the information to answer questions a to d.
   a. How long will it take to do each of the following activities?
      i. Purchasing stock and establishing the supply chain
      ii. Shop refit
      iii. Contacting Jemima's Clothing Distributors regarding the opening
   b. Identify the least time-consuming activity.
   c. Recommend the activities that can be performed concurrently.
   d. Clarify the benefits to Stitched Up Pty Ltd of constructing a Gantt chart.
7. **What** is a critical path analysis?
8. **How** does a critical path analysis assist in transformation processes?
9. If there are predictable variations in demand based on seasonal factors, how will this affect a critical path analysis?
10. **Examine** the following figure showing a planning tool for the creation of an advertisment by Digital Production Enterprises. Use the information to answer questions a to c.
    a. Identify the tool being used by Digital Production Enterprises.
    b. Which task determines when Task K will be performed?
    c. Calculate the shortest time for the completion of the task (show full working).

Extension

11. Using information from the internet, examine the evolution of the Gantt chart. Assess the value of a Gantt chart if you had to develop the Year 11 Business Studies assessment schedule for your school.
12. **Determine** the advantages of using a Gantt chart instead of a critical path analysis for a project.

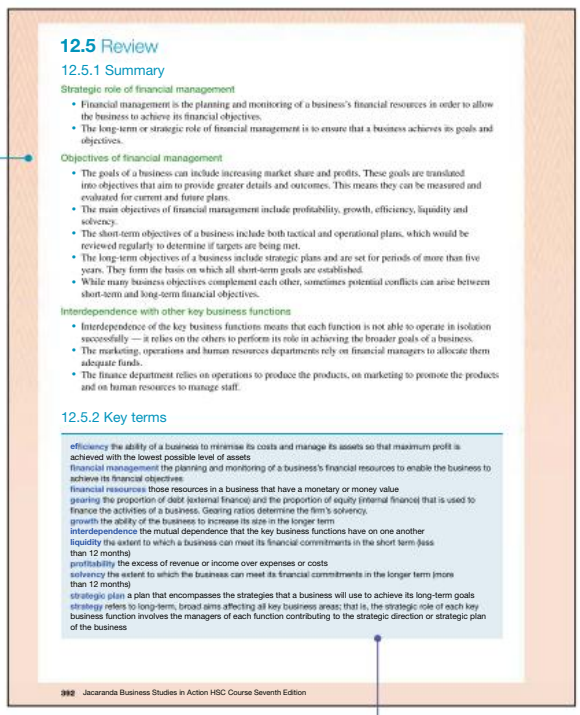
OnResources link to targeted digital resources including video eLessons and weblinks.

A summary of key ideas is provided at the end of each subtopic.

Online and offline question sets contain revision, extension and HSC exam questions.

Learning pathways allow for differentiation in every question set.

HSC 'key process verbs' are colour-coded and used in graded questions throughout the text that appeal to all levels of learners.



12.5 Review

12.5.1 Summary

Strategic role of financial management

- Financial management is the planning and monitoring of a business's financial resources in order to allow the business to achieve its financial objectives.
- The long-term or strategic role of financial management is to ensure that a business achieves its goals and objectives.

Objectives of financial management

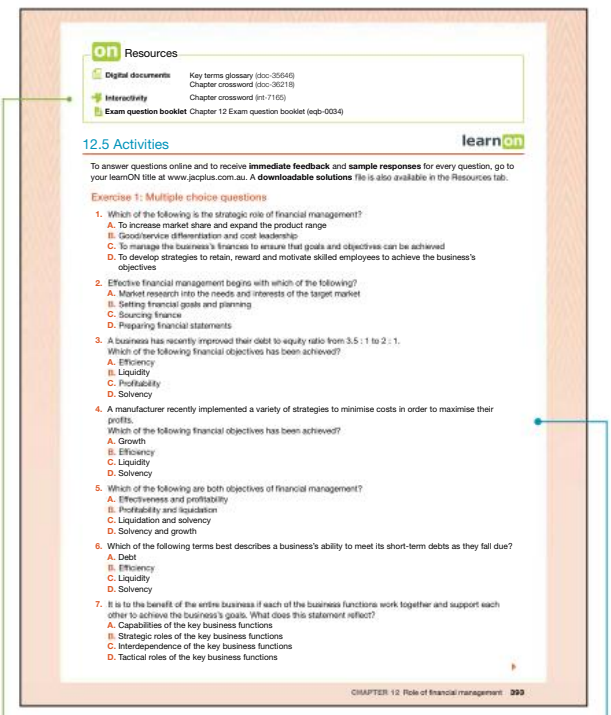
- The goals of a business can include increasing market share and profits. These goals are translated into objectives that aim to provide greater details and outcomes. This means they can be measured and evaluated for current and future plans.
- The main objectives of financial management include profitability, growth, efficiency, liquidity and solvency.
- The short-term objectives of a business include both tactical and operational plans, which would be reviewed regularly to determine if targets are being met.
- The long-term objectives of a business include strategic plans and are set for periods of more than five years. They form the basis on which all short-term goals are established.
- While many business objectives complement each other, sometimes potential conflicts can arise between short-term and long-term financial objectives.

Interdependence with other key business functions

- Interdependence of the key business functions means that each function is not able to operate in isolation successfully — it relies on the others to perform its role in achieving the broader goals of a business.
- The marketing, operations and human resources departments rely on financial managers to allocate them adequate funds.
- The finance department relies on operations to produce the products, on marketing to promote the products and on human resources to manage staff.

12.5.2 Key terms

efficiency the ability of a business to minimise its costs and manage its assets so that maximum profit is achieved with the lowest possible level of assets
financial management the planning and monitoring of a business's financial resources to enable the business to achieve its financial objectives
financial resources those resources in a business that have a monetary or money value
gearing the proportion of debt (external finance) and the proportion of equity (internal finance) that is used to finance the activities of a business. Gearing ratios determine the firm's solvency.
growth the ability of the business to increase its size in the longer term
interdependence the mutual dependence that the key business functions have on one another
liquidity the extent to which a business can meet its financial commitments in the short term (less than 12 months)
profitability the excess of revenue or income over expenses or costs
solvency the extent to which the business can meet its financial commitments in the longer term (more than 12 months)
strategic plan a plan that encompasses the strategies that a business will use to achieve its long-term goals
strategy refers to long-term, broad aims affecting all key business areas; that is, the strategic role of each key business function involves the managers of each function contributing to the strategic direction or strategic plan of the business



on Resources

Digital documents	Key terms glossary (doc-35646) Chapter crossword (doc-35218)
Interactivity	Chapter crossword (int-7165)
Exam question booklet	Chapter 12 Exam question booklet (eqb-0034)

12.5 Activities

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To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

Exercise 1: Multiple choice questions

1. Which of the following is the strategic role of financial management?
   A. To increase market share and expand the product range
   B. Good/service differentiation and cost leadership
   C. To manage the business's finances to ensure that goals and objectives can be achieved
   D. To develop strategies to retain, reward and motivate skilled employees to achieve the business's objectives
2. Effective financial management begins with which of the following?
   A. Market research into the needs and interests of the target market
   B. Setting financial goals and planning
   C. Sourcing finance
   D. Preparing financial statements
3. A business has recently improved their debt to equity ratio from 3.5 : 1 to 2 : 1.
   Which of the following financial objectives has been achieved?
   A. Efficiency
   B. Liquidity
   C. Profitability
   D. Solvency
4. A manufacturer recently implemented a variety of strategies to minimise costs in order to maximise their profits.
   Which of the following financial objectives has been achieved?
   A. Growth
   B. Efficiency
   C. Liquidity
   D. Solvency
5. Which of the following are both objectives of financial management?
   A. Effectiveness and profitability
   B. Profitability and liquidation
   C. Liquidation and solvency
   D. Solvency and growth
6. Which of the following terms best describes a business's ability to meet its short-term debts as they fall due?
   A. Debt
   B. Efficiency
   C. Liquidity
   D. Solvency
7. It is to the benefit of the entire business if each of the business functions work together and support each other to achieve the business's goals. What does this statement reflect?
   A. Capabilities of the key business functions
   B. Strategic roles of the key business functions
   C. Interdependence of the key business functions
   D. Tactical roles of the key business functions

A summary of key ideas is provided at the end of each chapter.

Key terms are collated at the end of every chapter for revision.

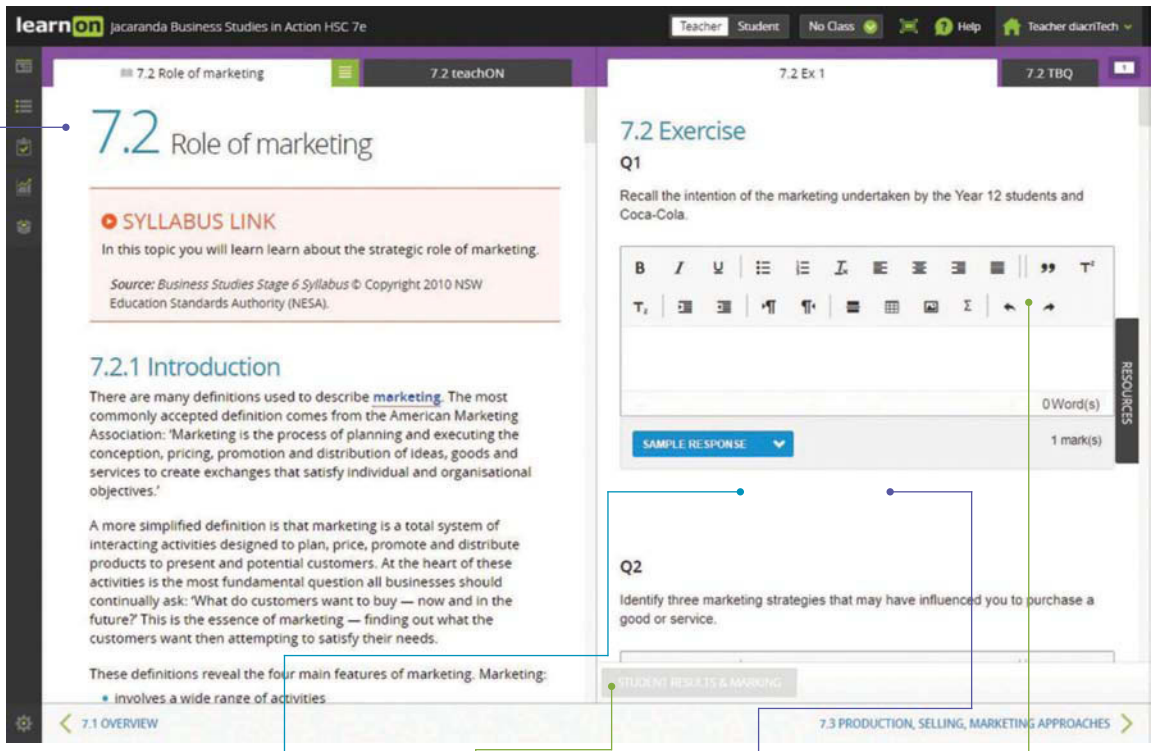
End of chapter resources including a key terms glossary, chapter crossword, chapter test and exam question booklet.

End of chapter activities including multiple choice, short answer and exam practice questions.

Accessing online resources

The power of learnON

The *Jacaranda Business Studies in Action* series is now available on learnON, an immersive digital learning platform that provides teachers with valuable insights into their students' learning and engagement. It's so much more than a textbook! It empowers students to be independent learners and allows teachers to assign, mark and track student work.



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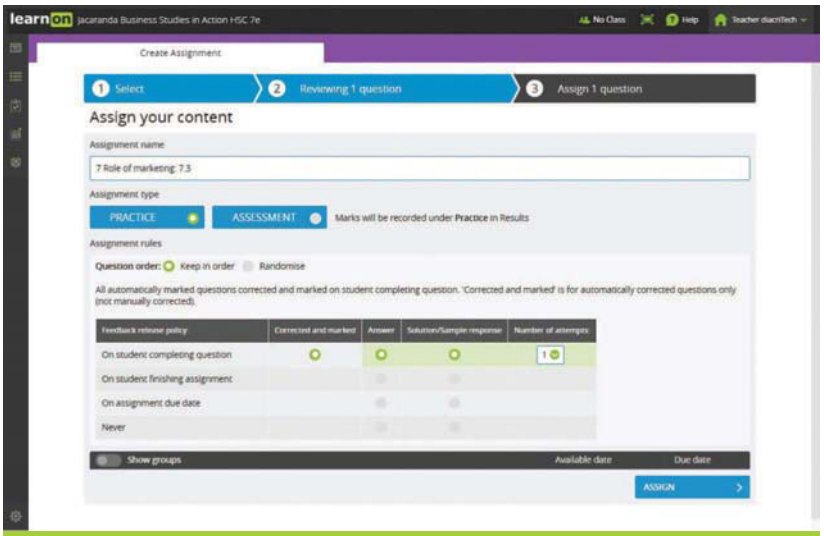
- the ability to create custom tests for your class from the entire question pool — including all subtopic, topic review and past exam style questions
- customisable course content, giving teachers more flexibility to create their own course
- the ability to separate a class into subgroups, making differentiation simpler
- dashboards to track progress and insight to students' strengths and weaknesses



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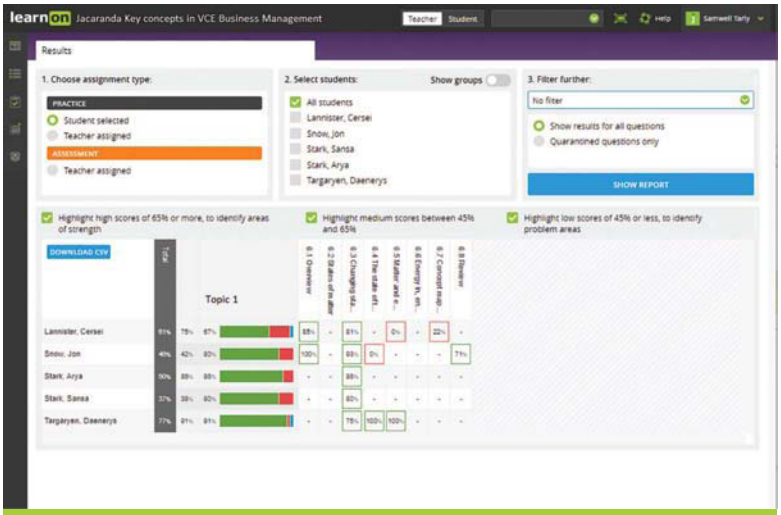

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Table 1: businesses by industry division from ABS 81650, counts of Australian businesses, including entries and exits, June 2018 to June 2019, 36 • © David Arts/ Shutterstock: 396 • © David Geraghty / Newspix: 139 • © David Pereiras/ Shutterstock: 11 • © David Zydd/ Shutterstock: 2 • © Debby Wong/ Shutterstock: 172 • © dennizn/ Shutterstock: 16 • © Denys Prykhodov/ Shutterstock: 194 • © djile/ Shutterstock: 513 • © Dmytro Zinkevych/ Shutterstock: 45 • © dpa picture alliance/ Alamy Stock Photo: 369 • © Ego Pharmaceuticals: 34• © El Nariz/ Shutterstock: 381 • © Elnur/ Shutterstock: 168 • © Everett Collection / Shutterstock: 233 • © EyeofPaul/ Shutterstock: 53 • © Fanatic Studio / Alamy Stock Photo: 258 • © fizkes/ Shutterstock: 205, 324, 334, 544 • © Four Pillars: 367 • © G-Stock Studio/ Shutterstock: 222 • © GaudiLab / Shutterstock: 532 • © goodluz/Shutterstock: 407 • © HOWORTH /PR Handout Image/ AAP Images: 202 • © hxdyl/ Shutterstock: 263 • © Igor Bulgarin/ Shutterstock: 161 • © Imaginechina Limited / Alamy Stock Photo: 227 • © insta_photos/ Shutterstock: 535 • © ipag collection / Shutterstock: 378 • © Jackson Stock Photography/ Shutterstock: 39 • © Jan Hopgood/ Shutterstock: 13 • © Javier Brosch / Shutterstock: 293 • © JoeClemson/ Shutterstock: 142 • © John Wiley & Sons Australia: 5, 46 • © Juice Flair/Shutterstock: 292 • © Kaiko Fidgets: 5• © KAMONRAT/ Shutterstock: 406 • © Karramba Production/ Shutterstock: 518, 547 • © Kate Kultsevych/ Shutterstock: 329 • © Kate Morris: 126 • © Keitma/ Shutterstock: 4 • © KeyStock/ Shutterstock: 240 • © KPG Ivary/ Shutterstock: 343 • © Lantern Group: 208 • © Lee Charlie/ Shutterstock: 336 • © lev radin/ Shutterstock: 177 • © Lucky Business/ Shutterstock: 166 • © LUMPANG MOONMUANG/ Shutterstock: 59 • © Maria Antwan: 210 • © MARKA / Alamy Stock Photo: 220 • © Martha Almeyda/ Shutterstock: 351 • © martin berry / Alamy Stock Photo: 199, 372 • © maskalin / Shutterstock: 402 • © Master1305/ Shutterstock: 310• © mdbildes/ Shutterstock: 503 • © Michael Vi/ Shutterstock: 242 • © michaeljung / Shutterstock: 542 • © Monkey Business Images/ Shutterstock: 37, 171 • © Naira Taiwo/ Shutterstock: 355 • © Nathan Edwards / Newspix: 409 • © Nejron Photo/ Shutterstock: 6 • © Neptunestock/ Shutterstock: 179 • © News Ltd / Newspix: 270 • © Nils Versemann / Shutterstock: 181 • © Nils Versemann/ Shutterstock: 3, 38, 131 • © Norbert Scanella/ Alamy Stock Photo: 241 • © ntkris/ Shutterstock: 500 • © Odua Images / Shutterstock: 328 • © Olena Yakobchuk / Shutterstock: 247 • © Olga Kovalenko / Shutterstock: 217 • © Patrick McMullan / Getty Images: 352 • © Pavel Kapysh/ Shutterstock: 317 • © Pavel Vinnik/ Shutterstock: 10 • © Peter Brennan / Newspix: 239 • © Philip J Hill / Alamy Stock Photo: 196 • © Photo by Ronan Furuta on Unsplash: 565 • © photocritical/ Shutterstock: 370 • © Photodisc: 562 • © pictoKraft / Alamy Stock Photo: 201 • © Pormezz / Shutterstock: 167 • © Pormezz/ Shutterstock: 236 • © Postmodern Studio / Shutterstock: 325 • © Pressmaster / Shutterstock: 382 • © ra2studio / Shutterstock: 531 • © Rachel Pupazzoni. 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TOPIC

1 Nature of business

FOCUS AREA

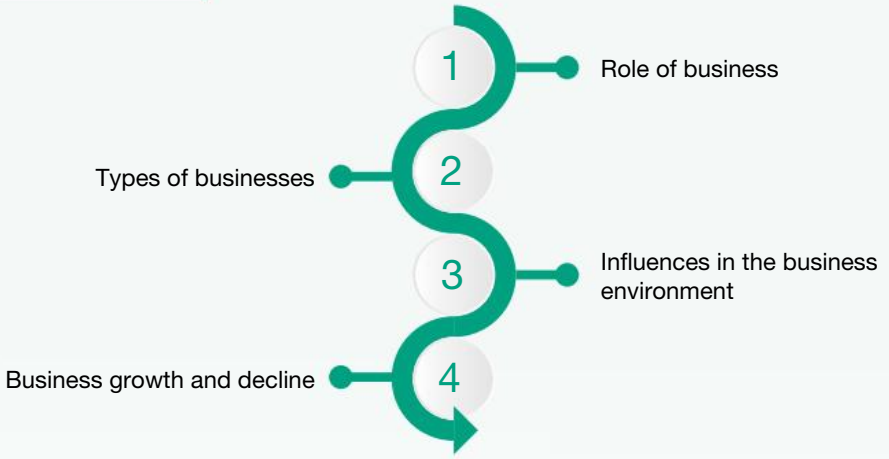
The focus of this topic is the role and nature of business in a changing business environment.

OUTCOMES CHECKLIST

Students should be able to:

- ☐ discuss the nature of business, its role in society and the types of business structures
- ☐ explain the internal and external influences on businesses
- ☐ analyse the responsibilities of business to internal and external stakeholders
- ☐ plan and conduct investigations into contemporary business issues
- ☐ evaluate information for actual and hypothetical business situations.

CHAPTER SEQUENCE



SNAPSHOT

Case study: The role of business

Thousands of Australian businesspeople are involved every day in making decisions about how best to plan and manage their businesses. Businesses play a crucial role in our lives and actively contribute to progress in society. The examples from a variety of organisations given below show the various roles that businesses play.

- *Employment and income* — Mars is a private, family-owned company that produces some of the world's leading confectionery, food and pet care products, and has growing beverage and health and nutrition businesses. Mars Incorporated operates in more than 80 countries and employs more than 100 000 people (referred to as 'associates') worldwide. Mars launched in Australia in 1954. The company manufactures a variety of well-known products such as M&M'S®, SNICKERS® and MASTERFOODS®. Mars is a reputable employer and has been recognised as a great place to work numerous times.

- *Entrepreneurship and risk* — Elon Musk has an ambitious vision to make his mark on the world and reduce global warming. Musk has founded numerous companies involved in developing innovations relating to sustainable energy production and consumption, such as Tesla, Inc., an electric vehicle and solar panel manufacturer. His goal of exploring the frontiers of space has led to him establish SpaceX, which designs, manufactures and launches advanced rockets and spacecraft. By revolutionising space technology, Musk hopes to be able to establish a human colony on Mars.

- *Quality of life* — About 15 years ago Atlassian founders Scott Farquhar and Mike Cannon-Brookes pledged to contribute 1 per cent of their employees' time, 1 per cent of annual profits and 1 per cent of products to charitable causes. They created the Atlassian Foundation with the vision of helping make the world better. Atlassian fulfills its obligations by making its software free for use by not-for-profit organisations and charities.

- *Innovation* — GlaxoSmithKline is a large science-led, global healthcare company. Its purpose is to help people do more, feel better and live longer. It has three global businesses that research, develop and manufacture innovative pharmaceutical medicines, vaccines and consumer healthcare products. Their goal is to be one of the world's most innovative, best performing and trusted healthcare companies. The company invests more than $50 million in R&D in Australia each year.

- *Wealth* — Afterpay has generated wealth for its many shareholders. The company's founders, Nick Molnar and Anthony Eison, listed on the ASX in 2016 at a share price of $1. The share price rocketed from $8.90 in March 2020 to a record high of $101.94 in October of the same year after the company announced plans to offer banking services in a new partnership with Westpac. The co-founders hold around 20.5 million shares each, or an 8.5 per cent stake of the company. As of October, their stockholding would be worth $1.9 billion to their respective net worths alone.
  These are just a few examples of the many roles played by businesses in our society. The world of business is most definitely an exciting and interesting one.

1 Role of business

1.1 Overview

LEARNING SEQUENCE

1.1 Overview
1.2 The nature of a business
1.3 Other roles of business
1.4 Review

1.1.1 Introduction

Think of all the different businesses that operate in your local neighbourhood. Now imagine what the world would be like if they did not exist. Ultimately we would have to become self-sufficient: providing for our own needs and wants. Fortunately, in our society, businesses of all sizes play a crucial role in providing us with a vast array of goods and services. Businesses are at the very core of our economy and our future wealth depends upon them.

Most people associate the word 'business' with large, multinational corporations, such as BHP Billiton, McDonalds, Apple and Westfield, operating in many countries, employing thousands of people and earning millions of dollars in profit. Although these types of businesses are well known, they are few in number. Small to medium enterprises (SMEs) make up about 98 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 or medium based on the number of people they employ.

FIGURE 1.1 As consumers, we rely on a large number of businesses to satisfy our needs and wants.

The one common feature shared by both the largest and the smallest business is that they produce a product — goods or service — which is sold in a market where buyers and sellers meet. There are approximately 2.375 million actively trading business entities in Australia, which respond to the needs and wants of around 24 million Australian customers and millions of overseas customers.

1.1.2 Why learn about business?

Business Studies is a very important subject. It is concerned with activities that affect us on a day-to-day basis. You only have to listen to the news or read the newspaper to find stories about business activity. Some of these stories will make you feel optimistic — for example, the developments of new products that have helped improve our standard of living. At other times, business activity may make us feel dejected and cynical — for example, when businesses have misled the public about safety standards or when companies have exploited weaker members of society. Therefore, when studying business, it is essential that you carefully examine business issues in order to make a balanced judgement.

In learning about business you will need to be creative and have a questioning mind. Business decisions are often open ended; there may be more than one way of going about things. Therefore, you will need to ask lots of questions and weigh up alternative ideas and proposals.

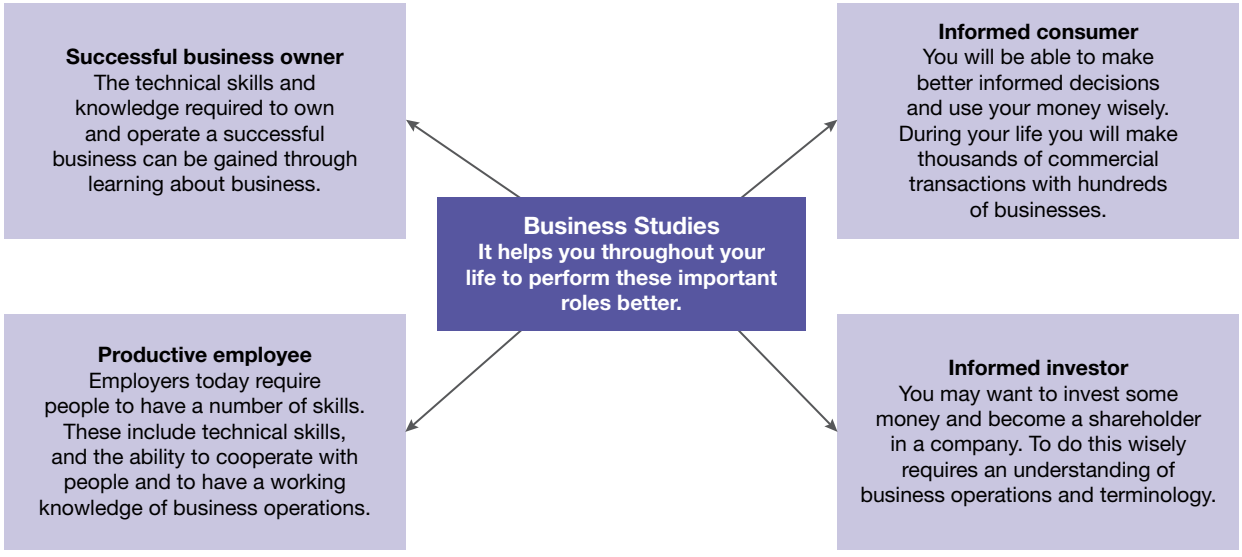
Business Studies is not a totally new subject to you. In one sense you have been 'studying' business ever since you made your first purchase many years ago — perhaps an ice-cream or lollies. That simple transaction launched you on life's journey as a customer — and as an integral part of the business world. As a high school student, perhaps you have even operated your own 'business' mowing neighbours' lawns, washing windows or setting up a stall at a local community market. You may be employed on a part-time basis and work in a local store or fast-food outlet — both examples of business enterprises.

FIGURE 1.2 You're never too young to start a business. Take, for example, Kay Seymon, whose fidget creation has helped thousands. As an 11-year-old boy with autism struggling to cope with anxiety, he relied on fidgeting with a long tangle to calm his nerves. This colourful instrument caught the eye of bullies who ruthlessly picked on him, which inspired him to create something more suitable. He began his first market stall at age 11 and the business has rapidly expanded since.

1.1.3 Importance of business to you

Undertaking this Business Studies course will give you a better understanding of how businesses are established, organised and operated. As well, it will give you an insight into the different roles you will play throughout your life — as consumer, employee, business owner and/or investor. Each of these roles centres on a business as shown in figure 1.3.

FIGURE 1.3 Developing an understanding of the world of business will help you in so many ways.



Businesses, through the many products (goods and services) they make and sell, have an enormous impact on our lives every day. They influence how we live, work and play.

on Resources

Digital document Key terms glossary (doc-35776)

1.2 The nature of a business

SYLLABUS LINK In this subtopic you will learn about producing goods and services.

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1.2.1 Producing goods and services

There is one thing people have in common — they all have needs and wants. They need food to eat, clothes to wear and houses to live in. Most of us also want handbags, video games, tablets, smartphones and cars — if only for the pleasure they give to us. To satisfy these never-ending wants is the role of business. A **business** can be defined as the organised effort of individuals to produce and sell, for a profit, the products (**goods** and **services**) that satisfy individuals' needs and wants.

business the organised effort of individuals to produce and sell, for a profit, the products that satisfy individuals' needs and wants

goods items that can be seen or touched

services things done for you by others

finished product one that is ready for customers to buy and use

To satisfy the needs and wants of its customers, the business has to produce the products the customers demand. By producing these products for sale on the market, the business hopes to achieve a number of goals. Making a profit is perhaps the most basic of these.

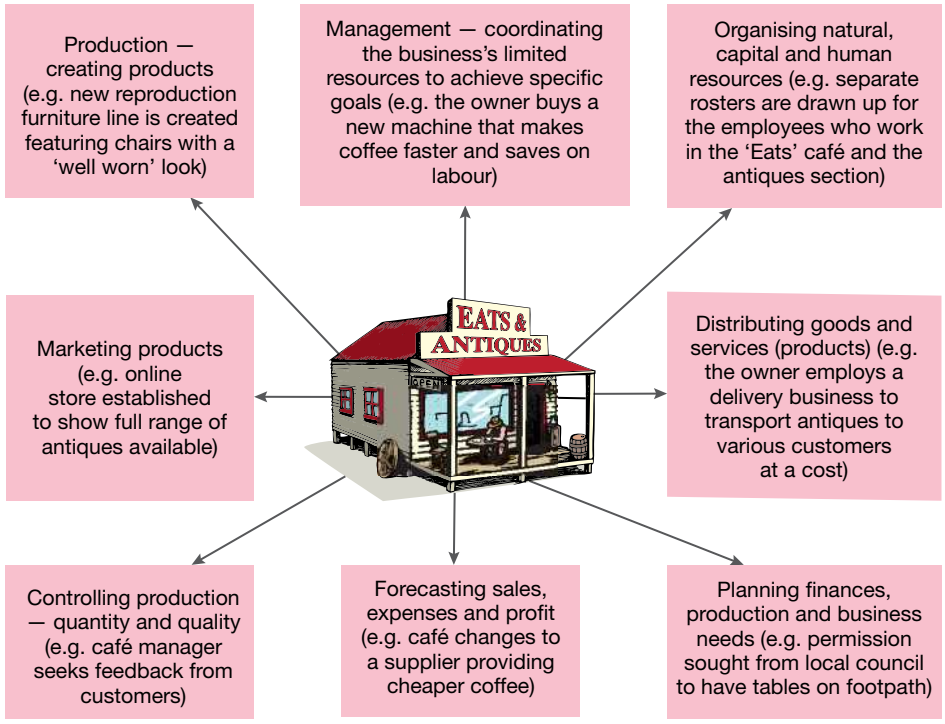
FIGURE 1.4 Do you have oniomania? That means you are what might be referred to as a shopaholic or compulsive shopper. Teenagers are spending an average of $2600 of their parents' hard-earned money per year. According to Piper Jaffray's report on teen spending in 2017, teens spend most of their money on food, which accounts for 24 per cent of teen spending, followed by clothing (19 per cent), cars (9 per cent), accessories and cosmetics (9 per cent), shoes (8 per cent) and video games (8 per cent). The rest is spent on music, movies and events.

When we go shopping we are choosing from a range of **finished products** — products that are ready for customers to buy and use. Rarely do we stop to think about all the operations that have occurred to transform raw materials into finished products ready for consumption. Business enterprises undertake

many activities to provide the products demanded by customers, as shown in figure 1.5. However, by far the most important of all these activities is production. **Production** refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants.

production refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants

FIGURE 1.5 The main activities undertaken by this business, an antiques dealer with an on-site café, include more than selling furniture and serving coffee.



BizFACT

It is possible to calculate the value of production within an economy. The money value of all the finished products produced in Australia during one year is called the gross domestic product (GDP). This measurement is used as an indicator of Australia's economic growth. In 2019, Australia's annual GDP was US$1.39 trillion.

KEY IDEAS

- Businesses play a crucial role in our society, largely determining our standard of living.
- The one common feature shared by both the largest and the smallest business is that they produce a product — goods or service — which is sold in a market where buyers and sellers meet.
- Businesses have an enormous impact on our lives every day.
- The main role of a business is to produce and sell, for a profit, the products that satisfy individuals' needs and wants.
- Business enterprises undertake many activities to provide the products demanded by customers, with production being one of the most important.
- Production refers to those activities undertaken by the business that combine resources to create products that satisfy customers' needs and wants.

1.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

1.2 Quick quiz on | **1.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 4, 5, 6, 9	7, 10, 11, 12	8

1.2 Exercise

Revision

1. **Identify** the one common feature shared by all businesses.
2. **Summarise** how Business Studies can help you better perform the roles of consumer, employee, business owner and investor.
3. **Outline** the role of business.
4. **Define** the term 'business'.
5. **Identify** two goods and two services you recently purchased to satisfy a need or a want. Next to each one write the name of the business from which you bought the product.
6. **Define** the term 'finished products'.
7. **Why** is production regarded as the most important business activity?
8. Gordon Su is the owner of a jewellery store specialising in handmade necklaces and bracelets. Read about his daily business activities (in the first column of the table below) then complete the table to **demonstrate** each business activity Gordon undertakes to operate his business successfully. The first example has been completed for you.

Activity undertaken by business	Example
Production — creating products	Making necklaces and bracelets
Organising natural, capital and human resources	
Marketing products	
Controlling production — quantity and quality	
Forecasting sales, expenses and profit	
Distributing goods	

9. Reflect on what you have learned so far. **State** how this information would influence you if you were intending to start a business.

Extension

10. As a class, **discuss** the following statement: 'The one thing I've learnt about surviving in business is that it's important to learn from past mistakes — and the more mistakes you make the more you learn.' (Richard Branson, British entrepreneur, founder and CEO of Virgin Group)
11. **Construct** a clippings file of magazine and newspaper articles dealing with various aspects of business and its importance to the Australian economy. Select five articles and paste them onto a sheet of paper. Underneath each article prepare a 12–15 line summary.
12. **Construct** a series of flowcharts to show the interrelationship between producers and consumers.

Solutions and sample responses are available in your digital formats.

1.3 Other roles of business

SYLLABUS LINK In this subtopic you will learn about profit, employment, incomes, choices, innovation, entrepreneurship and risk, wealth and quality of life.

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Businesses play an important role in our society. Some of the important functions of business are outlined in figure 1.6.

FIGURE 1.6 The role of business

1.3.1 Profit

The main activity of a business is to sell products to its customers. A business receives money (sales revenue) from its customers in exchange for products. It must also pay out money to cover the numerous expenses involved in operating the business. If the business's sales **revenue** is greater than its **operating expenses**, it has earned a profit. More specifically, **profit** is what remains after all business expenses have been deducted from the business's sales revenue (see figure 1.7).

revenue the money a business receives as payment for its products

operating expenses all the costs of running the business except the cost of goods sold

profit what remains after all business expenses have been deducted from sales revenue

FIGURE 1.7 A business must earn a profit to survive. Profit is the reward to business owners who have taken the risks involved in starting and operating a business.

The business's profit becomes the property of its owners. For this reason, profit can be regarded as the return, or reward, that business owners receive for producing products that consumers want.

BizFACT

A negative profit, which results when a business's expenses are greater than its sales revenue, is called a loss.

1.3.2 Employment

Employment keeps the economy healthy. To be able to purchase products, consumers need money. Employed Australians will use the money they have earned from working at jobs provided by businesses to buy goods and services to meet their needs and wants, supporting business and opening up further opportunities for job creation. People are employed in many different businesses, as can be seen in table 1.1.

BizFACT

Around 61 per cent of businesses in Australia do not employ staff.

TABLE 1.1 Employed people by industry — February 2019

Industry of employment (Division)	Employed people February 2019 ('000)	Proportion of total employed February 2019 (%)
Agriculture, forestry and fishing	332.0	2.6
Mining	251.7	2.0
Manufacturing	872.5	6.8
Electricity, gas, water and waste services	147.6	1.2
Construction	1153.9	9.0
Wholesale trade	390.9	3.1
Retail trade	1284.7	10.1
Accommodation and food services	907.1	7.1
Transport, postal and warehousing	666.1	5.2
Information, media and telecommunications	220.4	1.7
Financial and insurance services	445.5	3.5
Rental, hiring and real estate services	216.3	1.7
Professional, scientific and technical services	1115.3	8.7
Administrative and support services	414.1	3.2
Public administration and safety	858.5	6.7
Education and training	1032.4	8.1
Healthcare and social assistance	1702.7	13.3
Arts and recreation services	247.4	1.9
Other services	515.7	4.0
Total employed	**12 774.6**	**100.0**

Source: Australian Bureau of Statistics, *Labour force*, detailed quarterly, Feb 2019, cat. no. 6291.0.55.003

FIGURE 1.8 In April 2020, the Grattan Institute released a working paper titled 'Shutdown: Estimating the COVID-19 employment shock'. They predicted that between a sixth and a quarter of Australia's workforce is likely to be out of work because of the COVID-19 shutdown and social distancing. Unsurprisingly, the hospitality industry was the hardest hit, with more than half of workers in the industry likely to be out of work as a result of this crisis. The arts and recreation services industry was not far behind.

BizFACT

According to the ABS labour force data, the unemployment rate increased to 6.9 per cent in September 2020.

Businesses employ large numbers of people. However, the SME sector has driven employment growth in Australia, hiring more staff than large businesses do. The SME sector currently accounts for about 68 per cent of all private (non-government) sector employment — approximately 7.6 million people. During the last 20 years, the SME sector has been the major generator of new jobs in the Australian economy.

Large businesses also make an important contribution. Woolworths, for example, is one of the largest employers in Australia with approximately 201 000 employees in 2020. Businesses, therefore, have an important role to play in supporting employment growth in Australia and in reducing unemployment.

1.3.3 Incomes

Another important function of business is to provide **income**. For an individual, income is the amount of money received for providing his or her labour. A business's income is the amount it earns after covering all of its expenses: a return on its investments.

There are many different types of income that employees can receive. For example:

- **wage**: money received by workers, usually on an hourly or daily basis, for services they provide to an employer
- **salary**: a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business
- bonus: a sum of money added to a person's wages as a reward for good performance
- overtime: time during which work is done outside regular working hours. Such time is usually paid at higher rates.
- commission: the percentage of a sales price received by a salesperson for her or his services
- fringe benefits: an extra benefit supplementing an employee's money wage or salary; for example, a company car, private healthcare.

A business receives money from the sale of its products. As previously outlined, this is called sales revenue. From this revenue, all the expenses incurred in operating the business must be deducted. The amount that remains is the business's profit. This becomes the business owner's property and consequently their income.

If the business is a private or public company, it will have many owners referred to as **shareholders**. Usually, some or all of a company's profit is divided among shareholders. This type of income is called a **dividend** (see figure 1.9).

The amount of income a business can generate to pay wages and salaries, profits or dividends, depends largely on how successful it is in selling its products. A business that is aware of what consumers desire and attempts to satisfy this demand will experience increasing sales. This provides the business with the opportunity to offer higher income payments to employees, business owners and shareholders.

income money received by a person for providing his or her labour, or a business from a return on its investments

wage money received by workers, usually on an hourly or daily basis, for services they provide to an employer

salary a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business

shareholders people who are part owners of a company because they own a number of shares

dividend a distribution of a company's profits (either yearly or half-yearly) to shareholders that is calculated as a number of cents per share

FIGURE 1.9 Since shareholders are part owners of a company, they are entitled to a share in the company's profits. Paying a dividend is one way to reward shareholders. A dividend is a distribution of a portion of the company's profit to its shareholders. Let's say Company X generates a profit of $1 million and has a total of 1 million shares on issue. If they wanted to distribute all their profit to shareholders, they could declare a dividend of $1 per share. Most companies, however, prefer to retain at least some of their profits to reinvest in the business.

2020 Interim Dividend

Dear Shareholder(s),

This payment represents an interim dividend of 10 cents per share for the half year ended 31 December 2019 shares registered in your name and entitled to participate as at the record date of 11 March 2020. This payment corporate tax rate of 30%.

Please register at www.investorcentre.com/au in order to update your TFN, bank account and other details online.

Sean Simmons
Company Secretary

Class Description	Amount per Security	Number of Securities	Franked Amount	Unfranked Amount	Gross Payment
Ordinary Shares	10 Cents	1,450	$145.00	$0.00	$145.00
				Net Payment	**$145.00**
				Franking Credit	$62.14

Note: You should retain this statement to assist you in preparing your tax return.

Your Payment Instruction

ANZ
BSB: 014-211 Account number: XXXXXXX72

Amount Deposited
AUD$145.00

1.3.4 Choice

Choice is the act of selecting among alternatives. For instance, you decide to purchase a new toothbrush. At the local supermarket you find a bewildering array of brands, designs, colours, shapes, textures, packaging, bristle arrangements, sizes and prices. A vast assortment of options — and all for the simple task of brushing your teeth.

In our society, consumers have freedom of choice and the opportunity to purchase a variety of products at competitive prices. An average supermarket will have on display approximately 20 000 product lines, with some hypermarkets carrying in excess of 40 000 lines. Freedom of choice exists when consumers can 'shop around' and select from a range of competitors' products. The more competition there is, the greater the choice available to consumers. Businesses competing with one another are responsible for the wide range of products in the shops. Every day thousands of businesses are producing products for specific sections of the overall market.

choice the act of selecting among alternatives

BizFACT

Is freedom of choice an illusion? Ceiling-high supermarket shelves may give the perception of endless choice, but a closer look at the brands and companies that own them reveals that, despite the amount of choices consumers have, 11 companies own a large majority of major brands, effectively controlling everything we buy. Mega companies like Kellogg's, Kraft Heinz, Coca-Cola, Unilever, Nestlé and Procter & Gamble control over 400 major brands.

1.3.5 Innovation

The definition of **innovation** may vary, but it generally refers to the process of creating a new or significantly improved product, service or process (way of doing something). Invention refers to the development of something that is totally new, but innovation and invention both result in something unique being created. New technological developments soon lead to new products, new markets and new business opportunities.

BizFACT

Each year, *Time* magazine publishes a list of what it considers to be the year's 25 great inventions. Some inventions that made the list in 2019 included a talking hearing aid, a smarter cane, an AI-powered educator, software for virtual surgery, the Dyson Airwrap, a heated razor, Apple Airpods and Bose Frames.

Ideas for new products, or development of and improvements to existing products, will often provide the opportunity for the establishment of a new business. Many small business concepts are an innovation on an existing product. Mobile phones and tablet computers, for example, came into existence in the same way as light bulbs and car tyres — that is, through people making technical advances with established products. Sometimes, a person has an idea for a totally new product, an invention, which will satisfy a need that is not presently being satisfied. Patents are legal protection for the exclusive right to commercially exploit an invention.

BizFACT

Vegemite is an example of a great Australian invention. Food entrepreneur Fred Walker hired a food chemist to create an edible substance out of brewer's yeast. Vegemite wasn't an instant success though, and Fred tried a number of tactics to convince the consumer of the value of his product. By the late 1930s, Vegemite was accepted as an Australian product that was a valuable source of vitamins.

Potential business owners undertaking **research and development (R&D)** have produced many of the goods and services that we take for granted. Australian business investment in innovation is estimated at $32–36 billion annually, or 1.9 per cent of GDP, of which about half is R&D. According to the AustralianBureau of Statistics (ABS), expenditure on R&D by Australian businesses was $17 438 million during 2017–18. This investment generates economic benefits for the investing firms and their customers in the form of higher incomes, better products and lower prices.

R&D can provide a potential business owner with many opportunities. For example, it can allow a person to develop new products in response to the actions of any competitors, or to improve existing products so that they become superior to those of competitors. R&D can also lead to technological developments, such as robotics and information technology, that improve the way the product is produced or the way it is delivered to customers, and thereby result in a new business becoming very competitive.

innovation either creating a new product, service or process, or significantly improving an existing one

research and development (R&D) a set of activities undertaken to improve existing products, create new products and improve production

BizFACT

In the 1990s, entrepreneur John Parselle developed a system called Fingerscan, which allows people to make electronic transactions, unlock their smartphone or gain access to high security areas by pressing a finger on a flat piece of glass. Everyone has a unique set of fingerprints, and Fingerscan can identify individual customers or employees.

SNAPSHOT

Case study: Gekko's innovative response to COVID-19

Gekko has a long history of innovation. In fact, prior to opening for business in 1996, the husband and wife team, Sandy Gray and Elizabeth Lewis-Gray, had applied for a research grant to develop their InLine Pressure Jig for continuous gravity separation. Growing demand for energy-efficient devices spurred Gekko to reinvent and advance other traditional mining technologies.

Innovative modular designs, elegant systems and smart manufacturing launched Gekko as a world technical leader in gold processing and low-energy mining solutions.

Fast forward to 2020, and Gekko has yet again demonstrated their ingenuity by switching from the production of mining equipment to the creation of ventilators, which have played a crucial role in Australia's response to COVID-19. Gekko's GeVentor is a relatively simple to use ventilator that is suitable for remote conditions and provided an additional stream of crucial healthcare equipment during a global shortage.

The GeVentor, developed by Gekko's technical director, Sandy Gray, has been designed to be a viable and suitable invasive ventilator for use in Victorian and other medical/response facilities.

Gekko didn't go it alone, however. The project was partly funded by the Victorian state government. The government announced the roll-out of a new program to help other Mining Equipment, Technology and Services (METS) businesses engage with local mining companies in regional Victoria to innovate and promote their services.

Minister for Jobs, Innovation and Trade Martin Pakula pledged continued government support for Victorian manufacturers like Gekko Systems to advance plans for the production of ventilators.

'The ability of Victorian companies to pivot and adapt so they can help in the fight against coronavirus has been impressive, and we're proud to be backing them,' the Minister said.

1.3.6 Entrepreneurship and risk

Most of us have seen something advertised and thought, 'That is just what I need'. Someone, somewhere, had the idea to provide this product. Not all inventors or innovators will seek to use their idea as the basis for a business. In many cases they will be happy to sell their idea to an existing business and let someone else manufacture and market that product. To be willing to take the risk of starting up and operating a business and then working to build that business requires qualities of **entrepreneurship**.

People who transform their ideas into a new business are called **entrepreneurs**. They are prepared to take the **risk** of starting and operating a business venture,

entrepreneurship the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit

entrepreneur someone who starts, operates and assumes the risk of a business venture in the hope of making a profit

risk refers to the possibility of loss

and of turning their dreams and passions into a livelihood. Entrepreneurs have to take risks because usually they explore untapped markets with no track record of proven consumer demand or guaranteed returns. They cannot be certain that anyone will buy what they plan to sell. But for those whose ideas translate into a successful business venture, the profits are often huge.

If a business fails, its owner may lose all or part of the money he or she has put into it. If people are to take this risk, they must be encouraged by the hope of some reward for success. In our economic system, profit is the return (reward) or payment that business owners receive for assuming the considerable risks of ownership. One of these risks is the risk of not being paid. Everyone else — employees, suppliers and lenders — must be paid before the owners. And if there is no profit, there can be no payment to owners. A second risk is that if the business fails, its owner may lose all or part of the money he or she has put into it.

Jeff Bezos, the founder and CEO of the e-commerce giant Amazon, topped the list of the world's richest entrepreneurs in 2020 (see figure 1.10). He founded Amazon as a simple online bookstore which he ran from his bedroom in 1994. After that, there was no looking back for Bezos as he kept adding new categories of products. Today, Amazon is not only the world's largest online shopping platform but it also has diversified interests in many other businesses.

Entrepreneurs often display flair and creativity. They will frequently find new and innovative ways of promoting their products or services. They will regularly upgrade and adapt their business objectives and recognise new opportunities to expand or diversify their business operations.

BizFACT

New research from Xero's 'Ageless Entrepreneur' report has revealed that more Aussie kids than ever are dreaming of being the next Elon Musk or Mark Zuckerberg. The report found a staggering 90 per cent of young Australians want to be their own boss when they grow up.

FIGURE 1.10 Jeff Bezos topped the Forbes list of the Richest People in the World in 2020 for the third year in a row, despite giving $36 billion worth of his Amazon stock to his ex-wife as part of their divorce settlement the previous year. He's worth $113 billion.

BizFACT

While Jeff Bezos topped the Forbes 2020 Billionaires List, the next four entrepreneurs on the list (in order) were Bill Gates (founder of Microsoft Corporation), Bernard Arnault (the chief executive of Louis Vuitton), Mark Zuckerberg (CEO of Facebook) and Warren Buffett (CEO of Berkshire Hathaway, which owns more than 60 companies).

To be a successful entrepreneur you don't need to be running a multi-million dollar company. Many people have achieved entrepreneurial success by running small to medium enterprises.

BizFACT

According to Global Entrepreneurship Monitor data, 10.5 per cent of Australia's adult population (1.7 million people) were early-stage entrepreneurs in 2019. This figure has declined from 14.6 per cent in 2016, with Australia currently sitting slightly below average among the 25 OECD economies in relation to this indicator.

SNAPSHOT

Case study: Carolyn Creswell and Carman's Fine Foods

Carolyn Creswell is the founder of Carman's Fine Foods. When she was 18 years old she scraped together $1000 to buy out the homemade muesli business that she worked for. The owners had put the business up for sale and Carolyn thought there was a chance that she might lose her job. She made an offer with a friend, which was initially dismissed, but the owners finally made an agreement to sell.

Today, Carman's products are sold in supermarkets across Australia and exported to more than 30 countries. The business is estimated to be worth more than $80 million. Carman's employs 25 staff at its head office and 107 staff in factories at Dandenong and Scoresby. Some people suggest that the business was an overnight success. Carolyn Creswell responds that her success is due to her hard work. She learned everything she knows about the business while working on the job, and she believes this makes it easier for her to empathise with staff.

Carolyn says that in the early days of running Carman's, she often struggled to see the light at the end of the tunnel. She believes that getting into and staying in supermarkets was a key to the success of the company. She received many rejections from the supermarkets, but persisted, and they eventually gave her a chance. Carolyn Creswell is driven by passion rather than the desire to make money. She believes it is vital to have a clear vision of where the business is heading and to consider this when making every decision. Carolyn has ambitious plans for continuing to increase sales, boost the profile of the brand and launch new products.

Entrepreneurial qualities are also not confined to adults. For example, at a recent swimming carnival, Yolanda Zurack, a Year 8 student, arranged to take along an Esky filled with cold drinks. To keep her costs down Yolanda bought the drinks through a local wholesaler. During the very hot day she sold all the drinks and made a reasonable profit.

Yolanda Zurack, Jeff Bezos and Carolyn Creswell are all entrepreneurs. They organised their business, undertook the necessary arrangements for it to operate and were prepared to take a risk. The size of the profits may differ but they possess identical entrepreneurial qualities: courage, motivation, determination and energy. Without such entrepreneurs and their activities, many of the products we purchase would not exist.

FIGURE 1.11 At just 12 years old, Bella Tipping started her business Kidzcationz — a website designed to run alongside TripAdvisor which allows kids to get an avatar and rate and review hotels, theme parks and attractions. The business idea started with a brainwave after returning from a family holiday. She saw her mum giving a great review on a hotel that she didn't really like as it was too adult-focused.

***Source*:** Bella Tipping

BizFACT

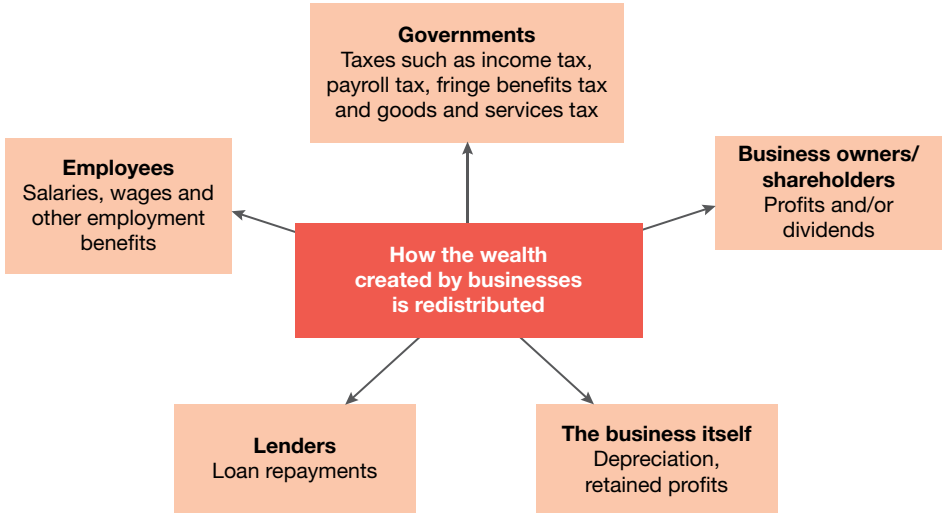
An entrepreneur's drive and motivation to establish and operate a business lie at the heart of our private enterprise economic system.

1.3.7 Wealth

The more that is produced, the more wealth is generated within the Australian economy. The thousands of individual businesses operating every day act as the 'engine room' of society, helping drive the economy forward to achieve greater levels of economic growth and wealth.

During normal operations, a business receives money from its customers in exchange for products. At the same time, it must also pay out money to other businesses to cover operating expenses. Operating expenses are the costs involved in the day-to-day operation of the business. The difference between the two amounts, the value added, represents the wealth (profit) created by the business. This wealth is then redistributed to employees, governments, lenders, owners/shareholders and the business itself (see figure 1.12).

FIGURE 1.12 The distribution of the wealth created by a business



As previously outlined, businesses need to employ people to assist in the production process. These employees receive an income (wage or salary) that can be spent to satisfy their needs and wants. Both the money received and the products purchased add to the wealth of individuals and households. Imagine if all the businesses within your local community were to close down overnight. People would lose their jobs and source of income, fewer products would be available for purchase, and the flow of money would quickly contract. The result would be an increase in the levels of poverty, the opposite of wealth creation.

The total output of the country's diverse collection of businesses, ranging from large multinationals to the family-owned local corner store, makes a significant contribution to the wealth of the national economy. Not only does employment directly improve the living standards of employed people, but it also reduces the burden on the state to provide unemployment benefits, while boosting taxation revenue received by the government through payroll tax. In the 2018–19 financial year, the government received nearly $26 billion in the form of taxes on employers, payroll and the labour force.

Businesses also provide the public with goods and services that, when taxed, provide the government with additional revenue. Taxes on goods and services, such as the Goods and Services Tax (GST), accounted for over $141 billion of tax revenue in 2018–19. This tax revenue, along with the $95 billion received from businesses in the form of company tax, allows the government to provide goods and services that benefit the whole community, such as health, education, infrastructure and welfare.

1.3.8 Quality of life

In our society most people want more than the bare necessities; they want to achieve the highest standard of living possible. Overall, we have high expectations about what our economy should provide for us. However, we often want more than simply to have our material wants satisfied. We also desire a high degree of quality in our lives. **Quality of life** refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits.

By providing employment, businesses don't just provide people with a source of income. People who have jobs have the opportunity to build up their self-esteem by doing something that they consider to be worthwhile. Working for a business allows people to feel as though they belong within the business, as well as a sense of contributing to the needs of society. This can contribute to a person's level of personal happiness and self-fulfilment. In addition, the social connections that people make at work may also affect their health, personal habits and general wellbeing.

Many businesses have responded to quality-of-life issues and are implementing environmentally friendly procedures — for example, recycled materials, cleaner cars, less energy-consuming production and 'green' food products. Because business activities play a vital role in our lives, businesses have a responsibility to help provide what consumers want and to minimise what they do not want.

quality of life refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits

BizFACT

In 2020, a new index to measure the quality of life for people across Australia was launched by the Centre for Social Impact (CSI). The Australian Social Progress Index (SPI) ranks states and territories on their social progress, not on economic factors. The SPI measures each state and territory's progress towards meeting people's basic needs, foundations for wellbeing and opportunity for all individuals to reach their full potential. The ACT has ranked first every year, and the biggest areas for improvement across all states were environmental quality and access to information and communication.

KEY IDEAS

- Profit is what remains after all business expenses have been deducted from sales revenue.
- Profit is the reward that business owners receive for assuming the considerable risks of ownership.
- SMEs provide employment for about 66 per cent of Australia's private sector.
- Businesses generate income for:
  - employees — from wages, salaries, bonuses, overtime, commissions and/or fringe benefits
  - business owners — from profits
  - shareholders — from dividends.
- In our society, consumers have freedom of choice and the opportunity to purchase a variety of products at competitive prices.
- Research and development (R&D) leads to innovation (the creation of new products, services or processes, or the improvement of existing ones).
- People who transform their ideas into a new business are called entrepreneurs. They are prepared to take the risk of starting and operating a business venture in the hope of making a profit.
- An entrepreneur's drive and motivation to establish and operate a business lie at the heart of our private economic system.
- Business is a major creator of wealth within the Australian economy.
- Businesses produce a vast range of products that enable us to satisfy many and varied wants, which results in a higher standard of living.
- Quality of life refers to the wellbeing of an individual, and is a combination of material and non-material benefits.

1.3 Activities

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To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

1.3 Quick quiz on | **1.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 5, 7, 8, 10, 11, 14, 16, 18, 19, 21	3, 6, 9, 13, 15, 17, 20, 23	12, 22, 24, 25

1.3 Exercise

Revision

1. **Recall** the main activity of a business.
2. **Describe** the relationship between revenue, operating expenses and profit.
3. **Calculate** which of the following businesses has made a profit.
   a. Sally's Pet Shop has expenses of $2000 per week and revenue earned is $3500 per week.
   b. Ben's Gardening Supplies takes revenue of $6000 each week for a month, but has weekly expenses of $7000 the first week, $8000 the second and third week, and $3000 for the fourth week.
4. **Outline** the three ways in which businesses provide income.
5. **Recall** the correct term and complete the table below.

Term	Meaning
A. Income	
B. Wage	
C.	A fixed amount of money paid on a regular basis to a permanent employee of a business.
D. Shareholder	
E.	Part of a business's profit that is divided among shareholders.

6. Define the term 'choice'. **Explain** how businesses encourage freedom of choice.
7. **Outline** the role innovation plays within our economy.
8. **Outline** the role of the entrepreneur in our economic system.
9. **Explain** why people take risks.
10. **Describe** the two main risks associated with operating a business.
11. **Identify** the entrepreneurial characteristics that Yolanda Zurack, Carolyn Cresswell and Jeff Bezos have in common.

12. **Assess** your own entrepreneurial ability by completing the following questionnaire.

Question	Yes	No
(a) Are you willing to take moderate risks?		
(b) Are you easily motivated?		
(c) Do you get on well with people?		
(d) Is your health excellent?		
(e) Do you set realistic goals?		
(f) Are you prepared to accept responsibility?		
(g) Can you tolerate failure?		
(h) Do you have a positive self-image?		
(i) Are you well organised?		
(j) Are you a hard worker?		

Someone with an entrepreneurial personality would answer 'Yes' to most of the questions. Write a self-evaluation report based on your answers. Compare your responses in class.

13. **How** do businesses create wealth within the economy?
14. **Identify** the ways in which the wealth created by a business is redistributed.
15. **Justify** which is a more important contributor to a person's quality of life — material or non-material benefits. Provide reasons for your answer.
16. **Outline** the importance of research and development in business.
17. Identify a significant invention or innovation. **How** did this creation satisfy the need for a new product or an improved product? Did it form the basis of a new business or has it been produced by an existing business?
18. Read the 'Carolyn Creswell and Carman's Fine Foods' case study and **identify** the characteristics that make her a successful entrepreneur.

Read the 'Gekko's innovative response to COVID-19' case study and answer questions 19 and 20.

19. **Identify** some of Gekko's innovations.
20. **Explain** how Gekko benefited from the METS Regional Innovation Accelerator program.
21. Look at table 1.1 and **identify** the industry that employs the most people in Australia. Why do you think so many people work in this industry?

Extension

22. A profitable business is one that returns to its owners *more* than they could earn by working for someone else. According to this definition, many businesses operating today would not be considered profitable. **Determine** why their owners continue to run them. Share your answer with the rest of the class.
23. 'The mother of invention/innovation is necessity.' **Justify** this statement.
24. In small groups, **predict** the social consequences of an economy that is experiencing a large number of business failures. Compare your answer with other groups.
25. In small groups, identify someone who successfully runs a small business. **Critically analyse** the personal qualities this person possesses that contribute to the success of the business.

Solutions and sample responses are available in your digital formats.

1.4 Review

1.4.1 Summary

The nature of a business

- Businesses play a crucial role in our society, largely determining our standard of living.
- The one common feature shared by both the largest and the smallest business is that they produce a product — goods or service — which is sold in a market where buyers and sellers meet.
- Businesses have an enormous impact on our lives every day.
- The main role of a business is to produce and sell, for a profit, the products that satisfy individuals' needs and wants.
- Business enterprises undertake many activities to provide the products demanded by customers, with production being one of the most important.
- Production refers to those activities undertaken by the business that combine resources to create products that satisfy customers' needs and wants.

Other roles of business

- Profit is what remains after all business expenses have been deducted from sales revenue.
- Profit is the reward that business owners receive for assuming the considerable risks of ownership.
- SMEs provide employment for about 66 per cent of Australia's private sector.
- Businesses generate income for:
  - employees — from wages, salaries, bonuses, overtime, commissions and/or fringe benefits
  - business owners — from profits
  - shareholders — from dividends.
- In our society, consumers have freedom of choice and the opportunity to purchase a variety of products at competitive prices.
- Research and development (R&D) leads to innovation (the creation of new products, services or processes, or the improvement of existing ones).
- People who transform their ideas into a new business are called entrepreneurs. They are prepared to take the risk of starting and operating a business venture in the hope of making a profit.
- An entrepreneur's drive and motivation to establish and operate a business lie at the heart of our private economic system.
- Business is a major creator of wealth within the Australian economy.
- Businesses produce a vast range of products that enable us to satisfy many and varied wants, which results in a higher standard of living.
- Quality of life refers to the wellbeing of an individual, and is a combination of material and non-material benefits.

1.4.2 Key terms

business the organised effort of individuals to produce and sell, for a profit, the products that satisfy individuals' needs and wants
choice the act of selecting among alternatives
dividend a distribution of a company's profits (either yearly or half-yearly) to shareholders that is calculated as a number of cents per share
entrepreneur someone who starts, operates and assumes the risk of a business venture in the hope of making a profit
entrepreneurship the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit
finished product one that is ready for customers to buy and use
goods items that can be seen or touched
income money received by a person for providing his or her labour, or a business from a return on its investments
innovation either creating a new product, service or process, or significantly improving an existing one
operating expenses all the costs of running the business except the cost of goods sold
product a good or service that can be bought or sold
production refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants
profit what remains after all business expenses have been deducted from sales revenue
quality of life refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits
research and development (R&D) a set of activities undertaken to improve existing products, create new products and improve production
revenue the money a business receives as payment for its products
risk refers to the possibility of loss
salary a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business
services things done for you by others
shareholders people who are part owners of a company because they own a number of shares
wage money received by workers, usually on an hourly or daily basis, for services they provide to an employer

on Resources

Digital documents Key terms glossary (doc-35776)
Chapter crossword (doc-36240)

Interactivity Chapter crossword (int-7211)

1.4 Activities

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Exercise 1: Multiple choice questions

1. Something done for you by someone else is known as a:
   - **A.** good.
   - **B.** product.
   - **C.** production.
   - **D.** service.
2. What is money received by workers, usually on an hourly basis, for services they provide to an employer known as?
   - **A.** Commission
   - **B.** Profit
   - **C.** Salary
   - **D.** Wage
3. What are part owners of a company known as?
   - **A.** Entrepreneurs
   - **B.** Managers
   - **C.** Shareholders
   - **D.** Stakeholders
4. How is profit calculated?
   - **A.** Price times (x) the quantity sold
   - **B.** Total sales revenue plus (+) the contributions made by the owner
   - **C.** Total outlays minus (-) total cost
   - **D.** Total revenue minus (-) total costs
5. What is the form of income received by a shareholder?
   - **A.** Profit
   - **B.** Wage
   - **C.** Interest
   - **D.** Dividend
6. Businesses undertake activities to combine resources and create products which satisfy customer's needs and wants. What is this process known as?
   - **A.** Innovation
   - **B.** Production
   - **C.** Finished product
   - **D.** Research and development
7. What does business provide to a society's consumers when they buy a product?
   - **A.** Choice
   - **B.** Freedom
   - **C.** Wealth
   - **D.** Employment
8. How could business improve the quality of life for a society in a non-material way?
   - **A.** Increase the quantity of goods and services available for purchase
   - **B.** Redistribute the level of wealth to its owners
   - **C.** Reduce the level of carbon emissions into the atmosphere
   - **D.** Increase the range of goods available for sale
9. What are the costs involved in running a business known as?
   - **A.** Expenses
   - **B.** Profit
   - **C.** Revenue
   - **D.** Risks

10. What is meant by the term ‘invention’?
    - **A.** The production of goods and services
    - **B.** The development of something new
    - **C.** The improvement of an existing product
    - **D.** The selling of a new product to the market

Exercise 2: Exam practice questions

Question 1 (2 marks)

One role of business is to provide income. **Identify** TWO different types of income that businesses provide.

Question 2 (2 marks)

Describe TWO roles of a business.

Question 3 (3 marks)

Distinguish between invention and innovation.

Question 4 (3 marks)

Explain how businesses help improve our quality of life.

Question 5 (6 marks)

Explain how businesses generate wealth for TWO different groups.

Question 6 (6 marks)

Assess the role of business in society.

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2 Types of businesses

2.1 Overview

LEARNING SEQUENCE

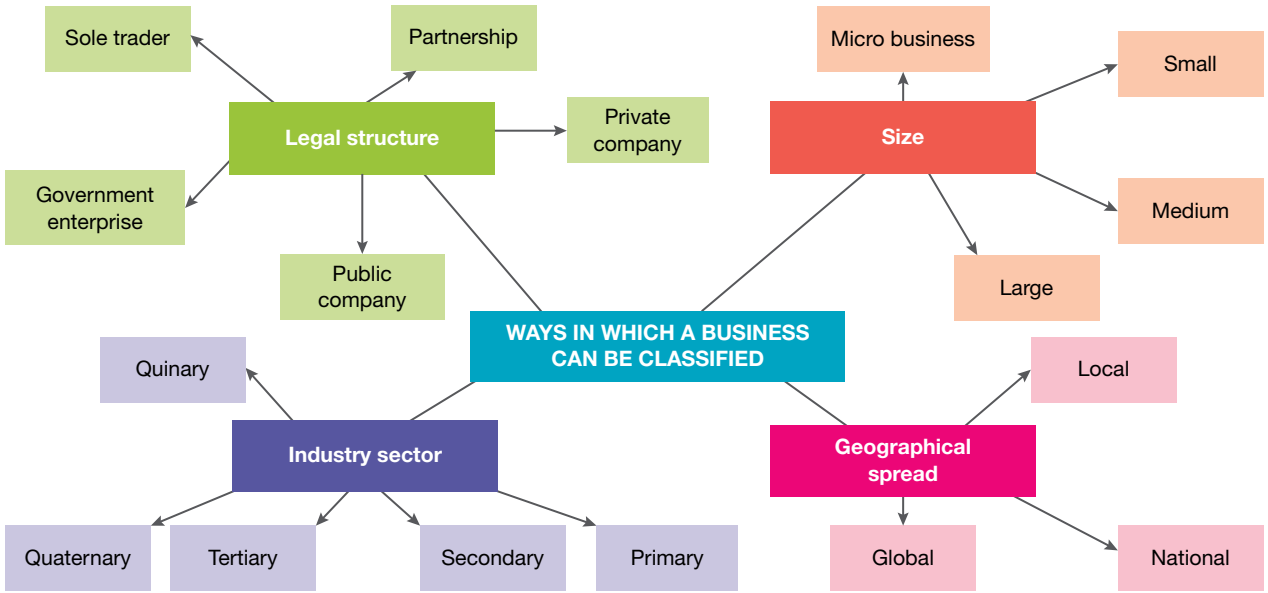
2.1 Overview
2.2 Classification by size
2.3 Classification by geographical spread
2.4 Classification by industry sector
2.5 Classification by legal structure
2.6 Factors influencing choice of legal structure
2.7 Review

2.1.1 Introduction

As explained in chapter 1, any organisation that sells goods and services to consumers in order to make a profit is a business.

Businesses may be organised in a variety of ways. Although no two businesses are identical, some common features allow similar business types to be classified and grouped together. Figure 2.1 illustrates the four methods commonly used to classify businesses.

FIGURE 2.1 The four methods commonly used to classify businesses



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Digital document Key terms glossary (doc-35779)

2.2 Classification by size

SYLLABUS LINK In this subtopic you will learn about types of businesses:
- classification of business
  - size — small to medium enterprises (SMEs), large.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

2.2.1 Determining the size of a business

Like soft drinks, businesses come in four different sizes: micro, small, medium and large. Most people usually associate the term 'business' with large companies such as Woolworths, Commonwealth Bank and Westfield, which employ thousands of people across hundreds of locations. However, 98 per cent of businesses in Australia are small to medium enterprises.

Although no universally accepted definition exists for 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 business
- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or shareholders).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of revenue earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than $10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above $250 million.
- the amount of assets owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than $200 million.
- market share (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.

Apart from quantitative measures, such as the number of employees, qualitative descriptions also help us to determine the size of a business. There are a number of qualitative factors that can help us to make a final judgement about the size of a business, such as:
- Who makes most management decisions, such as who to hire, what to produce and how to advertise a product? If it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- Who provides most of the capital (finance)? The owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- Is the business independently owned and operated? Small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company's strategic goals.
- How many locations does the business have? A business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large **multinational corporation** may have offices around the world.

multinational corporation a company that has branches in many different countries

Using quantitative measurements from the ABS, businesses can be defined as follows:

- **micro business**: a business with fewer than five employees
- **small business**: a business with 5–19 employees
- **medium business**: a business with 20–199 employees
- **large business**: a business with 200 or more employees.

micro business a business with fewer than five employees
small business a business with 5–19 employees
medium business a business with 20–199 employees
large business a business with 200 or more employees

BizFACT

Almost 1.5 million micro businesses are non-employing — that is, they have no employees.

A comprehensive definition of small, medium and large business usually relies on a combination of both quantitative measurements and qualitative descriptions, as shown in table 2.1. This table also outlines the features of, and distinctions between, the different sized businesses.

TABLE 2.1 Quantitative measurements and qualitative descriptions of small, medium and large businesses

Characteristics	Small	Medium	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 ABS business register definition	Fewer 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)
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, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries

There is an additional category of business size called **small to medium enterprises** (SMEs). SMEs are defined by the ABS as firms with fewer than 200 full-time equivalent employees and/or less than $10 million in annual turnover. SMEs play an especially important role within the Australian economy. As consumers, we rely on a large number of SMEs to satisfy our needs and wants. These businesses also provide employment for about 7.6 million people. The role and contribution of SMEs will be looked at in greater detail in chapter 10.

small to medium enterprises defined by the Australian Bureau of Statistics as firms with fewer than 200 full-time equivalent employees and/or less than $10 million turnover

Table 2.2 illustrates the number of businesses by size as of June 2018.

TABLE 2.2 Number of Australian businesses by size in June 2018

Business by size (by employee no.)	Percentage
0 employees	62.1%
1–4 employees	27.1%
5–19 employees	8.5%
20–199 employees	2.2%
200+ employees	0.2%

FIGURE 2.2 While the SME sector is the biggest employer in Australia, is it the better employer? Some of the benefits of working for an SME are that it is usually a more casual environment, there is greater access to management and there is less bureaucracy. The benefits of working for a large business are that there are usually greater perks, access to more resources, better training and development, higher pay and more opportunities for promotion.

KEY IDEAS

- Businesses can be classified as micro, small, medium or large.
- Their classification will depend on such things as number of employees, market share, ownership and who makes the decisions.
- The most common way to categorise a business by size is by number of employees.
- A micro business is one that employs fewer than five people, a small business employs between 5 and 19 people, a medium business employs 20–199 people and a large business is one that employs over 200 people.

2.2 Activities

learnON

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2.2 Quick quiz on | **2.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1	2, 5, 6, 7	3, 4

2.2 Exercise

Revision

1. **Define** the term 'multinational corporation'.
2. **Deduce** whether the following businesses are small, medium or large, and **explain** the reason for your decision.
   a. Qantas employs approximately 37 000 people.
   b. National Australia Bank is an international financial services organisation that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
   c. Brookfarm is owned by Carolyn and Martin Brook. It produces gourmet macadamia nuts for domestic and export markets, and employs more than 20 staff.
   d. Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
3. **Determine** whether the following statements are true or false.
   a. A micro business is a business that sells only miniature products.
   b. SME stands for small to medium enterprise.
   c. Small businesses do not usually have a large share of a particular market.
   d. According to the ABS, large businesses employ fewer than 200 people.
   e. SMEs do not play an especially important role within the Australian economy.
   f. An enterprise is just another name for a business.
4. Complete the following statements by **determining** the correct word from the choices given. Write the sentences in your notebook.
   a. According to the ABS, a business with fewer than 200/300 employees is classified as a medium-sized business.
   b. A common feature of all small businesses is that they are independently/interdependently owned and operated.
   c. Small businesses have a complex/simple management structure with few/many rules and regulations.
   d. The number of employees in a business is a quantitative/qualitative measure.
   e. A small business has a large/small market share and usually serves the Australian/local market.
   f. An example of a small business is Westfield Limited/Blue Hills Convenience Store.
   g. Most small businesses are sole traders/public companies.
5. **Compare** a micro business with a small business.
6. Examine table 2.2 and **calculate** the percentage of businesses that are SMEs in Australia.

Extension

7. **Construct** a database of seven businesses that you have dealt with over the last few months. Copy and then complete the following table. The first one has been done for you.
   a. Calculate what percentage of the businesses are small.
   b. Outline the criteria you used to classify the size of each business.
   c. Compare the percentage with the figures for Australia.
   d. Account for the similarity/difference between the two figures.

Solutions and sample responses are available in your digital formats.

2.3 Classification by geographical spread

SYLLABUS LINK In this subtopic you will learn about:
- classification of business
  - local, national, global.

You will also learn how to discuss the global expansion of one Australian business.

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2.3.1 Local

Consider the suburb or town in which you live. This area can be classified as your local community or neighbourhood — that is, a group of people living and working in the same locality. The consolidation of all these local communities is what forms the nation of Australia. Now, broaden your scope even further. Australia is just one of the 195 independent nations that are part of the global network.

Businesses, too, can be classified as local, national or global according to their **geographical spread**: the presence of a business and the range of its products across a suburb, city, state, country or the globe.

A **local business**, such as a newsagent, corner store, hairdresser, mechanic or pharmacy, has a restricted geographical spread. It serves the surrounding area and is in no position to offer a range of products to another suburb or town. Local businesses such as these will frequently be used by consumers who live nearby. The majority of local businesses tend to be small to medium in size.

FIGURE 2.3 Belinda and Gino own Granata's, a very successful Italian restaurant in the suburb of Pemulwuy. The local community have embraced this restaurant, which offers family-friendly dining for breakfast, lunch and dinner. The long-standing support the restaurant has received from the local area, especially during the COVID-19 lockdown, is testament to their commitment to providing fresh and flavoursome meals. They have been part of the Pemulwuy landscape for seven years and have established a great reputation in the surrounding area.

2.3.2 National

As a business grows, it increases its range of products and the area it serves. As it does this, it develops into a **national business** — one that operates within just one country. Coles, for example, commenced trading in 1914 as G.J. Coles variety store in Collingwood, Victoria. Started by George Coles and his brother Jim, it employed six people. Today, Coles is a leader in Australian food retailing, with more than 112 000 employees and over 1 billion customer transactions each year.

geographical spread the presence of a business and the range of its products across a suburb, city, state or country, or the globe

local business a business that has a restricted geographical spread; it serves the surrounding area.

national business a business that operates within just one country

BizFACT

David Jones is not only Australia's oldest department store, but also the oldest department store in the world still trading under its original name. They reported an adjusted operating profit of $37 million for the year to June 2019, compared to $64 million in the previous financial year. Revenue sunk 0.8 per cent to $2.2 billion.

Other well-known Australian businesses that serve the national market include:

- Bank of Queensland (BOQ) — one of Australia's leading regional banks. It is a retail bank with headquarters in Brisbane, Queensland. It is among one of the few banks still not owned by one of the big four. Most of its branches are run by local owner-managers, which means they're run as a small business and are therefore able to deliver superior personal service. The company has over 160 branches across Australia and is one of the oldest financial institutions in Queensland, having begun as a building society in 1874. BOQ is one of the top 100 Australian companies by market capitalisation.
- TerryWhite Chemmart — one of Australia's leading retail pharmacy networks. They have more than 450 community pharmacies across the country. The company provides high-quality, accessible and community-based healthcare services and programs to Australians. Terry and Rhonda White opened their first pharmacy in Queensland in 1959 and, since then, their network of owned pharmacies has grown steadily over the years. In 1994, they established one of the first pharmacy franchises in Australia and the franchise network now consists of over 165 franchises.
- David Jones — one of Australia's oldest department stores. In 1838, just 50 years after the First Fleet arrived in Sydney Cove, Mr David Jones opened 'large and commodious premises' on the corner of George and Barrack streets, Sydney, and they now have 47 stores in various locations throughout Australia.
- Belle Property — one of the most successful real estate companies in Australia. Founded in 2000, the company predominantly focused on project marketing with only six offices. After seven years, they re-launched with a revised franchise model. The network is continually growing, with over 140 offices operating across New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory.

As a national business expands and increases its sales, it will eventually run out of new customers to sell to; that is, the domestic market becomes saturated. If the business wishes to keep expanding, it can decide to export and sell its products in other countries. This allows the business to tap into new markets (see figure 2.4).

2.3.3 Global

A global business, commonly referred to as a multinational corporation, is a large company that has branches in many different countries. The multinational corporation represents the highest level of involvement in global business. For such companies, national borders do not represent barriers to trade — they are merely lines on a map. Consequently, multinational corporations conduct a large percentage of their business outside their home country.

Multinational corporations come in many different forms and sizes. Coca-Cola, LG, McDonald's, CSR, News Corporation, BHP, Toyota, Unilever, Westfield and Google are just a few of the well-known foreign and Australian multinational corporations. However, all multinational corporations have a number of features in common. In a fully developed multinational corporation, finance, assets, technology, information, employees, and goods and services all flow freely from one country to another (see the case study in 2.3.4).

BizFACT

Some multinational corporations have grown so large that their annual revenues from worldwide sales exceed the GDP of many nations. (GDP, or gross domestic product, is the total value of all goods and services produced in an economy in a given year.)

FIGURE 2.4 Gerry Harvey and Ian Norman started Harvey Norman in 1982 in Auburn. While the company is well-known in Australia, with over 190 stores across the country, in 1997, Harvey Norman decided to expand globally by opening its first store in New Zealand. After realising future growth in Australia and NZ was limited, the company looked at emerging markets and have since opened stores in Singapore, Malaysia, Slovenia, Croatia and Ireland. Harvey Norman plans to continue expanding its overseas businesses by up to 50 per cent, although this has been pared-back due to the disruption caused by the COVID-19 pandemic.

2.3.4 Discuss the global expansion of one Australian business

SNAPSHOT

Case study: The global expansion of Ego Pharmaceuticals

Ego Pharmaceuticals is an Australian, family-owned business that manufactures dermatological skincare products, including well-known brands such as QV Skincare, SunSense, Aqium hand sanitiser and Pinetarsol. Established in 1953, it now produces 120 products, all of which are manufactured in Melbourne.

A key to the success of the company has been its expansion into overseas markets. Currently, Ego Pharmaceuticals exports to 27 countries in the Asia–Pacific region, Europe and the Middle East. One of the biggest growth areas for Ego Pharmaceuticals has been Taiwan.

The company started selling products in Taiwan in 2003 and the business remains confident of growth opportunities in the market, establishing Ego Pharmaceuticals Taiwan Pty Ltd in FY16–17 as a subsidiary to increase control of marketing and sales work, which has led to increased sales in Taiwan.

As a family-owned Australian brand, Ego Pharmaceuticals' reputation has been built on 67 years of dedication to providing its loyal customers with specialist, quality skincare. Ego's Managing Director and son of founder Gerald, Alan Oppenheim, said exports are now a huge focus for the organisation, with international sales making up 50 per cent of the business's revenue, and will continue to be a focus for years to come. Although expanding with large exports internationally, the brand remains true to its Australian heritage and continues to manufacture all of its products in Victoria. The business also runs on a pharmacy-only distribution model, which supports pharmacies all over the country.

These moves allowed Ego Pharmaceuticals to climb the rungs of the Top 500 Private Companies list released by the *Australian Financial Review*. As a result of their impressive growth, in 2018 they sat at number 283 on the list, jumping 21 spots since placing number 304 in 2017. The list, published annually, considers company revenue over the latest 12-month accounting period and number of staff. In 2018 Ego had 566 staff globally and posted a revenue growth of 17.7 per cent for the previous financial year.

KEY IDEAS

- Businesses can also be classified as local, national or global according to their geographical spread.
- A local business has a restricted geographical spread; it serves its surrounding area.
- A national business operates in just one country.
- A global business — a multinational corporation (MNC) — is a large business with a home base in one country that operates partially owned or wholly owned businesses in other countries.

2.3 Activities

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2.3 Quick quiz on | **2.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 3, 4, 5, 6	2, 7, 8, 9	10

2.3 Exercise

Revision

1. **Define** the term 'geographical spread'.
2. **Distinguish** between a local and national business. Provide two examples of each.
3. **Recall** another name for a global business.
4. **Identify** three examples of multinational corporations.
5. **State** what features all multinational corporations have in common.

Read 'The global expansion of Ego Pharmaceuticals' case study and answer questions 6 to 9.

6. **Outline** how Ego Pharmaceuticals entered new markets overseas.
7. **Explain** why you believe Ego Pharmaceuticals began expanding overseas.
8. **Why** did Ego Pharmaceuticals expand into Taiwan?
9. **Recommend** one new global business opportunity Ego Pharmaceuticals could consider.

Extension

10. **Critically analyse** the following statement: 'Multinational corporations play a crucial role in our society. Without them, consumers would not have such a wide range of products to select from.'

Solutions and sample responses are available in your digital formats.

2.4 Classification by industry sector

SYLLABUS LINK In this subtopic you will learn about:

- classification of business
  - industry — primary, secondary, tertiary, quaternary, quinary
- how changes in external influences have contributed to the growth of the tertiary, quaternary and quinary industries in Australia.

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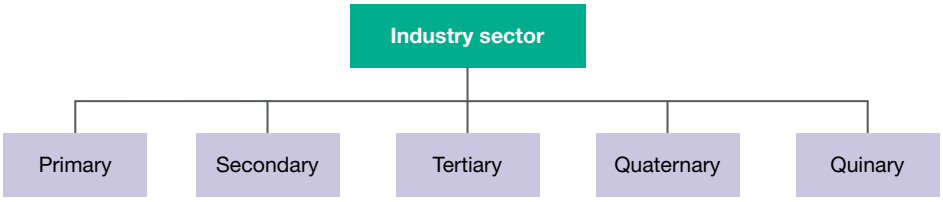
2.4.1 The five main industry sectors

Another useful method used to classify businesses is based on the type of activity they undertake. When businesses are involved in similar types of production, they are grouped together in what is referred to as an **industry**. Australian companies such as Woolworths, Wesfarmers, JB Hi-Fi and David Jones belong to the retail industry.

There are five main types of industry groupings or sectors: primary, secondary, tertiary, quaternary and quinary.

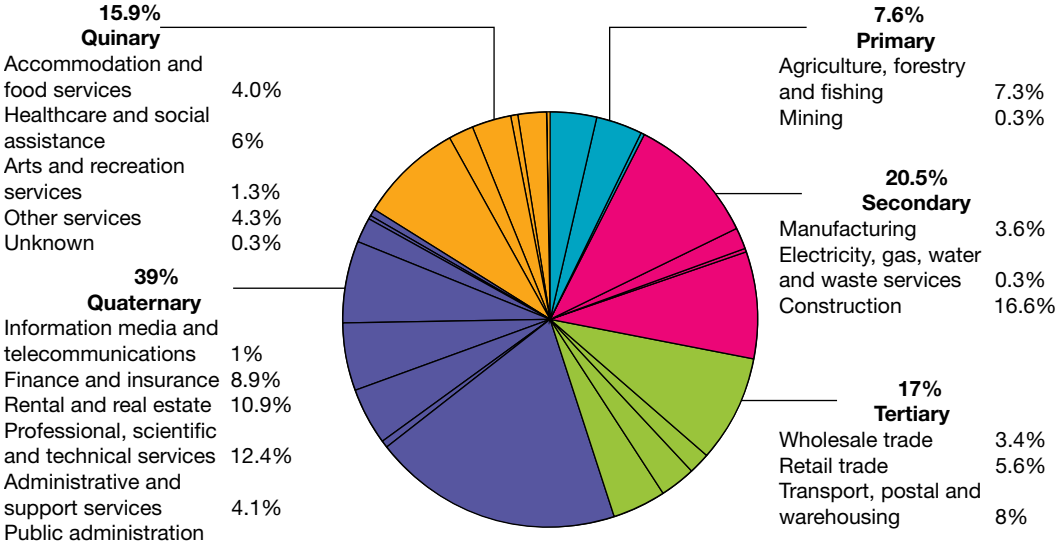
FIGURE 2.5 The five main industry sectors



The relative size of each industry sector is shown in figure 2.6. This graph shows both the percentage of private sector firms and employment in each industry sector.

industry businesses that are involved in similar types of production

FIGURE 2.6 Australia's industry mix as a share of total employment, 2018–19



Source: Australian Bureau of Statistics

2.4.2 Primary industry

Primary industry includes those businesses involved in the collection of natural resources. Examples of these businesses include all types of farming, mining, fishing, grazing and forestry. Even though this sector employs only 7.6 per cent of the labour force, its role is essential because it provides all of our food requirements. Aswell, approximately 60 per cent of all our exports come from these industries.

2.4.3 Secondary industry

Secondary industry includes all those businesses that take the output of firms in the primary sector (raw materials) and process it into a finished or semi-finished product. For example, iron ore, coal and limestone are turned into steel — a semi-finished product that is then used to manufacture cars. Steel and car manufacturers are both examples of secondary industry businesses.

primary industry includes those businesses involved in the collection of natural resources

secondary industry includes businesses that take a raw material and make it into a finished or semi-finished product

FIGURE 2.7 The construction industry is the third largest industry in Australia for the number of people it employs. The industry generates over $360 billion in revenue and produces around 9 per cent of Australia's GDP. In 2019 over 1.15 million people were employed in construction (9 per cent of all jobs in Australia). According to the ABS only 12.1 per cent of the construction workforce is female; however, the numbers are predicted to increase as stereotypical expectations of where women can work continue to be fought.

2.4.4 Tertiary industry

The **tertiary industry** involves people performing a vast range of services for other people. Examples include retailers, dentists, solicitors, banks, museums and health workers.

tertiary industry involves people performing a vast range of services for other people

FIGURE 2.8 Retail spending fell at the fastest rate in nearly 20 years as the COVID-19 pandemic placed a cloud over the consumer landscape. Retail trade suffered its worst-ever monthly decline on record in April 2020, collapsing 17.9 per cent. Australian retailers are facing a volatile retail environment, with monthly swings in spending and enormous variations in performance by sector. Many have predicted large-scale store closures in the months ahead. In Australia, Jeanswest, Bardot and Topshop all recently went into administration.

Resources

Weblink Primary, secondary and tertiary industries

2.4.5 Quaternary industry

The **Quaternary industry** includes services that involve the transfer and processing of information and knowledge. Examples include telecommunications, property, computing, finance and education.

2.4.6 Quinary industry

Quinary industry includes all services that have traditionally been performed in the home. Examples include hospitality, tourism, craft-based activities and childcare. It includes both paid and unpaid work.

FIGURE 2.9 The professional, scientific and technical service industry is the largest industry in the quaternary sector. It is a diverse industry including activities such as legal and accounting services, and computer system design. More than a quarter of this workforce is self-employed. It is a highly skilled workforce, with 84 per cent holding post-school qualifications. Only 10 per cent of this workforce is aged 15 to 24 years old, reflecting the time it takes to attain the required qualifications.

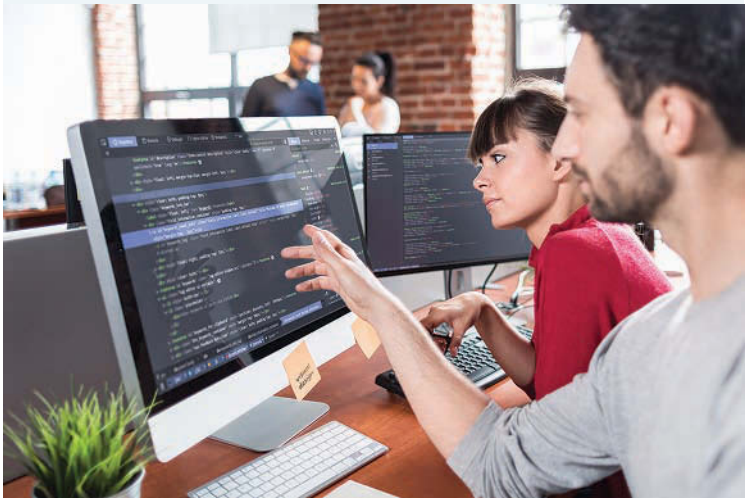


FIGURE 2.10 Tourism made up 10 per cent of global GDP in 2019 and was worth almost $9 trillion. In the wake of the COVID-19 pandemic, few industries have fallen as far and as fast as tourism. The World Travel and Tourism Council projects a global loss of 75 million jobs and $2.1 trillion in revenue. Tourism spending is not likely to return to pre-crisis levels until 2024.

BizFACT

It is estimated that by 2050, the quaternary and quinary sectors combined are likely to account for two-thirds of the economy.

2.4.7 How changes in external influences have contributed to the growth of the tertiary, quaternary and quinary industries in Australia

Changes in external influences have altered the proportion of employees working in Australia's historical industry sectors and contributed to the growth of the tertiary, quaternary and quinary industries. In 1900, about one in three employees worked in primary industries, mainly mining and farming. About a hundred years ago, many workers left the farms and mines and moved to jobs in the city to work in factories (secondary industry). By 1966, 25.5 per cent of total employment was in manufacturing.

From about the 1970s onwards, however, employment in both the primary and secondary industries decreased significantly and employment in the services sector was growing rapidly. Today, only about 980 000 people work in manufacturing and 325 000 people work on the land. While employment in mining increased during the resources boom in the early 2000s, since 2013 the number of people employed in this industry has decreased to 245 000 people, or just 2 per cent of total employment.

While the proportion of people working in the primary and secondary industries has been falling, that doesn't mean Australians are growing less food or digging fewer minerals. Australia's annual production in food and minerals and energy is actually greater than ever. So how can production go up and employment go down? This is due to technological advancements, especially automation. Improved methods of farming and mining as well as the increased use of mechanical equipment has meant fewer workers are required. The use of more and better machines has made farming, manufacturing and mining less labour-intensive. In addition, increased overseas competition, increased trade and changes in government policies have also led to a decline in employment in this industry.

In the past there were only three industry sectors: primary, secondary and tertiary. Since opportunities for employment in the primary and secondary industries have decreased over the past 50 years, the number of businesses and people employed in the tertiary industry sector has grown rapidly, to a point where today, about three out of every four employees and two out of every three businesses are classified as tertiary. Due to this increase, the tertiary sector has been subdivided into two other sectors: quaternary and quinary.

The quaternary sector is expected to undergo dramatic change over the next 20 years due to the rapid advances in telecommunications. Expansion in e-commerce and internet-based business activity will see an increase in the number of people employed in information processing and analysis.

Due to social and lifestyle changes, as well as an increase in the number of two-income households, the demand for quinary-type services is also estimated to expand rapidly during the next two decades. Many small businesses in particular have recently begun providing these services, filling a niche in the market.

This growth in employment in the service industries is expected to continue increasing rapidly due to technological and social changes.

quaternary industry includes services that involve the transfer and processing of information and knowledge

quinary industry includes services that have traditionally been performed in the home

KEY IDEAS

- An industry consists of businesses that are involved in similar types of production.
- Primary industry — includes businesses involved in collection of natural resources.
- Secondary industry — includes businesses involved in the production of finished or semi-finished goods.
- Tertiary industry — includes businesses that perform a service
- Quaternary industry — services that involve the transfer and processing of information and knowledge
- Quinary industry — services that have traditionally been performed in the home

2.4 Activities

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2.4 Quick quiz on | **2.4 Exercise**

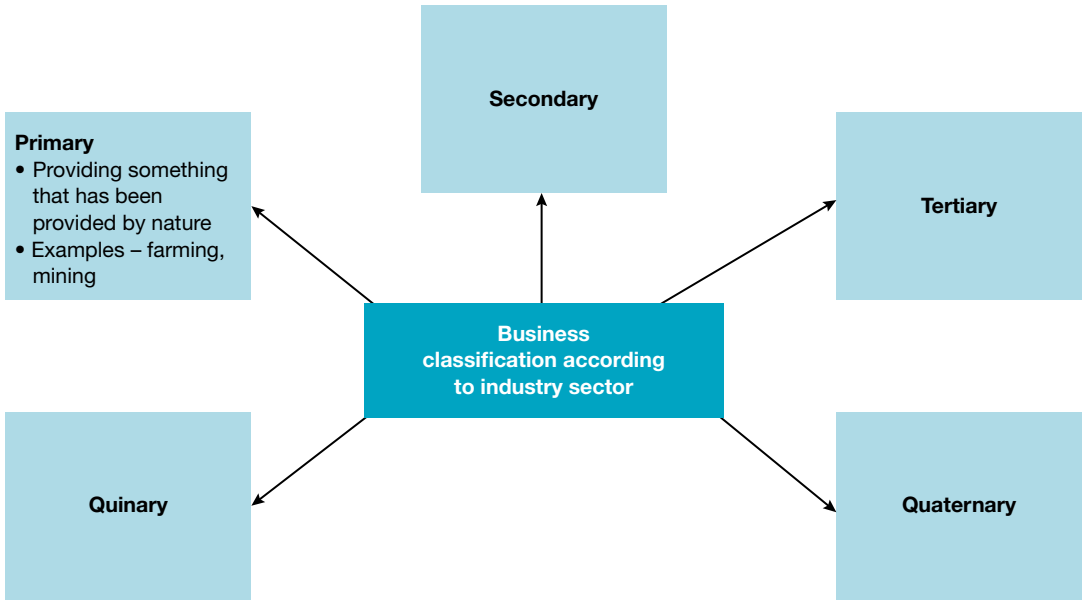
Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
4, 5, 6	1, 2, 7, 9, 10	3, 8

2.4 Exercise

Revision

1. **Distinguish** between a business and an industry.
2. **Construct** a mind map summarising the five industry sectors. Provide examples for each sector. The concept map has already been started for you.



3. In your notebook construct a table with five columns. At the top of the columns put the headings Primary, Secondary, Tertiary, Quaternary and Quinary. From the list of businesses, **determine** the correct column for its particular industry group and write in its name. The first one has been done for you.

- Tallong Orchards
- S. & W. Legal Centre
- Bowral Bricks
- Clancy's Restaurant
- Pollards Removalists
- Moo Moo Pastures Dairy
- Bald Hill Quarry
- Crookwell Real Estate
- Finlay's Fine Furniture
- Creative Hands Craft School
- Data Transfer Computing
- National Australia Bank
- Tiggy Wiggles Child Care Centre
- Hi Plains Merino Stud
- Southern Tablelands Towing
- Centretown Motel
- B. S. Plastics Manufacturers
- Country Furniture Constructions
- Pioneer Water Tanks
- Access TV Productions

Primary	Secondary	Tertiary	Quaternary	Quinary
Tallong Orchards				

4. **Outline** reasons for the growth in the tertiary sector over the past 50 years.

Refer to figure 2.6 in section 2.4.1 and answer questions 5 to 7.

5. **Identify** which industry sector employs the most people in Australia.
6. **Identify** which industry sector employs the fewest people in Australia.
7. **Why** do you think the industry you identified in part (b) employs the smallest number of Australians?

Extension

8. a. Construct a flowchart showing the industry sectors involved in the production of a car.
   b. **Analyse** the relationship between the various sectors.
9. a. **Construct** a list of tertiary jobs that are essential for the production of a:
      i. television game show
      ii. local newspaper
      iii. hi-fi system, bought at an electronics store.
   b. Place the letters 'Qt' next to those jobs that would be classified as quaternary and the letters 'Qn' for those jobs in the quinary sector.
   c. **Deduce** what your list reveals.
10. **Investigate** why the quinary sector includes unpaid, voluntary jobs.

Solutions and sample responses are available in your digital formats.

2.5 Classification by legal structure

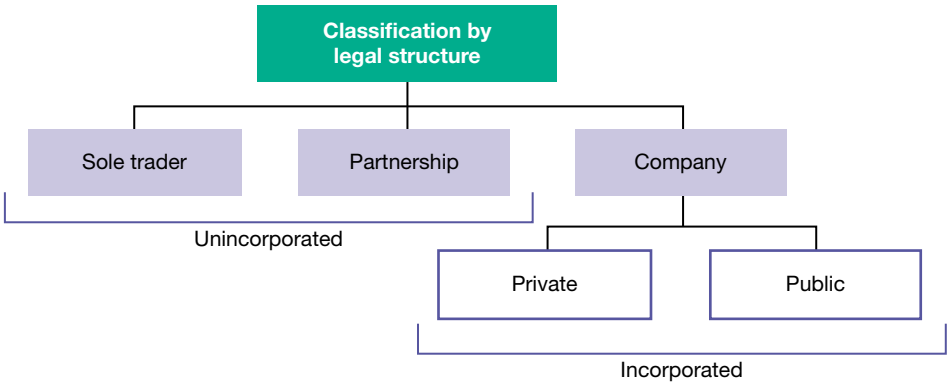
SYLLABUS LINK In this subtopic you will learn about:
- classification of business
  - legal structure — sole trader, partnership, private company, public company, government enterprise.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

2.5.1 The four main legal structures

There are a number of different legal structures to choose from when deciding how a business is to be owned and operated. The four main legal structures of privately owned businesses are shown in figure 2.11 — sole trader, partnership, private company and public company.

FIGURE 2.11 The four main legal structures of privately owned businesses



The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. According to the ABS, just over 2.3 million businesses were operating in the private sector in June 2019.

The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business and are referred to as government enterprises as they are owned and operated by the government. Government enterprises will be examined in section 2.6.4.

2.5.2 Incorporated and unincorporated business structures

As figure 2.11 shows, the four main legal structures of privately owned businesses can be further divided into:
- unincorporated businesses, in the case of sole traders and partnerships
- incorporated businesses, in the case of privately and publicly owned companies.

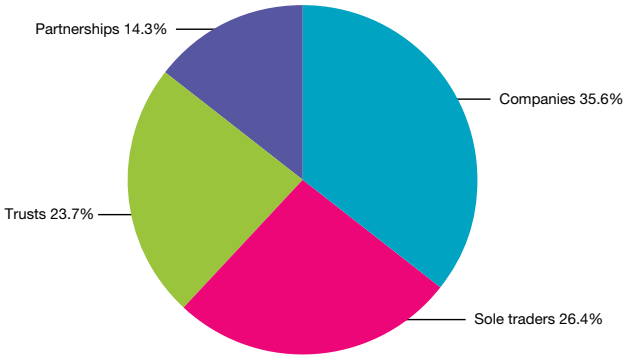
The term **incorporated** refers to the process companies go through to become a separate legal entity from the owner/s. This means the business exists in its own right as its own legal entity. Regardless of what happens to individual owners (shareholders) of the company, the business continues to operate. The business has taken on a life of its own.

An unincorporated business has no separate legal existence from its owner(s) and will be either a sole trader or partnership. This means the business entity and the owner(s) are one and the same. When the owner dies then so too does the business entity.

incorporated refers to the process companies go through to become a separate legal entity from the owner/s

The most common legal structure for small businesses in Australia is the unincorporated business entity, for example sole traders and partnerships (see figure 2.12), because this structure is the easiest and cheapest to establish. Companies and trusts are examples of incorporated legal structures, and are generally medium to large businesses.

FIGURE 2.12 Australian businesses by type of legal organisation (2017)



Selecting the appropriate business structure is one of the most important decisions a business owner has to make. Each of the different legal structures is covered by different government regulations that must be followed and, as such, have an enormous effect on the overall running of the business.

BizFACT

Not all small businesses start off as a sole trader or partnership. Take, for example, Australian teenage entrepreneur Jack Bloomfield, who created his first company when he was just 12 years old. His first venture was a company called 'Next Gifts' — an app that allows people to design greeting cards. He started this company with $500 which he made by selling lolly bags. He now runs a number of e-commerce stores and has earnt more than $1 million.

2.5.3 Sole trader businesses

A **sole trader** is a business that is owned and operated by one person. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish in terms of legal requirements. The only legal requirement specific to a sole trader is that the name of the business be registered if the name is different from that of the owner. For example, if Paul Jones operates a lawn-mowing service under the name of P. Jones or Paul Jones, then the name of his business does not need to be registered. If, however, he calls his business 'Paul's Lawn and Garden Service', he would have to register the name. The name must be registered with the Australian Securities and Investment Commission (ASIC).

A sole trader is not regarded as a separate legal entity; that is, the owner and the business are regarded as the same. This means that if the business is sued then the owner is sued, or if the business enters into a legal contract then the owner enters into the contract. If the business runs into financial difficulties, it is the owner or sole trader who has the financial problem and is solely responsible for the finances of the business. This responsibility may include selling personal assets, such as property or motor vehicles, to pay for the liabilities of the business. This is referred to as **unlimited liability**.

sole trader a business that is owned and operated by only one person

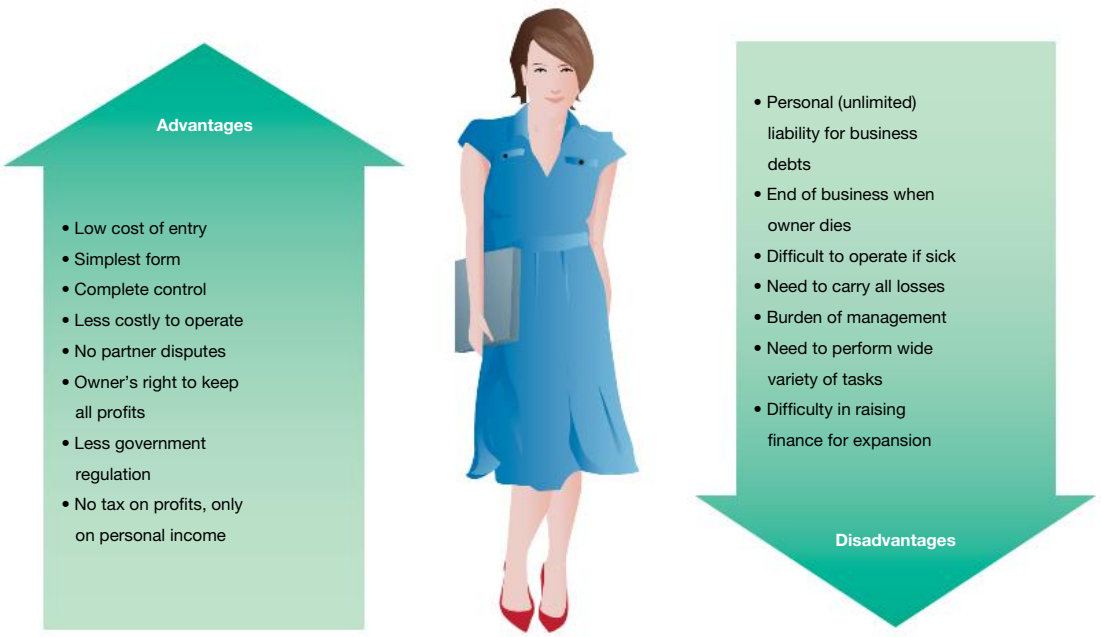
unlimited liability when the business owner is personally responsible for all the business's debt

BizFACT

While the majority of Australian businesses are sole traders, statistics from the ABS reveal that they are the most short-lived, with a survival rate of only 56 per cent.

The advantages and disadvantages of being a sole trader are shown below.

FIGURE 2.14 The advantages and disadvantages of being a sole trader



SNAPSHOT

Case study: Sole traders doing it all by themselves

The sole proprietor is often seen as a lonely figure battling against the elements, doing it all on their own.

But what might surprise you is that many sole proprietors — and small business owners with less than four employees — prefer it that way because of a combination of factors, such as control, expense and seeking value for dollar.

'I have seen many friends and associates having spent thousands and being left high and dry without the outcomes the service provider promised,' Helen D'Silva, a private practising psychologist says.

'They are struggling to pay for their own mortgage, rent, food and bills are constantly behind and not paid. For me, that stress is not worth it and it inspires me to find better ways.

Many sole traders such as Helen D'Silva make the decision to stay small.

'I am also mindful of how my money is spent and feel it's important to be able to have educated conversations with service providers when the time comes to be able to start paying people to do work for me.'

D'Silva has been in private practice since 2012 when she quit her job due to burnout.

'Working independently has its pluses and minuses,' she says. 'I am and feel in control.'

Soaring number of sole traders

D'Silva is far from on her own when it comes to being a sole proprietor.

According to the Australian Bureau of Statistics, between June 2015 and June 2016 the highest number of business entry rates was for sole proprietors — at 18.6 per cent. As of June 2016, 60.7 per cent of actively trading businesses in Australia had no employees, while 27.6 per cent had one to four employees, which comprises 88.3 per cent of the employment market.

'Time management is difficult, 'D'Silva says. 'I get distracted easily. I get caught in the love of learning about marketing and digital marketing specifically. I co-work which makes me accountable to turn up and be there to do work. Being an extrovert, I go crazy if I'm not around people for a long time.'

D'Silva is confident her business will grow substantially in future years despite a slow start. 'Sadly, my income is under $100 000 but I have committed that this is the last year I will ever earn under that amount.'

Source: Extracts from L White 'Sole traders doing it all by themselves', *The Age*, 11 May 2017.

on Resources

Weblink Sole trader

2.5.4 Partnerships

A **partnership** is a legal business structure that is owned and operated by between 2 and 20 people. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that the owner and the business are regarded as the same; that is, there is no separate legal entity. Consequently, the partners in a business are also subject to unlimited liability and so may be personally responsible for the debts of the business.

partnership a legal business structure that is owned and operated by between 2 and 20 people with the aim of making a profit

FIGURE 2.15 Partnerships are a common form of small business structure. The classic saying 'Two heads are better than one' is famous for good reason — it is true in many situations, including in the business world. Of course, finding the right 'mind' or partner is crucial.

A partnership can be made verbally or in writing or by implication; that is, if two people set up a business together *without* a legally binding partnership agreement. A written partnership agreement is not compulsory, but it is certainly worthwhile in case disputes arise.

A partnership agreement usually has a standard set of conditions (see the following BizFact). The size and operations of the partnership are subject to specific requirements under the *Partnership Act 1982* (NSW).

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in the running of the partnership. In this case, the partner is referred to as a silent or sleeping partner. The main reason for their investment is to add more capital or finance to an existing partnership.

There are a number of advantages and disadvantages of a partnership (see figure 2.16).

FIGURE 2.16 The advantages and disadvantages of a partnership

BizFACT

A partnership agreement contains many points, including:

- names and addresses of partners
- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- arrangements regarding a partner wanting to leave and start up a business in competition
- methods of resolving disputes.

on Resources

Weblinks Partnership
Australian Securities and Investments Commission (ASIC)

2.5.5 Types of companies

All companies are incorporated enterprises or have gone through the process of incorporation. This means that the company has become a separate legal entity from its owners (shareholders). The idea of a separate legal entity is referred to as the 'veil of incorporation'. This separate legal entity means that the company can sue and be sued; it can lease, sell or own property; and it has perpetual succession (this means it will continue to exist even when the owners change).

The process of incorporation is governed by the Commonwealth *Corporations Act 2001*, and is administered by the Australian Securities and Investments Commission (ASIC). For a business to become incorporated, a company name must be registered with ASIC, which will issue a certificate of incorporation and an Australian Company Number (ACN). Directors must be appointed to run the company on behalf of the owners. Once incorporated, the company has a separate legal entity to its owners, who are known as shareholders (referred to in the Corporations Act as 'members'). Incorporation also brings to the shareholders the benefits of limited liability.

All companies, as opposed to a partnership or sole trader, have **limited liability** which means that the most money a shareholder can lose is the amount they paid for their shares. Therefore, if the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders (see the following BizFact).

BizFACT

If directors make false and misleading statements or omissions in a prospectus, if they fail to appoint a company secretary or if they recklessly borrow money knowing that the debts probably will not be repaid, then the protection offered by the company in being a separate legal entity will not cover the directors. Directors accused of such unlawful behaviour may face common law suits and criminal charges.

As well, financial institutions often ask directors to give personal guarantees for some business loans. Under some circumstances, therefore, directors can be forced to sell their personal assets to help pay for the debts of the business. To offset this risk, companies can insure against such an event.

The letters 'Ltd' signify that the business is a company that offers limited liability. A company can be organised as either a proprietary (private) or public company.

There are a number of advantages and disadvantages to the company form of business ownership as outlined in figure 2.17.

limited liability a feature of corporate ownership that limits each owner's financial liability to the amount of money he or she has paid for the business's shares

FIGURE 2.17 The advantages and disadvantages of a company

2.5.6 Proprietary (private) companies

A **proprietary (private) company** is the most common type of company structure in Australia, and usually has between 2 and 50 private shareholders. Private companies often tend to be small to medium-sized, family-owned businesses.

Shares in a proprietary company are only offered to those people the business wishes to have as part-owners. Shareholders can only sell their shares to people approved of by the other directors. This is why such a company is called a 'private' company. It is not listed on, and its shares are not sold through, a stock exchange.

A private company must have the words 'proprietary limited', abbreviated to 'Pty Ltd', after its name. The main advantage of a private company is that shareholders have limited liability protection.

BizFACT

It is possible for a private company to have a single director who is also the sole shareholder of the company.

Sometimes, the decision is taken to close a business. However, closing a proprietary company is much more complex than closing a sole trader business or partnership. All shareholders of the company must agree to the company being wound up. A liquidator will manage the process of selling the company's assets, paying its debts and distributing funds from the asset sales among the shareholders.

proprietary (private) company
an incorporated business and usually has between 2 and 50 private shareholders

FIGURE 2.18 Wesfarmers is one of Australia's largest companies, and any one of its 2 200 000 employees might work for Bunnings, Officeworks, Target, Kmart or one of Wesfarmers' coal, energy, fertiliser or insurance interests.

2.5.7 Public companies

The shares for public companies are listed on the Australian Securities Exchange, and the general public may buy and sell shares in those companies.

Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products (see figure 2.19).

BizFACT

More than 2100 public companies are listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a 'good buy', its share price is likely to rise.

A public company has:

- at least one shareholder, with no maximum number
- no restrictions on the transfer of shares or raising money from the public by offering shares
- to issue a prospectus when selling its shares for the first time
- a minimum requirement of three directors (two must live in Australia)
- the word 'Limited' or 'Ltd' in its name
- to publish its audited financial accounts each year, its annual report.

FIGURE 2.19 The top five publicly listed companies in Australia in relation to total revenue in April 2020 were CSL Ltd, Commonwealth Bank of Australia, BHP, Westpac Banking Corporation and National Australia Bank Ltd.

on Resources

Weblink Australian Securities Exchange

2.5.8 Government enterprise

Government enterprises are government-owned and operated. (They are also known as government business enterprises — GBEs.) Like companies, GBEs participate in commercial activities with the goal of making a profit. We may not always think of them as being businesses, but they actually run just like companies. However, GBEs carry out government policies while they deliver community services.

GBEs also aim to increase the value of their assets and returns to their shareholder (the government). A board of management or board of directors usually controls a GBE, with government input into the board. The government maintains a strong interest in the performance and financial returns of the GBE.

Although only small in number, they are typically large, and include some of the largest employers of people in Australia. GBEs are owned and operated by all levels of government: federal, state and local. Examples include Australian Rail Track Corporation Limited, NBN Co, Essential Energy, Defence Housing Australia, Sydney Water and Australia Post. They are often referred to as public sector businesses and provide essential community services such as health, education, roads and welfare.

Government business enterprises are established by an Act of Parliament to carry out a function specified in detail in that Act. The Act defines the GBE's powers and functions. The government either wholly or partially owns GBEs (see the case study on Medibank).

government enterprises
government-owned and operated businesses

FIGURE 2.20 Australia Post is a government enterprise, as the Commonwealth Government is its sole shareholder. It receives no taxpayer funding but has paid more than $2 billion to the Australian government over the past decade. As a government enterprise it operates in the public sector, but it also operates in the transport, postal and warehousing industries.

Beginning in the early 1980s, a wave of **privatisation** — the selling of government controlled businesses to private investors — began to take place in most industrialised economies. Australia followed this trend. During the 1990s, the federal government privatised a number of public sector businesses including:

- AUSSAT — domestic satellite operator (now called Optus)
- Qantas — international airline carrier
- Commonwealth Bank — financial services
- Telstra — telecommunications.

Due to the process of privatisation, these organisations changed their legal structure from GBE to public company. The rationale behind this practice is that economic efficiency is increased by transferring enterprises away from the public sector to the private sector. It is argued by some that privately owned and organised business enterprises will be more efficient and profitable than GBEs.

privatisation the process of transferring the ownership of a government business to the private sector

SNAPSHOT

Case study: The privatisation of Medibank

Medibank Private Limited is a company that is listed on the ASX and is headquartered in Melbourne. It employs nearly 4000 people. It provides private health insurance and complementary health services to more than 3.7 million people in Australia and New Zealand through its Medibank and ahm brands.

However, Medibank has not always been a public listed company.

Medibank was originally established in 1975 by the Whitlam Labor government as a universal healthcare scheme; it was an operating division of the Health Insurance Commission (HIC) — now known as Medicare Australia — and ran in much the same way as Medicare does today. The Whitlam government was defeated in the December 1975 election and the incoming Liberal–National Country Party Coalition government set up a review of Medibank in February 1976. In October of that year Medibank became Medibank Private, a government owned, not-for-profit private health insurer that would provide competition for private for-profit health funds.

Medibank Private Ltd was originally established as a not-for-profit private health insurer. It eventually became a government business enterprise. The business was floated on the ASX in 2014, thereby becoming a public listed company.

In early 1997, the Australian government announced that it would incorporate Medibank, transferring ownership from the HIC to the government. The following year Medibank split from the Commission to become Medibank Private Limited. The Commonwealth became its sole shareholder.

The Howard government in 2006 announced that Medibank would be sold if it won the 2007 election. Legislation was passed enabling Medibank's sale through the *Medibank Sale Act 2006*. However, the Howard government lost the 2007 election, and in 2009 the Rudd government converted Medibank Private into a 'for profit' corporation.

The Coalition government announced that Medibank Private would be sold through an initial public offering (IPO) in March 2014, hoping to raise $4 billion from the sale. An IPO refers to the first time that a company sells shares to the open market.

When announcing the process for the privatisation of Medibank, Minister for Finance Mathias Cormann said, 'Medibank Private is already performing very well as a business, but there are obviously some restrictions that come with being government-owned and we believe that in private ownership, Medibank Private will be able to perform even better.'

The sale of Medibank commenced with a campaign to convince investors to pre-register their interest. A prospectus was made available in October. More than 750 000 people pre-registered for the shares, including one in six Medibank policyholders, and the IPO ended up being oversubscribed (more people wanted to buy Medibank shares than there were shares available).

The company listed on the ASX in November, with its share price opening at $2.22 — much higher than its IPO price — before closing at $2.14. This meant that the 440 000 retail investors who paid $2 for each share benefited from a 14c rise in the share price. The sale ended up raising $5.7 billion for the Australian government. It was expected that the proceeds from the sale would be invested into infrastructure through the government's asset recycling initiative.

Critics, such as the federal Labor Opposition, were concerned that the sale would have a negative impact on Medibank's staff members and policy holders, particularly that it might lead to an increase in private health insurance premiums. The Opposition also believed that the sale would increase the budget deficit (because the

government would lose Medibank's annual dividend payment). Some fund managers suggested that Medibank was not a company that was likely to see strong growth.

Medibank Private is now a multi-billion-dollar revenue business, and holds just under 27 per cent of the private health insurance market in Australia. In June 2019, Medibank announced an annual profit of $458.7 million, an increase of 3.1 per cent on the previous financial year's result. The result was attributed to increased membership numbers and productivity gains. Medibank CEO Craig Drummond said, 'While we may face a challenging market environment, our focus is clear — to give our customers greater choice over how and where their healthcare is delivered, and make health insurance more affordable, better value and easier to use.'

The profit was better than market expectations and Medibank Private's share price rose significantly in response to the release of the annual report.

In response to increasing consumer disquiet about rising premiums, Mr Drummond pointed out that since January 2019, Medibank had saved customers more than $3 million in out-of-pocket costs through the launch of their Members' Choice Advantage dental network. They had also launched their 'Live Better' rewards program to recognise customers for taking healthy actions, with one of the benefits being that rewards can be used to lower premiums.

on Resources

Weblink NBN Co Limited

BizFACT

When Medibank Private floated on the ASX, its five female directors made history by sitting on the only board of the 100 largest companies to have more women than men. In 2020, there were still five women on Medibank's board of eight directors: chairman Elizabeth Alexander, Tracey Batten (a former CEO of St Vincent's Health Australia, Eastern Health and Dental Health Services Victoria), former premier of Queensland Anna Bligh, Japara Healthcare chair Linda Bardo Nicholls, and CSL and Transurban director Christine O'Reilly.

KEY IDEAS

- The four main legal structures of privately owned businesses are sole traders, partnerships, private companies and public companies.
- Privately owned business structures can be either unincorporated or incorporated.
- A business that is incorporated becomes a separate legal entity from the owner/s.
- A sole trader — an unincorporated business entity — is a business that is owned and operated by one person and has unlimited liability.
- A partnership — an unincorporated business entity — is a business that is owned and operated by between 2 and 20 people and has unlimited liability.
- The partnership can be made verbally or in writing or by implication.
- All companies are incorporated enterprises.
- In limited liability companies, the most money a shareholder can lose is the amount they paid for their shares.
- A proprietary (private) company usually has fewer than 50 shareholders and must have the words 'proprietary limited' (Pty Ltd) after its name.
- The shares for a public company are listed on the Australian Securities Exchange.
- A public company must have the word 'limited' or 'Ltd' in its name.
- Government enterprises are government-owned and operated, and provide essential community services.
- Due to privatisation some government enterprises have become public companies.

2.5 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

2.5 Quick quiz on | **2.5 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 6, 10, 12, 14, 15, 20, 21, 23, 25, 27	2, 3, 4, 5, 8, 9, 13, 16, 17, 18, 19, 22, 26, 28, 29, 30, 32, 36, 37	7, 11, 24, 31, 33, 34, 35

2.5 Exercise

Revision

1. **Identify** the four main legal structures of privately owned businesses.
2. **Distinguish** between an incorporated and unincorporated business.
3. **Why** are unincorporated businesses the most common form of legal business structure?
4. **a.** Identify three examples of businesses that might suitably operate as sole traders.
   b. Explain why for each case.
5. Working with a partner or by yourself, research the businesses inside a shopping centre you are familiar with. Collect data for at least five different businesses in the centre and complete the following activities:
   a. Construct a table to record the information about the businesses like the one below.

Name of business	Nature of business activity	Form of business ownership
Rosie's cafe	Meals, tea, coffee, snacks	Sole trader

   b. Analyse your results to find out what is the most common form of business ownership. Use a bar graph or a pie chart to present your results.
6. **Define** the term 'unlimited liability'.
7. 'The advantages of being a sole trader outweigh the disadvantages'. **Assess** the accuracy of this statement.
8. **Distinguish** between a partnership and a sole trader.
9. Identify what you consider to be the two main advantages for a partnership. **Justify** your selection.
10. **Outline** the main purpose of a partnership agreement.
11. In pairs, imagine that you and your friend have decided to go into business together. Your business will specialise in designing home pages on the internet. Decide on a business name and then **create** a brief partnership agreement.
12. The Australian Securities and Investments Commission (ASIC) provides a range of regularly updated information about the legal requirements of business names. Go to the Australian Securities and Investments Commission (ASIC) website and find information to answer the following questions.
    a. Outline the purpose of a business name.
    b. Clarify whether registering a business name gives you ownership of that name.
    c. Describe the process involved in selecting a business name.
13. **Explain** the legal steps required to incorporate a business.
14. **Outline** why you think companies need to have perpetual succession.
15. **Recall** under what circumstances a director might be personally responsible for debts incurred by a company.
16. **Why** was new legislation introduced to penalise company directors who made misleading statements about the business's ability to repay its debts?
17. **Examine** figure 2.17. Identify what you believe to be the three main advantages and the three main disadvantages of a company form of business ownership. **Explain** why you chose each one.
18. **Construct** a concept map highlighting the main features of a proprietary company form of business structure.
19. **Construct** another concept map highlighting the main features of a public company form of business structure.
20. **Outline** the ways a private company is 'private' and a public company is 'public'.
21. **Recall** the main role of government enterprises.

22. You are planning to establish the following types of businesses. **Justify** what form of business ownership you would prefer.
    a. a bicycle shop that will offer professional and personal advice
    b. a cattle stud specialising in a large-scale breeding program
    c. a national retailer that would require $467 million to establish.
23. **Identify** the most appropriate terms from the list to complete the following sentences.

public	minimum	stock exchange
sole trader	Ltd	twenty
formal	liability	limited
share	Proprietary Limited	private
unlimited	personal	
Pty Ltd	shares	

A business entity with one owner is called a _____. This person faces _____ liability, which means the owner can be forced to sell his or her _____ assets to pay for the debts of the business. Partnerships normally consist of between two and _____ partners. Partners _____ the profits and losses and usually operate under a _____ agreement. Partnerships have unlimited _____. There are two types of companies, private and _____. A _____ company usually has between 2 and 50 private shareholders. A private company has the words _____, abbreviated to _____, after its name. Public companies are listed on the _____ and the general public may buy and sell _____ in them. These companies must have a _____ number of one shareholder and have the abbreviation _____ in their names. Companies have _____ liability.

24. In your notebook, draw up a table with four columns. At the top of each column put the headings Sole trader, Partnership, Private company and Public company. From the list of businesses shown, **determine** the correct column for its particular legal structure/entity. The first one has been completed for you.
    - Fairfax Limited M & M
    - Communications
    - Tip Top Bakeries Pty Ltd
    - Paul Banwell Motors
    - Ozemail Limited
    - David Tyler and Sons
    - Con Chipprio Plumber
    - Tynan Motors Pty Ltd
    - Jacinta's Newsagency
    - Newcrest Mining Ltd
    - Southcorp Ltd
    - R & R Cook Antiques
    - Pty Ltd

Sole trader	Partnership	Private company	Public company
Jacinta's Newsagency			

25. Read the 'Sole traders doing it all by themselves' case study. **Outline** the reasons that Helen D'Silva gives for continuing to own and operate her business independently.

Read 'The privitisation of Medibank' case study and answer questions 26 to 28.

26. **Explain** why Medibank Private was a government business enterprise.
27. **Describe** the process of privatisation as it applied to Medibank.
28. **Explain** why Medibank Private is now a public listed company.
29. **Recommend** an appropriate form of business ownership for the following people.
    a. Michael is interested in setting up a manufacturing business which will sell coffee to supermarkets around Australia and possibly internationally.
    b. Isabella wants to start a new pet shop business where she is responsible for making all of the decisions on her own.
    c. Alessia is considering whether she should open a fish and chip shop. She is worried that she has very little finance, and would like to invite other people to help her start the business.

Extension

30. **a. Explain** why limited partnerships were introduced into some states of Australia.
    b. Examine the regulations that apply to limited partnerships.
31. Suppose you are a part-time employee working for a sole trader. The owner has offered you a 35 per cent partnership and you are going to accept. **Create** a list of questions you should ask the owner before you sign the partnership agreement.
32. Arrange to interview a partner of a local business. **Investigate** the following topics:
    a. the number of people in the partnership
    b. the advantages of the partnership
    c. contents of the partnership agreement
    d. a brief history of the business.
33. 'An effective partnership is one in which the partners always agree on all matters related to the business.' **Assess** the accuracy of this statement.
34. Select a public company from the share page of a newspaper or the internet. Purchase a 'virtual' parcel of 5000 shares in this company and plot the price movements over a two-month period. **Evaluate** the performance of your share parcel over this period.
35. Arrange to interview the owner of a local private company. **Create** a report outlining the information listed below.
    a. The full name of the business
    b. A brief history of the business
    c. The business's main activity
    d. Why the owner decided to incorporate
    e. The expenses involved in setting up and operating a private company
    f. The main problems involved in operating the business
    g. The long-term plans the owner has for the business
    h. What changes the owner would like to make to the organisation and operation of the business
36. A friend has decided to establish a new restaurant. She asks you to advise her on the most appropriate legal structure.
    a. Construct a list of questions that you would ask her.
    b. Recommend the most appropriate legal structure suitable to your friend's situation and **justify** your recommendation.
37. In small groups, **investigate** the arguments for and against privatisation. Present your arguments to the rest of the class. **Compare** the group's answers.

Solutions and sample responses are available in your digital formats.

2.6 Factors influencing choice of legal structure

SYLLABUS LINK In this subtopic you will learn about:
- factors influencing choice of legal structure
  - size, ownership, finance.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

One of the first and most important decisions an owner has to make when starting a new business is the type of legal structure. The answer to the question 'What structure is best?' will depend on the unique needs of the business, as well as the particular circumstances influencing the business and its owners at different times. These needs will change as the business expands. Therefore, the legal structure may need to be altered to reflect these changing circumstances. There is no one structure that is better than the others.

The decision should not be entered into lightly and it's important for business owners to seek professional advice from accountants, solicitors or financial advisers when making this decision. It's also important for business owners to keep in mind that they can change structure as their business grows or their circumstances change.

Of all the factors that influence the business owner when deciding upon the most appropriate legal structure, the three most important are the:
1. size of the business
2. ownership
3. finances.

In reality, these three factors will all be interrelated and act together in influencing the choice made by the business owner.

2.6.1 Size of the business

As sales increase and the business operations grow to meet this higher level of customer demand, the business owner may need to select a more appropriate legal structure. Therefore, some broad generalisations can be made concerning the relationship between the size of a business and the most appropriate legal structure.

Most businesses begin their life as small or micro business enterprises. Therefore, the legal structure that is most suitable at this stage would be either a sole trader or partnership. If sales continue to increase, and the business keeps on growing, then further expansion will be needed and the business becomes a medium-sized one. The business will need to purchase new plant and equipment, which requires the injection of more money. Therefore, a partnership or private company may be formed, with the new partners or private shareholders bringing with them extra finance, skills and expertise. If expansion is rapid, then the owners may wish to seek the protection of limited liability, in which case the private company legal structure will be chosen.

Some businesses continue to grow to become large national or multinational corporations. To finance this level of expansion, it will be necessary to draw from a large pool of available finances. The business will now decide to raise this money from a sharemarket float. A **float** is the raising of capital in a company through the sale of shares to the public.

A **prospectus** is issued, the business is listed on the Australian Securities Exchange and shares are offered for sale. Also, an established public company can raise additional money from existing shareholders.

Of course, there is no rigid formula as to what legal structure best suits a particular size of business. Some businesses may establish themselves as public companies from the beginning, while others remain a private company even when the business has reached an international level. Each business owner will make a personal decision that best suits the conditions at the time, his or her own personal preferences and the overall business environment.

float the raising of capital in a company through the sale of shares to the public

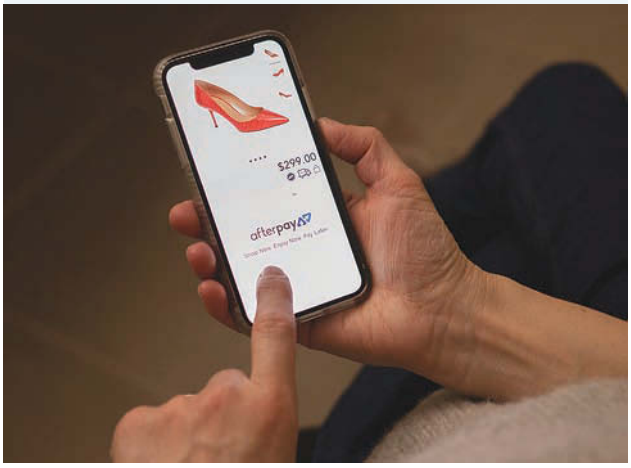
prospectus a document giving details of a company and inviting the public to buy shares in it

2.6.2 Ownership

If a business owner wishes to have complete control and ownership of a business, then becoming a sole trader is the only realistic option. On the other hand, if the owner wishes to share the ownership with other people, then a partnership is the ideal legal structure. Of course, a private company would also allow the owner to maintain a high degree of control and it would also offer the protection of limited liability. This is because a private company structure provides the owner with a large degree of control over who can become a shareholder of the business. As well, in most cases the maximum number of shareholders is restricted to 50.

Once a company floats and sells shares to the public, ownership will be divided among thousands of small, individual shareholders and a few institutional shareholders. The degree of ownership, then, is directly related to the number of shares owned: more shares, more ownership. Therefore, if the original owner/s wished to retain ownership and control of the business, they would need to hold more than 50 per cent of all the shares sold.

FIGURE 2.21 Nick Molnar started an online jewellery retailer while at university that he grew to $2 million in annual revenue. In 2014 he joined forces with his then-neighbour, Anthony Eisen, to launch AfterPay. It wasn't until 2016 however, that the cofounders decided to raise funds by listing on the ASX. They listed in May 2016 at an offer price of $1, which gave them a market capitalisation of $125 million.



2.6.3 Finance

As mentioned earlier, when a business expands it will require injections of finance. This money will be used to purchase new equipment, undertake research and development, hire more staff, exploit new markets and open new outlets.

Sole traders and partnerships, because of their exposure to risk (unlimited liability) with few business assets, can sometimes find it difficult to obtain adequate finance. The main sources of finance available for sole traders and partnerships include personal savings, loans from relatives and friends, reinvesting retained profits, credit card, trade credit, grants or bank loans. However, funding may be difficult as traditional sources of finance, especially banks, perceive this type of finance request as high risk. One other possible source of finance is venture capital. **Venture capital** is money that is invested in small and sometimes struggling businesses that have the potential to become very successful. The investors take an equity position in the business (own part of it) and provide supplementary finance.

FIGURE 2.22 It can be hard for sole traders to get finance. This is because financial institutions usually consider sole traders to be higher risk, especially if their business is new and they don't have a strong track record yet. Finance companies may also want some collateral to secure the loan.

venture capital money that is invested in small and sometimes struggling businesses that have the potential to become successful

To overcome the difficulty of raising finance from banks or financial institutions, the business owner may decide to go through the process of incorporation and become either a private or public company. This will enable the business to get access to a wider range of funds. For example, if the business decides to become a public company, they can raise capital from public investors. Of course, this legal structure does not guarantee the necessary finance will be obtained. Some floats fail to generate interest and are undersubscribed; that is, not all the shares are sold. However, because of the protection of limited liability offered through incorporation, individuals are more often prepared to invest in this business structure.

2.6.4 Other factors

Other factors that will influence the type of legal structure chosen include:

- *legal liability.* The owner needs to consider whether their business lends itself to potential liability and, if so, how much they want to be insulated from this. If an owner cannot afford the risk of liability and wants to ensure their personal assets are protected, then a sole trader or partnership may not be the best option.
- *tax implications.* The legal structure chosen will have a significant effect on the amount of tax paid and the types of tax that must be paid. There are many more tax options available to companies; however, a disadvantage is that there is double taxation; that is, income is taxed at both the corporate and personal level.
- *cost and complexity of formation.* Each legal structure has different set-up procedures and costs. For example, a sole trader is the simplest to set up and requires few reporting and administrative requirements, whereas a company must be established by a solicitor or accountant and is more expensive to set up. In addition, there are high costs associated with record-keeping and paperwork, as well as the costs involved in incorporation. Taking care of administrative requirements also takes up a lot of the owner's time and therefore creates additional costs for the business.

KEY IDEAS

- The most appropriate legal structure to select will depend on many variables including size, ownership and finance.
- Size: as businesses expand, then the business may wish to seek the protection of limited liability.
- Ownership: how much control and ownership of the business does the owner require?
- Finance: how much finance is required to expand and what sources of funds are required?
- As a business expands, it normally moves from an unincorporated structure to an incorporated structure.

2.6 Activities

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2.6 Quick quiz on | **2.6 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4, 6	1, 7, 8, 9, 11	5, 10

2.6 Exercise

Revision

1. **Explain** the general relationship between the size of a business and its legal structure.
2. **Recall** the purpose of a sharemarket float.
3. **Define** the term 'prospectus'.
4. **Outline** the reasons a sole trader would be motivated to alter the legal structure to become either a partnership or public company.
5. Assume you wish to establish a landscaping business. **Determine** which legal structure/s you would choose if you wanted to:
   a. retain complete control
   b. share ownership with no more than 20 people
   c. share ownership with no more than 50 people.
   d. Give reasons for your answers.
6. **Recall** the percentage of all the shares sold that a person needs to hold in order to own and control a company.
7. **How** will a business's legal structure change as it requires greater injections of finance?
8. **Investigate** the possible advantages and disadvantages of venture capital as a source of finance. Share your answer with the rest of the class.
9. **Explain** why the legal structure a business starts out with may not suit its needs as it grows.

Extension

10. 'The majority of small individual shareholders have virtually no say in the running of a public company. The institutional shareholders have the game to themselves.' **Evaluate** the accuracy of this statement.
11. **Construct** a list of 20 businesses that opened around two or three years ago in your local area.
    a. Place a cross next to the name of each business that is no longer in operation.
    b. In your opinion, **propose** some reasons these businesses failed.
    c. **Propose** some reasons for the success of the other businesses.
    d. Arrange to interview a person whose business succeeded. Have them explain to you the reasons for the business success.
    e. **Compare** the reasons you gave with those provided by the business owner.

Solutions and sample responses are available in your digital formats.

2.7 Review

2.7.1 Summary

Classification by size

- Businesses can be classified as micro, small, medium or large.
- Their classification will depend on such things as number of employees, market share, ownership and who makes the decisions.
- The most common way to categorise a business by size is by number of employees.
- A micro business is one that employs fewer than five people, a small business employs between 5 and 19 people, a medium business employs 20–199 people and a large business is one that employs over 200 people.

Classification by geographical spread

- Businesses can also be classified as local, national or global according to their geographical spread.
- A local business has a very restricted geographical spread; it serves its surrounding area.
- A national business operates in just one country.
- A global business — a multinational corporation (MNC) — is a large business with a home base in one country that operates partially owned or wholly owned businesses in other countries.

Classification by industry sector

- An industry consists of businesses that are involved in similar types of production.
- Primary industry — businesses involved in collection of natural resources
- Secondary industry — production of finished or semi-finished goods
- Tertiary industry — performing a service
- Quaternary industry — services that involve the transfer and processing of information and knowledge
- Quinary industry — services that have traditionally been performed in the home

Classification by legal structure

- The four main legal structures of privately owned businesses are sole traders, partnerships, private companies and public companies.
- Privately owned business structures can be either unincorporated or incorporated.
- A business that is incorporated becomes a separate legal entity from the owner/s.
- A sole trader — an unincorporated business entity — is a business that is owned and operated by one person and has unlimited liability.
- A partnership — an unincorporated business entity — is a business that is owned and operated by between 2 and 20 people and has unlimited liability.
- The partnership can be made verbally or in writing or by implication.
- All companies are incorporated enterprises.
- In limited liability companies, the most money a shareholder can lose is the amount they paid for their shares.
- A proprietary (private) company usually has fewer than 50 shareholders and must have the words ‘proprietary limited’ (Pty Ltd) after its name.
- The shares for a public company are listed on the Australian Securities Exchange.
- A public company must have the word ‘limited’ or ‘Ltd’ in its name.
- Government enterprises are government-owned and operated, and provide essential community services.
- Due to privatisation some government enterprises have become public companies.

Factors influencing choice of legal structure

- The most appropriate legal structure to select will depend on many variables including size, ownership and finance.
- Size: as businesses expand, then the business may wish to seek the protection of limited liability.
- Ownership: how much control and ownership of the business does the owner require?

- Finance: how much finance is required to expand and what sources of funds are required?
- As a business expands, it normally moves from an unincorporated structure to an incorporated structure.

2.7.2 Key terms

float the raising of capital in a company through the sale of shares to the public
geographical spread the presence of a business and the range of its products across a suburb, city, state or country, or the globe
government enterprises government-owned and operated businesses
incorporated refers to the process companies go through to become a separate legal entity from the owner/s
industry businesses that are involved in similar types of production
large business a business with 200 or more employees
limited liability a feature of corporate ownership that limits each owner's financial liability to the amount of money he or she has paid for the business's shares
local business a business that has a restricted geographical spread; it serves the surrounding area.
medium business a business with 20–199 employees
micro business a business with fewer than five employees
multinational corporation a company that has branches in many different countries
national business a business that operates within just one country
partnership a legal business structure that is owned and operated by between 2 and 20 people with the aim of making a profit
primary industry includes those businesses involved in the collection of natural resources
privatisation the process of transferring the ownership of a government business to the private sector
proprietary (private) company an incorporated business and usually has between 2 and 50 private shareholders
prospectus a document giving details of a company and inviting the public to buy shares in it
quaternary industry includes services that involve the transfer and processing of information and knowledge
quinary industry includes services that have traditionally been performed in the home
secondary industry includes businesses that take a raw material and make it into a finished or semi-finished product
small business a business with 5–19 employees
small to medium enterprises defined by the Australian Bureau of Statistics as firms with fewer than 200 full-time equivalent employees and/or less than $10 million turnover
sole trader a business that is owned and operated by only one person
tertiary industry involves people performing a vast range of services for other people
unlimited liability when the business owner is personally responsible for all the business's debt
venture capital money that is invested in small and sometimes struggling businesses that have the potential to become successful

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Digital documents Key terms glossary (doc-35779)
Chapter crossword (doc-36241)

Interactivity Chapter crossword (int-7213)

2.7 Activities

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Exercise 1: Multiple choice questions

1. Which of the following distinguishes a sole trader from an incorporated business?
   - **A.** A sole trader has limited liability and an incorporated business has unlimited liability.
   - **B.** A sole trader can operate forever, while an incorporated business has a limited life.
   - **C.** A sole trader has to publish a set of financial reports, while an incorporated business does not.
   - **D.** A sole trader has complete control, while an incorporated business is controlled by a board of directors.
2. What is the maximum number of shareholders a private company can have?
   - **A.** 50
   - **B.** 2
   - **C.** Unlimited
   - **D.** 500
3. How does the Australian Bureau of Statistics define an SME?
   - **A.** SMEs have more than $300 million turnover per year.
   - **B.** All SMEs have unlimited liability.
   - **C.** SMEs have fewer than 200 full-time employees.
   - **D.** All SMEs only employ part-time and casual workers.
4. The management of 'Alex the Traveller' has decided to expand their tourism business. They want to operate in a number of states in Australia. The business had operated as a private company but now wants to go 'public'. That means offering shares to the general public in order to raise the necessary funds for expansion. What factor would have influenced management's choice for such a legal structure?
   - **A.** The nature of the business
   - **B.** The size of the business
   - **C.** Ownership
   - **D.** Finance
5. Amy wants to start a childcare business. What industry classification would her business fall under?
   - **A.** Primary
   - **B.** Quaternary
   - **C.** Quinary
   - **D.** Tertiary
6. What would be an advantage of operating as a sole trader when Amy opens her new childcare business venture?
   - **A.** She would have limited liability.
   - **B.** Tax is only on her profits.
   - **C.** Raising debt finance is easy.
   - **D.** There is a low cost of entry.
7. Which of the following would be an example of a secondary industry?
   - **A.** Allentown Steel
   - **B.** Cindy's Craft Shop
   - **C.** Big Ben's Tutoring
   - **D.** Alpaca Farm
8. Which legal structure would have the greatest risk of financial failure because of their access to financial resources?
   - **A.** Sole trader
   - **B.** Partnership
   - **C.** Private company
   - **D.** Public company
9. Which of the following would classify as a business operating in the quaternary sector?
   - **A.** Transforming raw materials into finished products
   - **B.** Increasing the vale of raw materials from the primary sector

C. Transforming and processing knowledge
D. Providing a service which can be unpaid or paid

10. Kumar operates a newsagency in the suburb of Sydney. How would this business be classified from a geographical point of view?
A. Regional
B. Local
C. National
D. Global

Exercise 2: Exam practice questions

Question 1 (4 marks)

Rosie & Sons is a manufacturing business that now operates in more than 50 countries and has over 550 employees. **Identify** how this business would be classified according to its size, geographical spread, industry sector and legal structure.

Question 2 (2 marks)

Define a small-to-medium enterprise.

Question 3 (3 marks)

Explain ONE of the factors influencing the choice of legal structure.

Question 4 (4 marks)

Distinguish between a private and a public company.

Question 5 (4 marks)

Discuss the advantages and disadvantages of forming a company.

Question 6 (4 marks)

Analyse how changes in external influences have contributed to the growth of the tertiary, quaternary and quinary industries in Australia.

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3 Influences in the business environment

3.1 Overview

LEARNING SEQUENCE

3.1 Overview
3.2 External influences: economic, financial, geographic, social, legal
3.3 External influences: political, institutional, technological, competitive situation, markets
3.4 Internal influences on business
3.5 Stakeholders
3.6 Review

3.1.1 Introduction

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

3.1.2 Business environment

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

Successful business managers have a good understanding of the environment in which the business operates. This allows them to respond positively to changes that take place and prepare for the impact such changes will have on their business operations.

The **business environment** refers to the surrounding conditions in which the business operates, and can be divided into two broad categories: external and internal (see figure 3.2).

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

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

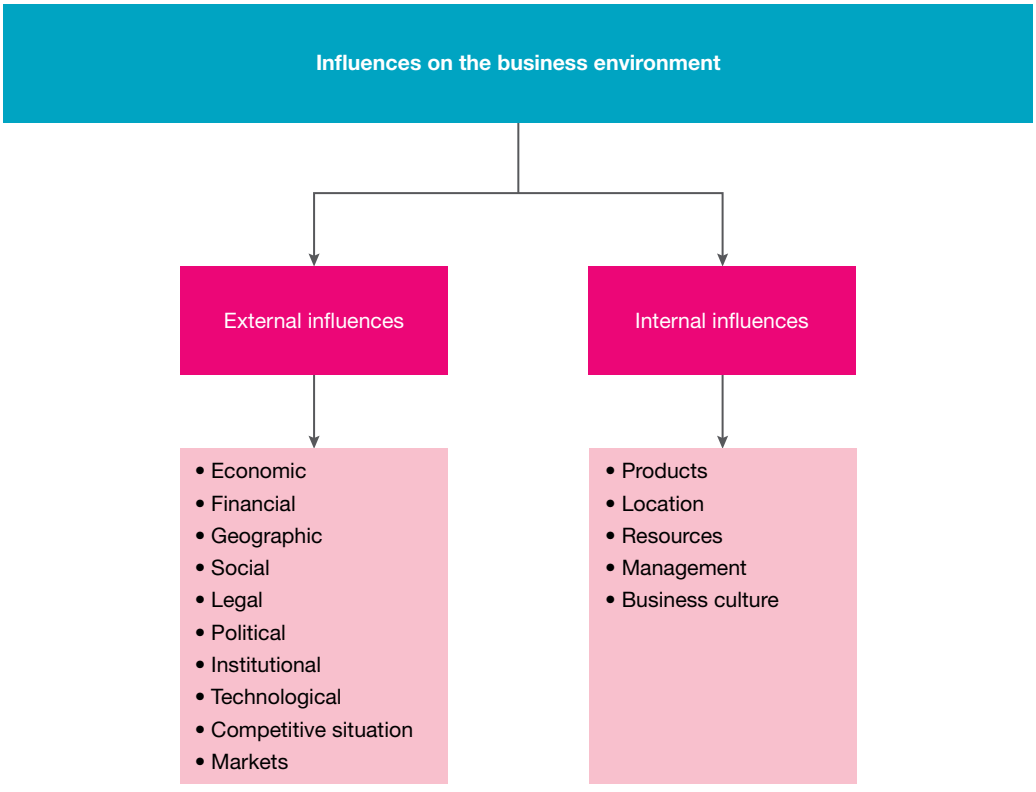
business environment refers to the surrounding conditions in which the business operates. It can be divided into two broad categories: external and internal.

external environment includes those factors over which the business has very little control

internal environment includes those factors over which the business has some degree of control

FIGURE 3.1 Your learning environment is made up of factors over which you have some control and other factors over which you have little control.

FIGURE 3.2 Influences on business



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Digital document Key terms glossary (doc-35781)

3.2 External influences: economic, financial, geographic, social, legal

SYLLABUS LINK In this subtopic you will learn about influences in the business environment:
- external influences — economic, financial, geographic, social, legal.

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Changes in the external environment make it necessary for managers to make adjustments to business operations. This may include the introduction of new government regulations that require the business to make adjustments; for example, all businesses will need to respond to some type of carbon reduction scheme that will result in organisations paying for the carbon pollution they generate in order to reduce carbon pollution and eventually create a more sustainable economy. Figure 3.2 outlines the main external influences on a business.

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3.2.1 Economic influences

Economic influences refer to the many factors that relate to economic activity in a country, region or the world and include interest rates, wages, unemployment, exchange rates and inflation. Economic forces have an enormous impact on both business and customers. They influence a business's capacity to compete and customers' willingness and ability to spend.

Economies do not always experience constant growth. Rather, the level of economic activity fluctuates (moves up and down) over time from periods of growth ('boom') to recession ('bust') and back to boom conditions. In other words, total production, incomes, spending and employment rise and fall.

The **economic cycle** (also known as the business cycle) refers to the periods of growth and recession that occur as a result of fluctuations in the general level of economic activity. These periods of high and low economic activity are referred to as the business cycle. After a period of prosperity, business activity gradually slows until a recession or depression is reached. Eventually, business picks up again until prosperity is restored. This completes the cycle. These cycles are a basic feature of our economic system.

Economic forces have an enormous impact on both business and customers. They influence a business's capacity to compete and customer's willingness and ability to spend. Figure 3.3 shows the impact of each phase of the economic cycle on a business's performance.

The COVID-19 pandemic severely affected the global economy and has had far-reaching economic consequences beyond the spread of the disease itself. The pandemic caused the largest global recession in history, with more than a third of the global population at some stage being placed in lockdown. According to World Bank data, the global economy shrunk by 4.3 per cent in 2020, but is expected to expand by 4 per cent in 2021.

Many people lost their jobs or experienced significant reductions in income. Unemployment rates have increased and millions of workers have been put on government-supported job retention schemes such as JobKeeper. There have been major disruptions to many industries, such as tourism and hospitality. These are just a few of the many consequences of the disease mitigation measures that were implemented in many countries.

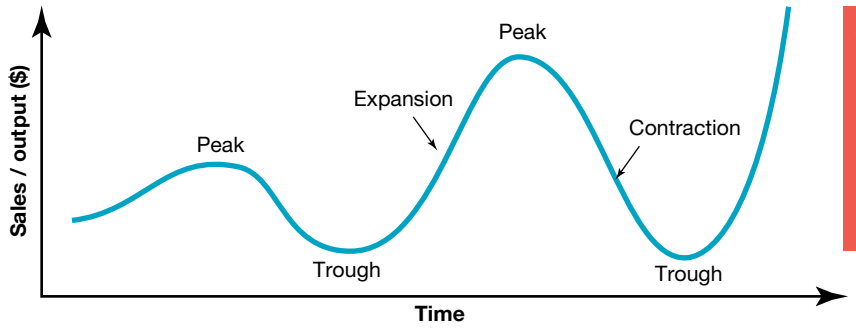
economic cycles (or business cycles) the periods of growth ('boom') and recession ('bust') that occur as a result of fluctuations in the general level of economic activity

FIGURE 3.3 The economic or business cycle

Expansion — key features
- Increasing consumer spending
- Business expectations increasingly optimistic
- Increasing business investment
- Sales and profits rising
- Unemployment falling

Contraction — key features
- Decreasing consumer spending
- Business expectations increasingly pessimistic
- Decreasing business investment
- Sales and profits falling
- Unemployment rising

Peaks — key features
- Wages and salaries at high levels
- Business operating at full capacity
- Sales and profits at highest levels
- Low level of unemployment



Troughs — key features
- Wages and salaries at low levels
- Business operating at below full capacity
- Sales and profits at lowest levels
- Consumer spending at lowest levels
- High level of unemployment

BizFACT

A commonly cited reason for small business failure is adverse economic conditions. Some statistical research on reasons why small businesses fail revealed that 12.4 per cent of small businesses fail due to inflation and economic conditions.

Information on economic growth, inflation trends, average weekly earnings, consumer confidence, interest rates, consumer spending and unemployment provide businesses with insight into economic trends. This information on the level of economic activity allows businesses to predict possible threats to, and opportunities for, business activity.

The state of the economy has a great impact on business. The policies implemented by the government are aimed at keeping the economy growing steadily, without putting pressure on inflation (prices) and wages. The economy is also affected by overseas trends — changes in trade, investment and currency levels all affect Australia's level of economic activity.

For instance, China is Australia's largest trading partner, with two-way trade worth $194.6 billion annually. The significant trade partnership covers many industries. For example, China is Australia's largest source of international students, a major source of direct foreign investment, our most valuable tourism market and our largest agricultural goods market. In May 2020, China imposed several trade restrictions on Australian-sourced imports, including an 80 per cent tariff on Australian barley exports, as well as suspending beef imports from four major meat-processing plants. This will have a significant impact on those industries.

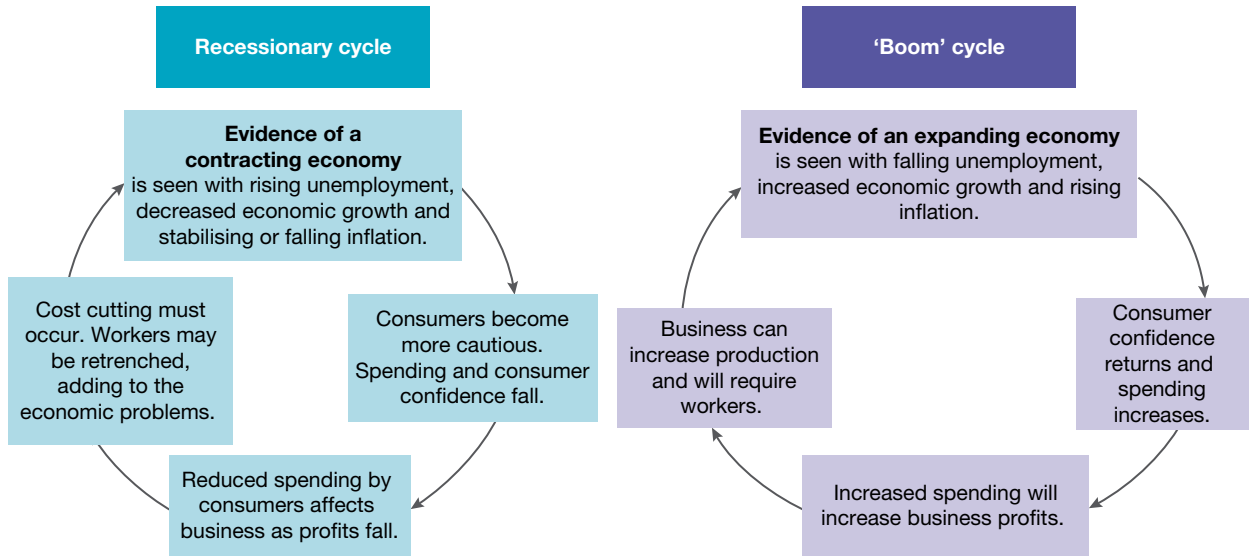
When economic problems start to appear, we as consumers become more cautious with the way we spend our money and our overall confidence begins to fall (see figure 3.5). The reduced spending has an impact on business owners — they find profits falling, and cost cutting must occur if they are to survive.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

One important factor to consider in terms of economic cycles is that not all businesses experience a downturn in revenue and sales during a recession; nor do they necessarily experience an upswing in trade during a 'boom' period. The businesses most susceptible to the 'swings' are those selling consumer or luxury goods, as

consumers will cut back on these when they reduce overall spending. Some businesses fare very well during a recession, such as 'bargain shops' or other clearance outlets.

FIGURE 3.4 Insolvency experts have predicted that tens of thousands of businesses could collapse by mid 2022 as changes to insolvency laws kick in and economic stimulus measures, such as JobKeeper, come to an end. Australian Restructuring Insolvency & Turnaround Association chief executive John Winter said there were about 8000 insolvencies in 2019, but he expects that number to increase dramatically and has estimated that about 24 000 businesses could go under by mid 2021.

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



BizFACT

One business that benefited from the coronacession is Temple & Webster. The online furniture and homewares retailer benefited from a boom in online shopping as well as from more people buying home office furniture than ever before. Sales were doubling, sometimes near tripling month on month throughout 2020. The company made a profit of $8.6 million between July and September 2020, which was seven times the $1.1 million dollar profit they made for the 2019–20 financial year.

SNAPSHOT

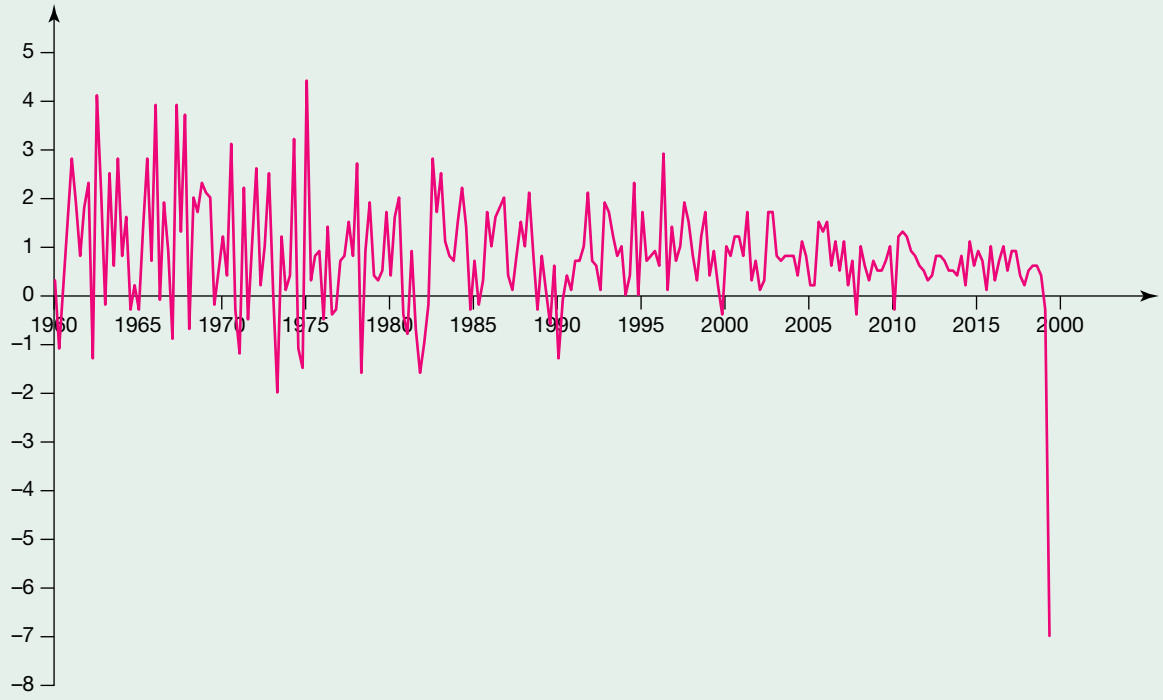
Case study: Impacts of the coronacession

Australia's recession is the deepest since the Great Depression of the early 1930s. Nothing else comes close. The economy shrank an extraordinary 7 per cent in the three months to June — by far the biggest collapse since the Australian Bureau of Statistics (ABS) began compiling records in 1959. The previous worst quarterly outcome was minus 2 per cent, in June 1974.

It was going to be worse.

Treasurer Josh Frydenberg told a Parliament House press conference that in March his advisers were predicting a collapse three times as big in the June quarter — 20 per cent. In May, the forecast was for a June quarter collapse of 10 per cent.

Quarterly percentage change in gross domestic product

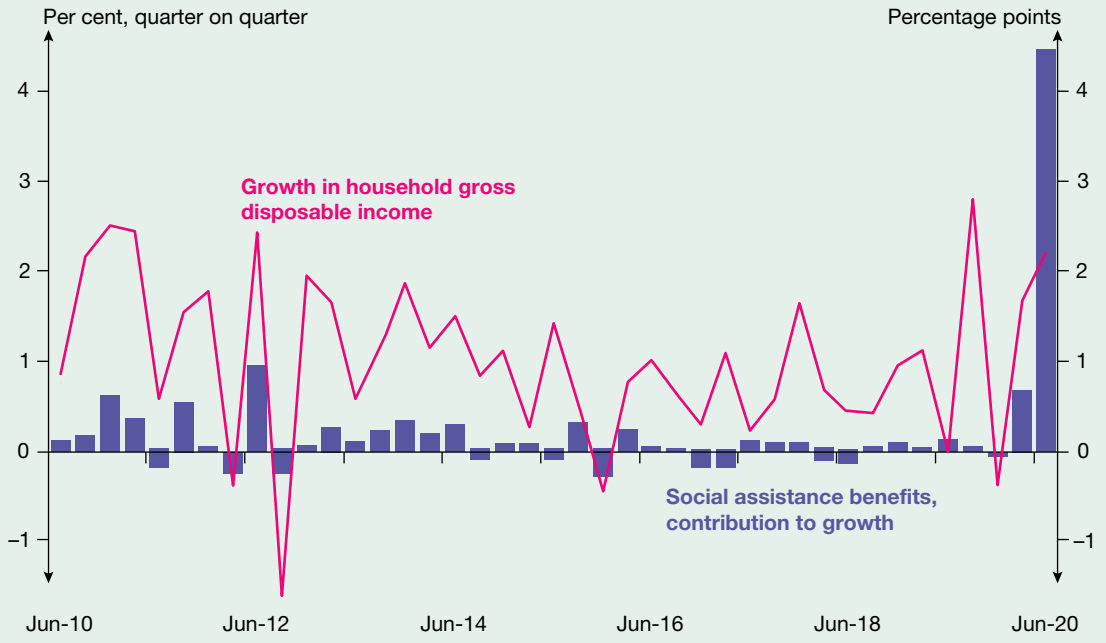


(*Source:* ABS National Accounts)

Britain's economy actually did collapse 20 per cent in the June quarter; the US economy collapsed by nearly 10 per cent.

What staved off a collapse of the order feared was unprecedented government support — more than $100 billion in JobKeeper and expanded JobSeeker payments alone — enough to actually lift household incomes while 643 000 Australians lost their jobs and many more lost hours.

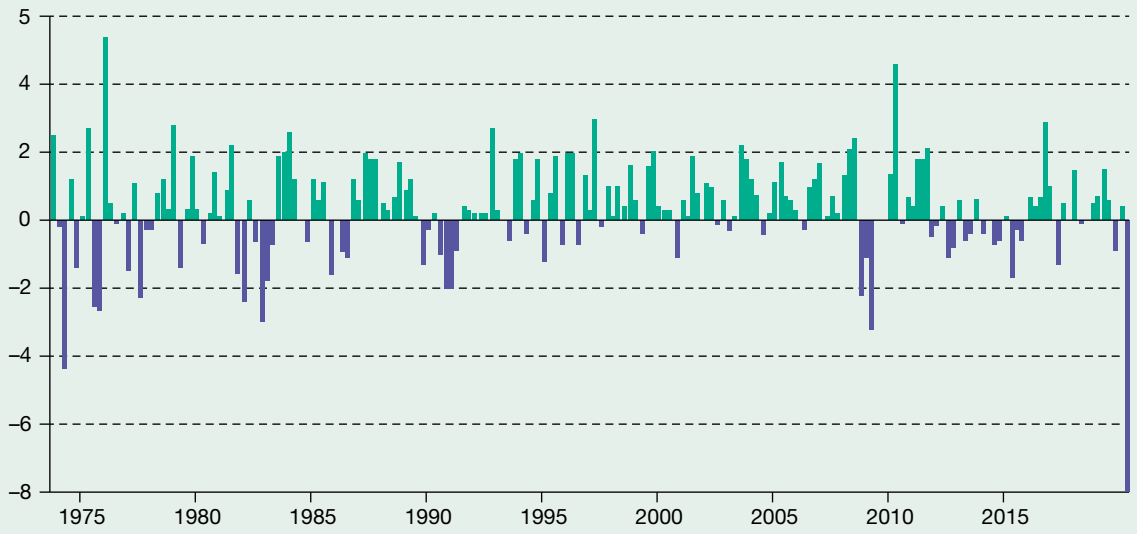
Contribution of government benefits to household income growth



(*Source:* Commonwealth Treasury)

A better measure of living standards, taking into account households and businesses, so-called 'real net national disposable income per capita', fell nonetheless, by a record 8 per cent.

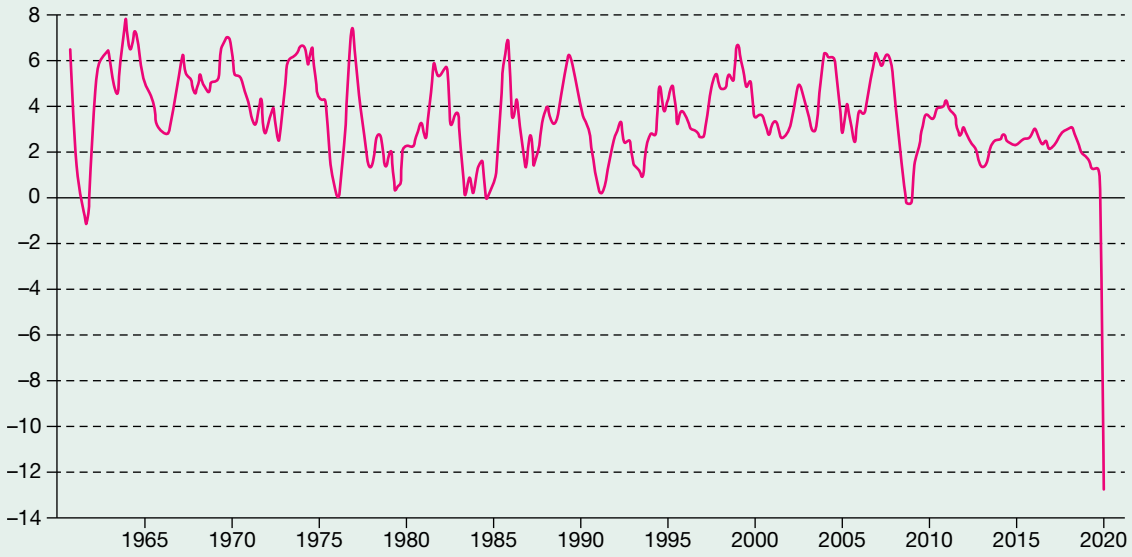
Quarterly percentage change in living standards



(*Source:* ABS Australian National Accounts)

Consumer spending fell by even more, an extraordinary 12.7 per cent, in part because lockdowns and caution in the face of COVID-19 provided fewer opportunities to spend. Given that consumer spending climbed not at all over the three quarters leading up to the June quarter, it meant that household spending fell over the entire financial year for the first time since records began.

Quarterly change in household final consumption expenditure

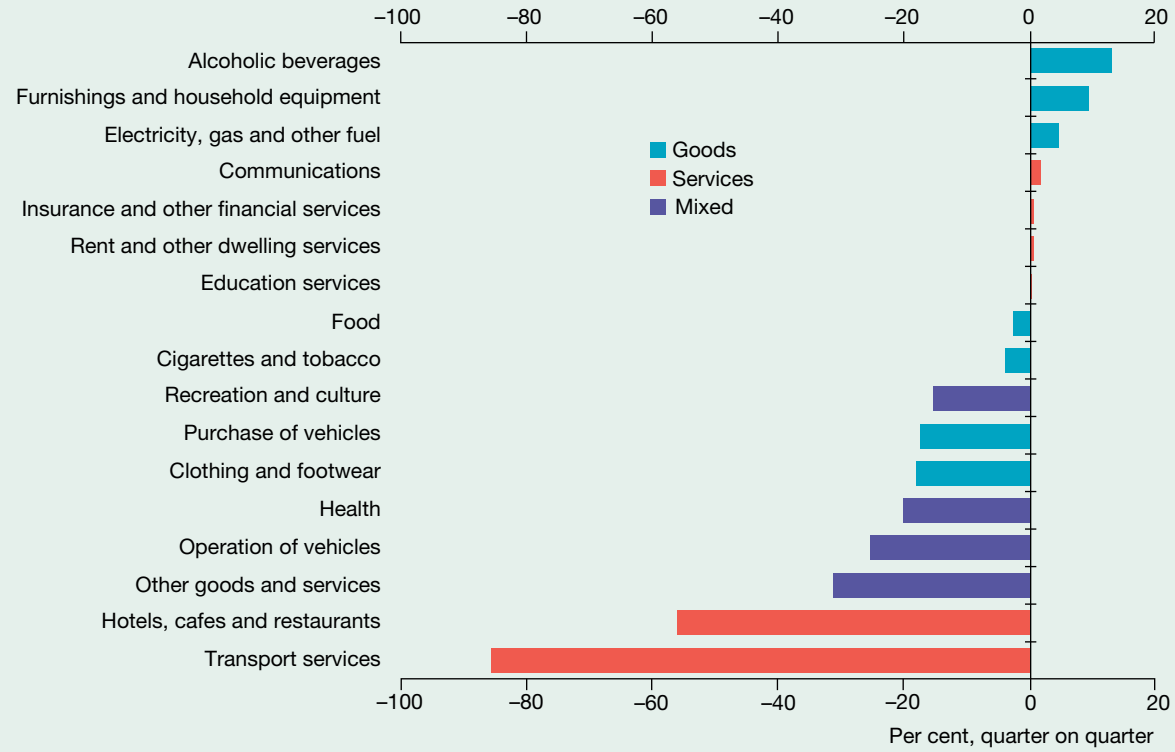


(*Source:* ABS Australian National Accounts)

Spending on goods was barely hit, while spending on services collapsed 17.6 per cent. Spending on transport services, a category that encompasses everything from flights to public transport, fell 88 per cent.

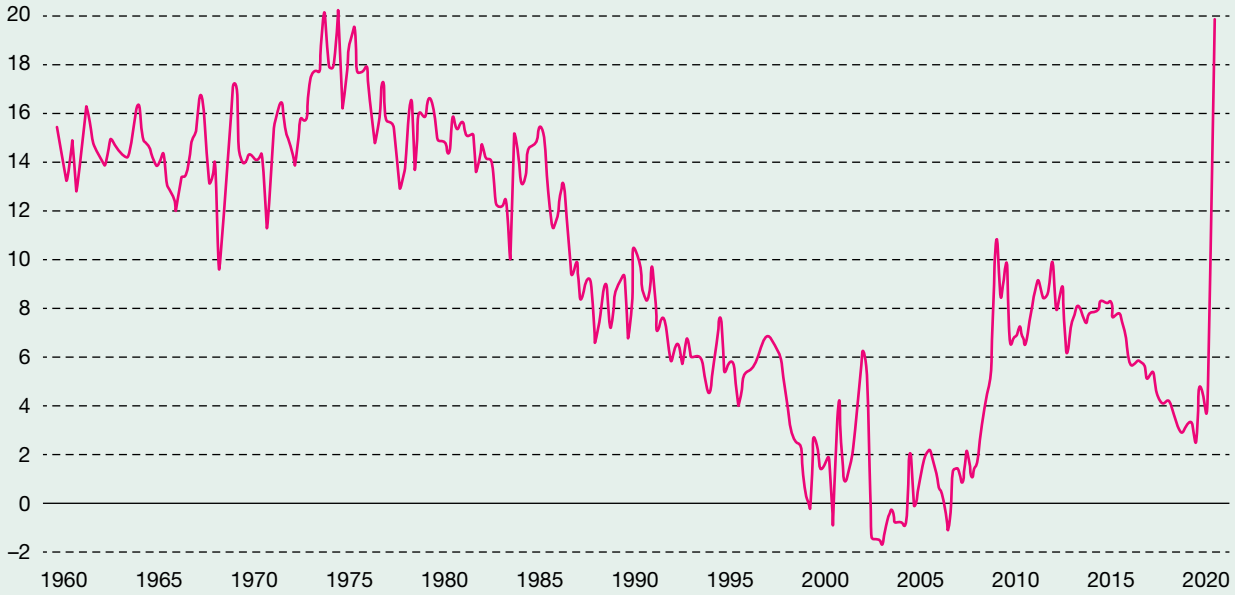
Spending on accommodation, a category that encompasses tourism, fell 55.7 per cent. Spending on recreational and cultural services, a category that encompasses sporting events, gambling, performances and cinema admissions, fell 54.5 per cent.

Household spending by category



(*Source:* Commonwealth Treasury)

Household saving ratio



(*Source:* ABS Australian National Accounts)

It meant far more income than usual was saved. During the depths of the global financial crisis, Australia's household saving ratio climbed to a peak of 10.9 per cent as households squirrelled away one in every 10 dollars they earned.

In June, they squirrelled away a remarkable 19.7 per cent — one in five dollars that came in the door.

The ABS says if household income from special initiatives, including early access to super, was included, the household income ratio would be even higher. What it calls the 'household experience savings ratio' would be 24.8 per cent.

It's possible to see households saving one in every four dollars as a 'glass half full'. Frydenberg does. He says this never-before-experienced accumulation of savings will be useful in the recovery, giving people the capacity to spend big when restrictions ease and they are better able to spend.

What if we remain unwilling to spend …

That's assuming people aren't 'scarred' by the experience, left with damaged psyches and unwilling to spend, a possibility the Treasurer acknowledges. He says for the next quarter, the current one that encompasses the three months to the end of September, the Treasury is expecting economic activity to shrink only a little further or no further at all. A lot depends on how soon Victoria's Stage 4 restrictions and other restrictions are eased, which means a lot depends on things that are unknowable.

… and businesses unwilling to invest?

The Treasurer will deliver the budget in a little over four weeks' time. He said a key part of it will be measures to make it easier for businesses to do business, unlocking 'entrepreneurship and innovation' at low cost.

Businesses certainly could invest more. Non-mining business investment was down 9.3 per cent in the quarter. On Tuesday, the Reserve Bank made available an extra $57 billion at low cost for banks to advance businesses and households. But they are only likely to want to invest more when they can see returns.

Examining the figures on Wednesday, former Reserve Bank economist Callam Pickering said they showed the economy being held together 'with duct tape by JobKeeper and JobSeeker'.

At his press conference, Frydenberg resisted suggestions that he revisit the wind-downs of JobKeeper and the JobSeeker Coronavirus Supplement due to take place over the next six months.

Source: Extracts from Peter Martin, 'Six graphs that explain Australia's recession', *ABC Online*, 3 September 2020.'

3.2.2 Financial influences

There have been enormous changes in global financial markets over the past 30 years.

Deregulation of Australia's financial system began in 1983 and it continues to undergo change. This has resulted in a more flexible, market-oriented approach across the financial sector. A substantial number of new banking products have emerged, aimed at the business sector. The process of financial deregulation has resulted in the opening up of the financial industry to greater competition.

A main source of finance for business is debt finance. Debt finance is significantly influenced by the level of interest rates. As interest rates increase, businesses will become more cautious in relation to taking on extra debt. On the other hand, as interest rates drop, then businesses will take on more debt.

Interest rates in Australia fell to record lows in 2019–20. After keeping official interest rates steady from March to October 2020, the Reserve Bank (RBA) cut interest rates further in November to 0.10 per cent. This was in direct response to the growing threat of COVID-19 on Australia. The RBA warned that these record low interest rates will remain in place for an extended period of time. These low interest rates are not unique to Australia — interest rates around the world are also very low and, in many cases, are the lowest on record.

Due to globalisation of the world's financial markets, it is no longer necessary for many large Australian businesses to use only domestic financial institutions for the raising of finance. For example, News Limited, the global media company, can access finance from worldwide sources.

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

3.2.3 Geographic influences

Geographic influences refer to the effects the climate, natural resources, topography, physical infrastructure and location have on a business. Two major factors that have an enormous impact on business activity are Australia's geographic location within the Asia–Pacific region and the economic growth in a number of Asian nations, especially China. They provide challenging opportunities for business expansion, sales and profit.

BizFACT

Between 1995 and 2019, the proportion of people aged 65 years and over increased from 11.9 per cent to 15.9 per cent of the population. This is expected to grow to 22 per cent by 2056. In addition, the proportion of people aged 85 years and over almost doubled from 1.1 per cent of the total population in 1995 to 2.5 per cent in 2019.

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

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

deregulation the removal of government regulation from industry, with the aim of increasing efficiency and improving competition

The National Sustainability Council's report in 2013 predicted that the number of retirees would almost double over the next 20 years, straining taxpayer spending on pensions, health and aged care. The report suggested increasing the retirement age to 70 as a way to make baby boomers work longer, because Australia won't have enough people working and paying taxes to support all the retirees and people on welfare. Another recommendation put forward to increase the participation rate of older workers was to support more flexible working conditions, and encouragement or incentives for older workers.

BizFACT

When you retire, you may be eligible for government benefits such as the Age Pension. In order to get the Age Pension, you need to be the qualifying age or older. The current minimum age is 66 years for both men and women, although this will increase to 66 years and 6 months from 1 July 2021, and to 67 years from 1 July 2023.

FIGURE 3.6 The climate is a geographical influence. Businesses have increasingly been tracking consumer habits to better understand how the temperature affects spending habits. Businesses have found that as the temperature increases, consumers' spending habits drastically change. Soft drink sales, shopping centres and cinemas benefit the most from the hot weather. For example, visits to Village Cinemas increase by up to 30 per cent when the temperature gets to 35 degrees, and Westfield also records higher foot traffic when temperatures are above 30 degrees.

Another important geographical influence is **globalisation**. We live in a global world, rather than a world limited by national borders. Consider the news and entertainment we receive from around the planet, the clothing and footwear brands being sold worldwide, the rapid telecommunications access to all parts of the globe, and the large number of products Australia buys and sells on the world market. The Earth is a global community whose individual members are linked through the mechanism of international trade: the buying and selling of goods and services between nations.

globalisation the process that sees people, goods, money and ideas moving around the world faster and more cheaply than before

FIGURE 3.7 In 2020, General Motors announced the permanent retirement of the Holden brand. The main cause of Holden's failure was a result of globalisation. For decades the Australian automotive industry received protection from competition in the form of tariffs (as much as 50 per cent). As the tariffs were progressively slashed in line with a global shift away from economic protectionism, the manufacturer still relied on government subsidies, which were eventually also cut. A 5 per cent tariff on automotive imports still remains, but was not enough to protect Holden from the onslaught of cheap imports from Asia, where the majority of automotive workers receive an hourly wage of $2.

Globalisation, assisted by the technological revolution in communications and computers, is radically altering the shape of world markets, as well as the nature of business and everyday life. Globalisation presents both challenges and opportunities for businesses. The major challenge that many businesses face is that they now find themselves competing on a global scale. Globalisation also allows businesses to buy and sell goods and services internationally, opening the door to increased profits and a level playing field.

SNAPSHOT

Case study: The influence of globalisation on business

Globalisation is the process by which the world is becoming increasingly interconnected as a result of massively increased trade and cultural exchange. It involves reducing the barriers limiting free movement of business, trade, investment and labour across national borders. The process of globalisation has had a significant impact on businesses, some of which are summarised below.

- **Increased competition:** Globalisation has led to increased competition. Customers now have a multitude of choice in the market; therefore, each business has to continuously improve its products and standards or create more value for customers in order to remain competitive.

- **Expanded markets:** Today, even small businesses can easily go global. The wide use of the internet and other technologies makes it possible for most businesses to access the global market and start selling products to other countries. As soon as a business has a website, it becomes visible to the world and this could lead to higher demand for its products. Globalisation can therefore help businesses grow bigger.
- **Greater customer expectations:** Consumers are now exposed to a much larger variety of goods and services, and this affects their expectations. Consumers are now very selective when it comes to factors such as quality, service and price. Businesses need to meet these needs, otherwise they will experience a decrease in sales as customers find cheaper or better quality products elsewhere.
- **Economies of scale:** By selling globally, businesses should be able to increase sales, which will result in an increase in production. These businesses will then be able to take advantage of economies of scale. When production is increased, fixed costs can be spread more thinly over a greater volume of sales, allowing firms to lower their costs, improve efficiency and raise profitability. This makes them more competitive.
- **Location flexibility:** Businesses can take advantage of low-cost labour and other resource expenses and move their production or other facilities elsewhere to achieve savings. Cheaper resources contribute to cheaper costs, which in turn contributes to larger profits for the business.
- **Cheaper materials:** Globalisation enables businesses to seek out the cheapest materials and supplies from around the world, allowing them to be cost competitive. This is referred to as global sourcing. These cost reductions should lead to increased revenue for the business.
- **Diversification:** Globalisation spreads business risk. For instance, if the economy, government regulations or supply issues in one country have a negative impact on a business, that business can still find success in other markets to offset the losses experienced. Globalisation provides businesses with some level of insulation from slumping performance in one region.
- **Access to better labour:** Global companies have access to a much greater pool of talent, which should lead to improved business performance.

Globalisation presents both threats and opportunities for business. Globalisation is not going away; therefore, businesses need to implement strategies to minimise the potential threats that emerge, as well as take advantage of the opportunities that arise from globalisation.

3.2.4 Social influences

Another factor in the external environment that businesses should consider is societal attitudes and behaviours. Societal attitudes are the ideas, values and beliefs held by people in a particular society. These attitudes sometimes affect the way that people behave. Behaviour relates to the actions that express these ideas, values and beliefs. Societal attitudes and behaviours are constantly changing. This affects how individuals live, work and consume products, how businesses operate and how stakeholders view the business in which they have an interest.

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

BizFACT

As more and more people select healthier food options, fresh and perishable foods, such as produce and deli-prepared items, are booming and the organic goods sector has almost doubled. Packaged goods companies, on the other hand, are struggling to survive the shift.

Three social issues are leading to significant change or have the potential to influence major change in business practices. The first concerns a growing awareness of our vulnerable environment. Over the past decade, Australians have become aware of a number of practices that harm the environment. This awareness has led to a call for businesses to adopt environmentally sustainable practices.

BizFACT

In 2019, the owner of fashion chain Zara, Inditex, announced their commitment to a more responsible future by setting ambitious targets. Before 2025, all of their collections will be made from 100 per cent sustainable fabrics, 80 per cent of the energy consumed by the company will be from renewable sources and their facilities will produce zero landfill waste. Inditex was named the most sustainable retailer by the Dow Jones sustainability index from 2016 to 2018.

Environmental sustainability means that business operations should be shaped around practices that consume resources today without compromising access to those resources for future generations. Many businesses have put in place strategies to reduce and minimise waste, recycle and reduce their carbon footprint. Those businesses that are not socially and environmentally responsible can face a consumer backlash if customers find out. At the same time, many consumers will reward those businesses who are environmentally responsible by purchasing more of their products. In recent years, many companies have been disclosing their environmental protection policies.

The second social issue that is leading to significant change is a growing desire for businesses to provide family-friendly workplaces. There is a growing belief that businesses must support families, and as a result businesses are increasingly considering providing better childcare options and more flexible hours. Conflict between work and family responsibilities is a key factor causing women to leave businesses and this high turnover is expensive for business. Consequently, businesses have been under pressure to implement family-friendly workplace practices that assist employees and, at the same time, reduce the associated costs to employers.

BizFACT

The Japanese government has developed a novel way to ease that Monday feeling by giving workers the morning off. Under Shining Monday, the government aims to improve work–life balance by giving staff a sleep-in. Shining Monday is part of a broader plan to encourage businesses to cut down on employees' overtime and get them out of the office earlier while also trying to address the problem of *karoshi*, or death by overwork.

BizFACT

A 2016 report by accounting firm Ernst & Young discovered that not only are women a much-needed addition to Australia's labour force, but also that women in flexible work waste less time (about 11 per cent) than their colleagues, who waste 14.5 per cent of their time at work. This means that, in an average year, women working flexibly deliver an extra week and a half of productive work, just by using their time more wisely.

FIGURE 3.8 Because many people value the protection of the natural environment, many supermarkets now claim varying degrees of sustainable sourcing for their seafood and sell seafood products with an MSC label. Marine Stewardship Council (MSC) offers certification for sustainable seafood to fisheries, seafood producers and brands. You may have seen the blue MSC label on seafood products — this assures customers that the seafood can be traced back to a sustainable source and that sustainable fishing standards have been met. Coles has full MSC certification and traceability in place for their fresh and packaged seafood, while Woolworths, IGA and ALDI all sell MSC-certified frozen and canned seafood.

SNAPSHOT

Case study: Shell's flexible workplace

Shell Australia provides flexible working conditions for office roles wherever required and operationally possible. This means, for example, that employees may be able to 'telecommute' and work from home or start their working day earlier or later, depending on staffing needs.

Shell believes that flexible working is in everyone's best interests as it makes staff happier and more productive at work. They encourage flexibility in how, where and when employees work, which means they can better balance activities that matter to them and still meet their job commitments.

Shell attempts to provide a working environment where employees are able to balance their work and family commitments. For example, Shell offers an Employee Assistance Program, which is a professional, confidential counselling service for employees and their immediate family members.

Amber-Liza Guster, a senior commercial manager at Shell Australia and mother of two children, works three days a week with the possibility of working extra time when needed. 'In the team I work in we have three mums who work part-time and two dads who have flexible work arrangements,' she says. 'Across the industry I see different views and it comes primarily down to a company's beliefs of what value flexible arrangements bring to a business. To make flexible work arrangements successful there needs to be a commitment from the individual and the company.'

Work flexibility is deeply embedded in Shell's culture; leaders are encouraged to talk to staff about the flexible working practices that are available. In order to provide a better working environment, some of their offices are equipped with a mother's room and childcare centre.

They also accommodate career breaks and sabbaticals wherever practical. In addition, employees are encouraged to step outside of work boundaries to participate in other areas of interest, such as social responsibility projects, employee interest groups or campus recruitment.

The third social issue that is leading to significant change is the growing belief that businesses must cater for workplace diversity. Employees will have different issues that may be related to gender, age, language, ethnicity, cultural background, disability, sexual orientation and religious belief. Businesses are required to effectively manage a diverse range of employees and cater for their specific needs. A business that becomes known as fair and equitable will also have a better chance of attracting and retaining staff. A diverse workforce could lead to increased morale, creativity and productivity, giving the business a competitive edge.

FIGURE 3.9 Johnson & Johnson (J&J) have embraced diversity in a big way. The company has invested a lot of resources into ensuring that all employees help to create an inclusive environment. The organisation's 'Global Diversity and Inclusion' vision is 'to maximise the global power of diversity and inclusion, to drive superior business results and sustainable competitive advantage'. They are achieving this through the implementation of employee resource groups, mentoring programmes and 'Diversity University', which is a dynamic website that helps employees to understand the benefits of working collaboratively.

BizFACT

Many customers are now demanding fresh, natural and organic products. Oliver's Real Food is a growing health food chain that was started by founder Jason Gun in response to not being able to find any healthy food to eat while driving. He thought that others, like him, might be wanting a healthy alternative, and located the first Oliver's store next to McDonald's in Wyong, New South Wales. There are now more than 20 stores located at highway roadhouse stops in New South Wales, Victoria and Queensland, with more under development.

BizFACT

In 2017, National Australia Bank conducted research exploring what matters most for Australian SMEs. Their research revealed that while 65 per cent of SMEs are confident Australia will continue to be a great place to operate a business, the burden of red tape and taxation is holding them back. Sixty-nine per cent cited that the pressure of complying with quarterly BAS and all the other day-to-day administrative and regulatory challenges is impeding their success.

3.2.5 Legal influences

regulations rules, laws or orders that businesses must follow

Too much government interference! Too much red tape! Too many **regulations**! These are familiar cries from many business owners who face an increasing number of legal obligations in every aspect of their businesses. Laws can be passed that require a business to stop doing something or to start doing something. It is a legal requirement for businesses to comply with the law or face substantial fines or even imprisonment of individuals. While most business owners are willing to comply with regulations, compliance is often time consuming and costly, and regulations can be confusing and contradictory.

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

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

For example, under the *Public Health Act 2010* (NSW) the NSW Health Minister was granted very broad powers to take any action necessary to deal with the risk and consequences of COVID-19. Around March 2020, the NSW Government issued a variety of public health orders to help limit the spread of COVID-19. As a consequence, businesses were forced to change the way they operated. Supermarkets introduced limits on quantities customers could buy of certain products, social distancing was implemented in stores and limits were set as to how many customers could be in a store at any one time.

FIGURE 3.10 Cafés and restaurants were hit particularly hard as a result of the COVID-19 pandemic, with businesses closed to customers who wanted to sit and consume their food. Cafés served take-away items only and restaurants could only deliver food. While this harmed many businesses, some, such as Deliveroo and UberEATS, benefited as more customers used their services.

KEY IDEAS

- The business environment is influenced by both internal and external factors.
  - The external environment includes those factors over which the business has very little control.
  - The internal environment includes those factors over which the business has some degree of control.
- External influences on business include economic, geographic, financial, social, legal, political, institutional, technological, the competitive situation and changes in the market.
- Economic influences on a business relate directly to their economic environment, which is dependent on changes in economic growth. These changes are characterised by boom and recessionary periods in the economic cycle.
- Changes in the global and domestic financial markets will influence the cost of borrowing money and therefore directly affect the level of investment by a business.
- Three major geographical factors that affect business activity are:
  - Australia's geographic location within the Asia–Pacific region
  - changing demographic factors
  - the process of globalisation.
- Social influences, such as changes to fashion and culture, have the capacity to affect business sales and profits.
- Three social issues that have had a significant impact on business practices include the growing awareness of the environment, the growing desire for businesses to provide family-friendly workplaces and the growing belief that businesses must cater for workplace diversity.
- Legal influences are the regulations (legal framework) within which a business must operate.

3.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

3.2 Quick quiz on | **3.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 3, 4, 7, 14, 17	2, 5, 6, 8, 9, 10, 11, 12, 13, 15, 18, 20	16, 19

3.2 Exercise

Revision

1. **Define** the term 'business environment'.
2. **Distinguish** between internal and external business environments.
3. In small groups, use the brainstorm technique to **identify** the elements that determine the environment of your Business Studies class. Choose a spokesperson to share the group's comments with the rest of the class.
4. **State** what you understand by the 'economic cycle'.
5. **Why** does the level of economic activity fluctuate over time?
6. **How** can economic forces influence the actions of customers?
7. **Outline** the impact of globalisation.
8. **Justify** why businesses should offer family-friendly workplace practices.
9. **Why** is the ACCC so important to business in Australia?
10. **Explain** why it is important for a small business owner to comply with the consumer protection provisions of the Competition and Consumer Act.

Read the 'Impacts of the coronacession' case study and answer questions 11 to 13.

11. **How** did Australia's economy compare with those of other countries during the COVID-19 pandemic?
12. **How** have household incomes been affected by the recession?
13. **Explain** the impact this recession has had on consumer spending.

Read 'The influence of globalisation on business' case study and answer questions 14 to 16.

14. **Identify** the impacts of globalisation on business.
15. **Recommend** strategies businesses can implement in order to manage the impacts of globalisation.
16. **Determine** some other impacts of globalisation besides those mentioned.

Read the 'Shell's flexible workplace' case study and answer questions 17 and 18.

17. **List** some flexible working conditions provided by Shell.
18. **How** does Shell and its employees benefit from these flexible work arrangements?

Extension

19. Using an example, **determine** how the development of global consumers encouraged the process of globalisation.
20. In small groups, **examine** and report on a social issue confronting businesses in your local area. You may wish to either prepare a PowerPoint presentation or use a word-processing package for your report.
    a. Outline the issue.
    b. State how the local businesses have reacted to the situation.
    c. Determine what indicators you would use to decide the success or failure of a business's response to the situation.

Solutions and sample responses are available in your digital formats.

3.3 External influences: political, institutional, technological, competitive situation, markets

SYLLABUS LINK In this subtopic you will learn about influences in the business environment:
- external influences — political, institutional, technological, competitive situation, markets.

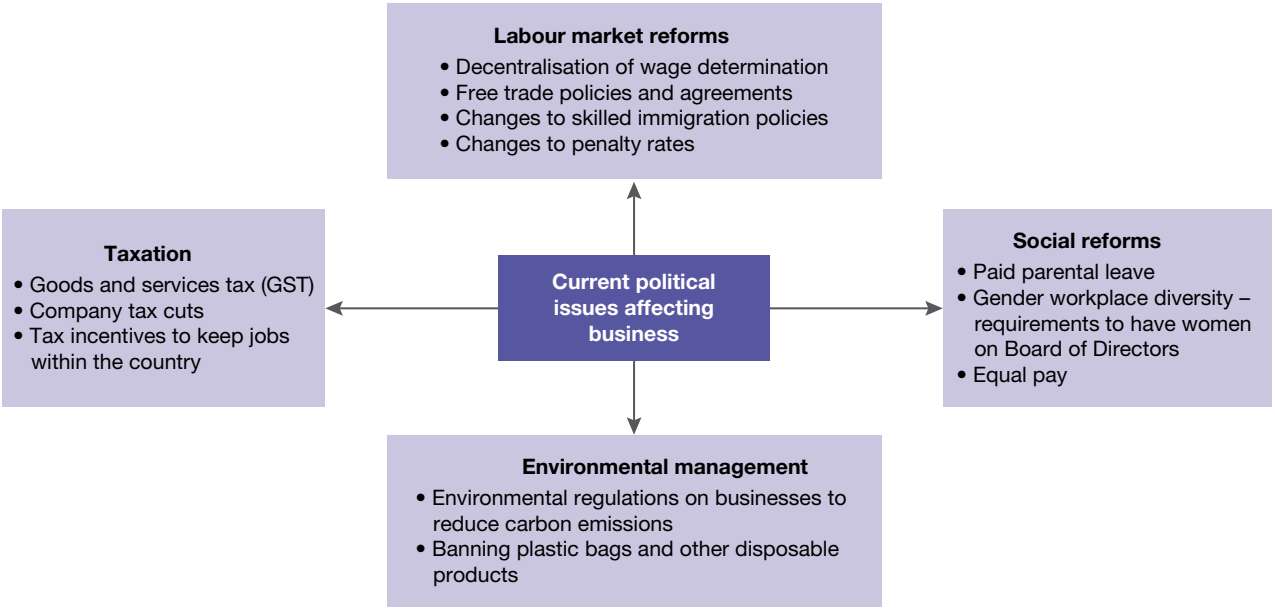
You will learn to discuss the expansion into Australia of one global business.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

3.3.1 Political influences

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

FIGURE 3.11 Current political issues affecting businesses

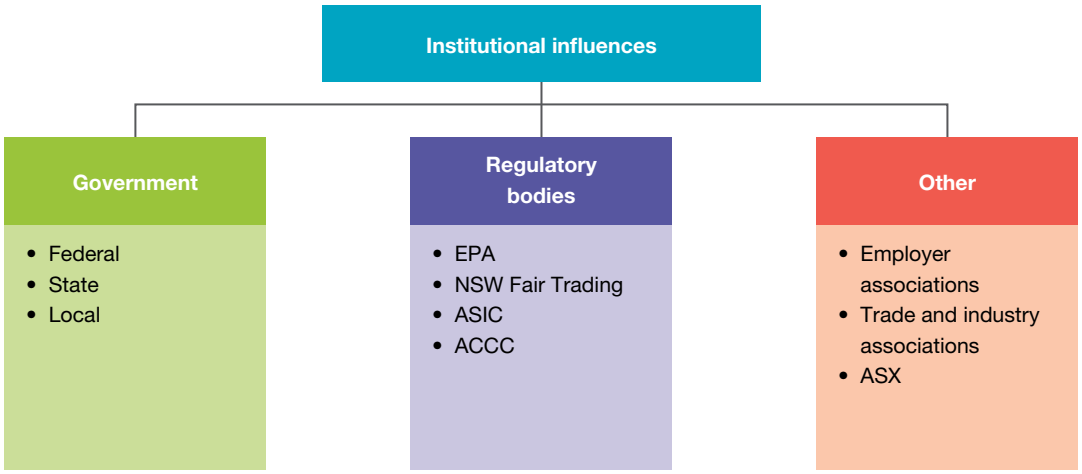


A political influence that is having an enormous impact on Australian business operations is the policy of free trade. Free trade policies mean that barriers to trade are removed. One such barrier to free trade is a tariff: a tax levied on imported goods. In recent years tariff rates have generally been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

3.3.2 Institutional influences

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

FIGURE 3.12 Institutional influences on business



Government

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

FIGURE 3.13 Some business laws relating to the levels of government

Federal government

Federal government obligations include:

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

State government

State government obligations include:

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

Local government

Local governments (city, municipal and shire councils) have control over the following business activities:

- approving new development and alteration (to an existing building) applications
- fire regulations
- parking regulations (e.g. provision of parking by new businesses)
- size, location and shape of business signs

Regulatory bodies

A regulatory body is one that is set up to monitor and review the actions of businesses and consumers in relation to certain issues (such as advertising) and the appropriate legislation. This is to ensure that businesses conduct themselves fairly in relation to the consumer, the community and other businesses. A number of regulatory bodies operate in New South Wales and Australia. They include:

- the NSW Environment Protection Authority
- NSW Fair Trading
- the Australian Securities and Investments Commission
- the Australian Competition and Consumer Commission.

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

TABLE 3.1 Major regulatory bodies in New South Wales and Australia

Regulatory agency	Role
NSW Environment Protection Authority (EPA)	• Primary environmental regulator for NSW • Aims to improve environmental performance and waste management for NSW through a wide range of programs and initiatives. • Offers advice and incentives to help businesses improve their environmental performance. • Governed by the *Protection of the Environment Administration Act 1991*

NSW Fair Trading	• The NSW consumer protection agency
	• Provides information and assistance to all consumers and business owners on areas such as fair and ethical practices
	• Services to business include:
	  • business licence information, e.g. real estate agents, builders, car dealers
	  • information for builders and tradespeople that covers their responsibilities and offers assistance in relation to disputes between themselves and clients/contractors
	  • product safety standards
	  • trade measurements relating to scales/scanners used to weigh and measure products.

Australian Securities and Investments Commission (ASIC) (federal)	• Monitors market integrity and provides consumer protection in areas such as payment systems and financial services such as investment advice • Aims to ensure all businesses comply with the industry standards and codes of practice • Operates the Business Names Register that allows people to register, renew and search business names nationally

Australian Competition and Consumer Commission (ACCC) (federal)	• An independent statutory authority that administers the *Competition and Consumer Act 2010*. This includes monitoring of:
	  • anti-competitive and unfair market practices such as the misuse of market power (e.g. blocking competitors from entering the market), exclusive dealing and resale price maintenance
	  • mergers and acquisitions that could decrease the level of competition
	  • product safety and liability
	  • misleading and deceptive advertising.
	• It operates nationally for the enforcement and administration of competition and consumer protection laws.

BizFACT

The NSW EPA commenced five prosecutions against state-owned Forestry Corporation of NSW in 2020 for the alleged felling of trees in exclusion zones and protected areas, some of which are specifically set up to protect koala habitat. The EPA commenced the action in the Land and Environment Court for allegedly breaching licence requirements in 2018 in Wild Cattle Creek State Forest, near Coffs Harbour.

Other institutional influences

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

TABLE 3.2 Other institutional influences on businesses in Australia

Institution	Services provided

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

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

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

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

BizFACT

Employer associations are more likely to be involved in unionised workplaces, and in mining, manufacturing, wholesaling, health and community services sectors.

BizFACT

Union membership in Australia has steadily declined over the past four decades. In 2018, only 17 per cent of those employed full-time were members, falling from 27 per cent in 2005. This is in stark contrast with 1976 when 51 per cent of workers belonged to a union.

3.3.3 Technological influences

Technological issues relate to the growing use of tools, techniques or systems by businesses to solve problems or to serve a purpose in operations. Innovation in technology has increased at a remarkable pace, revolutionising the workplace and every aspect of daily life. With appropriate technology, businesses can increase efficiency and productivity, create new products and improve the quality and range of products and services. The use of hi-tech robotics in many manufacturing industries is improving productivity, reducing operating costs and eliminating many boring and repetitious tasks. Rapid advances in information technology (IT) have reduced communications delays and allow suppliers and customers to interact over great distances.

Technology has changed communication. New communications technologies allow information to be rapidly transmitted to an ever-increasing number of customers with a speed that now makes communication almost instantaneous. In the workplace, these rapid changes have led to enormous shifts in the way people communicate and work. No longer is there a need to have 'face time', where people need to be in the same room to meet and discuss business. Face time has been replaced by 'virtual meeting time'. Smart devices allow for instant communication and access to workers, employers, suppliers and producers. Where once distance may have been a prohibitive factor in applying for and obtaining a job, this is no longer the case.

The use of technologies such as teleconferencing or video-conferencing, email, smartphones, cloud computing and so on effectively eliminates the distance between people and has made it possible for people to stay connected with their work networks. This increased connectedness creates opportunities for greater flexibility and the possibility of working remotely (i.e. from home or another location away from the office). On the other hand, it is also not uncommon for employers to expect workers to be available to deal with work matters outside of their normal working hours. In some fields there appears to be an employer expectation that employees will work harder and longer than they have done in the past.

BizFACT

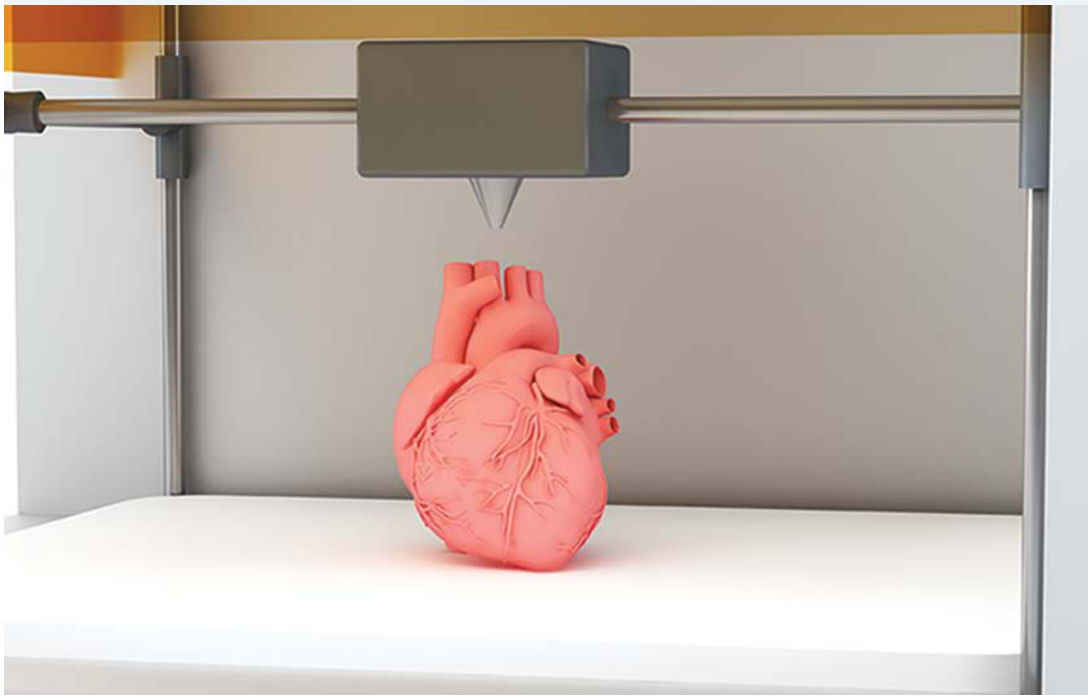
The developments that have occurred in communications technology make it difficult to 'switch off'. For example, do you check your phone or device as soon as an instant message, email or Facebook post hits your inbox? If you do, you are not alone. Many of us are obsessed with our devices. And while such technologies allow us unprecedented opportunities for social connection and access to information, they also play a role in the gradual blurring of the boundaries between work and home life.

BizFACT

The International Federation of Robotics found that, since 2016, the number of operational industrial robot jobs has been increasing annually by 14 per cent. The World Economic Forum has predicted that the number of total task hours completed by humans will drop from 78 per cent in 2018 to 58 per cent in 2022.

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

FIGURE 3.14 3D printers can produce anything from replacement body parts to full-sized houses.



BizFACT

The most famous rule for predicting the rate of technology advancement was developed in 1965 and is known as Moore's law. Moore's law was used to describe the rate of improvement in the power of computer chips. It predicts a doubling in the power of computer chips every 18 months and has been touted as being one of the most accurate predictors of technological progress ever since.

While the development of new technology brings many benefits to a business, it does have shortcomings. Technological change has led to a decrease in the number of employees required by many businesses, as they have been replaced by the technologies that reduce costs, improve quality and delivery speed. The speed of change has resulted in product life cycles becoming shorter, which means that products do not last for a long time and constantly need to be updated. A consequence is that businesses need to spend more time and money on research and development to remain competitive.

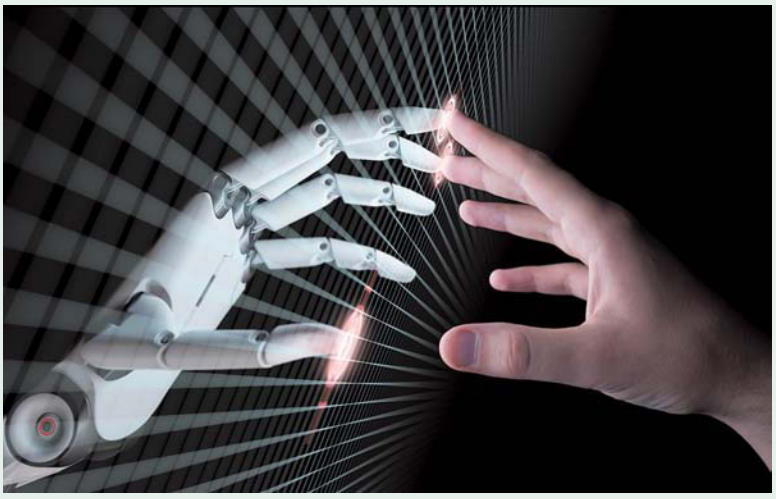
BizFACT

A new report by the McKinsey Global Institute predicts that by 2030, as many as 800 million jobs could be lost worldwide to automation.

It is impossible to predict the future, but it is expected that over the next five to ten years we will live with more internet-connected devices, including computers, phones, appliances, vehicles and robots. This will generate huge amounts of data, presenting a challenge to businesses — what data is useful and what is not? The ability to analyse this big data will also present opportunities for businesses. There is no doubt that technology will become smarter, meaning that robots and computers will replace more workers completing dangerous, repetitive or mundane jobs.

SNAPSHOT

Case study: Technology set to change the way we live and work



Automation and other technological advancements have made great changes to the way we live and work. There is great speculation as to what specific changes will take place and when, but one thing is certain — technological advancements will continue to change all industries to a greater or smaller degree. The ability to work remotely allowed many businesses to continue operating during the pandemic of 2020 while quarantine measures were in place. Improving technology continues to allow flexible working arrangements for those who need or prefer to work away from the traditional office.

A 2020 report tips health, education and retail as the industries that will benefit most from automation and robotics in Australia over the next 15 years. Technology has the potential to greatly improve economic efficiency, make our lives easier and create jobs. It will also replace existing jobs and make it difficult for many workers to find employment. It is estimated that 2.7 million employees are at risk of losing their jobs to automation in that same period. In fact, many factory workers, bank tellers and supermarket checkout operators have already lost their jobs to automation. In the immediate future, it is expected that repetitive tasks that can be performed using unskilled labour are most likely to be replaced. On the other hand, it is expected that many technology-related jobs such as those in social media marketing and machine learning will be created. Traditional office-based jobs are more and more frequently being replaced by flexible jobs and it is predicted that workers in the future will derive their income from a variety of different streams.

While increases in productivity brought about by technological improvement hypothetically have the capacity to reduce working hours, this has not been the case historically and is unlikely to be the case in the future. Business futurist Morris Miselowski has predicted that in two decades' time we will be working longer hours than now, with technology making it even harder to 'switch off' after the end of the traditional working day. This is already proving to be a problem, with many employees suffering from stress and anxiety due to the expectation of being contactable at all times. Many companies and nations have recognised this problem and introduced 'right to disconnect' types of policies and laws, making rules against contacting employees after set working hours. By the early 2000s, France had already established that employees are under no obligation to be contactable after work hours.

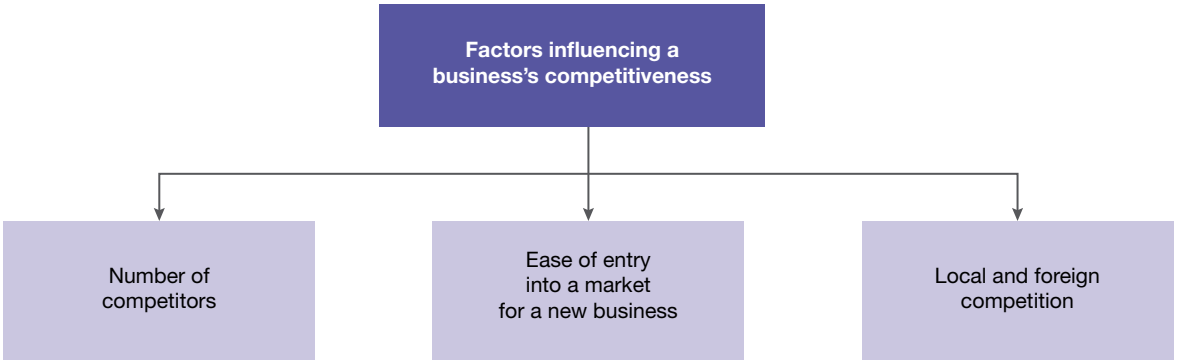
While technological development is a certainty, how proactive nations, businesses and individuals can be preparing for the change will be a determining factor in the success of their adaptation. The Australian Computer Society (ACS) and AI work analytics platform Faethm predict 5.3 million jobs could be created in Australia by 2034 if the government invests in appropriate training and development of the workforce. Similarly, upskilling of workers in projected growth areas should be a priority of businesses and individuals who wish to come out on top of the expected changes.

3.3.4 Competitive situation influences

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

sustainable competitive advantage refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time

FIGURE 3.15 A business's competitiveness is influenced by a range of factors.



Number of competitors

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

market concentration refers to the number of competitors in a particular market. There are four main types of market concentration.

Ease of entry

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

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

BizFACT

Examples of businesses with low barriers to entry are food businesses, retail stores, and consulting and professional services. Industries with high barriers to entry include mining, manufacturing, healthcare, agriculture and transportation.

TABLE 3.3 Types of market concentration

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

Local and foreign competitors

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

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

Foreign competitors are those businesses located overseas or offshore. They sell their goods or services in Australia and compete with local businesses. Just as overseas competitors can sell their goods and services in Australia, local businesses can also sell their products in overseas markets. Selling goods and services to overseas markets spreads the business's risk and allows it to grow. However, there are unique issues for the business owner to consider, such as transportation and distribution, conversion of currency, taxes and duties, cultural differences, marketing and packaging requirements. One such global company that has seen opportunities in expanding into the Australian market is the supermarket chain Aldi (see the following case study).

monopoly complete concentration by one business in the industry (e.g. Australia Post)

oligopoly where a small number of larger firms have a greater control over a market (e.g. car manufacturers)

monopolistic competition where there is a large number of buyers and sellers in a particular market (e.g. local retailing shops)

perfect competition where there is a large number of small firms that sell similar products. They are unable to differentiate products from each other and so can only use price as a way of achieving market share (e.g. fruit and vegetable growers).

FIGURE 3.16 Scott Farquhar and Mike Cannon-Brookes started their enterprise software business in Sydney in 2002 as university drop-outs, working in a garage with some servers and $10 000 on a credit card. Atlassian now sells software to some of world's largest companies. With offices currently in seven countries, the company needs to manage the problems associated with being a global company and also needs to contend with large competitors such as Slack and GitHub.

SNAPSHOT

Case study: ALDI — expansion of a global business into Australia

German supermarket chain Aldi was founded by brothers Karl and Theo Albrecht in 1946 when they took over their mother's store in Essen, Germany. The store had been in operation since 1913. By 1954 the brothers had 50 stores in Germany.

The first stores outside Germany were in Austria in the late 1960s and the Netherlands in the early 1970s. Today there are more than 10 000 stores serving millions of people in more than 90 countries.

Aldi landed in Australia in 2001 with two initial stores at Bankstown Airport and Marrickville in Sydney. Initially, the stores did not advertise and relied on word-of-mouth to gain traction in the market. Instead of a wide range of national brands, the chain focused on home brands and low prices. The first Melbourne stores opened in 2003 at West Heidelberg and Chirnside Park. At first confined to the eastern states, Aldi then expanded into South Australia and Western Australia in 2016.

Aldi's Australian expansion has grown strong from day one. In just 18 years, the supermarket chain has opened more than 500 stores in NSW, ACT, VIC, QLD, SA and WA and employs at least 13 000 employees. According to reports, Aldi has contributed $23 billion overall to the country's gross domestic product. In the short time they have been in Australia, Aldi has become one of the top 10 Australian retailers. In fact, in July 2018 Roy Morgan research revealed Aldi as Australia's most trusted brand, despite its German ownership.

Aldi has also had a significant influence on the grocery market, causing Coles and Woolworths to re-think their business model. According to Roy Morgan Research from March 2018, Aldi has 12.1 percent of Australia's $100-billion plus grocery market. Aldi's entry into Australia has also driven significant price deflation, resulting in savings for all grocery buyers. ALDI Australia chief executive Tom Daunt said the company had saved customers billions of dollars since entering the local market 18 years ago, whether they shopped with Aldi or not. A report commissioned by PwC found evidence that its entrance into Australia has resulted in lower grocery prices.

3.3.5 Markets

Changes in financial/capital markets

Finance (capital) is now more mobile and flows relatively easily between countries, especially since the 1970s when many countries phased out their controls on foreign exchange trading. As a result, international financial flows have expanded very rapidly over the last three decades. Consequently, the world capital market is now more integrated than ever before.

Capital flows to those countries where the investment opportunities and returns are favourable. It is now much easier for individuals and businesses to access overseas share markets and purchase equity in foreign companies.

Changes in labour markets

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

However, two trends in the labour market have resulted in the movement of workers. First, the movement of large numbers of temporary skilled migrant workers has been very important in Australia, Europe and Asia. The Temporary Work (Skilled) visa (subclass 457) was introduced in 1996 and was designed to fill job vacancies that are difficult to find Australians for. This was replaced in 2018 by the Temporary Skill Shortage (TSS) visa (subclass 482). The TSS visa program is made up of a short-term (up to two years) visa or a medium-term (up to four years) visa. It aims to support businesses in addressing genuine skill shortages in their workforce. The employee can also bring members of their family to Australia on a secondary visa. The medium-term visa provides a pathway for skilled workers and their dependents to apply for permanent residence under the migration program. Second, the growing demand for highly trained employees means that such people are increasingly mobile.

COVID-19 has had a severe impact on Australia's immigration intake. The federal government expects quite significant falls in migration in the future. It is expected that there will be a 30 per cent decrease in net migration in the 2019–20 financial year from the previous year, and an 85 per cent decrease next financial year. In 2020–21 the government anticipates an increase of just 36 000 people. This is a significant decline considering Australia's net migration figure has exceeded 180 000 every year since 2006.

In the 2019–20 financial year, there were nearly 120 000 working holiday visa holders in Australia. In addition, nearly 140 000 individuals were employed in Australia on temporary employer-sponsored visas. As employer-sponsored visa holders are required to remain employed in order for their visa to remain valid, these temporary visa holders have been at a significant disadvantage during the pandemic and associated lockdowns. Although these visas generally entitle the visa holder to work rights while they are in Australia, employers were not permitted to claim JobKeeper benefits for their staff members who hold a temporary visa. Temporary visa holders are also not eligible for JobSeeker payments if they lose their job.

FIGURE 3.17 Several unions have been pressuring the government to scrap the working holidaymaker visa. They want Australian farmers to stop hiring international backpackers to harvest their crops and instead employ young people in regional and rural areas. The Australian Fresh Produce Alliance (AFPA) estimated almost 130 000 people on the working holidaymaker visa were typically employed across the sector, but backpacker numbers have fallen by 50 000 since Australia introduced restrictions to slow the spread of COVID-19.

Changes in consumer markets

There has been phenomenal growth in the amount and value of world trade, especially since the end of World War II. For example, during the period from 1995 to 2005, global trade in goods and services increased by approximately 150 per cent. In 2008–09, however, the global financial crisis saw a fall in global output and trade, which was the first of its kind since the Great Depression during the 1920s and 1930s. After the sharpest decline in more than 70 years, global trade was predicted to rebound over the next few years and grow at 9.5 per cent. In 2016, global trade increased only 1.3 per cent, reflecting a slowdown in China and falling levels of imports into the United States. After a recovery in international trade in 2017 and the first half of 2018, economic conditions started deteriorating in the second half of 2018 and further in 2019. The reasons were trade tensions between the USA and China, fears about Brexit and a negative global outlook more generally. Due to COVID-19, the World Trade Organisation forecast a 9.2 per cent decline in the volume of world merchandise trade for 2020.

Countries are achieving cost savings by specialising in products they can produce efficiently. This results in cheaper prices on the world market and, in turn, generates increased sales in existing markets. New consumer markets also emerge, particularly in developing countries, like China and India.

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

FIGURE 3.18 A significant proportion of temporary visa holders were employed in the tourism, hospitality or agriculture sectors, which have been severely affected by the COVID-19 lockdowns.

KEY IDEAS

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

3.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

3.3 Quick quiz on	3.3 Exercise

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 4, 5, 6, 7, 9, 10, 11, 12, 17	1, 3, 8, 13, 15, 16, 19, 20, 21	14, 18, 22

3.3 Exercise

Revision

1. Choose one of the current political issues affecting business from figure 3.11 and **explain** the impact this policy will have on businesses.
2. Using their websites, investigate the **NSW Environment Protection Authority, NSW Fair Trading, Australian Securities and Investments Commission (ASIC)** and **Australian Competition and Consumer Commission (ACCC)** and then complete the following questions.
   a. **State** their role.
   b. Briefly **outline** their importance to Australian businesses.
3. **How** has information communication technology, especially the internet, changed existing consumer shopping practices?
4. **Identify** three technological advances that have altered the way people work and explain how they have changed the workplace.
5. **Define** the term 'sustainable competitive advantage'.
6. **Describe** what is meant by the term 'market concentration'. Give examples.
7. **Outline** four types of market concentration.
8. **Explain** why the marketing strategies of a competitor will have an impact on a business's competitive situation.
9. List five different products you use regularly, such as your computer, phone and shoes, and:
   a. **identify** the brand name of the product
   b. **identify** the company that made it
   c. **identify** in which country it was made
   d. determine why it was made there.
   Compare your list with other class members, noting similarities and differences.
   Propose a conclusion you can derive from this investigation about global consumerism.
10. **Identify** which external influence is affecting the small business in each of the following cases:
    a. Julie runs a small busy restaurant. She recently introduced technology that allows wait staff to electronically send orders to the kitchen. This means better service for the customer because the order is taken more efficiently and more time can be devoted to other tasks such as the prompt delivery of food and drinks.
    b. John is the manager of a function centre that hosts large weddings and conferences. He makes sure to include an acknowledgement of the traditional owners of the land, the Wurundjeri people and their Elders, in his opening remarks.
    c. Mia has to design and print new labels for the foods sold in her deli. This is because changes to the food labelling laws require that all foods list the ingredients by particular portion size. This allows customers to more easily compare different food items. She thinks that this may affect which foods customers choose.
    d. Michael, the owner of a local bottle shop, is no longer allowed to sell imported premixed alcoholic drinks because of a government ban on food and beverage imports from particular countries.

Read the 'How technology is set to change the way we live and work' case study and answer questions 11 to 13.

11. **Outline** some of the ways technology has changed the way we live and work.
12. **Identify** those industries that will benefit most from automation and robotics.
13. **Explain** some of the negative impacts that will occur as a result of the changes in technology outlined.

Read the 'ALDI — Expansion of a global business into Australia' case study and answer questions 14 and 15.

14. **Create** a timeline of Aldi's expansion into Australia.
15. **Discuss** the impact Aldi has had on the Australian grocery market.
16. **How** can a business compete against overseas competitors?
17. **Outline** the benefits and costs involved in selling products in overseas markets.
18. **Analyse** two ways in which a business you are familiar with has benefited from globalisation.
19. 'Competitors can be a threat to a business but they can also ultimately lead to business success.' **Explain** how competition may in fact be good for a business.

Extension

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

Factor influencing the internal environment	Brief explanation	Management response
Political influences	Elected governments at all levels in Australia regulate markets and have the power to make or change laws.	Must comply with the laws and regulations introduced by governments

21. **Discuss** the importance to the success of a businesses of its ability to adapt to technological advances. Support your answer with reference to a contemporary business.
22. **a.** Demonstrate how technology has affected the way consumers can purchase goods and services.
    b. Predict what will happen if an Australian business does not provide the opportunity for consumers to purchase online.

Solutions and sample responses are available in your digital formats.

on Resources

Weblinks NSW Environment Protection Authority
NSW Fair Trading
ASIC
ACCC

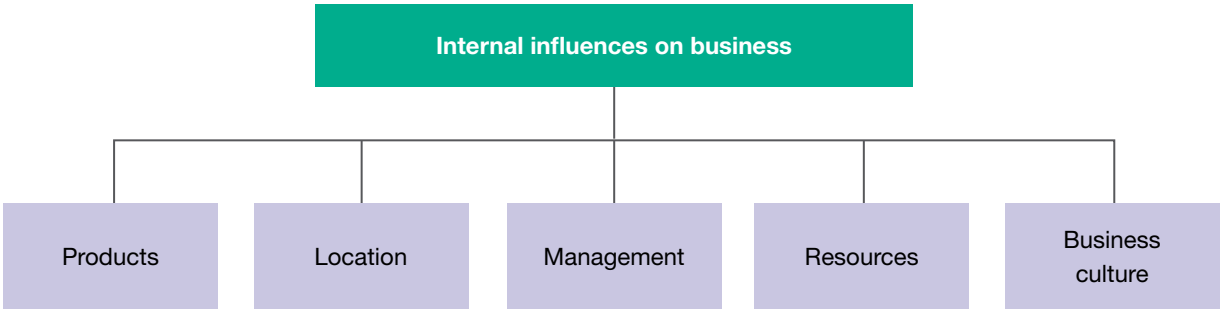
3.4 Internal influences on business

SYLLABUS LINK In this subtopic you will learn about influences in the business environment:
- internal influences — products, location, resources, management and business culture.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

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

FIGURE 3.19 Internal influences on business



3.4.1 Product influences

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

1. The type of goods and services produced will affect the internal operations of a business. If the goods are physically large or require many raw material inputs, there will need to be structures in place to organise and monitor the processes involved in production. In contrast, a service may be delivered by a home-based business or a franchise business, such as Jim's Mowing, and will influence the internal structures or processes differently.
   The range of goods and services refers to the number produced by the business. The larger the number, the more internal impact it will have on the business as it will need to expand operations and internal structures to accommodate the changes. Companies such as Coca-Cola have continually expanded their product range over the last 20 years, and this has meant that internal changes to operations and management have been necessary to allow this expansion to occur.
2. Product influence will be reflected in the type of business (service, manufacturer or retailer). Internally, a service provider will be structured differently to a manufacturer or retailer, and the influences will vary. Some goods or services require extensive preparation, while others are merely deliverers. Consider the difference between the product influences of a clothing manufacturer and that of a clothing retailer.
3. The size of the business, as previously mentioned, will be based on the range and type of goods and services produced, the level of technology used, and the volume of goods and services produced. The larger the business the more goods and services being produced, which will in turn influence the internal structures and operations of the business. A café will operate at a different scale to a club bistro and therefore the influence on business functions will be relative.

FIGURE 3.20 Manufacturing businesses must have a physical location for their production and stock-holding operations, whereas service firms do not require a physical production site. Fonterra is a multinational dairy cooperative that ranked second on IBISWorld's list of Australia's Top 100 Manufacturers in 2019.

3.4.2 Location influences

Location can make the difference between success and failure, sometimes before the doors even open for business. Choosing a location is one of the most important decisions business owners will have to make. The location can affect many aspects of how a business operates, such as total sales and how expensive it is to run. Even online and home-based businesses can be affected by location-dependent rules and regulations. A bad location is a liability that adversely affects sales and profits.

The choice of location is therefore important. This is particularly true for retail and service-oriented businesses, which need a constant flow of people walking past the store — the passing trade — and thus need to be located in a shopping centre, mall or main street. Locating next to **complementary businesses** may be beneficial because more customers may be attracted to a single site, as demonstrated by the clustering of retail outlets.

complementary business one that sells a similar range of goods and services

BizFACT

To assist in selecting the best site, market research companies can be hired to prepare traffic and pedestrian flow measurements, an analysis of demographic data and an investigation of future trends. When selecting a suitable site to locate a new small business, it is crucial to remember real estate agents' three important words: 'location, location, location'.

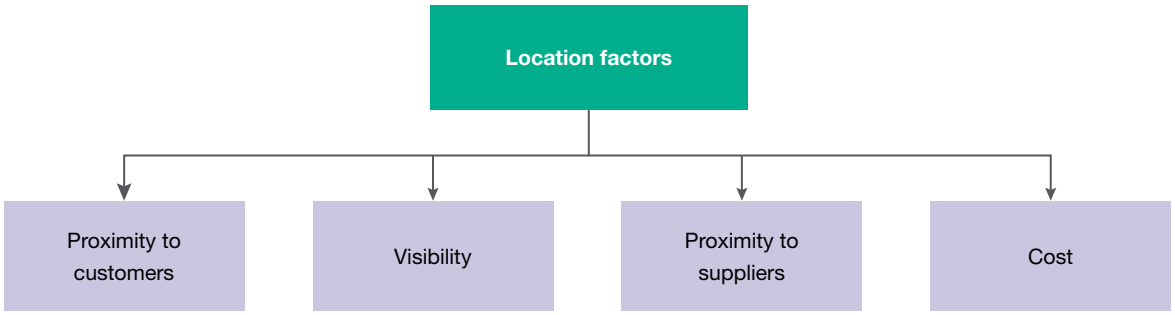
Each individual small business must satisfy its own criteria when deciding on the 'best' location. Figure 3.21 outlines the factors to consider when choosing a location.

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

For a retail business, location is extremely important to its overall success. The location must be convenient for potential customers and central to customers' own location — that is, the business must have passing customer traffic.

Location for non-retail businesses such as manufacturers is about position and convenience. This means being close to transport facilities, which allow for shipping goods to customers and receiving supplies necessary for production. Many wholesalers and manufacturers locate in industrial estates or parks, which have been set up by local councils.

FIGURE 3.21 Factors to consider when choosing a location



Visibility

If a business is not visible, customers may not make the effort to find the business and optimum customer flow will not be achieved. Visibility is one of the most important factors for successful retail and service-based businesses, such as clothing stores and hairdressers. A business wanting high visibility would locate in a prime shopping area such as a shopping centre or main street. Companies concerned with manufacturing would not consider this to be a crucial consideration, so may choose a low-visibility location 'out of town' and then advertise their location to appropriate customers.

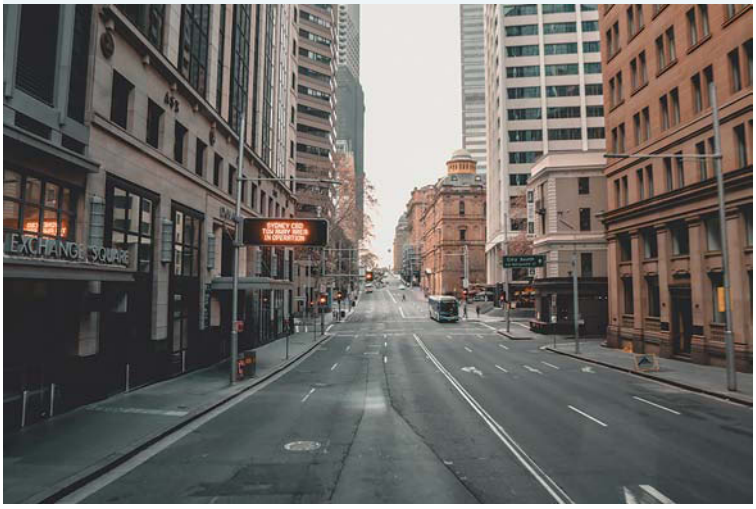
FIGURE 3.22 Locating next to complementary businesses is beneficial in some industries, because more customers may be attracted to a single site. Many shopping centres in new suburbs contain homemaker centres with stores that contain complementary businesses, such as electrical and furniture stores, bedding stores, hardware, gardening and barbecue stores, all aimed at people building new homes.

Cost

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

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

FIGURE 3.23 With more than 40 per cent of office workers working from home during the COVID-19 pandemic, businesses in Sydney's CBD were feeling the pinch of high rents. Many businesses reported a dramatic drop in business in the city since the start of the pandemic, with people opting to visit professionals in the suburbs instead. Some faced the risk of closure because of the loss of foot traffic.



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

Proximity to customers

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

Proximity to support services

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

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

support services the activities needed to assist the core operations or prime function of a business

3.4.3 Resource influences

The four main resources available to a business are:

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

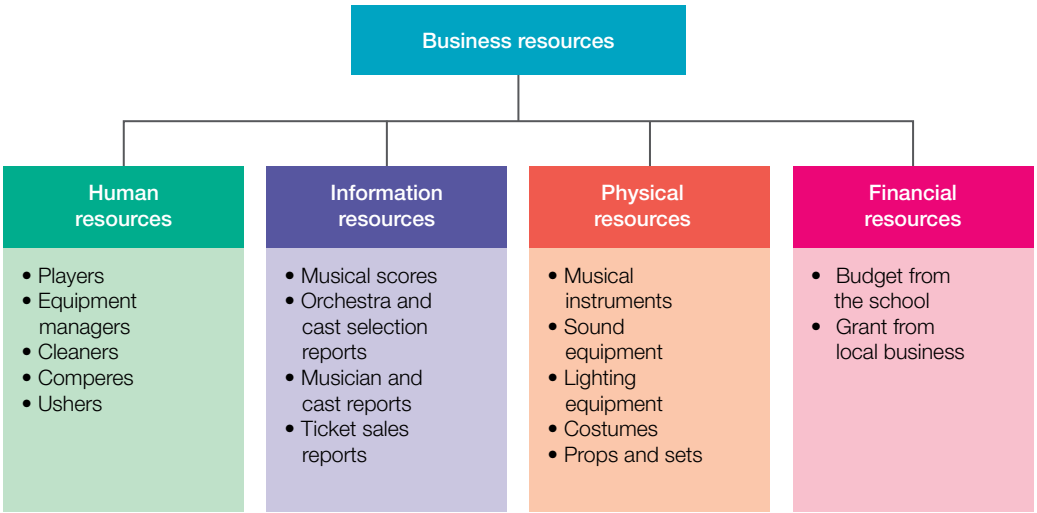
human resources the employees of the business; generally its most important asset

information resources the knowledge and data required by the business, such as market research, sales reports, economic forecasts, technical material and legal advice

physical resources the equipment, machinery, buildings and raw materials used by the business

financial resources the funds the business uses to meet its obligations to various creditors

FIGURE 3.24 Resources required to produce a school musical



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

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

BizFACT

Flatter organisational structures are a better fit with modern knowledge work. The 'modern' structure is without boundaries, and places a heavy focus on networking and collaborating. Flatter structures open up lines of communication and collaboration while also stripping layers within the organisation. This model is by far the most widely adopted today.

3.4.4 Management influences

A manager's style is essentially their way of doing things — their behaviour and attitude when making decisions, when directing and motivating staff to undertake set tasks, and when implementing plans to achieve business objectives. Management or leadership can be placed on a continuum (see section 7.2.7), with the autocratic manager at one end and the laissez-faire manager at the other. The assumption is that all types of managers appear somewhere on that continuum.

Circumstances in a business are constantly changing. Managers will often simply choose the management style that they are most comfortable with. However, highly effective managers change styles depending on the situation.

The most appropriate management style chosen by a manager for any given situation will be influenced by:

- the nature of the tasks
- time and other constraints, such as resources
- the experience of employees, as well as their personalities, values, beliefs and skills
- the preference of the manager.

Managers are also required to make decisions about the organisational structure (see also section 7.2.6). The organisational structure chosen will have a very big influence on the business.

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

The trends and changes in organisational structures are summarised in figure 3.25. The characteristics listed on the left-hand side apply to the traditional structures, whereas those on the right apply to the most modern structures. Many businesses are in transition — they have adopted the traditional design and taken on elements of the newest designs.

FIGURE 3.25 Pouring water on the sandcastle

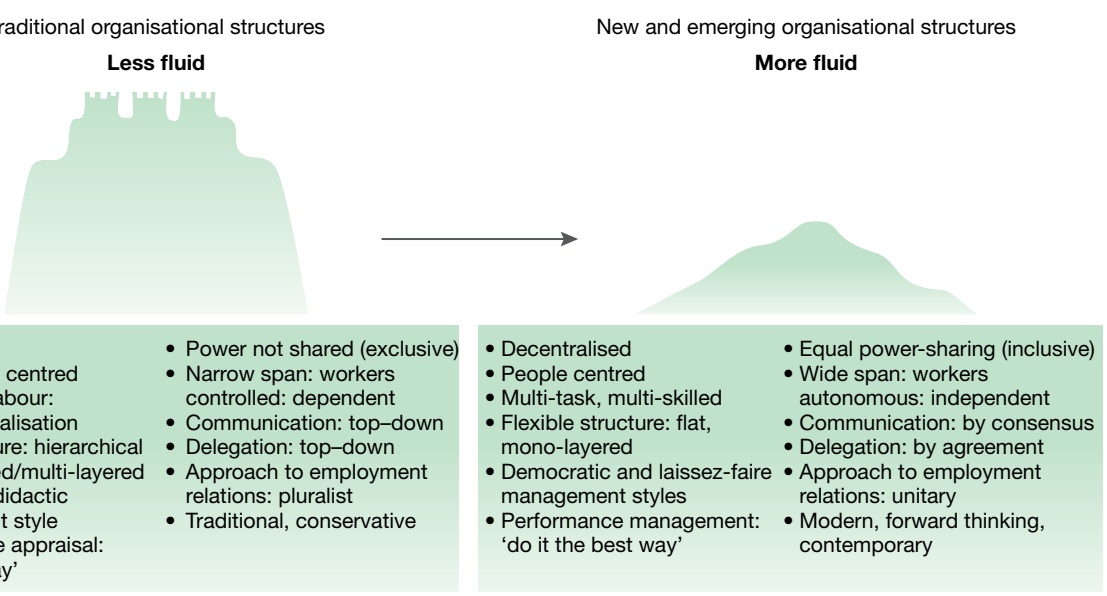


FIGURE 3.26 Whirlpool has adopted a flatter structure. Outside of its executive team, the company does not use traditional job titles. Instead, employees fit into one of four types of leadership roles, and anyone can contribute to the company's robust innovation program.

SNAPSHOT

Case study: The appeal of the 'flat' organisation — why some firms are getting rid of middle managers

The trend of 'flat' organisations is catching on at some of the world's biggest companies. It's easy to see the appeal when you think of a utopia where everyone in an organisation has a say and can act autonomously.

Elon Musk, CEO and product architect of Tesla, says in the communication policy to his staff within Tesla:

'Anyone at Tesla can and should email/talk to anyone else according to what they think is the fastest way to solve a problem for the benefit of the whole company.'

In a flat organisation, fewer management layers are actively involved in decision-making. People who have the relevant information make the relevant decisions, which reduces the hierarchical overload.

You can imagine this working in small and medium size organisations. But for larger companies, an enormous amount of investment is required for the transformation, which often makes a flat structure often unrealistic and unimaginable.

At online retailer Zappos, CEO Tony Hsieh has pushed flat to a whole new level, adopting holacracy principles. These are customisable self-management practices, where roles are defined around work, authority is distributed and the organisation in regularly updated in small iterations.

To take this a step further, Gary Hamel, a well known scholar and consultant, advocated for firing all managers, as he claims they are the least efficient part of an organisation.

Why so appealing?

As organisations strive to respond quickly to new challenges and opportunities, flatter organisations shorten the chain of command, increasing communication between employees and management. Not only that, but researchers Raaj Sah and Joseph Stieglitz argued that hierarchic style organisations produce problems like the rejection of good projects without reason. The greater the number of organisational decision-making layers, the greater the probability that a good project will be rejected that would have otherwise had a positive impact on the company's growth.

And it's not just lower level employees disheartened by the traditional hierarchic corporation. In our research, we spoke to the vice president for corporate development of a large American company, operating in the energy sector. He told us, 'I worry that I might not get a chance to see some projects …as they go through a "filter" and and I can't make a choice because I don't get to see …them all. There is a natural tendency to only show ideas that have a higher likelihood of getting funding.'

This point is reinforced by research that finds in situations where there are many levels in an organisation relative to the total number of employees, information gets distorted when it passes through hierarchical levels. These structures encourage employees to bypass superiors or simply use them as messengers.

Cutting through organisational layers also improves the speed of decision making and the time it takes to get a product to market. A study of over 300 executives from around the world found that the greater the number of organisational layers, the slower the organisation reached customers with new products and services.

Beyond human relations in the office, flatter organisations are often cheaper to run and more dynamic. These benefits are similar to what organisations would achieve through outsourcing, where companies avoid investing in resources. By keeping the number of management layers minimal, a flat organisational structure helps cut down the overhead costs of management.

Not everyone can be flatter. Organisational structures do have challenges. Individual managers can resist moving to a flat structure because they fear losing their jobs. A flatter structure might also lead to a lower sense of accountability as each employee has more than one boss. If the communication between employees and the management is not well managed, it could potentially overwhelm executives. Another challenge is the significant time, resources, and investment required for a large organisation to transform to a flatter structure.

Source: Extracts from Massimo Garbuio and Nidthida Lin, 'The appeal of the "flat" organisation — Why some firms are getting rid of middle managers', *The Conversation*, 15 January 2018.

3.4.5 Business culture

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

business (corporate) culture the values, ideas, expectations and beliefs shared by members of the organisation

BizFACT

Job seekers are increasingly concerned about the corporate culture of a potential employer. It is difficult to determine corporate culture — or 'the way things get done' — at an interview. Things to look out for are the way people dress, how they address each other and even the office facilities. Some offices have gyms and cafés to encourage work–life balance.

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

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

FIGURE 3.27 Spotify's office culture is part of an internal environment that is designed to be fun and inspiring. Spotify doesn't adopt a traditional corporate structure. Instead, they have 'squads', 'tribes', and 'guilds', which function as different ways of organising and performing work with more accountability and autonomy. Through guilds, different team members are connected by communities of interest. Not only is work organised in an innovative way, but also a passion for music brings people at Spotify together. Music artists are known to stop by the office and join employees in jam sessions.

BizFACT

Insentra, an IT service provider in Sydney, has once again been named as one of the Best Places to Work in Australia by the research institute Great Place to Work Australia. Insentra employs 54 people, all of whom have been working remotely since early March due to COVID-19. Co-founder and chief executive Ronnie Altit stated that his attention over recent months was on his team's happiness. Culture was his number one focus. This involved him communicating effectively and being as transparent as possible with staff about the implications of the pandemic.

Elements of a business culture

A business culture normally consists of four essential elements:

1. *Values.* These are the business's basic beliefs, shared among its employees. Business values can include honesty, hard work, teamwork, quality customer service, employee participation and innovation. Sony Corporation is an example of a company that values innovation. Masaru Ibuka, the company's co-founder, created the atmosphere of innovation that allowed the company to successfully introduce new products such as the Walkman (1979), the Trinitron colour television (1968), the PlayStation (1994), the first digital camera for cinema production (2000), the first Blu-ray players (2006), and Sustainable Oriented Recycled Plastic (SORPLAS) — a plastic made from 99 per cent recycled materials (2014).
2. *Symbols.* These consist of events or objects that are used to represent something the business believes to be important. It is a case of 'actions speaking louder than words'. For some businesses, competitive sports are a key feature of the business's culture. Other businesses have encouraged employee development and loyalty through the use of training and development programs.
3. *Rituals, rites and celebrations.* These are the routine behaviour patterns in a business's everyday life. Regular social gatherings can be held to help develop a sense of belonging among employees who normally work in small teams during the week.
4. *Heroes.* Heroes are the business's successful employees who reflect its values and, therefore, act as an example for others.

Culture and organisational structures

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

Less formal businesses with flatter management structures, less departmentalisation and fewer defined spans of control often exhibit highly flexible, innovative and risk-taking cultures.

Management's role in developing a business culture

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

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

SNAPSHOT

Case study: Amicus — best place to work

Amicus is a business that creates and fits out offices and other workplaces for a variety of clients. It employs just over 100 people, including project managers, estimators, various furniture and furnishing consultants, sales staff and administrative staff, such as accounts staff and human resources experts.

In 2017, Amicus was named an Employer of Choice in the Australian Business Awards. In 2019 Amicus ranked fourth in the 2019 Best Places to Work study in the Under 100 Employees category. The business won these awards because of its strong focus on wellbeing and workplace culture. Management at Amicus maintains a positive and supportive atmosphere for all employees, and the personal and professional development of all staff is a priority. All employees receive ongoing support to advance their careers within the business, as well as access to training and educational opportunities.

Amicus places a strong focus on employee health and wellbeing. The company have developed a wellbeing program, which includes providing access to guest speakers on topics such as diet and exercise, as well as more sensitive topics, such as dealing with the death of a family member. Staff are given access to in-house yoga sessions and gym challenges. As part of the team-bonding process, and to promote health and fitness, staff are also encouraged to enter fun runs, gym challenges and other similar activities to foster team bonding.

Amicus aims to have a team of high-performing employees across every area of the business. When recruiting staff, management hires employees based on their attitude, cultural fit and ability to grow. They focus on three central skills to determine the right staff — the applicant's agility to learn, their understanding and openness to working within the company's values and their technical skill set. Once staff are employed, Amicus has also developed a high-quality induction program — so much so that, in 2018, the company won a Gold LearnX Award in the category of Project Induction/Onboarding.

Resources

Weblink Amicus

KEY IDEAS

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

3.4 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

3.4 Quick quiz | **3.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 5, 9, 15	3, 4, 6, 7, 8, 10, 11, 12, 13, 14, 16, 17	18, 19

3.4 Exercise

Revision

1. **Summarise** one way in which product influences affect a business.
2. **Identify** and **outline** three factors a business must consider when choosing a location.
3. **Describe** the four main resources available to a business. Choose one of these resources and explain how it will influence a business.
4. **Distinguish** between a traditional and flat organisational structure.
5. **Define** the term 'business culture'.
6. **Describe** the culture of your school.
7. **How** can business culture influence the success of a business?
8. Briefly **explain** how a manager can influence a business's culture.
9. **Summarise** the four elements of a business culture.
10. In groups of two or three, **discuss** what factors need to be considered when choosing a location for the following businesses:
    a. fast-food outlet
    b. dentist's surgery
    c. agricultural machinery supplier
    d. VCE coaching college
    e. hair salon
    f. panel beater.

11. Lorenzo and Jamal have decided to locate their fruit and vegetable business in a shopping centre. **Discuss** the suitability of their decision.
12. 'Proximity to suppliers is more important than proximity to customers.' **Discuss** this statement.

Read the 'Amicus — best place to work' case study and answer questions 13 and 14.

13. **Deduce** why employees like working at Amicus.
14. **Explain** how Amicus developed a positive workplace culture.

Read 'The appeal of the "flat" organisation — why some firms are getting rid of middle managers' case study and answer questions 14 to 16.

15. **Outline** some characteristics of flatter organisational structures.
16. **Describe** some of the disadvantages of a traditional hierarchical structure.
17. **Discuss** flatter organisational structures.

Extension

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

Solutions and sample responses are available in your digital formats.

3.5 Stakeholders

SYLLABUS LINK In this subtopic you will learn about influences in the business environment:
- stakeholders.

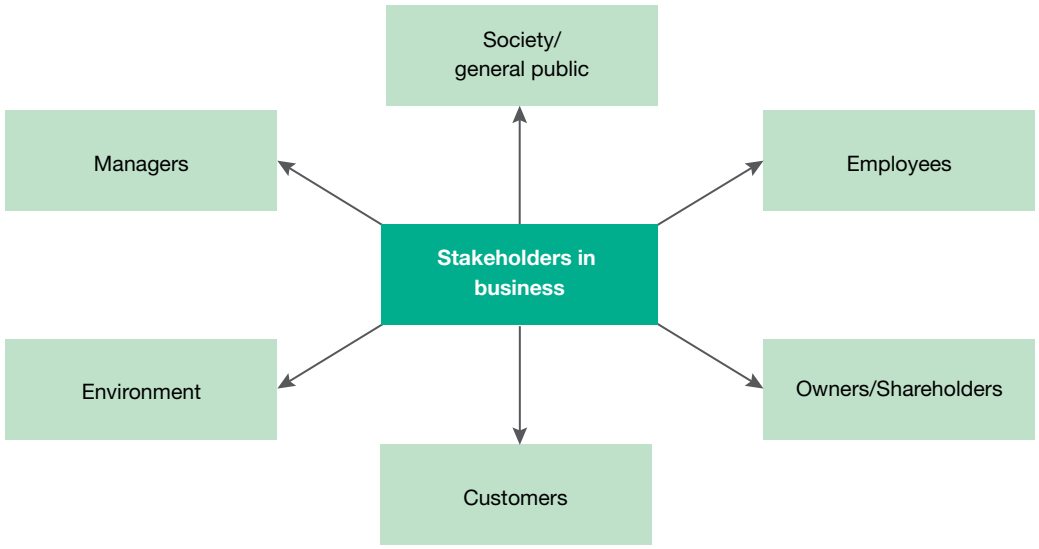
Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

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

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

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

FIGURE 3.28 The main stakeholders of a business



Many businesses are now extremely sensitive to public opinion and strive to be recognised as being good corporate citizens. Businesses recognise that they increase their chances of success when they pursue goals that align with the interests and expectations of their main stakeholders. Every business must be aware of and take into account the needs of its stakeholders.

3.5.1 Owners/shareholders

A business may be owned by a sole trader, by partners or by a number of shareholders. The extent to which the owner is involved in the management or daily operations of the business will affect their vested interest in its activities. For example, a sole trader or a partner will have a direct say in what the business does.

The owners who manage or operate the business on a day-to-day basis will probably have a personal vested interest in the business — they are likely to depend on the success of the business for their income or wealth. Furthermore, the performance and conduct of the business can affect the reputation of the owner. For example, operating a business that is known to have dishonest dealings with other stakeholders is likely to reflect poorly on the characters of the owners of the business. Alternatively, the failure of a small business might leave a sole trader or partner in debt.

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

Companies with shareholders also have to ensure that they maximise the return on the shareholders' investment in a sustainable way. Shareholders want the organisation they have invested in to be profitable, as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of an organsation's shares increases.

BizFACT

According to research by finder.com.au in 2017, three-quarters of Australians have never invested in or traded shares. While the number of Australians overall who have invested in shares is quite low, it's even lower when you only look at women. Only 17 per cent of Australian women have invested in shares, compared to 35 per cent of men.

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

3.5.2 Managers

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

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

Larger companies may have many directors who are collectively known as the 'board of directors'. The board's role is to develop and oversee the strategic direction of the company. In return, members of the board expect to acquire power and status by being the director of a company. The directors of a company also expect to be fairly remunerated, including earning directors' fees and receiving share options.

3.5.3 Employees

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

FIGURE 3.29 Employees need to feel valued and know that their job is secure in the long term. Employees need a safe and psychologically rewarding work environment. Such an environment respects individual differences and is concerned for employees' goals, aspirations and welfare. In this sense it is more than just providing a 'pay packet'.

SNAPSHOT

Case study: Google's approach to human resources

At Google, human resources is central to driving business growth and development. According to Google, it is people that:

> … keep Google going and growing. Our People Operations [POps] team (known elsewhere as HR) and administrative staff are the curious and creative colleagues that anchor us to our foundations and help us shoot for the moon. The POps team lives by the mantra 'find them, grow them, keep them', and is dedicated to staffing, development, and a distinct and inclusive culture. Not just co-workers, we're proud Google colleagues who help our company thrive.

Google's people reflect the type of culture it has built from the outset and continues to develop. Its workplace promotes strong staff involvement and high levels of engagement through a common purpose that embraces the company's vision and goals. The workplace is designed to encourage interaction between staff that often manifests in new ideas for products. Its people-first culture has enabled Google to rank in the top 50 of the world's global companies and be recognised as one of the best employers.

As Google demonstrates, it is the link between human resources and the other functional areas of the business that need to be managed to ensure a synergy and, ultimately, business success.

Source: Extracts from https://careers.google.com/fields-of-work/people.

3.5.4 Customers

Successful businesses know that the consumer is a powerful stakeholder in the external operating environment. Customers are the reason that businesses exist. They buy a business's goods or use its services, expecting high quality at competitive prices. Businesses must respond to the needs of customers, making sure that the right product is delivered at the right time. High levels of customer service result in improved customer satisfaction.

Today's consumers are astute, better educated and informed. They are increasingly prepared to seek compensation if they believe they have either been unfairly treated or purchased a product that did not perform as promised. Consumer groups are also prepared to mount publicity campaigns aimed at embarrassing those businesses that do not act ethically or responsibly.

FIGURE 3.30 Because of customer pressure, fast-food restaurants such as McDonald's have been forced to offer customers healthier options.

Customers have become more health conscious and this has forced some businesses to change their products or practices. Today, customers expect to be able to buy products that are low in salt and fat, are free of gluten, nuts, eggs, dairy and other allergens, are GMO free, and have no artificial colouring or flavours. For example, many restaurants and cafés today offer healthy food and provide options for people with a variety of dietary requirements (see figure 3.30).

Customers are also increasingly putting pressure on businesses to be environmentally aware, demanding products that are 'clean, green and safe'.

To ensure its future viability and profitability, a business needs to recognise and assess changes in consumer tastes so it can constantly satisfy the consumers' needs and wants.

3.5.5 Society

A business has a responsibility to the general community to be a good corporate citizen. Members of the community expect that businesses will give back to society something of what they take out in generating profit. For example, members of the community increasingly expect organisations to show concern for the environment. Some might be worried about organisations using valuable land resources or showing disregard for carbon emissions. They may be concerned about waste disposal or pollution. Others may be concerned about their future welfare through their own employment within organisations.

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

3.5.6 Environment

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

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

Businesses that have been successful in their environmental management have learned that new processes, procedures and strategies are often needed. For example, one particular organisational element that many proactive 'green' companies share is the development and implementation of an environmental policy. Through communication and training, responsible businesses can ensure that all employees and contractors are environmentally aware.

FIGURE 3.31 If business owners adopt ecologically sustainable practices, it is likely that the business will benefit in the long term through cost savings, competitive advantage and operational efficiencies. For example, many retailers have phased out single-use plastic bags in response to society's concerns about the environment.

ecologically sustainable when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

BizFACT

The Australian Business Award for Sustainability recognises organisations that execute initiatives demonstrating leadership and commitment to sustainable business practices. LandCorp, the Western Australian Government's land and property development agency, was selected as an ABA100 Winner for sustainability in 2019.

KEY IDEAS

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

3.5 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

3.5 Quick quiz on | **3.5 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 8, 9, 10	3, 5, 6, 7, 11, 13	12

3.5 Exercise

Revision

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

Stakeholder	Influence

11. Read the 'Google's approach to human resources' case study and **explain** why Google is considered one of the best employers.

Extension

12. 'The shareholder should take precedence over all the other stakeholders. They are the ones who have invested their money; they take the risks. Therefore, they should be rewarded with as high a return as possible.' **Evaluate** this statement. Compare your answers with other members of the class.
13. What do you think motivates a business to engage in socially responsible programs? Is it:
    a. altruism — an unselfish concern for others?
    b. enlightened self-interest?
    c. avoidance of government regulation?
    d. fear of being sued?
    Justify your choice. Share your answer with other class members.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink NAB

3.6 Review

3.6.1 Summary

External influences: economic, financial, geographic, social, legal

- The business environment is influenced by both internal and external factors.
  - The external environment includes those factors over which the business has very little control.
  - The internal environment includes those factors over which the business has some degree of control.
- External influences on business include economic, financial, social, legal, political, institutional, technological, the competitive situation and changes in the market.
- Economic influences on a business relate directly to their economic environment, which is dependent on changes in economic growth. These changes are characterised by boom and recessionary periods in the economic cycle.
- Changes in the global and domestic financial markets will influence the cost of borrowing money and therefore directly affect the level of investment by a business.
- Three major geographical factors that affect business activity are:
  - Australia's geographic location within the Asia–Pacific region
  - changing demographic factors
  - the process of globalisation.
- Social influences, such as changes to fashion and culture, have the capacity to affect business sales and profits.
- Three social issues that have had a significant impact on business practices include the growing awareness of the environment, the growing desire for businesses to provide family-friendly workplaces and the growing belief that businesses must cater for workplace diversity.
- Legal influences are the regulations (legal framework) within which a business must operate.

External Influences: political, institutional, technological, competitive situation, markets

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

Internal influences on business

- The internal influences on a business include product, location, resources, management and business culture.
- Product influences affect a range of internal structures and operations within the business.
- Location will have a direct impact on the sales and profits of some businesses.
- Factors to consider when choosing a location are:
  - visibility
  - cost
  - proximity to suppliers
  - proximity to customers.
- The four main resources that influence a business are human, information, physical and financial.

- Businesses can adopt a traditional hierarchical structure or a flat organisational structure.
- Business culture can be seen in the unwritten or informal rules that guide how people in the organisation behave.
- There are four essential elements of a business culture: values, symbols, rituals and heroes.

Stakeholders

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

3.6.2 Key terms

business (corporate) culture the values, ideas, expectations and beliefs shared by members of the organisation
business environment refers to the surrounding conditions in which the business operates. It can be divided into two broad categories: external and internal.
complementary business one that sells a similar range of goods and services
deregulation the removal of government regulation from industry, with the aim of increasing efficiency and improving competition
ecologically sustainable when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs
economic cycles (or business cycles) the periods of growth ('boom') and recession ('bust') that occur as a result of fluctuations in the general level of economic activity
external environment includes those factors over which the business has very little control
financial resources the funds the business uses to meet its obligations to various creditors
globalisation the process that sees people, goods, money and ideas moving around the world faster and more cheaply than before
human resources the employees of the business; generally its most important asset
information resources the knowledge and data required by the business, such as market research, sales reports, economic forecasts, technical material and legal advice
internal environment includes those factors over which the business has some degree of control
market concentration refers to the number of competitors in a particular market. There are four main types of market concentration.
monopolistic competition where there is a large number of buyers and sellers in a particular market (e.g. local retailing shops)
monopoly complete concentration by one business in the industry (e.g. Australia Post)
oligopoly where a small number of larger firms have a greater control over a market (e.g. car manufacturers)
perfect competition where there is a large number of small firms that sell similar products. They are unable to differentiate products from each other and so can only use price as a way of achieving market share (e.g. fruit and vegetable growers).
physical resources the equipment, machinery, buildings and raw materials used by the business
regulations rules, laws or orders that businesses must follow
stakeholder any group or individual who has an interest in, or is affected by, the activities of a business
support services the activities needed to assist the core operations or prime function of a business
sustainable competitive advantage refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time

Resources

Digital documents Key terms glossary (doc-35781)
Chapter crossword (doc-36242)

Interactivity Chapter crossword (int-7215)

3.6 Activities

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Exercise 1: Multiple choice questions

1. Which of the following is an example of an internal influence that will affect a business's operations?
   - **A.** Interest rate changes affecting business expenses
   - **B.** Product range offered to the market
   - **C.** The degree of market concentration present in the market
   - **D.** Labour market for skilled employees

2. Which of the following market structures is easy to enter?
   - **A.** Monopolistic competition and perfect competition
   - **B.** Monopoly and oligopoly
   - **C.** Perfect competition and monopoly
   - **D.** Oligopoly and monopolistic competition

3. What is occurring when the economy is at the peak phase of its cycle?
   - **A.** Inflation is declining.
   - **B.** Unemployment is increasing.
   - **C.** Wages and salaries are increasing.
   - **D.** Taxation receipts are declining

4. How is a trade union different from an employer association?
   - **A.** A trade union represents the interest of its employer members.
   - **B.** A trade union helps negotiate better employment conditions for its members.
   - **C.** An employer association assists in the training of employees.
   - **D.** A trade union represents the interests of all employees

5. Which of the following would not directly contribute to business culture?
   - **A.** Organisational structures
   - **B.** Values
   - **C.** Symbols
   - **D.** Shareholders

6. What would be a characteristic of a traditional organisational structure?
   - **A.** Task centred or focused
   - **B.** The presence of a democratic management style
   - **C.** Wide spans of control
   - **D.** Decentralised organisational management structure

7. What would be a characteristic of an economy experiencing a recession?
   - **A.** Decreasing sales
   - **B.** Employment increasing
   - **C.** Acquiring more staff
   - **D.** Increasing production of goods and services

8. Which government agency is responsible for regulating competition, fair trading and national consumer laws?
   - **A.** Australian Securities Investment Commission
   - **B.** Australian Competition and Consumer Commission
   - **C.** New South Wales Fair Trading Commission
   - **D.** Local Government Competition Commission

9. Which of the following is an internal influence in the business environment?
   - **A.** Social
   - **B.** Markets
   - **C.** Institutional
   - **D.** Resource management

10. Which of the following statements best describes a monopoly?
   - **A.** Where one firm in an industry has complete concentration
   - **B.** Where there is a large number of small firms that sell similar products
   - **C.** Where there is a large number of buyers and sellers in a particular market
   - **D.** Where a small number of larger firms have a greater control over a market

Exercise 2: Exam practice questions

Question 1 (2 marks)

Outline ONE institutional influence on a business.

Question 2 (4 marks)

Describe TWO internal influences on a business.

Question 3 (2 marks)

Discuss how one change in society has influenced businesses.

Question 4 (4 marks)

Identify TWO stakeholders and **explain** how they can influence a business.

Question 5 (4 marks)

Assess how taking advantage of technological advancements can provide a business with a competitive advantage.

Question 6 (6 marks)

Analyse the effect the COVID-19 recession has had on businesses.

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4 Business growth and decline

4.1 Overview

LEARNING SEQUENCE

4.1 Overview
4.2 Business life cycle — stages and responding to challenges
4.3 Factors that can contribute to business decline
4.4 Voluntary and involuntary cessation
4.5 Review

4.1.1 Introduction

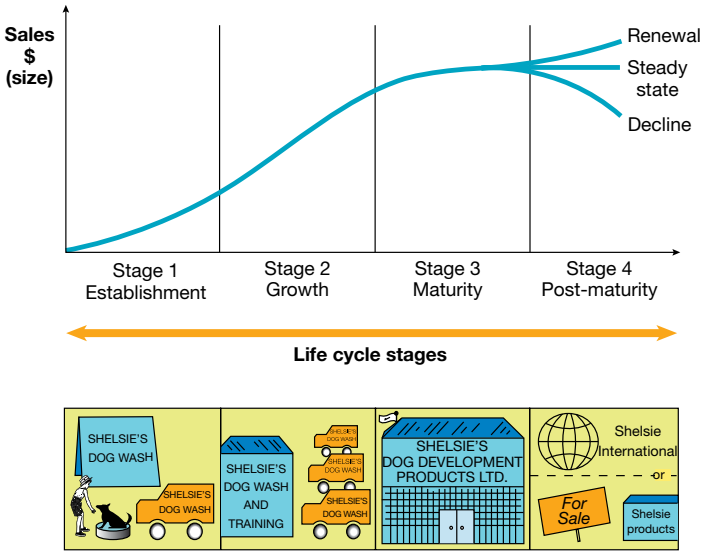
Businesses are similar to people in that:

- no two are identical
- each has its own identity
- they are referred to by name or brand
- they possess individual personalities and physical appearances
- they are confronted by life's challenges
- they sometimes succeed and at other times fail
- they rely on each other for survival.

However, the most striking similarity is that, like people, a business will pass through a number of distinct stages as it develops. This is referred to as the **business life cycle**. The business life cycle is a model — that is, a simplified version of 'real-life' situations. Using a model makes it easier to understand the complexities of the business world. The four main stages in the life cycle of a business are shown in figure 4.1.

business life cycle refers to the stages of growth and development a business can experience

FIGURE 4.1 The four stages of the business life cycle. The graph shows a smooth line with sales increasing up to the post-maturity stage. In reality, the growth in sales will usually show minor increases and decreases within each stage. The line represents the average sales changes.



In each stage of the cycle a business is confronted with new challenges — as well as being presented with different opportunities. The nature, operation and organisation of the business changes as the business progresses from one stage to the next. As this occurs, the business owners need to constantly develop strategies to deal with its expansion. To do this successfully, owners must continually assess the business's position on the life cycle. This is important, otherwise inappropriate strategies will be put in place and jeopardise the 'life' of the business. However, the reality is that it can often be difficult for owners to determine their position on the life cycle because they fail to recognise the changes taking place.

There is one very important difference between the human and business life cycles — with the business life cycle, there is no set time limit for each of the stages. For example, some businesses can reach maturity in a short period, whereas another business may take decades to move beyond the establishment stage.

Some businesses are able to constantly renew themselves over a long period. As they do so, they continually grow and expand, often becoming dominant within their specific market.

FIGURE 4.2 Coles has undergone many changes in its rich history in order to renew the business. There have been many changes since the first G.J. Coles variety store opened in 1914. For example, in 1985 Coles merged with Myer. This led to significant growth and, at its peak, the company became the biggest retailer in Australia. After a period of time, the company began underperforming, so in 2006 Myer was sold. In 2007, when Coles was struggling to compete with its main rival Woolworths, it was acquired by Wesfarmers. Since then, Wesfarmers has been successful in turning around the performance of the Coles division.

on Resources

Digital document Key terms glossary (doc-35785)

Weblinks Coles
Wesfarmers

4.2 Business life cycle — stages and responding to challenges

SYLLABUS LINK In this subtopic you will learn about stages of the business cycle, including the establishment, growth, maturity and post-maturity stages.

You will learn to:

- respond to challenges at each stage of the business life cycle
- identify actual businesses at different stages in the business life cycle
- outline possible business strategies appropriate for different stages in the business life cycle.

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Each stage of the business life cycle has its own special features and challenges. This section will examine the main features of each stage before considering the challenges experienced at each stage. This information will be presented in a table format to help you to compare and contrast the different stages. We will also identify actual businesses at different stages in the business life cycle and observe how they respond to the different challenges of each stage.

4.2.1 Establishment stage

The first stage in the life of a business is its birth — or establishment. Like human babies, recently established businesses are also vulnerable as their hold on 'life' is quite precarious. The overriding concern is to get the business on a solid foundation. This requires enough sales to be generated to bring in the much needed income, which will be used to pay expenses and to generate a positive **cash flow**.

cash flow the money coming into the business in the form of cash receipts, and the money leaving the business as cash payments

The main features and associated challenges of the establishment stage are outlined in table 4.1.

TABLE 4.1 Establishment stage: Main features and associated challenges

Feature	Challenges
Alternative names	Startup, birth, beginning, commencement
Goals	Survival, and setting a firm foundation for future growth
Sales	Normally begin slowly and are somewhat erratic
Marketing	Highlight product advantages by accentuating the product's strengths. Undertake inexpensive promotion strategies
Profit	Usually slow to begin with, occasionally a loss. Sometimes all the profits are put back into the business to ensure its survival.
Financial management	Greatest source of start-up capital is from the owner's personal savings. This can be supplemented with a loan from a financial institution, although such finance is often difficult to obtain because of the high risks involved.
Cash flow	Sometimes erratic, with a period of constant cash outflow in the early stages
Costs	Very high fixed costs. Major cost items include premises, equipment, raw materials and insurance.
Customers	Establishing a customer base large enough to sustain future viability is important. Need to develop a positive relationship with customers. Attempt to accurately forecast customers' needs.
Management	Informal, with all decisions being made by just one or two people. Decisions are often made 'on the run'.
Employees	Normally only a few. Owner establishing work routines and building up relationships

(continued)

Feature	Challenges
Failure rate	Very high, up to 33 per cent within the first year of trading
Main problems	Lack of money with possible cash flow shortages
Risk level	Extremely high, especially within the first few months. High degree of uncertainty
Business entity	Usually sole trader or partnership

Establishing a business is not always easy. A number of challenges need to be responded to at the establishment stage. To overcome these challenges, the aspiring business owner needs to become involved in some basic planning. Detailed planning undertaken when establishing the business can help greatly reduce the risk of failing and becoming just another business failure statistic. (Business planning will be examined in detail in later chapters.)

SNAPSHOT

Case study: Dancer and Dasher — Establishment stage

Alana Arena has a good understanding of what is required to own and operate a business. Her parents have been running a successful hair dressing salon since 1981 and her husband also runs an electrical wholesaling business. Alana's love of Christmas and passion for putting together the total look for a Christmas tree inspired her to create Dancer and Dasher in 2018. The business is Sydney-based and specialises in styling bespoke and one-of-a-kind Christmas trees and décor. Alana was motivated at the thought of being paid for doing something she loved.

Alana's previous experience helping her parents and husband run their respective businesses enabled her to gain the skills necessary to successfully run and manage her own business. While Alana identified a business opportunity, it was critical to take the necessary steps to turn that idea into a reality. Prior to starting her business, Alana conducted some market research and prepared a comprehensive business plan. She researched throughout Sydney to see if there were any similar businesses and spoke to business owners to see if there was a potential market. Many owners told her there was no market and that her idea would fail, but Alana was persistent and determined to make it work as she realised there was a gap in the market. She adopted a differentiation strategy and chose to target a niche segment of the market.

Alana then engaged the services of a professional accountant to help set up her legal structure. She decided to form a private company as opposed to a sole trader so that she would benefit from the protection given by limited liability. She did not want to be personally liable for the financial obligations of the business and put her personal assets at risk.

In relation to funding, her company was 100 per cent bootstrapped. Alana used her own private savings to start the business and, to this day, she continues to re-invest the revenue earned from customers back into the business to finance daily operations, as opposed to external funds.

Alana started off by styling a few trees and then through social media and word of mouth, her business gradually grew. The first few months were hard. She had very high initial costs and there was a high degree of uncertainty. She found it a huge risk to forecast people's tastes and preferences when deciding which products to invest in. Alana found

business was very slow initially because many people were not yet aware of the business and also because it wasn't peak season. She therefore experienced cash flow problems during the first few months and was operating at a loss. Even now, her cash flow is quite erratic due to the seasonal nature of the business.

Alana didn't have a lot of funds to spend on marketing, so she undertook inexpensive forms of promotion to attract customers. She started Facebook and Instagram pages and relies exclusively on social media advertising to generate awareness. She used a lot of hashtags, which enabled her to get new followers, extend the reach of her images and raise awareness of her business. It took a few months for sales to pick up and for the business to generate a positive cash flow. It wasn't until the end of the first year that sales started to increase. The more exposure she received, the more interest she received. For example, in 2019, she generated significant publicity in the mainstream media when both Roxy Jacenko and Jackie O Henderson posted and tagged pictures of their Christmas trees to their Instagram feeds.

After those initial months, her sales and profits have been gradually increasing and the business is beginning to generate a good reputation. Her passion and ability to identify and tap into a new niche market has put the business on a firm foundation.

4.2.2 Growth stage

The second stage is a time of accelerating growth. Sales increase and the cash flow is normally positive. A customer base has been established, with regular clients accounting for a large percentage of total sales. The business undertakes the development of new products to satisfy different market segments. More emphasis is placed on marketing and the use of complex computerised accounting procedures. In family owned businesses, other members of the family usually take up specialised supervisory and management roles. Loyalty to the business is strong, with many of these businesses taking on the culture of an extended family. The business has a good reputation in the community, and owners develop a sense of pride in the products and personal service on which the business has built and flourished. However, with growth comes complexity, responsibility and the need for long-term planning.

FIGURE 4.3 Kate Morris started Adore Beauty from her garage in 1999. While the company grew carefully for many years, it has recently experienced exponential growth. The shift from physical shopping to online during the COVID-19 lockdowns helped boost this growth. In 2020, Adore Beauty experienced month-on-month growth of skincare (112 per cent) and home fragrances (105 per cent). Its overall sales were up 100 per cent year-on-year. In October the company debuted on the ASX, making it the first listing in Australia of its size with a woman founder and CEO.

During the growth stage the business must continually improve its competitive edge. Failure to do so will see competitors take away customers and the growth will stall. Owners tread a fine line in attempting to do this — a desire not to radically alter a successful formula while at the same time restructuring sufficiently to match what the competitors are doing.

BizFACT

During the growth phase it becomes essential for the business owner to develop long-term plans.

The main features and associated challenges of the growth stage are outlined in table 4.2.

TABLE 4.2 Growth stage: Main features and associated challenges

Feature	Challenges
Alternative names	Take-off, growth spurt
Goals	To constantly increase the average level of sales; to continue growing through mergers and takeovers; to diversify business activities
Sales	Rapid increase, especially in the early stages of the growth phase. New products introduced and some slow-selling products deleted
Marketing	Development of new products to satisfy market niches. Price discounts due to lower production costs. Extensive promotional activities and a widening distribution network. Desire to increase market share by using mass-marketing techniques
Profit	Should increase due to rising sales and falling production costs. As well, profits of other businesses acquired through acquisition (takeover) or merger are available for use.
Financial management	Use of sophisticated, computerised accounting procedures and systems. Raising of finance tends to be easier. Main sources of finances are from financial institutions, the selling of shares or taking on more partners.
Cash flow	Difficulties can be experienced if the growth is too rapid. Adequate cash flow must be maintained to continue expansion. A credit policy needs to be organised. Forecasting of sales and expenditures becomes more crucial.
Costs	Production costs tend to decrease due to economies of scale — that is, cheaper unit costs due to larger production runs. Business becomes more efficient in areas of administration, finance and production.
Customers	Concentration on satisfying existing customer base while at the same time tapping into new market, both domestic and overseas. Mass markets become a possibility.
Management	Delegation of some responsibilities. Development of a formalised organisational structure. Introduction of line managers (supervisors). Clear lines of communication become essential. Specialist departments are established. Some functions may be outsourced.
Employees	Increased specialisation of workforce requiring formal and informal training. Human resource strategies need to be implemented, especially in compiling job analyses and descriptions.
Failure rate	Lessened, especially after successful mergers or takeovers, which result in increased diversification and reduced competition
Main problems	Expanding too rapidly and therefore losing control of the business's direction. Moving away from the core business activities — that is, what the business originally produced. Business may not have enough experience in the new areas. The need for finance to continue with the growth
Risk level	Reduced, due to diversification and less competition. However, if borrowings increased too rapidly the business may leave itself exposed — that is, with liabilities far greater than its assets.
Business entity	Usually some form of incorporated entity; private or public company

SNAPSHOT

Case study: The rise of JB HI-FI

JB Hi-Fi is a popular Australian-based electronics and home goods retailer. John Barbuto established the business as a single store in Keilor East in 1974. His vision was to deliver a specialist range of Hi-Fi and recorded music to customers at the lowest prices.

Barbuto sold the business in 1983; by 1999 the new owners had expanded JB Hi-Fi by opening another nine stores in Melbourne and Sydney. In July 2000, the majority of JB Hi-Fi was sold to private equity bankers and senior management. Their plan was to grow the business throughout Australia.

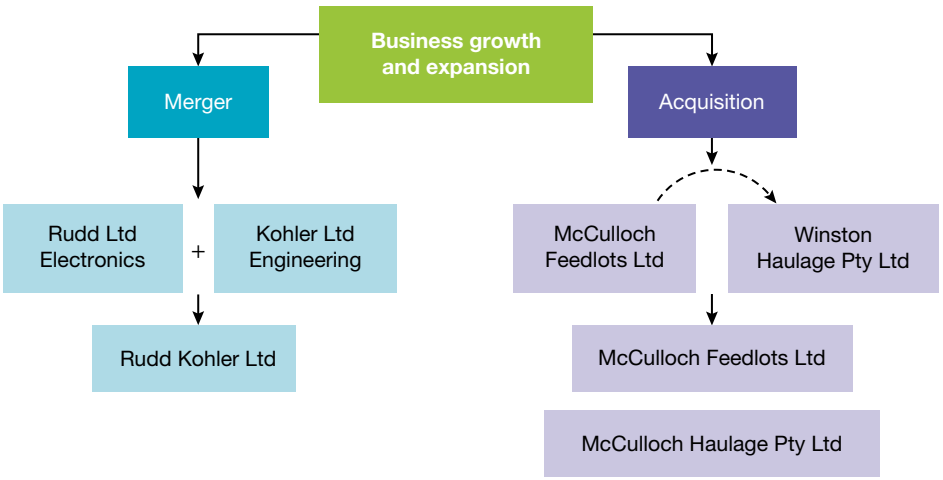
In October 2003, JB Hi-Fi was floated on the ASX, thereby becoming a public listed company. Its shares listed at $2.20. The chairman at the time, Patrick Elliott, said that while it was pleasing to see JB Hi-Fi trading strongly, the company was focused on ensuring its core business remained strong, so that its stores would continue to trade well and that new stores could open according to plan.

Since the establishment of the business, JB Hi-Fi has diversified to focus on consumer electronics, including televisions, audio/visual, digital camera photography, portable audio and in-car entertainment, software (including music, games and movies), whitegoods and appliances. In 2016, JB Hi-Fi acquired one of its competitors, The Good Guys. The acquisition accelerated the company's plans to grow by building market share in the whitegoods, kitchenware and general home appliances sectors. The business now has more than 400 stores across Australia and New Zealand, including more than 300 JB Hi-Fi stores and more than 100 The Good Guys stores. The business employs more than 12 000 staff.

During the COVID-19 lockdown of 2020, JB Hi-Fi boasted bumper sales as consumers stocked up on technology products for work and entertainment purposes. While the vast majority of retailers saw huge declines in profitability during this period, the COVID-19 pandemic continued to benefit the company. JB Hi-Fi experienced total sales growth of 27.3 per cent in the three months ending September 2020, even with 46 stores closed in Melbourne. The company also saw its share price increase to a historic high of $52.99 on 19 October 2020.

Business growth and expansion can occur in a number of ways. One method frequently used is to integrate with other businesses through a merger or an acquisition (takeover) (see figure 4.4).

FIGURE 4.4 Methods of business expansion: merger and acquisition (takeover)



A **merger** occurs when the owners of two separate businesses agree to combine their resources and form a new organisation. An acquisition (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.

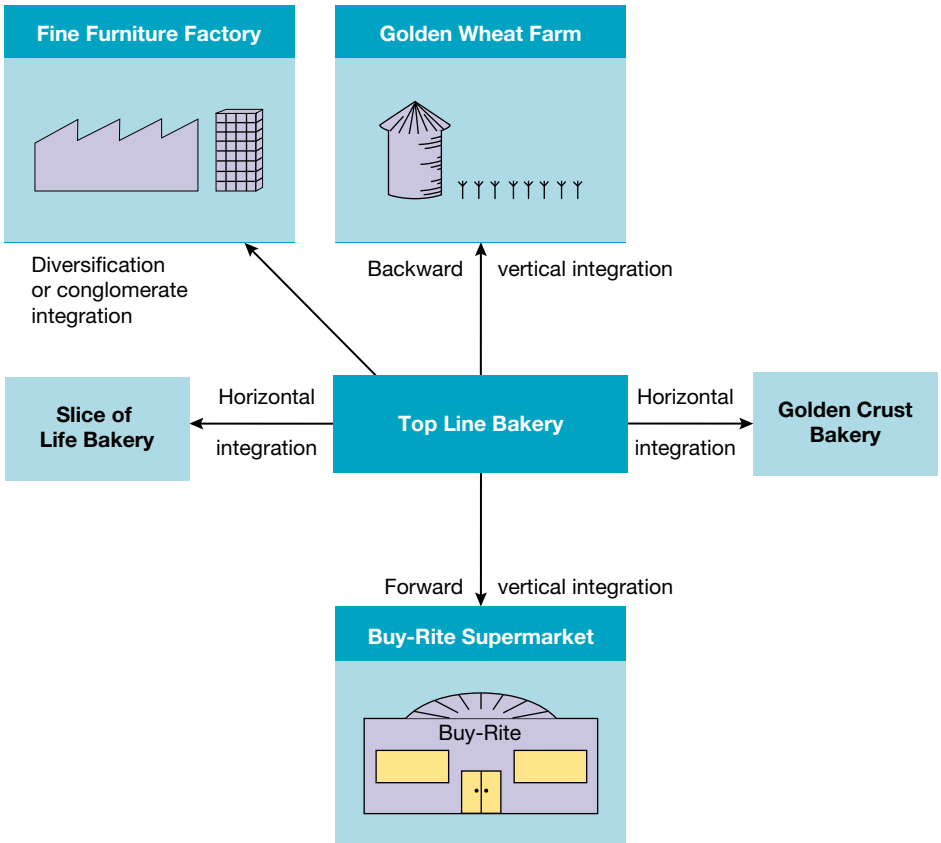
merger when the owners of two separate businesses agree to combine their resources and form a new organisation

Sometimes a merger or acquisition is motivated by the desire for a business to continually expand its range of products. No product will last forever; eventually, it will become obsolete. A merger or acquisition is often an effective way a company can quickly increase its range of products. At other times, a merger or acquisition is undertaken to eliminate competition in the marketplace.

There are several different types of mergers or acquisitions. Three types are described below.

- Vertical integration occurs when a business expands at different but related levels in the production and marketing of a product.
  - When a business integrates with one of its suppliers this is referred to as backward vertical integration — for example, if a bakery acquires a wheat farm.
  - Forward vertical integration is when a business integrates with a firm it sells to. For example, the bakery could merge with a supermarket chain that sells its bread (see figure 4.5).
- Horizontal integration occurs when a business acquires or merges with another firm that makes and sells similar products; for example, if a bakery merges with or is acquired by another bakery (see figure 4.5).
- Diversification (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry. For example, diversification occurs if a bakery merges with a furniture manufacturer (see figure 4.5).

FIGURE 4.5 Types of integration: backward and forward vertical integration, horizontal integration and diversification



BizFACT

In 2019 Iconic Australian surf brand Rip Curl was acquired by New Zealand specialist outdoor retailer Kathmandu in a $350 million deal. The acquisition will help Kathmandu diversify further away from its outdoor apparel roots, as Rip Curl primarily sells surfing-related products such as wetsuits and boardshorts.

4.2.3 Maturity stage

This third stage of the business life cycle presents unique challenges to the owner. It requires a great deal of rethinking about how the business should be operated to guarantee survival. At this time, the owner realises that the business could easily lose the energy, enthusiasm and vitality of its earlier times. A sense of complacency often envelops the business, affecting both management and staff. What is now required is a more formal, professional approach to planning.

With such a realisation may come the need to completely restructure and reorganise the business, which can sometimes be quite a painful experience. The business might lose its 'family' atmosphere and be replaced with a more clinical, professional culture. The size of the business dictates a more formal organisational structure. The difficulty is to introduce these changes without destroying the entrepreneurial spirit that laid the foundation for the business's success.

However, as figure 4.1 reveals, sales are still increasing but at a slower rate. The growth stage has slowed. This is an early warning signal of imminent danger — possible decline. The main features and associated challenges of the maturity stage are outlined in table 4.3.

TABLE 4.3 Maturity stage: Main features and associated challenges

Feature	Challenges
Alternative names	Market saturation, market hardening
Goals	To maintain profits at pre-existing levels
Sales	Rate of growth slows and eventually flattens out; plateauing
Marketing	Maintain customer and brand loyalty through extensive advertising. Due to increased competition, relative market share may decline. Need to improve quality of products
Profit	Rate of growth slows, eventually flattening out. Reflects what is happening to the level of sales
Financial management	All the correct procedures are in place, but their efficiency needs to be improved to protect the profit margin. Finances should be devoted to advertising and development of new products.
Cash flow	If costs are not able to be controlled, then the cash flow position starts to deteriorate.
Costs	Keeping costs under control is now essential. Need to improve efficiency to keep costs down, otherwise profits will start to fall even further
Customers	Due to the size of the business, customers may sense a degree of impersonality. Business is in danger of losing the personalised service that gave it success in previous stages.
Management	Leadership is crucial. Need to redefine the business's objectives and vision. The organisation's hierarchy becomes too entrenched and unable to quickly adapt to new conditions. Many new regulations and 'red tape' that will strangle any initiative
Employees	Introduce a work team approach, devolving responsibility to employees to avoid complacency. Introduce quality programs such as total quality management or quality circles.

(continued)

Feature	Challenges
Failure rate	Will increase the longer the business takes to react and reverse plateauing sales
Main problems	Rate of increase in sales begins to falter, sometimes flattening out. Loss of initial enthusiasm. Air of complacency starts to dominate.
Risk level	If costs are not controlled and management becomes slow to respond to market demand, then cash flow falls and the level of risk increases.
Business entity	Normally, no change in the beginning although, if the situation deteriorates, parts of the business may be sold off. Program of downsizing and selling off non-core business activities

SNAPSHOT

Case study: Michael Hill — Maturity stage

In 1979 Sir Michael Hill and his wife Christine opened their first jewellery store in Whangerei in New Zealand with a simple vision: to make fine jewellery accessible to everybody. Just over 40 years later, Michael Hill has grown to more than 300 stores in three countries: Australia, New Zealand and Canada.

In the 1980s, the company grew steadily, expanding to ten stores in eight years. In 1987, Michael Hill was listed on the New Zealand Stock Exchange. That successful listing propelled them to expand into Australia that same year where they opened four stores in Brisbane in four weeks. In the following seven years the company opened another 70 more stores.

Throughout the 1990s, Michael Hill continued to grow. The company placed a stronger emphasis on engagement jewellery and they became the first, and only, jeweller to offer customers a Lifetime Diamond Warranty.

In 2002, after 15 years of sustained growth in both countries, Michael Hill embraced the opportunity to expand into Canada. They also expanded their product range. In 2016, the company moved its primary stock exchange to the Australian Securities Exchange (ASX) and continued to maintain a secondary listing on the New Zealand Stock Exchange.

Around 2012 the company's rate of growth slowed and fell short of management's forecasts. The company found both the New Zealand and Australian markets tougher than expected. Since then, sales and revenue continued to increase, although at a much slower rate. For instance, while revenue increase 9.9 per cent in 2014, it only increased 4 per cent in 2015. The company's revenue increased 9.5 per cent in 2016, 5.8 per cent in 2017, 4.4 per cent in 2018, and then it declined 1 per cent in 2019.

Challenging economic and competitive conditions in the Australian retail market affected sales in 2019 as did their discounting strategy. The uncertain economy led to a decrease in consumer confidence, which affected sales. In addition, Michael Hill's previous strategy of continual discounting meant customers waited until items were on sale prior to purchasing. At the end of 2018, the company began to move away from this discounting strategy as it affected consumers' willingness to buy goods and affected the value of their brand.

In order to overcome these challenges, the management team has implemented a variety of strategies to help renew the company'sgrowth. In 2019 Michael Hill opened 10 new stores and closed 11 that were underperforming. While growth has slowed, the company is focused on increasing revenue by improving their in-store retail experience, investing in digital (e-commerce) and IT infrastructure, and creating new product lines. The company also implemented a cost reduction plan which aims to deliver $5 million of annual savings.

4.2.4 Post-maturity stage

Once a business reaches this, the final stage, it is faced with three possible outcomes, these being:

1. *Steady state* — the business continues to operate at the level it has been during the maturity phase
2. *Decline* — falling sales and profits ultimately resulting in business failure
3. *Renewal* — increasing sales and profits due to new growth areas.

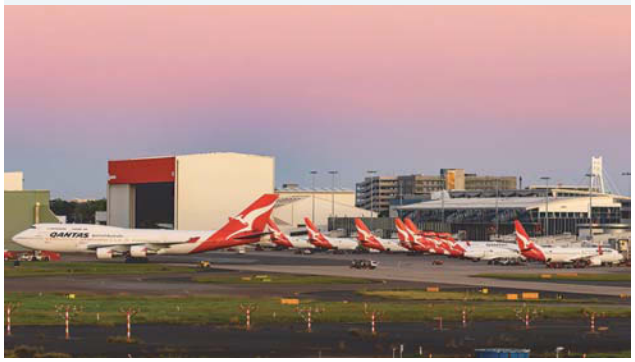
The post-maturity stage represents many opportunities but also many threats. The decisions made by the owner will be crucial for the future survival of the business. By constantly monitoring the business environment, the business owner should be able to select the most appropriate path for the business to take.

Steady state

A business in a steady state is neither declining nor expanding. It is much like an aeroplane flying in a holding pattern. Such a business is satisfying customer demand and maintaining profit levels. It displays some of the characteristics of a business in the maturity stage. One significant difference, however, is that it does not continue expenditure on research and development. The owner is more content to produce what it has in the past and rely on marketing replacement products.

However, just as an aeroplane cannot maintain this position forever, neither can a business. Eventually the business environment will change and the business will be adversely affected. Perhaps customers' tastes change or new competitors enter the market with superior products or more efficient methods of production and cheaper products. Ultimately, this steady state becomes very unstable and the business stagnates. It eventually loses sales and its competitive edge. When this occurs, the business enters another stage of the business life cycle — decline.

FIGURE 4.6 The COVID-19 pandemic, which caused a complete shutdown of international travel as well as the near cessation of domestic travel, resulted in a huge decline in profits for Qantas. Qantas recorded a $4 billion loss in revenue as well as a 90 per cent decline in profits before tax in the 2019–20 financial year. The airline recorded a net loss of $1.96 billion, down more than $2.8 billion from last year's $840 million profit. COVID-19 will continue to have a huge impact on the company, which is expecting another significant loss in the following financial year.



Decline

As customers stop buying the business's products the cash flow will be seriously affected. Eventually profits will also decline. This process of decline becomes difficult to reverse for the following reasons:

1. It becomes difficult to borrow money because financial institutions are reluctant to lend money to high-risk businesses.
2. Suppliers will restrict their credit facilities and may insist on cash payments.
3. Products become obsolete, leaving the business with unsold stock.
4. Well-qualified employees may begin to leave and seek better opportunities.

The longer the business attempts to 'stagger on', lurching from one crisis to the next, the greater the risk of failing and ceasing operations — cessation. We will examine the procedures involved in voluntary and involuntary cessation at the end of this chapter.

Renewal

Business decline can be avoided by carefully planned strategies that result in new markets being tapped and satisfying previously unmet demand. The business undergoes a revival. Sales, cash flow and profits all begin to increase once again. Even a business in decline can be turned around and placed on a path of renewal. It is difficult to accomplish and takes an enormous effort by both owners and employees, but it is possible.

The key to achieving a long-term, sustainable recovery in sales is to focus production on what the customers are presently demanding — even if this means abandoning once-successful products. As well, an extensive market research program needs to be undertaken to assist in the forecasting of future consumer trends. The more successful the forecasting, the more able the business is to be *proactive*; that is, it can anticipate and plan for future changes. Businesses that tend to be *reactive* — that is, respond to changes after they have occurred — usually respond too late and lose valuable market share. Renewal is as much about planning and timing as it is about successful marketing strategies.

The main features and associated challenges of the post-maturity stage of renewal are outlined in table 4.4.

TABLE 4.4 Post-maturity stage: Main features and associated challenges

Feature	Challenges
Alternative names	Regeneration, revival
Goals	To increase sales, cash flow and profits. Seek out and exploit previously unmet demand in new markets. Undertake further diversification and integration. Sell off any unprofitable non–correlated activities or assets.
Sales	Increase over time, especially as newer products are brought onto the market and new markets exploited
Marketing	Conduct market research analysis to determine customers' wants and identify any changes. Advertise in new market areas. Identify new market niches.
Profit	Will improve over the long term, reaching higher levels than previously achieved
Financial management	May need to issue new shares to raise finance to assist with research and development
Cash flow	May decline in the short term as money is spent on research and development of new products and markets
Costs	Research and development, marketing, integration and restructuring costs will be high in the short term.
Customers	New markets exploited; explore possibility of exporting
Management	Implement an organisational development program to realign the objectives, vision statement and organisational structure so it fits in with the new environment.
Employees	Open and honest communication is essential. Employees need to be fully aware of where the business is headed, how the new goals are to be achieved and how individual jobs may be affected. Need to overcome possible resistance to change.
Failure rate	Has been lessened compared to the maintaining or steady state phase
Main problems	Anticipated sales may not eventuate due to inaccurate forecasts, poor timing or inappropriate marketing strategies. Initial costs are high, with cash flow shortfalls in the short term. Employees may become disenchanted with the restructuring and having to adapt to constant change.
Risk level	Undertaking any new strategy involves some degree of risk. Risk minimisation techniques can help reduce the exposure to risk.

BizFACT

LEGO experienced declining revenue and profits due to the increasingly competitive toy market, with more children using mobile devices for entertainment. To counteract this, LEGO has implemented a variety of strategies to bring the company into renewal: they have restructured and slashed jobs, signed licensing agreements with brands such as Harry Potter and Star Wars, and entered the film industry, which has returned the company to growth.

SNAPSHOT

Case study: Renewal — Turn-around triumph for once-struggling Darrell Lea

One of Australia's oldest confectionery companies, Darrell Lea, is planning to expand into ice-cream and muffins six years after it nearly went under. It also could be floated on the stock exchange in a few years' time. Life is sweet after a rocky road for the chocolate, licorice and sweets maker as its new owners, Quandrant Private Equity, inject cash into the business.

The firm almost collapsed in 2012 and was rescued by Queensland entrepreneurs, Tony and Christina Quinn, who closed down the Darrell Lea stores and massively expanded the number of retailers who sold the company's products to include supermarkets and Australia Post.

Darrell Lea chief executive Tim York said the overhaul of the business had seen its revenue surge from $37.4 million in 2013 to $81.2 million in 2017. 'If you can picture Darrell Lea going from selling in 60 shops where people once or twice a year would walk into those stores to all of a sudden Darrell Lea was available for people in over 3000 outlets,' Mr York said.

Darrell Lea strikes deals with Muffin Break, Lifesavers

Over summer, ice-cream will return to the Darrell Lea menu.

Mr York said the company would partner with Everest Ice Cream to sell Darrell Lea flavours, including Rocklea Road, peppermint nougat and peanut brittle.

'Darrell Lea did used to have ice-cream at its stalls and in some recent market research ice-cream was one of the products that people really wanted to see us put our inclusions, chocolate and peanut brittle and other pieces like that into,' Mr York said.

Darrell Lea has also bought the Lifesavers brand from global food giant, Nestlé, which means the favourite lolly of many Australian children and teenagers will be made here for the first time in almost 20 years. The company is also expanding into muffins with partner Muffin Break.

Mr York said the company was planning to increase its exports which made up about one fifth of sales. 'From an export perspective, Darrell Lea today is really a licorice company and again we are the number three licorice company in America. There's still a lot of room for us to grow there,' he said.

'We're looking to see if we can double or at least triple the licorice business there over the next five years.'

Fund manager Roger Montgomery from Montgomery Investment Management said a broader range of products would appeal to not just to global confectionery firms such as Nestlé or Mars, but ice-cream and baked goods producers when Quadrant looked to sell Darrell Lea.

'There's no doubt that Quadrant upon entering this field would already have a list of what they would call natural buyers — companies that they think would look to buy this particular brand,' Mr Montgomery said.

IBIS World industry analyst Bao Vuong said Quadrant had followed a similar strategy with the Real Pet Food Company, which it also bought from the Quinns and onsold to a Chinese consortium, more than doubling its investment.

'The owners of Darrell Lea plan to continue growing and expanding and probably do the same thing they did with The Real Pet Food company and probably acquire a lot of firms, and then eventually sell it off,' Mr Vuong said.

Source: Extracts from Sue Lannin, ''Darrell Lea expands products in turnaround triumphy for once-struggling company', *ABC Online*, 11 August, 2018

on Resources

Video eLessons Wildbreads (eles-2307)
Stuck on You (eles-0835)

KEY IDEAS

- The business life cycle refers to the stages of growth and development a business can experience.
- The stages are establishment, growth, maturity and post-maturity.
- In each stage of the cycle, a business is confronted with new challenges and presented with different opportunities.
- The main challenge at the establishment stage is to get the business on a solid foundation by generating enough sales to create a positive cash flow.
- Detailed planning can help greatly reduce the risk of failure.
- Small businesses, such as a sole trader or partnership, have unlimited liability: that is, the business owner is personally responsible for all the debts of his or her business.
- During the growth stage the business has increased sales, a regular customer base, develops new products and improves its cash flow.
- With growth comes complexity and responsibility, which creates the need for long-term planning.
- Growth and expansion can occur either through a merger or acquisition (takeover).
- A merger occurs when the owners of two separate businesses agree to combine their resources and form a new organisation.
- An acquisition (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.
- Vertical integration occurs when a business expands at different but related levels in the production and marketing of a product.
- Horizontal integration occurs when a business acquires or merges with another firm that makes and sells similar products.
- Diversification (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry.
- The maturity stage requires a more professional approach to planning.
- In the maturity stage, the rate of growth slows and eventually flattens out; an early warning sign of possible decline.
- A sense of complacency often envelops the business.
- Managers may need to restructure or reorganise the business.
- There are three possible outcomes at the post-maturity stage: steady state, decline or renewal.
  - Steady state: the business is neither declining nor expanding.
  - Decline: fall in sales, cash flow and eventual business failure.
  - Renewal: new products are developed and new markets are created, leading to increased sales and a positive cash flow.

4.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

4.2 Quick quiz on | **4.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 6, 10, 13, 14, 16, 17, 24, 28, 29, 32	3, 5, 7, 8, 9, 11, 12, 15, 18, 20, 22, 23, 25, 26, 27, 30, 31, 33, 34, 35	19, 21, 36

4.2 Exercise

Revision

1. **Define** the term 'business life cycle'.
2. Examine figure 4.1 and then answer the following questions.
   a. **Identify** the four stages of the business life cycle.
   b. How is the size of a business directly related to the amount of sales?
3. Figure 4.1 is referred to as a model. **Explain** how using models can help us to understand the real world.
4. **State** why it is important for business owners to assess the business's position on the life cycle.
5. Read the 'Dasher and Dancer — Establishment stage' case study and answer the following questions:
   a. Outline Alana's motivation for starting Dancer and Dasher.
   b. **Why** did she decide to form a private company?
   c. **Describe** the challenges Alana faced during the establishment phase.
   d. **Deduce** the factors that have contributed to the business's success.
6. Read 'The rise of JB Hi-Fi' case study and answer the following questions:
   a. **Identify** the characteristics that indicate that JB Hi-Fi is in the growth stage of the business life cycle.
   b. **Outline** how changes to the the company's legal structure enabled the company to grow.
   c. Describe the strategies JB Hi-Fi implemented to enable it to grow.
7. **Why** is generating a positive cash flow crucial for the survival of a business at the establishment stage?
8. **Examine** table 4.1. **Construct** a mind map to show the main features of a business at the establishment stage.
9. One-third of all small businesses fail within the first year of operation. **Propose** a reason why the failure rate is so high.
10. **Outline** three challenges that you believe to be the most serious for a business to confront while at the establishment stage. Justify your selection.
11. **Why** could the growth stage be a difficult stage to manage effectively?
12. **Examine** table 4.2. **Construct** a concept map to show the main features of a business at the growth stage.
13. **Outline** three challenges that you believe to be the most serious for a business to confront at the growth stage. Justify your selection.
14. **State** what often motivates businesses to merge or make acquisitions.
15. You are the owner of Elite Furniture, a business that makes specialty furniture. **Construct** a diagram to show how your business could expand using:
    a. vertical (backward) integration
    b. vertical (forward) integration
    c. horizontal integration
    d. diversification/conglomerate integration.
16. **Identify** the factors that contributed to the company's rate of growth slowing.

Read the 'Michael Hill — Maturity stage' case study and answer questions 17 to 19.

17. **Outline** the strategies Michael Hill has implemented to help respond to the challenges mentioned.
18. **Propose** other strategies Michael Hill could implement to help boost sales.
19. **Predict** how the COVID-19 lockdown and recession will have affected Michael Hill.

Read the 'Renewal — Turn around triumph for once-struggling Darrell Lea' case study and answer questions 20 and 21.

20. **Explain** the strategies that were implemented that led to the renewal of the company.
21. **Predict** what could happen to the company over the next five years.
22. **Why** do you think business owners and staff may become complacent in the maturity stage of the business life cycle?
23. **Construct** a concept map to show the main features of a business that is in the maturity stage.
24. **Outline** three challenges that you believe to be the most serious for a business to confront at the maturity stage. Justify your selection.
25. **Explain** why a business might need to restructure in the maturity stage.
26. **Demonstrate** how you could tell whether a business is in the:
    a. steady state stage of the maturity stage
    b. decline stage of the maturity stage.
27. **Construct** a concept map showing the main features of a business that is undergoing renewal.
28. **Outline** three challenges that you believe to be the most serious for a business to confront at the renewal stage. Justify your selection.
29. **Recall** the key to achieving a long-term, sustainable recovery in sales in the renewal stage.
30. **Deduce** at which stage of the business life cycle you think the business has to undergo the most radical change. Provide reasons to support your answer. **Compare** your answer with other members of the class.
31. Complete this exercise by placing the appropriate letter in the space provided. Choose from the letters: A = Establishment, B = Growth, C = Maturity and D = Post-maturity. The first question has been done for you.
    a. A Selecting a suitable location to commence trading
    b. ___ Sales increase, but at a decreasing rate.
    c. ___ Establishing a customer base
    d. ___ Renewal may involve a merger or takeover.
    e. ___ It is sometimes difficult to keep up with the demand for the product.
    f. ___ If there is no improvement in sales then voluntary cessation is an option.
    g. ___ The business owner may become complacent.
    h. ___ It is in this stage that many businesses fail.
    i. ___ A cash flow crisis is most likely to occur.
    j. ___ Specialised managers are appointed and tasks delegated.
    k. ___ Product development is important.
    l. ___ The business owner is content to keep the business just the way it is

Extension

32. There are daily examples of businesses that have suffered because they failed to manage their growth satisfactorily.
    a. **Identify** two businesses you are aware of that have suffered because they failed to manage their growth.
    b. Investigate the main reasons for both their rise and decline.
33. According to Edward De Bono, 'Success in business would seem to depend much less on natural talent and a lot more on thinking and personality factors. Certainly, success in business often seems spurred by a desire to make things happen'.
    a. **Justify** this statement.
    b. **Investigate** the 'thinking and personality factors' a successful businessperson would possess.
34. Are the advantages of small business really advantages? Wouldn't every small business owner like his or her business to grow into a large firm? **Discuss**.
35. **Investigate** a recent merger or acquisition. Outline the main objectives for the merger or acquisition.
36. 'Mergers and acquisitions reduce competition in the marketplace. They may be a successful business tactic, but they leave the consumer worse off.' **Evaluate** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

4.3 Factors that can contribute to business decline

SYLLABUS LINK In this subtopic you will learn about factors that can contribute to business decline.

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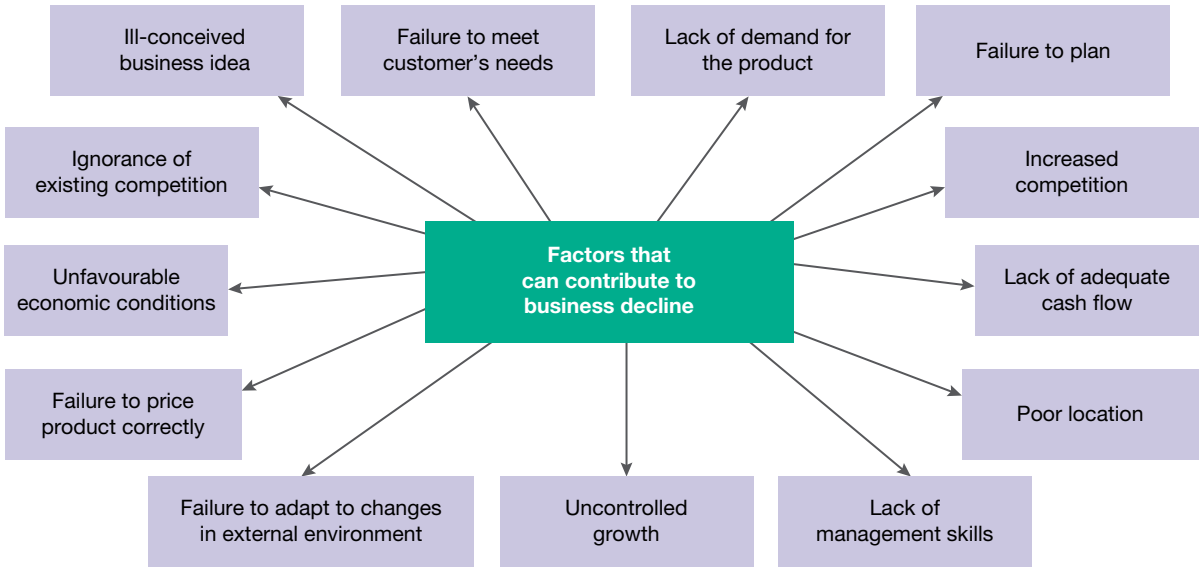
4.3.1 Reasons for business decline

Business decline (and possible) failure is not usually caused by just one single factor but rather a combination of several. Figure 4.7 outlines several factors that could contribute to business decline.

FIGURE 4.7 Factors that can contribute to business decline



Reasons for business failure vary, and the likelihood is more than one contributes to closure, but, according to insolvency statistics from the Australian Securities and Investment Commission, the top three nominated causes of failure for companies were:

1. inadequate cash flow or high cash use (46.7 per cent of reports)
2. poor strategic management of the business (45.6 per cent of reports)
3. trading losses (35.5 per cent of reports).

SNAPSHOT

Case study: The decline of kikki.K

Kristina Karlsson, founder and creative director of kikki.K, started the business in 2001. She had a passion for stationery and opened her first store in Melbourne Central. The store featured her stationery products as designer accessories. Karlsson says that 'having limited financial resources to start and grow my business was probably the hardest challenge I faced in getting kikki.K off the ground. The banks certainly weren't too supportive in our early years. They needed high levels of security, which we couldn't give — so I ended up selling the house to fund business development. It meant that I really had to do my homework and develop a comprehensive business plan.'

kikki.K meticulously planned its expansion into international markets, opening stores in Singapore, Hong Kong, the UK and New Zealand as part of a long-term strategy to become a global brand. Unfortunately, the expansion took its toll on the profitability of the company, with a range of external factors from Brexit to protests in Hong Kong affecting the success of the expansion. This, coupled with an inability to clearly differentiate its products from those of cheaper competitors, sent the business into decline. In March 2020, kikki.K went into voluntary administration, with the effects of the COVID-19 pandemic being the last straw for the already struggling company. In late June that same year, shareholders voted in favour of selling kikki.K to American company Erin Condren Designs. All involved are hopeful that the move will save the majority of kikki.K's 65 stores and 450 employees in Australia. Creditors are expected to receive around 1–2 cents per dollar.

KEY IDEAS

- Reasons for business decline include inadequate planning, poor location, uncontrolled growth, ignorance of competition and increased competition.
- According to ASIC, the three main reasons why businesses fail are:
  - inadequate cash flow or high cash use
  - poor strategic management of business
  - trading losses.

4.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

4.3 Quick quiz on | **4.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 3	2, 4	5

4.3 Exercise

Revision

1. **Recall** what the three main causes of business failure are according to ASIC.
2. As a class, using the brainstorm technique, **propose** reasons why businesses experience inadequate cash flow.

Read the 'Decline of kikki.K' case study and answer questions 3 and 4.

3. **Outline** the external factors in the business environment that led to kikki.K's decline.
4. **Recommend** strategies that kikk.K could have adopted to save the business.

Extension

5. **Create** a list of success strategies for a business that:
   a. has just been established
   b. is in the growth phase
   c. is experiencing a decline in sales.

Solutions and sample responses are available in your digital formats.

4.4 Voluntary and involuntary cessation

SYLLABUS LINK In this subtopic you will learn about voluntary and involuntary cessation — liquidation.

You will learn to identify problems that arise for stakeholders when companies go into liquidation.

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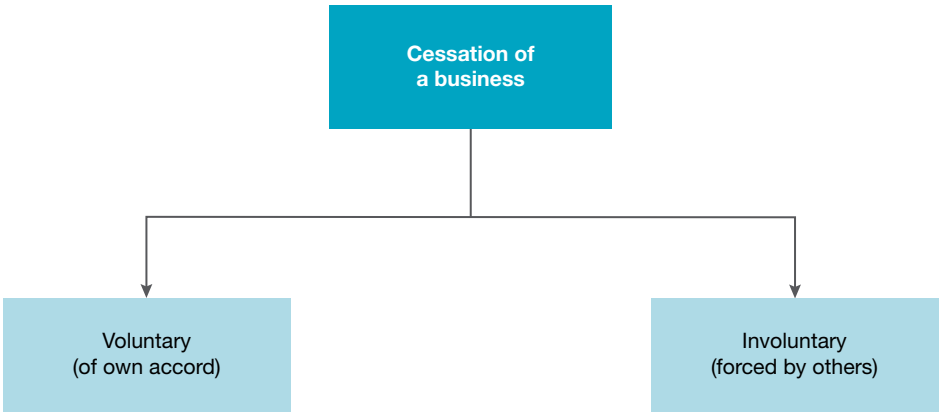
4.4.1 Cessation of business — voluntary or involuntary

As mentioned in chapter 1, the world of business is one of activity, challenges, excitement, change and rewards. Many people are attracted to such a world. They have dreams, make plans, and are enthusiastic and optimistic. Because the majority of businesses are classified as small, they often reflect the character, skills and personalities of their individual owners.

A business may cease operating, either voluntarily or involuntarily. The difference between the two depends on who instigates the process (see figure 4.9).

FIGURE 4.8 Business failure is not limited to small businesses. Topshop, which began in Australia in 2011, enjoyed many years of success. Nine years after its hugely successful launch that saw consumers queuing out the door, the company closed their last Sydney store. Topshop was one of the first international fast-fashion chains to hit Australia, along with Zara, UNIQLO and H&M. Increased competition, their failure to embrace online retailing and excessive debt led to the company's downfall.

FIGURE 4.9 Cessation of business — voluntary or involuntary



4.4.2 Voluntary cessation

A business may cease operations and voluntarily wind up its affairs. Any assets owned by the business are sold. The business stops operating because the owner may wish to retire, wants a change of lifestyle or, in the case of a sole trader, has died.

However, most businesses cease to trade due to business failure. With debts increasing and a negative cash flow, a business owner will soon realise if their business is underperforming. To prevent this accumulation of debt, the owner will need to cease operating the business of their own accord — that is, undergo **voluntary cessation**.

voluntary cessation when the owner ceases to operate the business of their own accord
involuntary cessation when the owner is forced to cease trading by the creditors of the business

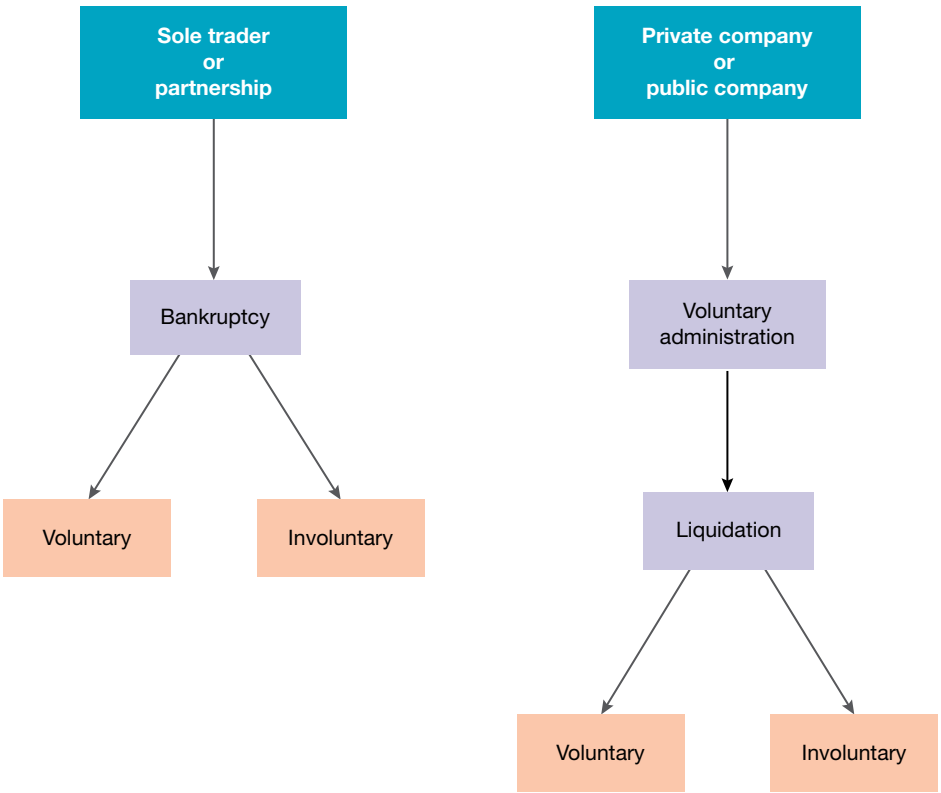
4.4.3 Involuntary cessation

Many businesses, however, finish involuntarily. The owner is forced to cease trading by the creditors of the business; that is, undergo **involuntary cessation**. Creditors are those people or businesses who are owed money.

Even though a business appears to be in financial difficulty, many owners continue operating in the hope that 'things will get better'. In many cases they do not. As the business continues its decline, creditors become worried about the money they are owed and force the business owner into winding up the business.

Figure 4.10 displays the different methods available to wind up a business.

FIGURE 4.10 Different methods available for a business to cease trading



4.4.4 Bankruptcy

Sole traders (businesses owned and operated by one person) and partnerships (businesses owned and operated by 2 to 20 people) may end up being declared bankrupt. Bankruptcy is a declaration that a business, or person, is unable to pay his or her debts.

Bankruptcy can be either voluntary or involuntary, with either the business owner or a creditor applying to a court for a bankruptcy order to be made. The court then appoints a representative to collect any money owed to the business. This money, along with money raised from the sale of any assets of the business (as well as some personal assets of the owner), is then divided between the creditors. The process of converting the assets of a business into cash is called **realisation**.

FIGURE 4.11 The federal government claimed there has been a 50 per cent year-on-year decline in insolvencies in 2020. This means that a vast number of companies would have already been wound up if it weren't for the stimulus measures keeping them alive. As the stimulus measures are reduced and eventually removed, CreditorWatch warned that this will lead to a spike in failures and many of these businesses will be forced to close their doors.

During the COVID-10 pandemic, the federal government introduced temporary changes to the law to give businesses the opportunity to continue operating during the crisis. In March 2020, temporary changes were made to the *Corporations Act 2011* and the *Bankruptcy Act 1966*. In essence, these temporary changes may keep businesses trading even if bankruptcy is a very real possibility or a company is deemed insolvent.

In relation to bankruptcies, prior to the reforms, creditors could send a bankruptcy notice against individuals if they owed a debt of at least $5000. Debtors then had 21 days to respond. During this time, individual debtors could voluntarily apply for bankruptcy, and creditors generally wouldn't be able to take any further action for 21 days afterwards. As of March 2020, the debt threshold was raised to $20 000 and debtors now have up to six months to respond to a bankruptcy notice. Also, if an individual debtor were to voluntarily apply for bankruptcy, unsecured creditors could not take further action against them for six months afterwards.

4.4.5 Voluntary administration

When a company is experiencing financial difficulties, it can be placed in voluntary administration.

Voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems. The administrator usually has the combined experiences of a receiver, chartered accountant and investigator. The administrator's main tasks are to bring the business and its creditors together, and examine the financial affairs of the business.

Appointing a voluntary administrator is becoming an increasingly attractive alternative, especially to small business owners. If successful, the business may normal trading. If unsuccessful, the business goes into liquidation.

realisation the process of converting the assets of a business into cash

voluntary administration when an independent administrator is appointed to operate the business in the hope of trading out of present financial problems

BizFACT

The following companies all went into administration in the last few years: Jeanswest, Kikki.K, Colette, Holen, Ed Harry, EB Games, Harris Scarfe, Napoleon Perdis and Bardot.

4.4.6 Liquidation

If a company is in financial difficulty, its shareholders, creditors or the court can put the company into liquidation. **Liquidation**, commonly referred to as winding up a company, occurs when an independent and suitably qualified person — the liquidator — is appointed to take control of the business with the intention of selling all the company's assets in an orderly and fair way to pay the creditors. Once the creditors have been paid, any surplus cash is paid to the owners of the company.

A company in liquidation can also be in **receivership**. Receivership is where a business has a receiver appointed by creditors or the courts to take charge of the affairs of the business. Unlike liquidation, though, the business may not necessarily be wound up.

The main features of liquidation are that it:

- can be regarded as the equivalent of bankruptcy for a company (corporation)
- results in the life of a company coming to an end
- normally occurs because the company is unable to pay its debts as and when they fall due – it has become **insolvent**.

BizFACT

In December 2019, ASIC published its annual overview of corporate insolvencies based on the 2018–19 financial year. Small- to medium-sized corporate insolvencies continue to dominate external administrators' reports. Eighty-five per cent had assets of $100 000 or less. Poor financial control, including lack of records, was nominated as the cause of failure for 2805 businesses, representing 14 per cent of all failed businesses during the financial year.

There are two types of insolvent liquidation:

1. *Creditors' (voluntary) liquidation*. This is the most common type of liquidation process and can come about in one of two ways. The first method involves creditors voting for liquidation following a voluntary administration. The second method involves the company's shareholders agreeing to liquidate the company and appoint a liquidator.
2. *Court (involuntary) liquidation*. In this situation a court appoints a liquidator to wind up the company, usually after an application has been made from either a creditor, a shareholder, a company director or, in some circumstances, the Australian Securities and Investments Commission (ASIC).

When a company is being liquidated because it is insolvent, the liquidator's prime responsibility is to the company's creditors. The liquidator's main functions are to:

- take possession of and realise – convert into cash – the company's assets
- investigate and report to creditors about the company's financial and related business affairs
- determine debts owed by the company and pay the company's creditors
- scrutinise the reasons for the company failure
- report possible offences by people involved with the company to ASIC
- deregister or dissolve the company.

liquidation when an independent and suitably qualified person – the liquidator – is appointed to take control of the business with the intention of selling all the company's assets in an orderly and fair way in order to pay the creditors

receivership when a business has a receiver take charge of the affairs of the business. Unlike liquidation, the business may not necessarily be wound up.

insolvent when a company is not able to pay its debts as and when they fall due

A liquidator is not required to do any work unless there are enough assets to pay their costs.

As mentioned previously, the federal government introduced changes to the *Corporations Act 2001* during the COVID-19 pandemic. The main change to insolvency laws was that the threshold for issuing a statutory demand for companies was increased. Before the amendments were passed, creditors were able to serve a statutory demand on a debtor company if that company owed a debt of at least $2000. Previously, the debtor would then have 21 days to pay the debt. If that debt was still unpaid within 21 days, then the company would be deemed insolvent and the creditor would be able to make an application to wind up the company.

Under the temporary reforms introduced in March 2020, the debt threshold was raised. Now creditors can only serve a statutory demand on a debtor company if it owes a liquidated debt of at least $20 000. On top of this, the 21-day period to pay off the debt was increased to six months.

4.4.7 Identify problems that arise for stakeholders when companies go into liquidation

Every year hundreds of Australian companies are placed into liquidation, creating a number of problems for the various stakeholders of the business. The full effect of a company being liquidated can be likened to the ripples on a pond; they radiate out, affecting the wider community. Eventually the full impact of the liquidation is multiplied, involving many stakeholders. It is estimated, for example, that an average of 30 to 40 people are personally affected by one company insolvency. The main problems that arise for stakeholders are shown in table 4.5.

TABLE 4.5 Main problems arising for stakeholders from company liquidation

Stakeholder	Main problems arising from company liquidation
Company directors	• Possible loss of directorship position and/or disqualified as a director • Could lose personal assets to pay for the company's debts • Possibility of a fine and/or imprisonment
Creditors (unsecured)	• May not recover any of the money owed • If there are funds left over after the payment of the costs of the liquidation and payments to other priority creditors such as employees, it may be possible to receive part payment for the money owed; for example, 5 cents for every dollar owed.
Employees	• Loss of jobs • Have the right, if there are funds left over after payment of the liquidator's fee, to be paid their outstanding wages and superannuation.
Shareholders	• Rank behind the creditors and are unlikely to receive any payment • The liquidator can request that holders of unpaid or partly paid shares in the company pay the outstanding amount on those shares.
Society/economy	• Loss of production from the liquidated companies • Social and personal difficulties associated with job losses • Loss of economic confidence

BizFACT

Generally, the order in which surplus funds are distributed is:
1. liquidator's fees
2. employee wages and superannuation
3. employee leave entitlements
4. employee retrenchment pay
5. unsecured creditors.

Each category is paid in full before the next category is paid. Payment may be on a pro rata basis (proportion of) if there are insufficient funds.

KEY IDEAS

- The two main causes of business decline (and possible failure) are lack of management expertise or undercapitalisation.
- Voluntary cessation occurs when the owner ceases to operate the business of their own accord.
- Involuntary cessation occurs when the owner is forced to cease trading by the creditors of the business.
- Sole traders and partnerships may voluntarily or involuntarily go into bankruptcy: a declaration that a business, or person, is unable to pay his or her debts.
- A company has two options when facing financial difficulties:
  a. Voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems.
  b. Voluntary or involuntary liquidation is the process of an appointed liquidator converting the business's assets into cash.
- Liquidation normally occurs because the company is insolvent.
- It is estimated that an average 30 to 40 people are personally affected by one company insolvency.

4.4 Activities

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4.4 Quick quiz on | **4.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
4, 5, 6, 7, 9, 10, 12	1, 2, 3, 8, 11, 13	14

4.4 Exercise

Revision

1. **Distinguish** between voluntary and involuntary business cessation.
2. **Construct** a flowchart showing what happens when a business is declared bankrupt.
3. **Discuss** whether, in your opinion, there is a social stigma attached to bankruptcy today. Should there be? Share your answer with the rest of the class.
4. **Outline** the role of an administrator.
5. **State** the outcome if the process of voluntary administration is:
   a. successful
   b. unsuccessful.
6. a. **Define** the term 'liquidation'.
   b. **Recall** the common term for liquidation.
7. **Identify** those who can put a company into liquidation.

8. **Distinguish** between 'liquidation' and 'receivership'.
9. **Summarise** the two different types of liquidation.
10. Complete the statements in your notebook by **recalling** the correct word from the list below.

dissolve	realise	debts	financial
possession	failure	report	ASIC
pay	offences	deregister	cash

The liquidator's main functions are to:
- take _____ of and _____ – convert into _____ – the company's assets
- investigate and _____ to creditors about the company's _____ and related business affairs
- determine _____ owed by the company and _____ the company's creditors
- scrutinise the reasons for the company _____
- report possible _____ by people involved with the company to _____
- finally, to _____ or _____ the company.

11. **Demonstrate** the problems that arise for stakeholders when companies go into liquidation.
12. Use the **Australian Securities and Investments Commission (ASIC)** weblink as a reference to:
    a. **identify** some of the signs that may indicate that a company is in financial difficulty
    b. **outline** what managers should do if their company is experiencing financial difficulty.

Extension

Most people who start a small business know of the high failure rate. With this is mind, answer questions 13 and 14.

13. **Explain** why, in spite of this, they do not take steps to protect their business from failure.
14. **Determine** the steps you would recommend they take.

Solutions and sample responses are available in your digital formats.

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Weblink Australian Securities and Investments Commission (ASIC)

4.5 Review

4.5.1 Summary

Business life cycle — stages and responding to challenges

- The business life cycle refers to the stages of growth and development a business can experience.
- The stages are establishment, growth, maturity and post-maturity.
- In each stage of the cycle, a business is confronted with new challenges and presented with different opportunities.
- The main challenge at the establishment stage is to get the business on a solid foundation by generating enough sales to create a positive cash flow.
- Detailed planning can help greatly reduce the risk of failing.
- Small businesses, such as a sole trader or partnership, have unlimited liability: that is, the business owner is personally responsible for all the debts of his or her business.
- During the growth stage the business has increased sales, a regular customer base, develops new products and improves its cash flow.
- With growth comes complexity and responsibility, which creates the need for long-term planning.
- Growth and expansion can occur either through a merger or acquisition (takeover).
- A merger occurs when the owners of two separate businesses agree to combine their resources and form a new organisation.
- An acquisition (takeover) occurs when one business takes control of another business by purchasing a controlling interest in it.
- Vertical integration occurs when a business expands at different but related levels in the production and marketing of a product.
- Horizontal integration occurs when a business acquires or merges with another firm that makes and sells similar products.
- Diversification (or conglomerate integration) occurs when a business acquires or merges with a business in a completely unrelated industry.
- The maturity stage requires a more professional approach to planning.
- In the maturity stage, the rate of growth slows and eventually flattens out; an early warning sign of possible decline.
- A sense of complacency often envelops the business.
- Managers may need to restructure or reorganise the business.
- There are three possible outcomes at the post-maturity stage: steady state, decline or renewal.
  - Steady state: the business is neither declining nor expanding.
  - Decline: fall in sales, cash flow and eventual business failure.
  - Renewal: new products are developed and new markets are created, leading to increased sales and a positive cash flow.

Factors that can contribute to business decline

- Reasons for business decline include inadequate planning, poor location, uncontrolled growth, ignorance of competition and increased competition.
- According to ASIC, the three main reasons why businesses fail are:
  - inadequate cash flow or high cash use
  - trading losses.
  - poor strategic management of business.

Voluntary and involuntary cessation

- The two main causes of business decline (and possible failure) are lack of management expertise or undercapitalisation.
- Voluntary cessation occurs when the owner ceases to operate the business of their own accord.
- Involuntary cessation occurs when the owner is forced to cease trading by the creditors of the business.

- Sole traders and partnerships may voluntarily or involuntarily go into bankruptcy: a declaration that a business, or person, is unable to pay his or her debts.
- A company has two options when facing financial difficulties:
  - Voluntary administration occurs when an independent administrator is appointed to operate the business in the hope of trading out of the present financial problems.
  - Voluntary or involuntary liquidation is the process of an appointed liquidator converting the business's assets into cash.
- Liquidation normally occurs because the company is insolvent.
- It is estimated that an average 30 to 40 people are personally affected by one company insolvency.

4.5.2 Key terms

acquisition when one business takes control of another business by purchasing a controlling interest in it
bankruptcy a declaration that a business or person is unable to pay his or her debts
business life cycle refers to the stages of growth and development a business can experience
cash flow the money coming into the business in the form of cash receipts, and the money leaving the business as cash payments
creditors those people or businesses who are owed money
diversification (or conglomerate integration) when a business acquires or merges with a business in a completely unrelated industry
horizontal integration when a business acquires or merges with another business that makes and sells similar products
insolvent when a company is not able to pay its debts as and when they fall due
involuntary cessation when the owner is forced to cease trading by the creditors of the business
liquidation when an independent and suitably qualified person – the liquidator – is appointed to take control of the business with the intention of selling all the company's assets in an orderly and fair way in order to pay the creditors
merger when the owners of two separate businesses agree to combine their resources and form a new organisation
realisation the process of converting the assets of a business into cash
receivership when a business has a receiver take charge of the affairs of the business. Unlike liquidation, the business may not necessarily be wound up.
vertical integration when a business expands at different but related levels in the production and marketing of a product
voluntary administration when an independent administrator is appointed to operate the business in the hope of trading out of present financial problems
voluntary cessation when the owner ceases to operate the business of their own accord

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Digital documents Key terms glossary (doc-35783)
Chapter crossword (doc-36243)

Interactivity Chapter crossword (int-7217)

4.5 Activities

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Exercise 1: Multiple choice questions

1. What is the correct order of business life cycle phases?
   - **A.** Establishment, growth, prematurity, maturity
   - **B.** Establishment, growth, maturity, post-maturity
   - **C.** Establishment, growth, prematurity, post-maturity
   - **D.** Establishment, pregrowth, growth, prematurity, maturity
2. Patrick Ng has started a new Korean restaurant. It is a partnership with his brother. What would be the financial management issues most likely to be faced by this business in its establishment phase?
   - **A.** Constantly increasing profits and cashflow
   - **B.** High fixed costs and low cashflow
   - **C.** Increasing profitability and variable costs
   - **D.** Limited liability and increasing profitability
3. To what type of business does the term 'bankruptcy' apply?
   - **A.** Private company
   - **B.** Government business enterprise
   - **C.** Partnership
   - **D.** Public company
4. What does the term 'insolvency' mean?
   - **A.** Lack of profitability
   - **B.** Too much debt owed by the business
   - **C.** Inability to repay debts
   - **D.** Poor sales revenue
5. Complacency among management usually occurs in which stage of the business life cycle?
   - **A.** Establishment
   - **B.** Growth
   - **C.** Maturity
   - **D.** Post-maturity
6. Which of the following characteristics best describes the establishment stage of a business?
   - **A.** Low costs, low sales, little profit
   - **B.** High costs, little profit, low sales
   - **C.** Low sales, large market share, high profit levels
   - **D.** High sales, small market, large scale production
7. In response to an increase in competition, management of the restaurant has decided to expand the business. They have opted for a horizontal integration strategy. What is meant by this strategy?
   - **A.** The business merges with a totally unrelated business.
   - **B.** The business creates a supply chain with a supplier.
   - **C.** The business merges marketing and operations functions.
   - **D.** The business merges with another business making a similar product
8. Which of the following best describes a takeover?
   - **A.** When one business buys a controlling interest in another
   - **B.** When a business takes over the accounting function of another
   - **C.** When an overseas business invests heavily in a local operation
   - **D.** When two or more businesses agree to combine to form a single business
9. In a sole trader or partnership, what is the process of converting the assets of a business into cash known as?
   - **A.** Realisation
   - **B.** Bankruptcy
   - **C.** Liquidation
   - **D.** Voluntary administration

10. An independent administrator is appointed to operate a company in the hope of trading them out of their present financial problems. What is this known as?
    - **A.** Bankruptcy
    - **B.** Liquidation
    - **C.** Realisation
    - **D.** Voluntary administration

Exercise 2: Exam practice questions

Question 1 (2 marks)

Identify TWO factors that can contribute to business decline.

Question 2 (6 marks)

Select one stage of the business life cycle and **describe** THREE characteristics of this stage.

Question 3 (6 marks)

Select one stage of the business life cycle and **explain** TWO challenges a business in this stage would face.

Question 4 (6 marks)

A clothes retailer targeting the teen segment is in the maturity stage of the business life cycle. **Recommend** TWO strategies the business could implement to help overcome the challenges of this stage.

Question 5 (4 marks)

Distinguish between vertical and horizontal integration.

Question 6 (4 marks)

Assess the impact on TWO stakeholders if a company goes into liquidation.

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Topic 1 Nature of business review

Nature of business: Practice examination

Section I — Multiple choice questions

In the HSC examination you will be required to complete 20 multiple choice questions. Therefore, it is important that you become familiar with answering this type of question.

For each question choose the best alternative.

1. Globalisation has had a major impact on businesses. Which external influence in the business environment is this an example of?
   - **A.** Economic
   - **B.** Financial
   - **C.** Geographic
   - **D.** Markets
2. What is the person who risks his or her time, energy and money to start a business called?
   - **A.** A financier
   - **B.** An employer
   - **C.** An innovator
   - **D.** An entrepreneur
3. Which of the following would be an example of a business in the secondary industry?
   - **A.** Zenon Mining
   - **B.** Heritage Motel
   - **C.** Canberra Legal Centre
   - **D.** Plastics Manufacturing Ltd
4. Which business entity is owned and operated by more than two people and has unlimited liability?
   - **A.** Sole trader
   - **B.** Partnership
   - **C.** Public company
   - **D.** Private company
5. In which phase of the business life cycle does complacency among management normally occur?
   - **A.** Growth
   - **B.** Maturity
   - **C.** Establishment
   - **D.** Post-maturity
6. What does the business environment refer to?
   - **A.** The surrounding conditions in which the business operates
   - **B.** Those factors over which the business has very little control
   - **C.** Those factors over which the business has some degree of control
   - **D.** A group who has an interest in, or is affected by, the activities of the business
7. What type of business would National Foods Limited most likely be?
   - **A.** A partnership
   - **B.** A public company
   - **C.** A private company
   - **D.** A government business enterprise
8. Which of the following is an internal influence in the business environment?
   - **A.** Financial
   - **B.** Institutional
   - **C.** Location
   - **D.** Social

9. Which piece of legislation is designed to protect the interests of both consumers and business?
   - **A.** Small Business Act
   - **B.** Consumer Affairs Act
   - **C.** Competition and Consumer Act
   - **D.** Broadcasting and Television Act
10. Georgia has a hair dressing salon that employs 18 staff. Which of the following is an accurate classification of the business?
   - **A.** A small business in the tertiary sector
   - **B.** A small business in the quinary sector
   - **C.** A medium business in the secondary sector
   - **D.** A medium business in the quaternary sector

Section II — Short answer questions

In the HSC examination you will be asked a number of short response questions based on the HSC course.

A short response question generally contains a number of sections, starting with a low order activity and increasing in difficulty. How much you should write for each section is determined by how many marks it is worth. For example, a question that has a value of *two marks* will require double the amount of time and information than one with a value of *one mark*.

1. **a.** **Outline** the main function of business. **2 marks**
   b. **Demonstrate** the contribution businesses play within the Australian economy in terms of:
   i. employment **4 marks**
   ii. income **4 marks**
   iii. choice. **4 marks**
2. **a.** **Define** the term 'entrepreneur'. **2 marks**
   b. **Evaluate** the role entrepreneurship plays in determining business success. **8 marks**
3. **a.** **Identify** two quantitative measures and two qualitative measures used to determine the size of a business. **2 marks**
   b. **Distinguish** between a small and a large business. **5 marks**
   c. **How** are small businesses, such as local hairdressers or restaurants, able to compete with large, multinational corporations? **6 marks**
4. **a.** **Identify** two advantages and two disadvantages of each of the following types of business ownership:
   i. sole trader **4 marks**
   ii. partnership **4 marks**
   iii. private company. **4 marks**
   b. **Distinguish** between an incorporated and an unincorporated business entity. **5 marks**
5. **a.** **Define** the term 'business environment'. **2 marks**
   b. **Distinguish** between the internal environment and the external environment. **6 marks**
   c. Factors within the internal and external environments can pressure businesses to change practices, policies or products. Referring to a business that you are familiar with, **evaluate** the accuracy of this statement. **10 marks**
6. **a.** **Identify** four external influences that can affect a business. **2 marks**
   b. **Demonstrate** what impact the following internal influences can have on a business:
   i. product influences **4 marks**
   ii. management influences. **4 marks**
   c. **Assess** the impact of technological influences on retail businesses. **8 marks**
7. **a.** **Define** the term 'profit'. **2 marks**
   b. **Explain** the relationship between sales revenue and profit. **5 marks**
   c. **Determine** the role profit plays within our economic system. **8 marks**

8. **a.** 'Wouldn't every small business owner like his or her business to grow into a large business?' **Discuss**. **6 marks**
   b. **Determine** whether the advantages of small business really are advantages. **8 marks**
9. The business life cycle consists of four main stages.
   a. **Identify** the four stages. **4 marks**
   b. **Recommend** two strategies a business can implement to undergo renewal. **6 marks**
   c. **Assess** the importance of the business owner having an understanding of the business life cycle. **8 marks**
10. Your brother is thinking about starting a family business. He has invited you to be a member of the business and has asked you for your advice.
   a. **Identify** two legal types of business structure that may be appropriate. **2 marks**
   b. **Discuss** the legal requirements for setting up each type of legal structure. **6 marks**
   c. **Assess** the advantages and disadvantages of each type of legal structure. **10 marks**
11. Ezzra and Jacinta are considering forming a partnership. They have worked for an architect for some time and now feel that they could do much better on their own. Imagine that Jacinta has approached you for advice.
   a. **Define** the term 'partnership'. **2 marks**
   b. **Describe** the legal requirements for the formation of a partnership. **4 marks**
   c. **Determine** the legal rights and responsibilities of each partner in a partnership. **10 marks**
12. **a.** **Identify** the key to determining whether or not a business's actions are socially responsible. **2 marks**
   b. **Outline** the main benefits to a business of conducting a sustainability report. **3 marks**
13. **a.** **Define** the term 'stakeholder'. **2 marks**
   b. **Why** are some of these responsibilities incompatible whereas others are compatible? **5 marks**
   c. 'Shareholders' expectations should take precedence over the desires of other stakeholders'. **Evaluate** this statement. **8 marks**
   d. **Determine** the responsibilities a business has to each of its stakeholders. **12 marks**
14. **a.** **Why** is it sometimes difficult for a business to satisfy the expectations of all its stakeholders? **4 marks**
   b. **Recommend** two number of strategies a business can use to reconcile the conflicting interests of its stakeholders. **6 marks**
15. **a.** **Define** the term 'undercapitalisation'. **2 marks**
   b. **Distinguish** between voluntary administration and liquidation. **6 marks**
   c. **Demonstrate** the main problems that arise for stakeholders when companies go into liquidation. **10 marks**

Section III — Extended response questions

In the HSC examination you will be asked a number of extended response questions based on the HSC course.

One of the extended response questions will require a report style format, a style of writing used extensively in business. Report writing will require you to disregard much of what you have previously been taught when writing traditional essay style answers. Report answers use:

- short statements
- lists of main points followed with explanations when appropriate
- short paragraphs
- headings and subheadings
- diagrams, tables and graphs
- condensed conclusions and/or recommendations when required.

Newspaper articles adopt a report writing style. Each paragraph is brief and to the point with short sentences. It is important that you become familiar with answering this type of question.

Your answer will be assessed on how well you:

- demonstrate knowledge and understanding relevant to the question

- communicate using relevant business terminology and concepts
- present a sustained, logical and cohesive response.

1. **Discuss** the importance of business to the Australian economy. In your answer refer to:
   a. creating value
   b. social and economic roles
   c. relevant stakeholders.
2. 'The internal environment refers to influences that come from within the business itself and can affect business performance.' **Discuss**.
3. **Demonstrate** how businesses contribute to our social and economic wellbeing.
4. 'Small business should not be taken for granted.' **Evaluate** the accuracy of this statement. In your answer use some statistics to support your arguments.
5. 'To be effective, business strategy must take into account the interests, needs, and expectations of all the business's stakeholders. Companies should have a strategy that combines business goals and broad social interests'. **Discuss**, using examples, the accuracy of this statement.
6. Natureland Organics is a public company located 280 kilometres from Sydney. It relies on fresh, organically certified farm produce to supply its three Sydney outlets and employs 238 people from the local area. The business has a strong reputation for nutritional value, reliability and support for the environment. The business has recently started exporting to Singapore and Hong Kong. This will require a new production facility to be built. The CEO has identified two areas of concern for future growth:
   - Local residents are complaining that a new plant will cause environmental damage, especially pollution of a nearby river.
   - Shareholders are complaining about the cost of the new plant needed for the extra production.

   a. Prepare a report that could be given to Natureland Organic's management team. In your report, you should:
      i. **identify** Natureland Organic's stakeholders.
      ii. **outline** how three stakeholders will be affected by the building of the new production facility.
   b. Natureland Organics contributes in many ways to the Australian economy. **Demonstrate** two economic contributions that would be lost if Natureland Organics was forced to close.
7. **Discuss** three challenges that you believe to be the most significant in each of the four stages of the business life cycle.
8. **Outline** the main reasons for business failure. **Distinguish** between bankruptcy, voluntary administration and liquidation.
9. Both the quaternary (information processing) and quinary (household services) industry sectors are becoming major contributors to Australia's gross domestic product. **Determine** why you believe these two sectors are thriving.
10. Annika Schute and Gordon Wong, partners in Omega Home Renovations, have been operating their thriving business for five years. They now wish to expand, but cannot decide whether to become a private or public company. They have come to you for advice. Annika and Gordon wish to maintain some degree of control of their business, but they like the idea of gaining access to more funds to allow them to expand more quickly. As a business consultant, prepare a report that could be given to Annika and Gordon. In your report, you should:
    a. **Describe** the main advantages and disadvantages of a private and a public company.
    b. **Recommend** which of the two options is best suited to their long term goal.
11. You have been employed as a business reporter with the local newspaper. You are asked to **create** an article that examines the external environmental factors that affect business. A major focus within your article should be an analysis of the impact of each factor on specific businesses.
12. 'Improving a business's ethical performance depends on the values of its managers and employees, and the business culture'. **Discuss**.
13. **Contrast** the stages of establishment, growth and maturity in the business life cycle.
14. When a business is wound up, there are usually negative consequences for the many stakeholders. **Determine** the main problems arising from a company liquidation.

TOPIC

2 Business management

FOCUS AREA

The focus of this topic is the nature and responsibilities of management in the business environment.

OUTCOMES CHECKLIST

Students should be able to:

- ☐ explain the internal and external influences on businesses
- ☐ assess the processes and interdependence of key business functions
- ☐ examine the application of management theories and strategies
- ☐ analyse the responsibilities of business to internal and external stakeholders
- ☐ plan and conduct investigations into contemporary business issues
- ☐ evaluate information for actual and hypothetical business situations
- ☐ communicate business information and issues in appropriate formats
- ☐ apply mathematical concepts appropriately in business situations.

CHAPTER SEQUENCE

SNAPSHOT

Case study: Nikki Lawson — an effective manager

Nikki Lawson was the Managing Director of KFC South Pacific (SOPAC) between 2016 and 2020. KFC is an American fast-food business owned internationally by Yum! Brands. Nikki Lawson was responsible for the KFC restaurants in Australia, New Zealand and the South Pacific Islands.

As the managing director of KFC South Pacific, she was focused on inspiring the young people working there to reach their goals whether they stayed with the company or not.

When interviewed by CEO Magazine in 2019, Ms Lawson said, 'We launched #myplan in 2016, which is designed to help our people achieve their personal and career goals. They may want to buy a car, become a teacher or lawyer. Whatever they want, their manager can help them to make it happen. If they need more money to buy a car their manager will give them more shifts. If they want to be a teacher, we might suggest taking on board the training in our restaurants to give them practical experience. Obviously, we also identify areas for career-minded KFC team members as well. They are the ones we put on shift-supervisor and restaurant-manager training programs.'

The KFC Youth Foundation was another area of interest for Ms Lawson. 'We want young Australians to thrive beyond our restaurants, so we landed on this idea of building their confidence. If you give young people confidence they will succeed, so we partnered with various youth organisations to raise money for them. So far we've raised more than $A1.8 million since we launched 18 months ago,' Ms Lawson said.

Nikki Lawson, Managing Director of KFC South Pacific (SOPAC)

KFC is the world's second-largest restaurant chain. Australia has approximately 600 KFC outlets, and there are around 100 in New Zealand.

Through the Graduate Leadership and Global Emerging Leaders programs, thousands of entry-level employees have worked their way up to leadership roles at KFC.

As a leader, Ms Lawson worked hard to develop a sustainable role, believing that teamwork determines ultimate success. It was important for her to create an environment where people wanted to work, and where loyalty and collaboration could develop naturally.

'Success through teamwork enables people to feel valued,' she explained. 'When I was coming up through the ranks and looking at how to grow the business, I was told to notice everyone around me because when people feel valued, when they're seen as people first, they go on to achieve great things.'

'People ask why I've stayed with the one company for 19 years, and it's genuinely because I have grown as a leader, progressing and learning each year to not only become a better leader, but also a better mum, a better wife and a better friend. And we do have fun — we have loads of fun.'

5 Nature of management

5.1 Overview

LEARNING SEQUENCE

5.1 Overview
5.2 Features of effective management
5.3 Skills of management — interpersonal, communication, strategic thinking and vision skills
5.4 Skills of management — problem-solving, decision-making, flexibility, adaptability to change and reconciling the conflicting interests of stakeholders
5.5 Review

5.1.1 Introduction

Have you ever been shopping and spent all your money on the first few things you saw, only to later be disappointed when you came across something you would have liked more? What about the assessable task you left until the last minute only to find all the information resources you needed had been borrowed from the library? Or the dental appointment for which you were half an hour late? In these cases you did not manage either your money, assessment requirements or time very well. These cases reveal that you have actually been practising the art of management for a number of years. Sometimes you have managed your affairs successfully; at other times you may have mismanaged them.

Managing is an essential skill that all people need to develop. How well you perform the task of management will often determine whether you achieve the goals you have set for yourself. In the world of business, just as in your personal life, management is a fundamental activity. It is what makes the business function.

The managing director featured in the topic 2 opener case study highlights a number of important characteristics of management, including:

1. having the ability to analyse information, attend meetings and communicate with a wide range of people both inside and outside the business
2. possessing the skills to manage change effectively
3. having the vision to see how things could be, rather than just accepting things the way they are
4. providing leadership through the desire to encourage, motivate and guide employees
5. understanding their roles and responsibilities in order to achieve the goals of the business.

FIGURE 5.1 A manager's job is never done! Managers can sometimes feel as if they are caught in a neverending cycle of meetings, interruptions, paperwork, emails and trivialities.

on Resources

Digital document Key terms glossary (doc-35785)

5.2 Features of effective management

SYLLABUS LINK In this subtopic you will learn about nature of management:
- features of effective management.

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Every business — whether it be profit or not-for-profit, small, medium or large — needs effective management to succeed. Managers are necessary because society could not function without businesses, and businesses cannot function without managers.

The **traditional definition of management** is the process of coordinating a business's resources to achieve its goals.

As outlined in chapter 3 the four main resources available to a business are:
- *human resources.* These are the employees of the business and are generally its most important asset.
- *information resources.* These include the knowledge and data required by the business, such as market research, sales reports, economic forecasts, technical material and legal advice.
- *physical resources.* These include equipment, machinery, buildings and raw materials.
- *financial resources.* These are the funds the business uses to meet its obligations to various creditors.

A **manager**, therefore, is someone who coordinates the business's limited resources in order to achieve specific goals.

traditional definition of management the process of coordinating a business's resources to achieve its goals

manager someone who coordinates the business's limited resources in order to achieve specific goals

FIGURE 5.2 An effective manager is an essential ingredient for achieving business success. Naomi Simson founded redballoon in 2001 from home, which is now part of the Big Red Group, which she also co-founded. In 2011, she was recognised as the 2011 Ernst & Young Entrepreneur of the Year. The company has experienced a phenomenal rate of growth since its inception, thanks to her management skills. She leads by example and earns the respect of employees. She clearly communicates a vision in order to achieve the business's objectives.

5.2.1 Contemporary definition of management

The past few years have seen a subtle, but significant, modification of the meaning of the term 'management'. More contemporary definitions emphasise that **management** is the process of working with and through other people to achieve the goals of the business in a rapidly changing environment, as shown in figure 5.3. Crucial to this process is the effective and efficient use of limited resources.

FIGURE 5.3 Key aspects of the management process

According to this definition, management requires:

- *working with and through others.* Management is, above all else, a social process. Those managers who do not interact and communicate well with employees fail to achieve high levels of commitment from staff.
- *achieving the goals of the business.* Without goals, the business would quickly lose direction. Employees would not understand the ultimate purpose of their work and managers would not be able to measure performance. **Effectiveness** measures the degree to which a goal has been achieved.
- *getting the most from the limited resources.* All businesses face the problem of limited resources or scarcity. Consequently, managers need to coordinate the resources efficiently. **Efficiency** compares the resources needed to achieve a goal (the costs) against what was actually achieved (the benefits). The most efficient coordination of resources occurs when the benefits are greater than the costs.
- *balancing efficiency and effectiveness.* Managers must usually balance both the efficiency and effectiveness of their decisions. A correct balance between efficiency and effectiveness is the key to achieving a competitive position in today's challenging business environment.
- *coping with a rapidly changing environment.* This is one of the most important tasks of all managers. Successful managers are those who anticipate and adjust to changing circumstances.

management the process of working with and through other people to achieve business goals in a changing environment. Crucial to this process is the effective and efficient use of limited resources.

effectiveness measures the degree to which a goal has been achieved

efficiency compares the resources needed to achieve a goal (the costs) against what was actually achieved (the benefits)

Management is a complex task. It is an exciting, challenging, sometimes frustrating, but usually rewarding experience. All businesses must be managed; they do not operate automatically. For example, without managers how could 20 000 airline flights a day be achieved without an accident, tens of thousands of motor vehicles be manufactured, hundreds of thousands of students be educated, and hundreds of films and downloads be made available for our entertainment?

The manager's role is similar to that of a musical conductor. It is the conductor who has to coordinate all the members of the orchestra, inspire and lead, encourage superior playing, develop the correct interpretation of the score, and have the orchestra playing as a whole rather than as a group of individuals just playing notes (see figure 5.4).

FIGURE 5.4 A business manager shares many similar features with an orchestra conductor. Like conductors, business managers bring together all of the varying resources needed to make the business successful and, when it is effective, beautiful music is the result.

Observations made about modern managers' work patterns suggest that management is a difficult and demanding job, and that there is a gap between how people view the role of a manager and reality. The myths and realities of management are outlined in table 5.1.

TABLE 5.1 The myths and realities of a manager's job according to management researcher Henry Mintzberg

Myth	Reality
1. The effective manager is a methodical planner, reflects on what has been achieved, with time to systematically work through problems encountered throughout the day.	The typical manager is constantly interrupted, with no more than approximately ten minutes spent on any one activity. The manager takes on a great deal and has little time for reflection.
2. The effective manager has no regular activities to carry out. It is all a matter of coordinating other people's responsibilities and then sitting back to watch others do the work.	Although managers' days are constantly interrupted by both trivialities and crises, they still have regular duties to perform. They must interpret and analyse information, attend meetings and communicate regularly with other parts of the business.
3. Management is a science and, as such, can be reduced to a formula and set of 'laws' that, if followed, result in goals being achieved.	The manager's job is more art than science. Managers rely heavily on judgement, past experience, perception and intuition.

5.2.2 Effective management

An effective manager needs to be good at:

- planning: the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.
- **organising**: the process of structuring the organisation to translate plans and goals into action
- **leading**: the process of influencing or motivating people to work towards the achievement of the organisation's objectives
- **controlling**: the process of evaluating performance and taking corrective action to ensure that the set objectives are being achieved.

Management is effective when the joint efforts of employees are directed towards achieving the goals of the business. Producing all the goods and services demanded by consumers involves the combined efforts of many people. This combined effort must be effectively coordinated so that the greatest amount of goods and services can be produced for the least cost — that is, efficiently. This coordination needs to be managed on many different levels — for example, within businesses, between businesses and on a national and international level. Businesses must do more than meet the needs of individuals; they must also meet the needs of all the stakeholders in general.

Above all else, what is important to any business is not the number of managers it employs, or the prestigious titles it gives them, but the ability of these managers to achieve the business's goals. To do this effectively, a manager must possess a range of skills.

organising the structuring of the organisation to translate plans and goals into action

leading the process of influencing or motivating people to work towards the achievement of the organisation's objectives

controlling the process of evaluating performance and taking corrective action to ensure that the set objectives are being achieved

BizFACT

Managers' expectations have a direct impact on their employees' productivity. Managers with high expectations lead a more highly motivated and productive staff.

KEY IDEAS

- Management is a fundamental activity that makes the business function.
- Management is the process of:
  - i. coordinating a business's resources to achieve its goals
  - ii. working with and through other people to achieve business goals in a changing environment.
- Whether the goals of the business are achieved largely depends on the skills and expertise of the management team in coordinating the business's resources.
- Every business needs effective management to succeed.
- An effective manager needs to be good at planning, organising, leading and controlling.
- The role of effective management is to make sure the joint efforts of employees are directed towards achieving the business's goals.
- Effective management is usually the major factor influencing the success or failure of a business.

5.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

5.2 Quick quiz on | **5.2 Exercise**

Select your pathway

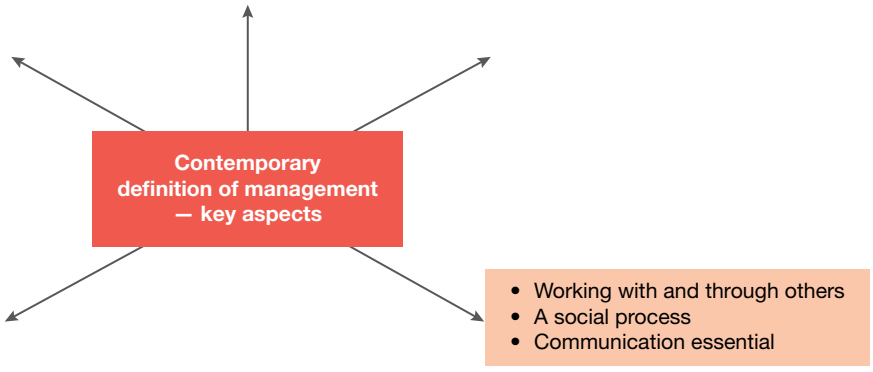
LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 12	5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15	3, 11, 16, 17, 18

5.2 Exercise

Revision

Read the 'Nikki Lawson — an effective manager' case study in the topic 2 opener and answer questions 1 to 3.

1. **Outline** how Nikki Lawson motivates staff.
2. **Outline** the skills and features of effective management Nikki Lawson displays.
3. **Assess** the effect her management style would have on both employees and the business.
4. **Identify** the main function of management according to the traditional definition.
5. **Describe** the four main resources available to a business.
6. **Distinguish** between the contemporary definition of management and the traditional definition.
7. **Construct** a concept map summarising the five key aspects of the management process according to the contemporary definition. The first one has been started for you.



8. **Distinguish** between efficiency and effectiveness.
9. 'The performance of managers is often evaluated according to two criteria: efficiency and effectiveness. Of the two, effectiveness is the most important.' **Discuss**.
10. According to observations, **contrast** the 'realities' of a manager's job with the 'myths'.
11. Interview either a head teacher, deputy principal or principal at your school and **create** a list of managerial activities they undertake in the course of a day. Calculate to what extent their experiences mirror the realities and myths of a manager's job.
12. **Recall** the important role of effective management.
13. **Why** is effective management so important in our society?
14. 'How well you perform the task of management will often determine whether you achieve the goals you have set for yourself.' **Discuss**.

Extension

15. Consider the following statement: 'Management is often demanding, complex, stressful and exacting. Contributing to the complexity are globalisation, focus on quality, increasing competition, technological developments, and the rising demand for the ethical conduct of people and organisations. But at the same time, it can be personally rewarding.' **Examine** the positive and negative aspects of being a manager.
16. Some people argue that middle-level managers have a more difficult job than top/senior or lower/frontline managers. This is because the work of a middle-level manager is more varied in managerial and non-managerial duties. **Evaluate** this statement.
17. **Determine** which you think is the more difficult management task: getting employees to work in teams rather than independently, or getting employees to accept change in the workplace. Provide reasons for your answer.
18. 'The main difference between employees and managers is that employees work and managers think.' **Assess** to what extent this statement reflects conditions in today's workplace. Compare your answers with those of other class members.

Solutions and sample responses are available in your digital formats.

5.3 Skills of management — interpersonal, communication, strategic thinking and vision skills

SYLLABUS LINK In this subtopic you will learn about the nature of management:
- skills of management
  - interpersonal, communication, strategic thinking, vision.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

In every occupation, certain skills are needed for success. If you have a **skill**, it means that you have the ability to complete a task effectively. A surgeon must be decisive and have the technical abilities to perform complicated operations. A champion swimmer must have the combination of natural talent and skills that enable him or her to swim better than almost anyone else.

skill the ability that comes from the knowledge, practice and talent to do something well

BizFACT

CEOs tend to score higher than the general population on personality attributes such as achievement orientation, ambition, assertiveness and risk preference.

Not surprisingly, managers also need certain skills. The more successful managers appear to have more of these skills than the less successful managers. Not every manager requires the same amount of each skill; however, some skills are more important for some job types or workplaces than others.

In general, effective managers are those who:
- possess a range of specific management skills (see figure 5.5)
- are able to use these skills in a number of different situations.

FIGURE 5.5 Managers are required to possess a range of specific management skills, as shown by this job advertisement.

ENVIRONMENT GROUP MANAGER — $185k pkg neg

- Well-respected international operation
- Engineering, resources focus
- Lead a culture of 'zero harm' and sustainability

As the leader in their market, Alliance & Hudson offers a genuine career opportunity to join a growing success story. Alliance & Hudson is a dynamic, results-oriented environment to work in.

The main responsibility of this position is to develop and implement sustainable production practices across all divisions of the organisation.

As the Environment Group Manager, you will streamline processes, and provide timely and insightful leadership and engagement.

The successful candidate for this position will possess:

- **outstanding interpersonal and communication skills**
- **the ability to effectively convey technical information**
- **experience in leading high-performance teams**
- **superior problem-solving and decision-making abilities**
- **initiative and the ability to work to deadlines**
- **successful management of stakeholder relations**
- **the professional ethics needed to meet the high standards of confidentiality and discretion required.**

Remuneration will consist of a market competitive salary (negotiable), superannuation and leased vehicle. Relevant tertiary qualifications are essential.

To be considered, applicants must apply directly to this advertisement. Visit www.all&hud.com.au/careers, quoting ref no 45930 or phone Maryke Nagy on (03) 8964 2407.

SYDNEY ◆ MELBOURNE ◆ TOKYO ◆ NEW YORK ◆ LONDON

Normally, a manager is not required to use all these skills constantly. What is important is that these skills and abilities be available when they are needed so that managers can organise and motivate staff to work effectively towards objectives. These skills take on added significance given the two fundamental changes that have taken place in the structure of many businesses over the past decade:

1. the movement away from the 'tall' hierarchical structures of many traditional businesses, with their multiple layers of management, towards 'flatter' business structures
2. the development of self-managing work teams.

Managers require a range of skills to operate effectively now and into the future.

These skills include:

- interpersonal (people)
- communication
- strategic thinking
- vision
- problem solving
- decision making
- flexibility
- adaptability to change
- reconciling the conflicting interests of stakeholders.

SNAPSHOT

Case study: Research on management skills

Beginning with the release of the Karpin Report findings in 1995, there has been much research over the past 25 years into the kinds of skills that managers need in order to carry out their work more effectively. To identify ideal management skills and characteristics, the authors of the Karpin Report (otherwise known as 'Enterprising nation: Renewing Australia's managers to meet the challenges of the Asia–Pacific century') interviewed a number of Australian management experts. The report found that businesses in Australia had failed to invest in the management skills needed for best practice; the majority of Australia's managers did not have the skill levels of those of the major trading nations. The Karpin Report suggested that managers needed better 'people' or 'soft' skills, including communicating, delegating and leading, as well as strategic skills, such as planning.

More recently, the results of two surveys released in 2014 revealed that managers and employees believe that frontline and middle managers lack the skills they need to do their jobs effectively. These skills include communicating and leading. A Monash University and Australian Institute of Management (AIM) survey of 2000 managers and employees found that 83 per cent rated their middle manager's leadership skills as average or below average. A DDI Australia survey of 224 HR professionals found that 85 per cent had low or moderate confidence in their business's frontline leaders.

This research appears to have been confirmed by the release of findings from the Australian Management Capability Index (AMCI) in 2017 by the Institute of Managers and Leaders (rebranded from AIM). The research found that Australian management capability had continued to decline. It also found that CEOs and managing directors rate management capability in their businesses higher than middle managers.

Also in 2017, the ABS released the first official survey data on management capability in Australia. The data presented statistics on a number of topics, including strategic plans and management skills. Approximately 14 500 businesses were sampled for the survey, with all industries and all business sizes for the whole Australian economy covered for the 2015–16 financial year. The management capability survey found that businesses that are 'innovation-active' have higher levels of management capability. Small businesses were less likely to address skills shortages than medium-sized or large businesses. The businesses surveyed suggested that the main factors affecting skills shortages were the specialist skills and knowledge required, wage or salary costs being too high, and the lack or availability of training.

5.3.1 Interpersonal (people) skills

Interpersonal skills refer to management's ability to deal or liaise with people and build positive relationships with staff. This skill is very important because it is through other people that managers achieve business objectives. A manager who is able to identify and recognise how other people see things and then make use of these views in a logical and understanding manner is most likely to be effective in achieving objectives.

A manager using interpersonal skills uses clear communication when working with staff and is sensitive to their needs, not threatening. Interpersonal skills can be used to inspire and influence staff while overcoming conflict, creating a workplace where people respect each other and work well together. In contrast, a manager who lacks empathy, is arrogant, opinionated, unable to communicate effectively or who has difficulty relating to people will not be able to develop positive relationships with employees.

SNAPSHOT

Case study: Interpersonal skills crucial to the success of management

An analysis published in 2016 in the *Journal of Managerial Development* by scholars at California State University identified the five interpersonal skills deemed to be the most crucial to the success of managers and leaders. The five interpersonal skills are:

- *self-management.* Strongly linked to this is self-awareness. Much research proves that as long as someone is self-aware, they can be taught to be a more effective manager. This is because they will then be able to see how their actions influence the emotions and actions of their staff. Once this is realised, they can then modify their behaviour accordingly. Self-management is the alternative to the traditional hierarchical approach to management in which the manager has total responsibility for planning, organising, leading and controlling. Self-management occurs when a manager delegates responsibility for these functions to staff; each employee is responsible for planning their own work, coordinating their actions with their colleagues, acquiring resources and taking corrective action when needed.
- *communication.* In relation to effective communication, this is more about what isn't said, rather than what's actually spoken. Effective managers listen to their employees and learn from the people who work for them.
- *supportiveness.* Since most managers are extremely time poor, they are often unaware of their employees' needs because they are so consumed with the myriad tasks demanding their attention. An effective manager creates an atmosphere in which the people who work for them know they are supported. To build a supportive climate, managers need to send messages that acknowledge the efforts of their employees and their needs. Supportive managers exhibit empathy, are non-judgemental and work together with their staff to seek a common solution when things go wrong.
- *motivation.* Effective managers customise their interactions to suit different employees' needs in the hope of finding ways to influence their behaviour.
- *conflict resolution.* Studies have shown that Australian managers have a high rate of avoidance leadership, which means that they often avoid giving negative feedback or dealing with conflict because they're fearful of the social repercussions. Effective leaders help parties engaged in disagreement find a resolution. Several skills are needed to resolve conflicts in the workplace effectively: an ability to view problems and issues from multiple perspectives, strong problem-solving skills, active listening, an ability to think critically and objectively, and an ability to empathise and compromise.

interpersonal skills those skills needed to work and communicate with other people and to understand their needs

5.3.2 Communication skills

Communication is as vital as the air we breathe. As babies we learn to cry in order to satisfy our needs; it is a baby's first attempt at communication. Communication becomes more complex, however, in a modern global business environment. It's not just about what you say; it's about how you say it and what medium you choose to get your message across.

communication the exchange of information between people; the sending and receiving of messages

Managers use communication skills when explaining a vision, outlining possible changes to the business, or simply letting staff know what is expected of them. A manager may also need to answer questions from staff when introducing a new policy, or listen to feedback from other stakeholders. Communication is fundamental to almost everything that occurs in a business. Effective communication — clear, articulate and concise — helps maintain good relationships.

BizFACT

There is no simple recipe for great communication, but the Chinese philosopher Confucius once said: 'Tell me and I'll forget. Show me and I'll remember. Involve me and I'll understand.'

Communication is one of the easiest and, at the same time, most difficult management skills. This is because of the complex nature of communication. Whether communicating with employees within the business or customers in the marketplace, effective communication is essential for the long-term survival of the business. Well-written letters, an inviting telephone manner, pleasant conversation, concise emails, and friendly smiles and gestures reinforce carefully planned business strategies and client networking.

Managers who are effective communicators and who are able to share their thoughts and plans will find it easy to influence others (see the following case study). Only 40 per cent of employees report that they are well informed about their company's goals, strategies and tactics. This uncertainty about the company's direction leads to chronic stress, which inhibits the release of oxytocin and undermines teamwork. Openness is the antidote. Organisations that share their 'flight plans' with employees reduce uncertainty about where they are headed and why. Ongoing communication is key.

FIGURE 5.6 Communication skills in today's instant world are essential for a CEO's success. While this might sound very basic, there are many managers who are very good at making decisions and adapting to change, but are unable to articulate to their stakeholders where they are going or why. This skill is crucial to success.

BizFACT

An IDC research study found that poor communication is costing businesses with more than 100 000 employees $37 000 a year. That's an average annual cost per company of $62.4 million. For smaller businesses, it's reported that miscommunication can cost companies of 100 employees an average of $420 000 per year.

SNAPSHOT

Case study: Communication as a dynamic leadership skill

Satya Nadella is the CEO of Microsoft. One of the first things he did when he took over the role in 2014 was to write a letter to employees outlining his objectives and vision for the company. The letter was emailed to all staff. Nadella also included some personal information about himself.

'I am here for the same reason I think most people join Microsoft — to change the world through technology that empowers people to do amazing things. I know it can sound hyperbolic — and yet it's true,' he said. 'I am here because we have unparalleled capability to make an impact.'

Nadella clearly articulates Microsoft's vision and a consistent approach to building the company. He has since transformed Microsoft into an innovative mobile and cloud services business. Microsoft's share price has risen more than 150 per cent since Nadella became CEO and continues to trade at all-time highs. Nadella has received praise for his calm and collegial style of communication. He has shown that he is prepared to work with staff and listen to them. Nadella is also a confident and charismatic public speaker.

Satya Nadella, CEO of Microsoft, confidently and clearly articulates Microsoft's vision and a consistent approach to building the company.

BizFACT

Research shows that about 70 per cent of workplace mistakes are the result of inefficient (poor) communication. It is also the most quoted cause of employee frustration and business failure.

Owing to the complex nature of achieving effective communication, mistakes, misunderstandings and unforeseen barriers sometimes lead to false messages or no message being received. Miscommunication can have disastrous consequences in a business.

Communication is all about sending a message to another person. A message might be verbal, meaning words either written or spoken are used to convey the message. Alternatively, you may choose to convey a message using nonverbal methods as simple as a smile or an image to get your message across.

FIGURE 5.7 'It's not what she said; it's the way she said it.' Communication can go awry when the nonverbal aspects conflict with the words being said. For example, if a manager sits forward and smiles during the part of an employment review regarding an employee's strengths, the employee may accept the praise as genuine. When a manager takes the time to match nonverbal messages to verbal ones, the result can be powerful.

It is important for managers to be aware of the power of body language and the messages that it can convey. Usually, body language conveys a more powerful message than spoken or written communication. This can result in contradictory messages being intentionally or unintentionally given. A manager who says she is free to talk to an employee about a work problem but then constantly glances at her watch is giving a message that it is not a convenient time to talk. Another example is a manager who expresses one emotion orally, such as confidence, but then has body language reading 'I don't trust you'. Such a contradiction often suggests that actions 'speak louder' (and more accurately) than words.

BizFACT

Most researchers agree that 70 per cent or more of the meaning of any message is communicated through nonverbal channels such as eye contact, facial expressions and posture. Twenty per cent is transmitted through the tone of voice: pitch, timbre, inflection, rate, pauses, volume and so forth. That leaves 10 per cent or less of any message that can be attributed to the words.

5.3.3 Strategic thinking skills

Consider the following quotes:

> 'Who in the hell wants to hear actors talk?'
>
> Harry Warner, founder of Warner Bros Studios, 1927

> 'I think there is a world market for about five computers.'
>
> Thomas J. Watson, chairman IBM, 1943

> 'There is no reason for any individual to have a computer in their home.'
>
> Ken Olsen, president, Digital Equipment, 1977

> 'Nothing has come along that can beat the horse and buggy.'
>
> Chauncey De Pew, president of the New York Central Railroad, warning his nephew against investing in Henry Ford's new company *circa* 1911

> 'Everything that could be invented has now been invented.'
>
> U.S. Patent Office *circa* 1900

With hindsight we laugh at these quotes. And yet, at the time, most people would have agreed with the speakers. It could be argued that their shortsightedness inhibited strategic thinking. Therefore, they were not able to perceive meaningful patterns in complex circumstances. **Strategic thinking** allows a manager to see the business as a whole — as a complex of parts that depend on and interact with each other, like the gears in a machine, and to take the broad, long-term view.

The ability to think strategically lets the manager see the 'big picture'. The manager may then:

- visualise how work teams and individuals interrelate
- understand the effect of any action on the business
- gain insights into an uncertain future
- see the business in the context of events and trends, and identify opportunities or threats.

strategic thinking allows a manager to see the business as a whole and to take the broad, long-term view

Strategic thinking therefore involves thinking about a business's future direction and what future goals the business wants to achieve. As a student, for example, you were thinking strategically when you made your senior course subject selections in Year 10. You had to imagine what the future job or study requirements would be when you left school, how the workplace may change over time, what future goals you wanted to achieve, and what would interest and motivate you in the future.

Many people assume that strategic thinking skills are the exclusive field of senior management, but that is simply not true. Managers at all levels need to exercise this skill. It will help the business maintain its competitive position within a constantly changing business environment. Although some people seem to have a special gift for being able to predict and comprehend the future, strategic thinking can be learned through practice.

on Resources

Weblinks Communication skills test
Nonverbal communication

5.3.4 Vision skills

In his book *Management: Tasks, Responsibilities, Practices*, Peter Drucker explains that it is 'the first response of the manager... to give others vision and the ability to perform'. By **vision**, Drucker means the clear, shared sense of direction that allows people to attain a common goal.

vision the clear, shared sense of direction that allows people to attain a common goal

BizFACT

Having to develop a vision for the business is very important during times of constant change. Without a vision, any business will ultimately fail.

Drucker argues that vision is the essential contribution of management, for without it there can be no sense of cooperation and commitment, which makes achieving goals impossible. Drucker explains that the most effective way for managers to share their vision for the business is through the organisation's goals. Knowing where the business is headed and what it is trying to achieve helps employees understand where the manager wishes to take the business. If managers are able to develop and communicate a shared vision, it is much more likely that staff will enthusiastically contribute to making sure the vision is realised. A manager without a clear vision for the business is like a person who attempts to lead a bushwalk without any idea of where the group wants to go, without a compass or even a map. The walk would become aimless. The same thing happens in a business whose manager has not clearly communicated its vision. The business is without guidance.

FIGURE 5.8 Effective leaders clearly define a vision and communicate it in such a way as to foster enthusiasm and commitment throughout the business. A clear and well-communicated vision is essential for a manager to gain the support of their staff.

To share their vision and inspire others, managers will have to display effective leadership qualities. **Leadership** is the ability to influence people to set and achieve specific goals. A manager will use his or her leadership abilities to act as a bridge on which to support team members as they cross from the existing ideas into new and unfamiliar territory.

SNAPSHOT

Case study: Visionary leaders

Visionary leaders inspire others to act in ways that transform a vision into reality. Effective leaders have a clear vision, communicate that vision to those concerned and then motivate and inspire them to actively pursue that vision. Below are examples of three visionary leaders who turned their respective companies around.

Nick Woodman is the founder of GoPro, the mounted camera brand that revolutionised the extreme sports industry.

1. **Nick Woodman, CEO of GoPro**
   Nick Woodman's business idea developed from a personal problem. While on holiday in Australia and Indonesia, he was not able to take great pictures and videos while surfing. Seeing that other amateur photographers experienced the same difficulties became the inspiration to found GoPro. To launch his company, Woodman and his wife scraped together $30 000 and borrowed another $235 000 from his parents. At the time, when Kodak and other camera businesses were failing, no-one believed his venture would be successful. Yet, his vision and passion enabled him to build a successful company worth more than a billion dollars today.
2. **Elon Musk, CEO of Space X and Tesla Motors**
   Musk has revolutionised entire industries with his focus on moving beyond the status quo. His tenacity, willingness to take risks and confidence enabled him to turn a pipe dream — an all-electric car company — into a successful business. Both Space X and Tesla Motors faced insolvency in 2008 and, thanks to his successful leadership and vision, have now become billion-dollar companies.
   Elon Musk leads by example and, through his own drive towards excellence, he pushes his employees to their fullest potential and perhaps beyond. He is a transformational leader who demonstrates incredible vision, dedication and perseverance as he strives to achieve his vision. Musk has an ability to make people believe in his vision and get on board with his seemingly crazy ideas, even when they can't conceive it working. Some of his most outstanding qualities are his belief in his own vision, his drive and persistence, and his refusal to accept obstacles in his path.
3. **Shantanu Narayen, CEO of Adobe Systems**
   When Shantanu Narayen began at Adobe, he looked down the road and didn't see a future that included distributing software on physical discs. He decided to change the widely-used Adobe Creative Suite to a subscription-based model. Narayen boldly changed his company's distribution model, and the growth in subscription members is proof of his success.
   Shantanu strongly believes that preserving the status quo is not a winning strategy. He not only questions the way things are done, but he also ensures he surrounds himself with people who are smarter than he is. He is passionate about creating and empowering teams that drive innovation.

leadership the ability to influence people to set and achieve specific goals

KEY IDEAS

- In general, effective managers are those who:
  - possess a range of specific management skills
  - are able to use these skills in a number of different situations.
- All managers use their skills to achieve the business's goals.
- Managers require a wide range of technical, conceptual (thinking) and people skills.
- Interpersonal (people) skills are those skills needed to work and communicate with other people and to understand their needs.
- Interpersonal skills include the ability to communicate, motivate, lead and inspire.
- Effective communication of business goals and the strategies to achieve them are crucial to achieving business success.
- Managers who are effective communicators and who are able to share their thoughts and plans will find it easy to influence others.
- Miscommunication is to be avoided because it can lead to serious harm to the business.
- It is important for managers to be aware of the power of nonverbal communication, especially body language.
- Strategic management allows the manager to see the business as a whole and to take a broad, long-term view.
- Strategic thinking involves thinking about a business's future direction and what future goals the business wants to achieve.
- Managers must be able to provide a vision as to where the business is headed and what it is trying to achieve.
- To share their vision with others and inspire them, managers will have to display effective leadership qualities.
- Leadership is the ability to influence people to set and achieve specific goals.

5.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

5.3 Quick quiz on | **5.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 11, 13, 15, 16, 17, 18, 21	3, 5, 6, 7, 8, 9, 10, 12, 14, 19, 20	22, 23

5.3 Exercise

Revision

1. **Define** the term 'skill'.
2. **Recall** two changes that have taken place in the structure of many businesses over the past decade that have resulted in management skills taking on added significance.
3. **Examine** figure 5.5.
   a. Identify some of the desired skills needed to perform this management position.
   b. Clarify which skill you consider to be the most important. **Justify** your answer.
4. **Define** the term 'interpersonal skills'.
5. **Explain** why it is important for a manager to possess good interpersonal skills.
6. 'Interpersonal skills include the ability to communicate, motivate, lead and inspire.'
   Describe a situation, from personal experience, that demonstrates where two of these abilities were used effectively.

7. **Why** should managers strive to improve their ability to communicate?
8. Not everyone is a great communicator, but we can all learn. Identify a poor communication habit you have and **propose** what you might do to improve your communication skills.
9. **Investigate** how well you communicate as a class. Ask your teacher to make up a statement and then conduct your own game of 'Silent whispers', where each member must pass the message on to another person. At the end of the activity, have your teacher read out the original statement and compare it with the final statement from the class member in the group who heard it last.
10. **Describe** how you might improve your own nonverbal communication skills with casual acquaintances. Refer to your use of eye contact, facial expression, gesture and voice-tone skills.
11. **Define** the term 'strategic thinking'.
12. **Explain** why managers at all levels need to exercise strategic thinking skills.
13. Draw a table similar to the one following to **summarise** details of the management skills in this section. The first entry has been completed for you.

Skill	Definition	Characteristics	Application to the workplace
Interpersonal skills	It is the ability to work and communicate with other people and to understand their needs.	Managers get their work done through other people. They need to display empathy.	Managers use interpersonal skills to communicate, motivate, lead and inspire.

14. Peter Drucker stated that 'vision is the essential contribution of management'. **Explain** this statement.
15. **Outline** the relationship between 'vision' and 'leadership'.
16. **a. Identify** two or three people who you consider to be effective leaders.
    b. Against each name, **outline** the personal qualities each person displays.
    c. Determine what leadership qualities the individuals have in common.
    d. Compare your answer with other class members.
17. Read the 'Research on management skills' case study and **outline** what reports on management have said about the skills that Australian managers will need to develop.

Read the 'Interpersonal skills crucial to the success of management' case study and answer questions 18 and 19.

18. **Summarise** the five interpersonal skills crucial to the success of management.
19. **Justify** which of these skills you believe is the most crucial for an effective manager.
20. Read the 'Communication as a dynamic leadership skill' case study and **demonstrate** how Satya Nadella is an effective communicator.

Read the 'Visionary leaders' case study and answer questions 21 and 22.

21. **Identify** the management skills the three CEOs possess.
22. **Evaluate** to what extent the above leaders influence the success of their respective companies.

Extension

23. In small groups, imagine you are board members of a medium-sized private company. The company manufactures electronic items for the domestic market. It has 284 employees and its current turnover is approximately $115 million. The company is well established in domestic markets but, due to increasing competition, sales and profits have been decreasing over the past few years.
    The board is preparing to hire a new chief executive officer to lead the company. In your group, **create** a profile of the business leader that you are seeking. Consider qualifications, experience, skills and personality factors.
    Conduct a class discussion on the similarities and differences of each group's profile. Propose reasons for any differences.

Solutions and sample responses are available in your digital formats.

5.4 Skills of management — problem-solving, decision-making, flexibility, adaptability to change and reconciling the conflicting interests of stakeholders

SYLLABUS LINK In this subtopic you will learn about nature of management:

- skills of management
  - problem-solving, decision-making, flexibility, adaptability to change, reconciling the conflicting interests of stakeholders

You will learn to discuss strategies that could reconcile the conflicting interests of stakeholders.

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5.4.1 Problem-solving skills

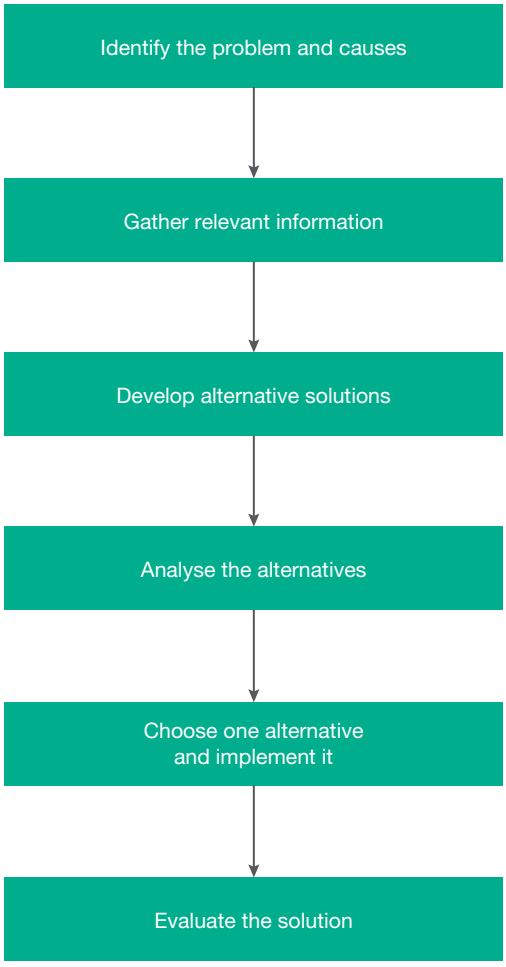
When confronted with a problem, many of us search for an answer, jump at the first workable solution and move on. Management requires a more systematic problem-solving process when confronted with difficult and unfamiliar situations.

Problem solving means finding and then implementing a course of action to correct an unworkable situation. Although managers have to deal with many problems in the course of a day, not all problems require such a systematic, formal process. One of the most important skills a manager can develop is the ability to decide which problem they should give their full attention.

There are six steps in a typical problem-solving process (see figure 5.9). The first step is to clearly identify what the problem is and what has caused it. The problem might be an industrial dispute or a need to develop a more socially responsible organisation. All of the facts and information that are relevant to the problem must be gathered. Some methods to use might be simply talking to people or completing questionnaires or surveys.

Management will need to develop alternative solutions so that the problem can be solved with an open mind. A list of possible solutions should be made, including the seemingly ridiculous ones. After analysing each of the alternatives for their advantages and disadvantages, the best option should be chosen. The solution to the problem will then be implemented and subsequently evaluated. If the solution does not work, the process would have to start again.

FIGURE 5.9 A problem-solving process



problem solving a broad set of activities involved in searching for, identifying and then implementing a course of action to correct an unworkable situation

FIGURE 5.10 A common problem managers have to deal with is workplace conflict. Research shows that up to 30 per cent of a typical manager's time is spent dealing with disputes. While conflict in the workplace is unavoidable, it can be minimised with the right strategy, problem-solving skills and direction.

5.4.2 Decision-making skills

The task of solving problems will obviously require making some decisions. **Decision making** is the process of identifying the options available and then choosing a specific course of action to solve a specific problem.

Effective decision making involves being able to make decisions within a particular time frame. It also requires a manager to adequately assess the risk involved if the decision is implemented.

BizFACT

In 1986, NASA management had to decide whether to launch the space shuttle Challenger even though temperatures at the launch site had fallen below the levels normally required for a safe launch. Lower-level engineers expressed their concerns. However, top-level NASA managers decided to go ahead with the launch, a decision that resulted in the deaths of all the astronauts on board.

Decision making can sometimes be dangerous. Not all management decisions are effective, as NASA discovered tragically in 1986, providing a case study of management decision making that shows dramatically the importance of the decision-making process (see the BizFact above).

Managers today are often confronted with complex, challenging and stressful decision-making demands. Accelerating change often makes it difficult to accurately predict the full effect of any decision. Therefore, managers need to develop an effective decision-making environment within the business. This can be accomplished by tapping into the creative potential of employees.

decision making the process of identifying the options available and then choosing a specific course of action to solve a specific problem

BizFACT

According to Mark Graban, an internationally recognised consultant, author and keynote speaker, 'Bad managers tell employees what to do, good managers explain why they need to do it, but great managers involve people in decision making and improvement'.

5.4.3 Flexibility and adaptability to change skills

Not since the Industrial Revolution over 200 years ago has business experienced so much change. Over the next 10 to 20 years, the Australian business environment will dramatically change. How managers perceive and react to these changes will have dramatic consequences for their businesses.

Regardless of their level of management, successful managers are those who anticipate and adjust to changing circumstances. They must be **flexible**, adaptable and **proactive** rather than reactive. Those who are unprepared or passive in the face of change will not succeed.

flexible being responsive to change and able to adjust to changing circumstances

proactive refers to a management style that incorporates dynamic action and forward planning to achieve particular objectives

Businesses today are recruiting and selecting managers who can cope with unfamiliar and unexpected circumstances. For example, Arthur Hancock, former Senior Human Resources Manager for Global Equities Limited, said:

> We are seeking managers who have learned how to learn and can adapt to changing situations. We do not want managers who are dogmatic and inflexible. Such a style of management may have been appropriate 50 years ago, but not for today's markets which are highly competitive, technologically driven and rapidly changing. We want to hire people who like surprises!

The topic of management and change will be examined in more detail in chapter 9.

BizFACT

Recent survey evidence shows that many Australian managers, especially managers of SMEs, are unable to develop a strategic perspective that allows businesses to read disruptive changes in markets, identify opportunities and adapt. The flow-on effects are numerous, but the key one concerns the absence of the skills necessary to drive continuous improvement and effectively manage change.

SNAPSHOT

Case study: Jeff Bezos — flexibility and adaptability to change

Amazon CEO Jeff Bezos has been recognised by various organisations as being one of the greatest living CEOs. He is a transformational leader whose main strength has been his flexibility and ability to adapt to change.

Bezos transformed Amazon from an online bookstore to the largest internet-based retailer in the world. Due to his leadership, the company has not stopped expanding and changing since its inception. Even though Amazon has been trading for over 20 years, Jeff Bezos wants the $430 billion company to behave with the same urgency as the start-up it once was.

To ensure he responds to problems and changes quickly, Bezos believes high-velocity decision-making is essential to a dynamic, successful business. He feels as though it's better to 'fail forward' — that is, make a decision quickly, learn from mistakes and move ahead — than it is to come to a standstill and be frozen by indecision. He urges his employees to follow the same advice and not to wait for all the information before acting. Bezos believes most decisions should be made with only about 70 per cent of the information needed, because if you wait for 90 per cent or more, then you're moving too slowly.

A phrase Bezos uses when it comes to acting quickly and implementing change is 'disagree and commit'. He follows this advice when a situation arises where consensus isn't possible. This means that even if Bezos disagrees with a decision, he trusts the judgement of the other decision-makers and is committed to a successful outcome. He believes this is a much faster alternative than the team having to convince him to change his mind.

According to Bezos, good entrepreneurs must be stubborn and flexible. In reference to Amazon, the company is 'stubborn on vision, but flexible on details'. While this seems like a paradox, Bezos considers them both valuable traits and, just like most things in life, the key is finding the middle road between the two. Bezos feels that if you're not flexible, you won't be able to see different solutions to problems you are trying to solve. There are many entrepreneurs that are inherently stubborn and like to take charge and have things done their way. Bezos believes that, while natural leadership skills are good, managers need to be flexible on details.

An example of his flexibility and willingness to change was when the company launched Amazon Auctions to compete with eBay in 1999. This didn't go as well as Bezos expected but, instead of sticking to his guns, he changed his approach. Bezos made some adjustments, abandoned the old idea and moved on to new ideas, which ultimately led to the creation of Amazon's highly profitable third-party sellers program. This example contradicts the traditional leadership mind-set that managers need to be strong, decisive and persistent in achieving their goals. Due to the dynamic nature of the business environment, Bezos' adaptability has been crucial to his success.

Another key feature of Bezos' leadership is that he never stops experimenting: 'If you double the number of experiments you do per year, you're going to double your inventiveness.' At Amazon, experimentation and willingness to invent has always been a part of the culture. In relation to innovation and change, Bezos feels that 'what is dangerous is not to evolve'. While most humans fear change, Bezos is more afraid of becoming stagnant. His inclination to always push the envelope has given Amazon a reputation as constantly evolving company.

5.4.4 Reconciling the conflicting interests of stakeholders

As outlined in chapter 3, there are a number of stakeholders in business. Stakeholders are groups and individuals who interact with the business and thus have a vested interest in its activities. Over the last four decades, there has been a significant philosophical shift in business conduct to meet society's expectations.

Society increasingly expects businesses to accept responsibility and accountability toward all stakeholders for the promotion and management of change. Businesses are expected to be enterprising, to comply with the law, and be socially just and ecologically sustainable in their operations.

Most businesses are now extremely sensitive to public opinion and strive to be recognised as 'good corporate citizens'. Businesses recognise that they increase their chances of success when they pursue goals that align with the interests and expectations of all stakeholders.

All the stakeholders who interact with a business require something different; all place competing demands upon the business. Some of these expectations are compatible. For example, customers want quality products at reasonable prices. If the business meets this expectation then sales should increase, leading to greater profits. This in turn satisfies the business owners who are rewarded with higher dividends.

However, some expectations are incompatible; that is, they oppose each other. In this case, satisfying one set of stakeholders will most probably result in other stakeholders being dissatisfied. For example, employees and their unions require safe working conditions and reasonable wages while customers want reasonably priced products. Providing safer working conditions or a wage rise is ethically and socially responsible, but

it will cost the business money in the short term. If the business wished to retain a high dividend to satisfy the shareholders' expectations, then it may be forced to raise the prices of its products. This action will upset customers. On the other hand, the business may retain prices at the original level, reducing its profit. Doing this could cause disquiet among shareholders. Table 5.2 summarises some of the conflicting interests between different stakeholders.

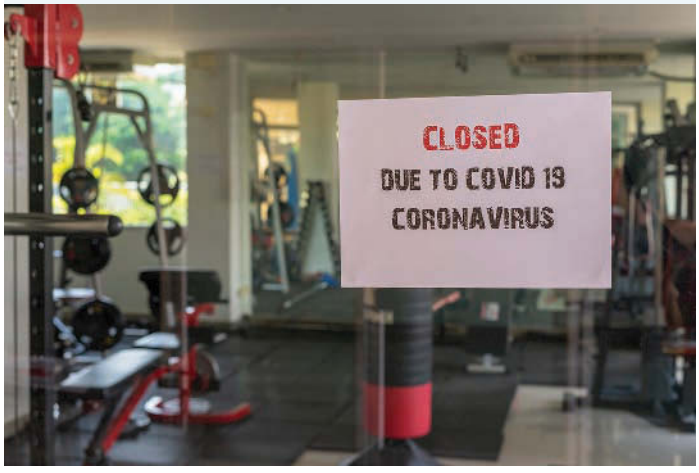
TABLE 5.2 Conflicting interests between different stakeholders

Stakeholders	Conflicting interest
Employees and shareholders	Employees require safe working conditions and reasonable wages, but this may reduce the business's profit and dividends to shareholders.
Management and customers	Management could attempt to maintain profit and a high dividend to satisfy shareholders by raising the prices of products, but this will upset customers, who expect reasonably priced products.
Management and the broader community	Management might decide to cut costs by neglecting maintenance, which could possibly put members of the community in danger.
Suppliers and the broader community	Suppliers expect to be paid fairly and promptly, but they might reduce costs by using unethical or socially irresponsible practices, which can upset members of the community.
Management and suppliers	Management wishes to keep costs down to improve profit but suppliers providing ethical materials require higher prices to cover their costs.

To maintain its profit, the management of a business may choose to cut costs, for example, and ignore some of its responsibilities. These types of decisions can endanger employees or society, or damage the environment through pollution, raising serious ethical and social responsibility considerations. Management might choose to reduce costs by sacking employees or by compromising on product quality or safety, which also raises other ethical and social responsibility considerations.

Reconciling these conflicting interests is not always easy. Senior management must assess constantly the actions of the business and attempt to satisfy as many stakeholder expectations as possible, while at the same time acting in a responsible manner.

FIGURE 5.11 The conflicting interests of stakeholders can combine to affect the way in which businesses operate. For example, during the COVID-19 pandemic, the interests of the government and the broader community conflicted with the interests of business owners, employees and customers. In order to enforce health safeguards, many businesses were forced to close for a number of months, which meant many employees lost their jobs or were forced to work from home.



BizFACT

Corporate social responsibility challenges each business to be accountable for the consequences of its actions. This means businesses must consider effects on all stakeholders while pursuing traditional economic goals.

5.4.5 Discuss strategies that could reconcile the conflicting interests of stakeholders

Reconciling conflicting interests is not always easy. Senior management must constantly assess the actions of the business and attempt to satisfy as many stakeholder expectations as possible while acting in a socially responsible manner.

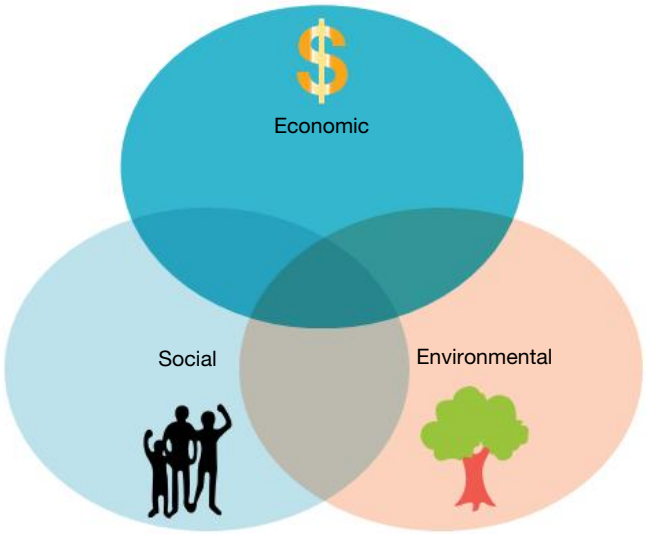
As society's expectations of acceptable business behaviour increase, socially aware businesses recognise the importance and necessity of concentrating on sustainable business objectives; that is, focusing on financial outcomes while also being conscious of environmental and social performance. Many businesses today focus on the **triple bottom line** — the economic, environmental and social performance of a business — where shareholder value increases through the careful management of stakeholder value. More businesses understand that reconciling conflicting interests and increasing stakeholder value ensures long-term growth and survival. That is, businesses that take their social responsibilities seriously are often 'rewarded' with improved business performance.

Customers who believe that a business has a reputation for being socially responsible are more likely to continue to deal with the business. They are also likely to refer the business to other customers. Employees will want to work for the business, reducing costs of replacing staff and increasing productivity. While it can be expensive and time-consuming to introduce socially responsible strategies, they would be expected to bring about increased sales and profits. By comparison, a lack of social responsibility can damage a business's reputation and reduce its competitive advantage. Customers may react and stop purchasing a business's product if they learn that the business is exploiting employees, accepting bribes or polluting the environment.

Society increasingly expects businesses to consider corporate social responsibility and do the 'right' thing in the interests of all stakeholders. Modern businesses are expected to be enterprising and comply with the law, as well as being socially just and ecologically sustainable in their operations. Many businesses are now extremely sensitive to public opinion and strive to be recognised as being 'good corporate citizens'. Businesses are increasingly realising that they increase their chances of success when they pursue objectives that align with the interests and expectations of all stakeholders (see the following case study).

triple bottom line the economic, social and environmental performance of a business

FIGURE 5.12 The Global Reporting Initiative (GRI) is an international standards organisation that helps businesses, governments and other organisations understand and communicate the impact of business on critical sustainability issues. They developed sustainability reporting standards and pioneered sustainability reporting in the late 1990s, transforming it from a niche practice to one that is now adopted by a growing majority of organisations. More than 8000 organisations use GRI Guidelines when reporting on their triple bottom line.



SNAPSHOT

Case study: CommBank — reconciling stakeholder interests

Commonwealth Bank (CommBank) has implemented a variety of strategies focused on delivering balanced and sustainable outcomes for all stakeholders. It is focused on transparent and sustainable practices, policies and decisions that support positive social and environmental outcomes.

Employees

CommBank strives to create a diverse, inclusive culture. It monitors employee engagement through surveys and aims to be among the top 10 per cent of companies globally for its employee engagement score. The bank instigated a variety of recognition programs to celebrate employees who demonstrate their values and it also recognises staff members who have gone above and beyond with Excellence Awards. In 2020, CommBank implemented new strategies to help employees manage coronavirus-related health, anxiety or financial concerns. It also began recruiting people from the aviation industry who had lost their jobs.

Customers

CommBank is focused on improving customer's financial wellbeing, especially during these challenging times. They invested $153 million on a variety of benefits for customers in the 2019–2020 financial year. For example, the bank:

- sent over 27 million smart alerts to retail and business customers to help them avoid unnecessary fees
- provided assistance to customers experiencing hardship
- provided a variety of business support packages
- launched a Benefits finder tool to alert customers to relevant rebates and benefits they may be entitled to
- offered Emergency Assistance Packages for customers affected by bushfires, floods, droughts and storms.

Society

CommBank has been involved in education initiatives for more than 85 years, including providing a free educational program, Start Smart, which is designed to give young Australians the skills and confidence to make good financial decisions. The bank has continued to make a positive contribution to society through a variety of initiatives in 2019–20. For example, they gave more than 200 grants of $10 000 to community organisations, they launched the Christmas Drought Appeal, they committed up to $10 million to bushfire recovery grants and invested in programs that support members of the community affected by financial abuse.

Environment

In August 2017, CommBank released its Climate Policy Position Statement which formalises CommBank's commitment to playing its part in limiting climate change to well below 2 degrees and supporting the responsible global transition to a net zero emissions economy by 2050. In 2020, the company achieved its target to source 100 per cent renewable electricity.

Government

During the COVID-19 pandemic CommBank worked with the government and regulators to introduce a broad range of support and stimulus measures. They also provided the government with access to extensive data to help policy makers design policies to support Australia's economic recovery.

To reconcile the conflicting interests between shareholders and employees, businesses can look into employee share acquisition schemes. Such schemes provide the opportunity for eligible employees to purchase shares in a business, often at a reduced price. This aligns the interests of both groups as a number of employees become shareholders.

Another widely used strategy is to offer training and professional development to employees. An educated and skilled workforce works more efficiently, reducing production costs. This results in rising profits, which pleases shareholders. Also, better trained staff produce a higher quality product, thus satisfying customer expectations.

The more successfully a management team achieves the business's goals, the more it will be able to satisfy a greater number of stakeholders. Therefore, to succeed in reconciling the conflicting interests of stakeholders a business needs competent, informed, ethical and socially responsible managers.

In a desire to reconcile the conflicting interests of the various stakeholders, some businesses use a process of stakeholder engagement. **Stakeholder engagement** refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision making. Businesses anticipate that by engaging stakeholders they are more likely to act in an ethical or socially responsible manner.

stakeholder engagement refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision making

Businesses also anticipate that a positive image of the business will be maintained if all stakeholders have their expectations satisfied, leading to increased sales as well as an improved reputation for corporate social responsibility.

KEY IDEAS

- Managers engage in a systematic problem-solving process when confronted with difficult and unfamiliar situations.
- Decision making is the process of identifying the options available and choosing a specific course of action.
- Managers must be flexible, adaptable and proactive rather than reactive.
- Stakeholders are groups and individuals who interact with the business and thus have a vested interest in its activities.
- Society increasingly expects businesses to accept responsibility and accountability towards all stakeholders.
- Stakeholder expectations can be compatible or incompatible.
- Managers need to reconcile the conflicting interests of various stakeholders.
- Senior managers must attempt to satisfy as many stakeholder expectations as possible.
- Economic development must be accomplished sustainably.
- The triple bottom line refers to the economic, social and environmental performance of a business.
- Reconciling the conflicting interests of stakeholders requires competent, informed, ethical and socially responsible managers.
- Stakeholder engagement is a process that assists in reconciling the conflicting interests of stakeholders.

5.4 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

5.4 Quick quiz on | **5.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 5, 6, 7, 13	3, 4, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 21	19, 20, 22

5.4 Exercise

Revision

1. Draw a table similar to the one below and **summarise** details of the management skills discussed in this section.

Skill	Definition	Characteristic	Application to the workplace

2. **Recall** the six steps in a typical problem-solving process.
3. **Explain** the relationship between problem solving and decision making.
4. **Why** is it important for managers to be proactive rather than reactive?
5. **Define** the term 'stakeholder'.
6. Think of a situation where you were involved in the decision-making process.
   a. **State** the decision that needed to be made.
   b. Describe the decision-making process used.
   c. **Outline** whether you were more committed to the final decision because of your involvement.
   d. Discuss what implications this would have for you if you were a manager.
7. **Recall** information to complete the following table. The first one has been completed for you.

Major stakeholders	Influence
Customers	Put pressure on business to satisfy their needs, act ethically and be socially responsible
Employees	
Shareholders/owners	
Society/physical environment	

8. **Demonstrate** the ways in which the interests of stakeholders' conflict.
9. **Distinguish** between compatible and incompatible expectations of stakeholders. Provide examples.
10. In small groups, **recommend** methods a business could use to reconcile the following conflicting interests.
    a. Consumers demanding cheaper products and employees wanting higher wages
    b. Shareholders desiring a higher return on their investment and society wanting a cleaner environment
    c. Managers being required to keep costs of production down and the government demanding improvements in occupational health and safety practices.
11. **Demonstrate** ways a business can show that it is acting in an ecologically sustainable manner.
12. **Explain** how stakeholder engagement can assist in reconciling the conflicting interests of stakeholders.

Read the 'Jeff Bezos — flexibility and adaptability to change' case study and answer questions 13 to 16.

13. **Outline** Bezos' decision-making style.
14. **Explain** the phrase 'disagree and commit'.
15. **Demonstrate** how entrepreneurs can be stubborn and flexible.
16. **Demonstrate** how Jeff Bezos is flexible and adaptable to change.
17. Read the 'CommBank — Reconciling stakeholder interests' case study. Next, complete the following table to **describe** how CommBank reconciles the conflicting interests of its different stakeholders.

Stakeholder	Description of how CommBank reconciles stakeholders' interests
Employees	
Customers	
Society	
Environment	
Government	

Extension

18. You have been asked to make a three-minute oral presentation at the local chamber of commerce meeting. The topic you have selected is 'The essential skills of management'. **Investigate** the topic and present your report to the class. For each skill, include a definition of the skill, its characteristics and application to the workplace. You might like to use PowerPoint to present your lecture.
19. Identify the major stakeholder groups often mentioned in relation to social responsibility.
    a. **Analyse** to what extent these groups apply to your school.
    b. **Determine** what other stakeholders you might add.
20. 'To be effective, corporate strategy must take into account the interests, needs, and expectations of all the business's stakeholders. Companies should have a strategy that combines business goals and broad social interests.' **Evaluate** this statement.
21. Complete the following table. **Propose** any skills that you think could be used to achieve the business goals and **explain** how they could be used. The first two entries have been started for you.

Business goals	Skills	How
Improve the culture of a business	Communication	Explain to staff the changes that will take place.
	Problem solving	Use the problem-solving steps to work out what problems are preventing the culture from improving.
Successfully merge with another company		
Improve social responsibility		
Improve staff satisfaction		

22. Investigate online **BHP Billiton's** Matched Giving program. **Evaluate** how this program would enhance the company's reputation for corporate social responsibility with its stakeholders.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink BHP Billiton

5.5 Review

5.5.1 Summary

Features of effective management

- Management is a fundamental activity that makes the business function.
- Management is the process of:
  i. coordinating a business's resources to achieve its goals
  ii. working with and through other people to achieve business goals in a changing environment.
- Whether the goals of the business are achieved largely depends on the skills and expertise of the management team in coordinating the business's resources.
- Every business needs effective management to succeed.
- An effective manager needs to be good at planning, organising, leading and controlling.
- The role of effective management is to make sure the joint efforts of employees are directed towards achieving the business's goals.
- Effective management is usually the major factor influencing the success or failure of a business.

Skills of management — interpersonal, communication, strategic thinking and vision skills

- In general, effective managers are those who:
  - possess a range of specific management skills
  - are able to use these skills in a number of different situations.
- All managers use their skills to achieve the business's goals.
- Managers require a wide range of technical, conceptual (thinking) and people skills.
- Interpersonal (people) skills are those skills needed to work and communicate with other people and to understand their needs.
- Interpersonal skills include the ability to communicate, motivate, lead and inspire.
- Effective communication of business goals and the strategies to achieve them are crucial to achieving business success.
- Managers who are effective communicators and who are able to share their thoughts and plans will find it easy to influence others.
- Miscommunication is to be avoided because it can lead to serious harm to the business.
- It is important for managers to be aware of the power of nonverbal communication, especially body language.
- Strategic management allows the manager to see the business as a whole and to take a broad, long-term view.
- Strategic thinking involves thinking about a business's future direction and what future goals the business wants to achieve.
- Managers must be able to provide a vision as to where the business is headed and what it is trying to achieve.
- To share their vision with others and inspire them, managers will have to display effective leadership qualities.
- Leadership is the ability to influence people to set and achieve specific goals.

Skills of management — problem-solving, decision-making, flexibility, adaptability to change and reconciling the conflicting interests of stakeholders

- Management requires a systematic problem-solving process when confronted with difficult and unfamiliar situations.
- Decision making is the process of identifying the options available and choosing a specific course of action.
- Managers must be flexible, adaptable and proactive rather than reactive.
- Stakeholders are groups and individuals who interact with the business and thus have a vested interest in its activities.
- Society increasingly expects businesses to accept responsibility and accountability towards all stakeholders.
- Stakeholder expectations can be compatible or incompatible.

- Managers need to reconcile the conflicting interests of various stakeholders.
- Senior managers must attempt to satisfy as many stakeholder expectations as possible.
- Economic development must be accomplished sustainably.
- The triple bottom line refers to the economic, social and environmental performance of a business.
- Reconciling the conflicting interests of stakeholders requires competent, informed, ethical and socially responsible managers.
- Stakeholder engagement is a process that assists in reconciling the conflicting interests of stakeholders.

5.5.2 Key terms

communication the exchange of information between people; the sending and receiving of messages
controlling the process of evaluating performance and taking corrective action to ensure that the set objectives are being achieved
decision making the process of identifying the options available and then choosing a specific course of action to solve a specific problem
effectiveness measures the degree to which a goal has been achieved
efficiency compares the resources needed to achieve a goal (the costs) against what was actually achieved (the benefits)
flexible being responsive to change and able to adjust to changing circumstances
interpersonal skills those skills needed to work and communicate with other people and to understand their needs
leadership the ability to influence people to set and achieve specific goals
leading the process of influencing or motivating people to work towards the achievement of the organisation's objectives
management the process of working with and through other people to achieve business goals in a changing environment. Crucial to this process is the effective and efficient use of limited resources.
manager someone who coordinates the business's limited resources in order to achieve specific goals
nonverbal communication any message that is not written or spoken
organising the structuring of the organisation to translate plans and goals into action
proactive refers to a management style that incorporates dynamic action and forward planning to achieve particular objectives
problem solving a broad set of activities involved in searching for, identifying and then implementing a course of action to correct an unworkable situation
skill the ability that comes from the knowledge, practice and talent to do something well
stakeholder engagement refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision making
strategic thinking allows a manager to see the business as a whole and to take the broad, long-term view
traditional definition of management the process of coordinating a business's resources to achieve its goals
triple bottom line the economic, social and environmental performance of a business
vision the clear, shared sense of direction that allows people to attain a common goal

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Digital documents Key terms glossary (doc-35785)
Chapter crossword (doc-36244)

Interactivity Chapter crossword (int-7219)

5.5 Activities

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Exercise 1: Multiple choice questions

1. What is the focus of the traditional definition of management?
   - **A.** The process of coordinating the business's resources to achieve its goal
   - **B.** The achievement of the business's strategic goal
   - **C.** To plan, organise, lead and control the business's resources to achieve its goal
   - **D.** To promote innovation and development to achieve the business's goals

2. In response to government and competition changes, Allentown's management needs to ensure all employees understand the business's new strategic direction. What management skill would need to be present if the business is to be successful?
   - **A.** Problem solving
   - **B.** Communication
   - **C.** Vision
   - **D.** Adaptability and flexibility

3. What is meant by the term 'leadership'?
   - **A.** An ability to influence people
   - **B.** An ability to coordinate people
   - **C.** An ability to plan and control business activities
   - **D.** An ability to innovate and organise business activities

4. The modern view of management is working with and through others to achieve a business's goals. It's a social process. Which management skill needs to be present if management is to be effective?
   - **A.** Adaptability
   - **B.** Visionary
   - **C.** Interpersonal
   - **D.** Strategic thinking

5. Allentown's management faces a major problem in sourcing quality coal and limestone to manufacture its steel products. Which of the following skills would be appropriate to overcome this problem?
   - **A.** Reconciling the conflicting interests of stakeholders
   - **B.** Interpersonal
   - **C.** Communication
   - **D.** Problem solving

6. Businesses operate in an ever-changing environment. All levels of management need to be proactive, anticipating the need to change directions, goals and accompanying strategies. Which of the following skills needs to be present to ensure preparedness and positivity in the face of ongoing change?
   - **A.** Communication
   - **B.** Interpersonal
   - **C.** Adaptability and flexibility
   - **D.** Vision

7. To achieve an increase in profitability, the management of Allentown Steel has decided to reduce expenditure on staff training and development. This has caused problems between the management and employees. Which skill is the most appropriate to resolve potential conflict between these stakeholders?
   - **A.** Vision
   - **B.** Flexibility and adaptability
   - **C.** Communication
   - **D.** Reconciling the conflicting interests of stakeholders

8. What does the 'triple bottom line' refer to?
   - **A.** Financial, environmental and sustainability performance
   - **B.** Social, economic and stakeholder performance
   - **C.** Environmental, economic and social performance
   - **D.** Economic, financial and ecological performance

9. What would be a strategy to reconcile conflicting interests between shareholders and employees?
   - **A.** A reduction in training to increase share price
   - **B.** A scheme to reduce profits and wages
   - **C.** A mediation scheme to reduce conflict
   - **D.** A share acquisition scheme

10. Managers who possess the ability to see the business as a whole and are able to take a long-term view of the business possess which skill of management?
    - **A.** Vision skills
    - **B.** Problem-solving skills
    - **C.** Decision-making skills
    - **D.** Strategic thinking skills

Exercise 2: Exam practice questions

Question 1 (4 marks)

Outline TWO features of effective management.

Question 2 (2 marks)

Define interpersonal skills.

Question 3 (4 marks)

Discuss why managers should focus on the triple bottom line.

Question 4 (4 marks)

Distinguish between the management skills of decision making and problem solving.

Question 5 (4 marks)

Explain why it's important for managers to reconcile the conflicting interests of stakeholders.

Question 6 (6 marks)

Analyse why the management skill of flexibility and adaptability to change is particularly important in today's environment.

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6 Achieving business goals

6.1 Overview

LEARNING SEQUENCE

6.1 Overview
6.2 Business goals
6.3 Staff involvement
6.4 Review

6.1.1 Introduction

People start up a business because they want to achieve something; they have goals they want to attain. From an early age, you have been setting goals. A **goal** is a desired outcome (target) that an individual or business intends to achieve within a certain time frame. For example, when you were in primary school some goals you may have wanted to achieve could have included:

- learning to play a musical instrument
- becoming a member of a sporting team.

In secondary school, the goals will have changed and may now include:

- acquiring a part-time job
- improving your debating skills
- achieving the best possible results in Business Studies.

BizFACT

Although some people distinguish between goals and objectives, most managers typically use the terms interchangeably.

Success in achieving your goals is often determined by the amount of planning you undertake. Detailed planning increases the likelihood of successfully achieving your goals.

goal a desired outcome (target) that an individual or business intends to achieve within a certain time frame

benchmark a standard by which something can be measured or judged

As with individuals, businesses:

- need to establish goals
- are required to undertake planning to successfully achieve specific goals.

Carefully prepared goals begin with the end in mind and benefit managers by:

1. *Serving as targets*. With goals, managers at all levels would find it easier to make coordinated decisions because they understand what the business is trying to achieve.
2. *Measuring sticks*. Specific goals act as a **benchmark** against which the business can measure its performance — that is, the actual outcome is compared with the planned goal.
3. *Motivation*. Good quality goals represent a challenge — something to aim for. They act as a motivating force. Employees will gain satisfaction when they successfully achieve a challenging goal. Goals also provide managers with a basis for rewarding performance, which in turn acts as a motivator.
4. *Commitment*. Getting an employee to agree to achieve a goal — or better still, having the employee participate in the goal-setting process — gives that employee a personal stake in the success of the business.

FIGURE 6.1 Just as many students are working towards the goal of getting into university for a specific course, goals are the targets that a business and its employees work towards.

A simple and proven method of goal setting is to make the goals S.M.A.R.T. An example of a smart goal might be to 'obtain 500 new customers in the market before the end of the financial year by delivering good service and making use of marketing' (see figure 6.2).

FIGURE 6.2 To be most effective, business goals should be S.M.A.R.T. That is, specific, measurable, attainable, relevant and time bound

S	M	A	R	T
Specific Goals should be clear and focused. For example, 'obtain 500 new customers in the market'.	**Measurable** Goals should be quantifiable (i.e. they should contain numbers to allow the business owner to know whether or not they are on track).	**Attainable** Goals should be challenging but they should be realistic. An attainable goal will usually address the question, 'How can the goal be accomplished?'	**Relevant** Goals should be worthwhile, support other goals and should be based on current conditions in the market.	**Time bound** A deadline or time limit should be set.

on Resources

Digital document Key terms glossary (doc-35787)

6.2 Business goals

SYLLABUS LINK In this subtopic you will learn about nature of management:
- achieving business goals
  - profits, market share, growth, share price, social, environmental
  - achieving a mix of the above goals.

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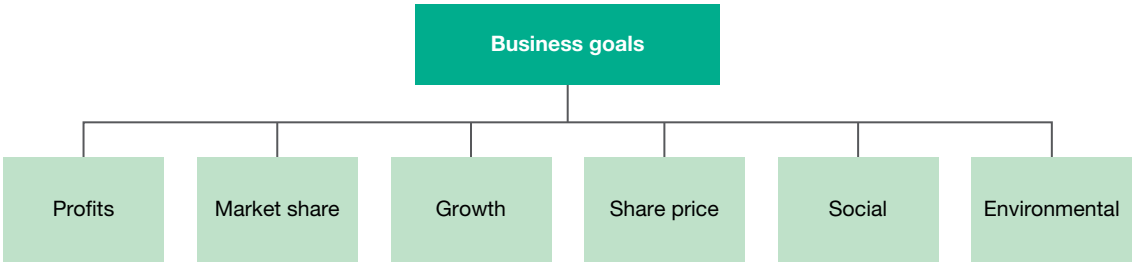
A driver of a car usually knows his or her final destination and how they will get there. In the same way, a successful business owner has a destination in mind for his or her business. A business goal describes what a business expects to accomplish over a set period. Without a goal, a business has no clearly defined purpose and nothing to aspire to. Goals provide a business with direction and help managers measure results. Setting goals is an important step in helping a business realise its vision of where it wants to be in the future.

FIGURE 6.3 Common business goals



6.2.1 Profits

Have you ever saved enough money to purchase an expensive item? If so, you probably kept a record of all the money you received (revenue), the money you spent (expenses) and the resulting balance. These records provided you with information about your cash flow position. As you saved more and the balance increased, you were able to determine how close you were to achieving your financial goal. One of the most basic financial goals for businesses is to maximise profits.

BizFACT

Many people criticise businesses that are overly focused on profit maximisation. This objective illustrates to stakeholders that the business's primary focus is on profits and that it will do whatever it can to achieve this goal, regardless of the consequences or risks involved. Short-term profit maximisation can lead to a negative public perception and can ultimately affect future sales.

As explained in chapter 1, profit is what is left after the costs of producing and supplying the product (expenses) have been deducted from money earned from sales (revenue). If the business is unable to consistently make a profit, it will fail. Only profitable businesses survive in the marketplace.

A major indicator of a business's success is the size of its profit, so many businesses not only want to make a profit, but also they want to maximise their profit. **Profit maximisation** occurs when there is a maximum difference between the total revenue (that is, the number of sales made multiplied by the price) coming into the business and total costs being paid out (see figure 6.4). The goal of seeking to make as much profit as possible is probably pursued by a larger number of businesses than any other goal.

profit maximisation occurs when there is a maximum difference between the total revenue (that is, the number of sales made multiplied by the price) coming into the business and total costs being paid out

FIGURE 6.4 Profit maximisation

Profit = TR – TC

Maximum profit = TR at maximum difference from TC

Where: Total Revenue (TR) = Total sales × Price
Total Cost (TC) = total expenses incurred in operating the business

BizFACT

Not all businesses aim for profit maximisation. Some organisations engage in business-related activities, but their aims and objectives are different. For example, non-profit organisations do not earn profits for their owners. Instead, all the money earned or donated is used in pursuing their objectives.

One way of maximising profits is to increase sales. This may be done by lowering the price so consumers purchase more. Alternatively, the business may seek to increase sales through a well-targeted marketing campaign, by creating more innovative products or delivering better services.

FIGURE 6.5 There are many ways businesses can increase profit. Price may be lowered to increase the volume of sales or clever advertising may convince the consumer to buy a product.

The profit maximisation goal is likely to be more beneficial to a business if adopted over the long term. Ironically, this may require a business to accept either lower profits or losses in the short term. A business entering a new market or introducing a new product, for example, usually performs best by initially setting low prices to build a large customer base. This is a strategy that JB Hi-Fi adopted when it was established in 1974. The founder, John Barbuto, had one simple philosophy: to deliver a specialist range of Hi-Fi and recorded music at Australia's lowest prices. To achieve their low prices, JB Hi Fi's strategic objectives are to increase gross profit and achieve cost leadership by maximising supply chain efficiency. This has enabled the company to expand its market share and maximise sales, which in turn has led to an increase in profits.

6.2.2 Market share

market share refers to the business's share of the total industry sales for a particular product

Market share refers to the business's share of the total industry sales for a particular good or service expressed as a percentage. It is calculated by dividing a business's sales (from that market) by the total sales of all businesses in that market and expressing this as a percentage. An increase in market share suggests that the business is performing successfully. Market share is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors.

In most industries, market share is usually a goal only for large businesses. Such businesses often develop an extensive product range, using many different brand names to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

BizFACT

Woolworths and Coles account for approximately 62 per cent of the supermarket industry market share, with 34 per cent and 27.6 per cent market share respectively. Aldi's market share has increased to 11.4 per cent and IGA has fallen slightly to 7.1 per cent market share. The two major supermarket chains are continually revising their marketing strategies in an attempt to grab market share.

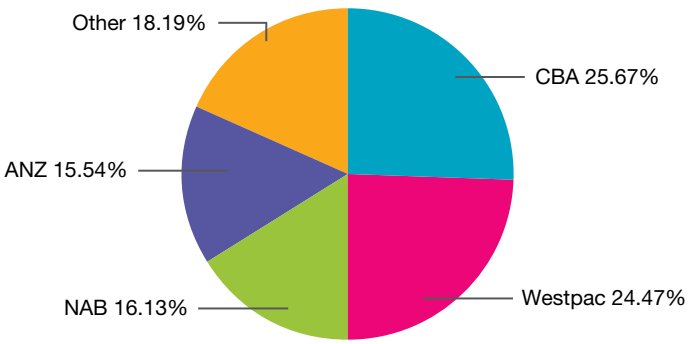
In 2019 there were 1 062 867 new passenger vehicles sold in Australia. Toyota was the top-selling brand for the seventeenth year in a row, selling 205 766 cars. Its market share grew to 19.4 per cent, an increase of 0.6 per cent from 2018, and up 1.2 per cent from 2017. This increase in market share occurred despite a 7.8 per cent fall in the number of new cars purchased in Australia in 2019. Despite new car sales declining 48.5 per cent as a result of the COVID-19 lockdown, as at 30 April 2020, Toyota Australia remained the top-selling car company in Australia with a market share of 26.5 per cent, selling 10 325 vehicles out of a total of 38 926 vehicles sold in Australia up to that point.

Increasing market share is an important goal for businesses that dominate the market, because small market gains often translate into large profits (see the case study on Google's market share).

BizFACT

In Australia, Coca-Cola Amatil presently has about 60 per cent share of the $4.4 billion carbonated soft-drink market, compared to PepsiCo's 10 per cent share. Despite recording a decline in revenue in 2020 due to the COVID-19 disruption, the company still managed to increase its market share, demonstrating the power of its brands.

FIGURE 6.6 Competition between the major Australian banks and second-tier banks has resulted in a declining overall market share for the big four banks. For the third consecutive year, non-major banks and other institutions have taken market share away from the big four. This is despite the market share of the big four banks increasing in relation to loans.

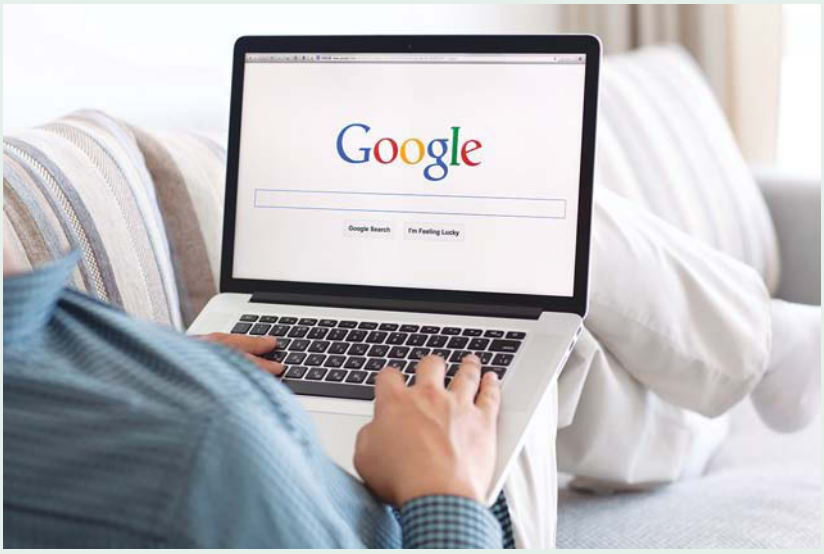


BizFACT

Unilever is a multinational company producing a range of cleaning products. Two well-known brands, Surf and Omo, are both produced by the company. Both products have a market share, their own advertising and compete with each other, but the business has an overall higher market share and profit because it is marketing two products in the one market.

SNAPSHOT

Case study: Google's huge market share



Search engines are the most common means of finding information. A search engine is a web-based tool that enables users to locate information on the internet. Search engines use sophisticated algorithms to discover, understand and organise the internet's content in order to offer the most relevant results to questions searchers are asking.

Ever since the introduction of Google Search in 1997, the company has dominated the worldwide market share of all search engines. Google accounted for 86.86 per cent of the global search market industry as of July 2020. While this is a huge proportion of the market, there are other competitors in the industry. For instance, Microsoft Bing accounted for 6.43 per cent of the industry, Baidu's market share was 1.14 per cent and DuckDuckGo's market share was 0.5 per cent in 2020. This impressive market share enabled Google to earn one of the highest tech company revenues in 2019 with roughly US$160.74 billion.

About 62.6 per cent of all searches online are through Google's core function. This figure, however, doesn't include other Google functions such as Google Maps, image search or YouTube. Between all Google features as well as its subsidiary YouTube, more than 90 per cent of all internet searches are conducted through the company. In fact, Google processes a whopping 3.5 billion searches per day.

So how does Google retain such a massive market share and why haven't any other competitors been able to pluck away their market share? The reason is because of Google's platforms and apps. Google's strategy has been to ensure that wherever users are, a Google search is not hard to find. Google accomplished this by ensuring they are the default search engine on the home page of every internet browser.

Another reason for their dominance relates to the maths. Google operates on such a large level, processing 3.5 billion searches per day, that in order to get millions of people to try a different search engine would be too expensive. The only way this would even be possible would be if a competitor enters the market with a search engine that is significantly better than Google, which seems highly unlikely.

A study commissioned by Google's competitor DuckDuckGo anticipates that Google will lose market share once Android starts prompting users to select their own default search engine when setting up a new phone. According to their research, if given the choice 17 per cent of people in Australia and 24 per cent of people in the United States would select a non-Google search engine. Based on these figures, they have predicted that Google's mobile market share will drop by 16 per cent in Australia and 20 per cent in the United States.

The market share of SMEs is usually restricted to the size of the business. A local corner store's market share, for example, is limited to the number of customers living within its immediate area.

One of the most successful strategies used to increase market share is promotion. **Promotion** describes the methods used by a business to inform, persuade and remind a market about its products. Promotion can be used to convince new customers to try a product, while maintaining established customers' product loyalty. Advertising that emphasises the product's features also assures those who *do* use the product that they are making the right decision.

promotion the methods used by a business to inform, persuade and remind a market about its products

6.2.3 Growth

Most businesses want to grow. They can achieve growth internally (organically) or externally. Internal growth could involve employing more people, increasing sales, introducing innovative products, purchasing new equipment or establishing more outlets. McDonald's has pursued an ambitious growth program by selecting a large number of sites for future expansion.

External growth is achieved by merging with or acquiring other businesses. A merger occurs when two businesses join together to become one — for example, when Nine Entertainment Co merged with Fairfax Media in 2018. Expansion can also take place through acquisition. This means that one business purchases another business — for example, when Coca-Cola Amatil purchased Neverfail Springwater and Mount Franklin bottled water suppliers; SPC Ardmona, IXL and Taylor's food products; and Goulburn Valley packaged ready-to-eat fruit merchandise.

FIGURE 6.7 Mike Cannon-Brookes and Scott Farquhar co-founded Atlassian, an enterprise software company currently worth $50 billion, in Sydney in 2002. Their strategy for continued growth has been through mergers and acquisitions. The pair have expressed their intention to continue looking for bolt-on acquisitions to help them grow further. In 2020 Atlassian continued to grow through COVID-19 by acquiring asset management company Mindville, based in Sweden. Mindville's more than 1700 customers include NASA, Spotify and Samsung. This acquisition will enable Atlassian to enter into a new market.

Maximising growth is not a goal that only large businesses can achieve. Many successful SMEs have followed similar strategies and in the process expanded to become large businesses. However, some small business owners are content to maintain the existing size of their business to:

- avoid the added pressures of expansion in a desire for a quiet life or a particular lifestyle
- keep control over the business's operations
- maintain personal contact with the customers.

6.2.4 Share price

A **share** is a part ownership of a public company. Shareholders therefore are the real owners of companies. There are two reasons why a person will buy shares. Firstly, they may purchase shares in the hope of selling them for a higher price and making a profit. Secondly, owning shares in a company entitles an investor to a part of the company's profits, which is distributed in the form of dividends.

For companies that wish to be successful, they need to maximise the returns of their shareholders. This is achieved by keeping the share price rising — constantly improving the share price — and paying back healthy dividends. This is a goal that NAB has been trying to achieve over the past few years (see figure 6.8).

FIGURE 6.8 NAB aims to generate attractive returns for their shareholders. In order to achieve this, one of their primary objectives is to be number 1 Return on Equity (ROE) of major Australian banks.

Of course, businesses must be aware that they operate within a wider community that expects corporations to act ethically. Unethical activities may temporarily improve a company's share price but ultimately end up being detrimental to a business.

6.2.5 Social goals

All businesses operate within a community and, like individuals, have certain social responsibilities. Many businesses develop social goals and adopt strategies that will benefit the community, while achieving financial goals. Among the main social goals are:

- *community service*. Business sponsorship of a wide range of community events, promotions and programs rapidly increased during the past decade. Many businesses financially support educational, cultural, sporting and welfare activities.
- *provision of employment*. Most large businesses do not regard employment of people as a main goal. Many small business owners, however, look at the continuity of their business, sometimes employing family members who otherwise might be unemployed.
- *social justice*. Everyone has the right to be treated fairly. A business may be concerned for **social justice** — that is, it adopts a set of policies to ensure employees and/or other community members are treated equally and fairly.

share a part ownership of a public company

social justice in business is about adopting a set of policies to ensure that employees or other community members are treated equally and fairly

BizFACT

Through its numerous values and campaigns, The Body Shop expresses its commitment to social and environmental justice on a local and global level. Recent campaigns include 'Walk in her shoes', 'Stop sex trafficking of children and young people', 'Climate friendly', 'Rethink refugees' and 'Stop violence in the home'. The Body Shop prides itself on being a retail activist.

Sometimes a business will aim to fulfil a social need. This objective involves the production and/or selling of goods and services for the purpose of making the world a better place. A business with such a focus may generate an income, but its primary purpose is the common good. Objectives related to fulfilling social needs might include improving human wellbeing, such as providing opportunities for local unemployed people or assisting disadvantaged people in the community, or focusing on the environment, such as minimising waste and recycling (see the following case study).

BizFACT

Some businesses are able to address both social and financial objectives. Westpac Group and IBM are two platinum members of the Australian Network on Disabilities and have made a significant commitment to including people with disabilities in the way they go about their business.

SNAPSHOT

Case study: Vanguard does the laundry to provide jobs

Luke Terry's friends laughed when he decided to set up a business that would recruit unemployed people with mental illnesses to do laundry for a hospital in eastern Australia. The commercial laundry service that he founded in Toowoomba, Vanguard Laundry Services, now employs more than 40 people and cleans 20 tonnes of linen a week for 90 commercial clients.

Luke Terry, Founder of Vanguard Laundry

When he worked in his former role as CEO of Toowoomba Clubhouse, a not-for-profit organisation supporting people with a lived experience of mental illness who are struggling to secure employment, people from the local community asked Terry if he could help them to find a job. After searching locally, he received an offer to take care of the washing for St Vincent's Private Hospital in Toowoomba. He spent three years fundraising — raising $6 million from more than 100 sources — and Vanguard was finally established when the laundry facility opened at the end of 2016. Since then, the social enterprise has experienced rapid growth and has had a substantial social impact.

As a social enterprise, the Vanguard laundry provides jobs to unemployed people who have a lived experience of mental illness. Any surplus it makes is reinvested back into improving the laundry services or supporting local mental health employment projects. As the Managing Director of the business, Terry believes that the social enterprise business model is healthy for staff and for the wider community.

Many of Vanguard's employees suffer from bipolar disorder, depression, anxiety or physical health problems. For them, having a job brings a number of benefits. A 2018 Swinburne University study funded by the AMP Foundation evaluated the mental health and wellbeing impacts of Vanguard. The study found that fewer than a third of Vanguard's employees had significant employment experience before starting work at Vanguard. It was also found that after just one year, Vanguard workers were much less likely to rely on welfare. Furthermore, the employees were less likely to visit hospital and almost 80 per cent said they simply felt better now.

One of Vanguard's goals is for its workers to, eventually, move on to other employment. The business has staff dedicated to supporting welfare and career development, and also offers courses on money management and quitting smoking.

The social enterprise's custom-built commercial laundry uses state-of-the art technology. The business also offers a full barrier wall system — a permanent structure that is installed in the laundry facilitating the separation of the dirty (soiled) side of the building from the clean side to avoid any cross contamination — and therefore meets industry health standards.

6.2.6 Environmental goals

Imagine that the world is like a business. As owners of this business you would be concerned about its future prospects. Every year, more output is demanded and consequently its production lines work faster and faster. However, the raw materials used to produce the vast array of goods and services are shrinking at a frightening rate. In the effort to increase output, essential maintenance is sometimes ignored. The business's water and power supplies are under increasing threat. To continue this way will be unsustainable and the business will eventually fail.

Does this sound unbelievable? Possibly. But in many ways this is what is happening to the world we live in. For quite a while people have treated the Earth just as they like, without giving much thought to the long-term consequences. However, the past is catching up with us. It is obvious that we cannot continue as we have; things will have to change. And the good news is that these changes are already occurring. There are signs that people and businesses are becoming more environmentally aware. Enlightened businesses are adopting practices of 'recycle, renew and regenerate', as well as adopting a 'green' attitude, and developing products and creating ideas that are environmentally friendly (see figure 6.9). These business practices reduce the impact on the planet's health so that future generations are not disadvantaged.

FIGURE 6.9 Koh was created by two dads with the aim of eliminating the use of toxic chemicals in home cleaning products. The company developed a simple, effective and eco-friendly cleaning system, with reusable spray bottle and cloths. Koh is certified by the Good Environmental Choice Australia. GECA-certified products have a lower impact on the environment and are safer to use than harsher cleaning products. Koh's universal cleaner is also vegan and approved by Cruelty Free International.

BizFACT

Since 2005, Corporate Knights has put together the Global 100, an annual list of the world's most sustainable companies. They consider about 4000 companies with market values of at least $2 billion and rate firms on 14 key measures. In 2020, the top five most sustainable companies were:

1. Orsted A/S, Denmark
2. Chr. Hansen Holding A/S, Denmark
3. Neste Oyj, Finland
4. Cisco Systems Inc, United States
5. Autodesk Inc, United States.

Sustainable development

So far we have painted a somewhat bleak picture of the possible future. Fortunately, however, the world is moving away from many of its past practices. Economic growth must be achieved sustainably. Many in society now argue that economic growth should not occur at the expense of polluting and degrading the air, water and forests that are essential to support life on this planet. There needs to be a balance between economic and environmental concerns — in other words, **sustainable development**.

sustainable development when the needs of the present population are met without endangering the ability of future generations to meet their own needs

FIGURE 6.10 In 2019 ALDI Australia announced stricter plastics and packaging reduction targets. For example, one goal is that all problematic single use plastics will be gone from their stores by the end of 2020. The company is committed to working in partnership with suppliers to meet these ambitious but achievable targets. If successful, ALDI will cut at least a quarter of all plastic packaging from its range by 2025. In an act of transparency and authenticity, ALDI also committed to annually report on its progress towards this goal.

BizFACT

According to the Global Footprint Network, we currently use the equivalent of 1.6 planets to provide the resources we use and to absorb the waste we produce. This is not sustainable. Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that, between 2035 and 2050, we will reach the point where we need the equivalent of two planets to support us.

Businesses are starting to play their part in achieving sustainable development. Pressure to change has come from society's increasing awareness of environmental issues. As well, governments are imposing stricter environmental regulations on business practices. This will provide many new business opportunities for environmental services and products (see the following case study).

SNAPSHOT

Case study: Fujitsu — Australian sustainability award winner

The Australian Business Award for Environmental Sustainability, conducted annually, recognises businesses that execute initiatives that demonstrate leadership and commitment to sustainable business practices. Fujitsu Australia was selected as an ABA100 Winner in this category in 2020.

Fujitsu is a leading service provider of information and communications technology solutions. Since 2008, Fujitsu has set ambitious sustainability targets and made environmental protection a top management priority. The company is committed to preventing pollution, protecting the environment, continually improving its environmental performance, and encouraging and supporting customers and society to do the same.

Fujitsu assesses the environmental impacts of all its activities and sets objectives and measurable targets. It is a requirement for all Fujitsu staff to adhere to the environmental policy, and this is reinforced and written into staff employment contracts and annual performance appraisals.

As greenhouse gas emissions have continued to increase, Fujitsu Australia partnered with the NSW Government to help bring about greater transparency in relation to measuring the power consumption and energy efficiency of data centres in Australia. Data centres are facilities that house a large amount of powerful, networking computer servers. This collaboration resulted in the National Australian Built Environment Rating System for Data Centres (NABERS for DC) — a star rating system to help drive greater efficiency in the industry, while also providing customers with a transparent and easily comparable rating system. Fujitsu is Australia's first ICT company to have a fully NABERS-rated data centre portfolio. NABERS have assessed that Fujitsu's data centres are saving over 34 gigawatt hours of electricity and 30 611 tonnes of carbon, and the company is operating 33 per cent more efficiently than the market average.

Fujitsu has also been committed to implementing Green Procurement since 2001 to reduce the environmental burden in its supply chains. In accordance with the Fujitsu Green Procurement Policy, its products incorporate energy conservation concepts in design and material selection right from the earliest stages of development. These initiatives ensure that Fujitsu provides customers with eco-friendly products that reduce the burden on the environment.

Fujitsu has also been involved in several community initiatives and has been working on a global scale to raise awareness of the plastic waste problem. One initiative they have implemented is to host an annual internal Eco Tour, inviting employees from various regions to help reduce marine plastic pollution in one of the biggest marine plastic hot spots in the world, Tsushima, Japan. They also instigated a campaign where Fujitsu employees were invited to share the different ways in which they avoid using plastic to help with the marine pollution situation.

In 2019, financial market data provider Refinitiv analysed what businesses are doing to improve their impact on the environment. Their key findings were outlined in their report 'A deep dive into environmental metrics'. Their research found that 63 per cent of businesses had a policy to reduce emissions. This was up 56 per cent from the previous five years, showing a significant increase in the number of companies taking their commitment to the environment more seriously. However, only 35 per cent of businesses had specific reduction targets around their emissions, meaning that many businessess are establishing objective and policies on the environment without actually backing up their intentions.

BizFACT

HP Australia and Planet Ark commissioned a study (HP Australia Environmental Sustainability Study 2018) to uncover perceptions, values and behaviours of Australian consumers and businesses towards environmental sustainability. It found that:

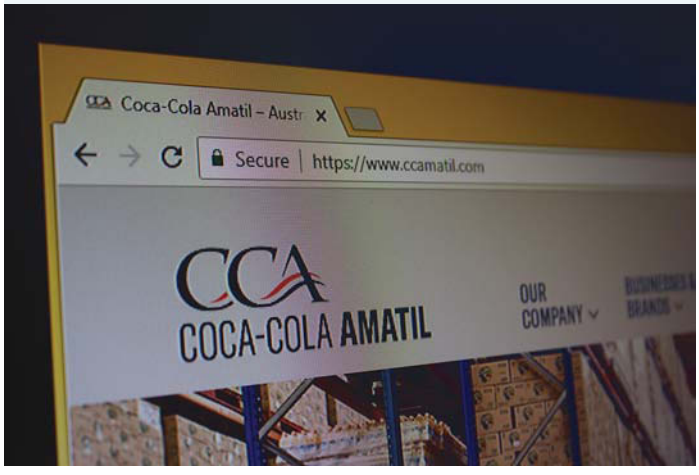
- while over 90 per cent of Australian consumers and businesses are concerned about environmental sustainability, only half believe they are doing their fair share to protect the planet
- seventy-one per cent of consumers stated a willingness to pay a premium for environmentally sustainable products
- seventy per cent of Australians aged 22–30 stated a strong preference to work for a company that promotes sustainable practices.

6.2.7 Achieving a mix of business goals

The preceding sections outlined some of the financial goals of a business, as well as social and environmental goals. Businesses do not generally have only one specific goal; they have a range of goals because they have different stakeholders who each have different needs. Managers therefore have a mix of goals that they try to achieve simultaneously.

Most business goals are interdependent — that is, they all help the business achieve its prime function. Some goals are compatible in the sense that certain strategies implemented by the business in pursuit of a particular goal will actually assist in achieving multiple goals. For example, strategies a business employs to achieve the goal of maximising growth may simultaneously help that business achieve the goals of maximising profits and increasing market share.

FIGURE 6.11 Coca-Cola Amatil attempts to achieve a mix of business goals. Its current strategic objectives are to continue to provide sustainable returns that are superior to those of its competition; to invest in its capacity and encourage business growth; and to conduct business and operate within the community as a good corporate citizen.



Sometimes it can be difficult for a business to achieve all of its goals simultaneously because the links between the goals make some of them incompatible; that is, they conflict with each other. Such a situation will force a business owner into deciding to adopt a compromised position — a trade off between conflicting goals. A business owner may face the dilemma of having to choose whether to maximise profits or increase market share. It is sometimes a difficult decision. You have probably faced a similar dilemma; for example, should you go to the movies or prepare for an exam? The two 'goals' are conflicting and, just like a business owner, you must make a decision.

SNAPSHOT

Case study: Atlassian achieving a mix of business goals

Scott Farquhar and Mike Cannon-Brookes (pictured) started their enterprise software business in Sydney in 2002 as university drop-outs, working in a garage with some servers and $10 000 on a credit card. This young technology company now sells software to some of the world's largest companies, and has grown from 2 to more than 2200 employees. It is currently valued at $4.3 billion.

Initially, Atlassian's goal was to gain 50 000 customers. It has achieved this goal — more than 51 000 large and small businesses now use its products — but the company will not stop there. Atlassian has said that its objective is now 100 million monthly active users. Another of Atlassian's goals is to 'unleash the potential in every team'. Its products help teams to collaborate, build software and serve their customers better. Over time, the company's customers have begun to use its software in ways that the founders never imagined and Atlassian has changed its products accordingly.

Atlassian also pursues a range of social goals. It makes its software free for use by not-for-profit organisations and charities. Another way the company fulfils its corporate responsibility obligations is by donating 1 per cent of profit, products and employee time to charity. This pledge has raised more than $40 million, including funding for the education of thousands of children in developing countries.

KEY IDEAS

- A business attempts to achieve a variety of goals. These goals relate to:
  - profits
  - market share
  - growth
  - share price
  - social responsibilities
  - environmental responsibilities.
- Profit maximisation occurs when there is a maximum difference between total revenue (TR) and total costs (TC).
- Market share refers to the business's share of the total industry sales for a particular product.
- A small change in a business's market share can result in a large change to its profit.
- A business can maximise growth either internally (organically) or externally.
- Companies need to satisfy their shareholders by improving the share price and paying healthy dividends.
- Many businesses develop social and environmental goals and adopt strategies that will benefit the community.
- There are three main social goals a business attempts to achieve:
  - community service
  - provision of employment
  - social justice.
- Enlightened businesses are adopting sustainable development practices.
- Managers should attempt to achieve a mix of the above goals.
- Managers often have to make a trade-off between conflicting goals.

6.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

6.2 Quick quiz on | **6.2 Exercise**

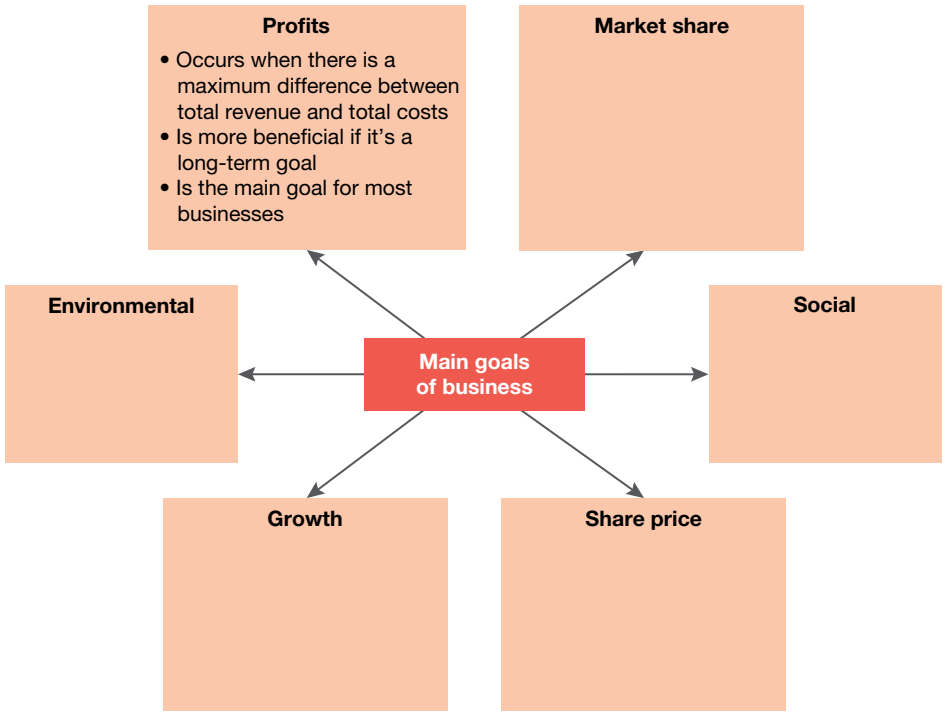
Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 6, 9, 10, 16, 18, 19, 22, 25, 26, 28, 29, 31	4, 7, 8, 11, 12, 13, 14, 15, 17, 20, 21, 23, 24, 27, 32	30, 33, 34, 35, 36

6.2 Exercise

Revision

1. **Define** the term 'goal'.
2. **Recall** what often determines the success in achieving goals.
3. **a.** Describe two personal goals.
   b. Identify when you want to achieve them.
   c. Outline what planning will be required to achieve these goals.
4. **Discuss** what is meant by the statement 'begin with the end in mind'.
5. **Summarise** how carefully prepared goals will benefit managers.
6. **Identify** a benchmark you use to assess your achievement in Business Studies.
7. Read the following two statements. Decide and **justify** which one is a goal and which one is not.
   a. 'To improve customer service.'
   b. 'To respond to every customer enquiry courteously and completely within three hours.'
8. **Construct** a concept map (started below) summarising the main goals of business.



9. In the following examples, **identify** which goal the business is trying to achieve.
   a. The business owner wishes to increase revenue so they conduct a large sale.
   b. A board of directors announces that the company's profits are forecast at 23 per cent over the next 12 months and the dividend will rise by 28 cents per share.
   c. A manager decides to undertake an extensive promotional campaign in an attempt to attract new customers.
   d. Senior executives knew there was only one way to expand the business and that was by buying the opposition.
10. 'The main goal of a business is to maximise profits'.
   a. **Define** the term 'profit maximisation'.
   b. **Recount** under what circumstances a manager may be prepared to accept reduced profits in the short term.
   c. In your opinion, discuss whether maximising profits should be the only goal of a business.
11. **Describe** two strategies a manager can use to maximise profits.
12. **Why** is profit maximisation more suitable as a long-term goal?
13. **Recommend** three strategies that either Coles or Woolworths could use to increase their market share. Share your answer with other class members.
14. **Distinguish** between internal and external growth.
15. **Why** are some small businesses content to maintain their existing size?
16. **Outline** the relationship between a shareholder and a public company.
17. **Explain** why some companies may not be able to constantly improve their share price.
18. **Summarise** the three main social goals of a business.
19. **Identify** three examples that demonstrate businesses are becoming more environmentally aware.
20. **Justify** why businesses should adopt sustainable development practices.
21. Using an example, **demonstrate** how business goals can be compatible.

Read the 'Google's huge market share' case study and complete questions 22 to 24.

22. **Recall** Google's market share.
23. **Why** have other search engines found it so hard to compete with Google?
24. **Explain** what factor in the external environment will have an impact on Google's market share in the near future.

Read the 'Vanguard does the laundry to provide jobs' case study and answer questions 25 to 28.

25. **Outline** why Luke Terry established Vanguard Laundry Services.
26. **Outline** Vanguard's social goals.
27. **Explain** what Vanguard does with any surplus it makes.
28. **Outline** the benefits that Vanguard brings to the Toowoomba community.

Read the 'Fujitsu — Australian Sustainability Award winner' case study and complete questions 29 and 30.

29. **Summarise** Fujitsu's commitment to the environment.
30. **Assess** the impact these environmental initiatives will have on different stakeholders.

Read the 'Atlassian achieving a mix of business goals' case study and answer questions 31 and 32.

31. **Identify** and classify Atlassian's business goals.
32. **How** have these goals benefited the company?

Extension

33. 'We plan to expand our market into Asia, increasing worldwide market share by 2 per cent over the next three years.' **Determine** whether this goal is more likely to belong to a large or small business. Give reasons for your answer.
34. Reflect on a goal you have recently achieved. **Analyse** the reasons why you were successful in achieving this goal.
35. Using the S.M.A.R.T. technique, **create** a suitable goal for the following businesses:
   a. Blue Hills Corner Store
   b. Evergreen Nursery
   c. Banthai Restaurant.
36. 'A business's financial goals sometimes conflict with each other'. **Evaluate** this statement.

Solutions and sample responses are available in your digital formats.

6.3 Staff involvement

SYLLABUS LINK In this subtopic you will learn about nature of management:
- achieving business goals
  - staff involvement — innovation, motivation, mentoring, training.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

staff involvement involving employees in the decision-making process and giving them the necessary skills and rewards

labour productivity measures how much an employee can produce in a set period of time

One important goal that all businesses should give a high priority to achieving is that of staff involvement. Sometimes referred to as employee empowerment or employee participation, **staff involvement** means involving employees in the decision-making process and giving them the necessary skills and rewards.

Employees are a business's most important resource. It is important to recruit and select appropriate employees. It is then vital to provide a work environment that maximises employee involvement and satisfaction, because this results in high levels of output. Therefore, managers should pursue workplace practices that increase **labour productivity**. Policies that recognise the involvement, knowledge, skills and creativity of employees will lead to increased productivity and long-term business success.

Staff involvement is a type of decentralisation that involves allowing employees some authority to make decisions. Employees are encouraged to accept responsibility for their work. In businesses where true staff involvement occurs, employees gain confidence in their ability to perform their jobs and influence the business's overall performance. One of the most influential results of staff involvement is that employees exhibit more determination and initiative in pursuing the business's goals. Overall, staff involvement provides two advantages: increased employee motivation and solutions to organisational problems. However, staff involvement will only be fully successful if a business provides employees with the necessary expertise as well as recognising the importance of:

- innovation
- mentoring
- motivation
- training.

FIGURE 6.12 There are many benefits of involving employees in decision making. Employees will feel more valued and, as a result, their motivation and morale will be higher. Also, when employees are involved in making the decision, they will usually raise their level of effort and commitment, which will increase the chances of success.

6.3.1 Innovation

As we outlined in chapter 1, innovation occurs when a new idea is applied to improving an existing product or idea. With markets and competition becoming more global, Australian businesses are being forced to become more innovative. Often, a business can gain a competitive advantage if it innovates successfully. Therefore, all businesses should encourage an innovative business culture by recognising and encouraging one of the most important sources of innovative ideas: employees. For example, in 1968 Spencer Silver, a 3M technician, developed a 'low-tack' adhesive that would not stick — a glue that 3M considered a failure. The product was abandoned. However, in 1973, another innovative 3M technician, Art Fry, in a moment of insight, realised the full potential of a reusable bookmark and went on to invent the Post-it Note. It was through the innovative potential of these two employees that the humble Post-It Note has become an absolute necessity in the office. As the basic product evolved into an entire product line, Post-It Notes are to be found in most schools, laboratories, libraries and in homes.

BizFACT

According to the 2020 Global Entrepreneurship Monitor report, Australia is the most intrapreneurial country in the world. While this may be the case, only 8 per cent of the adult population has taken part in the development or launch of new products or services, or in the creation of a new business unit.

The innovative activities of staff are often referred to as the entrepreneurship within the business. More recently, employees who take on the entrepreneurial roles within businesses are called **intrapreneurs**. In some businesses, these creative people present some managers with a dilemma. Highly creative, innovative thinkers can be nonconformist in their behaviour and dress. Attempts to get creative employees to be conventional and follow the rules and regulations may actually suppress their creativity. However, if a business is to grow and maintain its competitive advantage, then staff must be encouraged and given the opportunity to be innovative. The most important thing a business can do to achieve this successfully is to demonstrate that it values new ideas and solutions and it does this by taking them seriously. If a business just pays lip service to creativity then the employees quickly 'get the message' and stop coming up with original ideas. Other practices would include:

intrapreneur an individual who takes on an entrepreneurial role within a business

motivation the individual, internal process that directs, energises and sustains a person's behaviour

- rewards given to employees with innovative ideas that become profitable
- a trusting management that does not excessively control — micromanage — people
- sufficient financial, management, human and time resources to achieve goals
- not fearing the consequences of making a mistake
- the use of techniques such as brainstorming to encourage ideas.

BizFACT

Google is a company that embraces intrapreneurship by offering its employees a 20 per cent timeframe on developing personal projects relating to the business. One such project from an employee, Paul Buchheit, led to the creation of Gmail, which is now one of the most widely-used email platforms on the web.

on Resources

Video eLesson Travel With Kidz (eles-0836)

6.3.2 Motivation

Why do some employees work harder than others? Why can an employee with average skills regularly outperform someone with outstanding abilities? The difference between the two employees is most probably their level of motivation.

Motivating employees is one of the most important management functions because high levels of motivation result in increasing rates of productivity. **Motivation** refers to the individual, internal process that directs, energises and sustains a person's behaviour.

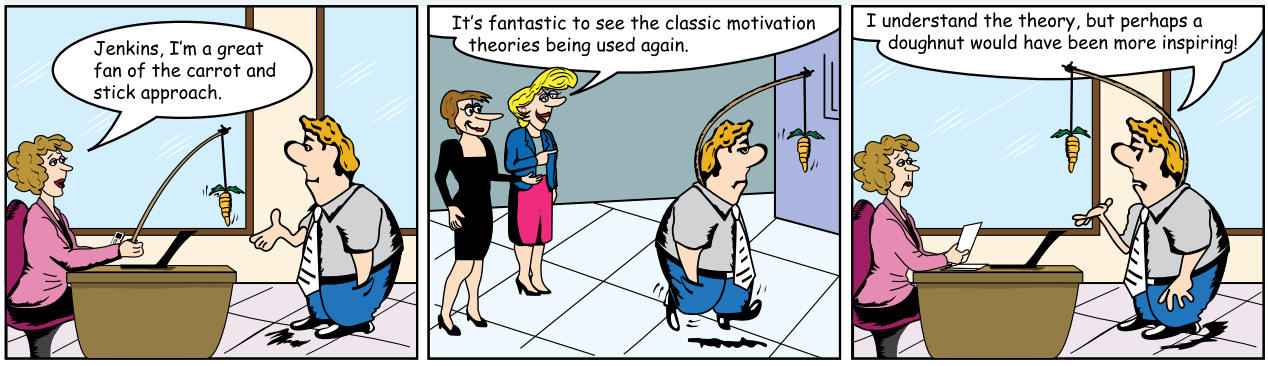
Put another way, motivation is what drives a person to behave in a certain way, or to achieve a certain goal. For example, what motivated you to:

- return to Year 11 after completing Year 10
- complete the latest Business Studies homework exercises
- watch television instead of reading your English novel?

In a work setting, motivation makes people want to work, but what precisely is it that motivates people? This is a topic which is widely discussed, but often neglected in the workplace. This is mainly because it is an area of human behaviour which is difficult to understand given the conflicting answers provided by research.

For many years, managers have relied on the use of either rewards or punishments to motivate employees. An analogy is often used to try to explain what motivates people. It concerns a donkey and what is most likely to motivate it to move forward — that is, change its behaviour. According to the 'story' either a carrot can be dangled in front of the donkey (a reward) or it can be hit with a stick (a punishment). Either method may motivate the donkey (see figure 6.13). In the work environment, 'rewards' refer to increased pay and improved conditions, 'punishment' refers to fear of a reprimand, demotion or dismissal.

FIGURE 6.13 Motivation — carrot or stick approach



However, research over the last 70 years has revealed that motivation is much more complicated than just these two variables. Different theories have been formulated which lead to the conclusion that individual employees respond differently to various motivational techniques. Figure 6.14 outlines a number of motivational techniques that can be used. What they have in common is the need to develop a business culture that fosters employee welfare and involvement.

FIGURE 6.14 Non-financial rewards can have an even more substantial impact on employee satisfaction and motivation than traditional financial rewards. Motivational techniques that consider the emotional and physical wellbeing of employees lead to high morale, which in turn improves employee and business effectiveness.

BizFACT

Research reveals that intrinsic motivation — motivation that comes from inside an individual — is a more long-term and powerful motivating force than any external or outside rewards such as money, grades or promotions.

SNAPSHOT

Case study: A bike and some lights — a study on motivation

The Lantern Group is a motivational consulting business that specialises in working closely with clients to increase the engagement and motivation of their workforce. In July 2016, the group set up an experiment at the World at Work Total Rewards Conference in San Diego, California, USA. It involved hooking up a stationary bike to a bank of six LED lights on a vertical pole, so that the longer and harder someone pedalled the bike, the more lights lit up. The group offered free promotional T-shirts to anyone who could light up only one of the lights, so there was no requirement for anyone to light up more than one light to receive a reward.

In addition, a leader board was set up to record the names of the five fastest participants to light up the whole board. This was a simple whiteboard that recorded the five fastest participants and their times, and could be changed whenever a new person beat the record of one of the previous participants. A total of 103 people rode the bike over the two days of the conference, and only one of them stopped at the first light. While the offer of a free T-shirt was the key motivator for getting people on the bike, once they were on it, they kept on pedalling to see what they could achieve.

Once participants were on the exercise bike, almost all were motivated to achieve the highest level of performance possible.

This experiment can tell us a lot about motivation. For most people the offer of a free T-shirt was a motivating factor in encouraging them to get on the bike. It only required a simple extrinsic reward to encourage them to participate. Of greater interest was the fact that only one person stopped at one light, while all the others kept going to see how many lights they could illuminate. The intrinsic reward of achieving something more than the basic level became a motivator. Because they could get instant feedback by seeing how lights were lit up, they were motivated by the activity, rather than the extrinsic reward of a T-shirt.

Employees value the intrinsic reward of recognition, and the leader board provided this as it was changed whenever a new record was set. Some riders returned to have second, third or even fourth attempts when their names had been replaced on the leader board. They did not receive a second T-shirt for doing so but were simply motivated by the challenge of improving on their previous attempt, and perhaps returning to the leader board. In doing so, they could see the times achieved by previous riders, and now had a specific goal to aim for. This goal clarity and the fact that they could get instant feedback provided an immediate motivation to do better.

The experiment showed that while an extrinsic reward might be necessary to encourage initial participation in an activity such as this, the intrinsic rewards of meeting a challenge, gaining self-esteem and recognition for meeting a goal were far more influential in motivating participants to try to achieve their best.

Is money the best motivator?

For generations managers have believed that money is the most powerful motivating force. However, recent research tends to suggest that employee motivation depends on a wide range of factors besides money (see the following case study). For example, imagine you are offered $100 for each assessable task you complete satisfactorily. You would almost certainly be motivated to complete all your tasks. However, after a while your level of motivation would decrease as the stimulus from the financial incentive diminished. Eventually, you would desire a larger incentive to remain highly motivated. It could be argued, from this simple analogy, that money can be a powerful motivator but only in the short term. As the writer Neil Simon expressed it, ‘Money brings some happiness. But, after a certain point, it just brings more money.’

The reality is that people want to be involved in their working lives. The successful businesses today will need to give close attention to involving employees in the decision-making process. Good managers should, therefore, also be good motivators, encouraging employees and using positive reinforcement to influence behaviour. The overall success of the business largely depends on motivated and skilled employees who are committed to its goals — that is, everyone working towards a common purpose.

6.3.3 Mentoring

When talking with school students or employees about their school or work experiences, it is common to hear them refer to individuals who influenced them. Many schools and businesses have introduced formal **mentoring** programs, especially for new students or employees, with the aim of providing advice, guidance and to help with their **socialisation**.

mentoring the process of developing another individual by offering tutoring and coaching, and modelling acceptable behaviour

socialisation the process a new employee undergoes in the first few weeks of employment through which he or she learns how to cope and succeed

mentor someone — usually a more experienced employee — who helps develop a less experienced employee (the protégé)

Mentoring is normally done by tutoring, coaching and modelling of acceptable behaviour. Most importantly, though, a mentor acts as a role model. A **mentor** is someone — usually a more experienced employee — who helps develop a less experienced employee (the protégé). They act as a guide, teacher, counsellor and coach. Such a practice is commonly referred to as taking someone under his or her 'wing'. Ultimately, the protégé learns acceptable attitudes and behaviours. For example, CompuServe, a computer wholesaler, encourages its experienced sales representatives to take new employees on sales calls to the company's largest customers. Teaching new employees what the business expects of them helps strengthen their dedication and commitment to the business. It also helps to make sure that all employees are exposed to the values the business believes are important.

A formal mentoring program is enormously beneficial because:

- it ensures access to mentors for all employees, regardless of levels of experience, background, gender or ethnicity
- the participants in the mentoring relationship know what is expected of them. This is especially beneficial for new employees as it assists with their transition into the workplace.
- it assists with the training and development of all employees and passes on the skills and abilities of the more experienced staff members
- it provides career and psychological support — a friend and counsellor — for inexperienced employees as well as allowing mentors to develop their interpersonal skills and provide a sense of satisfaction
- it increases the possibility of skill transfer.

SNAPSHOT

Case study: The 'life-changing' power of a good mentor

A good mentor can change everything. Just ask Maria Antwan.

When she was in her thirties, she decided on an ambitious career change — and moved from the beauty industry into construction.

But when she told people she was starting her own building and project management company in the male-dominated industry, there were a few negative comments. 'Someone said that I'm not qualified ... that I'm too young. Someone said that I'll be easy for the eye for people in the construction industry — some really hurtful things.'

Maria, who has also been a business coach and worked in HR, says it wasn't something she'd previously had to deal with. 'It's funny because I had absolutely no experience in beauty and no-one bat an eyelid,' she says.

‘Everyone just thought, “Oh yeah, you look like you should be doing beauty” but the moment I said I was going to do construction, people started questioning why I was doing this.’

Building trust — and a friendship

Maria signed up to a mentoring program through National Women in Construction, and was matched with a woman who had worked her way from the bottom of the industry to the top.

‘My mentor taught me resilience,’ Maria says. ‘The way that she pushed forward in her industry was so inspiring to me...I knew that I could do that too.’

But Maria says what she ended up getting out of the mentoring program was very different to what she thought she’d signed up for. It became a friendship. She and her mentor would speak about everything, from holidays to fertility treatment. And Maria says trust was a key part of that.

‘I felt like every time I’d see her was peeling off layers and getting to my core beliefs and what I really wanted to do, which ended up leading me into my passion,’ she says.

That passion is writing, which she now does alongside her construction work.

‘I told [my mentor]: ‘I’m living my passion now and it’s because of you,’ Maria says. ‘Honestly, this has been the most life-changing thing.’

Out of your comfort zone

Maria’s foray into an unfamiliar work environment is not uncommon — and experiences like hers are what prompted Madeleine Grummet to launch education-technology start-up Girledworld.

Girledworld aims to help students prepare for the workforce by exposing them to interactive education events and giving students access to career mentors.

‘When you get to secondary school, you get to a bit of a switch point, when you start to imagine yourself beyond school,’ Ms Grummet says. ‘That’s a really great time to get in and have those conversations and introduce those students to incredible people who are out working, so they can really see what they can be.’

Girledworld was born from a desire to enable ‘girls to come up in the workforce’, but has since expanded its focus. ‘It’s a whole generation who are needing that hand-hold, that mentorship, to help them transition into the new workforce,’ Ms Grummet says.

And big companies such as Microsoft and Twitter are on board. ‘People inside those businesses are giving up their time and their stories to give students access to what the world of work looks like,’ Ms Grummet says.

Ms Grummet says Maria’s experience shows simple mentoring can prove life-changing. ‘We all know sitting down and having a conversation with someone, you can sometimes then ignite something in yourself and curiosity might lead you on a different pathway,’ she says.

Source: Ben Hays and Verica Jokic, ‘The “life-changing” power of a good mentor — and how to find one’, *ABC Online*, 15 May 2019.

6.3.4 Training

As the nature of the workplace changes, especially due to the introduction of technology, existing employees must be trained and retrained. New employees also need some training, depending on their level of experience. **Employee training** generally refers to the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills. It may involve teaching them specific skills, and allows existing employees to continually upgrade their skills with the aim of developing **multiskilled** employees.

Mutiskilled employees are better able to:

- adapt to a rapidly changing technological environment
- provide better customer service
- participate effectively in work teams — as outlined previously, increased participation improves the range of ideas available to businesses keen to innovate to maintain their competitive advantage
- gain promotion, leading to a greater commitment to the business.

employee training refers to the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills

multiskilling allows employees to develop skills in a wide range of tasks through ongoing training

The goal of training is to improve employee productivity. Informal on-the-job training is one of the most common training methods used. Formal off-the-job training, consisting of classroom teaching and lectures, is often used for highly skilled, technical employees. Conferences and seminars have become an important format for training in recent years. Businesses should view training as an investment in the human capital of the business, rather than just another expense. Training is necessary for both personal and business growth, and will be examined in more detail in chapter 8.

BizFACT

Ongoing training costs businesses on average $700 to $1100 per employee annually. While training is good for improving employee performance and retention, it can be quite expensive, especially for small businesses. In recent years, many businesses have moved to delivering staff training online. Online training is more cost effective and allows employees to learn at their own pace in a comfortable environment.

KEY IDEAS

- Staff involvement means involving employees in the decision-making process and giving them the necessary skills and rewards.
- A work environment that maximises employee involvement and satisfaction has high levels of labour productivity.
- Businesses should encourage an innovative business culture by recognising and encouraging one of the most important sources of innovative ideas: employees.
- An intrapreneur is an innovative employee who takes on entrepreneurial roles within a business.
- Motivation refers to the individual, internal process that directs, energises and sustains a person's behaviour.
- Individual employees respond differently to various motivational techniques.
- Good managers should also be good motivators, encouraging employees and using positive reinforcement to influence behaviour.
- Mentoring is the process of developing another individual by offering tutoring and coaching and by modelling acceptable behaviour.
- Teaching new employees what the business expects of them helps strengthen their dedication and commitment to the business.
- Employee training generally refers to the process of teaching staff how to perform their jobs more efficiently and effectively by boosting their knowledge and skills.
- The goal of training is to improve employee productivity.

6.3 Activities

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6.3 Quick quiz on | **6.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 10, 12	2, 3, 4, 6, 7, 8, 9, 11	5, 13, 14

6.3 Exercise

Revision

1. **Define** the term 'staff involvement'.
2. **Account** for the relationship between staff involvement and labour productivity.
3. **Why** should businesses encourage an innovative business culture?
4. **Discuss** the role an intrapreneur can play in assisting a business to maintain its competitive advantage.
5. **Determine** answers for the three questions from section 6.3.2, which analysed what motivated you to behave in a certain way.
6. **Calculate** which you believe to be the more powerful motivating force – rewards or punishment. **Justify** your answer.
7. **Why** is it important for businesses to mentor their employees?
8. **Explain** why spending on training should be considered as an investment and not just a business expense.
9. Read the 'A bike and some lights — a study on motivation' case study and **explain** what the experiment with the exercise bike and lights can tell us about the relative importance of intrinsic rewards when compared with extrinsic rewards.
10. Read the 'Life-changing power of a good mentor' case study and **outline** the benefits of having a mentor.

Extension

11. Suppose that you are the owner of a clothing store and you employ ten staff members. **Demonstrate** what staff involvement techniques you would use with these employees.
12. **Recall** a mentoring program you are familiar with.
    a. Investigate the aim of the program.
    b. Evaluate the effectiveness of the program.
    c. Recommend changes you would make to improve the effectiveness of the program.
13. **Analyse** the system that is used in your school to motivate students. Propose how it could be improved.
14. Investigate the theories of motivation put forward by Abraham Maslow, Frederick Herzberg and Douglas McGregor. **Create** a written or oral report and present your findings.

Solutions and sample responses are available in your digital formats.

6.4 Review

6.4.1 Summary

Business goals

- A business attempts to achieve a variety of goals. These goals relate to:
  - profits
  - market share
  - growth
  - share price
  - social responsibilities
  - environmental responsibilities.
- Profit maximisation occurs when there is a maximum difference between total revenue (TR) and total costs (TC).
- Market share refers to the business's share of the total industry sales for a particular product.
- A small change in a business's market share can result in a large change to its profit.
- A business can maximise growth either internally (organically) or externally.
- Companies need to satisfy their shareholders by improving the share price and paying healthy dividends.
- Many businesses develop social and environmental goals and adopt strategies that will benefit the community.
- There are three main social goals a business attempts to achieve:
  - community service
  - provision of employment
  - social justice.
- Enlightened businesses are adopting sustainable development practices.
- Managers should attempt to achieve a mix of the above goals.
- Managers often have to make a trade-off between conflicting goals.

Staff involvement

- Staff involvement means involving employees in the decision-making process and giving them the necessary skills and rewards.
- A work environment that maximises employee involvement and satisfaction has high levels of labour productivity.
- Businesses should encourage an innovative business culture by recognising and encouraging one of the most important sources of innovative ideas: employees.
- An intrapreneur is an innovative employee who takes on entrepreneurial roles within a business.
- Motivation refers to the individual, internal process that directs, energises and sustains a person's behaviour.
- Individual employees respond differently to various motivational techniques.
- Good managers should also be good motivators, encouraging employees and using positive reinforcement to influence behaviour.
- Mentoring is the process of developing another individual by offering tutoring and coaching and by modelling acceptable behaviour.
- Teaching new employees what the business expects of them helps strengthen their dedication and commitment to the business.
- Employee training generally refers to the process of teaching staff how to perform their jobs more efficiently and effectively by boosting their knowledge and skills.
- The goal of training is to improve employee productivity.

6.4.2 Key terms

benchmark a standard by which something can be measured or judged
employee training refers to the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills
goal a desired outcome (target) that an individual or business intends to achieve within a certain time frame
intrapreneur an individual who takes on an entrepreneurial role within a business
labour productivity measures how much an employee can produce in a set period of time
market share refers to the business's share of the total industry sales for a particular product
mentor someone — usually a more experienced employee — who helps develop a less experienced employee (the protégé)
mentoring the process of developing another individual by offering tutoring and coaching, and modelling acceptable behaviour
motivation the individual, internal process that directs, energises and sustains a person's behaviour
multiskilling allows employees to develop skills in a wide range of tasks through ongoing training
profit maximisation occurs when there is a maximum difference between the total revenue (that is, the number of sales made multiplied by the price) coming into the business and total costs being paid out
promotion the methods used by a business to inform, persuade and remind a market about its products
share a part ownership of a public company
socialisation the process a new employee undergoes in the first few weeks of employment through which he or she learns how to cope and succeed
social justice in business is about adopting a set of policies to ensure that employees or other community members are treated equally and fairly
staff involvement involving employees in the decision-making process and giving them the necessary skills and rewards
sustainable development when the needs of the present population are met without endangering the ability of future generations to meet their own needs

Resources

Digital documents Key terms glossary (doc-35787)
Chapter crossword (doc-36245)

Interactivity Chapter crossword (int-7221)

6.4 Activities

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Exercise 1: Multiple choice questions

1. Why is a goal so important to a business?
   - **A.** It is a means of motivating a business's suppliers and society.
   - **B.** It represents a benchmark to compare planned and actual performance.
   - **C.** It serves only as a means to achieve a business's profitability objective.
   - **D.** It helps in the organising function of management.

2. What are the characteristics of a S.M.A.R.T. goal?
   - **A.** Special, methodical, actual, realistic and timebound
   - **B.** Specific, marketable, achievable, real and timely
   - **C.** Special, measurable, attainable, realistic and timely
   - **D.** Specific, measurable, achievable, realistic and timebound

3. What is the definition of motivation?
   A. External processes that sustain personal behaviour
   B. Processes that encourage innovation and development
   C. The payment of monetary rewards for achieving financial goals
   D. Internal activities which direct a person's behaviour

4. Jasmina is the manager of a business and has decided that one of the goals for the year will be to focus on social justice issues and ensuring everyone is treated equally and fairly. What goal is this an example of?
   A. Environmental
   B. Growth
   C. Market share
   D. Social

5. How do you calculate total profit?
   A. Total sales x price
   B. Total sales – total costs
   C. Total revenue – total costs
   D. Fixed costs + Variable costs

6. Which of the following would be an example of a social goal?
   A. To increase market share
   B. To provide employment
   C. To increase share price
   D. To increase growth

7. What is meant by 'market share'?
   A. An increase in net profitability
   B. An increase in the share price
   C. An increase in the share of industry sales
   D. An increase in total revenue

8. What is an employee who takes on an entrepreneurial role within a business called?
   A. Director
   B. Extrapreneur
   C. Intrapreneur
   D. Shareholder

9. Michael, a very experienced employee, helps to develop a new employee in the business. What is Michael an example of?
   A. Innovator
   B. Intrapreneur
   C. Mentor
   D. Motivator

10. Why would management involve staff in decision-making processes?
    A. The business's ability to solve problems would be more complicated.
    B. Management's motivation would decline and they would feel less valued.
    C. It would lead to an increase in training and development.
    D. Employee productivity may improve as an outcome of this process.

Exercise 2: Exam practice questions

Question 1 (2 marks)

Identify TWO examples of financial goals.

Question 2 (2 marks)

Outline ONE example of a social goal.

Question 3 (4 marks)

Why is it important for a business to set goals?

Question 4 (4 marks)

Explain why it would be difficult for a business to achieve a mix of all of their goals.

Question 5 (5 marks)

Assess how staff training can help a business achieve its goals.

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Teacher-led video: Chapter 6 Exam questions solutions (tlvd-1892)

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7 Management approaches

7.1 Overview

LEARNING SEQUENCE

7.1 Overview
7.2 Classical approach to management
7.3 Behavioural approach to management
7.4 Contingency approach to management
7.5 Review

7.1.1 Introduction

Management has been practised for thousands of years. The great pyramids of Giza in Egypt, for example, represent the combined efforts of more than 100 000 individuals who worked on the project over a 20-year period. This remarkable achievement was the result of well-coordinated management practices.

FIGURE 7.1 Effective management practices were applied to building the pyramids of Egypt.

BizFACT

Like today's managers, the ancient Egyptian managers needed to:

- develop plans
- acquire human and physical resources
- arrange finance
- analyse information
- keep records and prepare progress reports
- monitor performance and coordinate activities
- take corrective action whenever required.

The development of management as a body of knowledge and a subject in its own right is much more recent. The Industrial Revolution of the late 1700s, which encouraged the growth of factories, acted as a catalyst for developing management approaches (theories). As the number of factories increased, there was a need to coordinate the efforts of many people in the continual production of goods and services.

A number of people began thinking and writing about ways of running factories more efficiently. These individuals were the first to develop approaches to management and paved the way for the many management theorists who followed.

These approaches, or theories, outline the main functions of management including planning, organising, leading, motivating, communicating, negotiating and controlling a group of individuals in an attempt to achieve specific goals. To a large extent, management approaches have tended to reflect the customs and traditions of society at the time. Consequently, as social and economic conditions changed, new approaches were developed. However, no single approach to management is universally accepted today. Rather, each approach offers something of value for today's managers.

BizFACT

The factory system radically altered how goods were made. Previously, most production was on a small-scale basis and was carried out in the home. The Industrial Revolution resulted in large groups of semi-skilled workers using machines located in big factories.

The management approach adopted by a business will have an enormous impact on all aspects of a business's operation.

In particular, management approaches influence:

- the organisation and allocation of tasks to staff
- the organisational structure
- levels of management
- management styles.

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Digital document Key terms glossary (doc-35789)

7.2 Classical approach to management

SYLLABUS LINK In this subtopic you will learn about management approaches:
- classical approach
  - management as planning, organising and controlling
  - hierarchical organisational structure
  - autocratic leadership style.

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The Industrial Revolution began with the invention of reliable steam-powered machines. For the first time, businesses could **mass-produce** goods in factories that operated year-round. This posed challenges that earlier businesses had not previously faced. Problems arose in training employees, organising the managerial structure, scheduling complex manufacturing processes and dealing with worker dissatisfaction. Business owners now had to plan, organise, direct, control and staff many different types of operation.

mass production the process of manufacturing standardised goods on a huge scale by automation

classical approach (to management) stresses how best to manage and organise workers so as to improve productivity (output)

scientific management an approach that studies a job in great detail to discover the best way to perform it

In response to these many complex problems, managers developed and tested solutions with the focus on finding 'one best way' to perform and manage tasks. The evolution of modern management, called the **classical approach**, had begun.

As the Industrial Revolution continued, this approach generated two perspectives, each with a slightly different emphasis. First came the classical scientific approach, which focused on how best to organise workers and production methods on the factory floor. Then came the classical bureaucratic approach, which emphasised how businesses should be organised or structured.

7.2.1 Classical–scientific approach

One significant management approach that emerged during the nineteenth century was that of Frederick W. Taylor (1856–1915). Taylor (figure 7.2) was an advocate of the production line method of manufacturing, which he viewed as the most efficient form of production. This production system was used in the industrialised countries of the world until the early 1970s and was based mainly on Taylor's scientific management ideas.

FIGURE 7.2 Frederick W. Taylor (1856–1915) argued that productivity would be improved by preparing plans based on what needed to be done, designing each task scientifically, and providing training and incentives for the workers. Some observers criticised Taylor for exploiting workers to get them to produce more.

Taylor, to assist his analysis, developed the principles of **scientific management**: an approach that studies a job in great detail to discover the best way to perform it.

Taylor's four principles of scientific management are as follows:
1. Scientifically examine each part of a task to determine the most efficient method for performing the task.
2. Select suitable workers and train them to use the scientifically developed work methods.
3. Cooperate with workers to guarantee they use the scientific methods.
4. Divide work and responsibility so that management is responsible for planning, organising and controlling the scientific work methods, and workers are responsible for carrying out the work as planned.

To improve efficiency, Taylor attempted to systematise the way a job was done. He believed that a poorly skilled workforce could be trained to perform simple repetitive tasks effectively. He used **time and motion studies** to analyse the performance of a particular task, with the objective of reducing a task to an effective minimum standard. As well as reducing routine tasks into their most simple format, Taylor advocated the division of labour into function-related units; that is, tasks were divided into small, specialised activities.

FIGURE 7.3 Taylor believed that dividing the task into smaller, specific activities would improve productivity.

Taylor also believed that employees follow their own self-interest and display a natural desire to avoid work. Such a situation, he argued, required tight control by supervisors and managers. He believed in the need for management to control workers and ensure they followed instructions by rigid rules and regulations based on a hierarchy of authority.

One notable student of classical–scientific theory was Henry Ford. Being familiar with Taylor's work, Ford became an enthusiastic believer in scientific management and the use of machines. By combining these ideas, Ford developed his famous mechanised assembly line in 1913.

This approach to car assembly involved a chassis moving down an assembly line on a conveyor belt. A small team of workers would move with the car, fitting the various components that had been carefully set out along the production line. The result was the reduction of hours spent on the assembly of a car from 728 hours to just 1.5!

McDonald's is another business that uses Taylor's scientific management approach in the preparation of its food. For example, a Big Mac is produced according to a set number of steps. The burger takes a predetermined number of seconds to cook, fixed amounts of lettuce, cheese and other ingredients are added precisely at the correct time and in exactly the same way. However, McDonald's adopts other management approaches when dealing with its employees — approaches that emphasise the 'human relations' aspect.

Of course, the initial ideas of the classical–scientific theorists have been modified over time. However, modern managers realise that without motivated and committed employees, empowered to analyse their own work habits and take responsibility for what they do, productivity will not improve.

7.2.2 Classical–bureaucratic approach

The classical–bureaucratic approach was pioneered by Max Weber and Henri Fayol. According to Weber, a **bureaucracy** is the most efficient form of organisation and should have:

- a strict hierarchical organisational structure
- clear lines of communication and responsibility
- jobs broken down into simple tasks; specialisation
- clearly defined job roles
- rules and procedures
- impersonal evaluation of employee performance to avoid favouritism and bias.

time and motion studies a process of examining each of the steps in a production procedure and the time taken to perform them

bureaucracy the set of rules and regulations that controls a business

Today, the term 'bureaucracy' is sometimes associated with controversy. People talk about bureaucracy as if it is self-serving and uncaring, but Weber described it positively. He believed that it contributed to a rational and more efficient organisation, because everyone knew their status and position in the organisation.

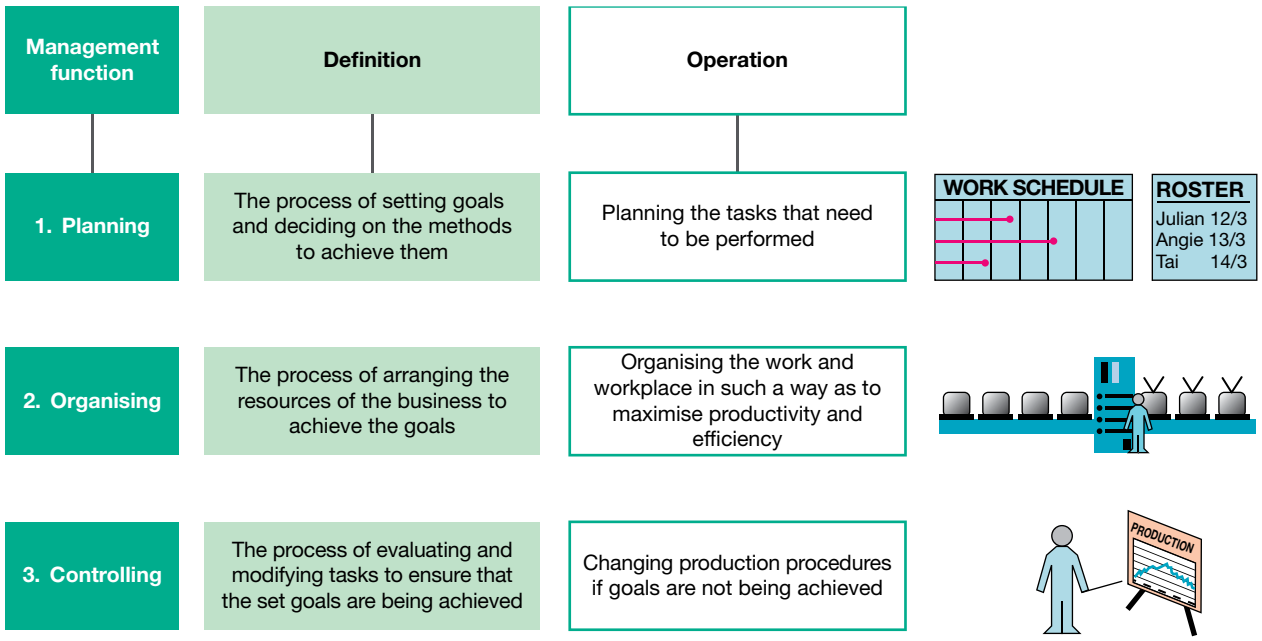
Fayol identified a number of management functions, including planning, organising and controlling (figure 7.4). His explanation of the functional approach to management provided a type of 'job description' for managers.

Fayol's explanation of the functions of management was so concise and easy to understand that it formed the foundation of most management courses offered during the twentieth century. His explanation was often used as a definition of management itself.

Fayol also developed a number of principles to assist managers, including:

- discipline as a feature of leadership
- the organisation's goals should take precedence over an employee's individual interests
- rewards for effort should be fair
- security of employment is essential
- teamwork should be encouraged.

FIGURE 7.4 The main functions of management, according to Henri Fayol



In the nineteenth century, management models were based on a hierarchical system of authority similar to the layered and somewhat rigid organisational structure of the major churches, educational institutions and the army. Such techniques were viewed as appropriate for the production line because they ensured effective control of the workforce.

Table 7.1 outlines the advantages and disadvantages of the classical approach to management.

TABLE 7.1 Advantages and disadvantages of the classical approach

Advantages	Disadvantages
• Shorter time to make decisions • Could lead to improved efficiency • Increased productivity • Clear chain of command	• Specialisation and repetitive tasks could lead to employee boredom • Less job satisfaction, which could lead to increased turnover • Could discourage creativity and innovation • Organisation becomes inflexible and less able to adapt to changing conditions

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Weblink Henri Fayol

7.2.3 Management as planning

Planning is often referred to as the primary management function. It provides the key to both the short-term and long-term success of a business. Effective planning provides a vision and goals for a business, strategies to achieve the vision and goals, and anticipation of future directions for change.

The ability of a manager to develop, implement and monitor plans will directly affect a business's success.

Planning is the preparation of a predetermined course of action for a business. It involves showing how the business will achieve its stated mission and business goals.

planning the preparation of a predetermined course of action for a business

FIGURE 7.5 Planning involves looking ahead and mapping out future courses of action. Action without planning usually ends in failure. It is often said that 'failing to plan is planning to fail'.

Levels of planning — strategic, tactical and operational planning

Once the business goals have been determined, decisions have to be made about how they will be achieved. This requires detailed plans for activities at all levels of the business. There are three different types of plans.

1. **Strategic (long-term) planning** is planning for the following three to five years. This level of planning will assist in determining where in the market the business wants to be and what the business wants to achieve in relation to its competitors.
2. **Tactical (medium-term) planning** is flexible, adaptable planning, usually over one to two years, that assists in implementing the strategic plan. Tactical planning allows the business to respond quickly to changes. The emphasis is on how the goals will be achieved through the allocation of resources.
3. **Operational (short-term) planning** provides specific details about the way in which the business will operate in the short term. Management controls the day-to-day operations that contribute to achieving short-term actions and goals. Examples of operational plans are daily and weekly production schedules.

7.2.4 Management as organising

Organising is the next part of the process when management puts into practice the goals that were determined in the planning stage. Organising is determining what is to be done, who is to do it and how it is to be done. It is organising the financial, human and material resources to achieve the goals of the business.

Management has to coordinate activities to translate plans into reality — that is, to ensure that the goals of the strategic, tactical and operational plans are achieved.

The organisation process

The **organisation process** is the range of activities that translate the goals of a business into reality. These activities include the following three steps:

1. *Determining the work activities.* The work activities required to achieve management objectives must be determined. Work activities are then usually broken down into smaller steps.
2. *Classifying and grouping activities.* Once the work activities of a business have
   been broken down into smaller steps, similar activities can be grouped together.
   This improves efficiency by enabling the most appropriate allocation of resources. For example, it is common practice to group activities into departments or sections, and allocate employees and supervisors to each section or department.
3. *Assigning work and delegating authority.* The next step in the organisation process is to determine who is to carry out the work, and who has the responsibility to ensure that the work is carried out. Delegation also involves ensuring that the person who has been given responsibility does carry out the processes.

strategic (long-term) planning planning for the following three to five years. This level of planning will assist in determining where in the market the business wants to be, and what the business wants to achieve in relation to its competitors.

tactical (medium-term) planning flexible, adaptable planning, usually over one to two years, that assists in implementing the strategic plan

operational (short-term) planning provides specific details about the way in which the business will operate in the short term

organising the structuring of the organisation to translate plans and goals into action

organisation process the range of activities that translate the goals of a business into reality

7.2.5 Management as controlling

Controlling is the process management goes through when it attempts to evaluate performance and take corrective action to ensure that objectives are being achieved.

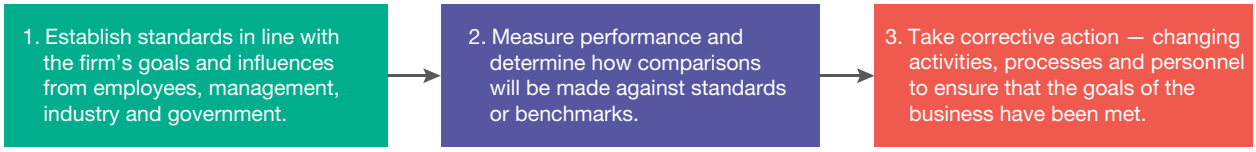
Controlling compares what was intended to happen with what has actually occurred. If there is a discrepancy between performance and goals, changes and improvements can be made.

Control processes

There are three steps in the **control process** (see figure 7.7).

FIGURE 7.6 PCCA is a compounding pharmacy supplier that has implemented the industry's most comprehensive quality control and quality assurance measures. From the moment a chemical arrives to the time it ships, it is monitored by quality control and quality assurance employees. The quality control lab performs as many as nine qualitative analyses on each chemical lot. If the product is compromised in any way, it fails the inspection and is rejected.

FIGURE 7.7 The three steps in the control process



7.2.6 Hierarchical organisational structure

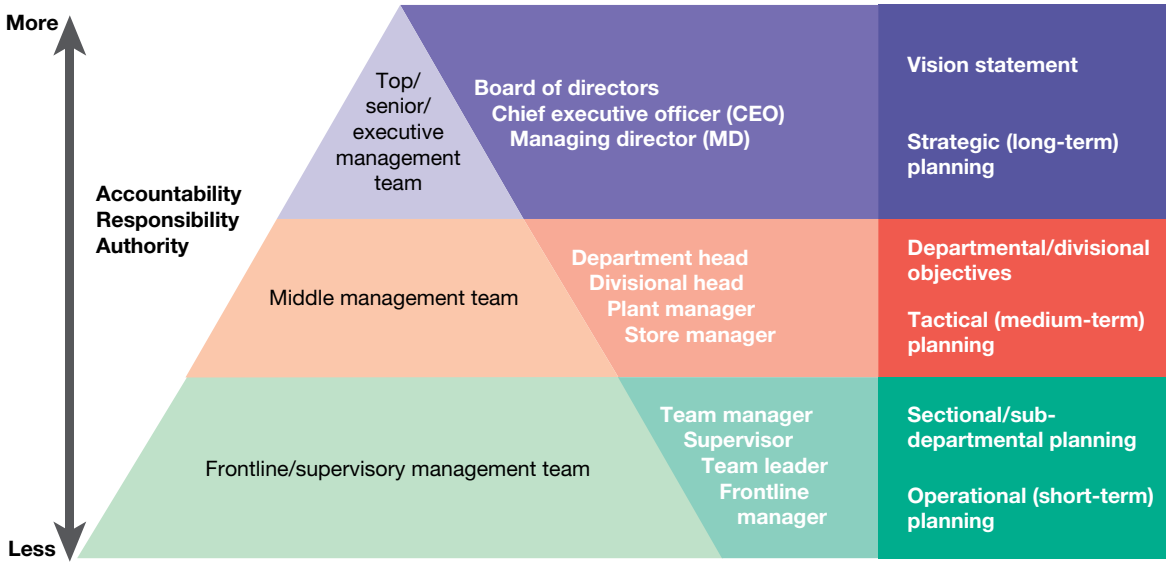
The organisational structure of a business is the way in which its parts have been organised, so that the business can achieve its objectives. An organisation's structure is usually represented diagrammatically in an organisational chart. The chart shows the key positions of responsibility and accountability, and lines of communication.

Think of a business as a three-storey pyramid. This type of management structure is found in many businesses and is based on the traditional managerial hierarchy. **Management hierarchy** is the arrangement that provides increasing authority at higher levels of the hierarchy. This means that senior managers have greater accountability, responsibility and power compared to those at lower levels of the pyramid. They can be visualised as a pyramid, as shown in figure 7.8.

control process involves establishing standards in line with the goals of the business, measuring the performance of the business against those standards or benchmarks, and making changes where necessary to ensure that the goals of the business have been met

management hierarchy the arrangement that provides increasing authority at higher levels of the hierarchy

FIGURE 7.8 A management hierarchy. The coordinated effort of all three levels of management is required to achieve the goals of the business.



The primary characteristic of traditional hierarchical organisational structures has been the grouping of people according to the specialised functions they perform (see figure 7.9). These may include marketing, finance, human resources and operations. Even within each of these functional areas, tasks are further subdivided into specialised jobs. People within the operations division, for example, have specialised tasks to perform, such as warehouse manager, clerks, packers, process employees and storeperson. The same principle applies to sporting teams. For example, a hockey team has members who specialise in certain positions, such as coach, captain, winger, goalie or centre. The team is organised in this way to offer the best combination of people's talents to achieve productivity. In this case, the team is performing its best.

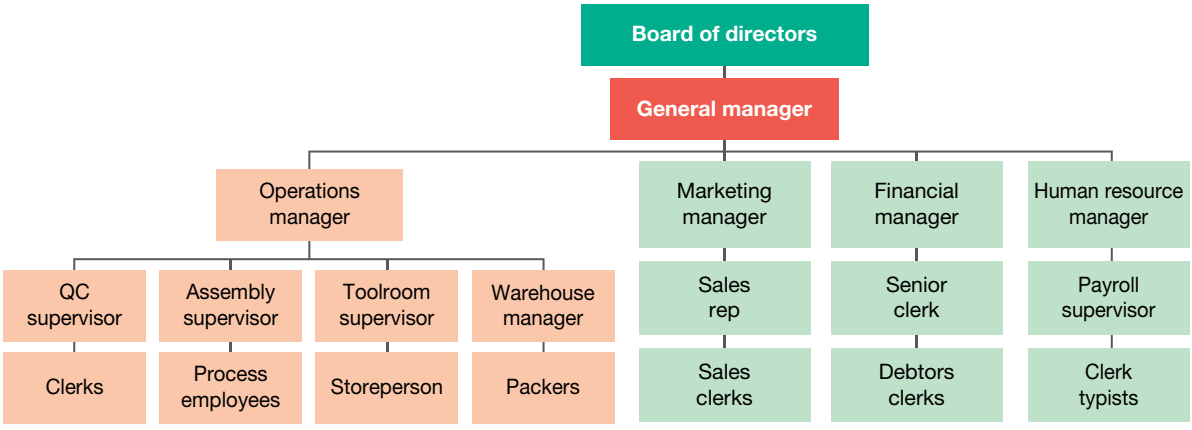
Characteristics of the pyramid-shaped organisational structure include:

- rigid lines of communication
- numerous levels of management, from managing director to supervisors
- clearly distinguishable organisational positions, roles and responsibilities
- hierarchical, linear flows of information and direction, with a large amount of information directed downwards
- **specialisation of labour** resulting in tasks being divided into separate jobs
- a **chain of command** that shows who is responsible to whom
- centralised control with all strategic decisions made by senior management.

specialisation of labour the degree to which tasks are divided into separate jobs

chain of command an organisational structure that shows how each member of a company reports to one another

FIGURE 7.9 Typical pyramid-shaped, hierarchical organisational model



7.2.7 Leadership styles

The important task faced by all managers is how best to achieve their business's goals. This task can be accomplished only by working with and through other people, so managers must select a leadership style appropriate to the environment in which they operate.

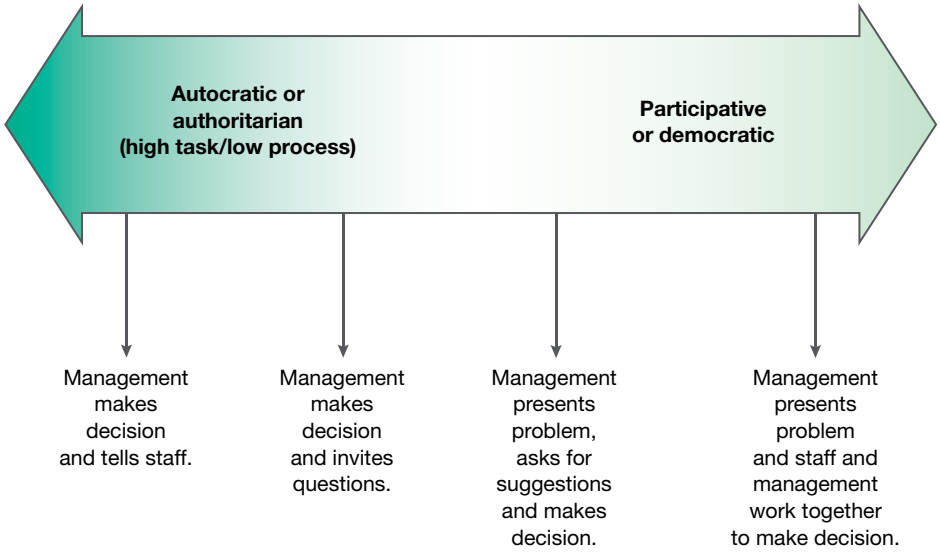
A manager's **leadership style** is essentially their way of doing things — their behaviour and attitude. Leadership styles can be placed on a continuum (see figure 7.10) with the autocratic manager at one end through to the participative/democratic manager at the other.

An autocratic or authoritarian manager would be one who makes the decisions and tells employees what tasks to do and how to do them. A participative or democratic management style presents problems, asks for suggestions and works together to make a decision. The assumption is that all types of leaders would appear somewhere on that continuum.

leadership style a manager's way of doing things — their behaviour and attitudes

Recent theories indicate that managers bring a range of styles to their leadership position that may change according to the situation. Most managers typically have a dominant style that they frequently adopt, and one or two 'backup' styles.

FIGURE 7.10 One theory of leadership style — the continuum



The two main types of leadership approaches and their characteristics are shown in table 7.2.

TABLE 7.2 Characteristics of the two main leadership styles

Key feature	Autocratic or authoritarian manager	Participative or democratic manager
Decision making	Makes all decisions and informs employees	Consults with employees, asks for suggestions then decides
Control	Centralised — controls all activities	Shares decision making with employees
Staff participation	Expects employees to follow orders	High level of employee empowerment
Communication	Top-down	Two-way
Motivation methods	External — rewards (carrot) and sanctions (stick)	Internal — sense of fulfilment, satisfaction
Workplace example	Military officer during wartime; time of crisis	Professional organisations — intellectual abilities of employees are similar or complementary

7.2.8 Autocratic leadership style

Managers who adopt a strict classical–scientific approach usually display an autocratic leadership style. A manager using an **autocratic leadership style** tends to make all the decisions, dictates work methods, limits worker knowledge about what needs to be done to the next step to be performed, frequently checks employee performance and sometimes gives punitive feedback.

The autocratic manager generally provides clear directives by telling employees what to do, without listening to or permitting any employee input. This style of manager controls the people in the business closely and motivates through threats and disciplinary action. Autocratic managers expect compliance and obedience, they are controlling, and they give more negative and personalised feedback.

The autocratic style of leading can be effective in a time of crisis when immediate compliance with rules or procedure is needed, or in meeting an unexpected deadline when speed is important. An army officer, for example, would adopt this management style during military exercises. This approach is also effective when individuals lack skills and knowledge. A McDonald's crew trainer, for example, may adopt this style when supervising new employees. It is generally accepted, however, that this style does not encourage the best performance from employees.

autocratic leadership style a manager using an autocratic leadership style tends to make all the decisions, dictates work methods, limits worker knowledge about what needs to be done to the next step to be performed, frequently checks employee performance and sometimes gives feedback that is punitive.

FIGURE 7.11 Elon Musk demonstrates some of the characteristics of an autocratic leadership style. While he is a visionary leader and one of the most influential CEOs in the world today, he prefers to work alone and doesn't ask for suggestions nor does he accept them easily. He has a strong personality, lacks flexibility and sets exceptionally high standards for his employees. This includes intense scrutiny of the products they create. His concern for productivity is much higher than concern for people.

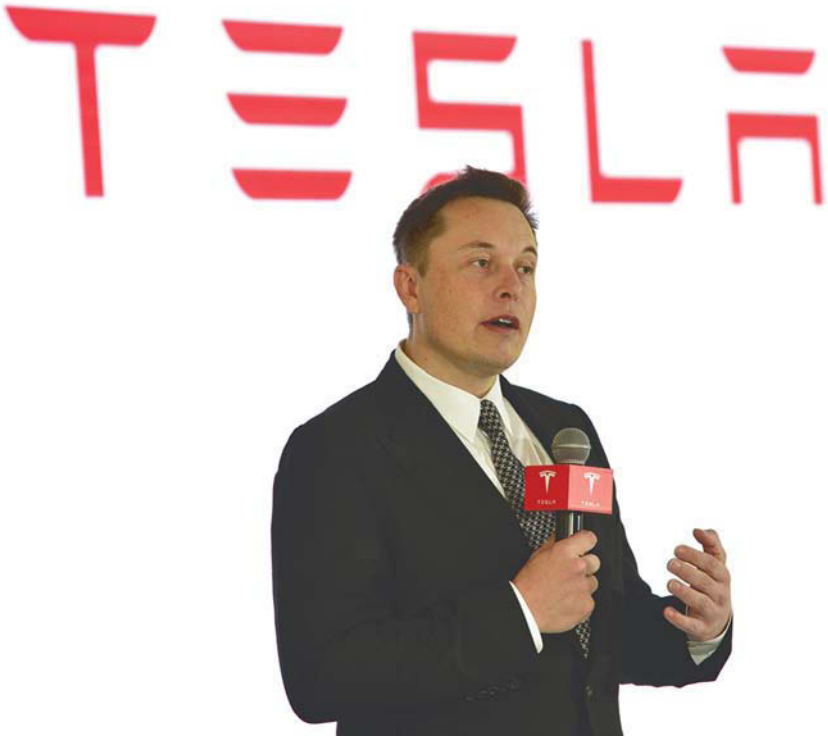


Table 7.3 outlines the advantages and disadvantages of the autocratic leadership style.

TABLE 7.3 The main advantages and disadvantages of the autocratic leadership style

Advantages	Disadvantages
• Directions and procedures are clearly defined and there is less chance of uncertainty. • Employees' roles and expectations are set out plainly, so management can monitor their performance. • A hierarchical structure provides a stable and consistent environment in which the outcomes almost always match management objectives. • Control is centralised at top-level management, so time is used efficiently and problems are dealt with quickly because there is no discussion or consultation.	• No employee input allowed, so ideas are not encouraged or shared. This means employees do not get the chance to develop their skills or to feel valued in the organisation. • It ignores the importance of employee morale and motivation. When no responsibility is given to lower level staff, job satisfaction decreases, which ultimately affects issues such as absenteeism and staff turnover. • Conflict, or potential for conflict, increases. Often workers are competing for the approval of managers, which can lead to tension between employees. • An 'us and them' mentality may develop in the workplace as a result of the lack of employee input.

KEY IDEAS

- A business's management approach will have an enormous impact on all aspects of its operations.
- A classical–scientific approach to management, pioneered by Frederick Taylor, studies a job in great detail to discover the best way to perform it.
- The classical–scientific approach led to the development of the assembly line and mass-production techniques.
- A classical–bureaucratic approach to management, pioneered by Max Weber and Henri Fayol, advocated:
  - that a bureaucracy is the most efficient form of organisation
  - the main function of management is planning, organising and controlling.
- The main features of classical–scientific and classical–bureaucratic management approaches include:
  - time and motion studies used to reduce inefficiencies
  - production line methods
  - hierarchical organisational structure (bureaucracy)
  - clear lines of authority (chain of command)
  - autocratic leadership style
  - rules and procedures.
- Management functions include:
  - planning: a predetermined course of action involving strategic, tactical and operational planning
  - organising: a range of activities that translate goals into reality
  - controlling: compares what was intended to happen with what has actually occurred.
- Management hierarchy is the arrangement that provides increasing authority at higher levels of the hierarchy.
- Senior managers have greater accountability, responsibility and power compared to lower-level managers of the organisation.
- The traditional hierarchical organisational structure has people grouped according to the specialised functions they perform.
- The two main types of leadership style are:
  - autocratic or authoritarian — strong, centralised control
  - participative or democratic — decentralised authority and power.
- A manager using an autocratic leadership style tends to make all the decisions and frequently checks employee performance.
- Managers should bring a range of leadership styles to their positions that can change according to the situation.

7.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

7.2 Quick quiz on | **7.2 Exercise**

Select your pathway

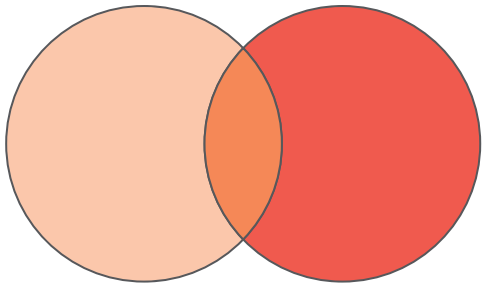
LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4, 5, 6, 8, 11, 13, 15, 16, 17, 19, 20, 23	1, 7, 9, 10, 12, 14, 18, 21, 22, 24, 25, 27, 28, 29	26, 30, 31

7.2 Exercise

Revision

1. **Why** is the practice of management not considered a recent invention?
2. **Outline** the impact the Industrial Revolution had on the development of management approaches.
3. **Define** the term 'classical approach' to management.
4. **Identify** the two perspectives of the classical approach to management.
5. **Summarise** Taylor's principles of scientific management.
6. **State** the main purpose of time and motion studies.
7. **Demonstrate** the link between Ford cars and McDonald's hamburgers.
8. **Identify** the main bureaucratic features Max Weber believed needed to exist in a business for it to operate efficiently.
9. **Apply** the correct definition to the following terms: planning, organising, controlling.
   a. The process of evaluating and modifying tasks to ensure that the set goals
   b. The process of arranging the resources of the business to achieve the goals
   c. The process of setting goals and deciding on the methods to achieve them
10. **Compare** and **contrast** Frederick Taylor's ideas on how to improve productivity with the ideas of Henri Fayol. You might like to present your information in the form of a Venn diagram, as shown in figure 7.12.

FIGURE 7.12 A Venn diagram is used to compare and contrast information. Points of difference are recorded in the outer parts of the circle and similarities are placed in the area where the two circles intersect.



11. **Define** the term 'planning'.
12. **Why** is planning considered to be the primary management function?

13. Complete the following table by **identifying** whether the planning activities are strategic, tactical or operational. The first one has been completed for you.

Planning activity	Type of planning
An organisation plans to build a new warehouse.	Tactical
A supervisor wants to have regular weekly production meetings.	
A marketing department is to relocate to a new site in another city.	
A government department decides to undertake planning to fully privatise during the next four years.	
A stocktake needs to be completed tomorrow.	
A team leader decides to monitor the team's performance over a two-month period.	
A new computer system is to be installed.	
A large-scale business operating in five countries decides to undertake an extensive restructure of its entire organisation.	
A department sales manager requires the sales team to increase sales by 10 per cent over the next six months.	
An engineering business wants to develop new production facilities in three countries.	

14. **Explain** why the organising function is important to a business.
15. **Summarise** the three steps involved in the organisation process.
16. **Define** the term 'controlling'.
17. Examine figure 7.7 in section 7.2.5. **Identify** the correct terms to complete the following steps in the control process.

Step 1	Establish s_ _ _ _ _ _ _
Step 2	Measure p _ _ _ _ _ _ _ _ _ _
Step 3	Take corrective a _ _ _ _ _

18. **Why** is the controlling function important?
19. **Define** the term 'management hierarchy'.
20. **Identify** the three main levels of management.
21. **a. Construct** an organisational chart of your school.
    b. Classify, by highlighting in a different colour, the senior, middle and frontline management divisions.
    c. Why do you think the school's organisational structure is hierarchical?
22. **Contrast** an autocratic leadership style with a participative one.
23. **Identify** the leadership style of each of the following managers.
    a. The manager sets high standards of performance and has little sympathy for those who do not meet the standards.
    b. The manager takes care to explain why something must be done in a certain way.
    c. The manager expects his or her orders to be unquestionably followed.
    d. The manager believes that developing close personal relationships with staff is the mark of a good manager.
    e. The manager persuades the employees to do their best.
24. **Describe** a situation when an autocratic management style would be appropriate.
25. **Justify** whether you believe the advantages of the autocratic leadership style outweigh the disadvantages.

Extension

26. **Determine** why supporters of the scientific management approach established bureaucracies within their businesses.
27. 'Classical management thinkers looked for the best way to do everything. Their tools were time and motion study, and a scientific approach to studying work and workflow.' **Discuss**.

28. 'The three levels of planning — strategic, tactical and operational — correspond to the three levels of management — top, middle and frontline.' **Explain** the relationship between the level of planning and the level of management.
29. **Account** for the relationship between an organisational chart and an organisation's chain of command. **Explain** how an organisational chart would help you become oriented if you were new to a business.
30. 'Managers who adopt a strict autocratic management style normally organise their business along traditional hierarchical lines.' **Evaluate**.
31. **Determine** how autocratic managers motivate their staff to get things done. **Assess** whether their style is successful.

Solutions and sample responses are available in your digital formats.

ACTIVITY

Ask your teacher for permission to complete the following activity in class time. The aim of this activity is to put your theoretical understanding of Business Studies into practical use as you solve problems, plan and make management decisions.

Materials required: paper, tape measure, markers (such as flags or witches hats)

Paper plane business — instructions

You are about to embark on your latest venture . . . running a large paper plane business. Your team's task is to construct the ultimate paper plane.

1. Arrange your class into groups of three or four. Each of these teams will become a business. Organise for some of the students in the class to be observers.
2. Your business has 30 minutes in which to produce the paper plane that travels the longest distance. As a team, **determine** what the goals for your business will be. Write down an action plan for your business (your strategies). List the key performance indicators (KPIs) that will show whether or not you have met your goals.
3. Establish your management structure (who is going to complete the various activities that need to occur for your business to achieve its objectives). Your teacher will explain the responsibilities of each position. You would definitely need a managing director. Make sure each team member's task is clear. Each team member should probably take responsibility for a particular goal.
4. **Discuss** a design for your plane and then produce it, making sure that you do your very best to meet all of your goals.
5. Find a safe place to test your planes. Use the tape measure to determine distance. Make sure you record these measurements.
6. The winner will be the group whose paper plane travelled furthest. Alternatively, the winner could also be the team with the best looking plane or the most innovative design.
7. The observers should next report to the class. What did they see happening as groups were planning, organising and controlling? Did any leaders emerge during the activity?
8. After finishing the paper plane activity, list your group's goals. **Assess** how well you planned to achieve these goals. **Identify** the KPIs you planned to use to measure whether or not you met the goals.
9. **Outline** the role that you played in your business. For example, if you were the production manager, outline how you were involved in planning, organising and controlling your business.
10. Using the information from the observers, **discuss** whether anyone emerged as a leader in your group.
11. **Evaluate** how your group performed in terms of meeting its KPIs.
12. After finishing the paper plane activity, complete the following table to **summarise** the role of each member of your business. The first entry has been started for you.

Manager	Planning	Organising	Controlling
CEO	Determined objectives for group	Delegated responsibilities to members of group	Compared planned performance with actual performance
GM			

7.3 Behavioural approach to management

SYLLABUS LINK In this subtopic you will learn about management approaches:
- behavioural approach
  - management as leading, motivating, communicating
  - teams
  - participative/democratic leadership style.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Scientific management principles did not always lead to increased productivity due to the repetitive and boring nature of many jobs and the dehumanising structure of the workplace. Approximately 50 years after the emergence of scientific management ideas, behavioural, or 'human relations', approaches surfaced. The behavioural school recognised that to make substantial productivity gains, worker participation in the production process was required. It acknowledged the workers' contribution to output.

Advocates of the **behavioural approach** to management stress that people (employees) should be the main focus of the way the business is organised. They believe that successful management depends largely on the manager's ability to understand and work with people who have a variety of diverse backgrounds, hopes, desires and expectations. The development of this humanistic approach has greatly influenced management theory and practice.

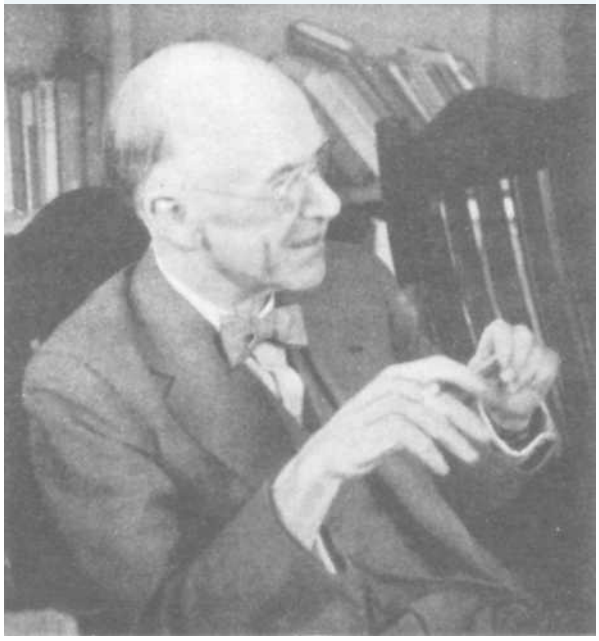
behavioural approach an approach that stresses that people (employees) should be the main focus of the way in which the business is organised

One major contributor to behavioural management theories was Elton Mayo (1880–1949). Mayo (see figure 7.13), is considered the founder of industrial psychology. Through his revolutionary experiments, conducted at the Western Electric Hawthorne Company in Chicago, he discovered what became known as the 'Hawthorne effect', which demonstrates that meeting people's social needs has a significant impact on productivity (see the following case study on Elton Mayo). Two significant results from the research were that:

- worker satisfaction to a large extent is non-economic; that is, workers have social needs in addition to economic needs
- being made to feel part of a team increases job satisfaction and output.

Many large businesses recognise the importance of being socially responsible, not just to their external customers but to their internal customers — their employees. It is in the business's best interests to provide for and look after their employees. Some businesses do this by providing extra facilities for their workers such as good canteen facilities, child-minding facilities, access to counselling and so on. Others provide flexible working conditions.

FIGURE 7.13 Harvard professor Elton Mayo (1880–1949), founder of the behavioural approach to management



SNAPSHOT

Case study: Elton Mayo — the Hawthorne studies (1927–1932)

The Western Electric Company's Hawthorne factory manufactured a range of electrical components such as relay assemblies. Mayo wanted to find out what effect fatigue and monotony had on employee productivity. He selected six female employees from the assembly line, segregated them from the rest of the factory and placed them under the control of a supportive supervisor. The team was involved in assembling telephone relays. Mayo made frequent changes to their working conditions, always discussing and explaining the changes in advance.

To his amazement, Mayo realised that productivity had increased completely independent of any of the changes he made. The six individual employees had become a team and together eagerly participated in the experiment. They were happy knowing that they were working without coercion from senior managers or limitations from the workplace structure. They felt they were working under less pressure, not being pushed or bossed around by anyone. Under these conditions, they developed an increased sense of responsibility, with discipline coming from within the team.

Mayo's findings were at odds with F.W. Taylor's theory, which stated that workers are only motivated by self-interest. If Taylor was correct, the women's productivity should have decreased when Mayo returned them to longer working hours. However, Mayo realised that the women had formed a harmonious team and felt happier at work, which raised their self-esteem. The women talked, joked and began to meet socially outside of work. Mayo had discovered an elementary concept that seems obvious today: workplaces are social environments and employees are often motivated by much more than self-interest.

The section of the Hawthorne studies that examined the beneficial effects of positive and supportive supervision, and the impact of teamwork became known as the Hawthorne effect.

on Resources

Weblink Hawthorne studies

A different value system emerged from the contributions of the behavioural theorists. Managers were now required to meet the social needs of their employees in addition to production efficiency. To be effective, managers now needed to acquire skills in communication, social motivation and democratic leadership.

Table 7.4 outlines the advantages and disadvantages of the behavioural approach to management.

TABLE 7.4 Advantages and disadvantages of the behavioural approach

Advantages	Disadvantages
• Increased empowerment of employees — can take ownership of their work • Worker recognition and appreciation should lead to increased motivation • Improved relationships between managers and staff	• Lack of control • Powerful people can disrupt the process • Communication is no longer top-down, so confusion may arise • It's difficult to accurately predict employee behaviour

7.3.1 Management as leading

Leading occurs when managers endeavour to influence or motivate people in the business to work to achieve the business's objectives. The type of leadership in a business depends on the attitudes and assumptions that managers have about people in the business.

We seem to use the terms 'manager' and 'leader' interchangeably; however, these terms mean different things. When someone is promoted to a management role, they don't automatically become a leader. A person doesn't become a leader because someone higher up the organisational structure confers a title on them; they can only become a leader when their staff trust them to lead, and that requires them to also trust their employees.

To act as a leader, a manager should display empathy and possess good listening skills. A leader will have high expectations of employees' abilities to initiate and implement ideas. He or she will concentrate on the needs of their employees, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines — that is, they display the natural characteristics of a manager, not a leader. A leader, however, wants to empower people.

BizFACT

Research has shown that companies led by more humble individuals perform better. Humble leaders are more modest, emotionally stable and eager to learn. Another strength of humble leaders is self-awareness — confidence in their abilities paired with accurate understanding of their limitations. Finding an authentically humble CEO is rare, however.

Added to these qualities, a successful leader is someone who:

- keeps an open mind, seeks out new ideas and freely shares information
- shows confidence in people, shares credit and recognition
- builds and communicates a clear vision
- sets an example and earns the respect of employees
- **delegates** tasks to suitable employees
- conveys the goals of the business to workers and motivates them
- demonstrates flexibility in dealing with situations
- understands the technical aspects of the industry or business.

delegate to hand over certain tasks or responsibilities to an employee who is suitably capable and qualified to carry them out

Being an effective leader is not an easy task. There may be temporary setbacks, particularly during periods of negotiation. In the end, leadership may still fail. However, not displaying leadership is inviting a greater possibility of failure.

Numerous books have been written about what makes a good leader. Some people believe that good leaders are 'born' rather than 'made'. They argue that the characteristics needed to be a good leader are part of an individual's unique personality and cannot be learnt from textbooks. Other people, however, argue that with appropriate training and coaching, the skills of leadership can be learned. Whichever is the case, managers who display 'daring leadership' are best able to inspire their employees.

FIGURE 7.14 Daniel Flynn, Managing Director and co-founder of Thankyou, demonstrates the qualities of an effective leader. He sets an example, earns the respect of employees and clearly communicates a vision in order to achieve the business's objectives.

7.3.2 Management as motivating

As explained in chapter 6, motivation is the individual, internal process that energises, directs and sustains an individual's behaviour. It is the personal force that causes a person to behave in a particular way.

Some people work harder than others. An employee with outstanding abilities may constantly be outperformed by someone with average skills. The difference between the two employees is their level of motivation. Motivated workers will always perform at a higher level than unmotivated workers. To some extent, a high level of employee motivation is determined by management practices. Efficient managers need to establish work practices that motivate their employees; they must be aware of the *human factor* involved in the business.

Elton Mayo's Hawthorne studies highlighted the importance of the human factor in employee performance. Merely asking employees to participate in the research gave them a sense of involvement in their jobs. These employees — perhaps for the first time — felt as though they were of value and importance to the business. It was this sense of importance that acted as the motivating force that improved employee productivity.

FIGURE 7.15 Leadership recognition is fundamental to increasing staff morale and motivation. Recognition might just be a pat on the back for a job well done. Some businesses, however, have formal recognition programs so that employees who perform well are rewarded and encouraged to continue the good work.

The Hawthorne studies revealed that such human factors as recognition, self-worth and positive reinforcement are at least as important to motivation as external factors such as pay rates and working conditions. In some cases they may be more important. From this initial research came a flood of other behavioural management approaches focusing on the area of motivation. Overwhelmingly, the research highlights the fact that management would do best to provide a work environment that maximises employee satisfaction. Good managers, therefore, should also be good motivators, encouraging employees and using positive reinforcement to influence behaviour.

How does a manager go about the task of motivating the business's employees? This question is often asked and has resulted in a wide variety of answers. Numerous studies have identified diverse factors, such as trust, respect for the individual, positive reinforcement, empowerment, enhancing self-esteem, employee participation, rewarding team performance and employee encouragement. Managers can use a variety of techniques to improve employee motivation. However, what the majority of these motivation techniques have in common is the need to develop a workplace culture that fosters employee participation.

BizFACT

A study from Reward Gateway in 2018 found that nearly one in five employees across Australia don't feel motivated in the workplace. The top five reasons for this were a bad manager (46 per cent); feeling invisible or undervalued (43 per cent); boring or unsatisfying work (43 per cent); and a lack of recognition (42 per cent). The research also found that the simple things make the biggest difference to employee motivation. The top reason people were motivated in their current workplace was because of good working relationships with team members (49 per cent), followed by job satisfaction (43 per cent) and having a purpose (36 per cent).

7.3.3 Management as communicating

As outlined in chapter 5, one of the most difficult challenges for managers is getting employees to understand and want to achieve the business's goals. Effective communication is at the heart of meeting this challenge.

Communication is one of the easiest and, at the same time, most difficult of management activities. This is because of the complex nature of communication. Unless managers are effective communicators and able to share their thoughts and plans, they will find it difficult to influence others.

FIGURE 7.16 Poor communication has several adverse effects, which can lead to confusion in the workplace and lost business. It can result in decreased productivity, low morale and increased conflict, as well as mistakes.

"You told me I should be more creative."

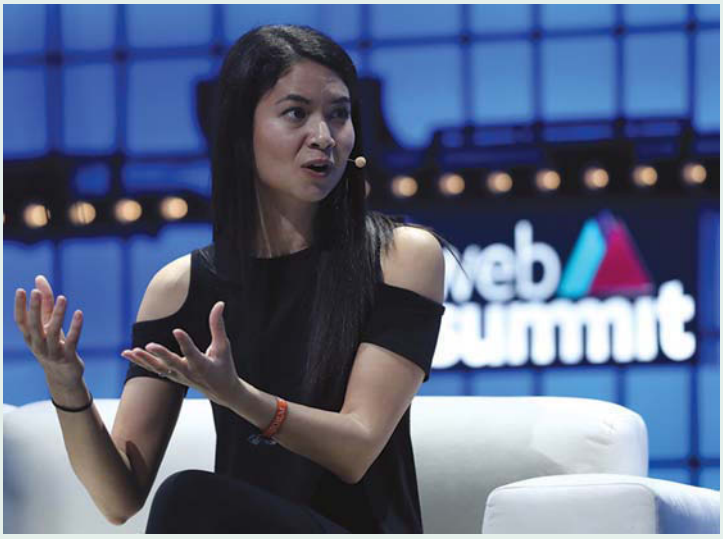
Effective communication is a crucial part of every manager's job. It encompasses every management function and role. Without effective communication, the most carefully detailed plans and brilliant strategies will most probably fail. Many studies have shown that the performance of both individuals and businesses improves when managerial communication is effective. This is especially so when open communication is used to motivate employees by providing them with information regarding the business's goals, plans and overall financial results. Whenever a manager operates on the communication principle of 'tell the employees only what they need to know and nothing else', then the workers will not be motivated to achieve common goals because they do not know what the goals are.

BizFACT

Businesses cannot thrive without open communication. Communication should be a collaborative relationship-driven process, rather than a top-down approach. Managers should allow communication to be a two-way street and involve their employees when making decisions.

SNAPSHOT

Case study: Canva — a behavioural approach to management



Melanie Perkins launched Canva in 2012. Today Canva boasts more than 10 million registered users in 190 different countries. From the beginning, the co-founders have placed a strong emphasis on the culture they wanted to create. They wanted to build a company where everyone loves coming to work. Canva has over one thousand employees operating across multiple countries across the world. Management at Canva has adopted a behavioural approach to management.

Leading

As a leader, Perkins sets the vision and goals for the company. She then works with everyone in the business to empower them to dream big and achieve those goals.

Teams

When beginning the company, Perkins avoided hierarchy, layers and autocracy, and structured the company around the concept of small but empowered teams of three to six people with their own goals and plans. Each major project in the business has a dedicated team working on it. Having small teams with the right skills to achieve specific goals has enabled the company to move fast and work very well together. This structure gives teams ownership over their work so they can be effective and creative.

Motivating

Canva holds a 'season opener' every three months in which each team across the company pitches ideas and presents their goals for the upcoming quarter. Having new goals each quarter helps ensure every team has clear objectives to work towards. Each team's goals are visible to the whole company — they are stuck on posters on the walls and are emailed and discussed. Making the goals public creates transparency and motivates teams to work together to achieve each goal.

When teams achieve their objectives or reach significant milestones, these are celebrated as a whole company at the season openers. Canva has been known to celebrate their teams' accomplishments with extraordinary celebrations such as smashing plates, drone racing or releasing doves. This ensures each team feels recognition from the whole company. It's this team spirit that keeps everyone motivated in the company's shared vision.

The office itself also provides plenty of perks that keep staff motivated. Canva employs a full-time staffer to continually improve the look and feel of the building. Some of the perks include chill-out areas, arcade games, massage chairs, rock climbing walls, a parenting room, fully stocked kitchenettes, and an in-house kitchen and bar that prepares and serves all the company's meals.

Communication

Perkins believes that good communication is one of the most important aspects of being a good leader. In the beginning, this was quite easy as there were only five people, so everyone always knew what everyone else was working on. While this has become more complex given the growth of the company, Canva still makes communication a strong focus. Perkins initiated a company-wide 'standup' every Friday, which provides all employees with an opportunity to communicate and share knowledge. The company fosters an inclusive workplace culture where people are able to contribute ideas. The season ppeners are also used to ensure everyone in the organisation is involved in the planning process and are aware of what everyone else is doing.

In 2018, both Great Place to Work and LinkedIn named Canva the number one workplace in Australia over thousands of other companies due to the combination of these factors.

7.3.4 Teams

A not-so-quiet revolution is rapidly transforming workplace cultures, practices, operations and productivity levels. Many businesses are starting to realise that a team approach can be the catalyst for superior performance. **Teamwork** involves people who interact regularly and coordinate their work towards a common goal.

FIGURE 7.17 Graham Turner is the Managing Director and founder of Australian-based international travel management company Flight Centre. Flight Centre management adopts a participative management style, with a focus on working in teams and strong management skills, such as communication and interpersonal skills.

Understanding how such teams function — that is, understanding the group dynamics of teams and teamwork — is vital for managers operating in the modern workplace. It is essential that managers foster a sense of cohesion between team members, otherwise the team is no more than a group of individuals all working separately. Such teams have no common purpose and therefore lack any sense of belonging to the organisation. In such cases, it is quite common for conflict to develop between team members. Ultimately, the team's effectiveness will be diminished.

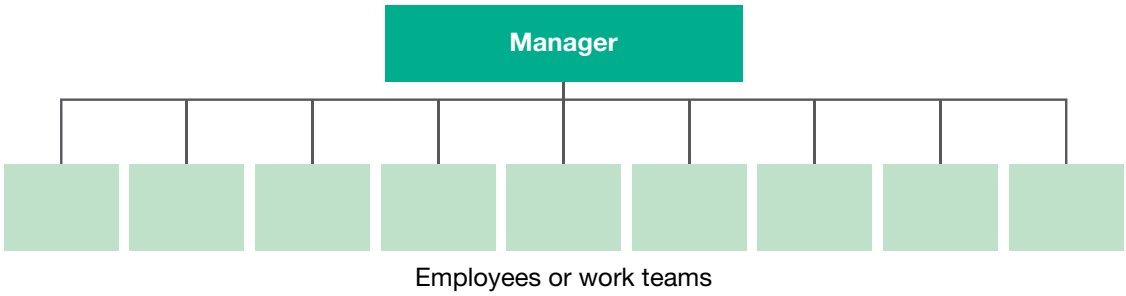
Self-directed work teams (like those used at Canva in the previous case study) have altered some of the traditional roles of management. One obvious change is that managers have to work more closely with people over whom they have no apparent authority. They are required to adopt a team approach, negotiating decisions by consensus rather than imposing demands.

Another significant impact of a team approach is the breaking down of the traditional pyramid-shaped hierarchical organisational structure. Hierarchical boundaries are disappearing as people and functions mix together to create much **flatter organisational structures**. Firms that adopt a flatter management structure reduce the number of levels of management, giving greater responsibility to individuals in the business (see figure 7.18).

teamwork when people interact regularly and coordinate their work towards a common goal

flatter organisational structures have evolved due to a 'de-layering' of management structures resulting in the elimination of one or more management levels

FIGURE 7.18 Flatter management structure — a typical organisation chart. The span of control is wider and management has more direct contact with employees.



The role of managers is therefore changing from controller to facilitator. Without being able to impose their authority, managers have to achieve their aims by balancing the needs of the team with those of the business. This can be accomplished by the manager attempting to understand the views of others, handling disagreements honestly and directly, and persuading others to adopt new ideas. Above all else, the manager must build a sense of trust, teamwork's key ingredient, and develop a common goal. To achieve this, it requires a move away from an autocratic leadership style to one that is more participative or democratic.

BizFACT

Are you able to work effectively in a team? That's the skill employers most want when they are recruiting new university graduates. Analysis of the recruiting activity on LinkedIn shows that teamwork skills are sought after among Australian employers, yet 63 per cent of hiring managers are finding it hard to find people with these skills.

FIGURE 7.19 To give purpose and direction to employees, managers require a good understanding of team/group dynamics.

SNAPSHOT

Case study: Companies with flatter management structures

While traditional hierarchical organisational structures are well suited for improving efficiency, they are not optimal for innovating and adapting to change. More and more businesses are adopting a flatter organisational structure.

Some high-profile adopters of this trend towards a flatter management structure include:

- **Valve**. Valve is an entertainment software and technology company that has developed leading-edge technologies and computer games such as Half-Life and Counter-Strike. To create an environment that encourages innovation, Valve has zero layers of management between staff and owners. As their employee handbooks states: 'Welcome to flatland. We don't have any management, and nobody reports to anybody else.' Their employees have the autonomy to move forward with a project and are able to choose which jobs to work on.
- **Google.** Google has a flattened structure made up of self-managed teams. This team structure is designed to boost productivity, offer flexibility and foster creativity. The company allocates tasks based on Googlers' (employees) strengths and then assigns rewards for each team to inspire them to succeed. Google allows teams to self-organise and make their own decisions. This structure increases autonomy and is very empowering. Google has also stripped managers of their right to make unilateral decisions about issues such as who to hire, who to fire, how performance is rated, what rewards to give staff, whom to promote and the final design of a product. Instead, these decisions are made by a group of peers or an independent team.
- **Toyota.** Toyota has also recently flattened out in an attempt to avoid micromanaging staff. Toyota's organisational structure underwent significant changes in 2013 as a response to the safety issues and product recalls that began in 2009. Their old structure had a strong centralised global hierarchy where the company headquarters in Japan made all the major decisions. Individual business units did not communicate with each other, and all communications had to go through headquarters. This structure was widely criticised for being too slow to respond to problems. Toyota's new flatter structure provides a greater degree of flexibility, which has led to the company being more capable of responding to changing influences in the business environment. This flexibility has also enabled the company to respond to issues faster and to provide higher quality products.

7.3.5 Participative or democratic leadership style

A manager who implemented a classical–scientific approach would normally adopt an autocratic leadershipstyle; a manager who practised a behavioural approach would tend to use a more **participative democratic leadership style**.

A participative or democratic leader is one who asks employees for their suggestions and then seriously considers those suggestions when making decisions. In this sense they share their decision-making authority with their subordinates. The degree of sharing can range from the manager outlining a solution, with the possibility of changes being suggested, to allowing the team to participate in the initial decision making.

participative democratic leadership style a leadership style in which the manager consults with employees to ask their suggestions and then seriously considers through suggestions when making decisions

Sometimes referred to as the 'we' approach, participative or democratic managers recognise the strengths and abilities of employees and actively involve them in the decision-making process. This style is frequently practised in those businesses that have flatter management structures and work teams, and is especially effective in situations where there are diverse groups to be coordinated. The contribution of employees is valued, and employees assist in the decision-making process through regular meetings. Employees have a commitment to the business's goals because of their own input into the firm. This style of leadership is most effective when a business is operating in an environment undergoing rapid change. Individual employees accept responsibility and can implement changes themselves, making the business more responsive to change. Through activities such as brainstorming, a diverse range of opinions and ideas can be generated, resulting in improved decision making.

FIGURE 7.20 Atlassian has been named the 'Best Place to Work' in Australia by *Business Review Weekly* for five years in a row. The company adopts a participative approach to management and gives employees the autonomy and freedom to take some chances and innovate.

Table 7.5 outlines the advantages and disadvantages of the participative or democratic leadership style.

TABLE 7.5 The main advantages and disadvantages of the participative or democratic leadership style

Advantages	Disadvantages
• Communication is a two-way process. • Employer–employee relations are positive and there is reduced likelihood of industrial disputes because employees are more likely to accept management decisions. • Motivation and job satisfaction are optimal as employees feel they have played an active role in allocating tasks and implementing actions to meet objectives. • Employees have a greater opportunity to acquire more skills. • Power sharing encourages the development of work teams, and employees display high levels of commitment. • There is a high level of trust, often resulting in improved employee performance.	• Reaching decisions and introducing tasks can be time consuming, with differing views having to be considered. The quality of decisions may also suffer because compromises are made rather than decisive, clear directions being given. • The role of management, and the control of the manager, may be weakened and undermined, with employees given too much power in some cases. • Internal conflict can arise with so many views and opinions being shared. More involvement may actually bring about disagreement. • The importance of the organisational structure may be minimised, leading to an informal system that could result in a complete collapse in management. • Not all employees want to contribute.

There is no simple answer to the question: 'What leadership style does a good manager possess?' Management is an art, not a science. This means that no simple management formula can be applied to deal effectively with all workplace situations.

SNAPSHOT

Case study: Indra Nooyi — democratic leadership style

Indra Nooyi, Chairperson and CEO of PepsiCo from 2006–2019, illustrates the impact a democratic leader can have on an organisation. She is a charismatic and visionary leader. Nooyi introduced and created a vision for PepsiCo: 'Performance with Purpose'. While having a vision is great, it needs a motivated workforce to put it into motion. Nooyi was able to effectively communicate this vision to all stakeholders and inspire employees to turn that vision into a reality.

Nooyi believes that plans need to be known and communicated. She therefore always kept staff informed about matters relating to their work and always told her team exactly what needed to be done in the short, medium and long-term.

As a democratic leader, Nooyi always gave creative power to let her employees innovate. She believes that working with others is the best way to work. She knew how to delegate work to employees and could take a step back when necessary in order to unleash the power of her staff.

Nooyi demonstrates effective interpersonal skills. She is thoughtful and caring and leads by example. She acts as a role model, someone with high standards and a strong work ethic who is always working hard to become better in order to motivate her staff to do the same.

Nooyi always puts people first and created a culture where every employee felt valued. No matter what the position, they all knew they had a chance to contribute and make a difference. Her belief in people drove a culture of recognition and diversity and made people love to work for the company. Employees responded favourably to her style.

Nooyi possessed an ability to produce results through the use of intrinsic rewards. She leveraged the power of recognition to drive positive performance. During her time at the company, she implemented a variety of different recognition programs for both individuals and groups. One way she recognised staff was to write them letters to tell them they were doing a good job. That recognition was more valuable than money.

Results speak for themselves. During her tenure at PepsiCo, the company's revenue grew from $35 billion in 2006 to $63.5 billion in 2017.

KEY IDEAS

- The behavioural approach to management, pioneered by Elton Mayo, stresses that people (employees) should be the main focus of the way in which the business is organised.
- The main features of behavioural management approach include:
  - a humanistic approach — the belief that employees are the business's most important resource
  - the satisfaction of employees' economic and social needs
  - employee participation in decision making
  - a team-based structure
  - the belief that managers need good interpersonal skills
  - the emergence of a democratic leadership style.

- According to the behavioural management approach, the main management functions are:
  - leading: having a vision of where the business should be in the long and short term
  - motivating: energising and encouraging employees to achieve the business's goals
  - communicating: exchanging information between people; the sending and receiving of messages.
- Teamwork involves people who interact regularly and coordinate their work towards a common goal.
- Well functioning teams can produce superior performance.
- Managers require a good understanding of team/group dynamics.
- The development of work teams has resulted in flatter organisational structures.
- The role of managers is changing from controller to facilitator.
- Businesses are adopting flatter management structures which results in:
  - the 'de-layering' of traditional hierarchical structures
  - establishment of market-focused work teams
  - each work team being responsible for a wide range of production functions.
- Reducing the levels of management gives greater responsibility to individuals in the business.
- A manager who adopts a behavioural approach will tend to use a participative or democratic leadership style.
- Participative or democratic leaders share their decision-making authority with their subordinates.
- This style of leadership is most effective when a business is operating in an environment undergoing rapid change.

7.3 Activities

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To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

7.3 Quick quiz on | **7.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 4, 6, 7, 8, 11, 13, 15, 17, 19, 21	9, 10, 12, 14, 16, 18, 20, 22, 23, 24, 26, 27, 29	5, 25, 28, 30, 31

7.3 Exercise

Revision

1. **Define** the term 'behavioural approach' to management.
2. According to the behavioural management approach, **identify** what was required to improve worker productivity.
3. **Recall** the two significant results of Elton Mayo's Hawthorne studies.
4. **Identify** five characteristics a manager should display in order to be a leader.
5. **Determine** whether the following statements are true or false.
   (a) Leading and managing are much the same thing.
   (b) Good leaders are important for businesses.
   (c) To be a good leader, you must be authoritarian.
   (d) Before you lead, you must learn to follow.
   (e) Leaders should have only one concern: the task.
   (f) To be an effective leader you must be a skilleds communicator.
   (g) A person's leadership style should be fixed and unchangeable.
   (h) Leadership skills can be learned.
6. **Recall** the meaning of the term 'motivation'.
7. **State** what the Hawthorne studies revealed about employee motivation.
8. **Identify** four factors a manager can use to motivate the business's employees.
9. When talking about motivation, the carrot (reward) and stick (punishment) approach is sometimes mentioned. **Explain** why giving someone a reward or punishment might motivate them to act.
10. 'For a business to succeed, effective communication is vital.' **Discuss**.

11. Draw a table similar to the one following to **summarise** details of management skills in this section. The first one has been completed for you.

Skill	Definition	Characteristics	Application to the workplace
Communicating	The ability to transfer information	Communication can be verbal (emails, meetings and face-to-face conversations) and non-verbal (body language, visual).	Managers use it to explain a vision, to instigate change, to answer questions and to listen.
Leading			
Motivating			

12. **Why** are work teams becoming more common in today's businesses?
13. **State** what impact the development of work teams has on a business's organisational structure.
14. Draw a hierarchical and a flat organisational structure. **Contrast** the two diagrams by listing their differences.
15. **Outline** in what ways self-directed work teams alter some of the traditional functions of management.
16. You have been appointed team leader of a new work group. **Describe** some of the strategies you could use to develop a sense of cohesion within the group.
17. **Outline** the main characteristics of the participative or democratic leadership style.
18. **Describe** a situation where the participative or democratic leadership style would be appropriate.
19. **Identify** what you consider to be the most important (i) advantage and (ii) disadvantage of the participative/democratic management style. Justify your answer.

Read the 'Elton Mayo — the Hawthorne studies (1927–1932)' case study and answer questions 20 to 22.

20. According to Elton Mayo's research, **explain** why productivity increased even after the original working conditions were reintroduced.
21. **Outline** what is meant by the Hawthorne effect.
22. Imagine you are a manager for a small business. **Discuss** what impact Mayo's research would have on:
    a. how you organise your workplace
    b. the management practices you would use.
23. Read the 'Canva — a behavioural approach to management' case study and **demonstrate** how Canva adopts a behavioural approach to management.

Read the 'Companies with flatter management structures' case study and answer questions 24 and 25.

24. **Explain** the benefits of moving towards a flatter organisational structure.
25. **Determine** what some possible disadvantages for the above companies might be due to adopting a flatter organisational structure.

Read the 'Indra Nooyi — democratic leadership style' case study and answer questions 26 and 27.

26. **Demonstrate** how Indra Nooyi adopts a democratic leadership style.
27. **Explain** the impact this leadership style would have on her employees.

Extension

28. **Determine** why employees would favour the behavioural approach to management over the classical–scientific approach.
29. **Propose** why the development of behavioural management approaches would be called a significant turning point in the evolution of management approaches.
30. 'Leaders know the best course of action, whereas managers know only the best way to follow it.' **Evaluate** this statement.
31. 'At TechVision Limited we do not rely on lists of rules and management authority. We believe our employees understand the link between productivity and profit, and act on it.' Nadall Behling, Managing Director.
    a. Identify what evidence there is that Nadall Behling adopts a participative or democratic leadership style.
    b. **Predict** the likely outcome if either your sports coach or your school principal adopted this leadership style.

Solutions and sample responses are available in your digital formats.

7.4 Contingency approach to management

SYLLABUS LINK In this subtopic you will learn about management approaches:
- contingency approach
  - adapting to changing circumstances.

You will also learn to compare and contrast approaches to management.

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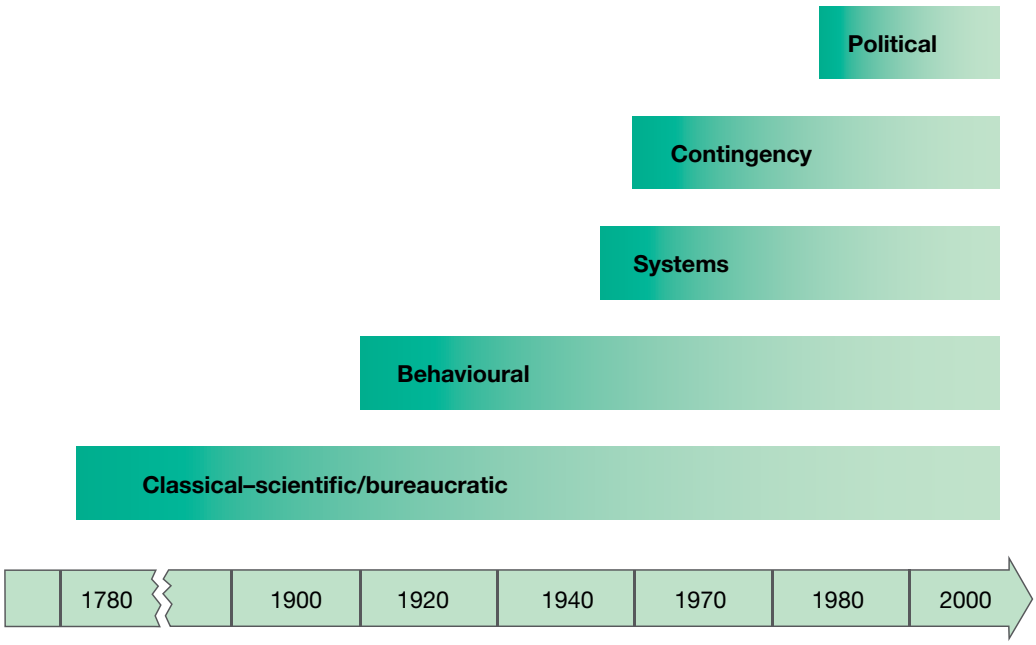
While the classical and behavioural management approaches continue to provide important lessons for managers, other ideas have also emerged during the last couple of decades (see figure 7.21). These contemporary management approaches represent major innovations in ways of thinking about management and appropriate management practices. One of the most important contemporary viewpoints is the **contingency approach** to management. It stresses the need for flexibility and the adaptation of management practices and ideas to suit changing circumstances.

FIGURE 7.21 Timeline of management approaches



7.4.1 Adapting to changing circumstances

Contingency theorists point out to managers that no two situations are absolutely identical. Each situation, therefore, requires its own unique solution. For example, you may have used a particular strategy to complete a task for assessment. Although this strategy may have been quite successful for that particular task, another assessable task may well require a completely different approach.

Contingency theorists stress that the traditional classical approach to management was not necessarily wrong, but is no longer adequate for our needs today. They also urge managers to borrow and blend from a wide range of management approaches and practices.

contingency approach stresses the need for flexibility and adaptation of management practices and ideas to suit changing circumstances

Above all, advocates of the contingency approach believe that managers need to be adaptable and flexible in their techniques to solving problems. Because management is a discipline that is continually evolving, it frequently produces new ideas and theories, each with some relevance to practitioners.

FIGURE 7.22 An appropriate management theory should be selected to suit the situation. Managers need to be adaptable and flexible.

The contingency approach, therefore, advocates that managers extract the most useful ideas and practices from a wide range to best suit their business's present requirements. It emphasises that an appropriate management response to one set of circumstances may be quite inappropriate to another. To adopt this approach, managers must sample all the past and present ideas on offer; some refer to this as the 'smorgasbord' approach.

A manager adopting this approach will obviously need to apply the '10 commandments for the modern manager' (see figure 7.23). The advantages and disadvantages of the contingency approach to management are summarised in table 7.6.

TABLE 7.6 Advantages and disadvantages of the contingency approach

Advantages	Disadvantages
• Acknowledges the impact of changes in the business environment and enables businesses to be more flexible in reacting to change • Recognises that there are multiple approaches to management and there is not one best way • Recognises that different situations demand different approaches	• Adapting to constant changes in the business environment can be challenging for management • The process of selecting alternative courses of action depending on the situation can be costly in terms of time and money

FIGURE 7.23 The 10 commandments for the modern manager

THE 10 COMMANDMENTS FOR THE MODERN MANAGER

1. Share your vision with all relevant stakeholders.
2. Manage the relationships and the coalitions, not the employees.
3. Manage your own emotions and help others in the business to maintain an emotional balance.
4. Learn to thrive on diversity not conformity.
5. Lead, rather than simply managing, by inspiring trust and motivation.
6. Cultivate the ability to adapt to changing circumstances.
7. Learn how to access and use appropriate information and manage this knowledge effectively.
8. Be aware of how developments in technology can improve your effectiveness and efficiency.
9. Recognise and use the experiences and expertise of all employees.
10. Encourage ethical behaviour in order to promote pride and commitment in employees.

SNAPSHOT

Case study: Woolworths — managing change effectively

Businesses that are proactive in dealing with change are often successful in managing that change. Woolworths is a good example.

In July 2017, Woolworths Group Ltd announced a nationwide ban of single-use plastic bags in its supermarkets, Big W and BWS stores. The change at Woolworths came about amid increasing public pressure to tackle the issue of plastic bag use in Australia. The company began phasing out the bags following the announcement, encouraging customers to pick up reusable bags instead, and introduced a total ban in mid 2018. Single-use, non-biodegradable plastic bags were replaced with a range of alternative shopping bag options available for purchase at checkouts, including reusable fabric bags or thicker plastic bags. Alternatively, customers can now bring their own shopping bags.

The change was expected to result in a cut in costs at Woolworths, thereby responding to its net profit figures (it reported a full-year loss of $1.24 billion in 2015–16). The ban on plastic bags might also be expected to have a positive impact on sales, which improved over the 2016 financial year for its food business, but declined across the group.

Largely, Woolworths' decision was made as a result of customer feedback. There was increasing public pressure on government and on supermarkets to tackle the issue of plastic bags use in Australia. The social media campaign and petition '#BanTheBag' was signed by more than 170 000 people nationwide, and called on the premiers of New South Wales, Victoria and Western Australia to implement state-wide bans of single-use, non-biodegradable plastic bags.

Woolworths demonstrated its commitment to listening to customers and doing the right thing for the environment. Distributing more than 3.2 billion lightweight plastic bags a year, the ban on these plastic bags would play a significant role in reducing overall plastic bag usage. Woolworth's decision was seen as a demonstration of its commitment to taking environmental and community responsibilities seriously.

While it is likely that the full impact of the change remains to be seen, in 2017 Woolworths reported a profit for the full financial year of $1.53 billion. Sales for all of its operations (except for Big W) increased over the same period.

Further changes linked to the environment include Woolworths stocking two products manufactured by the SECOS Group (SES) — certified compostable bin liners that some local councils have approved for disposal in organic food waste bins.

The single-use plastic bag ban was the second major change for Woolworths in the last 13 years. In 2008, Woolworths rolled out self-serve checkouts in 70 stores across Australia. That number has grown steadily, and the success of this strategy has led to further changes mooted for the future. In November 2019, Woolworths announced it was planning on introducing larger self-serve checkout facilities to cater for shoppers with trolleys — where customers unload their shopping on to a conveyor belt before scanning and packing the items themselves as usual.

It's a concept that is being trialled at Woolworths' Gregory Hills store in Sydney, as well as the newly opened Millers Junction store in Melbourne, which now offers the trolley self-serve checkout, eight manned checkouts and a traditional self-serve area. Customers are now provided with a choice as they can pick the checkout option that works best for the shop they are doing at that particular time.

While this was happening in late 2019 and early 2020, Woolworths was also dealing with the COVID-19 pandemic and its impact on shopping and shoppers. Over the first six months of 2020, Woolworths introduced a range of measures to deal with the requirements of social distancing and the protection of staff and customers during this time. This scenario led Woolworths to introduce changes in stores to assist with social distancing and hygiene.

The first change was the installation of clear screens between self-service 'assisted' checkouts and at staffed checkouts.

Woolworths also made provisions for the 1.5-metre social distancing rule that was introduced in all retail outlets, resulting in every second checkout in self-service areas being closed to allow for adequate distancing. The final change was the introduction of hand sanitiser stations located in store so that customers were able to sanitise their hands on the way in and on the way out.

Given their commitment to change, it is expected that Woolworths will continue to work on additional ways to keep customers safe and improve their shopping experience.

7.4.2 Compare and contrast approaches to management

Many managers may not have studied management in any formal way. However, most of them will have a management approach that reflects one of the management theories and management styles summarised in table 7.7.

TABLE 7.7 Summary and comparison of management approaches

Management theory	Characteristics and features	Organisational structure	Levels of management	Management styles
Classical approach	• Based on 'scientific' analysis of work processes • Highly programmed staff performing simple, repetitive tasks — single skilling, task specialisation • Time and motion studies used to reduce inefficiencies • Division of labour into function-related units, employees strictly controlled with tasks rigidly divided • Stresses how best to manage and organise workers so as to improve productivity • Views management as planning, organising and controlling	• Hierarchical pyramid structure reflecting strata in church, army and school • Hierarchical, linear flow of information, with a large amount of communication directed downwards • Strict channels of responsibility from the top down and grouping into specialised activities based on function, product or process with considerable management and supervisory control at each level	• Hierarchical pyramid structure • Many management and supervisory levels with clearly distinguishable and segmented organisational positions, responsibilities and roles • Bureaucratic management of authority believed to be the most effective means of controlling the workforce and ensuring that instructions are followed	• Autocratic • Course of action decided by management with little or no consultation with workforce • Workers believed to be prone to laziness and self-interest, so tight control and external motivation necessary to achieve required organisational goals and objectives

(continued)

Management theory	Characteristics and features	Organisational structure	Levels of management	Management styles
Behavioural approach	• Emphasises that people (employees) should be the main focus of the way in which the business is organised • Views management as leading, motivating and communicating	• Flatter organisational structure with emphasis on teamwork	• Fewer levels of management	• The emergence of more participative or democratic aspects
	• Recognition that workers have social needs in addition to economic needs • Teamwork and informal work groups important for productivity			
Contingency approach	• Flexibility and adaptation of a variety of ideas and principles from a range of theories mean that a range of options may be pursued to suit the business's requirements	• May be pyramid, flat or decentralised organisational structure, depending on the business's requirements	• Depends on the business's requirements — that is, the nature of the operation and abilities of employees	• Depends on the requirements of the business

KEY IDEAS

- The contingency management approach stresses the need for flexibility and adaptation of management practices and ideas to suit a particular situation.
- Due to the unstable business environment, managers need to be flexible, and borrow and blend from a wide range of management approaches.

7.4 Activities

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7.4 Quick quiz on | **7.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
3	1, 2, 4	5, 6

7.4 Exercise

Revision

1. **Deduce** the important lessons the contingency approach teaches managers.
2. **Why** is adaptability to change an important management skill?

Read the 'Woolworths — managing change effectively' case study and answer questions 3 and 4.

3. **Identify** the factors in the external environment that influenced Woolworths.
4. **Describe** the strategies used by Woolworths to respond to those changes.

Extension

5. Reflect upon what you have learned from this chapter. **Determine** which leadership style you would prefer to adopt if you were a senior manager. **Determine** what style of leadership would best suit you as an employee. Present your answers as an oral report to the class.
6. 'The contingency approach is centred on two basic questions: (1) What is the level of environmental uncertainty? (2) What type of organisational structure is most suitable?' **Predict** how a business should best respond to these questions.

Solutions and sample responses are available in your digital formats.

7.5 Review

7.5.1 Summary

Classical approach to management

- Knowledge about management today is the result of a long and continuing innovative process as ideas evolved over time.
- The business's management approach will have an enormous impact on all aspects of the business's operations.
- A classical–scientific approach to management, pioneered by Frederick Taylor, studies a job in great detail to discover the best way to perform it.
- The classical–scientific approach led to the development of the assembly line and mass-production techniques.
- A classical–bureaucratic approach to management, pioneered by Max Weber and Henri Fayol, advocated:
  - that a bureaucracy is the most efficient form of organisation
  - the main function of management is planning, organising and controlling.
- The main features of classical–scientific and classical–bureaucratic management approaches include:
  - time and motion studies used to reduce inefficiencies
  - production line methods
  - hierarchical organisational structure (bureaucracy)
  - clear lines of authority (chain of command)
  - autocratic leadership style
  - rules and procedures.
- Management functions include:
  - planning: a predetermined course of action which involves strategic, tactical and operational planning
  - organising: a range of activities that translate goals into reality
  - controlling: compares what was intended to happen with what has actually occurred.
- Management hierarchy is the arrangement that provides increasing authority at higher levels of the hierarchy.
- Senior managers have greater accountability, responsibility and power compared to lower-level managers of the organisation.
- The traditional hierarchical organisational structure has people grouped according to the specialised functions they perform.
- The two main types of leadership style are:
  - autocratic or authoritarian — strong, centralised control
  - participative or democratic — authority and power are decentralised.
- A manager using an autocratic leadership style tends to make all the decisions and frequently checks employee performance.
- Managers should bring a range of leadership styles to their positions that can change according to the situation.
- Most managers typically have a dominant style.

Behavioural approach to management

- The behavioural approach to management, pioneered by Elton Mayo, stresses that people (employees) should be the main focus of the way in which the business is organised.
- The main features of behavioural management approach include:
  - a humanistic approach: employees are the most important resource
  - satisfaction of employees' economic and social needs
  - employee participation in decision making
  - team-based structure
  - the belief that managers need good interpersonal skills
  - the emergence of a democratic leadership style.

- According to the behavioural management approach, the main management functions are:
  - leading: having a vision of where the business should be in the long and short term
  - motivating: energising and encouraging employees to achieve the business's goals
  - communicating: exchanging information between people; the sending and receiving of messages.
- Teamwork involves people who interact regularly and coordinate their work towards a common goal.
- Well-functioning teams can produce superior performance.
- Managers require a good understanding of team/group dynamics.
- The development of work teams has resulted in flatter organisational structures.
- The role of managers is changing from controller to facilitator.
- Businesses are adopting flatter management structures which results in:
  - the 'de-layering' of traditional hierarchical structure
  - the establishment of market-focused work teams
  - each work team being responsible for a wide range of production functions.
- Reducing the levels of management gives greater responsibility to individuals in the business.
- A manager who adopts a behavioural approach will tend to use a participative or democratic leadership style.
- Participative or democratic leaders share their decision-making authority with their subordinates.
- This style of leadership is most effective when a business is operating in an environment undergoing rapid change.

Contingency approach to management

- The contingency management approach stresses the need for flexibility and adaptation of management practices and ideas to suit a particular situation.
- Due to the unstable business environment, managers need to be flexible and borrow and blend from a wide range of management approaches.

7.5.2 Key terms

autocratic leadership style a manager using an autocratic leadership style tends to make all the decisions, dictates work methods, limits worker knowledge about what needs to be done to the next step to be performed, frequently checks employee performance and sometimes gives feedback that is punitive.
behavioural approach an approach that stresses that people (employees) should be the main focus of the way in which the business is organised
bureaucracy the set of rules and regulations that controls a business
chain of command an organisational structure that shows how each member of a company reports to one another
classical approach (to management) stresses how best to manage and organise workers so as to improve productivity (output)
contingency approach stresses the need for flexibility and adaptation of management practices and ideas to suit changing circumstances
control process involves establishing standards in line with the goals of the business, measuring the performance of the business against those standards or benchmarks, and making changes where necessary to ensure that the goals of the business have been met
delegate to hand over certain tasks or responsibilities to an employee who is suitably capable and qualified to carry them out
flatter organisational structures have evolved due to a 'de-layering' of management structures resulting in the elimination of one or more management levels
leadership style a manager's way of doing things — their behaviour and attitudes

management hierarchy the arrangement that provides increasing authority at higher levels of the hierarchy
mass production the process of manufacturing standardised goods on a huge scale by automation
operational (short-term) planning provides specific details about the way in which the business will operate in the short term
organisation process the range of activities that translate the goals of a business into reality
organising the structuring of the organisation to translate plans and goals into action
participative democratic leadership style a leadership style in which the manager consults with employees to ask their suggestions and then seriously considers through suggestions when making decisions
planning the preparation of a predetermined course of action for a business
scientific management an approach that studies a job in great detail to discover the best way to perform it
specialisation of labour the degree to which tasks are divided into separate jobs
strategic (long-term) planning planning for the following three to five years. This level of planning will assist in determining where in the market the business wants to be, and what the business wants to achieve in relation to its competitors.
tactical (medium-term) planning flexible, adaptable planning, usually over one to two years, that assists in implementing the strategic plan
teamwork when people interact regularly and coordinate their work towards a common goal
time and motion studies a process of examining each of the steps in a production procedure and the time taken to perform them

Resources

Digital documents Key terms glossary (doc-35789)
Chapter crossword (doc-36246)

Interactivity Chapter crossword (int-7223)

7.5 Activities

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Exercise 1: Multiple choice questions

1. Which management skill would not be present in the use of contingency management theory?
   A. Autocratic management
   B. Problem solving
   C. Communication
   D. Decision making

2. Christine has recently been appointed as the CEO of a manufacturing firm. She has restructured the business. Previously staff were divided into departments and given specific tasks, but now the focus is on developing work teams. Which management approach has most influenced Jenny?
   A. Political approach
   B. Classical approach
   C. Behavioural approach
   D. Contingency approach

3. When would an autocratic management style be most appropriate?
   A. When employees are less skilled
   B. When a less hierarchical management structure is present
   C. Where management consults with staff
   D. Where communication is bottom-up

4. What is the key principle of classical–scientific management?
   - **A.** Workers' high involvement in decision making
   - **B.** Emphasis on achieving profitability
   - **C.** High degree of worker specialisation
   - **D.** The use of a democratic management style

5. Which of the following best describes the goal of classical–scientific management?
   - **A.** Few levels of management
   - **B.** High focus on labour productivity
   - **C.** Flat management structure
   - **D.** Wide spans of control

6. A fire captain is organising her firefighters to fight a fire in a factory. What type of leadership style would usually be used in such a situation?
   - **A.** Participative
   - **B.** Democratic
   - **C.** Autocratic
   - **D.** Inclusive

7. 'Employees are important to increasing productivity. They shouldn't be seen as robots — their needs, wants and worker satisfaction are key factors to achieving productivity and competitiveness.' Which of the following would characterise the behavioural approach to management?
   - **A.** Autocratic management style
   - **B.** Employee recognition
   - **C.** Top-down communication
   - **D.** Little accountability

8. You been asked by a franchisor to address a group of new franchisees on a disadvantage of using a behavioural approach to management. Which of the following would be a disadvantage to this approach?
   - **A.** A focus on labour productivity
   - **B.** Time spent consulting employees
   - **C.** The presence of teamwork
   - **D.** More employee involvement in decision making

9. The use of the contingency management theory depends upon:
   - **A.** the pre-existing thinking of management theorists.
   - **B.** the current situation facing the business.
   - **C.** the goals and objectives of the business.
   - **D.** behavioural management thinking.

10. What three elements does the behavioural approach to management emphasise? Management as:
    - **A.** leading, motivating and organising.
    - **B.** planning, organising and controlling.
    - **C.** communicating, motivating and leading.
    - **D.** communicating, organising and leading.

Exercise 2: Exam practice questions

Read the scenario below and answer the following questions.

XYZ Pty Ltd is a car manufacturer. Business management previously adopted an approach to management whereby employees were given simple repetitive tasks and had no say in decision-making. The managers at XYZ Pty Ltd have contracted a management consultant to analyse the business and make recommendations. One of the recommendations consisted of restructuring the organisation to incorporate more reliance on work teams, and to encourage management to look at ways of motivating their staff and increasing morale.

Question 1 (2 marks)
Identify the previous approach to management.

Question 2 (2 marks)
Outline the management approach that is being recommended by the management consultant.

Question 3 (3 marks)
Discuss the management approach that you identified in question 2.

Question 4 (4 marks)
Explain the changes this theory will have on the business's organisational structure.

Question 5 (5 marks)
Distinguish between the autocratic and democratic leadership styles.

Question 6 (6 marks)
Analyse why managers should adopt the contingency approach to management.

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8 Management process

8.1 Overview

LEARNING SEQUENCE

8.1 Overview
8.2 Coordinating key business functions and resources
8.3 Operations
8.4 Marketing
8.5 Finance
8.6 Human resources
8.7 Ethical business behaviour
8.8 Review

8.1.1 Introduction

So far in this topic we have discussed only the 'what' of management. We have examined:

- the nature of management: its importance and what skills are needed to be an effective manager
- achieving business goals: what the manager wants the business to achieve
- management approaches: ideas about different ways of performing the task of management.

strategies the actions that a business takes to achieve specific goals

However, we now come to the 'how' of management: how the task of management is actually done. Once a business has established a set of specific goals, the next step is to determine what needs to be done to achieve the goals. **Strategies** outline how the business will attempt to achieve its goals. Strategies are the series of actions undertaken to achieve a result. This requires managers to make decisions about how best to administer and coordinate the four key business function areas — operations, marketing, finance and human resources. This responsibility of management is often viewed as the 'doing things right' responsibility.

The focus of management's strategies is to ensure that the key business functions are performing efficiently and effectively in order to support and implement the business's overall intentions. Specialist managers in:

- *operations* focus on strategies to improve production processes and to create the ideal factory or office layout
- *marketing* determine the appropriate markets for the business's products, and decide on pricing, product features, promotion and channels of distribution
- *finance* are responsible for the financial requirements, budget allocation and financial record keeping
- *human resources* are concerned with the recruiting, training, employment contracts and separation of the employees who are required to run the business successfully.

FIGURE 8.1 Due to globalisation and increased pressure to reduce costs and be competitive, there has been a huge growth in the outsourcing of business functions. The aim is to take advantage of specialist skills and to achieve cost savings.

For example, imagine if one of Toyota's goals is to increase its market share of hybrid motor vehicles. This would result in changes to the operations function — how the cars are manufactured. The marketing function would need to develop plans for pricing and promoting the new type of motor vehicles. Additional finance would be required to fund the extra resources needed. Finally, new employees with the necessary skills would need to be recruited and selected, or existing employees retrained.

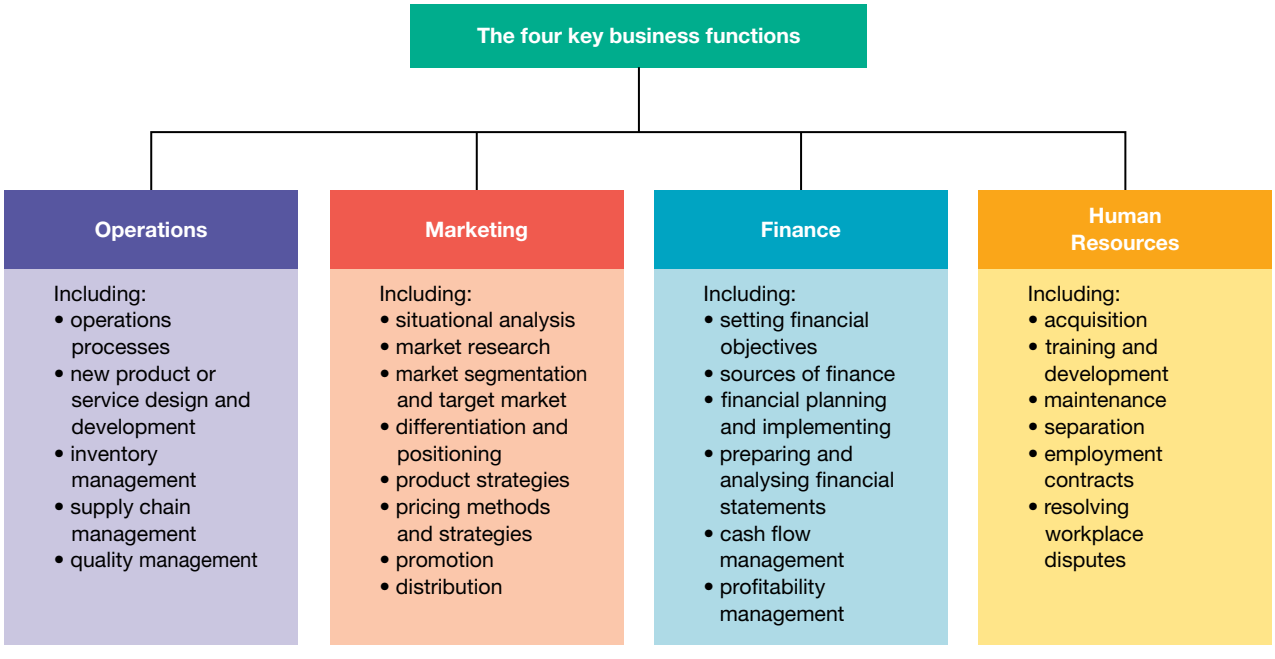
In a small business, the key business functions are normally carried out by a few employees. They are required to undertake numerous tasks that will often overlap (see figure 8.4). Occasionally, a small business will decide to **outsource** one or more key business functions and concentrate on those functions in which it is most skilled. In large businesses, whole divisions or departments, such as the finance department or the marketing department, which are staffed by many people, perform one specific function.

outsourcing the use of external sources or businesses to undertake business functions or activities for the business

The key business functions are at the core of all businesses regardless of the business's size, location, purpose or length of existence.

In most businesses, the key business functions are grouped to bring closely related tasks together. Thus, sales and marketing are grouped, finance and administration are grouped, and operations is grouped with research and development (R&D). Consequently, the range of functions is generally reduced to four main functions, as shown in figure 8.2. The importance of the key functional areas is highlighted by the fact that the HSC Business Studies course is structured around — and examines in more detail — the four key function areas.

FIGURE 8.2 The four key business functions



These key functions are interdependent (i.e. they all overlap) and each relies on the other. In many businesses, they are separate functions. Synergy means 'the whole is greater than the sum of all the individual parts'.

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8.2 Coordinating key business functions and resources

SYLLABUS LINK In this subtopic you will learn about the management process:
- coordinating key business functions and resources.

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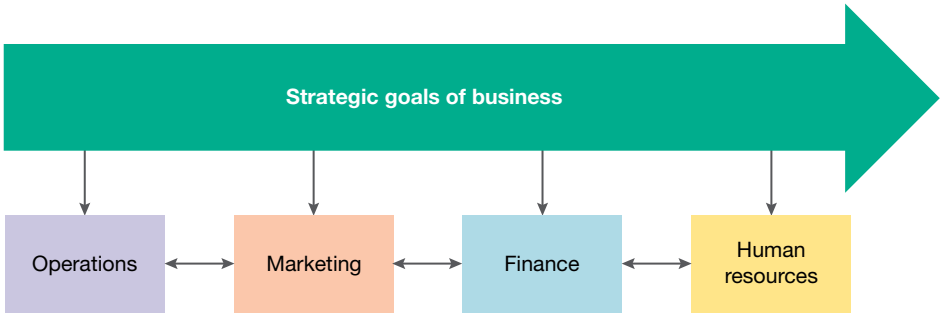
Though a business can separate the key business functions into departments that perform their distinct roles, the functions are interdependent — each relies on the others to perform effectively. **Interdependence** refers to the mutual dependence that the key functions have on one another. This means that the various business functions work best when they work together. A hockey team might have highly specialised players — for instance, a brilliant left wing, a superb fullback and a dynamic goalkeeper. However, despite their individual brilliance, a side will usually win when all players contribute to the game, each working with the others in the team, passing, communicating and playing for the same victory. In the same way, each section of the business may perform its specialised function extremely competently — but if they do not work as a 'team' and aim for the same business goals, then the business is not likely to achieve its objectives. Interdependence occurs when each key function area is committed to the same business goals as the other key areas, and they each work in a coordinated and collaborative way to achieve these goals. Interdependence is always preferred because it provides a unified approach by the business as it works to achieve its objectives.

FIGURE 8.3 Although a business may separate the key business functions, they are all interdependent — each relies on the others to perform effectively. The key business functions work best when they overlap and employees work towards common goals. Each function area depends on the support of the others if it is to perform at capacity.



The coordination of key business functions depends on the broad goals of the business as well as its size. In large businesses, the key business functions are often separated into different divisions or departments headed by separate managers. This is because the key functions require quite different skills and knowledge. Also, as businesses grow, their needs become more complicated: they require many people to carry out each key function. This would mean that each division would have its own specialists. For example, in a large business the employment relations department would have specialists in salaries and pay, hiring of employees, staff training, work health and safety (WH&S), and so on.

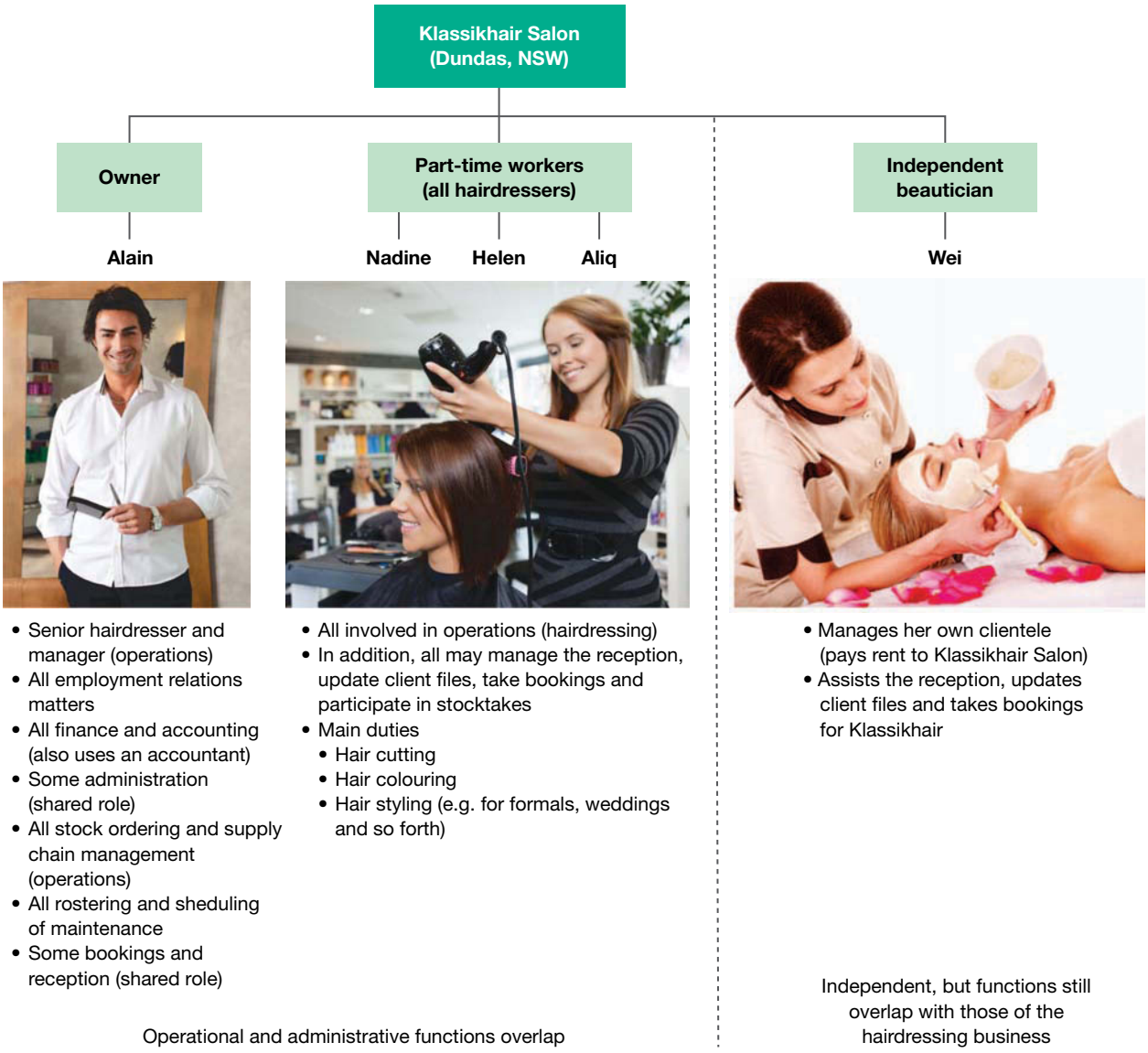
The word **division** is often used by businesses to describe the separation of key functions. Division of a business along functional lines enables each part to specialise, but when the functions are separated, coordination between them becomes an important issue. In fact, the greater the divisional separation the more coordinated a business needs to be in order to run smoothly.

Most businesses are not, in fact, large but small. In the typical small business the work areas are not separated but often overlap. This is shown by the example of the hairdressing salon in figure 8.4.

interdependence the mutual dependence that the key functions have on one another. The key business functions work best when they overlap, and employees work towards common goals. For each function area to perform at capacity, it depends on the support of the others.

division the separation of key business functions into specialised units or departments. The business is divided into functional areas.

FIGURE 8.4 The overlapping of key functions as occurs in small business



KEY IDEAS

- Strategies are a series of actions undertaken to achieve specific goals.
- The four key business functions include:
  - operations
  - marketing
  - finance
  - human resources.
- The key business functions are interdependent — each relies on the other to perform effectively.
- All business functions should:
  - work towards the fulfilment of the business's goals
  - be coordinated so that they have a common purpose.
- In large businesses, the key business functions are often separated into divisions or departments.
- In small businesses, the key business functions are not separated but often overlap.

8.2 Activities

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8.2 Quick quiz | **8.2 Exercise** on

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LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 6	4, 5, 7, 8, 9	10, 11

8.2 Exercise

Revision

1. **Define** the term 'strategies'.
2. **Recall** the focus of the strategies developed by management.
3. **Identify** the four key business functions.
4. **Examine** figure 8.2 in section 8.1.1. Recall two activities involved in each of the four key business functions.
5. **Why** are the key business functions sometimes outsourced in small businesses?
6. **Recount** what occurs when there is interdependence between the key business functions.
7. **Why** are the key business functions often separated into different divisions or departments in large businesses?
8. **Demonstrate** what is meant by the overlapping of key business functions.
9. **Explain** why the key business functions need to be coordinated in a business that has separate divisions.

Extension

10. **Determine** why it is impractical to expect small businesses to have distinct functional areas.
11. **Predict** what will happen to a business whose key business functions are not united in trying to achieve the business's overall intention.

Solutions and sample responses are available in your digital formats.

8.3 Operations

SYLLABUS LINK In this subtopic you will learn about the management process:

- operations
  - goods and/or services
  - the production process
  - quality management.

You will also learn to examine contemporary business issues to explain the benefits of quality management practices.

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If you have ever prepared a meal, you will know that you need ingredients and a recipe, or a method, to create a final product. Just like you, businesses will follow a recipe when they are producing their good or service. The area of management that is responsible for this is known as 'operations'.

Operations refers to the business processes that involve transformation or, more generally, 'production'. It is a term that applies both to the manufacturing and the services sector. As explained in subtopic 8.1, all businesses establish a set of goals. Next, the business implements strategies to achieve these goals. The core goal of all businesses is to maximise profits. This is often best achieved through the efficient production of a good or service. Operations management is the strategy used to achieve this goal. The HSC course investigates operations in greater depth, so this chapter will provide an elementary understanding of the main concepts.

operations the business processes that involve transformation or, more generally, 'production'

Operations management consists of all the activities in which managers engage to produce a good or service. It is concerned with creating, operating and controlling a transformational process that takes inputs from a variety of resources, and produces outputs of goods and services that are needed by customers. In a chocolate factory, this means using labour and raw resources, such as cocoa beans, to make chocolate. The Mars chocolate factory in Ballarat manufactures well-known brands including Mars and Snickers bars, Maltesers and M&Ms, and the plant has the capacity to produce 1 million Mars bars in just 8 hours. Mars Australia sources its cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture huge vats of melting chocolate and caramel with lots of workers in white coats.

When you learn about operations management in this chapter, you will be studying how businesses actually make their goods or services, as well as how they maximise the efficiency and effectiveness of their production processes and how they manage quality.

FIGURE 8.5 The operations function within any business is shaped by the range and types of goods and services that are produced. Management of operations will differ for businesses producing goods as opposed to those producing services.

BizFACT

Due to the enormous costs involved in operations processes, many businesses try to gain a competitive advantage through cost leadership. This involves aiming to have the lowest costs in the market. To achieve this, operations managers aim to find ways of minimising costs.

The nature and type of operations vary considerably from one type of good or service to another. However, how the operations management function is carried out will directly affect a business's competitive position because it will:

- establish the level of quality of the good or service
- influence the overall cost of production, given that the operations function is responsible for the largest part of a business's capital and human expenses
- determine whether sufficient products are available to satisfy consumer demand.

FIGURE 8.6 Service businesses, such as restaurants, will also make use of operations management. Inputs such as ingredients, labour and equipment are combined through a production process to produce a meal that meets or exceeds customer expectations.

The operations management function has a considerable influence on the quality, cost and availability of a business's goods or services. These, in turn, have a direct bearing on whether the business achieves its other main goals — specifically, to maximise profits, to increase market share, to maximise growth or to provide a reasonable return for investors.

operations management all the activities in which managers engage to produce a good or service

8.3.1 Goods and/or services

A manufacturer will transform inputs into goods: tangible products. **Tangibles** are physical products that can be handled and stored before they are sold to the consumer, such as bread, clothing or a car. The production process and consumption are not linked; that is, there is little customer involvement in production.

A service organisation will transform inputs into services. Services are **intangible**, which means that they cannot be touched. For example, if you attend a training course, you cannot physically touch it, but you benefit from gaining knowledge and learning new skills. Services cannot be stored and the customer may actually need to be present when the service is being delivered. For example, the customer must be present when receiving a haircut.

TABLE 8.1 The characteristics of operations management within manufacturing and service businesses

Manufacturing businesses	Service businesses
• Produce goods that are tangible (can be touched) • Manufactured goods can be stored for later use. • Little customer involvement in production — the consumer is typically not present when the good is produced. • Production process and consumption are not linked. • Manufactured goods tend to be homogenous or standardised. • Examples include bread, clothing, cars.	• Produce services that are intangible (cannot be touched) • Services cannot be stored. • Customer is involved in production — the consumer typically has to be present when the service is produced. • Production process and consumption typically occur at the same time. • Services tend to be differentiated or tailored to individual customers. • Examples include haircut, transport and education.

In reality, many businesses today produce a combination of both manufactured goods and services. When you purchase a product such as a car or electronic equipment it often comes with a warranty and other services. When a customer enters a contract with an internet provider, for example, they will receive a service (their broadband connection), plus the modem and other goods necessary to enable the connection.

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8.3.2 The production process

There are three key elements of the production process in any business: inputs, processes and outputs. These elements differ between manufacturing and service businesses. The management of the operations system is important because it will determine how efficiently and effectively the business produces goods or services to meet the needs of customers.

tangibles goods that can be touched

intangibles services that cannot be touched

inputs the resources used in the transformation (production) process

Inputs

Inputs are the resources used in the transformation (production) process. Some resources are already owned by the business, while others come from suppliers. Inputs differ between manufacturing businesses and service businesses. Inputs may be divided into those that are transformed and those that are transforming resources.

Transformed resources are those inputs that are changed or converted in the operations process; they are transformed by the operations process. Transformed resources include:

- *materials:* the basic elements used in the production process
- *information:* the knowledge gained from research, investigation and instruction, which results in an increased understanding
- *customers:* customers become transformed resources when their choices shape inputs.

transformed resources those inputs that are changed or converted in the operations process

transforming resources those inputs that carry out the transformation process

transformation the conversion of inputs (resources) into outputs (goods or services)

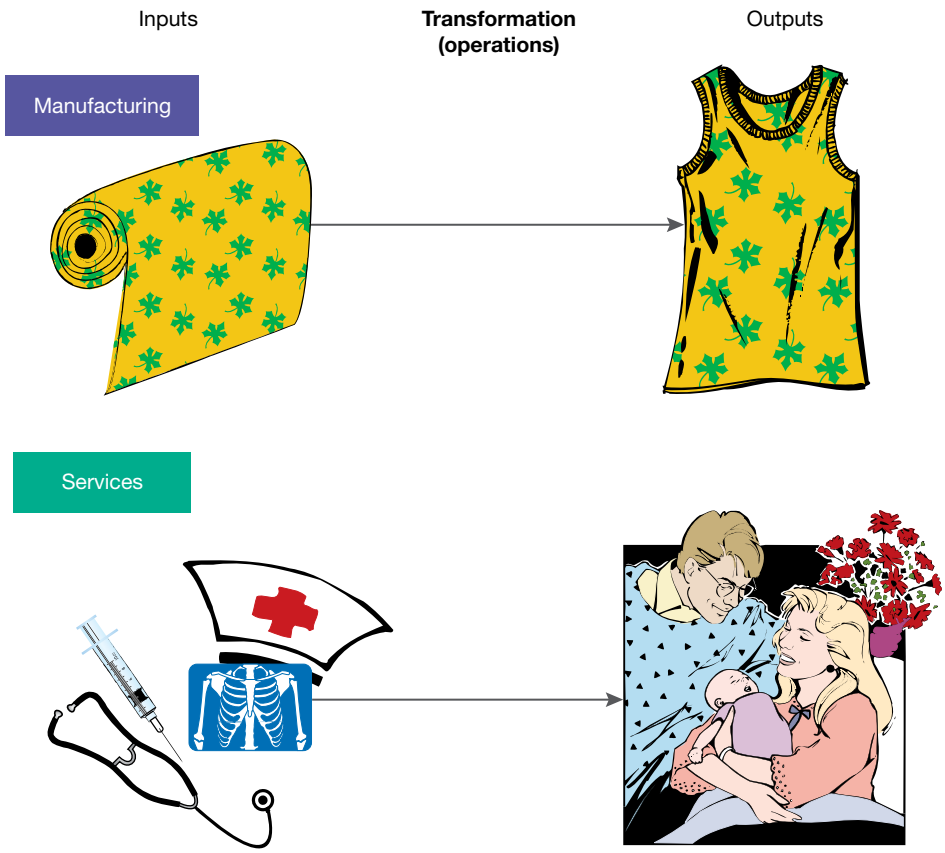
Transforming resources are those inputs that carry out the transformation process. They enable the change and value-adding to occur. The two main transforming resources are:

- *human resources:* the people that are employed by the business
- *facilities:* the plant (factory or office) and machinery used in the operations process.

Transformation processes

The main concept of operations management is **transformation**, which is the conversion of inputs (resources) into outputs (goods or services). Sony, for example, takes plastic, metal, glass and electronic parts, and transforms them into numerous electronic products using an innovative approach and processes of design, manufacturing and assembly. Figure 8.7 illustrates this transformation process.

FIGURE 8.7 The transformation process in a clothing factory and a private hospital



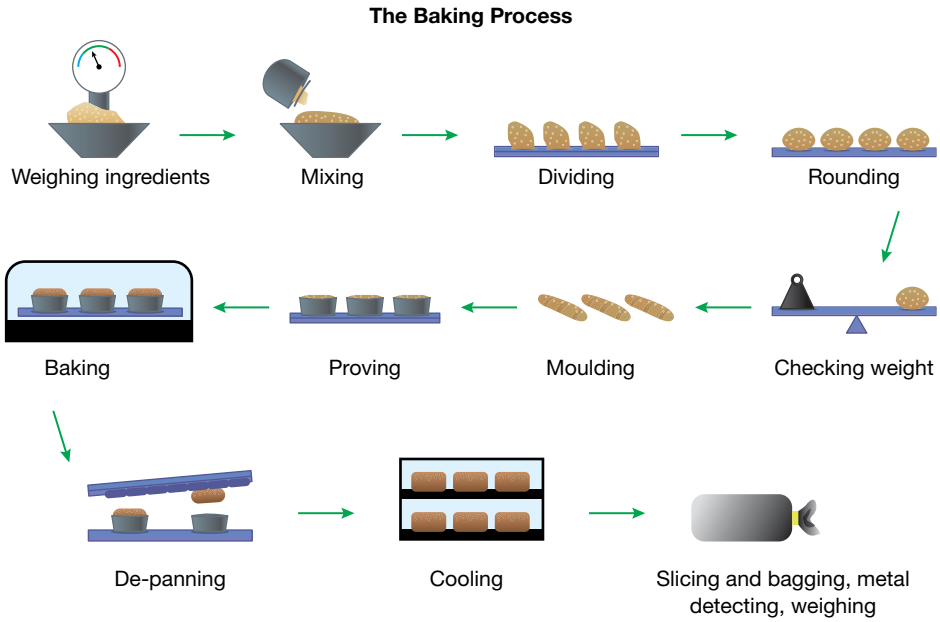
The term ‘transformation’ implies physical changes, but today it also includes the conversion of resources into services. Your school takes its main inputs — the students, the syllabus, the teaching and ancillary staff, and the buildings and other capital — and produces educated, employable graduates. What occurs in this educational setting is a transformation process. It is the task of the operations manager to create, operate and control the transformation process, and table 8.2 illustrates how this happens in a number of different businesses.

TABLE 8.2 The transformation process in a manufacturing and service business

Inputs supplied by existing resources or external supplier	Transformation process	Outputs — either goods or services
Clothing factory Pattern cutters, designers, drivers, machine operators, material, sewing machines, labourers	Computer-based designing, dyeing, hand and machine cutting, machining, branding, manual random checking	Dresses, shirts, suits, trousers etc.
Private hospital Nurses, doctors, operating theatre, computers, beds, drugs, laboratory, x-ray facilities	Consultation, diagnosis, assessment of alternatives, treatment (referral to specialist or done by a general practitioner)	Patient returned to health

Owing to the vastly differing nature of business, the transformation process varies from business to business. It is often useful to look at the transformation process in a manufacturing business separately from the process in a service-based business because the transformation processes in manufacturing are far more visible and more easily quantified.

FIGURE 8.8 Tip Top Bakeries currently has over 13 bakeries across Australia and New Zealand and produces around 1 000 000 baked products every day. The main inputs include flour, yeast, water, salt and labour. Their transformation process is very similar to how you’d bake a loaf at home, but on a larger automated scale. It relies on four steps: mixing, proving, baking and cooling. The difference is that their machinery speeds up the process and removes the need for kneading the dough.



Transformation process in manufacturing businesses

The manufacturing process may involve different kinds of processing. One type takes the most basic resources and transforms them into the final goods for the use of consumers. Other types involve a step-like transformation across a range of processors and businesses.

FIGURE 8.9 Operations in the manufacturing process

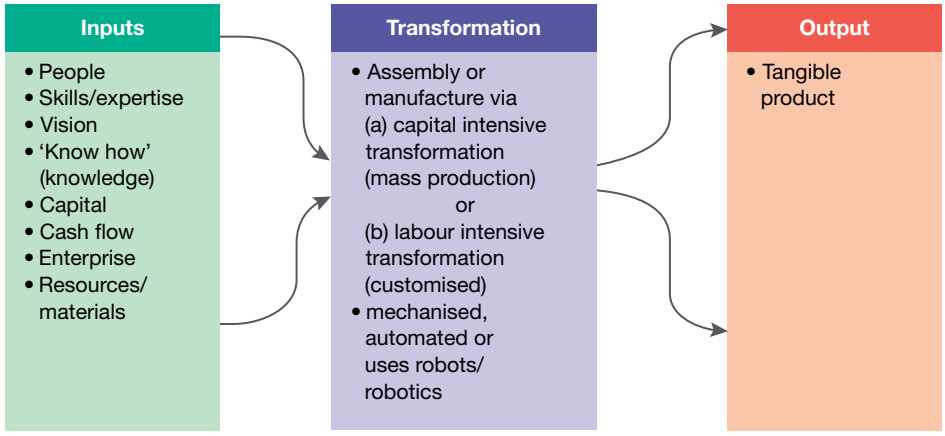
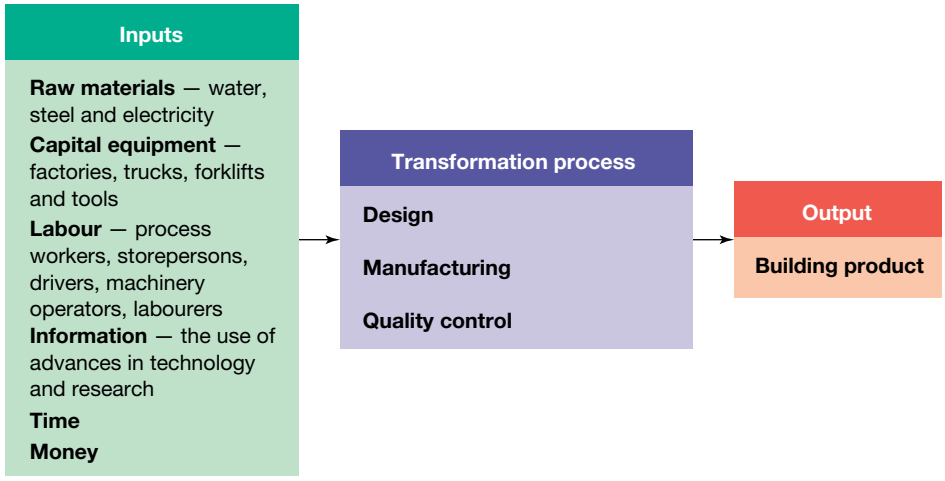


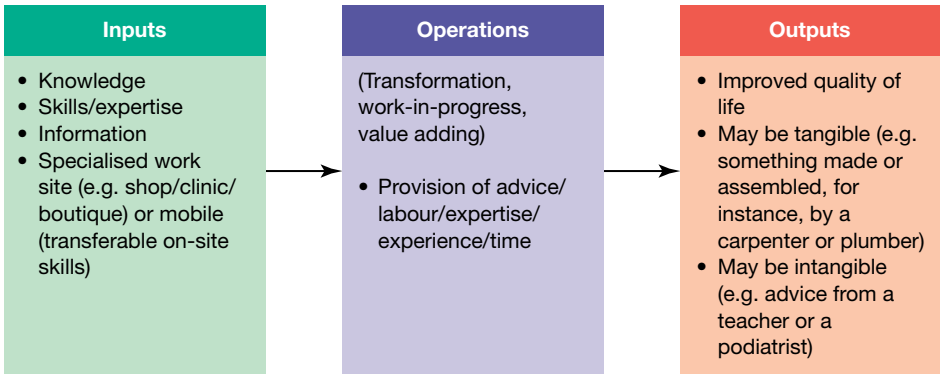
FIGURE 8.10 An operations system for a manufacturing company producing building products



Transformation process in service businesses

Due to the intangible nature of services, the operations processes are less physical or visible. They take the form of knowledge, inputs, expertise and so on (see figure 8.11).

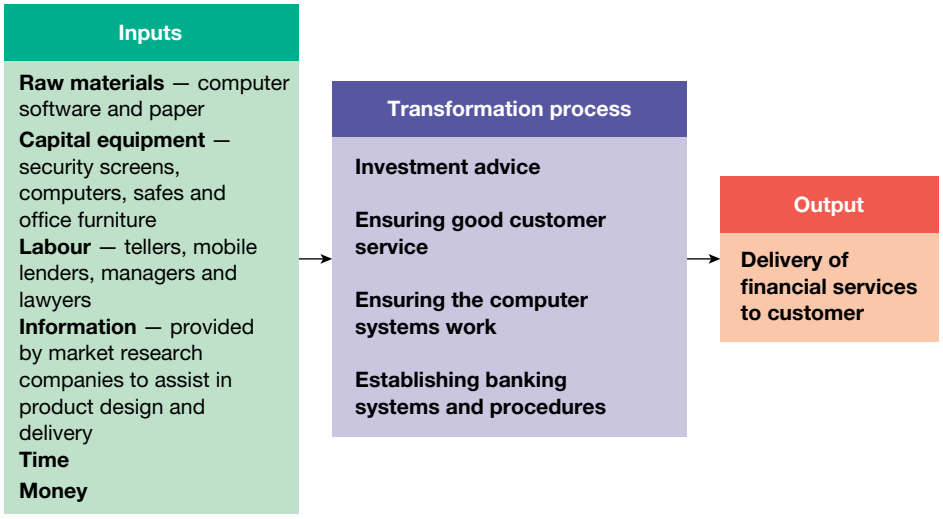
FIGURE 8.11 Operations in service businesses



Transformation processes adopted by service businesses differ from those in manufacturing businesses for three reasons:

1. Outputs of the service business cannot be physically held in stock. A bank, for example, cannot perform transactions on behalf of customers in advance and store these in anticipation of use at a future date.
2. Service businesses rely heavily on interaction with the customer in determining the output. Before an output is generated, the bank, in the example, needs the customer to indicate whether he or she requires a car loan, a deposit, a withdrawal or any other particular service.
3. Service businesses are more labour-intensive. Having skilled employees is crucial as this will affect the quality of the service provided.

FIGURE 8.12 An operations system for a bank or financial institution



BizFACT

Due to the intangible nature of service businesses, the operations processes are less physical or visible.

Table 8.3 highlights the main differences between manufacturing and service operations.

TABLE 8.3 The difference between manufacturing and service operations

Manufacturing operations	Service operations
Tangible items are produced — they may be customised, but generally they are standardised and often mass produced.	Intangible and customised, or made to suit the individual's requirements
Generally located close to supplies of raw materials or inputs (transport costs are of major concern)	Must be close to markets — location and proximity to users of services is vital.
Zoning determines actual siting.	Zoning may allow for home-based flexibility.
High capital costs in operations but can achieve some economies of scale	High training/education costs but can operate with low capital costs
Employs unskilled or technically skilled people, so average cost of labour/workforce is low.	Focus is on skilled/experienced/semi-skilled and professional staff, so labour costs are relatively higher.
Quality of output is standardised and backed by warranty.	Quality varies depending on the strength of industry regulations, skill, experience, knowledge and honesty of practitioner. Backed by public liability insurance. Customer or client relations are 'everything'.
Uses manufacturing technology	Uses office automation
Manufacturer generally makes the product and then awaits sale (thereby risking unsold stock).	The server only acts once the demand for a service is identified — hence less risk.
The goods last beyond the time over which they are paid for — they tend to be durable.	Services by their nature are inherently non-durable, though the actual work done may have lasting effects.

Outputs

Essentially, **outputs** refer to the result of a business's efforts — the good or service that is delivered or provided to the consumer. So far, a distinction has been drawn between service and manufacturing operations, but in many cases businesses carry out both types of operation. Toyota, for example, separates its vehicle manufacturing operation from its customer service operation, although both elements are critical to the business's overall success. All businesses carry out many activities that can be isolated from direct involvement with the customer. Insurance companies employ mathematicians called actuaries who use formulas to determine risk and probability in setting the level of insurance premiums. Actuaries never deal directly with the public, but are instrumental in forming parameters or boundaries in which operations will occur.

FIGURE 8.13 A car is an output that requires many individual processes. There may be several thousand inputs, such as nuts and bolts, supplied by hundreds of businesses.

The operations manager must be able to link transformation processes to the activities performed by other areas of the business. Output must always be responsive to customer demands. Issues of quality, efficiency and flexibility must be balanced against the resources and strategic plan of the business.

While the most obvious output of the transformation process is the goods made or services provided, there are other, more subtle outputs — for example, customer service (which refers to how well a business meets customer expectations) and warranties (promises made by a business to correct any defects in the goods they produce or the services they deliver).

outputs the result of a business's efforts — the service or product that is delivered or provided to the customer

SNAPSHOT

Case study: Toyota — Operations

Operations is the part of the business that 'gets the job done'. At Toyota, that means producing almost 9 million vehicles each year, of which approximately 14 000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is similar to producing a cake (or any other product for that matter). You need inputs (resources used in the production process, such as labour and raw materials). The next step is to transform those raw materials into output (finished products). Many of the components used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel panels that are welded, painted and undergo a multitude of processes to finally reach the assembly line.

Welding on the assembly line at Toyota. Toyota is credited widely for its high-quality, low-cost, short lead time and flexible production system.

Operations is not just about making goods or producing services. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this (referred to in Japanese as *kaizen*). This means that all company activities — from the assembly line to customer service — are continually scrutinised, so that new and better ways of doing things are introduced if needed.

Just In Time (JIT) production is also used at Toyota. This means that the right parts and materials are manufactured and provided in the exact amount needed, and when needed. The number of cars produced is directly related to customer demand.

Toyota uses technology to its advantage. For example, the welding required for making the shell of a car involves hundreds of welding processes and parts. Robots on the automated production line do many of the welding jobs and the remainder are carried out by workers. Toyota says its production lines are automated, but 'with a human touch'.

8.3.3 Quality management

Quality refers to the degree of excellence of goods or services and their fitness for a stated purpose. Quality is very important to Darrell Lea due to the strong focus on customer needs (see figure 8.14). A quality product should have a high degree of excellence and should achieve its stated purpose. A quality product should be reliable, easy to use, durable, well designed, delivered on time, include after-sales services, and have an agreeable appearance.

Quality management is the strategy which a business uses to make sure that its product meets customer expectations. Three quality approaches are quality control, quality assurance and total quality management.

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality management the strategy which a business uses to make sure that its products meet customer expectations

FIGURE 8.14 Darrell Lea is committed to product quality due to its strong focus on customer needs. The company prides itself on the manufacturing of fine quality confectionery and is committed to continuous improvement so that its products consistently meet customers' needs and comply with food safety regulations. Quality Systems are an integral part of Darrell Lea's management programs. It employs an independent, third-party auditor to assess its processes on a regular basis. Feedback from these audits provides valuable input into the company's continuous improvement process.

8.3.4 Explain the benefits of quality management practices

The benefits of implementing quality management practices include:

- reduced waste and defects
- reduced variance in final output
- strengthened competitive position
- improved reputation and customer satisfaction
- reduced costs
- increased productivity and profits.

Operations managers use a variety of approaches to maintain or improve quality. Some of the main quality management strategies include quality control, quality assurance and quality improvement.

Quality control

Quality control involves the use of inspections at various points in the production process to check for problems and defects. Quality control reduces problems and defects in the product using inspections at various points in the production process. Many businesses have minimised errors and waste by ensuring that standards are met. Specifications or benchmarks are set before the physical checks are completed. Actual performance is then compared to the established criteria. If the established standards are met, it is likely that the business will be meeting customer expectations. Competitiveness increases as the costs associated with waste and faulty products are reduced.

quality control the use of inspections at various points in the production process to check for problems and defects

In a service business, an inspection of employee performance can be used as a means of quality control. A bank might inspect teller accuracy, speed or courtesy. In a call centre calls might be monitored for quality assurance and control purposes.

FIGURE 8.15 To improve the efficiency and effectiveness of its operations, Tatura Milk Industries uses quality control and quality assurance. At Tatura Milk, every load of milk is individually tested as it is delivered to the factory. Data can be provided back to the farmer through a secure website. The plant has an onsite laboratory where teams of scientists and technicians conduct routine quality testing at all stages of the production process.

BizFACT

Samsung continuously upgrades its quality management system in an effort to achieve the best quality in all products and services. The quality management system consists of four evaluation criteria: reliability, functionality, process and application. Samsung uses state-of-the-art facilities and equipment for all its tests and analysis in order to achieve and maintain the best quality at all times.

Quality assurance

Quality assurance involves the use of a system so that a business achieves set standards in production. This process assures customers that the products of a business are fit for purpose. It does this by achieving set standards throughout the production process, thereby preventing defects or problems before they occur. For this reason, quality assurance is said to be a proactive strategy.

quality assurance the use of a system so that a business achieves set standards in production

Quality assurance is an integral part of operations. Most organisations have a quality management system in place to ensure that set standards are achieved. The ISO 9000 series of quality certifications is a widely used international standard. 'ISO' stands for International Organization for Standardization. Meeting these

international standards is voluntary, but many businesses comply with their requirements to remain competitive locally andinternationally. The ISO provides guidelines on how businesses should establish quality assurance systems by adopting specific procedures, controls, and recording and documentation measures. An effective quality management system gives assurance to customers that a business is able to provide safe and reliable products.

Quality improvement

Quality improvement focuses on two aspects: total quality management and continuous improvement.

Total quality management

Total quality management (TQM) is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. The adoption of TQM can not only improve the price competitiveness of a business, but can also improve product quality, allowing the business to attain competitive advantage. To achieve TQM objectives a number of approaches may be used, such as employee empowerment, continuous improvement and improved customer focus.

W. Edwards Deming was an American quality expert who was known as the 'founder of the quality movement' and is credited with the development of TQM. Deming believed that quality problems would be best solved with an emphasis on employee involvement and that quality should be the responsibility of every employee. As part of the TQM approach, one of the most important questions a business should ask is 'What does the customer require?' All teams need to realise that they are serving a customer. This is as true for the employees that deal directly with external customers as for those that simply pass work on to other employees inside the business.

Many businesses use **quality circles** as a means of achieving employee empowerment. Under this approach, teams of up to ten workers meet regularly to solve problems related to process, design or quality. The groups often make presentations to management with their ideas in order to improve the performance of the business. Such programs have resulted in substantial cost savings for organisations — for example, at the Northrop Aircraft division that produces Boeing 747s, 55 individual quality circles halved the cost of parts within two years. At Chrysler, a quality circle discovered that heating rubber seals before installation could prevent car door leaks.

BizFACT

The Schaeffler Group is a leading worldwide automotive and industrial manufacturer. The foundation for its sustained success is through taking the lead in quality, technology and innovation. Their work in all areas is based on the objective of continuous improvement with the aim of achieving 'zero defects'. They have implemented measures to ensure defect prevention and minimisation of risk. Every employee in the company is aware of this commitment to quality and must think and act in accordance with this principle.

Continuous improvement

Continuous improvement is a process that involves a constant evaluation of, and improvement in, the way things are done. Higher and higher standards are set in the continual pursuit of improvement. *Kaizen* (Japanese for 'improvement') emphasises continuous improvement in all facets of a business, from the way the CEO manages to the way assembly line workers perform their jobs. Although perfection is practically impossible to achieve, it is the 'striving' that is important to business culture.

total quality management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

quality circles groups of workers who meet to solve problems relating to quality

continuous improvement an ongoing commitment to achieving perfection

FIGURE 8.16 Brambles Limited is a leading supply-chain logistics company with global headquarters in Sydney. One of its businesses, CHEP, moves approximately 300 million pallets and containers for manufacturers, distributors and retailers in more than 60 countries. Brambles is committed to continuous improvement and this has led to increases in its cash flow. Continuous improvement is achieved by monitoring best practice, minimising its environmental impact and supporting local communities.

FIGURE 8.17 Since its foundation, Toyota has established a culture that focuses particular attention on quality and continuous improvement. Toyota implemented a 'Customer First' and 'Quality First' policy, where each employee is committed to maintaining a constant awareness of problems and a sense of ownership over their work. Employees are encouraged to make ongoing efforts to implement *kaizen* and to collaborate to improve safety and customer satisfaction.

SNAPSHOT

Case study: Liverpool Cancer Therapy Centre Radiation Oncology — quality management

Liverpool Cancer Therapy Centre (LCTC) Radiation Oncology Unit provides radiotherapy (radiation therapy) treatments to inpatients and outpatients of Liverpool Hospital. The primary purpose of this department is to provide timely, high quality, comprehensive and compassionate care to people within the area who are affected by cancer.

Radiation therapy (RT) involves a very complex process of consultation, preparation or planning, and execution or treatment. Since each stage of this process is prone to mistakes or variations in interpretation, all of the processes involved require strict adherence to accepted quality standards. Each step in the integrated process of administering RT needs quality control (QC) and quality assurance (QA) to prevent errors, minimise risks and to give a high level of confidence that patients will receive the best treatment.

Quality assurance

The LCTC Radiation Oncology unit's QA program includes both physical tests and procedures that are necessary to ensure that they can accurately, safely and consistently deliver the prescribed treatment to each patient with minimal dose to normal tissue and minimal exposure of radiation to employees and patients. Due to the importance of accuracy in dose delivery, a comprehensive QA program is imperative to reduce the likelihood of accidents and errors. The goals of their QA program are to deliver quality patient care; to provide the best and safest RT for each patient; and to reduce the risks of systematic equipment and procedural-related errors.

LCTC has purchased the latest in technology and information systems to enable safe and accurate radiation treatment and electronic management of patient information. While the technology used is extremely reliable, it's complex and the quality of the therapy is highly dependent on the QA procedures that are implemented by the team involved. Since radiotherapy errors can occur at many points along the planning and treatment cycle, QA is crucial in ensuring that this complex, multi-step process delivers the best outcomes for the patient, thus improving survival.

Some examples of QA undertaken for each treatment plan include the following:

- A peer review program: every treatment plan conducted by an employee of the department is checked by a planning senior to ensure it is correct and the most effective treatment plan. Each treatment plan is then also approved by a radiation oncologist.
- Before the patient is treated, the treatment plan is checked again by a planning senior as well as by a treatment staff member.
- The machinery used to deliver the radiation is checked daily to ensure the radiation output is accurate.

Quality control

Some of the quality control measures that are in place include:

- on the first day of treatment as well as throughout the treatment, a CT scan or x-ray is taken to verify the treatment is being delivered to the correct area
- once the patient has commenced treatment, weekly checks of the plan are conducted
- procedural checklists are used extensively.

Continuous improvement

The LCTC Radiation Oncology Unit is at the leading edge of cancer treatment and research in Australia. Continuous improvement is therefore essential in order to maintain this status as a leader in the field. The radiation oncology unit's commitment to patient outcomes is of the highest priority. This can be achieved through their focus on continuous improvement.

Employees systematically review the processes and protocols and adapt them. They change techniques in line with worldwide best practice and continuously create new protocols to ensure that their service is of the highest quality.

To ensure that each patient receives the highest level of care, quality management is an integral part of each employee's job. All employees must demonstrate a commitment to quality and continuous improvement. In order to remain accredited, radiation therapists need to undertake ongoing professional development. Within the radiation oncology unit, QA serves both as an educational tool for training staff, as well as a point of discussion whereby employees are continuously improving their knowledge about the management of tumours and complex treatment situations.

KEY IDEAS

- Operations management is about producing goods and/or services based on business goals.
- The operations management function has considerable influence on the quality, cost and availability of a business's goods and/or services.
- Operations management is responsible for transforming inputs into outputs.
- The characteristics of operations management differ according to whether the business is a manufacturer of goods or a provider of services. Manufacturers produce tangible products (physical), while service organisations produce intangible products (services).
- Most modern businesses produce a combination of both manufactured goods and services.
- The three key elements of the production process include inputs, the transformation process and outputs.
- Inputs are resources used in the production process and include raw materials, capital equipment, labour, information, time and money.
- The transformation process is the conversion of inputs into outputs.
  - Transformation processes in manufacturing businesses are different to those of service-based businesses.
- Outputs are the finished goods or services.
- Quality management is the strategy that a business uses to make sure that its product meets customer expectations. Three quality approaches are quality control, quality assurance and quality improvement.
- Quality control involves the use of inspections at various points in the production process to check for problems and defects. Performance is measured in relation to set standards or benchmarks.
- Quality assurance involves the use of a system where a business achieves set standards in production. This is a proactive approach to quality management that aims to prevent problems from occurring.
- Total quality management (TQM) is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation.
- Quality improvement focuses on two aspects: total quality management and continuous improvement.
- Continuous improvement is a process that involves an ongoing commitment to achieving perfection.

8.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

8.3 Quick quiz | **8.3 Exercise** on

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 7, 9, 12, 14, 16, 19, 20, 24, 25, 27	3, 4, 5, 6, 8, 10, 11, 13, 15, 17, 18, 21, 22, 23, 26, 28, 29, 32	30, 31

8.3 Exercise

Revision

1. **Define** the terms 'operations' and 'operations management'.
2. **State** what operations management is concerned with.
3. 'Operations management is the part of the business that actually gets the job done.' **Demonstrate** this concept on a smaller scale by describing the materials you would need and the process you would undertake to bake a cake (your finished product).
4. **How** will the operations management function directly affect a business's competitive advantage?
5. **Distinguish** between a good and a service.
6. **Account** for why modern large businesses combine goods and services.
7. **Identify** the three key elements of the production process.
8. **Distinguish** between the two types of inputs.
9. 'The main concept of operations management is transformation'. With reference to an example, **clarify** the meaning of this statement.
10. **Why** do the transformation processes adopted by service businesses differ from those in manufacturing businesses?
11. Using the process of completing homework, for example, **construct** a diagram that describes the operations component (that is, the transformation from *no* homework done to *all* homework completed).
12. **Identify** the inputs, processes and outputs of the following businesses:
    a. Sheraton Hotel
    b. Four 'n' Twenty pies.

    Present your answer in table form, as shown in table 8.2 in section 8.3.2.
13. **Distinguish** between 'input', 'transformation' and 'output'.
14. The Rio Tinto Group is an international mining company. Rio Tinto finds, mines and processes mineral resources, which are then converted to products such as coal, copper, gold and silver. **Identify** the inputs, transformation processes and outputs that Rio Tinto uses to produce its products. The **Rio Tinto** weblink in the Resources tab can help you get started.
15. **Discuss** the main differences between the operations function in a manufacturing business and a service-based business.
16. **Outline** the main features of quality management.
17. **Why** is quality control important for businesses?
18. **Describe** the ways a business can offer quality assurance to customers.
19. **Define** total quality management.
20. **Summarise** the three approaches that make up total quality management.
21. Read the following definitions. If a definition is false, **propose** a correct definition.
    a. Quality control involves the use of inspections at various points in the production process.
    b. Quality assurance involves the use of a system where a business achieves set standards in production.
    c. Total quality management is a commitment to quality that is applied to the business's operations department.
    d. Continuous improvement involves an ongoing commitment to use of inspections.

22. Ganesh is the production manager for IBX technology, a manufacturer of internet security software. Recently, the level of product defects has increased, although the production process has not changed.
    a. **Propose** to Ganesh strategies that he should use to determine the cause(s) of the defects.
    b. **Explain** to Ganesh the value of introducing a TQM approach.
23. The name 'The Reject Shop' suggests that it could not possibly sell quality products. Is this true? Search the company's website and see how many references to quality you can find. **Explain** how The Reject Shop ensures that it receives quality products from suppliers.

Read the 'Toyota — Operations' case study and answer questions 24 to 26.

24. **Outline** Toyota's transformation process.
25. **Describe** the quality management strategy adopted by Toyota.
26. **Explain** how Toyota's manages its inventory.

Read the 'Liverpool Cancer Therapy Centre Radiation Oncology — Quality management' case study and answer questions 27 to 29.

27. **Outline** the main quality assurance strategies adopted by the LCTC Radiation Oncology Unit.
28. **Distinguish** between LCTC's quality assurance and quality control strategies.
29. **How** does LCTC demonstrate a commitment to continuous improvement? **Why** is quality management an integral part of this department?

Extension

30. One strategy to produce goods more quickly is to use better technology. For example, if you used a hand beater to bake a cake it may not have been as efficient as using an electric beater. Fill in the following table and **determine** some strategies that an operations manager might use to achieve the listed business goals. The first entry has been completed for you.

Business goal	Operations management strategy
Improve the quality of service provided	Introduce quality management
Improve the quality of the product	
Reduce production costs	
Contribute to the protection of the natural environment	
Increase profitability	
Increase market share	

31. Anita's Cosmetic and Beauty Therapy is a business specialising in a range of cosmetic and beauty enhancement treatments and products. **Determine** the range of operations activities offered in such a business.
32. **Demonstrate** how an operations manager of a manufacturing plant that produces confectionery might use the roles of planning, organising, leading and controlling in his or her daily job.

Solutions and sample responses are available in your digital formats.

on Resources

Weblinks The Reject Shop
Rio Tinto

8.4 Marketing

SYLLABUS LINK In this subtopic you will learn about the management process:

- marketing
  - identification of the target market
  - marketing mix.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Marketing is vital to the existence of the business. Just because someone invents a new product or improves an existing one does not guarantee customers will buy it. Without some form of marketing, customers may not even be aware of a product's existence regardless of how 'record breaking', 'new and improved' or 'revolutionary' it may be. Statistics reveal that more than 80 per cent of new products launched on the market self-destruct in the first year of operation, mainly because of poor marketing. Businesses make few sales if they do not market their products successfully, eventually ending in failure.

At the same time, many products that would seem insignificant and unimportant have become best-selling 'essential' items as a result of a well-managed and professional marketing plan. Who would have ever thought that brown, sugary, fizzy water with addictive qualities would become the universal product it is today!

Marketing is a powerful business strategy available to all businesses. The HSC course investigates marketing in greater depth, so this chapter will provide an elementary understanding of the main concepts.

BizFACT

Research was carried out by Sydney-based company ask Marketing in 2020 to consider the impact COVID-19 will have on marketing. From this, 47 per cent of SMEs were found to be looking to remove current in-house marketing roles as a cost-reduction strategy. In addition, 30 per cent said they'd shut down marketing activity altogether as a result of the recession and because they believed they couldn't afford it anymore. The survey found 15.4 per cent of SMEs had reduced marketing and advertising since March 2020.

8.4.1 Marketing fundamentals

Marketing is not a new subject to you. Over the years you have probably been involved in some type of marketing activity. Consider the following examples:

- helping to organise a stall at a local fete
- setting up a raffle for a local sporting team
- persuading your parents to lend you some money to buy a new phone
- coordinating the publicity for the school musical.

Although all these activities are different, they have one thing in common: they involve a number of marketing activities (see figure 8.18).

8.4.2 What is marketing?

Many definitions are used to describe **marketing**. The most commonly accepted definition comes from the American Marketing Association: 'Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational objectives'.

marketing a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers

A more simplified definition of marketing is a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers. At the heart of these activities is the most fundamental question all businesses should continually ask: 'What do customers want to buy — now and in the future?' This is the essence of marketing — finding out what the customers want and then attempting to satisfy their needs.

Sometimes 'selling' and 'marketing' are used synonymously. Many people think that marketing is just a fancy name for selling; however, there is much more involved. Selling is merely getting rid of existing stock, whereas marketing takes a much broader view. Successful marketing involves bringing the buyer and seller together and making a sale. The current view of marketing is such that it does not even have to involve the selling of a product — for example, not-for-profit organisations may want to inform the public of the services they provide.

Some small business owners are excellent 'technicians' but dislike marketing and inadvertently turn away customers. Other small business owners are so convinced of the value of the good or service that they assume it will sell automatically. Unfortunately, this rarely occurs.

Many small business owners feel marketing is not for them. They happily place advertisements in local newspapers, display the name of the business on their cars and perhaps even advertise on a regional radio or television station. However, such advertising is just one part of marketing a good or service.

Small business owners often view marketing campaigns as something only large businesses do, and as too expensive, complicated or time consuming for themselves. What they do not often appreciate is that they can run a marketing campaign and that it can be simple and inexpensive.

All businesses, regardless of size, need to undertake some form of marketing, otherwise customers will not be informed about the business's products.

FIGURE 8.18 The four main marketing strategies are commonly referred to as the four Ps of the marketing mix. They include strategies regarding the product, price, promotion and place (distribution).

SNAPSHOT

Case study: Polasports — marketing a new product line

Polasports is an Australian-owned business that manufactures sunglasses designed with the everyday sportsperson and outdoor enthusiast in mind. Its sunglasses provide a fusion of sports sensibilities with fashionable frames to create an exceptional and enduring product. Up until recently, Polasports was quite an unknown brand on a retail level. A company may offer the greatest product in the world, but unless consumers are aware of it, they may not make a single sale. Products do not 'sell themselves'. Without customers, a product — even one that is superior to its competitors — is useless. One of the most important roles of a business is to generate brand awareness for its products. To ensure its product gets the best visibility possible, the business needs to consider a wide variety of marketing strategies.

In 2017, Beau Ryan (former National Rugby League star) collaborated with Polasports as a brand ambassador to create his own sunglasses range. Celebrity endorsement is a powerful marketing tool, especially when the target audiences align themselves with the ambassador chosen. This endorsement can open up a huge following and increase customer engagement. This is exactly what happened at Polasports. Getting Beau Ryan on board increased sales, as well as traffic to its website, significantly. The greatest advantage, however, was that the partnership grew its brand awareness. This, in turn, led to the company gaining new wholesale customers wanting to stock Polasports.

Polasports has used social media as its main advertising platform to promote its new product range. The company has found that social media advertising has been an extremely effective tool for growing its brand awareness. Not only does the company use social media, but also Beau Ryan and his friends have been posting about the new range. Because they all have such a large social media following, this has greatly assisted the business to grow its online presence and increased traffic to its website.

The company has also affiliated itself with two charities to market its business. Recent studies suggest that millennials (Polasports' target market) have driven the social responsibility movement and will spend more with brands that support causes. With the launch of the new range, Beau Ryan announced that $5 from every pair of sunglasses sold would go directly to his charity of choice, the Men of League Foundation, which is known for its focus on former players in the rugby league community who are doing it tough. This enabled Polasports to get a lot more influencers on board and talking about the brand, since the company was giving back to a charity that most people in league feel very passionately about. The company also donated $5000 to the Starlight Children's Foundation Australia. This charitable element has been a cornerstone of the brand and shows consumers that the company is ethical and trustworthy. Promoting these donations on social media generated goodwill by demonstrating to consumers that the business is dedicated to charitable causes.

After the launch of the new range, Beau Ryan promoted the sunglasses on the NRL *Footy Show*. This promotion, however, wasn't as successful as the company had hoped. While they did get a television plug, they didn't see a return on this, which could be due to the fact that the demographic that watches the show are a lot older and different to the target market.

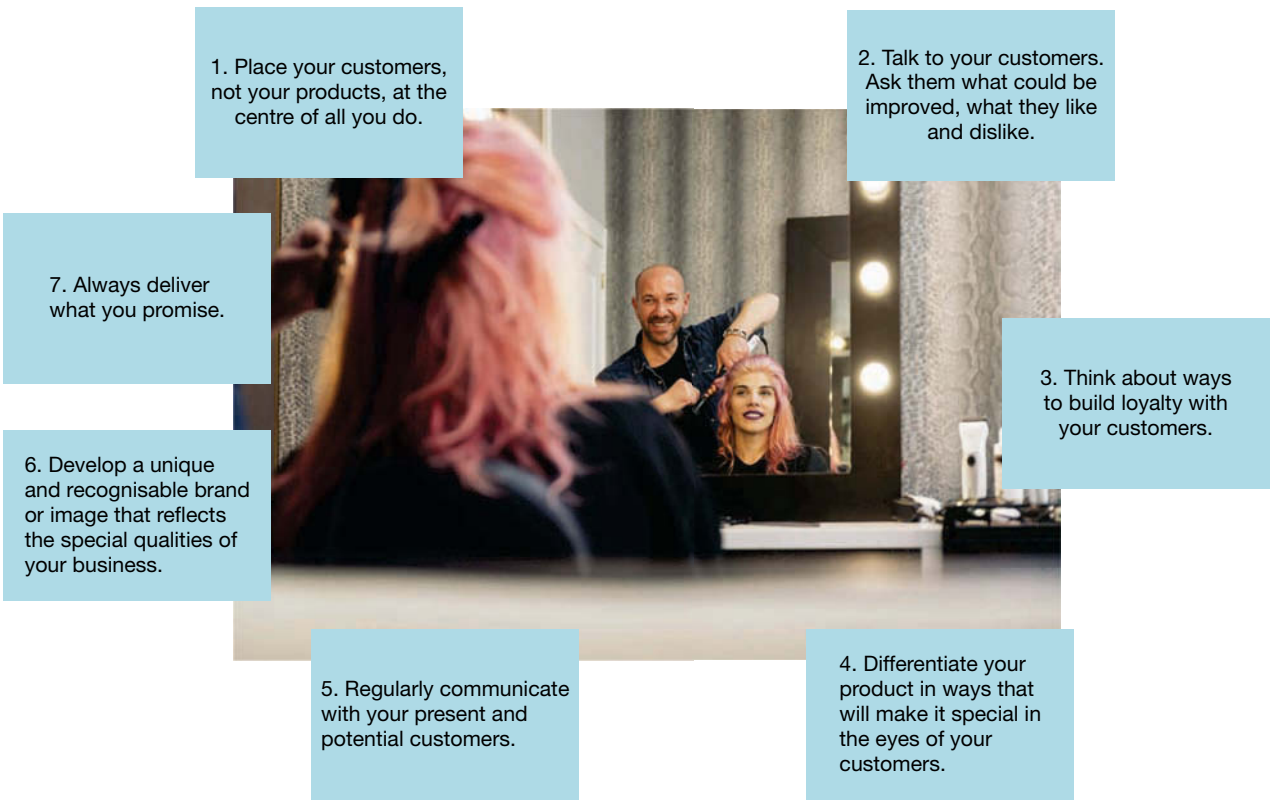
On the other hand, the radio plug on Nova 96.9 during Fitzy and Wippa's show had a much greater impact. After the segment, the entire team posted Instagram stories about Polasports, which led to an increase in Polasports' social media followers, as well generating more publicity about the new glasses. This segment also led to even more publicity in *The Sun-Herald*.

Traditional marketing attempted to pull customers to a product, whatever the cost. While traditional channels are not necessarily outdated, they do not really consider the customer to whom they are selling. Contemporary marketing involves much more than placing an advertisement in the local media. It is a way of thinking. Contemporary marketing refers to those strategies that stress the importance of customer orientation. Everything

the business does is directed towards putting the customer at the centre of its thinking. Businesses that adopt this approach base their marketing decisions and practices on the needs and wants of their customers (see figure 8.19). This is known as the marketing concept approach.

Businesses that adopt the marketing concept approach also focus on relationship marketing — that is, developing long-term, cost-effective relationships with their customers. For these businesses, the customer relationship does not end with the sale; it begins there. Businesses using this approach will continuously strive to not simply meet but exceed customer expectations. This means that, at every level of the business, employees should work towards customer satisfaction by establishing positive relationships with customers. Research has found that businesses that use this contemporary marketing approach over the long run have seen an increase in sales and have become far more prosperous than those who use only traditional channels.

FIGURE 8.19 Seven tips to becoming a marketing driven customer-oriented business



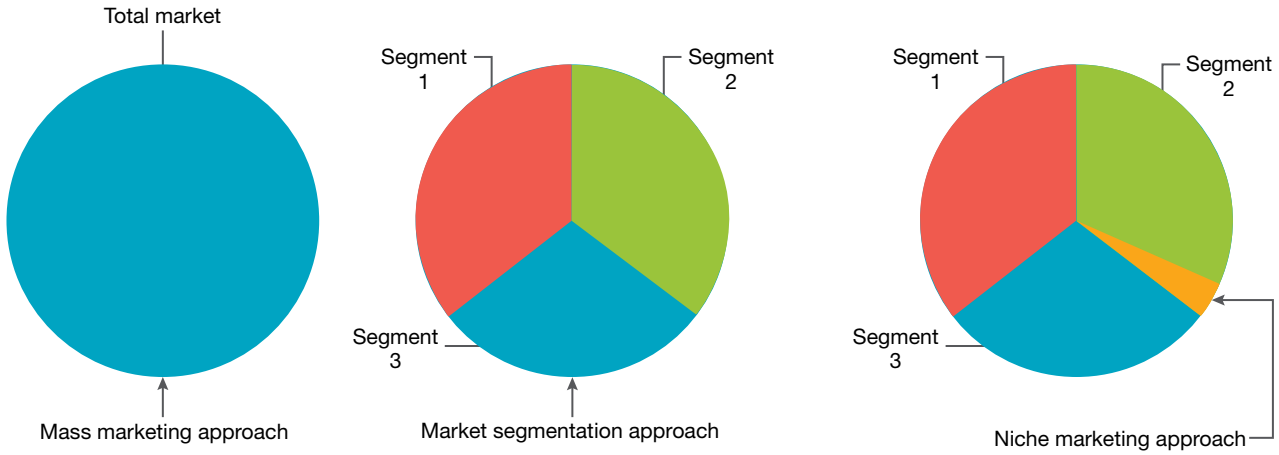
8.4.3 Identification of the target market

Very few businesses can afford to market their products to all consumers or all businesses in Australia. At the same time, few businesses would want to because it is a very rare product that is suitable to all consumers. Until the end of the 1950s, Coca-Cola was such a product. But today Coca-Cola offers consumers a range of carbonated soft drinks based on its original cola formula, including Coca-Cola No Sugar, Diet Coke and Coca-Cola Vanilla, as well as non-cola drinks such as Pump still water, POWERADE and Goulburn Valley juices. Most businesses must select specific groups of customers on which to concentrate their marketing efforts: their **target markets**. A target market is a group of customers with similar characteristics who presently, or who may in the future, purchase the product.

target market a group of customers with similar characteristics who presently, or who may in the future, purchase the product

Three broad approaches can be adopted when selecting a target market: the mass marketing approach, the market segmentation approach or the niche market approach (see figure 8.20).

FIGURE 8.20 Selecting a market to be the target market



Mass marketing approach

Fifty years ago, marketers commonly spoke about 'mass market'. In other words, there was a large demand for a standard product. In a **mass market**, the seller mass-produces, mass-distributes and mass-promotes one product to all buyers. The Model T Ford, for example, was the first motor vehicle to be produced and sold to the mass market.

A mass-marketing approach seeks a large range of customers. The business develops a single marketing mix and directs it at the entire market for the product. This means there is one type of product with little or no variation, one promotional program aimed at everyone, one price, and one distribution system used to reach all customers.

Few products today, apart from basic food items, water, gas and electricity, are marketed to the mass market. As a result of greater choice, higher personal incomes and customers seeking more individualised products, the mass market has been replaced by segmented or niche markets.

FIGURE 8.21 Reckitt Benckiser is the parent company which owns the Dettol brand. Dettol was invented in 1933 as an antiseptic liquid, but over the years it has been extended to a number of product categories, such as toilet soaps, liquid hand wash, liquid body wash, shaving cream and plastic strips. Dettol is a mass-marketed product because it can be used by every household.

Market segmentation approach

Few businesses can sell their products to the entire market — the market is just too big. Therefore, a business will divide the market into distinct segments. A business that is marketing motor vehicles, for example, would not direct its marketing efforts towards every person in the total vehicle market. Some people might want only a sports car; others might want a four-wheel drive. The business would thus direct its efforts towards a particular *segment* of the total market for motor vehicles.

mass markets in mass markets the seller mass-produces, mass-distributes and mass-promotes one product to all buyers

Market segmentation occurs when the total market is subdivided into groups of people who share one or more characteristics based on four elements or dimensions: demographic, geographic, psychographic and behavioural, as shown in table 8.4.

TABLE 8.4 Common elements or dimensions for segmenting customer markets

Demographic — population characteristics	Geographic — where people live	Psychographic — personality characteristics	Behavioural — loyalty to a product
• Age • Gender • Education • Family size • Income • Occupation • Social class • Religion • Ethnicity	• Urban • Suburban • Rural • Regional • City size • Climate • Landforms	• Lifestyle • Personality • Motives • Socioeconomic group • Consumer opinions • Interests	• Purchase occasion • Benefits sought • Loyalty • Socioeconomic group • Use rate • Price sensitivity

A business segments its market so it can better direct its marketing strategies to specific groups of customers, rather than the mass market. The ultimate aim of market segmentation is to increase sales and profits by better understanding and responding to the desires of the target customers.

BizFACT

ALDI has successfully appealed to a segment of shoppers prepared to trade low prices (coupled with sound product quality) for a variety of conveniences offered by traditional supermarkets. These shoppers readily accept ALDI's narrow product range, the lack of manufacturers' brands and plain stores with minimal customer service.

Once the market has been segmented, the business selects one of these segments to become the target market (see figure 8.22). For example, a rural supplies business would normally aim its promotion strategies at male, 25- to 60-year-old, rural-based farmers with middle to high incomes. An exclusive women's fashion boutique in central Sydney would have a target market of customers who are female, 25- to 45-year-old, city-based professionals with high incomes.

This approach allows the business to better satisfy the wants and needs of a targeted group, because the business can:

- use its marketing resources more efficiently
- better understand the **consumer buying behaviour** of the target market
- collect data more effectively and make comparisons within the target market over time
- refine marketing strategies used to influence consumer choice.

Sometimes, a business may be able to identify both a **primary** and **secondary target market**. For example, Lush, a cosmetics retailer, primarily targets women of higher socioeconomic class, specifically middle to upper class, aged 18–45 years. They also have a secondary target market of men, as well as children. The ability to choose the correct target market is an important marketing function because it will influence the entire marketing plan (see the following case study).

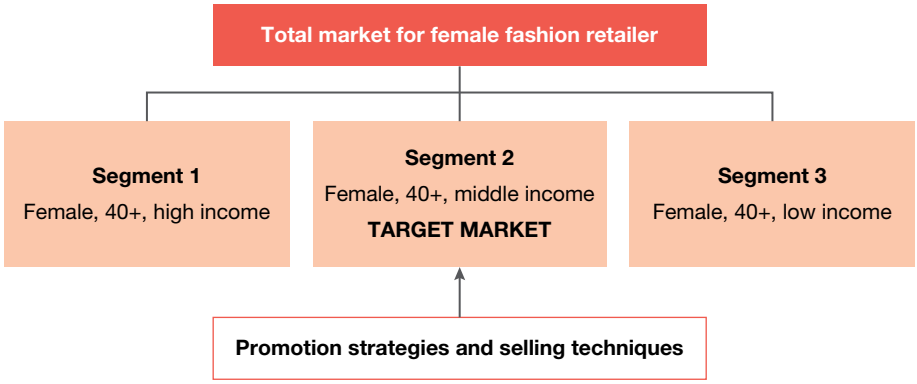
market segmentation when the total market is subdivided into groups of people who share one or more common characteristic

consumer buying behaviour the decisions and actions of consumers when they purchase goods and services for personal household use

primary target market the market segment at which most of the marketing resources are directed

secondary target market usually a smaller and less important market segment

FIGURE 8.22 Selecting a market segment to be the target market is important. In this example, the fashion retailer makes clothes for women over 40 years of age. The clothes are of a reasonable quality but would not be classed as 'designer' clothes. In this business, female middle-income earners are the main target market.



SNAPSHOT

Case study: The Pets Hotel — catering to a target market

The Pets Hotel is an upmarket facility for both long-term and short-term boarding of dogs and cats. It is located in the suburb of Port Melbourne and allows pet owners to leave their pets on a single daycare basis, or for longer periods while the owners go on holidays.

Size of target market

Potential

Statistics from the Australian Veterinary Association indicate that there are 20 dogs and 16 cats for every hundred people in Australia. Port Melbourne is located within the city of Port Phillip, but is easily accessible from the neighbouring municipalities of Bayside, Glen Eira and Stonnington. With a total population of over 460 000, this could mean that there are around 90 000 dogs and 70 000 cats in these four municipalities, assuming pet ownership is consistent with the national average.

Actual

The primary target market consists of people who are going away and need to board their pets for a period of time. The secondary market consists of people who need short-term daycare for their pet. The Pets Hotel has a daily rate for one-off stays, but also offers discounts to pet owners who need daycare on a regular basis. As The Pets Hotel also offers dog obedience training and grooming facilities, there is also a secondary market for pet owners wishing to take advantage of these services. For an additional fee, a dog can be taken for a walk around the local area — a useful service for busy dog owners who do not have time to walk their dog.

Target market dimensions

Geographic

The area around Port Melbourne includes many apartments, making it difficult to leave pets at home all day while their owners are working. This makes the Port Melbourne location ideal for the daycare market. Port Melbourne is also close to the Melbourne CBD, so is in a handy location for pet owners working in the city.

Demographic

The municipalities within easy reach of The Pets Hotel include large numbers of families with children, a group that often has pets. There are also many apartment dwellers who may need daycare for a pet while they are at work.

Psychographic

Housing in the areas around Port Melbourne is expensive, so the area is considered quite affluent. The Pets Hotel offers a luxurious option that is likely to appeal an affluent market. This market segment is likely to consider cost less of an issue than lifestyle choices, and so will be prepared to pay for the additional quality of service this business offers. The additional services offered by The Pets Hotel are also designed to appeal to the busy and 'well off' pet owner who wants the best for their dog or cat.

Behavioural

By offering discounts for frequent users, The Pets Hotel targets regular and repeat users. For example, daycare for a dog will cost $55 per day, but a monthly booking for this service costs only $750 — the equivalent of around 14 days' worth of care at the daily rate.

Niche markets

An extension of the market segmentation approach is that of the **niche market**, which is a narrowly selected target market segment. In a sense, it is a segment within a segment, or a 'micro market' (see figure 8.23). For example, in any newsagency, you will see row upon row of magazines each appealing to a specific niche market — male, female, young, old, high-income, low-income, urban, rural, outdoor lifestyle, indoor lifestyle and so on.

niche market a narrowly selected target market segment

FIGURE 8.23 Due to the growing popularity of tea as a product and lifestyle, a variety of specialty teas have come onto the market. Many new businesses have been established that have developed niche products, which is reflective of the niche audiences within the greater tea market. Green tea and its variants are the fastest growing tea category in the world.

8.4.4 Marketing mix

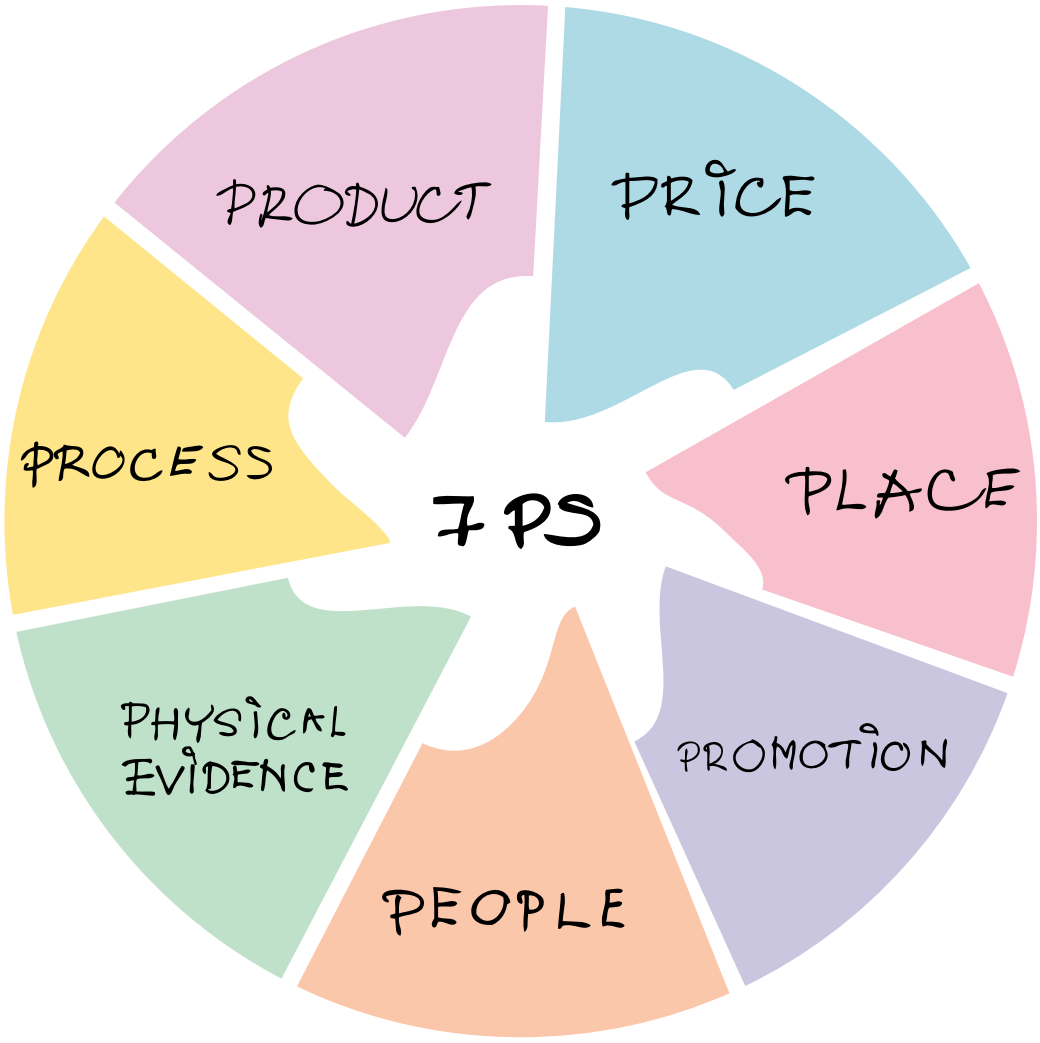
Once the business owner has established the marketing goals (a statement of what the business expects to achieve through the marketing activities) and selected a target market, the next step of the marketing plan is to develop marketing strategies to achieve the goals. **Marketing strategies** are actions undertaken to achieve the business's marketing goals through the marketing mix.

One of the most useful ways of understanding how to develop a marketing strategy is to examine each of the elements of the marketing mix. The **marketing mix** refers to the combination of the four Ps — product, price, promotion and place (distribution). The business has control over these elements and uses them to reach its target market. The four Ps of the marketing mix are considered the basic cornerstone of marketing. However, as the service sector within the economy has grown, three more Ps have been added that apply especially to the service industry. These three extra Ps — people, processes and physical evidence — now form the extended marketing mix (see figure 8.24).

marketing strategies actions undertaken to achieve the business's marketing goals

marketing mix the combination of the four elements of marketing, the four Ps — product, price, promotion and place — that make up the marketing strategy

FIGURE 8.24 In recent years, it has become more common to add three new elements to the traditional marketing mix, making a combined 7 Ps. This is known as the extended marketing mix.



Once the four Ps have been established, the business must then determine the emphasis it will place on each of the variables. This will largely be determined by where the product is positioned or its stage in the **product life cycle**. For example, a product that is being marketed with an image of exclusivity and prestige will require a marketing mix totally different from a no-frills, generic item. A different marketing mix will also be required for a product in its introductory stage than when it reaches the decline stage.

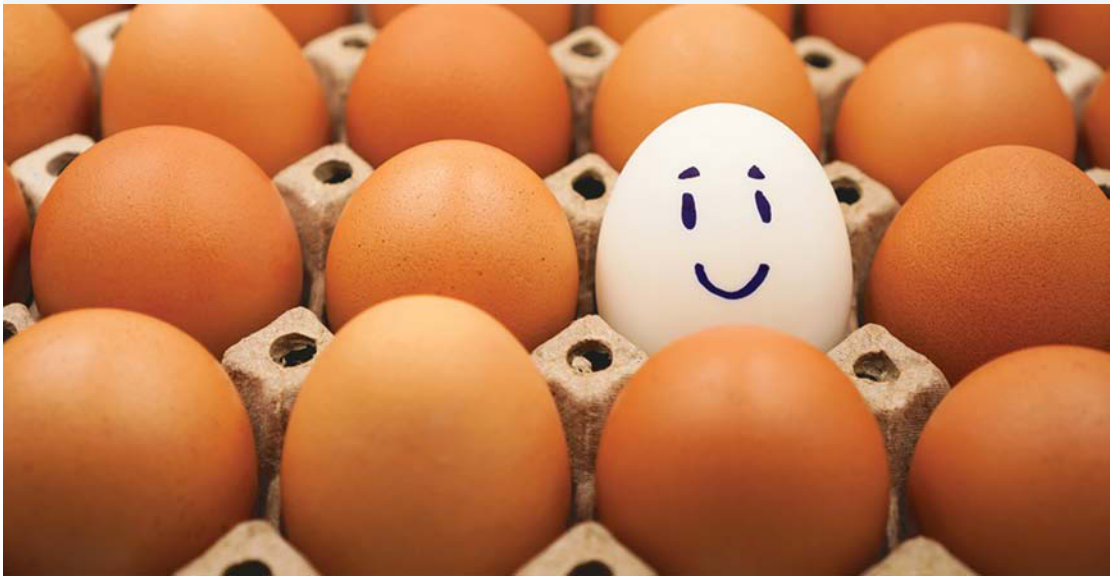
Product

This element of the marketing mix involves much more than just deciding which product (goods or service) to market. The business owner needs to determine the product's:

- quality
- packaging
- design
- name
- labelling
- exclusive features
- warranty and guarantee.

The product is a combination of all these variables. Customers will buy products that not only satisfy their needs but also provide intangible benefits such as a feeling of security, prestige, satisfaction or influence.

FIGURE 8.25 In many ways, product is the most important element of the marketing mix because without it, businesses don't have a place in the market — they can't sell or promote something that doesn't exist! A business's product or service should be the lifeblood of the business. Even if a product is intangible, such as an accounting or legal service, the business should still attempt to differentiate itself from other products in the market.



Product packaging

The **packaging** of a product is sometimes as important as the product itself to assist sales. Well-designed packaging will give a positive impression of the product and encourage first-time customers to purchase it. Tasteful packaging can create an image of luxury, sensuality and exclusiveness, helping to promote the product. In addition, packaging helps preserve, inform, protect and promote the product.

product life cycle the life of a product over four stages: introduction, growth, maturity and decline

packaging involves the development of a container and the graphic design for a product

FIGURE 8.26 JUST WATER's Tetra Top carton bottle, designed and produced by Tetra Pak, won the Best Packaging Solution award at the 2018 Global Bottled Water Congress. The company's 100 per cent sustainably sourced spring water is packaged in a bottle made from 82 per cent renewable resources. The recyclable Tetra Top bottle is more than 50 per cent paper, with a cap and shoulder made from non-food grade sugar cane. Judges praised the company for providing a product that responsibly, pragmatically and economically appeals to consumers.

Product branding

An important part of the product development is the **brand** and associated **brand logo**. Combined, these can be a powerful marketing tool. For example, the three-pointed star of the Mercedes-Benz and Coca-Cola's distinctive narrow-waisted bottle are famous brand names and symbols. Some businesses encourage the instant recognition of their brand symbol rather than their brand name. Perhaps the most famous example of this technique is the 'golden arches' symbol used by McDonald's. In some advertisements the brand name does not appear at all, only the brand symbol. This is a clever and subtle method used to reinforce the meaning of the symbol and associate it with a brand name.

brand a name, term, symbol or design that identifies a specific product and distinguishes it from its competitors

brand logo a graphic representation that identifies a business or product

BizFACT

A new study of teenagers commissioned by Google revealed what brands teens regard as cool and which ones they regard as daggy. The survey, 'It's Lit: A Guide To What Teens Think Is Cool' involved 1100 American teens. According to the study, the top 10 coolest brands (in order) were YouTube, Netflix, Google, Xbox, Oreo, GoPro, Playstation, Doritos, Nike and Chrome.

Price

Many business owners have difficulty selecting the 'correct' price for their product. A price set too high could mean lost sales, unless superior customer service is offered. A price set too low may give customers the impression of a 'cheap and nasty' product. Therefore, correct pricing is important. Business owners normally choose one of three methods for calculating price.

1. *Cost-based:* a pricing method derived from calculating the total cost of producing or purchasing a product and then adding a mark-up for profit
2. *Market-based:* a method of setting prices according to the interaction between the levels of supply and demand — whatever the market is prepared to pay (see figure 8.27)
3. *Competition-based:* choosing a price that is either below, equal to or above that of the competitors.

FIGURE 8.27 Petrol stations use market-based pricing. The price you pay for petrol is dependent on when and where you choose to fill up. If you're in a high-traffic area, you can generally expect to pay less than someone in a low-traffic area. Petrol stations also generally follow price cycles. This means they choose particular days to heavily reduce prices to draw in customers, and particular days where prices are highest (for example, on long weekends).

Promotion

To sell more of its products, a business has to change customers' behaviour through information or persuasion. This is achieved through promotion. The role of **promotion** is to inform, persuade and remind consumers about a business's products, with the aim of:

- attracting new customers by raising awareness of a particular product
- increasing brand loyalty by reinforcing the image of the product
- encouraging existing customers to purchase more of the product.

Many people confuse promotion with advertising because of its visibility and frequency. However, advertising is just one of the four elements of the promotion mix. The main forms of promotion are as follows:

1. *Personal selling and relationship marketing.* Personal selling involves the activities of a sales representative directed to a customer in an attempt to make a sale. Relationship marketing refers to the development of long-term, cost-effective and strong relationships with individual customers.
2. *Sales promotion.* This refers to activities or materials used by the business to attract interest and support for the good or service. Examples include free samples, coupons and point-of-purchase displays.
3. *Publicity and public relations.* Publicity refers to any free news story about a business's products. Public relations are those activities aimed at creating and maintaining favourable relations between a business and its customers.
4. *Advertising.* Print or electronic mass media are used to communicate a message about the product. Advertising is used to attract potential customers, create a demand for the product and communicate essential information.

promotion the methods used by a business to inform, persuade and remind a market about its products

BizFACT

Digital marketing is one of the fastest-growing marketing channels. Despite this, 41 per cent of SMEs have never tried any form of digital marketing. This is surprising considering that this is one of the most cost-effective mediums that small businesses could benefit from because of their lower marketing budget.

Changes in technology, especially advances in information and communication technology (ICT), are having a significant impact on how businesses promote their products. The internet, for example, has become an effective advertising tool businesses use to deliver specific messages to their target markets. Internet newsgroups, ezines, chat rooms, social networking websites and online publications can all be used in an advertising campaign. The internet has also provided opportunities for many small businesses to undertake more of their own promotional activities. Facebook, Twitter, LinkedIn, YouTube, blogs, podcasts and online communities are all examples of social media channels, and have been behind the recent revolution in social media advertising (SMA). Businesses are becoming increasingly aware that SMA can have positive results, especially when used in combination with traditional advertising methods (see figure 8.28). The main advantages of SMA are that it is:

- inexpensive in comparison to traditional marketing methods
- easy to use and monitor
- an effective method of gaining exposure.

FIGURE 8.28 The Granata family, owners of Granata's which is located in Pemulwuy, have attracted a great following using social media and advertising. They are active on social media because they find it a very effective way to connect with patrons. They use social media to showcase their delicious authentic food, educate users on modern Italian cuisine and to promote specials.

Place

The fourth 'P' of the marketing mix is '**place**' or **distribution**. This refers to activities that make the products available to customers when and where they want to purchase them. A **distribution channel** is a way of getting the product to the customer. This process usually involves a number of intermediaries or 'go betweens', such as the wholesaler or retailer. Apart from the retailer, the other intermediaries are often invisible; that is, the customer knows little about their role and operation. There are three common traditional channels of distribution:

1. *Producer to customer*. This is the simplest channel and involves no intermediaries. Virtually all services, from tax advice to car repairs, use this method.

place or **distribution** activities that make the products available to customers when and where they want to purchase them

distribution channels ways of getting the product to the customer

2. *Producer to retailer to customer*. A retailer is an intermediary who buys from the producer and resells to customers. This channel is often used for bulky or perishable products such as furniture or fruit.
3. *Producer to wholesaler to retailer to customer*. This is the most common method used for the distribution of consumer goods. A wholesaler is an intermediary who buys in bulk from a producer, then sells in smaller quantities to retailers. Producers will use the services of a wholesaler when a large number of retailers sell the product and the producer finds it difficult to deal with them all.

BizFACT

The Iconic has established a competitive advantage in relation to its distribution. Its suppliers list their products on The Iconic's site and the stock is sent directly to customers rather than to The Iconic's distribution centre, cutting delivery times and distribution costs. The Iconic is able to offer customers three-hour delivery in major cities and same-day delivery to 75 per cent of Australia.

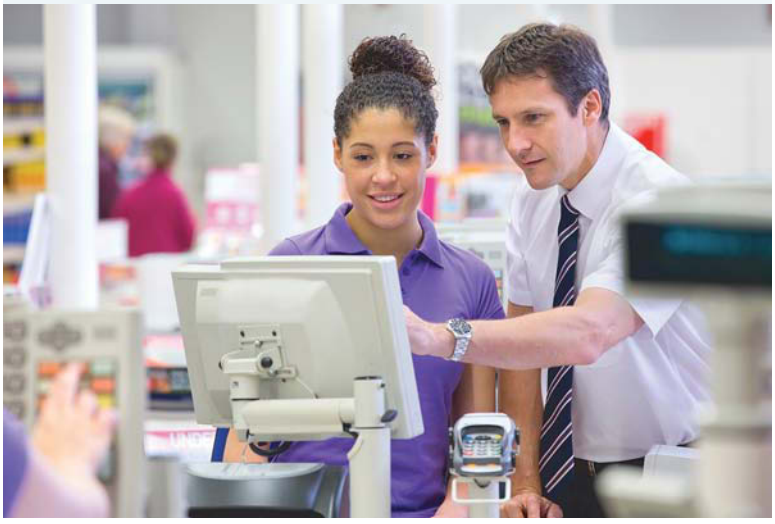
Non-store retailing — that is, retailing activity conducted away from the traditional store — is gaining popularity. Two of the most rapidly developing methods are:

- e-commerce, which refers to the buying and selling of goods and services via the internet
- mobile commerce (m-commerce), which refers to the buying and selling of goods and services through wireless handheld devices, such as mobile phones and tablets.

People

People refers to everyone who is involved in the product of a business, whether they are in direct contact with customers or have an indirect connection. All the people involved in the business can have an impact on the marketing mix. The owners and managers establish a culture that can either have a positive or negative effect on perceptions of the business and the products it offers.

FIGURE 8.29 It is essential that staff are trained with the appropriate skills, are motivated to provide good service and have a positive attitude towards the products they are selling. Customers will often judge the business by the staff that serve them as much as by the quality of the product, so employees need to be well-suited to the role they play in the marketing mix.



Processes

Process refers to the flow of activities or mechanisms that take place when there is any interaction between the customer and a business. This may relate to the delivery of the product, or how the customer finds out about the product, selects it and then makes their purchase. All businesses set up operating systems and processes as part of the way they do business. Customers want to know that the systems a business uses to provide its products actually work. The total purchasing experience is important in achieving customer satisfaction.

Physical evidence

Physical evidence refers to everything that the customer sees when interacting with a business. This could mean the features of the product that the business is selling, the physical environment experienced by the customer (such as the design and layout of a store or website) or the use of customer feedback. Essentially, physical

evidence can assist a business with positioning its brand and attracting its target market. A customer will often not be completely familiar with the detailed features of a good or service they are buying. Demonstrating these features, providing a detailed explanation and information, and helping the customer to compare different brands and models can provide the evidence the potential customer needs to make the best choice.

SNAPSHOT

Case study: The Pets Hotel — the marketing mix

As we saw in section 8.4.3, The Pets Hotel provides both short-term and long-term accommodation for pets in Port Melbourne. Let's now look at the marketing mix for this successful business.

Product mix

The Pets Hotel offers daycare and longer-term accommodation for dogs and cats. It also provides a number of additional services for pet owners. These include:

- taking the dog for an 'adventure walk' around Port Melbourne
- providing the pet with supervised play time with other pets
- extra 'cuddle time' for both dogs and cats
- special treats
- photo shoots of the pet while in care
- dog obedience training
- spa and grooming treatments.

Pricing

The Pets Hotel has a set weekly rate for long-term overnight stays for both cats and dogs, as well as a daily rate for daycare. Discounts apply to the daily rate for pet owners who wish to access regular daycare. Extra services each carry a separate additional fee, so pet owners can decide how many of these services they wish to access during their pet's stay.

Place

The Pets Hotel is centrally located in Port Melbourne, only a short distance from the CBD, and is easily accessible from the inner south-eastern suburbs of metropolitan Melbourne. It includes individual suites for each pet, as well as central play areas where pets can socialise.

Promotion

As well as a website that is easy to navigate, The Pets Hotel uses Facebook, Twitter, YouTube, Pinterest, Google Plus and Instagram to post photos and videos of activities within its facility. It also uses websites such as Time Out Melbourne, which promotes a variety of Melbourne-based activities, and business promotion websites such as True Local.

People

The Pets Hotel is owned by two families who have a combined 35 years' experience in pet care. All employees have knowledge and expertise in dealing with animals, as well as a passion for working with animals. They are also expected to be welcoming and friendly towards pet owners.

Physical evidence

The Pets Hotel offers tours of its premises to all prospective customers to give them an opportunity of seeing the facility in operation. It also publishes testimonials on its website.

Process

The Pets Hotel outlines its rules and procedures clearly on its website, so potential customers know exactly how the business operates. It has an online booking process and a mobile phone app that allows customers to make bookings and check on their pets at any time of the day. The Pets Hotel claims that pets will never be returned to customers in a dirty or untidy state, so it clearly has processes in place to keep pets clean and well groomed.

KEY IDEAS

- For a business to make a profit, it needs to create and market products that consumers will purchase.
- Marketing is a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers.
- Successful marketing involves bringing the buyer and seller together and making a sale.
- Contemporary marketing refers to those strategies that stress the importance of customer orientation.
- Businesses that adopt a customer-oriented approach base their marketing decisions and practices on the needs and wants of their customers.
- Businesses should also focus on relationship marketing (i.e. developing long-term, cost-effective relationships with customers).
- A target market refers to the group of customers to which a business intends to sell its product.
- Sometimes a business may be able to identify both a primary and a secondary target market.
- Three broad approaches can be adopted when selecting a target market: the mass marketing approach, the market segmentation approach or the niche market approach.
- A mass marketing approach seeks a large range of customers.
- A business segments its market so it can better direct its marketing strategies to specific groups of customers.
- Market segmentation occurs when the total market is subdivided into groups of people who share one or more common characteristics.
- A niche market is a narrowly selected target market segment.
- Marketing strategies are actions undertaken to achieve the business's marketing goals through the marketing mix.
- The main marketing strategies are commonly referred to as the marketing mix or the four Ps — product, price, promotion and place (distribution).
- As the service sector within the economy has grown, three more Ps have been added. These three extra Ps — people, processes and physical evidence — now form the extended marketing mix.
- Products are goods or services, and consist of both tangible and intangible features.
- Packaging helps preserve, inform, protect and promote the product.
- Product branding is the brand and associated brand logo.
- A business must select the most appropriate pricing method suitable to its product and market conditions. Business can choose one of three methods for calculating price: cost-based, market-based and competition-based pricing.
- Promotion refers to the methods used by a business to inform, persuade and remind customers about its products. Some of the main forms of promotion include personal selling and relationship marketing, sales promotion, publicity, public relations and advertising.
- Distribution channels (place) are a way of getting the product to the customer.
- The traditional distribution channels are producer to retailer, producer to retailer to consumer, and producer to wholesaler to retailer to consumer. Two new distribution channels are e-commerce and m-commerce.

8.4 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

8.4 Quick quiz on | **8.4 Exercise**

Select your pathway

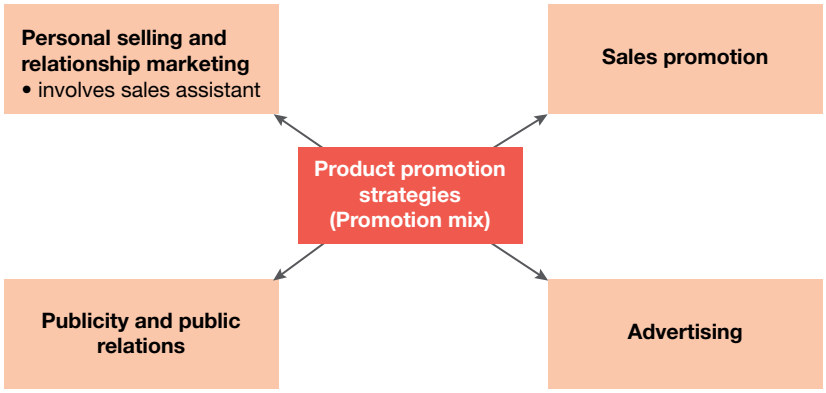
LEVEL 1	LEVEL 2	LEVEL 3
1, 3, 6, 10, 15, 16, 17, 18, 24, 26, 27, 30, 35	2, 4, 5, 7, 8, 9, 11, 12, 19, 21, 22, 25, 28, 29, 31, 32, 33, 36, 37, 41	13, 14, 20, 23, 34, 38, 39, 40, 42, 43

8.4 Exercise

Revision

1. **Outline** the importance of marketing to a business.
2. **Why** do most new products fail shortly after they are launched?
3. **Identify** some types of marketing activities you have been involved in.
4. **Discuss** how the 'marketing' definition provided in this chapter differs from your previous understanding of the term.
5. **Distinguish** between selling and marketing.
6. **Recall** why all businesses, regardless of size, need to undertake some form of marketing.
7. **Why** should a business adopt a customer-oriented approach to marketing?
8. Refer to figure 8.19. Identify which of the 'seven tips' you think is the most important. **Justify** your answer and share it with other class members.
9. **Distinguish** between mass, segmented and niche markets.
10. **Outline** the purpose of market segmentation.
11. **Why** is market segmentation the most common marketing approach used by businesses today?
12. **How** are market segmentation and target market linked?
13. Use an 'M', 'S' or 'N' to **determine** whether the following products are sold in a mass market, segmented market or niche market.
    a. Electricity
    b. Ferrari cars
    c. the *Australian Financial Review*
    d. Revlon cosmetics
    e. Fruit and vegetables
14. **Determine** who is most likely to be the target market for each of the following small businesses. (You may think of more than one market for some businesses.)
    a. Convenience store
    b. Mechanic
    c. Accountant
    d. Nursing home
    e. Childcare centre
15. **Define** the marketing mix.
16. **Identify** the marketing strategies that form part of the extended marketing mix.
17. **Identify** four intangible benefits that products may provide.
18. Think of a product you recently purchased. **Identify** the intangible benefits you gained from the product.
19. **Why** do marketers prefer to use the term 'total product concept' rather than simply 'product'?
20. **Predict** what may happen to the level of sales if a product's packaging does not match its position.
21. **Explain** the relationship between 'brand' and 'brand logo'.
22. **Why** do businesses spend so much money attempting to establish a brand name?
23. **Evaluate** each of the following brand names. Indicate the strong points of each name.
    a. Apple
    b. Facebook
    c. Nike
24. **Summarise** the three main pricing methods.
25. As the manager of a shoe store, you have just received a delivery of new boots that cost you $50 a pair. Your usual mark-up is 60 per cent. However, you find out that yours is the only store in town that will be stocking this fashionable product. **Calculate** what price you will set for the boots. Explain your decision.

26. **Outline** the role of promotion.
27. **Recall** what promotion aims to achieve.
28. **Construct** a concept map summarising the four main forms of promotion. The first one has been started for you.



29. **Recommend** a distribution channel for the sale of:
    a. a daily newspaper
    b. a washing machine
    c. an imported motor vehicle.

Read the 'Polasports — marketing a new product line' case study and answer questions 30 to 34.

30. **Recall** one of the most important roles of a business.
31. **How** did getting Beau Ryan as a brand ambassador benefit the company?
32. **Explain** the benefits of social media advertising.
33. **How** does supporting charities help promote a brand?
34. **Determine** why the publicity on radio was more effective than the publicity on television.

Read 'The Pets Hotel — catering to a target market' case study and answer questions 35 and 36.

35. **Identify** the primary and secondary target markets for the Pets Hotel and explain how each of these target markets are important to the Pets Hotel business.
36. **Explain** how each of the market dimensions helps to identify the target market for the Pets Hotel.
37. Read 'The Pets Hotel — the marketing mix' case study and answer the following questions:
    a. Identify whether the Pets Hotel offers tangible or intangible products? **Justify** your answer.
    b. **Deduce** two pricing strategies the Pets Hotel might use and **justify** why each of these might be appropriate.
    c. **Why** is the 'people' element of the marketing mix so important for the Pets Hotel?
    d. **Explain** how the Pets Hotel uses physical evidence as part of its marketing mix.
    e. Many pet boarding businesses operate in outer suburban and semi-rural areas. Outline what the potential benefits might be of the inner suburban location for The Pets Hotel.
    f. Process is particularly important in encouraging customers to return to a business. **Explain** how the processes operating at the Pets Hotel might encourage customer loyalty.

Extension

38. 'Marketing is not the sole responsibility of the marketing manager, but all managers.' **Determine** the accuracy of this statement.
39. **Predict** what will happen to a business that neglects the importance of marketing.
40. 'Any business that neglects the role of marketing will almost certainly experience low levels of sales and reduced profit levels.' **Evaluate** the accuracy of this statement.
41. When deciding on a brand name and brand logo, **investigate** some of the considerations that a marketer must take into account.
42. **Determine** how a business sets its price when it wants to achieve the objective of profit maximisation.
43. 'Some people would argue that "marketing ethics" is a contradiction in terms.' **Evaluate** this statement.

Solutions and sample responses are available in your digital formats.

8.5 Finance

SYLLABUS LINK In this subtopic you will learn about the management process:

- finance
  - cash flow statement
  - income statement
  - balance sheet.

You will learn to:

- examine effective cash flow management
- assess the role of the income statement and the balance sheet when describing the financial performance of a business.

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A thorough understanding of accounting and finance is essential for business managers. Accounting is a management tool that is concerned with providing information on the financial affairs of a business, while finance is concerned with where the business sources its funding.

Management of business finance is a crucial aspect of business success. Management of finance starts with sourcing — where will the funding come from? Once a business has secured funding, it then needs to ensure that it is applied appropriately. All financial managers would be aware of the need to manage the cash flow of the business. Cash flow is sometimes described as the 'lifeblood' of business. The management of cash flow involves anticipating cash expenditure and ensuring that enough of the income earned comes in the form of cash. A further challenge is to ensure that enough money is saved in the event of unexpected challenges. Some money for **contingencies** needs to be put aside. Contingencies are unanticipated events that can lead to financial difficulty. For a business to be well managed, it needs to have saved money for such events because they can place the business under unexpected financial pressure.

In short, business leaders and managers need to have a good understanding of accounting and finance, and need to draw on this knowledge and skill when managing all aspects of the business.

The HSC course investigates finance in greater depth, so this chapter will provide an elementary understanding of the main concepts.

8.5.1 Accounting — introduction and scope

Accounting is a managerial and administrative tool that involves the recording of financial transactions, so that a clear summary of what has happened to the money coming in and going out can be traced over time. Every financial transaction, from the ordering of stock to the sale of an old stock item, is recorded. These records (which include delivery dockets, sales receipts, invoices, cash register records and e-payment transactions, to name a few) are entered into accounts that may be either computerised or manual (in the form of books). The information in these accounts is then summarised into financial reports and statements that provide valuable information about the trading period (see table 8.5). The statements are set out in a standard format so that they are easy to read and understand. A well-trained manager can use these statements to get an accurate picture of the financial status of the business.

contingencies unanticipated events that can lead to financial difficulty. For a business to be well managed, it needs to have saved money for such events.

accounting a managerial and administrative tool for recording financial transactions, so that a summary of what has happened to business money can be traced

FIGURE 8.30 Accounting is more than 'crunching the numbers'. Money is the lifeblood of all businesses. The rate at which it flows into or out of the business determines whether the business is expanding and successful. There is only one sure way to measure the flow of money — develop a system of financial records. No business, no matter how small, can survive without a sound accounting system.

The three main accounting/financial reports or statements are shown in table 8.5.

TABLE 8.5 The main accounting financial reports or statements

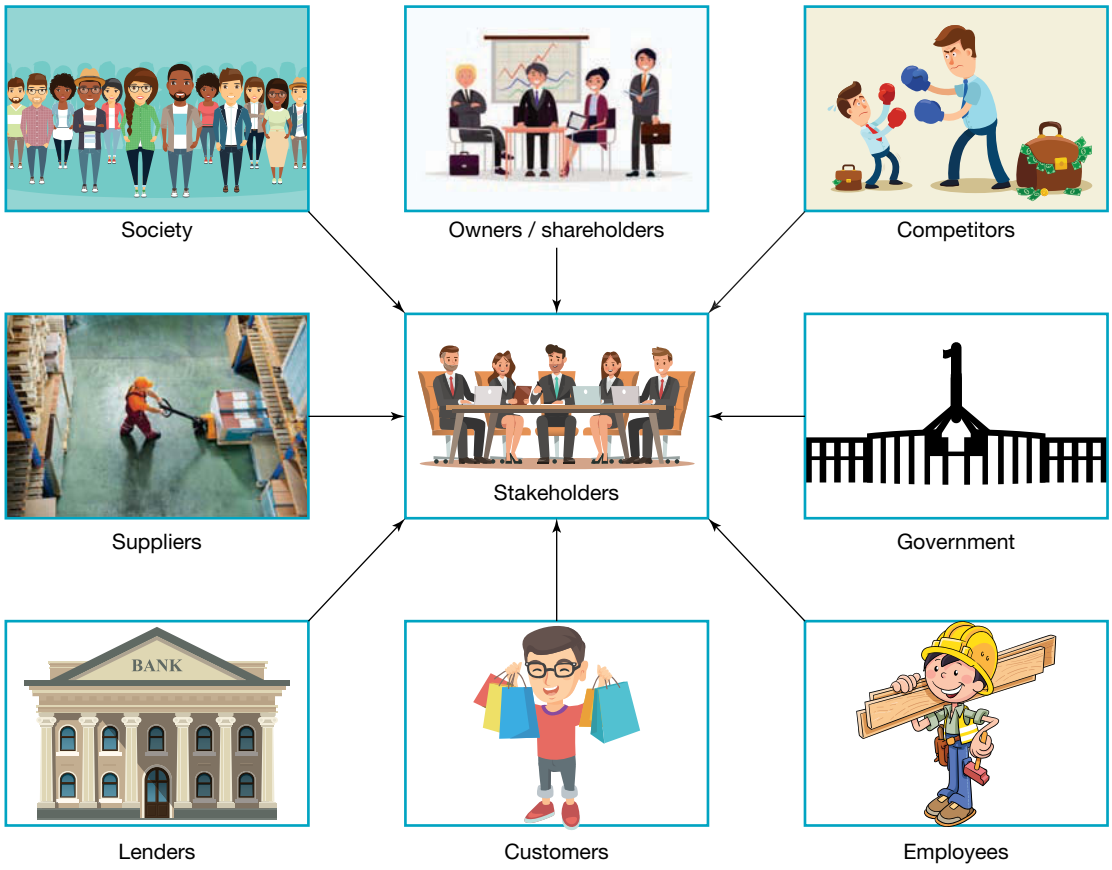
Name of statement/report	Description of the statement/report
• Cash flow statements	• Indicate the movement of cash receipts and cash payments resulting from transactions over a period of time
• Income statements — also called statement of financial performance, revenue statement or profit and loss (P&L) statement	• Show the revenue earned and expenses incurred over the accounting period with the resultant profit or loss
• Balance sheets (also called statement of financial position)	• Represent a business's assets and liabilities at a particular point in time and represent the net worth of the business

BizFACT

The main purpose of financial statements is to summarise information in a way that is useful for interested parties. Together the reports show accurately how the business is placed financially.

A business is an economic entity — it trades within society and has responsibility both to its internal and external stakeholders (i.e. the members of society who are directly and indirectly affected by the affairs of the business). Accounting provides information that is valuable to managers. It also provides information to employees, owners and shareholders (if it is a company), suppliers, lenders, customers, government (including regulators), competitors and the general public.

FIGURE 8.31 The stakeholders interested in the accounting information given by business



Accounting is useful, as it provides information in statements about each of the following as it relates to the business:

- financial status/position
- cash status/position
- financing or funding information
- cash flows
- profitability and return on investment
- trends in earnings, borrowings, sales and so on that together indicate the risks the business faces.

The main purpose of accounting is to provide information that is useful and accurate, and presented in a clear and concise form. This information will encourage:

- judicious and prudent financial decision making
- planning that is purposeful
- confidence in the business's management
- **accountability**, or stewardship.

accountability when a business acts in the best and highest interests of its owners. Full and complete 'disclosure', which means to be open and not hide the truth, ensures that the books of account are kept accurately and that the information reflected in them, and which is summarised in reports, is based on the true and actual transactions. Another term for accountability is stewardship.

8.5.2 Finance — introduction and scope

Finance refers to how a business funds its activities — for instance, where it gets the money to trade, why it chooses to use certain lenders — as well as the costs, risks, terms and benefits of different types of borrowings. Financial knowledge requires an understanding of a range of financial instruments. Businesses, even very small ones, generally borrow money at some time — usually when they first set up.

It is vital for a business to be able to manage its borrowing and to use appropriate types of borrowing — namely types that match its earning stream and capital/asset structure. Borrowing represents a useful source of finance — but it is one that comes at a price. It is management of the cost and risk of finance that is the key to successful financial management.

Cost management is crucial because businesses tend to try to maximise profits. In today's highly competitive markets, in Australia and globally, a business succeeds when it can minimise costs (while maintaining quality, reliability, high service levels and so on). Risk management is crucial because businesses can be uncertain regarding their chances of making financial losses. Astute financial management is therefore considered indispensable to business.

An understanding of both accounting and finance is absolutely necessary if business managers and owners are to make *informed* decisions. The ability to interpret financial information helps with the leadership task — which includes planning for future activities; choosing between alternative courses of action when presented with business problems; organising the resources required to produce a product or service and then effectively researching and marketing it; and controlling and monitoring spending in all aspects of the business.

on Resources

Weblink Australian Accounting Standards Board (AASB)

8.5.3 Financial statements

All business owners must be able to make judgements about the direction of the business at any given time. To help them achieve this, they need to prepare some **financial statements** — reports that summarise transactions over a period of time. The main accounting reports and financial statements are cash flow statements, income statements and balance sheets. Business owners, for example, will need to be aware of whether the cash flow through the business is sufficient to allow the business to pay its debts on time, whether or not the business is trading profitably, and the financial status of the business.

8.5.4 Cash flow statements

A **cash flow statement** is a financial statement that indicates the movement of cash receipts and cash payments resulting from transactions over a period of time. Cash flow statements are vital for the business to assess whether money inflows can match money outflows. The term '**liquidity**' is often used to describe whether a business has a good or adequate cash flow. Figure 8.32 summarises the typical monetary inflows and outflows.

A business is said to be liquid if it has the cash available to meet payments as they are due. Generally a business would prefer its sales to be in cash for precisely this reason — it has a need for cash to meet its own payments. Why do businesses allow credit sales when they prefer cash? This is because they need to match their desire for cash with the customer's ability to pay. By allowing customers to purchase on credit, the business will obtain sales it might otherwise lose.

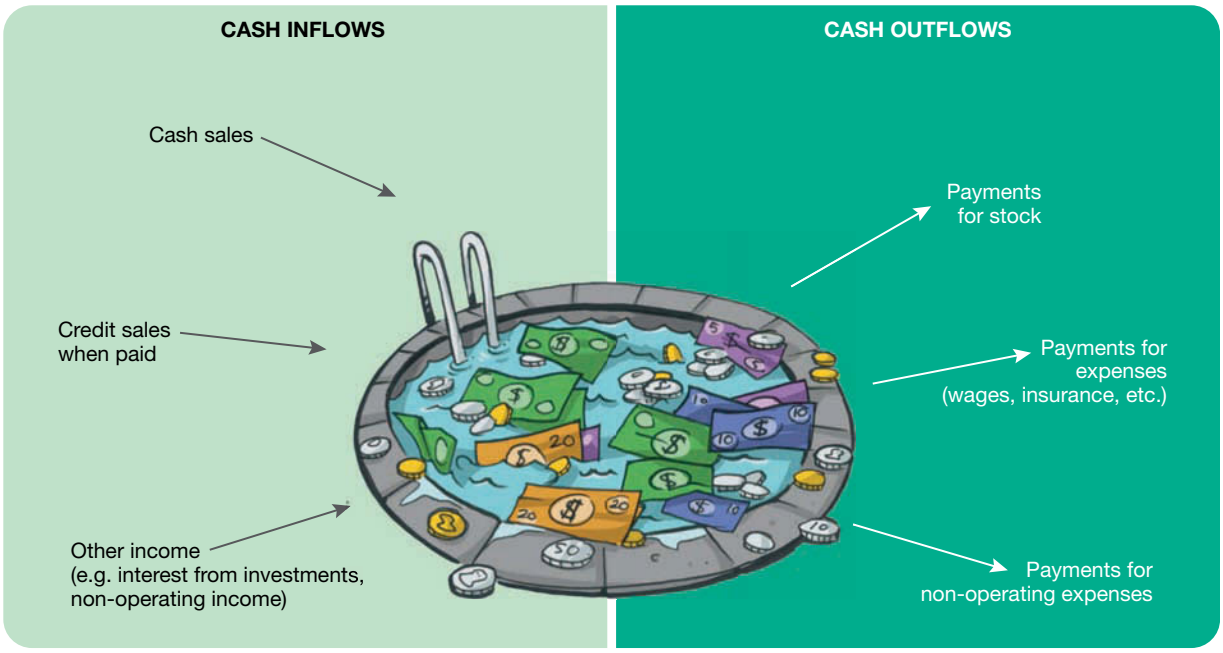
finance how a business funds its activities — for instance, where it gets the money to trade, why it chooses to use certain lenders — as well as the costs, risks and benefits of different types of borrowings.

financial statements reports that summarise transactions over a period of time

cash flow statement a financial statement that indicates the movement of cash receipts and cash payments resulting from transactions over a period of time

liquidity the amount of cash a business has access to and how readily it can convert its assets into cash so that debt can be paid

FIGURE 8.32 Cash flow items for a typical business



Examine effective cash flow management

Cash flow statements are closely related to budgets, which are estimates of anticipated future cash flows. Cash flow statements, however, are broader than budgets because they are also used to summarise past information. Cash flow statements are vital for the information they give on the *timing* of payments and receipt of income. A business will keep information on cash movements because this will help it predict future cash flows and hence make provision for payments. A typical cash flow statement can be seen in figure 8.33.

A study of the cash flow statement (see figure 8.33) of a manufacturer shows that this business made a cash surplus for two of its first three months of trading for the year the report was made. You can see that the business made a small surplus in January and a large surplus in February. However, in March, this business experienced a cash deficit. It should be clear now why such statements are necessary. A business can track its inflows and outflows over a period of time. It can then use these statements to determine why the inflows and outflows are taking the pattern they are. For example, in January, sales to manufacturer A were down on the usual $2.5 million average. This may have been due to the normal business lull in January. The surplus for February is quite high and an astute manager would have ensured that a portion of this surplus was put aside in case it was needed in future months. As it turned out, the materials costs for March were very high and sales to manufacturer C continued to fall.

The business can see that it needs to take some remedial action. In the short term, if these trends continue, the business could cover cash deficits with the large surplus it made in February. It would not, however, want the pattern of deficits to continue, so managers need to make some decisions. For example, they might ask where they can obtain a regular supply of cheaper raw materials. They could also look at diversifying their sales base.

By using cash flow statements in this way, a business is able to both control finances and plan strategies for financial benefit. Cash flow reporting can be used to plan and predict future cash flow inflows. Outflows tend to follow trends, with some variations over time.

FIGURE 8.33 Typical cash flow statement

Cash flow statement for Plant 1 (first quarter, 2021)			
	January	**February**	**March**
	$	**$**	**$**
Cash at beginning of year	15 500	26 000	1 119 500
Cash inflows			
Sales:			
retail	20 000	23 000	54 000
public	33 000	36 500	123 000
other manufacturers			
A	1 000 500	2 560 000	2 600 000
B	250 000	250 000	250 000
C	3 400 000	3 200 000	2 800 000
Total inflows	**4 703 500**	**6 069 500**	**5 827 000**
Cash outflows			
Raw materials	3 650 000	3 760 000	4 720 000
Service costs	23 000	23 000	23 000
Leases			
forklifts	11 000	11 000	11 000
equipment	125 000	125 000	125 000
Wages	850 000	990 000	980 000
Other	34 000	67 000	61 000
Total outflows	**4 693 000**	**4 976 000**	**5 920 000**
Cash surplus/(deficit)	**10 500**	**1 093 500**	**(93 000)**
Cash at end of year	26 000	1 119 500	1 026 500

Cash flow statements for larger businesses

While the cash flow statements previously shown are very detailed, they are more suited to small to medium-sized businesses. The format of cash flow statements used by large businesses and public companies is shown in figure 8.34.

It can be seen from figure 8.34 that there are various classifications of cash that derived from operating, investing and financing activities. These terms are distinguished below:

- *Cash from operating activities* — these are the cash inflows and outflows relating to the main activity of the business (i.e. the provision of goods and services).
- *Cash from investing activities* — these are the cash flows related to the purchase and sale of non-current assets and investments.
- *Cash from financing activities* — these are cash flows related to the acquisition and repayment of both debt and equity finance.

FIGURE 8.34 The format of cash flow statements for large businesses and public companies

Reflections Images Ltd Cash flow statement for the year ended 30 June 2021	
	$000
Cash flows from operating activities	
Sales	600
Payments for stock	(200)
Wages and salaries	(150)
Net cash flow from operating activities	**250**
Cash flows from investing activities	
Sales of non-current assets	500
Purchase of non-current fixed assets	(200)
Net cash flow from investing activities	**300**
Cash flows from financing activities	
New borrowing and currently raised debt	0
Changes in share capital	100
Net cash flows from financing activities	100
Net cash increase/(decrease) from all activities	**650**
Opening cash balance	(340)
Closing cash balance	**310**

SNAPSHOT

Case study: SMEs and cash flow

One of the biggest causes of failure among small businesses is running out of cash. Xero Small Business Insights provides a snapshot of the small business sector's health. Their research and data, which is updated monthly, has shown that in recent years, in any given month, about half of Australian small businesses are cash flow negative, with more money going out the door than coming in. In fact, in February 2020, the percentage of Australian small businesses that were cash flow positive businesses was only 49.8 per cent.

Their research also demonstrated that the percentage of businesses operating in the red is tied to how quickly they get paid by their customers. Late payments have continued to have an impact on small businesses, who are currently waiting an average of 34.6 days to be paid on a 30-day invoice.

Almost a quarter of small businesses that don't insist on upfront payments have to wait more than a month to be paid, despite the fact they offer 30-day credit terms. This can be hugely disruptive to cash flow. Many small business owners have revealed that they spend on average 12 days a year chasing unpaid invoices. Research has also found that 27 per cent of small businesses that don't insist on upfront payments have been forced to take out loans or use credit to pay for their own expenses such as wages, rent or other outstanding bills.

Fed up with late payments, John Franji and Anthony Daoud who own Flowrite Plumbing decided to swap 30-day payment terms for 14-day payment terms. This has helped them to manage their cash flow. Since their own suppliers offer them 30 days credit, they are able to purchase the materials they need to complete a job on

credit and, by giving their customers only 14 days credit, they usually don't need to use any of their own money to make their repayments. Reducing the payment terms has resulted in an improvement in debtor collections; however, around 50 per cent of their invoices still exceed those terms at any one time and need chasing. Some of their customers pay their debts on average 45 days late.

'Cash flow and collecting payments is vital for us. If debt starts to build up, it can start to snowball and cause problems. We communicate our payment terms up front and chase payments as soon as they are overdue. Throughout the process, we aim to be friendly and helpful as we want the customer to continue with us. We've found that in our industry, it's pretty standard to be chasing late invoices. This is one of the biggest burdens on our business and takes up a lot of our time,' they said.

Chasing late payments is time-consuming and frustrating, and has become a major issue for many small businesses, which affects their cash flow. The Small Business and Family Enterprise Ombudsman, Kate Carnell, revealed that the number one problem small businesses tell her about is the negative impact late payments have on cash flow. As a result, she conducted an inquiry and in 2017 she released the findings of her 'Inquiry into Payment Times and Practices in Australia'. The inquiry found that almost half of all the small businesses surveyed were owed more than $20 000 from late payments and 14 per cent had more than $100 000 owing. Approximately one in two small businesses reported more than 40 per cent of their invoices were paid late in the 2016–17 financial year, which had a big impact on their cash flow.

8.5.5 Income statement

A business earns income by selling a good or service to its customers. To measure how successful a business is at trading, a financial report called an **income statement** is drawn up. The income statement (also called the revenue statement, the profit and loss statement or the statement of financial performance) is used primarily to help a business to calculate how much net profit it has made over a period of time.

income statement a summary of the income earned and the expenses incurred over a period of trading. It helps users of the information see exactly how much money has come into the business as revenue, how much has gone out as expenditure and how much has been derived as profit.

The income statement shows:

- the amount of income or revenue earned
- the costs or expenses incurred in earning that revenue
- whether a profit or a loss has been incurred in the period under review.

FIGURE 8.35 Example of the format of a simple income statement

Income statement for the year ended 30 JUNE 2021		
Revenue	$	$
Cash sales		215 000
Cost of goods sold		90 000
Gross profit		125 000
Expenses		
Wages	38 000	
Lease payments	20 000	
Electricity	5 500	
Advertising	3 550	
Insurance	2 750	
Interest on loan	3 500	73 300
Net profit		51 700

BizFACT

Good record keeping is essential in order for business owners to be able to complete their financial statements and meet their tax obligations. Businesses that do not keep accurate records will face significant penalties.

The income statement in figure 8.35 shows how expenses are deducted from revenue to determine net profit. This income statement is for a trading business (a business that purchases goods from suppliers and then sells them at higher prices to customers). Service businesses (ones that provide a service) do not calculate cost of goods sold (and therefore do not show gross profit).

There are several important features to note. First, the statement must have a heading that states the period of time over which the business was operating for the purposes of the statement. Usually this is one year, but it may be half yearly, quarterly, or even every month or six weeks.

Second, there are only five main categories of items:

1. Revenue or income
2. Cost of goods sold (COGS)
3. Gross profit
4. Expenses
5. Net profit.

Third, the income earned (or revenue) is always stated at the top of the report. If the business had absolutely no expenses then this would be the profit figure. This is not realistic. In truth, the business would have had costs that arose from selling. So, we then deduct the expenses that occurred while the income was being earned.

BizFACT

Occasionally a business will receive money from non-trading sources. Such income is termed 'non-operating' income and includes money from investments that provide a return whether or not the business trades.

This is done in four steps:

1. Calculate the total revenue or operating income.
2. Calculate cost of goods sold (COGS) and calculate the gross profit.
3. Itemise all other expenses (which may be classified into administrative, selling and financial expenses).
4. Calculate net profit.

Step 1: Calculate operating income/revenue

Revenue generally means income from sales. Net sales refers to the amount of revenue a business has earned from sales when the effects of sales returns are deducted.

Sometimes the business will offer discounts to customers who pay outstanding amounts quickly. Such discounts reduce the business income and must be deducted from the calculation of profits. Similarly, when customers return goods, the cost of those goods must be deducted from sales figures. This is the way to work out net sales in the revenue statement:

	$
Sales	100 000
Less discounts allowed to customers	2 000
Less returns of sold items	3 000
Net sales	95 000

Step 2: Calculate cost of goods sold (COGS) and gross profit

Gross profit is the term given to the revenue less **cost of goods sold (COGS)** or, mathematically:

$$\text{Gross profit} = \text{Revenue} - \text{COGS}$$

The gross profit calculation is important as it tells the business how much its mark-up is on the cost price of the goods it has sold. This varies somewhat from business to business but is generally between 50 and 100 per cent. If the mark-up was enormous (say 800 or 1000 per cent), then it would attract other businesses to compete in the market.

The cost of goods sold is an expense to the business. However, it is not grouped with other expenses. This is because the mark-up (or 'contribution margin') on the cost of goods sold determines the level of overall income. In a service-based business, there is no stock and therefore no mark-up. Therefore, income and gross profit are the same. Cost of goods sold affects only businesses that on-sell items they have purchased.

The calculation for COGS is determined as shown below:

$$\text{COGS} = \text{Opening stock} + \text{Purchases} - \text{Closing stock}$$

Opening stock is the value of stock (or inventory) that the business has at the start of the financial year. **Closing stock** is the value of stock on hand at the end of the financial year. Here is an example showing how COGS is calculated:

	$
Opening stock (stock at start of period)	2 500
Purchases (during the period)	10 250
Closing stock (stock at end of period)	3 400
COGS	9 530

$$\begin{aligned}\text{COGS} &= \text{Opening stock } (\$2500) + \text{Purchases } (\$10\,250) - \text{Closing stock } (\$3400) \\ &= \$12\,750 - \$3400 \\ &= \$9350\end{aligned}$$

gross profit the term given to the revenue less cost of goods sold (COGS)

cost of goods sold (COGS) the value of stock that a business has sold to its customers

opening stock the value of stock (or inventory) that the business has at the start of the financial year

closing stock the value of stock on hand at the end of the financial year

expenses costs. Specifically, expenses are the costs incurred in the process of acquiring or manufacturing a good or service to sell and the costs (direct and indirect) associated with managing all aspects of the sales of that good or service.

Step 3: Itemise and calculate the total expenses

Expenses are simply costs. Specifically, expenses are the costs incurred in the process of acquiring or manufacturing a product or service to sell, and the costs (direct and indirect) associated with managing all aspects of the sales of that good or service. Expenses must always be subtracted from income to work out net profit. Although not always shown, it is very useful to separate the expenses by type because this helps users of the financial information to target problem areas quickly. In this part of the statement, all the expenses that do not form part of the cost of goods are listed.

The expenses are broken down specifically into three types. These are shown in figure 8.36.

FIGURE 8.36 Income statement (or statement of financial performance) expense breakdown by type

Expenses		
Selling	**Administrative**	**Financial**
• Commission • Salaries • Wages • Advertising • Delivery expenses	• Stationery • Electricity • Office salaries • Rent • Rates • Telephone • Depreciation on buildings • Audit fees • Accountant's fees • Insurance payments	• Interest payments • Lease payments • Dividends

Selling expenses:	These relate to the process of selling the good or service and can be directly traced to the need for sales.
Administration expenses:	Costs directly related to the general running of the business.
Finance expenses:	Costs associated with borrowing money from outside people or organisations and to minimising business risk.

Step 4: Calculate the net profit

The final step in the completion of the income statement is to determine the net profit. **Net profit** is the amount remaining when operating and non-operating expenses are deducted from gross profit.

net profit the difference between the gross profit and operating and non-operating expenses

Net profit is shown mathematically as:

Net profit = Gross profit – Expenses

If all this information is combined, we can draw a much more realistic income statement (see figure 8.37).

The income statement is always the first one to be compiled at the end of the accounting period. This is because the figures from it are used in the next statement — the balance sheet (or the statement of financial position).

When compiling the income statement, the manager should be mindful of several things — the proportion of gross and net profit to sales and also the level of expenses that accrue to selling, administration and finance. Because the reports collect and summarise a large amount of information, they also provide insight into *how* the business is both earning and spending. This insight is extremely valuable, especially when analysing the statements at the end of the accounting or operating period. The manager would also be aware that the 'bottom line', or net profit, figure, provides more important information than gross profit, which is really only a measure of the mark-up or contribution margin.

BizFACT

The word 'net' means all expenses have been deducted.

FIGURE 8.37 Example of a more complex income statement

U Win Pty Ltd income statement for year ended 30 June 2021			
	$	$	$
Sales			5 000 000
Less COGS			3 200 000
Gross profit			1 800 000
Less expenses			
Selling expenses			
Advertising	200 000		
Sales salaries	300 000		
Depreciation on cars	10 000		
Delivery	3000		
Telephone	9000	522 000	
Administration expenses			
Office salaries	400 000		
Depreciation on fixtures	5500		
Stationery	1500		
Security	12 000		
Rent	62 500		
Insurances	3500	485 000	
Financial expenses			
Interest	125 000		
Insurances	6 000		
Leases	6 000	137 000	1 144 000
Net profit			**656 000**

8.5.6 Balance sheets

A **balance sheet** provides a picture of what a business owns (assets) and owes (liabilities) and the owner's equity on a particular date. The heading includes the words 'as at', which means 'at that point in time'. It represents the net worth (equity) of the business. In other words, it shows the financial stability of the business.

The main purpose of the balance sheet is to help a business owner monitor the debt and equity levels of the business. The owner can also use the balance sheet to evaluate the business's overall financial position against that of previous periods and to assist them in decision making.

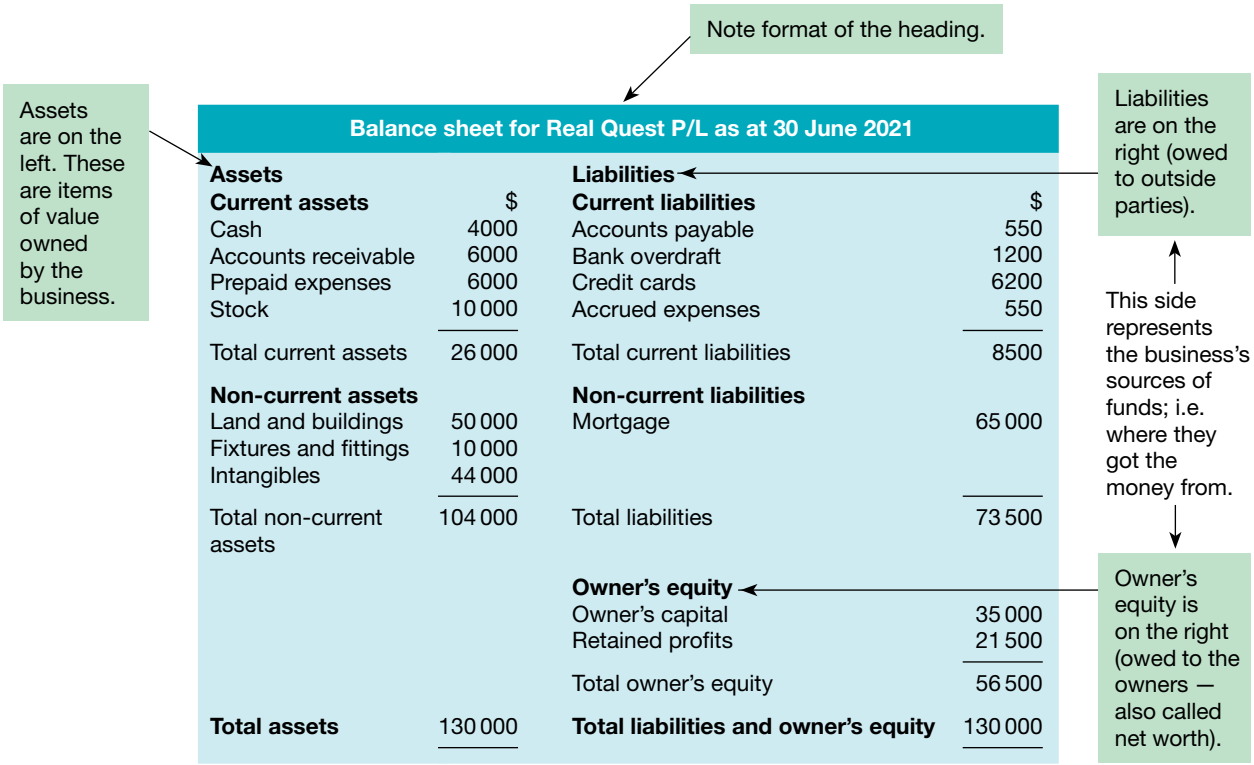
A simplified balance sheet is shown in figure 8.38. You should be clearly able to see that the balance sheet records the value of assets, the value of liabilities and owner's equity. You should also be able to see that the sum of items on the left-hand side 'assets' is equal to, or balances, the sum of items on the right-hand side (liabilities and owner's equity). This format for a balance sheet is called the 'T-format' because we can draw a line down the middle and separate the report into two halves by using the letter T. An alternative format, the narrative format, is explored in Year 12.

Balance sheet items

balance sheet represents a business's assets and liabilities at a particular point in time, expressed in money terms, and represents the net worth of the business

You will notice that the balance sheet is divided into two parts as shown in figure 8.38. On the left-hand side are recorded the assets — the things the business *owns*. On the right-hand side are recorded the liabilities and owner's equity — the sources of funds.

FIGURE 8.38 Typical balance sheet (or statement of financial position) showing division into main parts



Balance sheet for Real Quest P/L as at 30 June 2021

Assets		**Liabilities**	
Current assets	$	**Current liabilities**	$
Cash	4000	Accounts payable	550
Accounts receivable	6000	Bank overdraft	1200
Prepaid expenses	6000	Credit cards	6200
Stock	10 000	Accrued expenses	550
Total current assets	26 000	Total current liabilities	8500
Non-current assets		**Non-current liabilities**	
Land and buildings	50 000	Mortgage	65 000
Fixtures and fittings	10 000		
Intangibles	44 000		
Total non-current assets	104 000	Total liabilities	73 500
		Owner's equity	
		Owner's capital	35 000
		Retained profits	21 500
		Total owner's equity	56 500
Total assets	130 000	**Total liabilities and owner's equity**	130 000

Assets

Assets are items of value owned by the business that can be given a monetary value. Assets can be divided into several different types: current and non-current, tangible and intangible.

Current assets are assets that a business can expect to use up, or turn over, within 12 months. Examples include cash, accounts receivable (also called debtors) and inventories (stock).

Non-current assets are those assets that have an expected life of longer than 12 months. These include large physical items such as buildings, land, machinery, technology, vehicles, furniture, fixtures and fittings.

Intangible items are also included here. Intangible items are things of worth that have no physical substance. Examples include goodwill, trademarks, designs, copyright and patents. A good name or reputation ('goodwill') or an easily identifiable logo obviously has worth — but how do you value in dollar terms something like good product design, a creative staff or reputation? Nevertheless, intangible assets are a resource that the firm owns and must be recorded in the accounts.

Liabilities

Liabilities are items of debt owed to outside parties and/or other organisations (like suppliers or the banks) and include loans, accounts due to be paid by the business, mortgages, credit card debt and accumulated expenses. The business will divide the liabilities into current and non-current items.

Current liabilities are those in which the debt is expected to be repaid in the short term (12 months or less) and include bank overdrafts, credit card debts, accounts payable (also called creditors) and accrued expenses.

Non-current liabilities are long-term debt items such as mortgages, leases, debentures and retirement benefit funds (money owed to employees upon their retirement from the business). Some of these non-current liabilities can last up to 30 years.

assets items of value owned by the business that can be given a monetary value

liabilities items of debt owed to other organisations (e.g. suppliers, banks) and include loans, accounts to be paid by the business, mortgages, credit card debt and accumulated expenses

Owner's equity

The owners give a business money for it to acquire resources and begin operating. This money is called **owner's equity** (capital). As the business operates, it should start to earn an income to cover its costs and then later earn a profit. The business can hold or retain these profits to target money for a particular project or it may put money into 'reserves' for distribution later. The business could also choose to repay the owners who invested their money in the business at the outset.

Over time, a successful business will have its owner's equity amount increase in value. This means that the owner's claim on the business will also increase. This is the owner's reward for risking their money — and is also the reason for people investing in the stockmarket long term.

FIGURE 8.39 The balance sheet is like an acrobat — it must always balance! Assets must balance on one side with liabilities and owner's equity on the other side. This is called the accounting equation. Assets = Liabilities + Owner's Equity.

The balance sheet equation

The balance sheet is called the balance sheet for a good reason — it should always balance. This means that the sum of items on the left-hand side (the assets) must total the sum of items on the right-hand side (liabilities and owner's equity). This is summarised in the balance sheet equation below.

A = L + OE
Assets = Liabilities + Owner's equity

You will immediately see that the balance sheet is set out in a way that mirrors the accounting equation, with assets on the left, and liabilities and owner's equity on the right.

By applying the equation we can find the missing item. In general, whenever you see a balance sheet, it is wise to quickly do this equation to satisfy yourself that it is correctly drawn.

owner's equity the funds contributed by the owner(s) to establish and build the business. It is also called 'capital'.

on Resources

Weblink Balance sheet

8.5.7 Assess the role of the income statement and the balance sheet when describing the financial performance of a business

The income statement helps business owners and other stakeholders see exactly how much money has come into the business as revenue, how much has gone out as expenditure and how much has been derived as profit.

Analysis of the income statement can also reveal the effectiveness of a business's planning policies concerning pricing, sales, discounts and the valuation of stock, as well as how effective the funds contributed by the owners have been in generating profit.

The balance sheet shows the financial stability of a business. Analysis of the balance sheet can indicate whether:

- the business has enough assets to cover debts
- any money borrowed can be repaid
- the assets of the business are being used to maximise profits
- the owners of the business are making a good return on their investment.

The balance sheet can also reveal the return on the owners' investment, the business's ability to meet both its short-term and long-term financial commitments, whether the business has sufficient assets to continue to make profits in the longer term and how the year's figures compare with previous years, as well as those of competitors.

KEY IDEAS

- Businesses need to be led by managers with a good understanding of accounting and financial management.
- Accounting is a financial management tool that is involved with the recording and analysis of all the business's financial transactions.
- The financial transactions are summarised into financial statements. The main ones are:
  - cash flow statement
  - income statement
  - balance sheet.
- Finance details how a business funds its activities.
- It is vital for a business to be able to manage its borrowings and to use appropriate types of borrowings.
- There are three main financial statements created by accounting processes: the cash flow statement, the income statement (also called revenue statement, profit and loss (P&L) statement or statement of financial performance), and the balance sheet (or statement of financial position).
- A cash flow statement shows the movement of cash receipts (inflows) and cash payments (outflows) over a period of time.
- Liquidity is used to describe whether a business has a good or adequate cash flow.
- Cash flow reports are vital for the information they give on the timing of payments and receipts of income.
- Cash flow statements are divided into three categories: cash flows from operating activities, those from investing activities and those from financing activities.
- The income statement is a summary of the income earned and the expenses incurred over a trading period.
- The main classification of items in the income statement are revenues, cost of goods sold (COGS) and expenses.
- Gross profit = Revenue – Cost of goods sold (COGS)
- COGS = Opening stock + Purchases – Closing stock
- Expenses are simply costs and can be broken down into selling, administrative or financial.
- Net profit = Gross profit – Expenses
- The balance sheet shows the overall financial stability of the business.
- The main items in the balance sheet are assets, liabilities and owners' equity.
- Assets are items of value to the business and can be either current or non-current.
- Liabilities are debts or business borrowing and can be either current or non-current.
- Owner's equity items refers to the owners' claims and is considered a liability from the point of view of the business.
- The balance sheet should always balance.
- This means the assets must equal the liabilities.
- The balance sheet equation is: Assets = Liabilities + Owner's equity or A = L + OE.

8.5 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

8.5 Quick quiz on	8.5 Exercise

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4, 7, 10, 11, 14, 20, 21, 29, 30, 31, 33, 35, 36, 45, 46	1, 5, 6, 8, 9, 12, 13, 15, 16, 17, 18, 19, 22, 23, 24, 25, 26, 27, 28, 32, 34, 37, 38, 39, 40, 41, 42, 43, 44, 47, 48, 53, 55	49, 50, 51, 52, 54, 56, 57

8.5 Exercise

Revision

1. **Distinguish** between accounting and finance.
2. **Recall** what the management of cash flow involves.
3. **Clarify** why some money for contingencies needs to be put aside.
4. **State** what a credit rating assesses.
5. **Explain** why a business would want to have a good credit rating.
6. **Why** is accounting necessary for business?
7. **Identify** the main accounting reports and statements.
8. **Discuss** the role of the internal and external stakeholders who would be interested in the financial situation of the business.
9. **Demonstrate** why astute financial management is considered indispensable to business.
10. **Outline** what a cash flow statement is used for.
11. **Define** the term 'liquidity'.
12. **Why** do businesses allow credit sales when they prefer cash?
13. **Explain** the effect (short-term and long-term) of a bank loan on a business's cash flows.
14. **Classify** each of the following items as either a cash inflow or cash outflow, stating your reason for each item.
    a. Credit sales
    b. Purchases of stock
    c. Payments of wages
    d. Tax on income earned
    e. Sales returned
    f. Debtor payments
    g. Creditor payments
15. **Why** might a retailer have a variable cash inflow depending on the time of year?
16. **How** can a cash flow statement be used to give a detailed insight into the financial situation facing a business?
17. **Distinguish** between the following cash flow items: those arising from operations, those arising from financing and those arising from investing activities.
18. Given the following information for June 2018, **construct** a cash flow statement for Play Safe Pty Ltd.
    - Closing cash balance end of May: $19 300
    - Monthly wages: $3300
    - Weekly sales: $2200
    - Weekly rent: $650
    - Proceeds from sale of equipment: $8700
    - Monthly interest received: $50
    - Fortnightly loan repayment: $950
    - Dividends paid: $23 000
    - Proceeds from issue of shares: $8900

19. The table below shows an extract from a cash flow statement for a business. The opening balance for January is $4000.

	Jan	Feb	March	April	May	June
Cash in ($)	5000	4000	2000	3000	3000	5000
Cash out ($)	2000	3000	6000	5000	6000	4000

a. **Construct** the opening cash balance for April.
b. Identify the month in which the business started with a negative cash balance.

20. **Identify** the different names given to the income statement.
21. **Define** each of the following terms and, where relevant, write down the mathematical equation that would help in calculating the figure.
- Sales
- Cost of goods sold
- Gross profit
- Net profit

22. **Calculate** the cost of goods sold (COGS), given the following information:

	$
Sales	700 000
Stock (opening)	100 000
Purchases of stock	400 000
Closing stock	50 000

23. Using the figures from question 22, **calculate** gross profit.
24. Using your workings from questions 22 and 23, **calculate** the value of net profit (or loss) if expenses for the period totalled $80 000.
25. Anita Toparis owns and operates Petal's Florist. Last year Anita had a sales revenue of $285 000. Her cost of goods sold totalled $115 000. Her operating expenses were: electricity $5000, advertising $11 000, interest charges $5000, salaries $62 000 and rent $25 000. **Construct** an income statement (statement of financial performance) for Anita and tell her whether she has made a net profit.
26. **Distinguish** between selling, administrative and financial expenses, giving examples for each.
27. **Explain** how an income statement can provide useful information to a business and its stakeholders.
28. Refer to the income statement below and answer the questions that follow.

Income statement for Bella Wedding Accessories for the period ending 30 June 2021

	$	$
Sales		550 000
Less cost of goods sold		
Opening stock	40 000	
Purchases	?	
Closing stock	15 000	
Cost of goods sold		195 000
Gross profit		?
Less expenses		
Selling expenses:		
Advertising	35 000	
Cartage	8 000	
Administrative expenses:		
Rent	?	
Financial expenses:		
Insurance	7000	
Bad debts	2500	175 900
Net profit		?

a. **Calculate** the value of purchases for this period.
b. **Calculate** the value of the gross profit for this period.
c. **Calculate** the value of rent for this period.
d. **Calculate** the value of the net profit for this period.
e. If the expenses increased by $10 000, outline the impact this would have on both the gross and net profit.
f. Identify an alternative administrative expense for this business.

29. **Identify** the alternative title used for a balance sheet.
30. **Outline** the purposes of a balance sheet.
31. **Identify** what is meant by the term 'T-format' used to describe the balance sheet.
32. **Account** for the fact that the balance sheet is called a 'balance' sheet with reference to both sides of the statement.
33. **Define**, with examples, what is meant by the term 'assets'.
34. **Distinguish** between current and non-current assets, with examples of each.
35. **Outline** the intangible items of a balance sheet.
36. **State** what liabilities are, and distinguish between those that are current and those that are non-current.
37. **Explain** how the business owes owners both their investment and also a return for their investment.
38. The balance sheet below as at 30 September has been badly prepared. **Construct** the balance sheet correctly.

Balance sheet as at 30 September

Assets	$	$	Liabilities	$	$
Bank	3 400		Motor vehicles	30 000	
Creditors	2 500		Debtors	2 000	
Capital	46 000		Stock of materials	1 600	33 600
Loan	10 000		Owner's equity		
			Equipment	23 000	
			+ Drawings	4 000	
				27 000	
			– Net profit	5 500	21 500
		61 900			**55 100**

39. **Calculate** the missing figure for each of the following:
a. Assets = $245 000, Liabilities = $43 000, Owner's equity = ?
b. Assets = $342 000, Owner's equity = $152 000, Liabilities = ?
c. Assets = ?, Liabilities = $63 000, Owner's equity = $212 500
40. Using the following balance sheet, **calculate** the value of the mortgage.

Balance sheet for Muggers Cups P/L as at 30 June 2021			
Assets		**Liabilities**	
Current assets	**$**	**Current liabilities**	**$**
Cash at bank	7 000	Creditors*	1 250
Debtors*	3 400	Bank overdraft	2 200
Stock	11 000	Credit cards	4 800
Non-current assets		**Non-current liabilities**	
Land and buildings	150 000	Mortgage	?
Fixtures and fittings	12 300		
		Owner's equity	
		Owner's capital	35 000

*Note: Debtors are accounts receivable; creditors are accounts payable.

41. **Calculate** the total value of assets, owner's equity and liabilities from the balance sheet in question 40.

42. If retained profits and owner's capital totalled $23 000, instead of $35 000, **calculate** the new value of the mortgage.
43. An artist, Candice Wahler, has asked you to help her construct a balance sheet.
    a. Briefly **explain** to her how a balance sheet is set out.
    b. **Construct** a balance sheet for her as at today's date from the following information: cash at bank $1500, motor vehicle $10 000, accounts payable $6000, equipment $8200, accounts receivable $3000, bank loan $13 500 and stock $3000.
44. Answer the following questions based on the balance sheet below.

Balance sheet for Michael's Café as at 30 June 2021					
Assets	**$**	**$**	**Liabilities**	**$**	**$**
Current assets			**Current liabilities**		
Cash in bank	5 600		Overdraft	3 200	
Debtors	3 300		Creditors	4 600	
Stock	**(a)**	15 000			
			Non-current liabilities		
			Bank loan	**(e)**	
Non-current assets					
Building	**(d)**		**Owner's equity**		
Equipment	17 000		Capital	61 550	
Furniture	13 500	130 600	Retained profits	10 000	
Total			**Total**		

    a. **Calculate** the value of the stock (a).
    b. Identify what another name for stock is.
    c. Identify what another name for creditors is.
    d. **Calculate** the value of the building (d).
    e. **Calculate** the value of the bank loan (e).
    f. **Calculate** the value of total liabilities.
    g. If this business decided to pay back $1000 to their creditors, identify the two items on the balance sheet that would be affected.

Read the 'SMEs and cash flow' case study and answer questions 45 to 48.

45. **Identify** the percentage of businesses that are cash flow negative in any given month.
46. **Outline** the main factor that contributes to this negative cash flow.
47. **How** do John Franji and Anthony Daoud manage their cash flow?
48. **Explain** how late payments affect small businesses.

Extension

49. 'Shrinkage' refers to the loss of stock from a business. White-collar crime refers to the theft or embezzlement of money from a business. **Analyse** the proposition that 'if employees were paid higher wages, then there would be no need to audit as there would be no need for anyone to steal from businesses'.
50. **Assess** the effect of an economic downturn on a business's financial management.
51. Cash is often referred to as the 'life-blood' of any business. **Analyse** the effects on a business of carrying too little cash, and outline the problems that could arise if a business carries too much cash.
52. Creditors, or accounts payable, are liabilities owed by the business that are due and payable. Debtors, or accounts receivable, are monies owed to the business by customers. **Assess** how delays in the receipt and payment of cash can have a large effect on a business's cash flow.
53. Research the terms 'liquidity' and 'profitability'. **Distinguish** between these terms and **explain** how sometimes a business will seek greater liquidity for lower profitability (*Hint:* You might like to consider factoring, sale and leaseback, and inventory controls).
54. **Determine** why increases in business wealth add to the owner's equity amount and thereby increase the wealth of those investing in business.
55. **Account** for the fact that the income statement will always be drawn up before the balance sheet.

56. Intangibles are subjectively valued, whereas tangible assets are more easily objectively valued. **Extrapolate** why the value of intangibles — such as goodwill, trademarks, designs, copyright and patents — are very hard to value, while the value of buildings and vehicles can be easier to determine.
57. Goodwill is sometimes determined by the following two methods:
    - *method 1* — the difference between the total value of a business's assets and the selling price of the business
    - *method 2* — a proportion (e.g. 20 per cent) of the average of the past three years' trading profits.

Application of method 1
A business is offered for sale for $250 000, but the valuation of the assets and stock at cost is $200 000. Thus, the goodwill is $50 000. This reflects the good trading reputation of the business, the stable client base and stable supplier contracts.

Application of method 2
A business records the following profits in the years 2015–2017. Calculate its goodwill if goodwill is set at 40 per cent of the average three-year trading profits.

	2015	2016	2017
Net profit	$45 000	$65 000	$50 000

Goodwill = ($45 000 + $65 000 + $50 000) × 0.40 = $160 000 × 0.40 = $64 000

Use the information below to determine the value of goodwill in the various scenarios provided:

a. Ben's Bowling is a business that is up for sale. The selling price is $150 000. The value of the assets totals $120 000.
b. Leon's Laser Toys has recorded annual profits for the last three years averaging $100 000. The goodwill calculation rate to apply is 33 per cent.
c. Tina's Video and Film Corporation has assets worth $40 000 in total. Profits are $3000 annually on average, but she has put the business up for sale at $200 000. What should the goodwill be, assuming a goodwill calculation of 30 per cent of average profits over three years? What goodwill is Tina asking? **Analyse** the problems this raises for the valuation of intangible assets.

Solutions and sample responses are available in your digital formats.

8.6 Human resources

SYLLABUS LINK In this subtopic you will learn about the management process:

- human resources
  - recruitment
  - training
  - employment contracts
  - separation — voluntary/involuntary.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

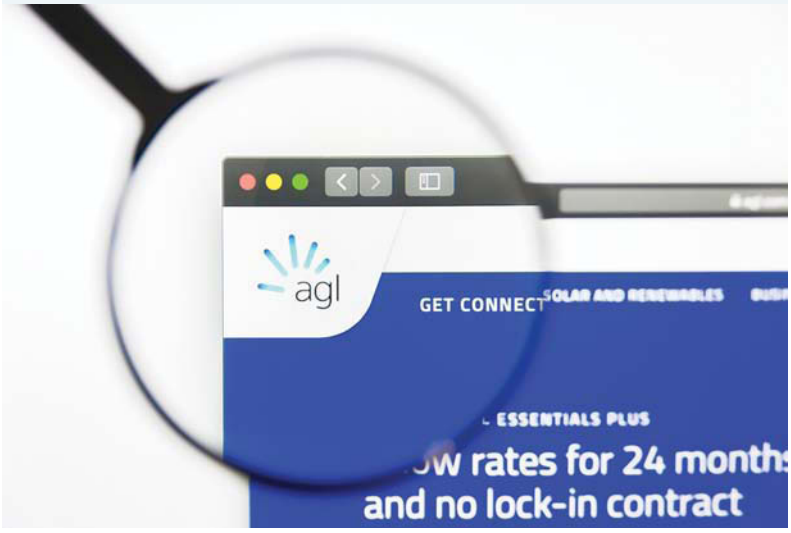
Employees can make or break a business, so the management of staff has to be top priority for every business owner. **Human resource management (HRM)**, in its simplest terms, is defined as the effective management of the formal relationship between the employer and the employees.

human resource management (HRM) the effective management of the formal relationship between the employer and employees

Successful business owners recognise that they rely on the quality of their employees to achieve their goals of improved profit, growth and increased market share. For a business to make best use of its employees, it should:

- take care to hire the best people
- develop cooperative and effective working relationships
- motivate staff to do their best in the workplace
- provide employees with opportunities for training and development.

FIGURE 8.40 At AGL Energy, human resources are central to the company's objective of creating sustainable and reliable energy. According to AGL, progress is powered by its people. AGL's employees are viewed as their greatest asset and they endeavour to show this through 'actions' rather thant words. AGL has a strong focus on employee engagement, it provides a healthy and secure work environment and the company embraces and values diversity and inclusion.



When an employee turns out to be an excellent worker, retaining that employee may be crucial to ongoing business success. Without dedicated, trained and motivated employees, the best organised plans will never be achieved. The human factor is crucial in all businesses. Most businesses that are successful in the long term maintain a balance between concern for success (expansion or profit) and regard for their employees (see the following case study).

BizFACT

It's important to hire the 'right' person for the 'right' position.

Employees are often one of the most untapped aspects of a company's 'brand'. Not only are they the face of the business and living representatives of a business's brand, they also differentiate one brand from its competitors. They therefore need to be projecting the right image to the outside world. If an employee's behaviour is not in sync with the image of the business, the consequences can be detrimental.

SNAPSHOT

Case study: ALDI — employer of choice

ALDI was selected as an employer of choice in the Australian Business Awards from 2018 to 2020. While ALDI's mission is to provide customers with high quality products at very low prices, it also offers opportunities to employees to reach their full potential.

In Australia, the business is privately owned and is part of the company which began in Germany. It has been operating in Australia since 2001, and currently has more than 12 000 employees throughout its 500 stores. The company has developed a unique culture that helps differentiate the business from its competitors. So that every employee understands the culture and is equipped with the right skills to perform their job successfully, ALDI developed an effective induction and training program.

Once employees have completed the business's high quality induction, ALDI makes sure its employees are continually learning — programs are in place to support development and career progression. High performers are recognised in stores and developed through the company's Future Leaders program, in which management recognises high performing employees and trains them to become managers.

To help with the retention of staff, ALDI does not provide fancy and elaborate rewards. Instead, the company tries to empower its workforce through intrinsic rewards. ALDI consistently recognises the value and important role its employees play in the success of the business.

In addition to providing employees with an excellent working environment, ALDI also rewards staff with market leading remuneration. Employees are paid at above industry rates and a competitive parental leave policy is available to all staff. ALDI have also implemented a variety of strategies to create healthier and more pleasant working conditions. Some of these initiatives include counselling services and a wellness program.

The dynamic nature of business means that staffing needs will change over time. As the business expands, or existing employees resign or retire, new positions will be created, so business owners need to constantly monitor their staffing needs (see figure 8.41). However, at the heart of staffing is the employee. Hiring the 'right' person for the 'right' position is of crucial importance to all businesses.

The HSC course investigates human resources in greater depth, so this chapter will provide an elementary understanding of the main concepts.

FIGURE 8.41 Large supermarket chains will have to plan for the likely staffing effects of the increased use of self-scanning facilities. With as many as six in ten shoppers now scanning their own supermarket items, chains such as Woolworths and Coles must plan for what may inevitably mean a decrease in the number of checkout operators.

Human resource cycle

human resource cycle covers all stages in the process of employing staff, from initial planning through to recruitment, selection, induction, training and development, performance management and eventually separation of employment

The main functions of staffing are to attract and acquire, train and develop, reward, maintain and separate the people — **the human resource cycle** — needed to achieve the business's goals. The human resource cycle involves a business determining its employment needs in line with its business strategy. As the name suggests, human resource management begins with acquisition — recruiting and selecting people to work for the business. Next, plans and procedures need to be put into place to train and develop these employees. As well, steps must be taken to keep — that is, maintain — these valuable resources. Finally, there are times when employees will separate from the business, either voluntarily, through retirement or resignation, or involuntarily, through retrenchment or dismissal. Separation (termination) of employment must be managed to ensure employees are treated fairly and within the law. How well these functions are managed will largely determine the success of any business.

Figure 8.42 summarises the four main elements of the human resource cycle/staffing process: acquisition, development, maintenance and separation. Each of these elements consists of related activities (see table 8.6) that are carried out by the human resource department. Each of the four elements complements the other, with the desired outcome being a productive and efficient workforce.

If handled correctly, 'human resources' can provide a business with a competitive advantage; if mishandled, this key area can generate many problems.

FIGURE 8.42 The four main elements of the human resource cycle/staffing process

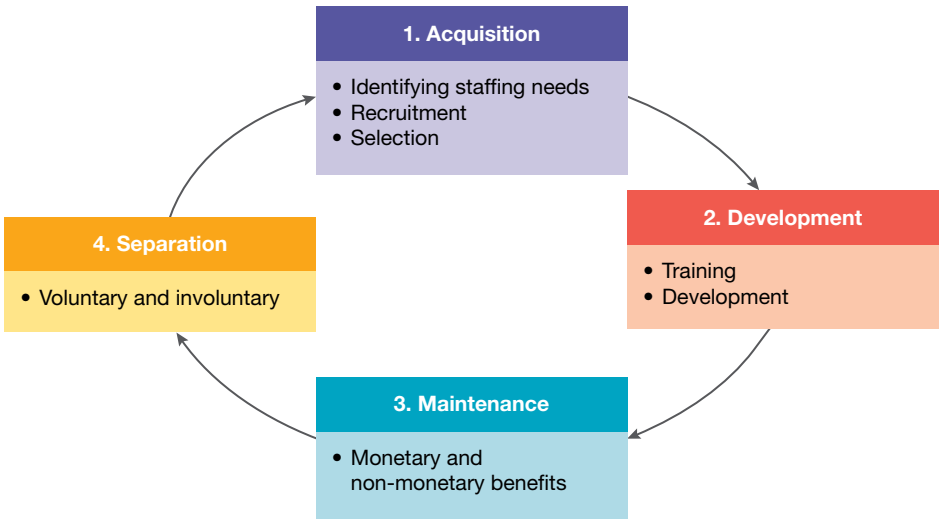


TABLE 8.6 Elements of the human resource/staffing process and their related activities

Element	Activities
Stage one *Acquisition* • Hiring new employees	• Planning: identifying staffing needs; job analysis (determining the exact nature of the position to be filled) • Recruitment: attracting people to apply for the position in the business; internal and external recruitment • Selection: choosing and hiring the most qualified people; testing and interviewing

(continued)

Element	Activities
Stage two *Development* • Improving employees' skills and abilities	• Induction and training: teaching employees new skills and helping them learn tasks associated with their jobs • Development: the process of improving the skills, abilities and knowledge of staff
Stage three *Maintenance* • Motivating employees to remain with the business	• Monetary benefits: rewarding employees' efforts through financial compensation; pay rates • Non-monetary benefits: rewards such as conditions; fringe benefits
Stage four *Separation* • Employees leaving the business	• Voluntary: employees leaving on own accord; retirement, resignation • Involuntary: employees being asked to leave; retrenchment, dismissal

No longer can a business rely on a constant supply of homogeneous employees prepared to join a company for a lifetime. Businesses today must accommodate working parents with childcare needs, the middle-aged employee who has to care for an elderly parent and people from culturally diverse backgrounds.

Therefore, businesses today are taking their human resources function, especially the staffing process, more seriously than in the past.

BizFACT

Developing a team approach within the workplace can bring about many benefits including enhanced employee morale, higher levels of productivity and more satisfied workers.

8.6.1 Recruitment

As mentioned above, the first stage of the human resource cycle is **acquisition**. Acquisition refers to the process of attracting and recruiting the right staff for roles in a business.

Prior to recruitment, a business must undertake a **job analysis**. There is no sense in hiring people unless the business is clear about what it is hiring them to do. In other words, the business must determine the exact nature of a job before it can recruit the right person to do it. Job analysis is a systematic study of each employee's duties, tasks and work environment.

acquisition (HR) the process of attracting and recruiting the right staff for roles in a business

job analysis a systematic study of each employee's duties, tasks and work environment

BizFACT

Over the next decade, the workforce will age considerably (often referred to as the 'greying' of the population) as the post–World War II, 'baby boomer' generation grows older. Take, for instance, the nursing profession. In 2001, the average age of both registered and enrolled employed nurses was 42.2 years. Now the average age of a nurse is around 50 years. It is therefore not surprising that in recent years there has been a recruitment drive to attract more people to become nurses, and many nurses from overseas have been employed.

The information provided by a job analysis for a particular position is typically used to develop a:

- **job description**: a written statement describing the employee's duties, tasks and responsibilities associated with the job. It is a summary of what the worker will be doing (the role they will have in the business). It will usually include the job title, the purpose of the job, the placement of the job within the business, responsibilities and activities to be performed, working conditions and performance standards (see figure 8.43).
- **job specification**: a list of the key qualifications needed to perform a particular job in terms of education, skills, knowledge and level of experience. It indicates the sort of person a business is seeking (the personal attributes necessary for the job). It will usually include required levels of training or education, work experience, personal qualities and areas of expertise (see figure 8.43).

Once the job description and specification have been completed, it's on to the process of recruitment and selection.

FIGURE 8.43 An example of a job description and a job specification

John Wiley & Sons Australia, Ltd
Publishers Since 1807

GRAPHIC DESIGNER (Artists)

John Wiley & Sons Australia, Ltd, a leading educational publisher, wishes to appoint an experienced **Graphic Designer** for its busy Art studio in McDougall Street.

Job description

This full-time position involves creating flyers, brochures, posters, catalogues, advertising, stationery and web pages, along with book interior and cover designs.

Job specification

The successful applicant will have excellent design skills and can format supplied text both quickly and accurately. A thorough knowledge of Adobe CS6 studio software package for the Mac is vital. GoLive, PowerPoint, or website design experience, as well as strong English skills, would be very advantageous.

Remuneration will be based upon experience. All applications should be sent in writing by **Tuesday, 4 October 2022** to: Manager, Design, John Wiley & Sons Australia, Ltd, PO Box 1226, Milton QLD 4064. Work samples/copies would be appreciated.

We are also calling for expressions of interest from Mac artists with a thorough working knowledge of Illustrator to perform casual or freelance work for our Art Dept.

John Wiley & Sons Australia, Ltd A.C.N. 009 673 081 is an Equal Opportunity Employer which supports Affirmative Action.

Recruitment involves finding and attracting the right people to apply for a job vacancy using advertisements, employment agencies and word of mouth. Because recruitment is such an important, yet expensive, activity, it should be performed systematically. Recruitment begins with identifying a need to fill a vacancy, analysing the requirements of the position and then selecting an appropriate source (whether internal or external) and method of attracting potential applicants to apply for the position. When an organisation decides to recruit staff, it may choose internal or external recruitment methods.

job description a written statement describing the employee's duties, tasks and responsibilities associated with the job

job specification a list of the key qualifications needed to perform a particular job in terms of education, skills and experience

recruitment the process of finding and attracting the right quantity and quality of staff to apply for employment vacancies or anticipated vacancies

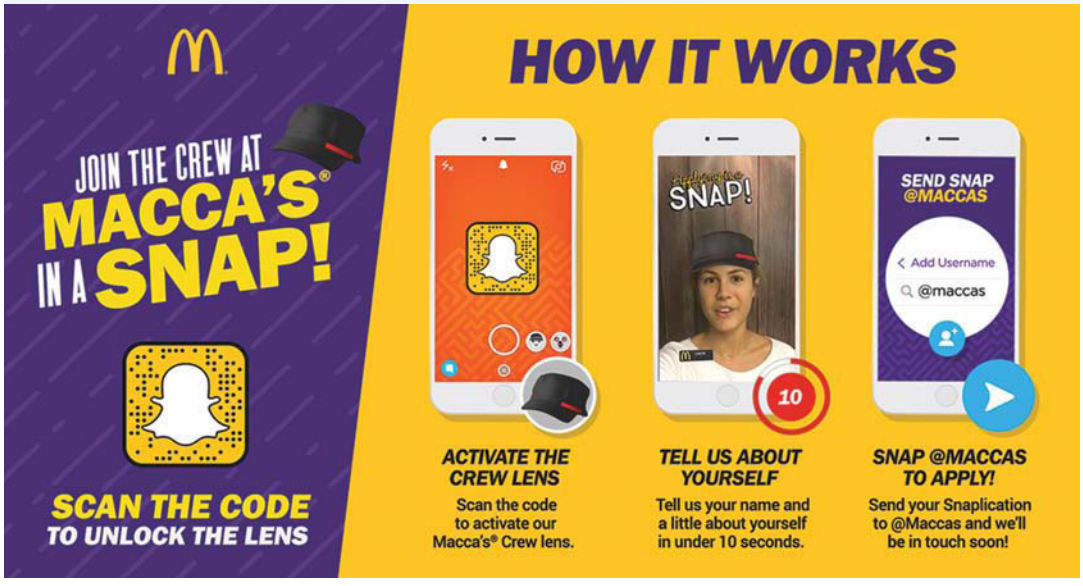
Internal recruitment occurs when a business decides to appoint someone already within the business to a vacancy. This usually involves an opportunity for a person to take on different duties, and can mean a promotion to take on greater responsibilities within the business. Internal recruitment is popular and involves less risk, because the employer already knows the person who will be filling the vacancy. Of course, the person recruited internally may then have to be replaced by external recruitment. A business may recruit internally via email, on a staff noticeboard, on their intranet (a private, secured computer network that is used to share information within a business) or by word of mouth. Table 8.7 outlines the advantages and disadvantages of internal recruitment.

internal recruitment filling job vacancies with present employees, rather than looking outside the business

TABLE 8.7 Advantages and disadvantages of internal recruitment

Internal recruitment	
Advantages	**Disadvantages**
Employees are already known to the employer, so the choice may be easier.	There may be no-one suitable from within the business.
Applicants are already familiar with the business and its objectives, culture and processes.	If there is more than one internal applicant, it can lead to conflict or jealousies between those employees.
If the position is a managerial or supervisory position, it creates a career path within the business to reward valued employees.	Applicants may be set in their ways and not open to new ideas.
Costs of advertising the position are reduced, and no external agencies need to be paid.	The successful applicant from within may have to be replaced, so an external recruitment process may be necessary anyway.

FIGURE 8.44 In an effort to engage with young people and attract new employees, McDonald's launched Snaplications in 2017, which gives Australians the chance to apply for a job at McDonald's through a Snapchat lens. Snapchat users can select a lens which sees them in a McDonald's uniform and from there, they are able to send a 10-second video outlining why they want to work at the fast-food chain to the McDonald's Snapchat account, @Maccas.



Source: McDonald's Australia

External recruitment is used to find suitable applicants from outside the business, because staff planning has identified the need for a new position, an existing employee has resigned or retired, or the person previously performing the duties has been transferred or promoted to a new position within the business. Table 8.8 outlines the advantages and disadvantages of external recruitment.

external recruitment filling job vacancies with people from outside the business

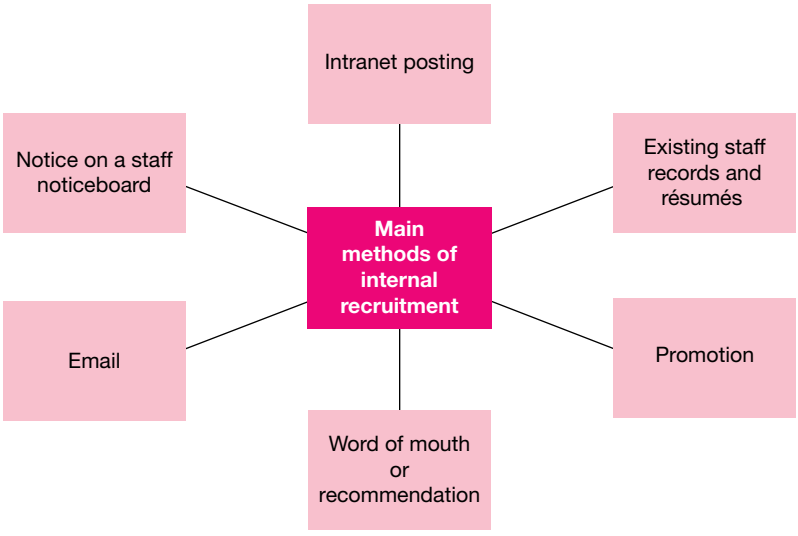
TABLE 8.8 Advantages and disadvantages of external recruitment

External recruitment	
Advantages	**Disadvantages**
There is a wider range of applicants to choose from.	The applicants are all unknown, so the choice may be more difficult.
Outside applicants may bring new ideas and fresh approaches to tasks.	There are costs associated with advertising the position.
Different qualifications or experience from those already within the business can be specified in the advertising process.	The field of applicants may be larger, so the process of selection may become more time-consuming.
This method allows for rapid growth of the business because it allows for an increase in actual staff numbers.	Qualified employess from within the business may resent outsiders coming in, particularly if it is a managerial or supervisory position.

The recruitment method chosen will depend on the size of the business, the type of position available and the nature of the labour force in the business's particular area.

The main methods of external recruitment are illustrated in figure 8.45.

FIGURE 8.45 The main methods of internal recruitment

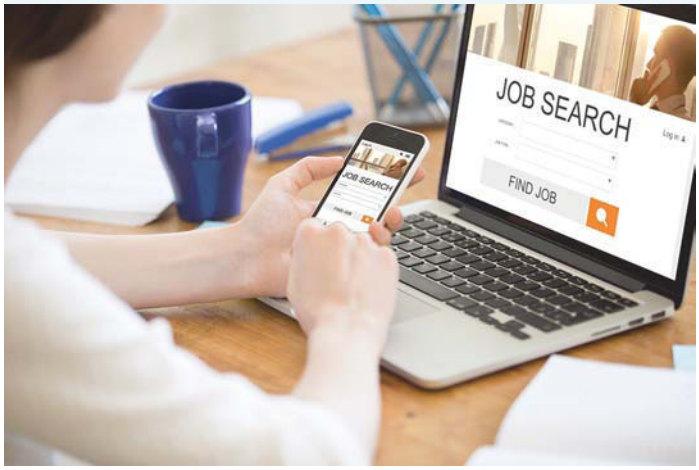


Most businesses will want to advertise as widely as possible to attract the greatest number of applicants, so they will often use more than one avenue. Many businesses use employment agencies to handle the recruitment of staff. Some agencies specialise in particular industries and will handle all the advertising of vacancies. This is an expensive, but effective, method — the agency does the preliminary screening of candidates and presents potential employees who fit all the criteria of experience, education and training.

FIGURE 8.46 Many businesses outsource the recruitment process and hire recruitment agencies to find them suitable employees as a way of decreasing the time involved in searching for a new employee. They pay an agency to interview applicants and recommend a short list of potential employees suitable for the available position.

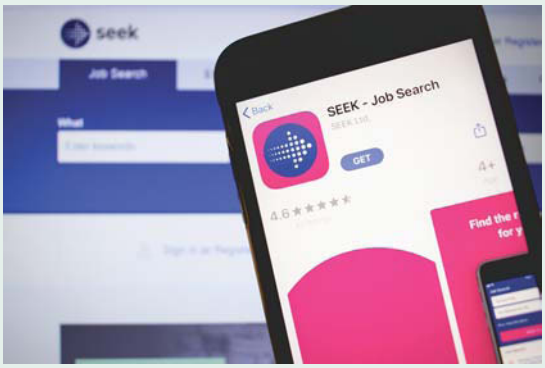
Many jobs are advertised online. Businesses, such as SEEK, provide an efficient way for job seekers to search online for jobs that meet their qualifications and expectations (see the following case study). Employers and recruiters use businesses like SEEK to advertise positions online and therefore reach a wide audience, although some still choose the traditional method of advertising in the newspaper. Advertising in the general media means that a business has to screen applicants and then proceed with interviews. This is often time consuming if the business receives a large number of applications; however, it does prove effective in many cases and small to medium-sized businesses often use this method. The fastest growing recruitment methods today are via social networking sites, such as Facebook, Twitter and LinkedIn. Social media platforms may be used by a business to share job vacancies, raising awareness of positions available. They can also be used to research applicants, complete background checks and network with potential candidates. To add credibility to the business's recruitment strategy and reinforce its culture, current employees may be encouraged to use social media to share the work they have created or their experience working at the business. In using social media for recruitment, a business should be aware of where their target audience is and how they use social media — not all potential applicants will use social media.

FIGURE 8.47 Job seekers today are much more likely to search online job advertisements than to use traditional newspaper advertisements.



SNAPSHOT

Case study: SEEK provides online recruitment services



SEEK is a public company operating a global online employment marketplace with a presence in 18 countries, including Australia, New Zealand, China and across South-East Asia and Latin America. The business uses technology, data and artificial intelligence to meet the needs of job seekers and employers and support the matching of candidates to employers.

SEEK was founded in 1997 by Andrew Bassat, Paul Bassat and Matthew Rockman. The website was launched the following year, and was an online version of the employment advertisements found in newspapers. SEEK has now grown to be one of the world's largest online recruitment agencies, employing 1000 people in Australia and over 10 000 people around the world. It has relationships with more than 215 million job candidates and over 1 million employers.

SEEK allows job candidates to create a profile on its website so that they can be contacted with opportunities from prospective employers and also provides job recommendations. Job adverts become visible when applicants search for a vacancy on SEEK, and are also matched and sent to the email inboxes of relevant candidates who have opted to receive job alerts. Candidates who may not be actively applying for roles will also have job ads recommended to them.

Employers who have registered an employer account and who post job ads on the website can search the SEEK profiles to find relevant candidates for advertised positions. The database can be searched based on specific parameters — for example, role title, skills and/or location.

Once potential candidates have been selected, the business must then choose the best person for the job. **Employee selection** is the means by which the employer chooses the most suitable applicant for a vacancy. This involves identifying the skills, qualifications and experience of each applicant, and relating them to the skills, qualifications and experience listed in the job specification to achieve the closest possible match.

BizFACT

A lot of employee turnover in Australia occurs among newly recruited staff who have spent less than one year in the job. This reinforces research that suggests that most Australian management selection processes are unplanned, subjective, highly susceptible to error and not supported by effective induction programs.

Selecting the most appropriate candidate can involve all or any of the following options:

- *Written or online application.* Some employers use either a printed application form or an online application form requiring basic personal information, details of qualifications and experience, and names of referees. Alternatively, prospective employees may be able to submit a written application in any form they wish. This will usually include a **curriculum vitae** or **résumé** as well as any other relevant information. Applicants will often try to indicate how their own qualifications and experience match those included in the job specification. The employer usually shortlists a realistic number of suitable applicants.
- *Testing.* These may be written or practical and are designed to assess aptitude, intelligence or ability. Psychological testing and work testing are two forms of testing commonly used. Psychological testing attempts to reveal aspects of a person's character and personality that may affect their ability to perform

employee selection involves gathering information about each applicant for a position, then using that information to choose the most appropriate applicant

curriculum vitae or **résumé** a summary of a person's previous employment experience

the work tasks required. Work testing is more closely related to the actual job, and may seek to test specific skills that are needed to carry out the relevant work.

- *Interviews.* The interview is perhaps the most important procedure in the selection process. Interviews should be well structured and cover a set of common questions to ensure consistency between applicants.
- *Background checks.* Referees can be contacted to verify the accuracy of an applicant's previous experience, and to gain an assessment of their performance in a previous position.

After the interviews have been conducted and the checks and testing have been performed, the most suitable applicant will be offered the position. That person is the applicant that best meets the job specification in terms of skills, qualifications and experience. The business will usually wait for the successful applicant to accept the position before informing the other applicants that they have been unsuccessful. This will help to avoid a potential problem if the successful applicant no longer wishes to accept the position.

BizFACT

The cost of a poor recruitment decision is believed to be around two or three times the annual salary of the person recruited.

FIGURE 8.48 Hiring the 'wrong' person can be a costly exercise. This is why businesses need to ensure they implement effective recruitment and selection strategies.

"Everything on your resume is true ... right?"

on Resources

Weblinks Job interview
SEEK

8.6.2 Training

Training and development are aimed at improving employees' skills and abilities — they are necessary for both personal and business growth. New employees may need some training and development, depending on their level of experience. Existing employees also need training and development to continually upgrade their skills. **Training** is teaching staff to perform their job more efficiently and effectively by boosting their knowledge and skills.

training the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills

Development is the process of preparing employees to take on more responsibilities in the future through acquiring better knowledge and skills, and gaining more experience in a particular area. Developing staff often involves training. It is interesting to note that many employees expect their business to provide them with opportunities to grow and learn, and ultimately improve their employability.

development refers to activities that prepare staff to take greater responsibility in the future

The aim of training and development is to seek long-term change in employees' skills, knowledge, attitudes and behaviour in order to improve work performance in the business. A well-organised and well-presented training program develops and maintains a business's sustainable competitive advantage and provides benefits for both the employee and the employer. Well-organised and well-presented training and development provides benefits for both the employee and the employer (see table 8.9).

FIGURE 8.49 For Frank Russo of Rainbow Meats, the key to business success is staff training and the ability to retain great staff. The business currently employs 80 staff across five stores. Frank believes it is important to keep training employees to improve their skills and to ensure a great workforce into the future. His staff are even provided with cooking classes so that they're able to advise customers on the best recipes for different cuts of meat. Frank is committed to the growth of the business through new ideas, but realises that staff training and motivation are crucial to ensuring that new ideas are effectively put into practice.

BizFACT

Ford Australia claims that employee training has led to halving absenteeism and reducing labour turnover. Can you account for this relationship?

An effective training and development program is planned and perceived as integral to the business's strategy, as well as to maintaining or developing a business's sustainable competitive advantage. Ongoing training for all employees is becoming critical due to rapid technological change and global competition — it is so critical that many businesses now promote the concept of a **learning organisation**. A learning organisation is aware of its actions and its environment and tries to improve its understanding of the relationship between the two. All employees are involved in developing knowledge and insights that allow the business to continually grow and improve.

learning organisation an organisation that monitors and interprets its environment, seeking to improve its understanding of the relationship between its actions and its environment

TABLE 8.9 Training and development provide benefits for both the employee and the employer.

Benefits for the employee	Benefits for the employer
• Opportunity for promotion and self-improvement • Improved job satisfaction through better job performance • A challenge — the chance to learn new things • Adaptability — greater ability to adapt to and cope with changes • Improved chances of future employability	• Higher productivity through better job performance and more efficient use of human resources • Goals and objectives more effectively met • Reduced costs due to less labour turnover, errors, accidents, absenteeism • A more capable, 'mobile' workforce • Existing staff more easily retained • Less disruption in the event of staff turnover • An 'insurance policy' — employees are able to cope better with business 'crises' (this is a benefit for employees as well)

SNAPSHOT

Case study: Training at Tata Consultancy Services

Tata Consultancy Services (TCS) is a multinational information-technology services, consulting and business solutions company with its headquarters in India. Its services are offered across a number of sectors including banking and finance, retail, utilities, energy and telecommunications.

TCS was recognised as a Global Top Employer in 2020 for the fifth consecutive year by the Top Employer Institute. Certification is awarded to the best employers around the world — that is, companies that demonstrate the highest standards of employee offerings. These employee offerings include primary and secondary benefits and working conditions, training and development, career development and culture management. Deborah Hadwen, CEO of TCS Australia and New Zealand, says, 'We have a world-class talent management program that enables our employees to receive excellent career opportunities, training and benefits, positioned within an energetic working environment that delivers cutting-edge IT services and business solutions to leading enterprises across Australia'.

Training at TCS is delivered through many means. Internal social-networking sites provide a facility for training, online training is made available through video libraries and traditional classroom training, and virtual labs and video-sharing portals are also offered. TCS launched 'Knome', an internal social platform inspired by Facebook

and Twitter, in 2012. This enables employees around the world to form communities so they can acquire and reuse learning and knowledge, collaborate, and discuss and develop solutions to business challenges.

Keeping employees' skills up to date is very important to TCS because its core business is technology, and technology is changing at an ever-increasing pace. Faced with massive digital transformation in 2016, the company's leadership recognised that their workforce needed a way to learn valuable digital skills. Management therefore overhauled their learning and development approach, which was individualised and haphazard, as well as slow and inefficient. They therefore set about revamping their learning platform to provide tailored content and externally certified courses to meet their employee's demands at scale. They also implemented a co-innovation network and aligned with academic institutions to partner with its research and development labs and software vendors. This gave the business early insight into what is happening in the market.

The company's large-scale digital reskilling initiative resulted in more than 390 000 employees getting trained in digital technologies. This investment in their staff resulted in a turnover rate of around 12 per cent, which is significantly lower than the industry average of 19 per cent. TCS's continuous education and professional development program is one of the most comprehensive in the world, enabling employees to login anywhere and anytime to complete certifications in the newest technologies in the market. It provides their entire staff access to the latest research and training to equip them to work with the latest technologies and develop crucial skills.

Types of training and development

A number of training methods are available to businesses. The most common of these include:

- Off-the-job training: when employees are trained away from the workplace. It usually involves sending individuals or groups of employees to a particular specialised training institution. This may be a university or TAFE college, where employees can gain a recognised qualification that will assist them in performing more effectively and efficiently at work. It may be a specialist provider, with particular knowledge relevant to an industry, type of equipment or product.
- On-the-job training: when employees need to learn a specific set of skills to perform particular tasks in the workplace. This training usually occurs within the working environment, and uses the equipment, machinery and documents present in that workplace. It may occur while the employee is performing their regular duties at their regular workstation, or it may occur in a special setting, such as a training room or conference room. Training may be provided by an experienced co-worker, by a leader or manager with particular or specific expertise, or by an external provider.
- Action learning: learning by experience solving real workplace problems — for example, NAB and IBM use this form of training
- Competency-based training: identifies skill strengths and areas where further training is required — for example, medical education uses this form of training.

FIGURE 8.50 There has been a significant increase in online training. Australian businesses spend around $9.2 billion annually on staff training. This equates to up to $1000 per employee each year. By training staff online, businesses can reduce their training costs by 25 per cent. They can save money on hiring experts and their employees will spend less time away from their desks. In addition, businesses that use online training recorded a 16 per cent reduction in staff turnover.

- Corporate universities: businesses can also form partnerships with academic institutions to develop training — for example, Coles and Qantas have forged partnerships with academic institutions.
- Online training (or eLearning): this refers to the delivery of training through electronic devices such as computers, tablets and even cellular phones that are connected to the internet. This makes it easy for users to learn anytime, anywhere, with few restrictions.

Programs aimed specifically at developing effective managers may focus on the use of:

- *job rotation.* The employee experiences many different aspects of a business. For example, a manager may move from one section of the business to another, taking with them their management skills and applying them to a different situation.
- *mentoring.* A mentor acts a bit like a coach, supporting the employee as they learn. The employee is able to gain from the experience and skills of another person in the business.
- *formal business training.* This may be done through programs such as the Masters of Business Administration (MBA).

Regardless of the type of training, business owners should view training and development as an investment in the human capital of the business, rather than just another expense.

BizFACT

Training at Motorola is high on the agenda. For eight decades, they have been recognised as one of the best employee training companies in the world. In the 1980s, management realised that training should be a continuous learning process involving everyone in the business, so the company set up the Motorola Training and Education Centre — an exclusive institute dedicated to the training and development of all Motorola employees. Every employee must complete 40 hours of training a year. The programs have resulted in improving employee productivity and performance, as well as quality.

8.6.3 Employment contracts

When a job applicant accepts an offer from an employer, a contract is established between the two parties. An **employment contract** is a legally binding, formal agreement between an employer and an employee.

employment contract a legally binding, formal agreement between an employer and an employee

common law law developed by courts and tribunals

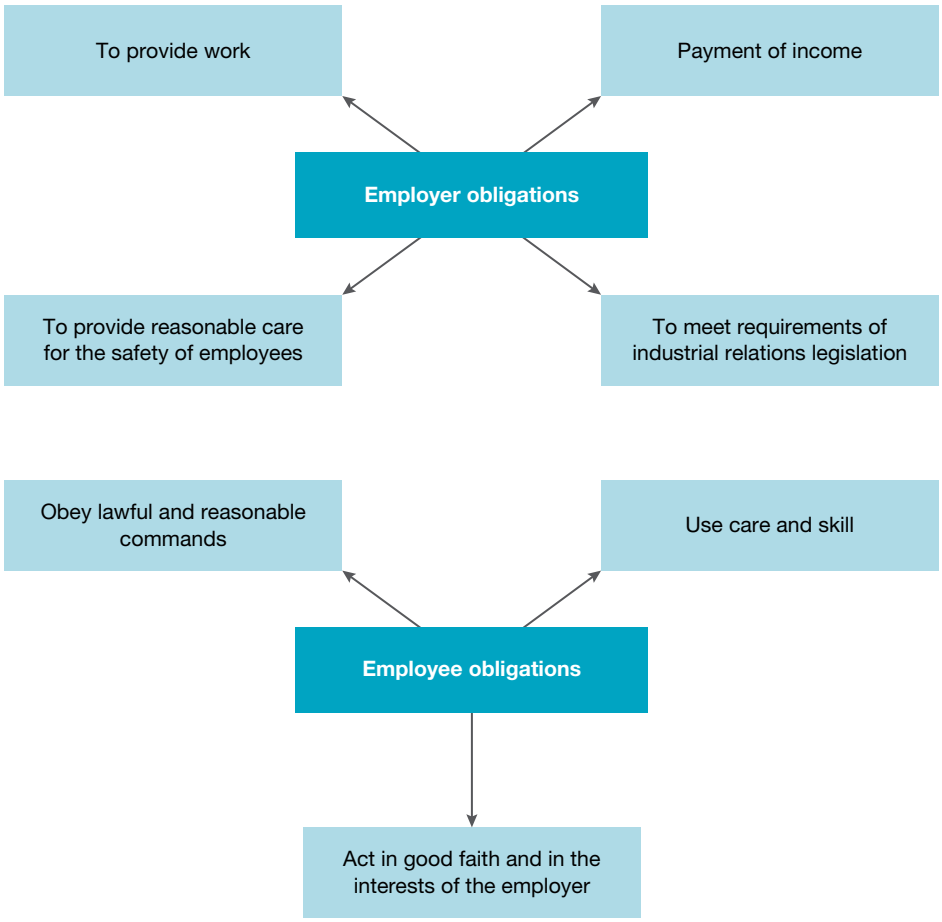
Employers expect that employees will enter into a contract of employment with the business. Contracts of employment are governed by provisions of the *Fair Work Act 2009* (Cwlth). A typical employment contract may include some general terms, such as an expectation that the employee will adhere to the policies and procedures of the business, the title or classification of the position the employee is filling, a start date and the name of the immediate supervisor. It may then detail the specific duties to be undertaken, the hours of work, rates of pay, and leave and superannuation arrangements. All of these are subject to the provisions of the ten National Employment Standards, and must also conform to the conditions that apply in a relevant award or enterprise agreement.

Common law rights and obligations of employers and employees

The **common law** is developed by courts and tribunals. Under common law, judges make decisions based on the facts of a case, guided by precedent (decisions made in the past). The body of common law is therefore developed from decisions made over time by judges.

Under common law, both employers and employees have basic rights and obligations in any employment relationship. Figure 8.51 summarises employer and employee obligations.

FIGURE 8.51 Employer and employee obligations



on Resources

Weblink Fair Work Ombudsman

Minimum employment standards

Employees are entitled to a set of minimum employment conditions, known as the National Employment Standards. These were legislated by the federal government in 2010 and apply to all full-time and part-time employees, whether permanent or fixed-term. They generally do not apply to casual employees. The ten standards are:

1. *Hours of work*. For full-time employees, this is generally set at between 35 and 38 hours per week. Employees cannot be required to work longer hours without special provision being made for penalty rates or other compensation.

FIGURE 8.52 While some NSW Rural Fire Service (RFS) members receive pay while they volunteer, many of the volunteers who helped fight the 2019–20 bushfire crisis either took annual or community service leave.

2. *Parental leave*. Employees are entitled to 12 months unpaid parental leave in relation to the birth or adoption of a child.
3. *Flexible work for parents*. An employee who is a parent of, or has caring responsibilities for, a child under school age will be entitled to request flexible working arrangements after having worked for the same employer for more than 12 months. These could include reduced hours, different start or finish times or home-working arrangements.
4. *Annual leave*. For most employees this is four weeks, with part-time employees entitled to a pro rata amount. Casual employees have no entitlement to annual leave.
5. *Personal, carer's and compassionate leave*. Full-time employees receive ten days paid personal and carer's leave for every year of service with the organisation, with part-time employees receiving a pro rata amount.
6. *Community service leave*. This includes jury service and emergency service duties, such as CFA or SES volunteer work. Employees are entitled to be absent from work for all periods necessary to provide the community service, including reasonable travelling time and rest time immediately after the activity. Usually this is unpaid leave, although employees on jury service leave can claim make-up pay.
7. *Public holidays*. Employees are not required to work on public holidays, but will still be paid for the hours they would have worked. If the employer requests the employee to work on a public holiday, the employee may be entitled to a penalty rate or other compensation.
8. *Information in the workplace*. Employers are required to supply all employees with a 'Fair work information statement' when they commence employment. This is a government document which contains information about the National Employment Standards and other employment related issues.
9. *Notice of termination and redundancy*. Most employees are entitled to minimum periods of notice of termination of their employment (or pay in lieu of notice) based on their period of continuous service. Fixed-term and casual employees, and employees serving a probationary period of employment, are not included.
10. *Long service leave*. Permanent employees, whether full time or part time, are entitled to long service leave after a qualifying period. This period varies between different occupations and industries.

Awards

Awards have been the traditional means of establishing working conditions for employees. An **award** is a legally binding agreement that sets out the minimum wages and conditions for a group of employees. Modern awards came into effect on 1 January 2010. The ten matters that can be included in modern awards are listed in table 8.10. Some businesses will provide above-award payments, especially if they wish to attract more workers to their firm or if they want to hold on to their existing staff. Awards have the following advantages. They:

- set a minimum for pay and conditions
- cover all employees performing a similar job.

Awards have the following disadvantages. They

- can be inflexible and therefore may not suit all employees or businesses
- prevent recognition of individual initiative because all employees are guaranteed the minimum pay and conditions regardless of how productive they are.

award a legally binding agreement that sets out the minimum wages and conditions for a group of employees

BizFACT

Modern awards also have a 'flexibility term' that allows employers and employees to negotiate changes to some of the conditions in the modern award. These are called Individual Flexibility Arrangements (IFA). They allow an employer and an employee to come to an agreement that varies the modern award or enterprise agreement in order to address individual circumstances.

Currently there are just over 100 different awards in Australia providing minimum standards for workers in those industries and occupations. Many of these awards provide the basic terms of an employment contract.

TABLE 8.10 Matters covered by awards

The ten matters that can be included in modern awards
1. Minimum wages, including disability and training wages
2. Types of employment, such as full-time, part-time, outworker
3. Arrangements for the hours during which work is performed
4. Overtime rates where applicable
5. Penalty rates
6. Annualised wages and salaries
7. Allowances
8. Details of leave, leave loading, etc.
9. Superannuation arrangements
10. Procedures for consultation, representation and dispute settlement

Enterprise agreements

An enterprise agreement provides an opportunity for employers and employees within a particular business or enterprise to negotiate a set of conditions that improve on the standards in an award. **Enterprise agreements** are collective agreements made at a workplace level between an employer and a union acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment. In addition to the 10 National Employment Standards, enterprise agreements must include the following:

enterprise agreements collective agreements made at a workplace level between an employer and a union acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment

- a nominal expiry date, usually two or three years after the commencement of the agreement
- procedures for settling any disputes that might arise in the implementation of the agreement, including the right of employees to be represented in the dispute settlement procedure
- terms that allow for individual flexibility, so that arrangements can be made between the employer and individual employees
- provisions for consultation with employees on major workplace change.

Once the parties to an enterprise agreement have concluded their negotiations, the agreement needs to be submitted to the Fair Work Commission for approval before it can commence operation. The agreement must be signed by the employer and the bargaining representatives acting on behalf of employees to certify that the agreement has been entered into voluntarily by both sides. The Fair Work Commission will examine the detail of the agreement to ensure no unlawful content is included in the agreement and that the employees will be better off overall by entering into the agreement than simply being covered by the relevant award.

Enterprise agreements have the following advantages:

- consultation with and involvement of employees, which, if conducted successfully, results in greater employee involvement and empowerment

FIGURE 8.53 The Fair Work Commission can provide information on the process of making enterprise agreements, as well as assess and approve agreements. They can also deal with disputes that occur about the terms of agreements.

- possibility of improved pay and conditions, which can be tied to workplace performance
- greater flexibility by agreeing on conditions that suit both the employer and employee.

Enterprise agreements have the following disadvantages:

- more time consuming due to the need to conduct agreement meetings at the individual workplace level
- administratively more onerous, especially as the agreement must comply with all existing laws regarding employee rights and entitlements.

FIGURE 8.54 In an enterprise bargaining process, wages and conditions are determined through negotiations between the employer and representatives of the employees.

Individual common law contracts

It is possible for some employees to negotiate individual employment contracts that do not have to include award conditions. These usually only apply to relatively highly paid professionals, and are subject to a minimum level of pay. This minimum is known as the high income threshold and it is increased on 1 July each year. At 1 July 2020 it was set at an annual income of $153 600 for the 2020–21 financial year. As awards are seen to be less relevant to employees earning high salaries, an employee earning above this level can enter an employment contract that does not rely on any award. Contracts of this type are enforceable through the courts in the same way as any other legally binding contract between two parties.

ENTERPRISE AGREEMENT ACTIVITY

All the students in your Business Studies class need to meet with a representative of the school to negotiate a set of working conditions for your class. Apart from the essential conditions, such as completing all the work and respecting each other's opinions, you might negotiate a homework-free month in return for one extra assessment task.

Your class will need to decide if you will meet with the representative of the school as a group, or if you will choose a group of students to represent the students. If the class does decide that a group will represent the students, this group will become 'the union'.

Your class can also need to decide who will represent the school — this could be your teacher or a group of students.

The final step is for the school representative (or group of representatives) to meet with the students (or 'the union') and negotiate the enterprise agreement. Someone will need to record the details of the enterprise agreement.

Individual common law contracts activity

Now the school and you, after a period of negotiation, will come to an agreement about your conditions of work for this subject. The conditions agreed on will apply only to you. The new contract will do away with the classroom conditions agreed to in the enterprise agreement. For example, the new agreement may offer you a 'classroom (employment) package' that includes more homework in return for the right to attend only two Business Studies lessons each week. You will have entered into a common law individual contract.

Again, your class can decide on who will represent the school — this could be your teacher or a group of students. Each individual student then needs to meet with the representative of the school to negotiate a contract. This could occur outside the classroom in private.

The final step is for the school representative (or group of representatives) to meet with each individual student and negotiate separate common law individual contracts. (Note that individual students in the school representative group should also negotiate contracts. They may need to come out of the group and meet individually with remaining students in the group to negotiate their contract.) You will need to record the details of your common law individual contract.

on Resources

Weblinks Fair Work Commission
NSW Office of Industrial Relations

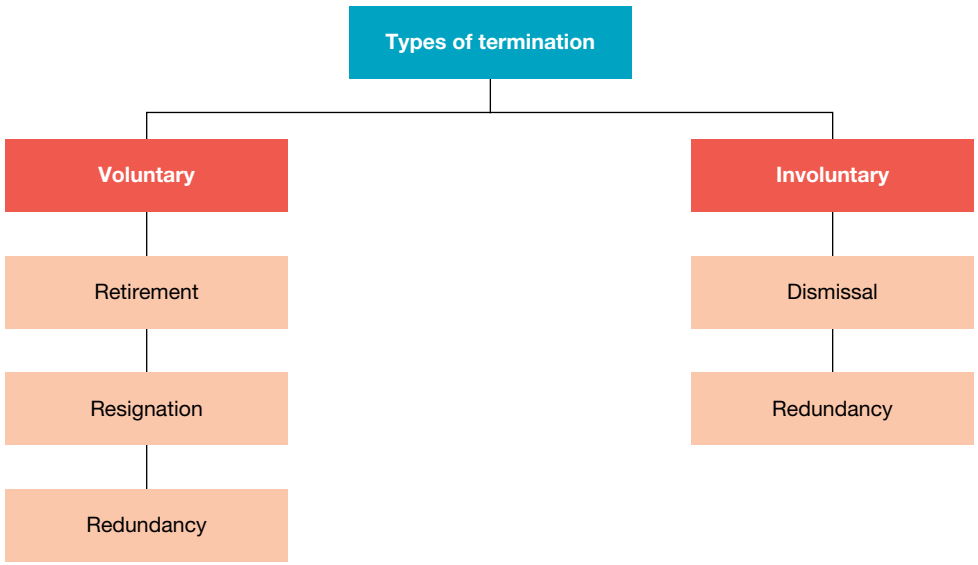
8.6.4 Separation of human resources

Gone are the days when a person would commence their full-time working life at the age of 16 or 17, work for approximately 45 years and then retire. Work patterns and business operations have undergone radical change over the past two decades and this has dramatically altered the movement of people into and out of jobs. Due to increased international competition, many businesses — large, medium and small — have been forced to restructure. As a result, there has been a marked increase in the number of voluntary and involuntary redundancies being offered.

Separation is the ending of the employment relationship. There are many reasons why employees separate from a business. However, it is possible to classify the different types of separation into two broad categories: voluntary and involuntary (see figure 8.55).

separation the ending of the employment relationship

FIGURE 8.55 Separation — voluntary and involuntary



BizFACT

As a general rule of thumb, it costs 40 per cent of the annual salary of a departed worker to replace them.

Voluntary separation

Voluntary separation occurs when an employee chooses to leave the business of their own free will. There are three different forms of voluntary separation: retirement, resignation and redundancy.

Retirement

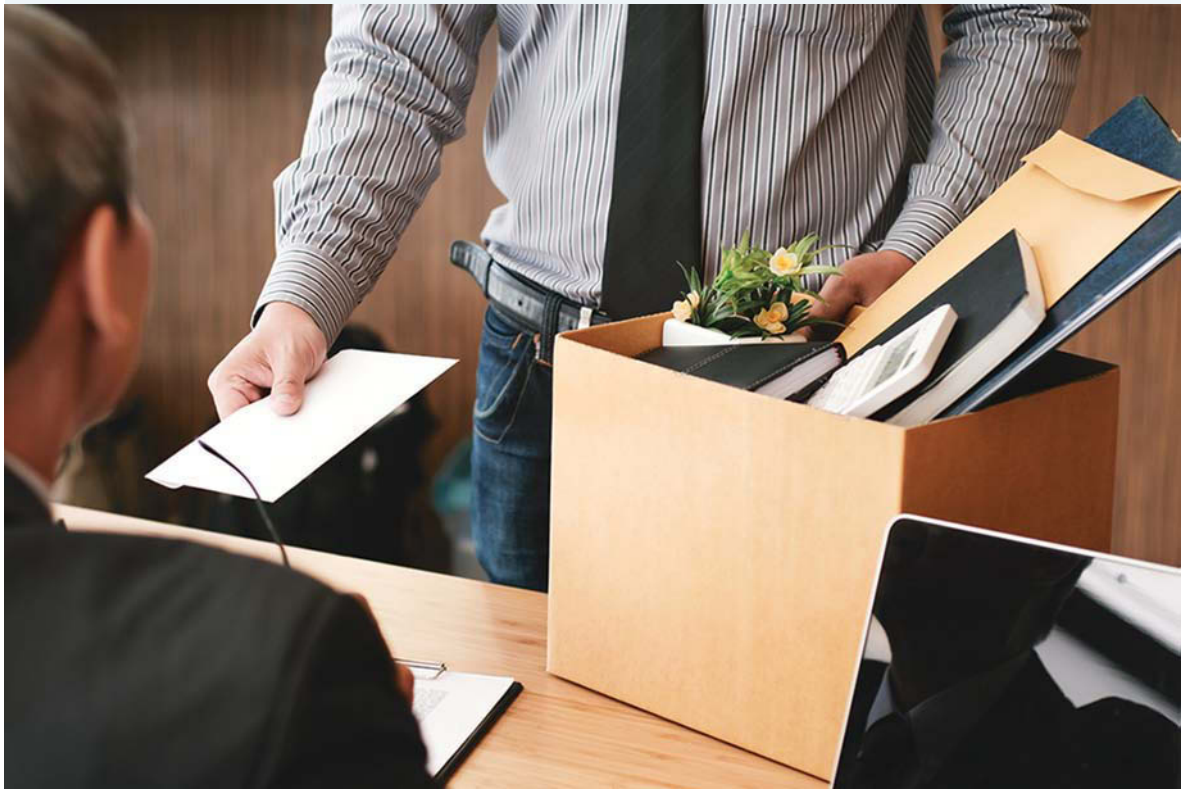
Retirement occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force. Until the mid 1980s, it was common for men to retire once they reached 65 years of age and women 60. Since changes to legislation in the 1990s there is now no 'official' retirement age. People now have a choice at what age they would like to retire. A trend that has started to emerge in recent years is for people to retire 'early' — that is, in their mid to late fifties. Many people now choose a gradual transition to retirement, often reducing their working days over a period of years.

voluntary separation when an employee chooses to leave the business of their own free will

retirement when an employee decides to give up full-time or part-time work and no longer be part of the labour force

The choice to retire normally depends on whether an employee can afford to. A person thinking about retirement will need to consider whether they have repaid their mortgage, amassed enough superannuation and if their retirement savings will fund their intended lifestyle. How businesses have approached employee retirement has also changed. Today, many organisations provide advice and assistance to employees to help them prepare for retirement.

FIGURE 8.56 An employee may leave a business for many reasons. This results in significant costs for the business. While 'good riddance' may be an employer's first reaction, high turnover has repercussions. When employees resign, a business can lose firm-specific knowledge, suffer damage to productivity and workforce morale. The cost of replacing a uniquely skilled worker is roughly one and a half to two times the employee's annual salary.



Resignation

Resignation, or 'quitting', is a voluntary ending of the employment relationship. People resign for a variety of reasons including:

- an offer of a promotion with another business
- to start their own business
- feelings of boredom with their present job
- the desire for a change of lifestyle.

BizFACT

When asked how long they had been in their current position, 48 per cent of Australians surveyed said they have been in the role for less than two years. Twenty-two per cent reported being in their current position for 3–4 years, and 21 per cent for 5–10 years. Statistics also show that the once common trend of sticking around for long service leave is well and truly over. When asked if they had been in their position for more than 10 years, only 10 per cent of respondents said that they had.

Usually the employee needs to give the employer sufficient notice of his or her intention to resign. The length of notice varies from job to job, ranging from a few hours for casual employees to a month for some permanent employees. An employee's award, employment contract or agreement will set out how much notice (if any) they have to give when they resign.

BizFACT

According to Decipher/Focus Vision, only 11 per cent of employees surveyed cited pay as the reason they decided to stay in their current position. Twenty-five per cent of respondents claimed the main reason for wanting to remain at their job was because they enjoyed their role and 17 per cent claimed it was because they have a good relationship with their colleagues. This demonstrates that an employee's role and social environment can play a huge part in motivating Australians to stay at a job.

Voluntary redundancy

Redundancy is when a particular job a person is doing is no longer required to be performed, usually due to technological changes, a merger or acquisition. Therefore, unless the existing employee can be retrained for another job, he or she will be retrenched (made redundant) — this means the employee will lose their job and will not be offered another. Redundancy can be either voluntary or involuntary. Voluntary redundancy occurs when employees are informed of the situation and given the opportunity to nominate themselves for voluntary redundancy.

resignation the voluntary ending of employment by the employee 'quitting' their job

redundancy when a person's job no longer exists, usually due to technological changes, an organisational restructure or a merger or acquisition.

BizFACT

In 2018 Cadbury announced that 40 jobs would go from its Hobart factory. The company spent $20 million on new machinery to wrap Flake and Twirl bars, meaning the workers who did the job manually would no longer be needed. The new technology would improve efficiency and enable the products to remain price competitive, so the company could compete globally. Cadbury shed 80 jobs in 2015 and another 50 in 2017.

SNAPSHOT

Case study: Coronavirus pandemic job losses from major Australian employers

Every week there seem to be more companies announcing job losses, as the coronavirus pandemic, lockdown and resulting economic downturn continues to bite hard. According to the Australian Bureau of Statistics, 594 300 people lost their jobs in April This drop was predominantly due to the restrictions put in place to protect Australians from the coronavirus. The ABS estimated another 227 700 jobs were lost in May.

Workers have suffered across a range of industries. Here are some of the announced job losses so far.

Many Australians have been left jobless since the coronavirus pandemic spread into the country.

Airlines and travel

QANTAS

Last week, QANTAS announced it would permanently cut more than 6000 jobs from the company as a result of the financial crisis brought on by the coronavirus pandemic. Jobs are being lost across the airline, including 1500 jobs from group operations, 1450 from office roles, 1050 cabin crew, 630 in engineering and 220 pilots.

Virgin Australia

Virgin temporarily stood down 80 per cent of its 10 000 employees in March as the tighter coronavirus restrictions came into effect. After being placed into voluntary administration, the company was this week purchased by American private equity group Bain Capital, which 'committed to protecting as many Virgin Australia jobs as possible'. Despite their public statement, Bain Capital is almost certain to cut jobs — it's just not certain yet how many.

Many Australians have been left jobless since the coronavirus pandemic spread into the country.

Flight Centre

With the closure of international borders and coronavirus restrictions affecting the domestic tourism market, travel agent Flight Centre announced it would be temporarily standing down or making redundant 6000 sales and support staff around the world, including 3800 in Australia.

Retail

The retail trade sector is one of the biggest employers in Australia and was already under significant stress before the pandemic, with brands like Colette, Harris Scarfe, Jeanswest, Bardot and G-Star Raw all entering administration in 2020. Many retailers were forced to stand down thousands of employees due to the coronavirus restrictions.

Woolworths

Australia's supermarkets enjoyed a boost in the first quarter of the year due to a shopping surge for groceries. But in June, Woolworths announced automation of its warehouses would eliminate about 700 jobs in Sydney and Melbourne.

Target

Last month, Wesfarmers announced up to 167 Target and Target Country stores would shut or be converted to Kmart stores. The company told the ABC it expected a reduction of between 1000 and 1300 roles over the next year, with most job losses occurring next year.

Myer

The department store last week announced 90 head office jobs would be cut as it tries to get through the coronavirus sales downturn.

Harris Scarfe

The 170-year-old retailer called in administrators in December and by March had reduced from 66 to 44 stores and cut employee numbers from more than 1800 to around 1300.

The retail sector had already been struggling before the coronavirus pandemic.

Finance

PwC

The big four professional services firm announced it would be cutting 400 staff from its financial advisory, consulting and support sectors of the business, representing around 5 per cent of its Australian workforce.

Deloitte

Another member of the big four, Deloitte announced the COVID-19 pandemic had caused a significant drop in revenue and operating profit, meaning it would cut 700 people from a staff of 10 000 in Australia.

KPMG

The majority of KPMG's 8000-strong workforce in Australia agreed to accept a 20 per cent pay cut for four months in May, but the big four firm announced it was cutting 200 professional jobs in departments where business had reduced significantly.

Media

News Corp

In May, News Corp announced it would be cutting jobs as it moved its community and regional newspaper titles from print to digital-only. According to the *Australian Financial Review,* 375 employees would remain in the regional and community divisions of the organisation, down from a previous total of 1300 staff. Earlier this month, staff were told up to 100 jobs nationwide would also be cut from the organisation's metropolitan papers, according to the *Australian Financial Review.*

ABC

In June, the ABC announced 250 jobs would be cut in response to an $84 million cut to the broadcaster's budget. The broadcaster announced around 70 staff would be lost from the News division, 53 from the Entertainment and Specialist division and 19 people from the Regional and Local team.

The ABC announced 250 staff would be made redundant.

Arts

National Gallery of Australia

The National Gallery of Australia announced it would be offering voluntary redundancies to staff after a reported $3.6 million funding shortfall. According to the Community and Public Sector Union, the National Gallery would likely cut 30 to 40 staff members this year in order to meet budget over the next five years.

The National Gallery of Australia has also been affected by the coronavirus downturn.

Sport

Rugby Australia

Financial woes, including the coronavirus crisis, saw the sporting body announce it was cutting 40 per cent of its staff, including 47 full-time and 30 contractor and casual workers to save $5.5 million from its annual wage bill.

Around 40 per cent of Rugby Australia's workforce has been cut due to financial pressures.

Mining

CBG Resources

Workers were told at a mass meeting earlier this month that 70 jobs at the CBG Resources' Rasp Mine at Broken Hill would be cut.

Education

In May, a Rapid Research Information Forum paper estimated 21 000 full-time jobs in the university sector were at risk, with 7000 estimated to be research-related academic positions. In the time since, several universities have announced job cuts on the back of revenue shortfalls.

Charles Sturt University

Charles Sturt University is understood to be cutting up to 145 jobs at the university in response to a budget black hole exacerbated by the COVID-19 pandemic.

University of Wollongong

Earlier this month, the University of Wollongong said it would need to cut between 150 and 300 staff to ease the financial pressure of the pandemic. The University had reportedly lost $90 million since the start of the crisis.

Academic staff protest out the front of the University of Wollongong, which is cutting up to 300 jobs.

Central Queensland University

In May, Central Queensland University announced it would cut 99 jobs on top of 197 voluntary redundancies to help cover the revenue shortfall created by a decline in international students.

Manufacturing

Luv-a-Duck's Nhill processing plant in north-west Victoria stood down 61 staff in May after the duck processor was hit hard by restaurant closures.

Source: 'Coronavirus pandemic job losses from major Australian employers', *ABC Online*, 30 June 2020.

Involuntary separation

Involuntary separation occurs when an employee is asked to leave the business against his or her will. Apart from involuntary redundancy, the other type of involuntary separation is dismissal.

Involuntary redundancy

Involuntary redundancy occurs when an employee is asked to leave the business against his or her will because their job no longer exists. In this case, the employee is not at fault in any way; the decision to make the employee redundant is purely based on the ongoing needs of the business. Employees who are retrenched are offered a redundancy package: a payout of a sum of money.

FIGURE 8.57 At the end of 2013, Holden announced that it would cease producing vehicles in Australia, closing its manufacturing operations in 2017. Approximately 2900 workers' jobs were affected by the decision. By the time the factory in Elizabeth, South Australia, closed in October 2017, almost 2000 of those workers had already left to look for work elsewhere.

Dismissal

There will be occasions when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employment contract of an employee. This is called **dismissal**.

BizFACT

In 2018–9, 10 408 unfair dismissal cases were brought before the Fair Work Commission for conciliation. Of those, 8161 cases were settled and the employee was awarded compensation, reinstatement and/or a non-monetary remedy. In the same year, there were 229 cases that went to arbitration. Of those, 140 cases were settled.

BizFACT

An employment contract is legally binding. Therefore, employers must terminate the contract in a legally compliant manner. Gone are the days when a boss can simply shout: 'You're fired!' on a whim.

The most serious form of dismissal is *summary dismissal* — when an employee commits a serious breach of their employment contract. For example, an employee who is drunk at work or is found to have engaged in criminal activity may be summarily dismissed. If an employee is given a summary dismissal, no notice is required. Another form of dismissal, referred to as *dismissal on notice*, is when an employee is not performing the job satisfactorily . Poor performance may be identified during an appraisal or performance process. The amount of notice (or payment given in lieu of notice) will vary depending on a number of factors, such as whether the employee is governed by a particular award or contract, the age of the employee and how long they have worked for the employer on a continual basis.

involuntary separation when an employee is asked to leave the business against their will

dismissal when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employee's employment contract

Selecting staff for dismissal can be risky and requires awareness of legislation and industrial agreements to avoid litigation and industrial action. Employees must be given proper notice and employers must comply with procedures established in law, including the unfair dismissal laws in the Fair Work Act 2009. To avoid misunderstandings, written warnings and/or notice is preferable. Written confirmation of resignation is also preferable to verbal statements made in the 'heat of the moment'. This way, a lengthy unfair dismissal case can be avoided.

Unfair dismissal occurs when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable. This is an issue of which both employers and human resource managers need to be aware.

unfair dismissal when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable.

An employee who believes they have been unfairly dismissed may lodge an unfair dismissal claim with an industrial tribunal such as the Fair Work Commission. When determining whether a termination is lawful, harsh, unjust or unreasonable, the Fair Work Commission will take into account the procedures followed, whether the grounds were reasonable, the circumstances of the business, whether human resources expertise was available, whether the employee was provided opportunities to respond or have a support person, and any other matters they deem relevant.

FIGURE 8.58 An inappropriate dismissal technique

BizFACT

Figures released by the Fair Work Commission in May 2020 revealed that the number of workers raising issues about unfair dismissal surged during the coronavirus shutdown. Sixty-five per cent more employees brought cases to the tribunal in April 2020 than the same time last year. The Fair Work Commission's overall workload was up 40 per cent compared to the previous year. Normally, about 5000 people are terminated from employment each week; however, in the first quarter of 2020, about 50 000 people a week had their employment terminated.

SNAPSHOT

Case study: Unfairly dismissed for questioning cleaning requirements

A hospitality worker who lost her job at a popular Hobart pub has filed an unfair dismissal claim, alleging her employment was terminated after she questioned why she was asked to work an extra 15 hours per week to receive the federal government's JobKeeper payment.

Customs House told staff in late March it would 'determine which staff we keep on' as the coronavirus pandemic swept through the industry, but some staff would be let go because of cash flow issues.

Emma Scealy was told she was among those who could stay thanks to the $750-a-week JobKeeper program — as long as she spent 20 to 25 hours a week cleaning.

I usually only work two or three shifts a week, so it would've been 10 to 15 hours more than my average,' Ms Scealy said.

The medicine student joined with four other front-of-house staff to ask whether it was a requirement they work the additional hours to receive the payment. None of them stated they would not do it, but all five were among staff who received a termination notice four days later.

'I'm not eligible for any government assistance so I now have no income,' Ms Scealy said. 'Luckily I've got a bit of savings but I have no income now so I'm running out of money fast.'

Customs House denied the sacking of the workers was related to their questioning. It said other employees had been laid off because of coronavirus. 'We're losing a lot of money by being closed and unfortunately I can understand the situation, no one likes to lose their employment, but I had to make some decisions that were around business survival,' a spokesman said.

Ms Scealy has a conciliation hearing scheduled for next week.

Workers can refuse anything they find unreasonable: union

The head of the Australian Hotels Association, Stephen Ferguson, said there had been some confusion in the industry when the $130-billion JobKeeper program was first announced.

'There were tremendous problems for employers because they were really uncertain if they paid a particular person whether they were going to get paid [by the government], because the JobKeeper scheme's paid in arrears,' he said.

'Many of our businesses have had to borrow to pay JobKeeper. In the case of an employer with 30 people on their books, that's about $45 000 every fortnight,
$90 000 a month.'

He said he believed employers could ask their employees to work the hours equivalent to the JobKeeper subsidy, as long as it was a reasonable request.

'No-one would expect, say, that a mum who has school pick-up and drop-off to all of a sudden work in those hours — the whole intention is to be reasonable,' he said.

'Under the Fair Work Act and under the rules of the scheme, the employer is able to make a direction to perform work.'

United Workers Union state secretary Jannette Armstrong said, 'In turn, workers are legally able to reasonably refuse anything they think is unreasonable or couldn't manage or is outside their usual skill-set as well.'

Source: Emily Baker, 'Worker claims unfair dismissal after questioning cleaning requirement for JobKeeper', ABC Online, 21 May 2020.

KEY IDEAS

- Employees are the most important resources for business success.
- Human resource management is the effective management of the formal relationship between the employer and the employee.
- Most successful businesses maintain a balance between concern for success and regard for their employees.
- The main functions of staffing are to attract and acquire, train and develop, reward, maintain and separate the people needed to achieve the business's goals. This is referred to as the human resource cycle.
- Acquisition refers to the process of attracting and recruiting the right staff for roles in a business.
- A job analysis is a systematic study of each employee's duties, tasks and work environment. It comprises a job description and job specification.
- After the planning stage, the recruitment of staff commences to find the best person for the job.
- Recruitment involves finding and attracting the right people to apply for a job vacancy.
- A business can recruit from staff within the business or seek new applicants from outside sources.
- Once job applicants are found, the process of selecting the right applicant begins.
- Employee selection is the means by which the employer chooses the most suitable applicant for the vacancy.
- Training provides employees with the right knowledge and skills to perform their jobs effectively and efficiently.
- Development focuses on preparing the employee to take on more responsibilities within the business in the future.
- Ongoing training for all employees can be promoted by the business becoming a learning organisation.
- Some common training methods include formal off-the-job training, informal on-the-job training, action learning, competency-based training, corporate universities and online training.
- Training should be viewed as an investment in the human capital of the business.
- An employment contract is a legally binding, formal agreement between an employer and an employee.
- Under common law, both employers and employees have basic rights and obligations in any employment relationship.
- Employees are entitled to 10 minimum employment conditions, known as the National Employment Standards.
- An award is a legally binding agreement that sets out the minimum wages and conditions for a group of employees.
- Enterprise agreements are collective agreements made at a workplace level between an employer and a union, acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment.
- The final stage in the employment cycle is the 'separation stage', in which employees leave the workplace on a voluntary or involuntary basis.
- This stage must be handled carefully and sensitively by the human resource manager.
- Voluntary separation occurs when an employee decides to give up full-time or part-time work and includes:
  - retirement
  - resignation
  - redundancy.
- Involuntary separation occurs when an employee is asked to leave the business against their will and includes:
  - retrenchment
  - dismissal
  - redundancy.
- Unfair dismissal occurs when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable.

8.6 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

8.6 Quick quiz on | **8.6 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 7, 10, 16, 17, 19, 22, 23, 26, 27, 32, 34, 36, 41	4, 6, 8, 9, 11, 12, 13, 14, 15, 18, 20, 21, 24, 25, 28, 29, 30, 31, 33, 35, 38, 40, 42, 43, 48, 51, 52	37, 39, 44, 45, 46, 47, 49, 50

8.6 Exercise

Revision

1. 'People are the business's most valuable resource.' **Outline** what is meant by this statement.
2. **Define** the term 'human resource management'.
3. **Identify** the main functions of staffing.
4. **Explain** why good staff management is vital to a business's success.
5. **Identify** the main functions of the staffing process.
6. **Construct** a concept map summarising the four main elements and the related activities of the staffing process/human resource cycle.
7. **Outline** the process of acquisition.
8. **Explain** the relationship between a job analysis, a job description and a job specification.
9. **Construct** job advertisements for two of the following positions:
   a. phone store sales assistant
   b. accountant
   c. motor mechanic
   d. motel receptionist.

   Remember to include the job description and the job specification in your advertisement.
10. **Summarise** the two activities in the employment process: recruitment and selection.
11. **Distinguish** between internal recruiting and external recruiting.
12. **Discuss** internal and external recruitment.
13. Select three sources of employees available to a business and **propose** why each is an effective method of recruitment.
14. **Describe** two options that can be used in the selection process.
15. 'In the current business environment it is crucial that small business owners recruit and maintain the right people for the job.' In small groups, **discuss** the relationship between good staff and business success.
16. Read the below job advertisement and answer the questions that follow.

> **Vacancy – qualified mechanic**
>
> A vacancy exists for a qualified mechanic at TOP CLASS AUTO SERVICE, Main St, Hightown.
>
> Duties will include carrying out the mechanical repair and servicing of a wide variety of different makes and models of cars, vans and trucks, working in a team environment with other mechanics currently employed in the business.
>
> The successful applicant will have completed appropriate apprenticeship qualifications and have at least two years of post-apprenticeship experience in the automotive industry. Qualifications and experience with diesel engines would be a definite advantage for this position.
>
> Applications should include details of qualifications and employment experience, and the names of three referees.

a. **Identify** the job description and job specification.
b. **Outline** the information people should include in their application.

17. **What** is the overall aim of training and development?
18. **Distinguish** between training and development
19. **Outline** how training and development can benefit both the employee and the employer.
20. **Distinguish** between informal on-the-job training and formal off-the-job training.
21. **Explain** why training and development expenses should be seen as an investment and not just a business expense.
22. **Define** the term 'employment contract'.
23. **What** are the obligations of both employers and employees?
24. **Discuss** the use of individual common law contracts.
25. Select what you consider to be the three most important standards from the 10 National Employment Standards. **Justify** your selection.
26. **Define** the term 'award'.
27. **Recall** four of the ten matters that can be included in modern awards.
28. **Distinguish** between awards and enterprise agreements.
29. Decide whether you would prefer to be covered by an award or an enterprise agreement. **Justify** your decision.
30. **Distinguish** between voluntary and involuntary separation, giving examples of each.
31. **Construct** a concept map outlining the different types of voluntary and involuntary separation.
32. **Recall** some of the entitlements of employees who are made redundant.
33. **Distinguish** between summary dismissal and dismissal on notice.
34. **Recall** three dismissal situations that would be classified as unfair.
35. Refer to table 8.11 below and answer the questions that follow.

TABLE 8.11 Unfair dismissal, conciliation — results

Outcome	2018–19	2017–18
Matters settled	**8 161**	**8 285**
Settlement — monetary items without reinstatement	1 469	1 404
Settlement — monetary and non-monetary items without reinstatement	5 137	5 171
Settlement — non-monetary items without reinstatement	1 500	1 650
Settlement — reinstatement	27	35
Settlement — reinstatement and monetary items	20	12
Settlement — reinstatement and non-monetary items	6	8
Settlement — reinstatement, monetary and non-monetary items	2	5
Not settled	**2 247**	**2 206**
Total resulted conciliations	**10 408**	**10 491**

Source: Australian Government, *Fair Work Commission Annual Report 2018–19.*

a. Identify the number of total settled cases in 2018–19.
b. Identify how many people were reinstated back to their position as a result of conciliation in 2017–18.
c. **Why** do you think reinstatement is not a common remedy in unfair dismissal cases?
d. **Calculate** how many more unfair dismissal cases were conciliated between 2017–18 and 2018–19.

Read the 'ALDI — employer of choice' case study and answer questions 36 and 37.

36. **Outline** some of the strategies employed by ALDI that make it one of the best places to work.
37. **Assess** the impact of ALDI's human resource strategies.
38. Janet wants to hire a salesperson to work in her electrical goods shop.
    a. **Explain** two elements that could be included in the job description.
    b. **Explain** two elements that could be included in the job specification.
39. Read the 'SEEK provides online recruitment services' case study and **assess** the effectiveness of SEEK in assisting both businesses and employees with recruitment.

Read the 'Training at Tata Consultancy Services (TCS)' case study and answer questions 40 and 41.

40. **Explain** the benefits of this training to TCS and its employees.
41. **Identify** some of the ways that TCS offers training to employees.
42. Read the 'Unfairly dismissed for questioning cleaning requirements' case study and answer the following questions:
    a. **Why** was Emma Scealy dismissed?
    b. **Deduce** whether the dismissal of the hospitality worker was 'harsh, unjust and unreasonable'

Extension

43. **Demonstrate** the relationship between the human resource cycle and business goals.
44. Traditional human resource management (HRM) practices were developed and administered by the business's human resource department. A recent study of HRM practices revealed that line managers — people responsible for the management of staff contributing to the main function of the business — are playing a greater role in developing and implementing human resource (HR) practices. **Assess** the value a line manager can bring to developing and implementing HR practices.
45. 'The future is unpredictable. The business environment changes so rapidly that it is impractical to make relevant plans for future staffing requirements. HR plans are therefore largely irrelevant.' **Evaluate** the accuracy of this statement.
46. **Determine** how a business's recruiting and selection practices may be affected by the type of position that has to be filled (i.e. a part-time sales assistant compared to a chief executive officer for a large transnational corporation).
47. You have recently been appointed as human resource manager for a national clothing company. The business has a history of high staff turnover and low morale. To correct these problems you have decided to improve the recruitment and selection procedures. Propose the steps you might take to identify capable employees. **Determine** how you would screen applicants.
48. **Propose** what actions you would take, as the human resource manager, if an experienced employee refused to undertake any training.
49. **Evaluate** the following statement: 'When people say they want reward and recognition they really just want a pay increase and that's all.'
50. You are the human resource manager in a large manufacturing company. You have become concerned about the performance of two valuable employees. Peter has worked in the business for many years and is on a high salary because of his experience and skill development. However, he seems to have lost some interest in his work, especially after being recently overlooked for promotion in the business. Veronica is a single mother with young children. She is scheduled to start work at 8.00 am, but is often late to arrive. She says she is unhappy with the poor pay she receives and is looking for a new job. She is a very good worker, who produces good results and is well liked in the business.
    a. Using this information, **determine** what motivates each employee.
    b. Propose the strategies you would adopt to motivate each employee.
51. **Compare** voluntary and involuntary departures in terms of:
    a. how difficult each is for the business
    b. effects on the business
    c. effects on staff leaving
    d. effects on staff remaining.
52. Termination management is about managing the final phase of the employment cycle, when the employee leaves. **Investigate** the issues a HR manager must be aware of when dismissing an employee.

Solutions and sample responses are available in your digital formats.

8.7 Ethical business behaviour

SYLLABUS LINK In this subtopic you will learn about the management process:
- ethical business behaviour.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

8.7.1 Business ethics

Ethics are standards that define what is acceptable and unacceptable behaviour. Ethics involves the study of moral issues and choices. It is concerned not with legal obligations but with what is morally right or wrong — and all the shades of grey in between. In many decisions involving ethical questions, it is sometimes difficult to give a definitive answer as to what is 'right' and what is 'wrong'. It often depends upon the individual circumstances surrounding the situation**. Business ethics** is the application of moral standards to business behaviour.

Most businesses want to engage in ethical business practices and to act honestly and morally. These businesses will honour commitments, not engage in misleading or deceptive product descriptions and will provide a safe working environment for their employees.

Not all businesses have adopted such an outlook. Some business owners still regard ethical business practices as a waste of money, the cost outweighing any benefits. They will often attempt to justify their behaviour as 'smart business practice' or 'Everyone does it, so why shouldn't I?' And like most questions of ethical behaviour, not all the answers are a simple black or white response.

Some businesses have become involved in lengthy and very expensive court cases that attempt to resolve particular situations relating to ethical issues or socially irresponsible actions. This frequently results in negative publicity and a deterioration in the business's reputation. Other businesses have faced consumer boycotts and a deterioration in their reputation due to their unethical practices.

BizFACT

Each year, Baptist World Aid puts fashion brands through the wringer and grades them on their ethical performance. Each brand is given a grade from A to F, based on criteria including gender equality, purchasing practices and labour conditions. Top scorers with an A+ grade included Outland Denim, the brand loved by Meghan Markle, Duchess of Sussex, Etiko, Freeset T-shirts, Icebreaker, Kowtow, Liminal Apparel and Mighty Good Undies. But several brands received an F for either failing to respond to the survey or provide publicly available information on the reporting criteria. They included Bec and Bridge, Bloch, Camilla and Marc, Hot Springs and Trelise Cooper.

The majority of business owners, however, regard the cost of ethically and socially responsible actions as a necessary expense — they make such a commitment an essential part of their business operation. They take a great deal of pride in the reputation their business has established and wish to protect its good name. These businesses want to be seen as responsible corporate citizens, conscious of the high standards expected of them by their customers and society at large.

The traditional view of business is that it exists to create products, earn a profit and provide employment. As society's expectations of acceptable business behaviour change, socially aware business owners recognise the importance and necessity of planning business objectives that incorporate **corporate social responsibility**. Corporate social responsibility refers to managing a business in such a way that

business ethics the application of moral standards to business behaviour

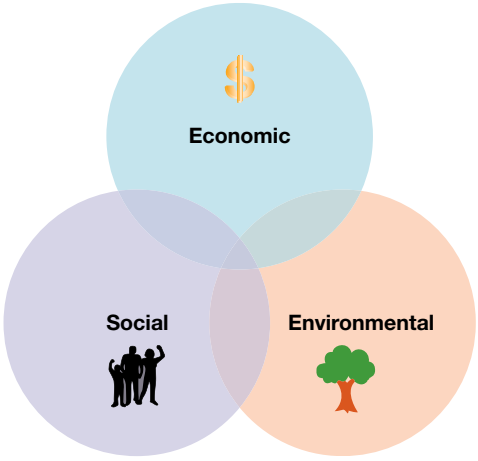
corporate social responsibility refers to open and accountable business actions based on respect for people, community/society and the broader environment. It involves businesses doing more than just complying with the laws and regulations.

the broader social welfare of the community, including its employees, customers, suppliers and the environment, is taken into consideration when making business decisions.

FIGURE 8.59 Mining company Rio Tinto has parted ways with its chief executive and other high-ranking executives as it tries to subdue public anger over the company's destruction of a 46 000-year-old sacred Aboriginal site in Australia. In May 2020, the company blasted through two Aboriginal rock shelters in Juukan Gorge in Western Australia in order to mine iron ore. These sites had deep historical and cultural significance. The destruction in the Pilbara region was not illegal under Australian law, but what happened was unethical.

Businesses that take their social and ethical responsibilities seriously are often 'rewarded' with improved business performance. Many businesses today are very much concerned with reporting on the triple bottom line. This means that they are no longer simply focused on making a profit at all costs; but rather, they recognise that environmental and social performance are also important.

FIGURE 8.60 Triple bottom line business planning incorporates environmental and social aspects.



SNAPSHOT

Case study: Understanding the triple bottom line

Being sustainable means taking into account the impact your business has on the environment and communities in which it operates. By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. This can have a positive impact on your financial bottom line, and it makes good business sense.

Sustainability expert John Elkington coined the term 'triple bottom line' and argued that there should be three bottom lines:

1. The 'profit' bottom line, which is a measure of the traditional 'profit and loss' financial bottom line
2. The 'people' bottom line, which is a measure of how socially responsible a business has been
3. The 'planet' bottom line, which is a measure of how sustainable and environmentally responsible the business has been.

All of us understand the basic concept of living within our means. If we spend more than we earn, then at some point we hit the wall financially. However, when it comes to the environment and our use of its resources, the people of the world are not living within their means.

According to the Global Footprint Network, we currently use the equivalent of 1.4 planets to provide the resources we use and to absorb the waste we produce. This is not sustainable. Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that between 2035 and 2050 we will reach the point where we need the equivalent of two planets to support us.

The fundamental issue is that as the world's population increases and consumerism continues to grow, the demand for the planet's limited resources will also increase. In 1950, global population stood at 2.55 billion people. In 2010 it was more than 6.8 billion, and by 2024 it is estimated that it will exceed 8 billion.

The 1950s signalled the beginning of a consumer spending boom that started in the United States and quickly spread across the globe. This consumer-led boom not only generated major improvements in the quality of people's lives, but it also changed the way we interacted with, and affected, the environment. Today, it means that the world is living on 'environmental credit'. At some point, future generations are going to have to pay a price for the over use of our natural resources.

The number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 86 million in 2017. At the same time, oil consumption has increased by tens of millions of barrels per day. In addition to using up the world's limited supply of oil, this has led to increased exhaust emissions that harm humans and contribute to global warming.

Sustainability and business

Managing a business sustainably means managing it in a way that maximises the bottom line but optimises environmental, economic and social benefits for society as a whole. The initiatives that sit under such a sustainability strategy are what many large businesses call 'corporate responsibility', 'corporate social responsibility' or 'corporate citizenship'.

Business is changing

A survey conducted by Lloyd Banks in 2020 highlighted the desire of most businesses to go green, or at least greener. According to the study, nearly two thirds of small- and medium-sized business owners wanted to improve their environmental sustainability, motivated primarily by the economic savings that it brings. Forty-four per cent of business owners believe that sustainability is an important aspect of the future of their business

with 24 per cent having taken steps to make their buildings more energy efficient. Nearly two-thirds have taken other steps to becoming more sustainable.

What do Australians think about businesses and sustainability?

A 2018 study from HP Australia and Planet Ark found that 90 per cent of Australians are concerned about environmental sustainability. Only half, however, believe they are doing their bit to protect the planet. The report found that both consumers (71 per cent) generally believe that businesses should be most responsible for their impact on the environment, above individuals and the government.

The majority of the workforce also expressed a preference to work for a company that promotes environmental sustainability. The greatest environmental concerns related to marine plastic pollution, landfill waste and impact on the natural environment.

How will sustainability benefit business?

It is reasonable for Australians to want the same lifestyle and opportunities they have right now, but, as the research reveals, they want business to fix the problems caused by their current lifestyles. This is where the opportunity lies. Businesses that respond to this concern with a price-sensitive quality product or service that makes a difference will stand a better chance of getting a sale.

Source: Extracts from J. Dee, *Small Business, Big Opportunity: Sustainable Growth*, Melbourne, 2010 Sensis Pty Ltd, pp. 4–13.

Like individuals, businesses are frequently confronted with ethical dilemmas. What does a business do:

- with a loyal, long-serving employee who cannot adapt to new technology?
- with confidential information about a competitor's pricing policy that a disgruntled employee leaked?
- when it is asked for a cash payment to help hasten a decision about a tender contract?
- when a competitor engages in unethical business tactics that allows it to offer a cheaper product?
- when it outlines a promotion plan for an employee but later is unable to follow through with the plan?

These are just a few of the ethical challenges that confront business owners and managers. How they respond to these situations will have long-lasting consequences for the image and reputation of the business, as well as the behaviour of employees. It is important for business owners and their managers to have high personal and ethical standards so employees perceive the importance of ethical considerations.

There is an increasing number of entrepreneurs across the globe setting up businesses to tackle social issues ranging from unemployment to empowering women and girls, and fighting poverty. These businesses are referred to as social enterprises: commercially viable businesses that are established to achieve social objectives rather than focus on making a profit for shareholders or owners. A social enterprise will typically seek to generate a profit from its trading activity to continue to tackle social problems and improve communities or the environment.

FIGURE 8.61 In 2018, McDonald's announced it would partner with franchisees and suppliers to reduce greenhouse gas emissions by 36 per cent by 2030. Additionally, McDonald's commited to a 31 per cent reduction in emissions intensity (per metric ton of food and packaging) across its supply chain by 2030. Through these actions, McDonald's expects to prevent 150 million metric tons of greenhouse gas emissions from being released into the atmosphere by 2030. This is the equivalent of taking 32 million passenger cars off the road for an entire year.

Much of the evidence that 'good ethics is good business' is anecdotal. However, when James Burke, the former head of US company Johnson & Johnson, looked at the performance of a select group of companies committed to best ethical practice, he found that their stock value had increased by 11.3 per cent over a 40-year period. Over the same period, all other stocks increased in value by only 6.2 per cent on average.

BizFACT

A 2019 research report by Price Waterhouse Cooper and Atlassian titled 'Return on Action' highlighted the importance of a more socially responsible approach by businesses. The report surveyed over a thousand Australian employees and found that only a third of employees were satisfied with their employer's commitment to social responsibility. This is spurred by the fear of the progressive impact of climate change held by two-thirds of employees, with 70 per cent believing that businesses have the ability to slow the effects of climate change with immediate action.

BizFACT

Social enterprise is growing and making a valuable contribution to the Australian economy. There are an estimated 20 000 social enterprises in Australia that are operating in a wide range of industries, including transport and storage, health and social assistance, manufacturing, accommodation and food services. Some are owned or run by not-for-profit organisations, while others are the projects of social entrepreneurs.

SNAPSHOT

Case study: i=Change supports retailers in donating to global development projects

Jeremy Meltzer, a Melbourne-based entrepreneur, founded i=Change in 2013. It is a social enterprise that funds global development projects — typically ones that aid impoverished women and girls. The business partners with online retailers to encourage them to integrate social responsibility into their e-commerce platforms.

Meltzer was inspired to establish i=Change after becoming increasingly aware of the systemic violence and abuse facing women and girls across the globe. He lived for some time in Cuba and was shocked at how violence against women appeared to be considered 'normal' across Latin America. Since then, every time that he has had the opportunity to travel, Meltzer has visited non-governmental organisations (NGOs) that work with women and girls around the world.

Jeremy Meltzer, founder of i=Change.

To better understand the issue, he has met with the NGOs and women's rights activists, sat with communities and spoken to media around the world. Meltzer has pointed out that the United Nations (UN) states that violence against women and girls is rooted in structural inequality in power relations between women and men. According to the UN, it persists in every country in the world and is one of the most systematic and widespread human rights violations.

With these issues in mind, Meltzer decided to incorporate a charitable component into a business he had already established with his father — an olive oil company, Yellingbo, that sells products online. Meltzer had woken up early one morning with an idea — what if sales could be turned into a force for good, and customers could give to charities and communities in need with every purchase? He spent weeks working on the idea, speaking to IT people about how a platform could be created and then tweaking the initiative.

Instead of inviting customers to donate to a charity after completing a purchase, Meltzer flipped the model. Partnering with a small number of NGOs that have a focus on women and girl's development, such as the Nike Foundation and Women for Women International, Meltzer created an online platform for the olive oil business where, for every bottle that the customer purchased, the business donated $2 to a charity of the customer's choice. There was an amazing response, with approximately 20 per cent of customers adding extra donations as well as people talking about it on social media.

Meltzer decided to develop the idea into something bigger that could be offered to other e-commerce businesses. He returned to the drawing board to transform his lightbulb moment into a bona fide social enterprise. i=Change was born.

Shoe retailer Nine West became i=Change's first retail partner. Together they tested, refined and improved Meltzer's cause-based marketing platform. The company soon experienced the value of appealing to customers who want to support brands that give back to society.

The i=Change platform is a simple plug-and-play application that customers experience after their purchase. It involves online retailers committing to a donation with every sale — usually $1 — and customers choosing where the donation goes, via the i=Change platform, at checkout. The customer can click a link to read about the life-changing project that the business will be donating to, or can choose to donate more if they wish. Customers can also share their choice. The entire donation is forwarded to the charity project of the customer's choice — the social enterprise does not keep any proportion of a donation. Instead, i=Change charges its retail partners a separate fee for use of the platform.

Meltzer believes strongly that social enterprises need to be successful businesses in order to have an impact on the area of social change that is being focused on. He says a social enterprise needs to be profitable to be able to pay employees and continue to use the profits to achieve its chosen social objectives.

i=Change currently has more than 40 participating retailers, including brands such as Pandora and Camilla, and recently hit $1.9 million in donations. It has partnered with over 36 charities and NGOs across the world, donating to causes ranging from providing housing for refugee families in Australia, to preventing child marriage in Bangladesh, to keeping girls in school in Zimbabwe.

The social enterprise is now focused on raising capital with the aim of expanding into the US market.

Businesses regularly have to address the following ethical issues in their day to day operations.

8.7.2 Ethical issues

Fairness and honesty

Businesses must obviously obey all laws and regulations. As well, society expects businesspeople to tell the truth and avoid using misleading or deceptive information. Employees expect to be dealt with honestly and fairly. If, for example, a business promises a promotion to an employee, then the business should honour this commitment to the employee (except in exceptional circumstances). Customers and suppliers also expect to be treated honestly and fairly in all their business dealings. If, for example, a business arranges for a delivery of certain items and promises to pay within a set time, then the business should honour this commitment to the supplier.

Respect for people

If business owners treat their staff with respect, then you would also expect employees to act ethically.

Occasionally, a business may become aware of an unethical practice of an employee. This can place it 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 — for example, 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 serious harassment or negligence . Other serious workplace ethical issues may involve a situation where confidential information is not kept secret, obligations are not fulfilled or subtle forms of discrimination occur.

FIGURE 8.62 What would you do if your boss put you in a situation that compromised your ethics? For instance, you could be asked to lie to a client, mislead a customer or compromise quality. Would you go along with the unethical behaviour and become complicit, or would you report it to someone higher up or outside the business where you could face retaliation?

Conflict of interest

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 interest. 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 seen to be acceptable behaviour, it quickly becomes entrenched within the business. Changing the attitudes and practices of individuals within such a business 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.

Financial management

Businesses have ethical and legal responsibilities in relation to financial management. In recent years, unethical practices have been highlighted and increasingly questioned. There are growing calls for codes of behaviour to regulate the activities of businesses in relation to financial management.

It is generally accepted that financial management decisions must reflect the objectives of a business and the interests of shareholders. An area in which ethical considerations are important is the valuing of assets.

In preparing budgets, a business estimates its expenditures and revenues. The common practice of overestimating expenditures and understating revenue to allow for unexpected and uncertain events is an ethical issue for an organisation.

All financial records should be regularly audited. Internal and external **audits** assist in guarding against unnecessary waste, inefficient use of resources, misuse of funds, fraud and theft.

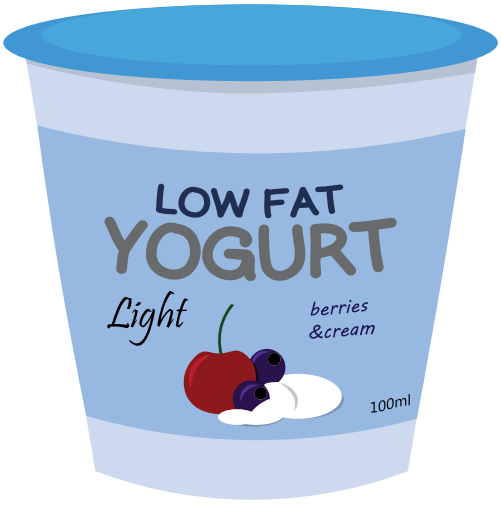
conflict of interest when a person takes advantage of a situation or piece of information for his or her own gain rather than for the employer's interest

audit an independent check of the accuracy of financial records and accounting procedures

Truthful communication

Advertising can represent real ethical dilemmas. False or misleading advertising is not only unethical, but it is also illegal. Terms such as 'special', 'sale', 'low fat' or 'light' can be misleading. For example, what precisely does the word 'special' mean when it is displayed above a product for sale? Most consumers would take this to mean the item is for sale at a cheaper than normal price; however, this may not necessarily be the case. The business owner may interpret the word 'special' to mean that the product has a distinct or particular character, that it can perform a particular function or it is different from what is ordinary or usual. The two interpretations can easily be confused. If the businessperson uses this word attempting to knowingly mislead customers, it would be classified as unethical behaviour. If the businessperson wants to advertise the fact that the product is available at a bargain price, then the words 'on special' would have a clearer meaning.

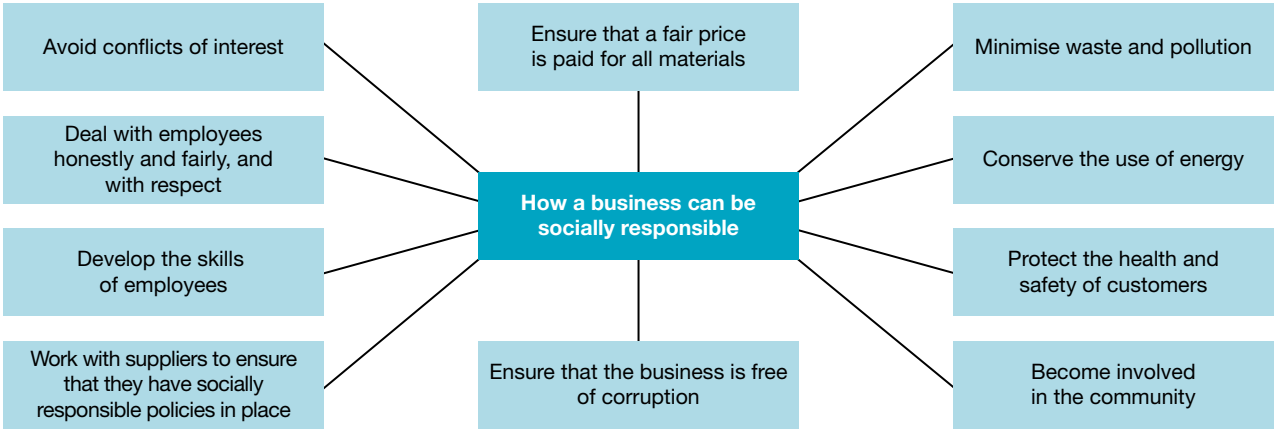
FIGURE 8.63 Marketers sometimes use words so ambiguous that the consumer will assume the advertiser's intended message. These 'weasel' words — deliberately misleading or ambiguous language — are by their nature vague and allow the marketer to deny any intention to mislead or deceive.



8.7.2 Encouraging ethical business behaviour

There are many ways in which a business can demonstrate ethical business behaviour. Some of these are summarised in figure 8.64.

FIGURE 8.64 Ethically responsible approaches to business



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 into the workplace culture.

One strategy that can be implemented to encourage ethical behaviour is to devise a **corporate code of conduct**. This is a set of ethical standards for managers and employees to abide by.

corporate code of conduct a set of ethical standards for managers and employees to abide by

Many businesses now document and distribute their codes of conduct or core values in order to provide internal stakeholders with ethical guidelines for workplace behaviour and practices. Training may be given to employees to ensure they understand the values of the business. Most businesses also establish formal proceedings for reporting unethical behaviour in the workplace.

KEY IDEAS

- The majority of businesses want to be seen as responsible corporate citizens.
- The triple bottom line refers to the economic, environmental and social performance of a business.
- Ethics are standards that define what is acceptable and unacceptable behaviour.
- Business ethics is the application of moral standards to business behaviour such as:
  - fair and honest business practices
  - decent workplace relations
  - conflict of interest situations
  - accurate financial management
  - truthful communication.
- A corporate code of conduct encourages ethical business behaviour.

8.7 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

8.7 Quick quiz on	8.7 Exercise

LEVEL 1	LEVEL 2	LEVEL 3
1, 4, 8, 10, 11, 13, 15, 16	2, 3, 5, 6, 7, 9, 12, 14, 17, 22, 23	18, 19, 20, 21

8.7 Exercise

Revision

1. **State** the benefits of managing a business in an ethical and socially responsible manner.
2. **Explain** whether it is ethical for your school authorities to monitor student email usage on the school's computer resources.
3. 'Everyone cuts corners in business. It is the only way to survive.' **Discuss** this statement.
4. **Identify** the three components that make up the triple bottom line.
5. **Distinguish** between ethical and unethical behaviour.
6. **Construct** a concept map outlining the five main ethical issues constantly faced by business.
7. **Discuss** what you believe to be the most ethical way to behave in the following situations and then compare your answers with other class members. Discuss any similarities or differences.
   a. A customer is unaware that you have accidentally overcharged her. Do you inform the customer and give her 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 from that business's marketing strategy. Would you accept such information? Give reasons for your answer.
   d. An employee is suspected of misusing the business's internet facilities. However, the employee is the best salesperson in the business, generating thousands of dollars worth of sales each year. How should the employee be dealt with?
8. a. **Define** the term 'conflict of interest'.
   b. In small groups, propose some possible strategies a business could use to minimise conflict of interest situations arising.
9. **How** can a code of conduct help encourage ethical business behaviour?
10. **Identify** what is required for a code of conduct to work successfully.

Read the 'Understanding the triple bottom line' case study and answer questions 11 to 13

11. **Outline** what being sustainable means.
12. **Why** is sustainability important?
13. **List** some of the expected benefits of implementing a sustainability strategy.

Read the 'i=Change supports retailers in donating to global development projects' case study and answer questions 14 to 17

14. **Explain** where Jeremy Meltzer's idea for i=Change came from.
15. **Identify** i=Change's objective.
16. **Outline** how Meltzer's online cause-based marketing platform works.
17. **Why** does Meltzer believe that social enterprises need to be profitable businesses?

Extension

18. **Extrapolate** how socially responsible and ethical business practices might increase a business's sales and profit.
19. **Create** a list of five principles that could be included as part of the code of conduct for your school.
20. You have been contacted by Spencer Manufacturing Limited to assist in the development of a Corporate Code of Conduct. **Create** a series of guidelines that can be incorporated into a code of ethics for the business. Share your guidelines with other class members.
21. 'Improving a business's ethical performance depends on the values of its managers and employees, and the business's culture.' **Analyse** this statement.
22. 'Ethical business practices do not just happen: they are carefully planned and implemented. Such practices filter through the business. In return, employees are more loyal, committed and proud to work at such a business.' **Assess** the importance of business owners adopting ethical business practices.
23. **Examine** the ways the Fair Trade movement is committed to ethical trade and production practices.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink Fair Trade

8.8 Review

8.8.1 Summary

Coordinating key business functions and resources

- Strategies are a series of actions undertaken to achieve specific goals.
- The four key business functions include:
  - operations
  - marketing
  - finance
  - human resources.
- The key business functions are interdependent — each relies on the other to perform effectively.
- All business functions should:
  - work towards the fulfilment of the business's goals
  - be coordinated so that they have a common purpose.
- In large businesses, the key business functions are often separated into divisions or departments.
- In small businesses, the key business functions are not separated but often overlap.

Operations

- Operations management is about producing goods and/or services based on business goals.
- The operations management function has considerable influence on the quality, cost and availability of a business's goods and/or services.
- Operations management is responsible for transforming inputs into outputs.
- The characteristics of operations management differ according to whether the business is a manufacturer of goods or a provider of services. Manufacturers produce tangible products (physical), while service organisations produce intangible products (services).
- Most modern businesses produce a combination of both manufactured goods and services.
- The three key elements of the production process include inputs, the transformation process and outputs.
- Inputs are resources used in the production process and include raw materials, capital equipment, labour, information, time and money.
- The transformation process is the conversion of inputs into outputs.
  - Transformation processes in manufacturing businesses are different to those of service-based businesses.
- Outputs are the finished goods or services.
- Quality management is the strategy that a business uses to make sure that its product meets customer expectations. Three quality approaches are quality control, quality assurance and quality improvement.
- Quality control involves the use of inspections at various points in the production process to check for problems and defects. Performance is measured in relation to set standards or benchmarks.
- Quality assurance involves the use of a system where a business achieves set standards in production. This is a proactive approach to quality management that aims to prevent problems from occurring.
- Quality improvement focuses on two aspects: total quality management and continuous improvement.
- Total quality management (TQM) is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation.
- Continuous improvement is a process that involves an ongoing commitment to achieving perfection.

Marketing

- For a business to make a profit, it needs to create and market products that consumers will purchase.
- Marketing is a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers.
- Successful marketing involves bringing the buyer and seller together and making a sale.
- Contemporary marketing refers to those strategies that stress the importance of customer orientation.
- Businesses that adopt a customer-oriented approach base their marketing decisions and practices on the needs and wants of their customers.

- Businesses should also focus on relationship marketing (i.e. developing long-term, cost-effective relationships with customers).
- A target market refers to the group of customers to which a business intends to sell its product.
- Sometimes a business may be able to identify both a primary and a secondary target market.
- Three broad approaches can be adopted when selecting a target market: the mass marketing approach, the market segmentation approach or the niche market approach.
- A mass marketing approach seeks a large range of customers.
- A business segments its market so it can better direct its marketing strategies to specific groups of customers.
- Market segmentation occurs when the total market is subdivided into groups of people who share one or more common characteristic.
- A niche market is a narrowly selected target market segment.
- Marketing strategies are actions undertaken to achieve the business's marketing goals through the marketing mix.
- The main marketing strategies are commonly referred to as the marketing mix or the four Ps — product, price, promotion and place (distribution).
- As the service sector within the economy has grown, three more Ps have been added. These three extra Ps — people, processes and physical evidence — now form the extended marketing mix.
- Products are goods or services, and consist of both tangible and intangible features.
- Packaging helps preserve, inform, protect and promote the product.
- Product branding is the brand and associated brand logo.
- A business must select the most appropriate pricing method suitable to its product and market conditions. Businesses can choose one of three methods for calculating price: cost-based, market-based and competition-based pricing.
- Promotion refers to the methods used by a business to inform, persuade and remind customers about its products. Some of the main forms of promotion include personal selling and relationship marketing, sales promotion, publicity, public relations and advertising.
- Distribution channels (place) are a way of getting the product to the customer.
- The traditional distribution channels are producer to retailer, producer to retailer to consumer, and producer to wholesaler to retailer to consumer. Two new distribution channels are e-commerce and m-commerce.

Finance

- Businesses need to be led by managers with a good understanding of accounting and financial management.
- Accounting is a financial management tool that is involved with the recording and analysis of all the business's financial transactions.
- The financial transactions are summarised into financial statements. The main ones are:
  - cash flow statement
  - income statement
  - balance sheet.
- Finance details how a business funds its activities.
- It is vital for a business to be able to manage its borrowings and to use appropriate types of borrowings.
- There are three main financial statements created by accounting processes: the cash flow statement, the income statement (also called revenue statement, profit and loss (P&L) statement or statement of financial performance), and the balance sheet (or statement of financial position).
- A cash flow statement shows the movement of cash receipts (inflows) and cash payments (outflows) over a period of time.
- Liquidity is used to describe whether a business has a good or adequate cash flow.
- Cash flow reports are vital for the information they give on the timing of payments and receipts of income.
- Cash flow statements are divided into three categories: cash flows from operating activities, those from investing activities and those from financing activities.
- The income statement is a summary of the income earned and the expenses incurred over a trading period.

- The main classification of items in the income statement are revenues, cost of goods sold (COGS) and expenses.
- Gross profit = Revenue − Cost of goods sold (COGS)
- COGS = Opening stock + Purchases − Closing stock
- Expenses are simply costs and can be broken down into selling, administrative or financial.
- Net profit = Gross profit − Expenses
- The balance sheet shows the overall financial stability of the business.
- The main items in the balance sheet are assets, liabilities and owners' equity.
- Assets are items of value to the business and can be either current or non-current.
- Liabilities are debts or business borrowing and can be either current or non-current.
- Owner's equity items refers to the owners' claims and is considered a liability from the point of view of the business.
- The balance sheet should always balance.
- This means the assets must equal the liabilities.
- The balance sheet equation is: Assets = Liabilities + Owner's equity or A = L + OE.

Human resources

- Employees are the most important resources for business success.
- Human resource management is the effective management of the formal relationship between the employer and the employee.
- Most successful businesses maintain a balance between concern for success and regard for their employees.
- The main functions of staffing are to attract and acquire, train and develop, reward, maintain and separate the people needed to achieve the business's goals.
- Acquisition refers to the process of attracting and recruiting the right staff for roles in a business.
- A job analysis is a systematic study of each employee's duties, tasks and work environment. It comprises a job description and job specification.
- After the planning stage, the recruitment of staff commences to find the best person for the job.
- Recruitment involves finding and attracting the right people to apply for a job vacancy.
- A business can recruit from staff within the business or seek new applicants from outside sources.
- Once job applicants are found, the process of selecting the right applicant begins.
- Employee selection is the means by which the employer chooses the most suitable applicant for the vacancy.
- Training provides employees with the right knowledge and skills to perform their job effectively and efficiently.
- Development focuses on preparing the employee to take on more responsibilities within the business in the future.
- Ongoing training for all employees can be promoted by the business becoming a learning organisation.
- Some common training methods include formal off-the-job training, informal on-the-job training, action learning, competency-based training, corporate universities and online training.
- Training should be viewed as an investment in the human capital of the business.
- An employment contract is a legally binding, formal agreement between an employer and an employee.
- Under common law, both employers and employees have basic rights and obligations in any employment relationship.
- Employees are entitled to ten minimum employment conditions, known as the National Employment Standards.
- An award is a legally binding agreement that sets out the minimum wages and conditions for a group of employees.
- Enterprise agreements are collective agreements made at a workplace level between an employer and a union acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment.
- The final stage in the employment cycle is the 'separation stage', in which employees leave the workplace on a voluntary or involuntary basis.

- This stage must be handled carefully and sensitively by the human resource manager.
- Voluntary separation occurs when an employee decides to give up full-time or part-time work and includes:
  - retirement
  - resignation
  - redundancy.
- Involuntary separation occurs when an employee is asked to leave the business against their will and includes:
  - retrenchment
  - dismissal
  - redundancy.
- Unfair dismissal occurs when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable.

Ethical business behaviour

- The majority of businesses want to be seen as responsible corporate citizens.
- The triple bottom line refers to the economic, environmental and social performance of a business.
- Ethics are standards that define what is acceptable and unacceptable behaviour.
- Business ethics is the application of moral standards to business behaviour such as:
  - fair and honest business practices
  - decent workplace relations
  - conflict of interest situations
  - accurate financial management
  - truthful communication.
- A corporate code of conduct encourages ethical business behaviour.

8.8.2 Key terms

accountability when a business acts in the best and highest interests of its owners. Full and complete 'disclosure', which means to be open and not hide the truth, ensures that the books of account are kept accurately and that the information reflected in them, and which is summarised in reports, is based on the true and actual transactions. Another term for accountability is stewardship.
accounting a managerial and administrative tool for recording financial transactions, so that a summary of what has happened to business money can be traced
acquisition (HR) the process of attracting and recruiting the right staff for roles in a business
assets items of value owned by the business that can be given a monetary value
audit an independent check of the accuracy of financial records and accounting procedures
award a legally binding agreement that sets out the minimum wages and conditions for a group of employees
balance sheet represents a business's assets and liabilities at a particular point in time, expressed in money terms, and represents the net worth of the business
brand a name, term, symbol or design that identifies a specific product and distinguishes it from its competitors
brand logo a graphic representation that identifies a business or product
business ethics the application of moral standards to business behaviour
cash flow statement a financial statement that indicates the movement of cash receipts and cash payments resulting from transactions over a period of time
closing stock the value of stock on hand at the end of the financial year
common law law developed by courts and tribunals
conflict of interest when a person takes advantage of a situation or piece of information for his or her own gain rather than for the employer's interest
consumer buying behaviour the decisions and actions of consumers when they purchase goods and services for personal household use
contingencies unanticipated events that can lead to financial difficulty. For a business to be well managed, it needs to have saved money for such events.
continuous improvement an ongoing commitment to achieving perfection
corporate social responsibility refers to open and accountable business actions based on respect for people, community/society and the broader environment. It involves businesses doing more than just complying with the laws and regulations.

cost of goods sold (COGS) the value of stock that a business has sold to its customers
curriculum vitae or **résumé** a summary of a person's previous employment experience
corporate code of conduct a set of ethical standards for managers and employees to abide by
development refers to activities that prepare staff to take greater responsibility in the future
dismissal when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employee's employment contract
distribution channels ways of getting the product to the customer
division the separation of key business functions into specialised units or departments. The business is divided into functional areas.
employee selection involves gathering information about each applicant for a position, then using that information to choose the most appropriate applicant
employment contract a legally binding, formal agreement between an employer and an employee
enterprise agreements collective agreements made at a workplace level between an employer and a union acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment
expenses costs. Specifically, expenses are the costs incurred in the process of acquiring or manufacturing a good or service to sell and the costs (direct and indirect) associated with managing all aspects of the sales of that good or service.
external recruitment filling job vacancies with people from outside the business
finance how a business funds its activities — for instance, where it gets the money to trade, why it chooses to use certain lenders — as well as the costs, risks and benefits of different types of borrowings.
financial statements reports that summarise transactions over a period of time
gross profit the term given to the revenue less cost of goods sold (COGS)
human resource cycle covers all stages in the process of employing staff, from initial planning through to recruitment, selection, induction, training and development, performance management and eventually separation of employment
human resource management (HRM) the effective management of the formal relationship between the employer and employees
income statement a summary of the income earned and the expenses incurred over a period of trading. It helps users of the information see exactly how much money has come into the business as revenue, how much has gone out as expenditure and how much has been derived as profit.
inputs the resources used in the transformation (production) process
intangibles services that cannot be touched
interdependence the mutual dependence that the key functions have on one another. The key business functions work best when they overlap, and employees work towards common goals. For each function area to perform at capacity, it depends on the support of the others.
internal recruitment filling job vacancies with present employees, rather than looking outside the business
involuntary separation when an employee is asked to leave the business against their will
job analysis a systematic study of each employee's duties, tasks and work environment
job description a written statement describing the employee's duties, tasks and responsibilities associated with the job
job specification a list of the key qualifications needed to perform a particular job in terms of education, skills and experience
learning organisation an organisation that monitors and interprets its environment, seeking to improve its understanding of the relationship between its actions and its environment
liabilities items of debt owed to other organisations (e.g. suppliers, banks) and include loans, accounts to be paid by the business, mortgages, credit card debt and accumulated expenses
liquidity the amount of cash a business has access to and how readily it can convert its assets into cash so that debt can be paid
market segmentation when the total market is subdivided into groups of people who share one or more common characteristic
marketing a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers
marketing mix the combination of the four elements of marketing, the four Ps — product, price, promotion and place — that make up the marketing strategy
marketing strategies actions undertaken to achieve the business's marketing goals

mass markets in mass markets the seller mass-produces, mass-distributes and mass-promotes one product to all buyers
net profit the difference between the gross profit and operating and non-operating expenses
niche market a narrowly selected target market segment
opening stock the value of stock (or inventory) that the business has at the start of the financial year
operations the business processes that involve transformation or, more generally, 'production'
operations management all the activities in which managers engage to produce a good or service
outputs the result of a business's efforts — the service or product that is delivered or provided to the customer
outsourcing the use of external sources or businesses to undertake business functions or activities for the business
owner's equity the funds contributed by the owner(s) to establish and build the business. It is also called 'capital'.
packaging involves the development of a container and the graphic design for a product
place or **distribution** activities that make the products available to customers when and where they want to purchase them
primary target market the market segment at which most of the marketing resources are directed
product life cycle the life of a product over four stages: introduction, growth, maturity and decline
promotion the methods used by a business to inform, persuade and remind a market about its products
quality the degree of excellence of goods or services and their fitness for a stated purpose
quality assurance the use of a system so that a business achieves set standards in production
quality circles groups of workers who meet to solve problems relating to quality
quality control the use of inspections at various points in the production process to check for problems and defects
quality management the strategy which a business uses to make sure that its products meet customer expectations
recruitment the process of finding and attracting the right quantity and quality of staff to apply for employment vacancies or anticipated vacancies
redundancy when a person's job no longer exists, usually due to technological changes, an organisational restructure or a merger or acquisition.
resignation the voluntary ending of employment by the employee 'quitting' their job
retirement when an employee decides to give up full-time or part-time work and no longer be part of the labour force
secondary target market usually a smaller and less important market segment
separation the ending of the employment relationship
strategies the actions that a business takes to achieve specific goals
tangibles goods that can be touched
target market a group of customers with similar characteristics who presently, or who may in the future, purchase the product
total quality management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation
training the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills
transformation the conversion of inputs (resources) into outputs (goods or services)
transformed resources those inputs that are changed or converted in the operations process
transforming resources those inputs that carry out the transformation process
unfair dismissal when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable.
voluntary separation when an employee chooses to leave the business of their own free will

on Resources

Digital documents Key terms glossary (doc-35791)
Chapter crossword (doc-36247)

Interactivity Chapter crossword (int-7225)

8.8 Activities

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Exercise 1: Multiple choice questions

1. Which of the following best summarises all the activities within the human resource cycle?
   - **A.** Identifying staffing needs, training, maintenance, separation
   - **B.** Acquisition, development, maintenance, voluntary separation
   - **C.** Recruitment, training, maintenance, involuntary separation
   - **D.** Acquisition, development, maintenance, separation
2. Which key business function directly creates value for either a physical product or service?
   - **A.** Finance
   - **B.** Marketing
   - **C.** Human resources
   - **D.** Operations
3. Which financial statements would a financial loss appear in?
   - **A.** Cash flow statement and statement of financial performance
   - **B.** Revenue budget and statement of financial position
   - **C.** Income statement and balance sheet
   - **D.** Cash budget and statement of financial position
4. I'scream is a manufacturer and retailer of ice-cream. Its motto is: 'Value-adding is our game'. Which of the following would be considered inputs in the production of ice-cream?
   - **A.** Capital equipment and mixing the ingredients
   - **B.** Time and finance
   - **C.** Information and quality assurance
   - **D.** Labour and quality circles
5. What is an outcome of key business functions working interdependently?
   - **A.** A high degree of specialisation within the business
   - **B.** A greater ability to achieve business goals
   - **C.** A flatter organisational structure
   - **D.** Decision making is less complicated.
6. Marketing is a key business function. It is the external face of a business, where goods, services or ideas are exchanged for money in a marketplace. What is the key focus of a business using the marketing concept approach?
   - **A.** Advertising and promotions
   - **B.** Customers' needs and wants
   - **C.** Sales revenue generated over time
   - **D.** Goods and services sold in the market
7. How does a business gain an understanding of the customer's needs and wants?
   - **A.** By an analysis of the sales revenue generated over time
   - **B.** By identifying the target market for its products
   - **C.** By undertaking market research
   - **D.** By using a marketing segmentation approach
8. Which of the following is a short-term source of funds?
   - **A.** Mortgage
   - **B.** Accounts receivable
   - **C.** Bank overdraft
   - **D.** Contributions made by the owner

9. The following table shows financial balances for Creative Cosmetics:

Inventories	$250 000
Accounts payable	$350 500
Franchise agreement	$750 000
Credit card	$620 000
Technology	$150 000
Lease	$800 000

What is the value of non-current assets for Creative Cosmetics?
A. $800 000
B. $2 050 000
C. $1 250 000
D. $900 000

10. The new sports drink from Bruce's Juices has been positioned to create an image of exclusiveness based upon lifestyle and behaviour. What factors would contribute to this image?
A. New innovative packaging and a marketing pricing strategy
B. Discount pricing and a loyalty program
C. Exclusive ingredients and competitive pricing strategy
D. Personal selling and a direct channel of distribution

Exercise 2: Exam practice questions

Question 1 (1 mark)
Outline the three key elements of the production process.

Question 2 (1 mark)
Define assets and liabilities.

Question 3 (4 marks)
Explain the benefits of quality management practices.

Question 4 (4 marks)
Distinguish between an award and an enterprise agreement.

Question 5 (4 marks)
Assess why effective recruitment contributes to business success.

Question 6 (6 marks)
Analyse why it's important for businesses to engage in ethical business practices.

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Teacher-led video Chapter 8 Exam questions solutions (tlvd-1894)

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9 Management and change

9.1 Overview

LEARNING SEQUENCE

9.1 Overview
9.2 Responding to internal and external influences
9.3 Managing change effectively
9.4 Review

9.1.1 Introduction

'The only thing that is constant in life is change.' Although these words were written around 2500 years ago by the Greek philosopher Heraclitus, they are as true today as they were then, especially in the world of business. For example, imagine the type of motor vehicle you will be driving in 20 years. You might even be able to take to the sky if there is a traffic jam. The motor vehicle industry has to effectively manage change due to dwindling oil supplies, stricter pollution controls, greater safety requirements and broader recycling legislation. Businesses only survive in today's highly unpredictable business environment if they effectively manage change. Businesses that embrace change will profit; businesses that resist change will be left behind.

BizFACT

With many car manufacturers investing in some sort of vehicle autonomy, driverless cars could be around sooner than you think. For example, in 2017 Fiat Chrysler Automobiles (FCA) joined BMW Group, Intel and Mobileye to develop an autonomous driving platform for other car manufacturers to use. The partnership allows the companies to draw on each other's individual capabilities and resources.

In Australia, over the past decade, there has been extensive and unprecedented change in the business environment. There is every indication that the pace of change will intensify during this decade. The prevailing attitude in business today can be summed up as follows: 'There is only one constant in business and that is change.'

To help guarantee the long-term survival of the business, managers must respond to these changes. Hoping that the changes will either go away or have no impact on their business is a recipe for disaster. Managers also find it frustrating to learn that as soon as they adjust to one change in the business environment, they must readjust to accommodate another. Some managers are fearful of change, seeing it as a destructive force. Others perceive change as an opportunity for creativity and openly embrace it.

Change is any alteration in the internal or external environments — for example, change in consumer tastes, change in production methods, change in markets or products sold, or change in how employees perform their tasks. It could also be a change to the way things are perceived, or new ways of dealing with problems. In response to these changes, many organisations have undergone organisational change: the adoption of a new idea or behaviour resulting in a difference in the form or operation of an organisation over time. The organisation may have modified its corporate culture, implemented new organisational structures, recruited employees with new skills or developed different work practices.

change any alteration in the internal or external environments

FIGURE 9.1 The COVID-19 pandemic caused many businesses to go through a period of change. For some businesses, this created an opportunity to do something different as a means of keeping the business operating. Australian gin distilleries began working together to develop new hand sanitiser products, repurposing their existing production facilities to meet national demand and, in turn, keeping their workers employed. The Four Pillars distillery closed its tasting room and bar to the public during the pandemic. The business employs about 60 full-time equivalent staff, and co-founder Stuart Gregor said that producing a range of hand sanitiser allowed the company to keep people employed in bottling, packaging and logistics.

The rapidly increasing pace of change threatens to overwhelm many businesses. Adapting to change forced by the external environment is never easy for a business.

While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge and not only react to change but also initiate and manage it.

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Digital document Key terms glossary (doc-35793)

9.2 Responding to internal and external influences

SYLLABUS LINK In this subtopic you will learn about management and change:
- responding to internal and external influences.

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It is said that if you stop moving, you die! The same applies to businesses. Businesses must keep responding to the neverending pressure for change. Whether the influences driving change come from outside (external) or within (internal) the business (refer to chapter 3), changes to the business will occur. Such changes should be viewed as opportunities to be taken advantage of as opposed to challenges to overcome.

SNAPSHOT

Case study: Monica and James Meldrum driving change in the food industry

Husband and wife team Monica and James Meldrum founded Whole Kids in 2005 with the aim of producing genuinely healthy, organic snack foods for kids. The idea for the business materialised when they couldn't find any healthy, tasty snacks to buy their nieces and nephews. They discovered that no-one in Australia was making a range of healthy organic snacks for kids that also tasted great.

Since then, their company Whole Kids has grown to become the provider of the largest range of award-winning organic snacks for kids in Australia. The company is now recognised as a leader in the organic food industry, having received several accolades for product innovation, quality and sustainable business practices, including the Green Awards Best Kids Company and the Food Challenge Awards (Snack Foods). In 2013 Monica was awarded the Emerging Entrepreneur award by NAB Women's Agenda Leadership for her innovation, leadership and a strong commitment to creating change for the future. In 2015 she was chosen as the 2015 St George Banking Group Ausmumpreneur of the Year, and in 2016 she was included on the 2016 *Australian Financial Review* and Westpac 100 Women of Influence list.

The pair's investment in regular research keeps the company in touch with trends and changing preferences. For instance, they recently introduced new products due to the recognition of the growing demand for easy, healthy options as parents become increasingly time poor. The increase in the number of children with food allergies has also compelled them to introduce a new range of products.

In 2018 Whole Kids was named as one of Westpac's 2018 Businesses of Tomorrow. The company was judged as the 'best of the best' and made the top 20 for its clarity of vision, strength of character and excellence in capability to shape the nation's economic future. It was James and Monica's unique approach to doing business differently and driving change which led to this recognition.

James and Monica have been successful in implementing changes and finding new ways to challenge their business. The duo continues to take on industry conventions to make the world a healthier place for kids. Their passion to create real and positive change led them to take on Australian politicians with a Whole Kids-led campaign 'Unjunkit'. The aim of this campaign is to persuade government to amend regulations on junk-food advertising aimed at children and to ban these ads on TV before 9 pm.

9.2.1 Internal influences

Management

Managers have the responsibility of operating a profitable or successful business. The poor financial performance of a business will result in management reviewing processes, staff and systems.

Businesses sometimes face a crisis. For example, a product sold by the business may be found to be unsafe or dangerous. Responding to such unplanned changes requires responsive decision making from management to reduce the disruption to the business.

The role managers play in the operation of a business means they are key driving forces for change (see figure 9.2). Managers will push for changes that will lead to a better outcome and more efficient achievement of business objectives.

FIGURE 9.2 Reed Hastings, founder and CEO of Netflix, has been effective in adapting the company's business model according to external and internal factors ever since its inception. Netflix began as a DVD rental by mail delivery service. Due to changes in consumer preferences as well as technology (such as the availability of high speed internet and portable computers), Hastings launched the company's online streaming service in 2007. When competition intensified and other online streaming services became available, Netflix went from licensing to also producing original and exclusive content in order to maintain and grow its market share.

In some cases a manager may be a factor restraining or stopping change occurring. Some managers may make hasty decisions that are poorly timed and unclear. Other managers may be indecisive and put off making a decision, creating uncertainty. Managers may also act as a restraining force if they lack the capacity to deal with change. A manager may lack the experience and skills to oversee a transformation or may not be able to deal with resistance from the various stakeholders in the business. Any of these situations may eventually cause employees to lose confidence in the decision-making abilities of management.

Employees

Employees working in an innovative environment, where ideas are shared and acted on, are likely to act as a driving force for change. They will be more likely to recommend changes to policies, production processes or products. This level of innovation within a business can create a need for change in everything from operations to marketing. Companies such as Panasonic, Samsung, Sony and Toshiba have benefited from employee creativity (see figure 9.3), enabling them to develop innovative products.

FIGURE 9.3 Ken Kutaragi, an electrical engineer at Sony, bought his daughter a Nintendo game console and was displeased with the quality of the gaming system. Sony wasn't involved in computer games at the time, but Kutaragi negotiated to keep his job at Sony while working as a consultant for Nintendo on their gaming devices. Kutaragi saw the market and business opportunity of computer gaming systems and pressed hard to convince Sony to enter the market. The CEO supported Ken's intrapreneurial abilities, which led to the creation of one of the greatest new business inventions in history, the Playstation.

While employees can act as a driving force for change, they can also act as a restraining force for businesses seeking to undergo change. Any type of change to a business will eventually affect the level and type of staffing. There is always the fear of job losses during any change and this can lead to staff resisting the change.

Further to this, the introduction of a major change, such as a merger or acquisition, may result in a complete breakdown of the existing corporate culture. This can create feelings of mistrust and suspicion among the employees.

Employees may also resist change because they are worried that they cannot adapt to the new procedures, which threaten established work routines. This is made worse if training is not provided. No matter how technically or administratively perfect a proposed change may be, staffing issues may make or break it.

9.2.2 External influences

Competition

Businesses need to monitor the activities of their competition and determine what effect they may be having in the marketplace. Knowledge of such changes enables a business to make modifications to its existing business activities and to plan new ones.

Competitors can drive a business to change through a number of different actions:

- The opening of a new business that will compete with an existing business may cause the existing business to undergo change to stay current and relevant to their customers.
- Pricing policies by a competitor may lead a business to adopt a similar strategy. In recent years, both Coles and Woolworths have sold bread, milk and other staple items at greatly reduced costs in an effort to increase customer numbers. Once one business lowered prices, the other business quickly followed suit.
- The adoption of new technologies, both in production and products, can drive a competitor to change their products or processes. Toyota was the first vehicle manufacturer to introduce a hybrid model car. All major car manufacturers have now released their own versions.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.

FIGURE 9.4 The competition between Woolworths and Coles is largely derived from their desire to become the strongest company within the supermarket industry. This has led to the existence of each company copying its opponent's strategy to gain an advantage over the other. They must also contend with increased competition from ALDI and other businesses.

Legislation

Whenever new laws are passed, businesses must comply with the new legislative requirements. For example, in 2014 the New South Wales Government introduced new lockout laws with the objective of reducing alcohol-fuelled violence. Bars, pubs and clubs in the Sydney CBD entertainment precinct had to make significant changes in response to these measures.

In another example, in March 2020, the NSW Government issued a variety of public health orders to help limit the spread of COVID-19. As a result, many businesses were forced to change the way they operated. Supermarkets introduced limits on quantities customers could buy of certain products, social distancing was implemented in stores and limits were set as to how many customers could be in a store at any one time.

While most of us consider legislation to be a national issue, laws can be made by the state governments (for example, laws relating to smoking in public, in the workplace and in cafes and restaurants) and by local councils (for example, parking restrictions, use of the footpath for seating and food service, opening hours for businesses and zoning laws).

Any law or by-law passed by these bodies may require a business to change some aspect of its operations.

Technology

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

Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. As such, technology, and any advances in technology, should be considered as a driving force for change.

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Local milk bars introducing EFTPOS, couriers using electronic signatures, clothing stores using scanners and electronic security tags, and supermarkets introducing online shopping and self-service checkouts are all examples of technological advances that have driven change.

FIGURE 9.5 In March 2020, as a result of the COVID-19 pandemic, Coles and Woolworths introduced a variety of measures to limit the number of customers inside stores. For example, they introduced restrictions on the number of shoppers entering stores, they placed posters and floor markings to encourage shoppers to keep their distance, and they erected screens to protect customers and staff.

Social

Businesses operate within society and must adapt to changes in society's attitudes and values. Society's attitudes of what is right and wrong evolve over time and the values that are most important to people also change, affecting the ways in which businesses operate. Increased access to rapid communications has made the world's population more aware of what businesses are doing, for example, in their supply chain. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment and to ensure their supply chain is ethical.

Society requires that large businesses sell safe products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate. For example, as part of their 'Energy for Life' community program, AGL Energy helps to pay the winter energy bills for shelters for homeless people in New South Wales, Victoria and South Australia. This enables the emergency accommodation services to put funds back into the important work of supporting Australia's homeless.

FIGURE 9.6 While vegetarianism and veganism are far from being new concepts, another social change is the rapidly growing number of ethical consumers who refuse to use animal products. This growing trend has proven to be big business in Australia, the third fastest growing vegan market in the world. In 2016 the Australian packaged vegan food market was worth almost $136 million. Vegetarianism is drastically increasing, with 2.5 million people (12.1 per cent of the population) eating all or almost all vegetarian as at the beginning of 2020. This figure is a clear indicator of how rapidly the population is changing its attitudes towards food.

SNAPSHOT

Case study: 'Hump-day' killed off — Versa responding to social change

Don't try to contact Melbourne digital agency Versa on a Wednesday. It's shut.

Employees at the busy maker of apps, augmented reality products and websites work 37.5 hours a week, on Monday, Tuesday, Thursday and Friday. On Wednesdays there are no client meetings, no deliveries, no 'pitches' for new business and no expectation of checking emails.

The private company has been doing it for a year, chief executive Kath Blackham said, and the data is in. 'We are three times more profitable than we were last year, we have grown by 30 or 40 per cent in the last year in terms of revenue, and we have got happier staff who are much more productive', she said.

Chief executive of Versa, Kath Blackham

'So all of the factors that you would have thought would have gone down because we're working 20 per cent less — in theory we're working one day less, although we are doing longer days on the other days — actually we've seen them increase dramatically.'

Kath Blackham had two small children when she founded the business a decade ago. She's attempted multiple ways to build flexibility for staff, such as giving people random or fixed days. But the need to work in collaborative teams across projects meant it didn't work. A year ago, she shut the door on Tuesday night and closed the office until Thursday morning.

Beyond happier, less-stressed staff, the first thing Ms Blackham noticed from having two 'mini-weeks' was a renewed focus and intensity during all four days the office is open. 'I know a lot of workplaces have that kind of

those Monday morning "feels", where there's a bit of a vibe in the office, people are bantering back and forward. And in the end you get that kind-of "hump day" [on Wednesday], which is a little bit harder to do,' she said.

'By the time we get to Thursday it's like a Monday again. You get a new feeling of enthusiasm and cracking on with work, collaboration.'

Managing director Jonny Clow had worked at large global advertising agencies and was convinced it wasn't going to work. With most jobs in advertising running 7:30 am to 7:00 pm as standard, he couldn't see how the loss could be made up. 'To lose a whole day — 20 per cent of revenues — you know it's hard for us to make money as it is. This is a people business, so to think that you are not earning... that was a shock,' Mr Clow said.

Logically, he said, you would consider a four-day working week to end on Thursday, creating a long weekend each week. Creating two short weeks meant staff treat Friday as 'a proper working day' and schedule medical appointments, errands and the like on the Wednesday.

'I'm very used to, as an Englishman, going in with the doom and gloom you have on Monday, and "suicide Tuesday"... all that kind of stuff just goes away,' Mr Clow said.

The office environment is a hum of focus, but you can feel a difference. Milo the Cavoodle wanders around, staff break off into meeting rooms, and two staff hold a yoga session in one of the small meetings rooms during the lunch hour. This week industry publication *Ad News* crowned the Melbourne agency its Employer of the Year.

Source: Daniel Ziffer, '"Hump-day" killed off, app maker Versa's staff repay the boss with higher productivity', *ABC Online*, 17 April 2019.

KEY IDEAS

- Whether the influences driving change come from outside (external) or within (internal) the business, changes to the business will occur.
- Some of the internal influences that managers will need to respond to include management and employees.
- Some of the external influences that managers will need to respond to include competition, legislation, technology and social influences.

9.2 Activities

learnON

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9.2 Quick quiz on | **9.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 5, 8, 9, 11, 13, 14, 17	2, 3, 4, 6, 7, 10, 12, 15, 16, 19, 23	18, 20, 21, 22, 24

9.2 Exercise

Revision

1. **Define** the term 'change'.
2. **Explain** the meaning of the phrase, 'There is only one constant in business and that is change'.
3. **Account** for why some managers are fearful of change, whereas others openly embrace it.
4. **Distinguish** between proactive and reactive management.
5. **Summarise** two internal influences to which businesses need to respond.
6. **Explain** how employees can influence a business to change.

7. **How** can competitors drive a business to change?
8. **Identify** a law that has recently been implemented and explain how this law has forced businesses to implement change.
9. **Identify** some examples of new technology that have led to changes in businesses.
10. **Why** are businesses that are slow to exploit technology likely to fail?
11. **Outline** some changes in society that have had an impact on businesses.
12. **Discuss** other internal and external influences, besides those mentioned, to which businesses need to respond.

Read the 'Monica and James Meldrum driving change in the food industry' case study and answer questions 13 to 15.

13. **Outline** what inspired James and Monica to create Whole Kids.
14. **Describe** what factors led James and Monica to make changes to their product range.
15. **Explain** how James and Monica have implemented change effectively.

Read the "Hump-day" killed off — Versa responding to social change' case study and answer questions 16 to 18.

16. **How** did Versa respond to the increasing demand in society for greater workplace flexibility?
17. **Outline** the factor causing resistance to this change.
18. **Assess** the effectiveness of this change.

Extension

19. Change is a continuous process, not an event. **Propose** an example from your own experience to illustrate the continuous cycle of change.
20. a. Select four external influences that affect businesses. Over a 5- to 6-week period, collect four to five articles on each factor from newspapers, internet and journals.
    b. Paste the articles into a scrapbook under the four headings (influences). Ensure that you date and acknowledge the source of each article.
    c. **Create** four reports of approximately 150 words on each of the external influences. Use a business report style with subheadings, graphs and diagrams to support your text.
    d. Your responses should synthesise the theory obtained from your teacher and textbooks with the information on current business conditions and influences from your newspaper, internet and journal articles.
21. Zoe could not understand why her team members were being so difficult. Couldn't they see that the changes she had made to the work roster would be to everyone's benefit? She thought they had all agreed to the changes when they were discussed at the last team meeting. She was not sure what to do next. Consider your own experience of the difficulties in trying to predict how something will turn out. **Determine** what managers can do to reduce these difficulties.
22. Flatter management structures often result in higher levels of responsibility and accountability for all employees. Consequently, any organisational restructure that involves removing a layer of management will be perceived by employees as a major change. Assume you are the manager in charge of a restructure that will result in a flat management structure. **Determine** the advantages you would put forward in support of the restructure.
23. **Investigate** a business that is being restructured as a result of changes in its internal environment. Business magazines, journals or the internet are an excellent source of information and frequently report on organisational restructuring in a variety of industries or businesses. Some recent examples of changes you may wish to explore include:
    a. e-commerce
    b. organisational alliances
    c. work–life balance.
24. Investigate a business that is undergoing change in response to an influence from the external business environment. **Evaluate** how that business is managing change.

Solutions and sample responses are available in your digital formats.

9.3 Managing change effectively

SYLLABUS LINK In this subtopic you will learn about management and change:
- managing change effectively
- identifying the need for change
  - business information systems
- setting achievable goals
- resistance to change
- management consultants.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

BizFACT

According to a 2016 KPMG Global Transformation study, 96 per cent of businesses reported they were undergoing business transformations, but only 47 per cent expected to realise sustainable value from those efforts. In fact, about 70 per cent of change efforts fail outright — often due to employee resistance.

Constant change has made the task of management more demanding and exciting than ever before. Change is the most daunting challenge confronting managers, as well as the most promising opportunity. Now well entrenched and likely to accelerate, change must be considered a fundamental aspect of a business's strategic planning. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business's competitive advantage and survival. Successful managers are the ones who anticipate and adjust to changing circumstances rather than being passively swept along or, worse still, caught unprepared. Such people are **proactive** rather than **reactive**.

A proactive approach to change refers to the situation where a change is planned and occurs before a business is affected by pressures in their environment. A proactive approach is more effective in managing change as it allows the business to gain a competitive advantage due to not being affected negatively by the change in the environment. It allows the business to be prepared when the change occurs, so that the change does not negatively affect the business.

A reactive approach to change is a change that is unplanned and occurs after the business has been affected by the pressures from its environment. It is less effective in managing change for the business because the business has already been affected by the change. The business may have potentially already lost productivity or sales due to its failure to recognise that the change was imminent. The failure to respond immediately to a change can lose the business time as it attempts to recover from the change.

The crucial management issue is how to manage change to make it as productive as possible, using it to renew and strengthen the business. However, to be constructive, change must occur at a pace at which it can be absorbed and integrated by the business.

All changes should be thoroughly evaluated to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and, ultimately, decreased profits. Managing change is especially difficult when the pace and nature of change is largely beyond the control of the manager.

Businesses often fail to manage change well. Their record tends to be poor because, in the upheaval of a restructuring process, employees — the most crucial group of all — are often neglected. As well, existing communication channels often break down in the highly emotional climate that surrounds a change program. Strategies to achieve successful change rely on communication, employee involvement in the change process, training, support and negotiation. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and, ultimately, unmet objectives.

proactive to initiate change rather than simply to react to events

reactive to wait for a change to occur and then respond to it

FIGURE 9.7 Following a fall in letter deliveries and higher costs leading to its mail division losing a record $328.4 million in 2013–14, Australia Post introduced a two-speed letter service in early 2016. This means that customers can now choose between a regular or priority letters service, as well as the already existing express service. Several thousand employees at Australia Post were made redundant or were moved into different roles at the government business enterprise as it focused more on its parcel delivery business. In 2019, Australia Post reported a before-tax profit of $41 million, suggesting the changes had been a success.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any business depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge. Change is inevitable. As a consequence, businesses must transform if they want to survive in today's environment.

SNAPSHOT

Case study: Lewin's three-step change model

Kurt Lewin was a German-American psychologist who is known as one of the founders of social psychology. He developed a seminal theory on the best approach for a business to manage change. Lewin believed that change occurs at many levels within a business, be it a large-scale or a small business. He suggested that change can occur at the individual level or at a structural or systemic level.

Lewin identified the three levels of change and incorporated them into a change-management theory. He described his theory as the three-step change model.

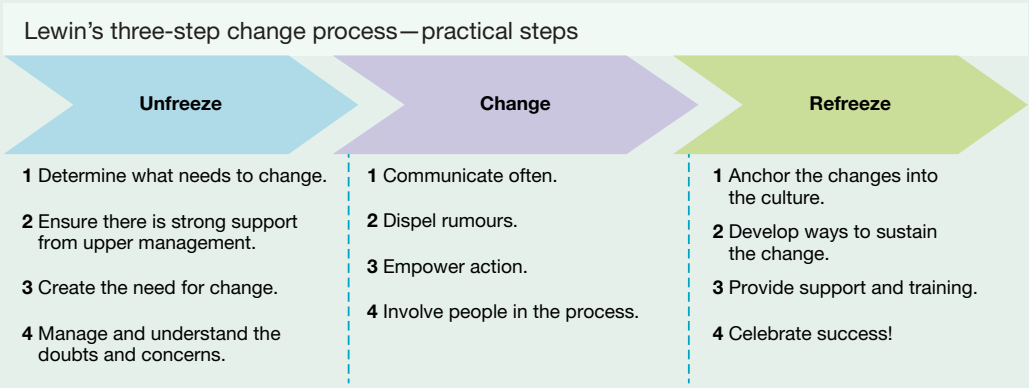
Lewin's theory: a coin in a cup of ice

Suppose someone gave you a plastic cup filled with clear, solid ice. At the bottom of the cup is a 20-cent piece lying heads up. Now, suppose you want the 20-cent piece to be frozen in a tails-up position. What can you do to bring about this desired change? There is only one practical solution. You let the ice in the cup thaw (unfreeze), reach in and turn the coin over (change) and then freeze (refreeze) the cup of water. This is how Lewin recommended that change be handled in businesses.

Step 1 — Unfreeze

Businesses often become too comfortable in their current position, so change, or the pressure to change, can be difficult to accept. Lewin argued that to change effectively, a business needed to 'unfreeze'. To unfreeze means to first identify what needs to change. Then all relevant aspects of the business need to be 'put on the table' and the need for change needs to be created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process.

Unfreezing the business changes the status quo — the conditions in which the business is currently operating.



Step 2 — Change

With the business in this unfrozen state — with all processes, policies and practices able to be changed and the necessary support in place — management is now able to move the business to the new position — that is, to change what is occurring. Support is still provided and, in addition, the lines of communication are opened so employees are able to seek guidance and feedback on what is taking place. All communication should be transparent so any rumours can be quickly dispelled.

The necessary key staff are empowered to implement the required change and all relevant people are involved in the process. This reduces resistance and makes it easier for the change to be implemented effectively.

Step 3 — Refreeze

The fear with undertaking change is that if it is not implemented correctly, the impetus for change will fade and staff will revert to how the business was before — adopting the previous behaviours, following old policies and procedures, and falling back into outdated and outmoded practices.

It is important that the business consolidate the changes into its culture This can be done by rewriting policies, celebrating achievements, and maintaining support and encouragement for all staff, some of whom may still be uncertain or resistant to the changes.

A manager can use a number of strategies to manage change effectively. Management of the change will be more effective if the business can:

- identify the need for change
- set achievable goals
- develop strategies to overcome resistance to change
- use management consultants.

9.3.1 Identifying the need for change

An effective manager should always be scanning the environment, attempting to understand factors that will have an impact on the business. In this way, he or she may better identify current trends and predict future changes.

Achieving such a vision requires a **holistic** view of the outside world and awareness of the potential impact on the business of a variety of factors. Correctly anticipating these factors greatly assists the manager in identifying the need for change. This strengthens the business so it may take full advantage of opportunities that favour its long-term survival in an increasingly competitive world. Sharing the vision with employees encourages them to better understand why the change is necessary.

To better understand what changes need to occur, a manager needs access to accurate and up-to-date information.

Business information systems

As a student you rely on measurements — subject marks and school grades — to assess your progress. This information allows you to determine what changes, if any, need to be made to your study pattern. Information is also crucial for any business. Actually, much of a business's success or failure to accurately identify what needs to be changed depends on its ability to collect, organise, process and retrieve information quickly. For example:

- an operations manager of a manufacturing business must collect data about production costs and production schedules
- a marketing manager must gather data measuring sales, product development and customer satisfaction
- a finance manager must collect data about financial transactions and measure cash flows
- a human resource manager must record staff absences, training requirements and overtime payments.

Consequently, a successful business must be able to gather, store, combine and analyse masses of **data** quickly and efficiently. Once processed and organised to be useful to an individual manager, this **information** becomes the raw material for decision making. Without it, a business would quickly lose its way because it could not accurately identify what needs to be changed.

Where do managers get the information they need? In most businesses the answer lies in a business information system. A **business information system (BIS)** also referred to as a **management information system (MIS)** gathers data, organises and summarises it, and then converts it into practical information to be used by managers, who use the data to make decisions.

Managers have to plan for the future, implement their plans in the present and evaluate the results against what has been accomplished in the past. Therefore, they need access to information that summarises future possibilities, the present situation and past performance. All this is part of a manager's role in managing change effectively.

9.3.2 Setting achievable goals

A **vision statement** states the purpose of the business. It indicates what the firm does and states its key goals. In conjunction with the vision statement, a business establishes specific company goals that are measurable (usually set on a yearly basis). Reassessment of the vision statement and business goals may be required if management detects changes in the external business environment that may have a major impact on business activities. However, for change to be managed effectively it is essential that any new goals be achievable. This means goals that are attainable and realistic. Unachievable goals will only cause cynicism among employees and damage relationships between employees and supervisors.

On the other hand, achievable goals, devised after consultation with employees and communicated clearly by management, have a much greater chance of being realised.

holistic an approach that looks at the whole picture

data unprocessed facts and figures such as sales figures and customer complaints

information processed data that has been deliberately selected and organised to be useful to an individual manager

business information system (BIS), also referred to as a **management information system (MIS)**, gathers data, organises and summarises it and then converts the data into practical information

vision statement a broad statement about what the business aspires to become in the future

9.3.3 Resistance to change

At the same time as managers are undertaking — driving — change for the best of reasons, there will be restraining forces working against the change, creating resistance.

Psychology has shown how difficult it is for individuals to change their behaviour; how difficult it is to eat less, exercise more, stop smoking or be more patient. Resistance to change is strong because for most people personal change is:

- achieved only with considerable effort
- often emotionally stressful.

Businesses, like individuals, also find some changes difficult to cope with. When the pace of change is very rapid or coming from the external environment, then businesses may experience open resistance to the change. For example, consider where you sit in your Business Studies class. It is likely that you and other students sit in the same seats for each lesson. Imagine now that your Business Studies teacher changes the seating arrangement and tells you where to sit. This new seating arrangement will be permanent. No prior warning or explanation of these changes was given. You and your classmates may react with a mixture of annoyance, irritation, frustration, anger or delight. Perhaps you would be angry or upset at not being consulted or involved in the rearrangement process. You may have felt that you had no control over what you regard as your working conditions and organisational structure. Many of you may view the changes as a threat to the status quo.

What does this tell us about resistance to change? This reaction is common among managers and employees. As individuals become accustomed to doing certain things and doing them in certain ways, so too do businesses. As a result, businesses and employees sometimes vigorously resist change.

FIGURE 9.8 How a manager treats his or her employees will largely determine their acceptance of, or resistance to, change. A manager who acts as a leader and has high expectations of employees' abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change.

The most common reasons why change may be resisted include:

- *financial costs*. A major reason for resistance to change is the financial cost of its implementation. Even with access to finance, a business contemplating change must weigh up the costs and benefits of the change.
- *purchasing new equipment.* The purchase cost of investing in new technology, plant or equipment can be considerable. Although this is expensive, there can be very significant advantages from making this investment. Prior to making the investment in new equipment, managers will need to weigh up the cost of purchase against the cost of leasing new equipment. Woolworths, for example, recently planned to invest $700–780 million in the technology and fit-out of three distribution centres. The company is hoping this investment in robotics and artificial intelligence will improve productivity and increase profits.

- *redundancy payments.* Employees who lose their jobs as a result of changes are entitled to financial compensation in the form of a redundancy payment. A redundancy payment is the money that is given to employees when they are forced out of work because their job skills are no longer relevant. Redundancy payments can be very high, especially if many employees are made redundant. Around 700 jobs will be lost as Woolworths automates the three distribution centres mentioned above. There are currently 1350 people employed at those warehouses and Woolworths only needs less than half of those workers to run the new centres. The company has therefore set aside $176 million to cover potential redundancy costs for existing staff.
- *retraining.* When significant changes are introduced such as new technology, employees must be retrained. Retraining may be performed on the job or off the job.
- *reorganising plant layout.* When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity. There can be high costs associated with reorganising the plant.
- *inertia.* **Inertia** refers to an unenthusiastic response to proposed changes. Some managers and employees resist change because it requires moving outside and away from their 'comfort zones'. Many employees and managers desire a safe and predictable status quo. Such an attitude is summed up in the phrase, 'But we don't do things that way here'. Change can have a major impact on people. Feelings of lack of control, fear of the unknown and uncertainty about the future can lead to anxiety. The situation is made even worse if there is poor leadership and management during times of change.

BizFACT

Ironically, some people enthusiastically support the changes in public, but then ignore the changes in private. Management consultant Michael Hammer calls this deadly form of resistance the 'Kiss of Yes'. Why do you think people behave this way?

Force field analysis

Psychologist Kurt Lewin developed a useful model for understanding the change process. Known as force field analysis, the model describes how you can determine which forces drive and which resist a proposed change. All businesses must deal with one constant reality of change: trying to balance the forces driving change with the forces opposing it. **Driving forces** are those forces that initiate, encourage and support the change. The main driving forces for organisational change are the changes in the internal and external environments, as outlined in chapter 3. **Restraining forces** are those that work against the change, creating resistance. The current conditions, or status quo, result from these two forces 'pulling' in opposite directions (see figure 9.10). Managers who are trying to implement a change must analyse the situation to identify and balance the driving and restraining forces.

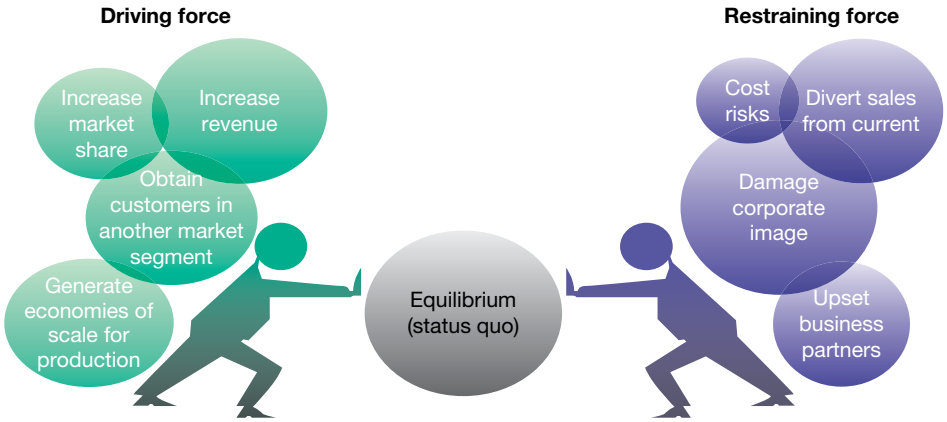
FIGURE 9.9 Uncertainty about the future is a powerful emotion that can inhibit employees from embracing change. This is made worse if employees do not understand the reason for the change, or if they distrust the people, usually management, behind the change.

inertia refers to an unenthusiastic response to proposed change

driving forces those forces that support the change

restraining forces those forces that work against the change

FIGURE 9.10 Driving and restraining forces work against each other, making it difficult for a business to change.



Any business considering undertaking a new project or implementing change should consider the forces that are exerting pressure at the time. The first area to consider is the aspects of the business that could encourage or support the change — for example, the people of influence or the systems and processes that are driving the project. Once those factors have been determined, the next step is to consider who and what is restraining the project. For example, some stakeholders of the business will want the status quo to be maintained; that is, they will not want the business to undertake any change. These stakeholders are restraining the change and will not consider any improvements or benefits that might result from the change.

Once management has identified and understood the main reasons why change is being resisted (i.e. the restraining forces) managers need to put in place strategies to reduce the resistance. These strategies seek to reduce or eliminate the restraining forces so the drivers can continue to strengthen the change and bring more drivers to the forefront of the change process.

FIGURE 9.11 Force field analysis involves considering the opposing forces that exist in a business environment. These operate a little like a tug of war, with driving forces and restraining forces pulling in different directions. However, there are some subtle differences. Effective change will only occur when the weight of driving forces overwhelms restraining forces. If the forces remain in equilibrium or if the weight of restraining forces are greater than driving forces, change is unlikely to occur. To change the business to the desired condition, it is necessary to increase the driving forces, decrease the restraining forces, or both.

Driving forces ← **Equilibrium** → **Restraining forces**

(forces for change) (status quo) (forces resisting change)

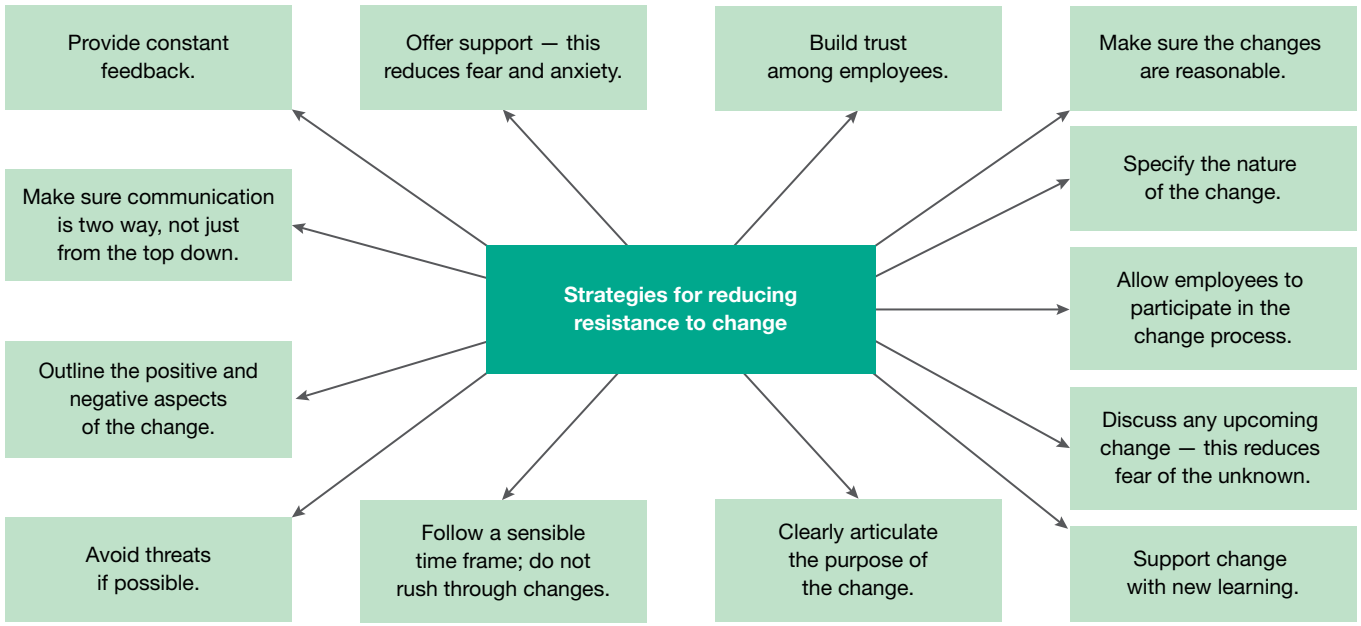
A great deal of research has been conducted on the most effective methods to reduce resistance to change. Some strategies include:

- *creating a culture of change*. The workplace culture can greatly affect employee acceptance of change. Since significant change can be quite daunting, there needs to be a supportive environment that reduces fear of change.
- **change agents**. The business should identify an individual (or group of people) who is influential in the business to act as catalysts to help manage the change process. These people should help initiate, stimulate and facilitate the change effort within organisations. A change agent can be either internal to an organisation (e.g. a manager or employee) or external (e.g. consultants) and who is tasked with overseeing the change.
- *effective communication*. Managers must be able to communicate with stakeholders regarding the need for change and the progress of the change. There should be open communication channels to assist in the transfer of information. Without clear communication regarding the change, there may be resistance.
- *positive leadership.* How a manager treats his or her employees will largely determine their acceptance of, or resistance to, change. A manager who acts as a leader and has high expectations of employees' abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change. There may still be some points of resistance, but this resistance can be productively dealt with because the employees believe they have the support and trust of their manager. Employees are generally more prepared to accept the risks involved with change if they feel their manager is concerned with their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines — that is, they display the natural characteristics of a manager, not a leader.

change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process

Figure 9.12 outlines some other effective strategies for managing change.

FIGURE 9.12 Strategies for reducing resistance to change



9.3.4 Management consultants

As a student, if you have difficulty understanding some information within a subject, you will probably consult someone who is an expert in that area. This could be another student, teacher or family member. This is similar to when you have a consultation with a doctor. You are seeking assistance from someone with specialised knowledge. Businesses also seek advice from **management consultants** who specialise in a diverse range of business-related areas, including risk management, brand protection, business set-up, executive recruitment and sustainability. Businesses hire the services of management consultants because they provide:

- a wide range of business experiences
- specialised knowledge and skills
- an objective (external) viewpoint
- access to the latest research
- awareness of industry **best practices**.

The main role of management consultants is to help businesses improve their performance by investigating existing business problems and developing plans for improvement. Consultants can be especially helpful in providing **change management** advice: a methodical approach to dealing with change, both from the perspective of a business and the individual. They can provide strategies to smoothly manage the introduction of business changes by:

- undertaking change readiness reviews
- creating a supportive business culture
- actively involving all stakeholders in the change process
- gaining and recognising early achievements.

However, as in all aspects of life, the quality of advice from management consultants can vary. Therefore, it is best to hire those consultants who are members of the Institute of Management Consultants as their members have recognised standards of character, experience and education.

management consultant someone who has specialised knowledge and skills within an area of business.

best practice those business practices that are regarded as the best or of the highest standard in the industry

change management a methodical approach to dealing with change, both from the perspective of a business and on the individual level

KEY IDEAS

- To manage change effectively requires the change to be as productive as possible in order to make it a process for revitalising and strengthening the business.
- Managers must develop strategies for managing change effectively.
- Identifying the need for change and setting achievable goals are two strategies to manage change effectively.
- At the same time as managers are undertaking — driving — change for the best of reasons, there will be restraining forces working against the change, creating resistance.
- The main reasons for resistance to change include:
  - financial costs (the cost of implementing major changes can be substantial)
  - purchasing new equipment (this can also be expensive)
  - redundancy payments (if employees lose their jobs as a result of change, they are entitled to financial compensation)
  - retraining (when changes are introduced, some employees will require training)
  - reorganising plant layout (the layout of the plant may need to be reorganised if new equipment or technology is introduced)
  - inertia (some managers and employees resist change due to a fear of the unknown).
- Psychologist Kurt Lewin developed a useful model for understanding the change process. Known as force field analysis, the model describes how you can determine which forces drive and which resist a proposed change.
- Driving forces are those forces that initiate, encourage and support the change.
- Restraining forces are those that work against the change, creating resistance.
- Resistance to change is common among managers and employees.
- According to Lewin's model, once management have identified and understood the restraining forces, managers need to put in place strategies to reduce the resistance.

- Two strategies for overcoming resistance to change include:
  - creating a culture of change (encouraging teamwork)
  - providing positive leadership (sharing the vision).
- The main role of management consultants is to help businesses improve their performance and assist with change management.

9.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

9.3 Quick quiz on | **9.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 6, 9, 10, 12, 13, 14, 15, 16, 17, 18	4, 7, 8, 11, 19, 23	20, 21, 22, 24

9.3 Exercise

Revision

1. **Recall** why an effective manager should continuously scan the business environment.
2. **State** why it is important for a manager to share the business's vision with employees.
3. **State** the purpose of a business information system.
4. **Account** for the importance of current and up-to-date information for a manager attempting to manage change effectively.
5. **Outline** why setting achievable goals can help managers implement change effectively.
6. **Outline** why management and employees commonly resist change.
7. **Explain** how you would feel if your Business Studies teacher was replaced overnight without your knowledge and the new teacher taught very differently to your previous teacher.
8. **Distinguish** between 'driving' and 'restraining' forces.
9. Complete the sentences below by **identifying** the correct term from the following list:

cost	common	fear	effectively	financial
resistance	analysing	managers	strategies	retrained

When change is too rapid or when managers and employees feel they have no control over it, then _____ to the change is to be expected. Resistance to change is _____ among employees and organisations. The resistance needs to be managed _____. Managers can fail to achieve change by not _____ the situation properly. Employees may resist change because of the _____of the unknown, the _____ costs involved and the need for some employees to be _____. _____ for reducing resistance to change need to be developed by _____.

10. **Outline** how the following can be a restraining force:
    a. lack of time
    b. poor timing.
11. **Examine** figure 9.12. Select the two strategies you think are the most important. **Justify** your selection.
12. **Recall** the role of a change agent.
13. **Identify** the features found in a team that help others overcome resistance to change.
14. **Clarify** how positive leadership can help overcome resistance to change.

15. Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following activities.
    a. **State** the reasons you liked or disliked the change. Share your thoughts with other class members.
    b. **Identify** the reasons that were common among the group.
    c. Interpret what this tells you about the best strategy that a manager could use to help overcome resistance to change.
16. **Identify** the benefits of hiring a management consultant.

Read the 'Lewin's three-step change model' case study and answer questions 17 to 19.

17. **State** the three levels of change identified by Kurt Lewin.
18. **Describe** Lewin's theory of change management.
19. **Explain** why it is important for a business to 'refreeze' once change has been implemented.

Extension

20. Read the scenario below. In small groups, **create** a plan to solve the problems and effectively manage a potentially difficult introduction to new technology. Present your plan to the rest of the class.

    You are a divisional manager of 30 loyal, long-serving employees. Fierce competition is threatening the long-term viability of the business. Sales and profits are declining due to the lower prices of your competitor. The business could compete if it introduced new technology. (It has the finance to purchase and install the machinery.) The introduction of the new technology is going to mean changes to your division and the current product. Twenty employees are required to work the new technology so ten will become redundant. Even though sales have declined, you have a number of very loyal customers who have expressed satisfaction with the format of the current product.

    Problems requiring solution and action:
    a. Retrenching of ten employees — examine some of the criteria you might consider regarding who should stay and who should go
    b. Training the remaining employees to understand and use the new and more complex technology (quite a radical change from the technology currently in use)
    c. Managing the change with sensitivity: maintaining positive workplace morale and exhibiting leadership
    d. Communicating the change in the product format to the customers and convincing them to maintain their loyalty towards your company and its brand.
21. **Evaluate** the accuracy of the following quotes concerning change:
    a. 'Change for change's sake is not progress.'
    b. 'Change is life. Life is change.'
    c. 'Change what you can change. Accept what you cannot change.'
    d. 'Change is the new normal for leadership success.'
22. **Think** about a situation in which you would like to make a change but face some resistance. The situations might involve improving your Business Studies results, changing the arrangement of your timetable or having greater use of the family car.
    a. Summarise the status quo.
    b. Propose the situation as you would like it to be if you could change it.
    c. Identify the main driving forces.
    d. Identify the main restraining forces.
    e. Determine strategies for reducing the impact of the restraining forces.
23. Imagine you run a successful café. Because of recent changes to the *Public Health Act* due to COVID-19, you must implement some new safety procedures. You know that some of your employees are going to regard some of these changes as ridiculous. **Propose** what you might do to get the employees to accept the changes.
24. '... the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new.' Machiavelli (*The Prince*, 1532). **Evaluate** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

9.4 Review

9.4.1 Summary

Responding to internal and external influences

- Whether the influences driving change come from outside (external) or within (internal) the business, changes to the business will occur.
- Some of the internal influences that managers will need to respond to include management and employees.
- Some of the external influences that managers will need to respond to include competition, legislation, technology and social influences.

Managing change effectively

- To manage change effectively requires the change to be as productive as possible in order to make it a process for revitalising and strengthening the business.
- Managers must develop strategies for managing change effectively.
- Identifying the need for change and setting achievable goals are two strategies to manage change effectively.
- At the same time as managers are undertaking — driving — change for the best of reasons, there will be restraining forces working against the change, creating resistance.
- The main reasons for resistance to change include:
  - financial costs (the cost of implementing major changes can be substantial)
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- Restraining forces are those that work against the change, creating resistance.
- Resistance to change is common among managers and employees.
- According to Lewin's model, once management has identified and understood the restraining forces, managers need to put in place strategies to reduce the resistance.
- Two strategies for overcoming resistance to change include:
  - creating a culture of change (encouraging teamwork)
  - providing positive leadership (sharing the vision).
- The main role of management consultants is to help businesses improve their performance and assist with change management.

9.4.2 Key terms

best practice those business practices that are regarded as the best or of the highest standard in the industry
business information system (BIS), also referred to as a **management information system (MIS)**, gathers data, organises and summarises it and then converts the data into practical information
change any alteration in the internal or external environments
change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process
change management a methodical approach to dealing with change, both from the perspective of a business and on the individual level
data unprocessed facts and figures such as sales figures and customer complaints
driving forces those forces that support the change
holistic an approach that looks at the whole picture
inertia refers to an unenthusiastic response to proposed change
information processed data that has been deliberately selected and organised to be useful to an individual manager
management consultant someone who has specialised knowledge and skills within an area of business.
proactive to initiate change rather than simply to react to events
reactive to wait for a change to occur and then respond to it
restraining forces those forces that work against the change
vision statement a broad statement about what the business aspires to become in the future

Resources

Digital documents Key terms glossary (doc-35793)
Chapter crossword (doc-36248)

Interactivity Chapter crossword (int-7227)

9.4 Activities

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Exercise 1: Multiple choice questions

1. Which of the following is an example of an internal influence on business?
   - **A.** Business culture
   - **B.** Technological
   - **C.** Markets
   - **D.** Social

2. What would be an example of an external influence on business?
   - **A.** Product
   - **B.** Management
   - **C.** Institutional
   - **D.** Location

3. Acme Clothing Company Ltd has experienced declining profitability. To overcome this problem, management has decided to decrease its costs of production. The focus is on reducing staff. Which of the following stakeholders would be driving this change?
   - **A.** Society and management
   - **B.** Government and employees
   - **C.** Management and shareholders
   - **D.** Employees and trade unions

4. Why would management adopt a position of inertia when faced with change?
   A. The current business culture enjoys change.
   B. Management does not have the appropriate skills to manage change.
   C. Management is well aware of how to deal with change.
   D. Management has the capacity to change when faced with change.

5. The management of All Doors has decided to introduce work teams in response to increased competition and new government policies, which threaten its profitability. What could be the reasoning behind such a structural change?
   A. To encourage the employees to be part of the decision-making process
   B. To make senior management more accountable for its decision making
   C. To introduce another level of management to empower its employees
   D. To make an autocratic style of management available to the teams

6. What could a business do to create and foster an inclusive culture of change?
   A. Create a more hierarchical organisational structure
   B. Create an effective team structure to improve communication
   C. Adapt an automatic management style that's all inclusive
   D. Create a team consultative group of just management and owners

7. A business nominates an influential employee to act as a catalyst to help initiate and facilitate a change effort within the organisation.
   What is this person known as?
   A. Contractor
   B. Administrator
   C. Change agent
   D. Management consultant

8. Which of the following stakeholders would resist a reduction in staff?
   A. Suppliers and shareholders
   B. Environment and government
   C. Employees and trade unions
   D. Suppliers and management

9. Which of the following statements is false in relation to management consultants?
   A. They are an employee of the business.
   B. They can help create a supportive business culture.
   C. They can provide strategies to smoothly manage change.
   D. They have specialised knowledge and skills within an area of business.

10. Which of the following is not a factor that causes resistance to change?
    A. Inertia
    B. Retraining
    C. Change agent
    D. Redundancy payments

Exercise 2: Exam practice questions

Question 1 (2 marks)

Outline how managers can identify the need for change.

Question 2 (3 marks)

Describe the role of a management consultant in managing change.

Question 3 (4 marks)

A business implementing significant changes wants to devise achievable goals for the change process. **Recommend** to management how they should set these goals.

Question 4 (5 marks)

Explain TWO reasons for resistance to change.

Question 5 (5 marks)

Examine how a business can effectively manage change. Support your answer with an example.

Question 6 (5 marks)

Analyse a change that has occurred in the external business environment that businesses have had to respond to.

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Topic 2 Business management review

Business management: Practice examination

Section I — Multiple choice questions

1. Which of the following would be classified as a social goal?
   - **A.** To increase market share by 10 per cent
   - **B.** To sponsor the local school football team
   - **C.** To provide shareholders with increased returns
   - **D.** To improve the training opportunities for employees
2. Refer to the following information for question 2.

	$
Sales	150 000
Cost of goods sold	65 000
Expenses	42 000

   What would the net profit be for this business?
   - **A.** $43 000
   - **B.** $127 000
   - **C.** $173 000
   - **D.** $257 000
3. Which of the following are both examples of current liabilities?
   - **A.** Debtors and creditors
   - **B.** Overdraft and debtors
   - **C.** Creditors and overdraft
   - **D.** Creditors and mortgage
4. What is a collective agreement made at a workplace level about terms and conditions of employment referred to as?
   - **A.** Award
   - **B.** Enterprise agreement
   - **C.** Individual common law contract
   - **D.** National Employment Standards
5. Refer to the following Balance Sheet to answer question 5.

ASSETS	$	LIABILITIES	$
Current assets		**Current liabilities**	
Cash in bank	5000	Overdraft	3000
Stock	**(?)**	Creditors	4000
		Non-current liabilities	
Non-current assets		Bank loan	310 000
Building	350 000		
Equipment	17 000	**OWNER'S EQUITY**	
Furniture	13 000	Capital	84 000

What would be the value of the stock?

A. 2000
B. 4000
C. 16 000
D. 68 000

6. Fletcher & Sons Construction has developed a plan to guide the business over the next five years. What type of planning is this an example of?
   A. Operational
   B. Tactical
   C. Technical
   D. Strategic
7. What does the contingency approach to management emphasise?
   A. Management as planning, organising and controlling
   B. Management as leading, motivating and communicating
   C. The need for managers to be reactive and respond to change after it occurs
   D. The need for flexibility and adaptation of management practices to suit changing circumstances
8. A new furniture store has decided to stock their products through a few selective retailers. Which marketing strategy is this an example of?
   A. Place
   B. Price
   C. Product
   D. Promotion
9. Calculate the value of owner's equity given the following information: Liabilities = $75 000 and Assets = $145 000
   A. $70 000
   B. $75 000
   C. $220 000
   D. $240 000
10. Shimmering Jewellery relies heavily on their sales assistants to promote their goods by outlining the benefits and features of their products to consumers. This has been successful in persuading customers to purchase their products. Which promotion technique is this an example of?
    A. Publicity
    B. Advertising
    C. Personal selling
    D. Sales promotion

Section II — Short answer questions

1. 'To understand management today you must look at its history. Management approaches (theories) and schools of thought represent differing viewpoints and strategies for managing people, making decisions, organising workplaces and solving problems. Each offers something of value for today's manager.'
   a. **Outline** the main features of three management approaches. **3 marks**
   b. **Explain** how these approaches could influence contemporary management practices. **6 marks**
   c. **Analyse** the relationship between management approach and the types of business structure that a business could adopt. **12 marks**
2. 'Managers need a wide range of skills. The relative importance of these skills depends upon the manager's level in the business.'
   a. **Identify** four management skills. **2 marks**
   b. **Explain** how the types of skills needed differs at each level of management. **5 marks**
   c. **Assess** why it is important for a manager to acquire new skills. **6 marks**

3. **a.** **Define** the term ‘stakeholders’. **2 marks**
   b. **Describe** two possible conflicts that could arise between various stakeholders. **6 marks**
   c. **Propose** possible strategies that managers could adopt to reconcile any likely conflicts of interest. **6 marks**
4. **a.** **Outline** what is meant by the term ‘effective management’. **3 marks**
   b. **Distinguish** between ‘good’ and ‘poor’ management. **4 marks**
   c. **Evaluate** the importance of good management to the business’s overall success. **8 marks**
5. **a.** **Outline** the role of managers when organising operations in a manufacturing-based business. **4 marks**
   b. **How** can a business ensure that quality of outputs is maintained? **5 marks**
6. **a.** **Define** the term ‘marketing mix’. **2 marks**
   b. **Outline** the three approaches a business can adopt when selecting a target market. **6 marks**
   c. **Recommend** a marketing mix for a business you are familiar with. **10 marks**
7. **a.** **State** the main role of marketing. **2 marks**
   b. **Define** target market. **2 marks**
   c. **Assess** the importance of each of the four Ps of the marketing mix. **10 marks**
8. **a.** **Define** the term ‘goal’. **2 marks**
   b. **Identify** four business goals. **4 marks**
   c. **Explain** how it can be difficult for a manager to achieve a mix of business goals. **4 marks**
   d. **Assess** the importance of staff innovation, motivation, mentoring and training. **10 marks**
9. **Construct** an income statement and balance sheet in correct format using the following information. You will be required to **determine** profit and to use this figure to balance the balance sheet. **12 marks**

Sales	$400 000	Owner’s equity	$45 000
Expenses	$300 000	Debtors	$12 000
COGS	$50 000	Mortgage	$60 000
Cash	$20 000	Land and buildings	$120 000
Stock	$10 000	Goodwill	$8 000
Creditors	$15 000		

10. **a.** **Define** the term ‘human resource/cycle management’. **2 marks**
    b. **Outline** the four main elements of the human resource cycle. **8 marks**
11. **a.** **Outline** the steps to be followed by the human resource department so the most appropriate applicant will be chosen to fill a vacancy. **3 marks**
    b. **Deduce** what problems could arise for a business if an inappropriate candidate was selected to fill a job vacancy. **6 marks**

Section III — Extended response questions

1. In the following situation, **explain** the management skills that could be used.
   A dispute has arisen between the IT department and the accounting department regarding the introduction of a new computer invoice system. The accountant wants the new system introduced by the beginning of the new financial year, but the IT manager believes that the staff will not be sufficiently trained by then to use it effectively. You are the human resource manager in charge of this project and must negotiate agreement without further delay.
2. **Compare** the classical, behavioural and contingency management approaches. Study a business and **account** for how management theory has influenced the business's structure.
3. 'The only constant in business is change. The pace of change is accelerating, with change coming from both internal and external sources. How a business responds to these changes will ultimately determine its future.' **Critically evaluate** the strategies used to manage change effectively in a business you have studied.
4. Choose a real-life example of a manufacturing-based business and a service-based business. For each example, **outline** the inputs, processes and outputs of their operations.
5. 'An effective marketing mix is crucial if a business wants to increase its market share.' **Discuss**.
6. 'Marketing is a system of business activities designed to plan, price, promote and distribute something of value for the benefit of the customer at a profit.' With reference to a business you have studied, **discuss** and expand on this statement.
7. 'A thorough understanding of accounting and finance is essential for business managers'. **Discuss** the three main financial statements and their importance.
8. 'If a business wants to be appropriately flexible and responsive to market needs, then it should train all employees to be good at everything. That is, they should be experts in all aspects of each key business function. Generalists, not specialists, are required.' Is this a practical proposal? **Justify** this statement.
9. Imagine you are specialising in accounting services for a small business. Terry, one of your clients, runs a home maintenance business. He admits to you that he regularly offers a discount to customers who pay him in cash, so that he can keep his apparent profit as low as possible to avoid tax, and not have to declare every transaction on his BAS. **Explain** how you would try to convince him to maintain all his financial records in a socially responsible and ethical manner.
10. 'There are only two ways in which to create and maintain outstanding business performance. First, take exceptional care of the customer and, second, develop new products. It is that simple.' **Determine** how accurate this statement is. Give reasons for your answer.

TOPIC

3 Business planning

FOCUS AREA

The processes of establishing and planning a small to medium enterprise

OUTCOMES CHECKLIST

Students should be able to:

- ☐ discuss the nature of business, its role in society and the types of business structure
- ☐ describe the factors contributing to the success or failure of small to medium enterprises
- ☐ assess the processes and interdependence of key business functions
- ☐ analyse the responsibilities of business to internal and external stakeholders
- ☐ plan and conduct investigations into contemporary business issues
- ☐ evaluate information for actual and hypothetical business situations
- ☐ communicate business information and issues in appropriate formats
- ☐ apply mathematical concepts appropriately in business situations.

CHAPTER SEQUENCE

10 Small to medium enterprises (SMEs)

11 Influences in establishing a small to medium enterprise

12 The business planning process

13 Critical issues in business success and failure

SNAPSHOT

Case study: Influences in establishing a SME — Cupcake Savvy's Kitchen

Prior to starting her popular YouTube channel, Fay Khoury ran an online business from home called Cupcake Savvy, which was an online store that sold cake and cupcake supplies. After having her first child, Fay was motivated to start her own online home-based business to to regain financial independence and to spend more time with her children. Fay is one of thousands of Australian women combining stay-at-home motherhood with business ventures.

Although Fay's original business was successful, the online store posed some unique challenges related to postage, so she decided to look for other business opportunities. The one thing she kept coming back to was a YouTube channel. She herself was a regular consumer of YouTube cooking videos and became fascinated with the potential YouTube offered. 'I can't sing, dance, write or act to save myself and yet, YouTube presented the perfect platform for me to earn a regular income off one video. Film it once, edit it once, upload it once, BUT potentially earn an ongoing income from that one video every time someone watches it!'

Fay created her YouTube account in August 2014, but didn't pluck up the courage to upload her first video tutorial until November 2015. Fay spent 15 months researching and developing a business plan, which involved watching countless cooking videos on YouTube in order to gain an understanding of how to create an effective video.

Through her original online store Fay had accumulated a database of over 2000 customers with whom she had already established a relationship. When she first started her YouTube channel, she began by exposing her videos to this initial group who displayed the characteristics of her target audience. They generated steady traffic for her channel in the establishment phase.

In the beginning, Fay's marketing consisted of emailing links to people in this database. She also grew her numbers of Facebook and Instagram followers and cross-promoted her YouTube channel by linking these accounts. Another marketing strategy Fay adopted was a 'YouTube collab' — where two or more YouTubers either create a video together or cross-promote their channels. This helped drive new traffic to her channel, which inevitably resulted in an increase in views and subscribers.

Within the first year of business, Fay was asked to contribute to the food section of a popular online magazine. She accepted because at the time the company had over 17 million Facebook followers, so she knew this would generate greater exposure. They came to an agreement where she provided them with a variety of clips to use and they, in turn, would incorporate links to Fay's YouTube channel and Facebook page. This marketing arrangement exposed Fay's business to millions of people and led to increased growth during the establishment phase.

Fay earns money using the advertising revenue model. YouTube runs ads on her videos and this generates revenue from channel viewership. Fay monitors her revenue by logging into her YouTube dashboard daily to view the analytics related to ad revenue. These analytics make it very easy to evaluate which videos are more profitable, which helps her decide the type of videos she will focus on producing next. Fay also has an ad revenue share arrangement with the online magazine mentioned above. They have continued to share some of her content with their 40 million followers.

10 Small to medium enterprises (SMEs)

10.1 Overview

LEARNING SEQUENCE

10.1 Overview
10.2 Definition and role of SMEs
10.3 Economic contribution of SMEs
10.4 Success and/or failure of SMEs
10.5 Review

10.1.1 Introduction

Small to medium enterprises (SMEs) are the 'engine room' of the Australian economy.

Governments at all levels have recognised the importance of SMEs and have devised appropriate policies to build on the strengths and overcome the weaknesses of these businesses. These policies focus on areas such as access to finance, networking, delivery of government programs, innovation and export programs.

The more adaptive and dynamic SMEs have responded to this environment through increased spending on research and development (R&D), new product developments, improved business practices and an export-oriented business culture.

FIGURE 10.1 SMEs play a crucial role in the Australian economy. They are a major source of employment and their total output adds significantly to the economic growth and wellbeing of Australia.

In recent years the SMEs in Australia have performed better than other sectors of the economy, even during the 2008–09 economic downturn. SMEs make a significant contribution to Australia's gross domestic product and balance of payments, to employment, invention and innovation. The past 12–18 months have been extremely challenging for most SMEs in Australia due to COVID-19. However, growing awareness of how SMEs contribute to positive economic outcomes has led to increased support from governments and consumers.

on Resources

Digital document Key terms glossary (doc-35795)

10.2 Definition and role of SMEs

SYLLABUS LINK In this subtopic you will learn about:
- Small to medium enterprises
  - definition
  - role.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

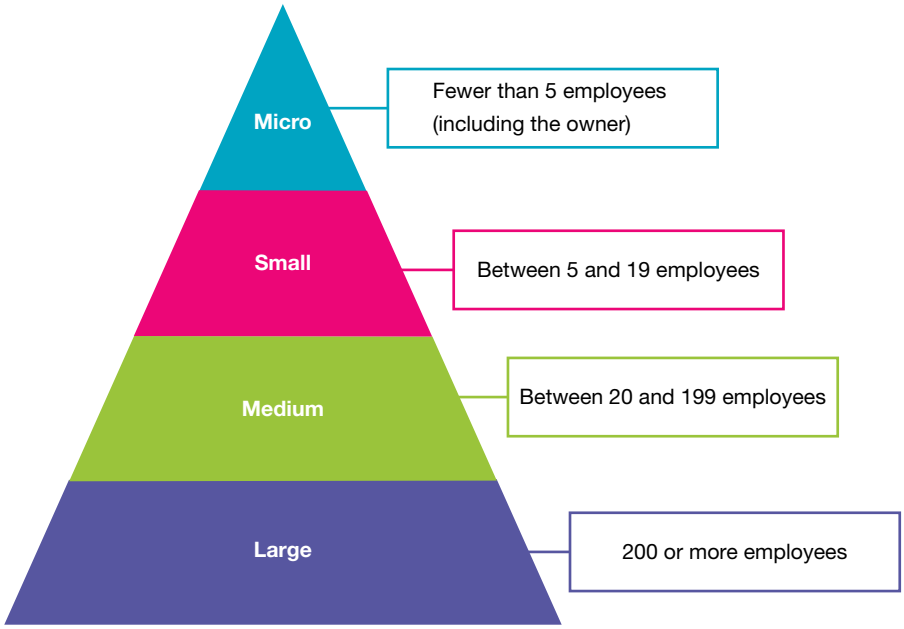
10.2.1 Definition of an SME

As outlined in chapter 2, establishing a clear-cut definition of an SME is no easy task. They are much easier to describe than define. Although there is no single universally accepted definition of an SME, a number of quantitative measurements (those based on statistical calculation) and qualitative measurements (those based on personal observations and a description of the business) can be used to determine whether a business is small or medium sized:

- number of employees
- type of ownership
- sources of finance
- legal structure
- market share
- management structure.

One of the most widely accepted quantitative measurements used to determine the size of a business is that devised by the Australian Bureau of Statistics (ABS). This measurement uses the number of employees as its benchmark (figure 10.2). Using these measurements, an SME is therefore a business with fewer than 200 employees.

FIGURE 10.2 Australian Bureau of Statistics classification of business size



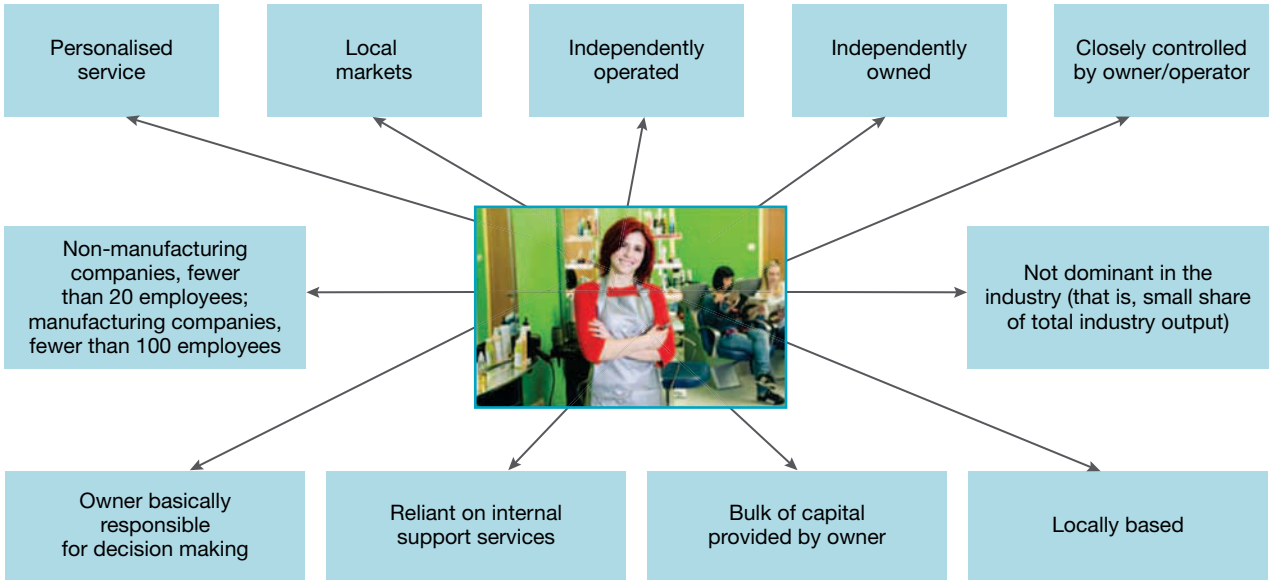
BizFACT

Turnover, asset values and market share are some of the criteria that have been used to determine whether a business is 'small'.

10.2.2 Common characteristics of SMEs

The definitions outlined above, and in chapter 2, have limitations. Studies have revealed the general public's narrow definition of the term 'small business'. The average person uses the term to refer to an owner-managed business that may employ a few people. It is best then to use a checklist of characteristics (both quantitative and qualitative) to determine the size of a business (see figure 10.3).

FIGURE 10.3 Common characteristics of an SME



Many SME owners want to stay small to avoid the pressures and difficulties often experienced by larger businesses. They are content with the size of their business, especially knowing they can offer personalised service to their customers. One small business that has adopted this philosophy is The Grazing Co. (see the following case study).

BizFACT

According to the Australian Small Business and Family Enterprise Ombudsman, the highest proportion of small business owners are between 45 and 59 years old, and women account for 35 per cent of small business owner/managers.

SNAPSHOT

Case study: The Grazing Co. — keeping it small

After working 17 years in the hospitality industry, Brendan Onorato was diagnosed with cancer in 2015. After his treatment, he was left with severe neurological damage. This prevented him from being on his feet for too long, rendering him unable to return to his job as a head chef.

After his treatments and surgeries were complete, Brendan started to do some catering work for friends. What started off as something to pass the time and keep his mind busy while recovering became a successful business. Brendan drew inspiration from his recovery and was determined to pursue his ambition to run his own business and enjoy the benefits of greater freedom and flexibility.

Brendan officially started The Grazing Co. in 2016 with his wife Luisa. They run a catering business that focuses on creating grazing tables and onsite event catering. Brendan's passion lies in creating a unique but inviting experience for customers and guests. While Brendan's skills are in the kitchen, Luisa's complementary skills in administration and marketing provided the right mix for their new business venture.

Increased flexibility was the most powerful motivator to starting their own business. Brendan and Luisa like that they can be flexible with their hours and that they have complete control over their workload. In other words, they can take on as much or as little work as they choose. This is very important to them as they have two young children. Running the business from home has allowed them to spend more time with their kids and enjoy a better family lifestyle. They fit their work in around their two children and other commitments.

In business, there is an assumption that the bigger the business, the better. However, this is not always the best option for many business owners. There are many businesses that choose to stay small instead of growing, even if they have what it takes to grow bigger. While The Grazing Co. recently diversified into event styling and picnic set ups, Brendan and Luisa do not wish to expand and employ staff. They feel that the only way to provide the best level of service at a reasonable and competitive price is to cut out as many overheads as possible. The smaller you are, the less expenses, space and resources you need. They both work from home, so they don't have to pay rent and, because they don't have staff, they don't have any employment-related expenses. The pair enjoy having a small business so that they are not burdened by the constant pressures that come with having a large business.

Another advantage of staying small is that Brendan and Luisa are able to provide a more personalised level of service. Being small means that they can devote more time to each customer and really get to know their needs. They can then tailor their service to suit each customer's requirements and deliver a personal touch. This enables them to develop long-term relationships with customers and thus secure repeat business.

10.2.3 The number of SMEs

According to the ABS in February 2019, SMEs accounted or approximately 99.8 per cent of all private sector businesses. However, it is difficult to provide an accurate count of the number of SMEs in Australia for two reasons. First, as was previously explained, there is no universally accepted definition of an SME. Second, the SME sector is extremely dynamic and changes daily. During a boom time in the economy, the number of SMEs increases rapidly. During a recession, business failures far outweigh business commencements.

According to ABS research, at February 2019 there were 2 063 455 micro businesses, 196 629 small business and 50 338 medium businesses in the Australian economy.

FIGURE 10.4 Think of the SME business sector as a pool of water. New businesses enter the pool and increase its size. Others have difficulty staying afloat. They sink to the bottom, leak out and decrease the size of the pool. This means the composition and size of the pool is constantly changing.

It is important to remember that even though medium-sized businesses represent only about 2 per cent of all SMEs, they play an important role because of the large number of people they employ.

10.2.4 The role of SMEs

By examining some of the main features of SMEs, their overall important role within the Australian economy can be seen. Australian small to medium enterprises:

- employ about 68.3 per cent of all the people working in the private sector (44.2 per cent in small businesses and 24.1 per cent in medium businesses)
- produce approximately 55 per cent of all the products produced each year
- generate an increasing amount of our total exports
- account for 43 per cent of all money spent on R&D
- provide a wide range of products used by large businesses
- earn more profits and pay more taxes than do large businesses.

BizFACT

Eighty-four per cent of all small businesses are in the services sector. Why do you think there is such a high percentage within this sector?

Although the individual efforts of each SME may appear insignificant, their total impact is enormous. Owning and operating an SME can be challenging, rewarding and stimulating. For those prepared to take the risk, and who finally make it, the sense of achievement and satisfaction is well worth the effort.

KEY IDEAS

- Small to medium enterprises (SMEs) are the 'engine room' of the Australian economy.
- According to the ABS, an SME is classified as a business employing fewer than 200 employees.
- According to the ABS, SMEs account for 99.8 per cent of all private sector businesses.
- The number of SMEs fluctuates over time according to the state of the economy.
- In recent years, SMEs have created many jobs, become more innovative and are increasingly entering overseas markets.

10.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

10.2 Quick quiz on | **10.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 6, 7, 10, 12	2, 3, 4, 5, 8, 9, 11, 13, 14, 15	16

10.2 Exercise

Revision

1. **Recall** what the letters SME represent.
2. **Distinguish** between quantitative and qualitative measurements used to determine the size of a business. Provide an example of each.
3. **Examine** figure 10.2. Complete the following statements by identifying the correct word from the choices given. Write the sentences into your notebook. According to the ABS:
   a. A business with fewer than *5/20* employees is classified as a small business.
   b. A micro business has fewer than five employees *including/not including* the owner.
   c. A medium business has between *20 and 199/100 and 199* employees.
   d. A business that has more than *100/200* employees is classified as a large business.
4. **Examine** figure 10.3. Select the three characteristics you consider to be the most important and **justify** why you selected each one.
5. **Explain** why it is best to use a checklist of both quantitative and qualitative measurements to determine the size of a business.
6. **State** why many small business owners want to stay small.
7. **Outline** why it is difficult to provide an accurate number of SMEs operating in Australia.
8. **Discuss** why it is useful to think of the SME business sector as a pool of water.
9. **Explain** the relationship between the level of economic activity and the number of business commencements and failures.
10. **Identify** five important features that indicate the overall importance of the SME business sector to the Australian economy.
11. 'SMEs are the "engine room" of the Australian economy.' **Justify** this statement.

Read 'The Grazing Co. — keeping it small' case study and answer questions 12 and 13.

12. **Outline** what motivated Brendan and Luisa to start their own business.
13. **Explain** why Brendan and Luisa prefer to keep their business small.

Extension

14. **Contrast** the various definitions of 'small business'.
15. **Construct** a database of five small businesses in your local area. List the following:
    a. the name of the business
    b. whether the business is a manufacturing or non-manufacturing business
    c. the number of employees
    d. the turnover
    e. the asset value.
16. **Evaluate** how useful these data are when attempting to define what a small or medium business is.

Solutions and sample responses are available in your digital formats.

10.3 Economic contribution of SMEs

SYLLABUS LINK In this subtopic you will learn about small to medium enterprises:
- economic contribution.

You will learn to investigate aspects of business using hypothetical situations and actual business case studies to:
- explain how SMEs can enter the global market for long-term growth.

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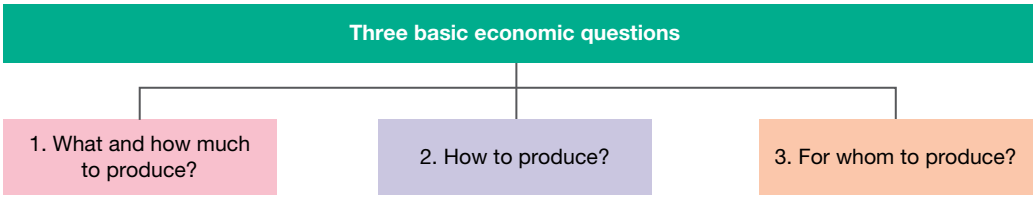
Before we can discuss the contribution businesses make to the economy we must first gain an understanding of what an economy is. An **economy** is a system set up to answer three basic questions:

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

economy a system used to determine what to produce, how to produce and to whom production will be distributed

FIGURE 10.5 The three basic economic questions



It's often easier to think about this concept if we consider what would happen if a small group of people were stranded on a deserted island. An economic system or way of doing things would have to be devised for all members of the community to survive. *What we produce* would be dependent on the resources available, such as raw materials (for example, fish from the sea), and *how we produce* would depend on our skills and available tools (for example, fishing rod and knowledge about how to best catch fish) to make that job easier. Perhaps, given there is a small group of people, goods and services produced (production) could be easily divided among all members of the community, therefore solving the question of *who production will go to*.

Many different economic systems have been used, but the type of economic system we have in Australia is called a *market capitalist economy*. This means that most answers to the economic questions are provided by private buyers and sellers. Now that we understand what an economy is, let's consider how SMEs in Australia actually contribute to our economy.

10.3.1 Contribution to gross domestic product

Economic growth occurs when a nation increases the real value of goods and services over time. One common measure to check whether economic growth has occurred is to see whether our **gross domestic product (GDP)** has grown. GDP is the total money value of all goods and services produced in Australia over a one-year period. SMEs play an important role in contributing to our overall economic growth by producing a wide range of goods and services. According to the Australian Bureau of Statistics in 2017–18, SMEs contributed 55.8 per cent of Australia's GDP. They

economic growth when a nation increases the real value of goods and services over a period of time

gross domestic product (GDP) the total money value of all goods and services produced in Australia over a one-year period

estimated that small businesses produced over $413 billion of Australia's economic output and medium-sized businesses contributed more than $260 billion. The total output of the country's diverse collection of SMEs, ranging from highly specialised professional and technical firms to the local corner store, makes a significant contribution to the national economy.

10.3.2 Contribution to employment

Employment keeps the economy healthy. Employed Australians will use the wages they have earned to buy goods and services to satisfy their needs and wants, supporting businesses and opening up further opportunities for job creation. As of May 2019, SMEs employed around 7.6 million people, which represents about 68.3 per cent of total private sector employment (44.2 per cent are employed by small businesses and 24.1 per cent by medium businesses). During the last 20 years, the SME sector has been the major generator of new jobs in the Australian economy.

Not only does employment directly improve the living standards of employed people, but also it reduces the burden on the state to provide unemployment benefits while boosting revenue received by the government. SMEs contribute to the revenue raised through taxation. Not only do they pay tax, but also their employees pay income tax. Taxation is used to provide goods and services that may benefit the whole community, such as a better education system.

BizFACT

The balance of payments consists of two accounts, which are always in balance. The current account records transactions such as exports and imports, income and transfers. The capital and financial account records borrowing and lending transactions. Historically, Australia has recorded large current account deficits (CAD), often importing more goods and services than it exports. Over the last 20 years, however, Australian exporting industries have become more competitive in global markets.

10.3.3 Contribution to the balance of payments

One of the most dynamic changes to the Australian SME business culture is the increasing awareness of the need to service overseas markets. Evidence of this is the fact that the number of SME Australian exporters is growing faster than large exporters. SMEs in agribusiness, manufacturing and professional services are all experiencing rapid export growth. Over the past two decades, the number of SMEs who have entered the global market has rapidly increased. Today, approximately 88 per cent of Australian exporters are SMEs and they earn almost 50 per cent of export revenue.

Exporting goods and services contributes to our balance of payments. The **balance of payments (BOP)** is a record of a country's trade and financial transactions with the rest of the world over time, usually one year. One way of maintaining a favourable BOP, as well as encouraging economic growth, is to export more than is imported. This is another crucial role for SMEs as they are often more successful at exporting than large businesses (see the following case study). Many agree that the adaptability and flexibility of SMEs make them more responsive to the needs of overseas markets. The federal government is keen to promote export growth within the small business sector and encourages this with various programs.

balance of payments (BOP) a record of a country's trade and financial transactions with the rest of the world over time, usually one year

FIGURE 10.6 In 2018 the Department of Industry, Innovation and Science launched a $20 million program to help SMEs grow and export. The SME Exports Hub Initiative funds successful applicants to develop local and regional hubs that will help local businesses begin to export. The Export Hubs are business networks designed to help SMEs harness opportunities in international markets. In 2020 the federal government committed more than $4.9 million to help SMEs bounce back and create jobs after the disruption caused by the COVID-19 pandemic.

SNAPSHOT

Case study: Blowfish Studios honoured for export success

Blowfish Studios is a privately-owned, Sydney based video game and production studio. The company specialises in digital entertainment and game development services, as well as selling their own computer game software globally.

Founded in 2010 by Benjamin Lee and Aaron Grove, Blowfish Studios have developed a diverse range of games across consoles, PC and mobile over the years. The company has consistently created and exported world notable games, but its largest success to date has been Siegecraft, which was launched in 2011 and achieved over 1.5 million downloads. In tandem to its own products, Blowfish serves as a game publisher and has grown its services export business over the last five years to include customers in the USA, Japan and Singapore.

The founders have grown Blowfish Studios into a globally competitive video game and virtual reality development house. The company has created games that have been featured worldwide and has consequently gathered a large client base. This all culminated in the company being recognised for its contributions to New South Wales' exports. In 2016, 2017 and 2019, Blowfish Studios was awarded the New South Wales Export Award for Small Business.

on Resources

Weblink Blowfish Studios

10.3.4 Contribution to invention and innovation

Small to medium enterprises are the main source of most inventions and innovations in Australia. An invention is the development of something new. Innovation occurs when something already established is improved upon. Many successful businesses are built on these two forces. SMEs have produced many new products that we take for granted. This is because SMEs generally display a consistently positive attitude towards innovation. They constantly research, develop and test new ideas and products. Many SMEs are built on product innovation.

BizFACT

There was an incremental shift in dollars invested in R&D from large and small businesses during the 2013–14 financial year to the 2015–16 financial year. Small businesses increased spending on R&D from 17 per cent to 19 per cent of total dollars spent; large businesses decreased spending from 59 per cent to 57 per cent.

Invention and innovation are at the heart of our economy. Finding new ways to do things has resulted in improved efficiency and increased productivity. Over the past ten years, SME spending on research and development (R&D) has almost trebled in real terms. Research and development is a set of activities intended to develop new ideas and improvements in production. Around 30.6 per cent of micro businesses, 50 per cent of small businesses and 52.2 per cent of medium-sized businesses are actively engaged in some form of innovation. According to the Office of Industry Innovation and Science Australia, larger businesses in Australia are more likely to invest in R&D or other innovation than small businesses. The estimated mean expenditure of innovation-active businesses with over 200 employees is $18–24 million, about ten times as much as businesses with 20–199 employees ($1.7– $2.1 million), and 100 times as much as firms with 5–19 employees ($165 000).

FIGURE 10.7 R&D does not necessarily mean scientists in lab coats performing experiments. Businesses can carry out R&D in many different ways. A restaurant, for example, might develop and test new recipes for commercial production. A manufacturer might establish a new process or a product with added value. A farmer might develop new lines of food products or drought-resistant produce.

A persistent difficulty that SMEs face when undertaking R&D is obtaining adequate finance. Traditional sources of finance, especially banks, perceive this type of finance request as high risk. One possible source of finance for R&D is venture capital. The investors take an equity position in the business (own part of it) and provide supplementary finance.

BizFACT

Small businesses source about 50 per cent of new ideas internally compared to large businesses, which source 76 per cent of ideas internally. This may be due to easy access to a larger, more diverse pool of people for generating new ideas.

10.3.5 Explain how SMEs can enter the global market for long-term growth

Over the past two decades, the number of SMEs that have entered the global market has rapidly increased. Today over 88 per cent of Australian exporters are SMEs and they earn almost 50 per cent of export revenue. The main cause of this (besides easier entry to many countries through trade agreements) is the rapid expansion in electronic business (e-business), which has largely been brought about by the development of the internet. E-business has opened the door for many SMEs to sell direct to consumers across national borders.

SMEs can enter the global market by selling directly to customers in export territories, marketing products through a local distributor, participating in a joint venture with a local business partner or selling through a website. Each strategy provides businesses with a different level of cost, risk and control.

Working with distributors provides businesses with a local presence in markets they wish to export to. Distributors buy products from a business and then resell them to their own customers. Distributors offer the business the benefit of established local contacts and market knowledge. Although working with distributors provides the business with access to established markets, the business will have minimal control over the way the distributors deal with customers or market their product.

A joint venture with a local business partner also provides the benefits of local market knowledge and contacts. This is when an organisation sets up a business relationship with a company in the local market.

Selling products through a website is a simple, low-cost way of entering the global market. Customers around the world can visit the website at any time to select products and place orders. To improve their chances of success, businesses need to prepare website pages specific to the different markets to which they wish to export. They need to provide product information in the local language, with prices in the local currency. Selling to global customers through a website is suitable for products that do not require demonstration or explanation by a sales representative.

SNAPSHOT

Case study: Flow Hives' global expansion

'The idea of having a 9:00 am to 5:00 pm office job was just frightening. To me, freedom is being able to do what I'm inspired to do. It's being able to work on inventions, whenever I have an idea,' Cedar says.

But nowadays, he dreams of only a nine-to-five existence as his new venture sees him working all hours, seven days a week. But do not feel too sorry for him. He brought the whole thing on himself.

As a child of parents who founded a community in the hills near Nimbin, Cedar had a wild and free childhood in nature, nurturing his natural curiosity. 'We'd go and pull apart an old car and pull out the dashboard and get all the light globes out and the horn and take it back and connect it to car batteries and make the lights got and try and make an instrument out of a lot of car horns,' he said.

'I guess rather than sitting down watching the TV, we were figuring out how things work.'

Figuring out how things work became an obsession, helped by his dad Stuart, the Mr Fix-It guy of the community.

Cedar is a third-generation beekeeper and, as a kid, recalls pulling apart the family's bee hives, wearing make shift bee suits and rubber gloves gaffer-taped at the wrist. He also remembers his brother Chris getting badly stung. A small light bulb went off in his young head. 'There must be a better way,' Cedar said.

'Ten years ago Cedar had this idea, "Come on, we must be able to get honey from a beehive without opening it, extracting and stressing the bees",' Stuart recalled.

Tinkering in his bush shed and living off the smell of a honey-stained rag, Cedar began developing prototypes of what would eventually become the Flow Hive. In the past few years, Stuart came onboard and solved a few major design problems.

It was a beautiful, sunny day when they walked down to the hives to see if the prototype would work. They turned the handle and honey started to flow.

'We couldn't believe it. We just sat back in disbelief laughing. We had invented the beekeeper's dream.'

But how to get it to market? They may have been children of the rainforest, but they were also children of the digital revolution. Cedar wanted to bypass the venture capital phase and take the Flow Hive directly to consumers via a crowdfunding campaign. The genius of this idea was that people could place an advance order for the hive so Cedar and his team would know how many to manufacture and have the dollars in hand to make them.

Cedar's sister Mirabai slaved away on a video. She hoped to pique interest. From the moment the video appeared, things moved quickly.

'That video went viral overnight and had a couple of million views, and that really kicked us into high gear. The media interest was massive,' colleague Yari McGauley explained.

The astounding success of the crowdfunding campaign garnered even more attention. Hoping to raise $US 70 000 ($96 952) to buy a new tool for the factory, they flew past that target in a few minutes, reaching more than $US2 million in just one day. At the close of the campaign eight weeks later, they had .2 million in advance orders.

After the champagne wore off, they had a major headache — of the logistical kind. They had to manufacture 24 000 orders and export them to more than 130 countries.

Cedar's life changed dramatically. Never a consumer, he suddenly had to spend up big on the infrastructure to keep things running.

'All of a sudden they're telling me I have to have an office and I don't want an office, that's my worst nightmare, but okay, we need an office, and now they want me to go to the office,' Cedar laughed.

Fast-forward to 2020, and there are now 75 000 Flow Hives in use in more than 130 countries. Manufacturing and logistics processes are more efficient and the company now generally dispatches orders within 24 hours. Flow has won multiple awards for innovation, design, marketing and business including Good Design Australia and Fast Company World Changing Ideas, and was declared NSW Business Chambers' Business of the Year (2017). Now Cedar and Stuart are running a business that has developed into not only a successful Australian exporter, but also a prominent advocate for bees and the natural world.

It's a steep learning curve of how to manage a team of employees and negotiate a complex business.

Source: Vanessa Gorman, 'Cedar Anderson: From humble hippie to multi-millionaire businessman — the man who revolutionised the beehive', *Australian Story*, 26 October 2015.

KEY IDEAS

- The SME sector contributes:
  - approximately 55.8 per cent of gross domestic product (GDP)
  - approximately 68.3 per cent of total private sector employment
  - to our balance of payments, since they are often more successful at exporting than large businesses
  - significantly to the level of R&D.
- SMEs can enter the global market by selling directly to customers in export territories, marketing products through a local distributor, participating in a joint venture with a local business partner or selling through a website.

10.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

10.3 Quick quiz on | **10.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 6, 8, 12, 13, 15, 16, 17	4, 7, 9, 10, 11, 14, 18, 19	20, 21

10.3 Exercise

Revision

1. **Define** the term 'economy'.
2. **Recall** the three basic questions that all economic systems must answer.
3. **a. Identify** the type of economic system operating in Australia.
   b. State how the economic questions are answered in this type of economic system.
4. **Explain** what happens when economic growth occurs.
5. **Clarify** how economic growth is measured.
6. **Define** the term 'balance of payments'.
7. **Describe** how a country can maintain a favourable balance of payments.
8. **Identify** the missing words to complete the following sentence. The first letter of each word has been provided.
   SMEs contribute to the economy by boosting economic growth, as measured by g_____d_____p_____. SMEs also contribute to taxation revenue because they e_____ approximately 8 million people. The e_____ earnings that SMEs generate through selling goods and services overseas are also significant.
9. **Distinguish** between an invention and an innovation.
10. **Account** for the fact that SMEs often face difficulties in obtaining finance for R&D.
11. **Describe** the role of a venture capitalist.
12. **Summarise** the economic contribution of SMEs by completing the following table.

Characteristic	Summary
Gross domestic product	
Employment	
Balance of payments	
Invention and innovation	

13. **Outline** the ways in which SMEs can enter the global market.
14. Read the 'Blowfish Studios honoured for export success' case study and **examine** how exporting has affected this business.

Read the 'Flow Hives' global expansion' case study and answer questions 15 to 18.

15. **Outline** the source of inspiration for this business.
16. **Describe** Flow Hives' economic contribution.
17. **Outline** the source of funds the owners used to begin the business.
18. **Deduce** some challenges the business might have experienced when entering the global market.

Extension

19. **Examine** a small business that has been successful in exporting its goods or services. The **Austrade** weblink is a useful resource. Create a short report using the following headings:
    a. Name of the business
    b. What the business does
    c. What the business exports
    d. Where the business exports its goods or services
    e. Reasons the business is successful.
20. **Determine** why the level of innovation among small business employees is much higher than among employees of larger businesses.
21. Reflect on what you have read and learned so far. **Assess** how this information would influence you if you were intending to start a small business.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink Austrade

10.4 Success and/or failure of SMEs

SYLLABUS LINK In this subtopic you will learn about:
- small to medium enterprises
  - success and/or failure.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Starting and operating an SME certainly is appealing, which is why so many people dream of doing it. Many entrepreneurs are driven by the desire to be their own boss, do what they want to do and turn passions into profit-making businesses. While many people are successful in their business ventures, many others unfortunately experience failure. In fact, 60 per cent of SMEs will fail in the first three years. The financial risks of running an SME are very high, although some businesses are more risky than others.

In addition to psychological and financial pressures, SME owners tend to be victims of physical stress. Often, they must not only be the owner but also the accountant, marketing manager, sales representative, stock clerk and receptionist. The hours can be long and holidays are rare. SME owners also face major challenges as they attempt to juggle home and work responsibilities. However, thousands of people each year balance the risks and potential rewards and decide to become a business owner.

BizFACT

Overall, the industries with the highest business survival rates are healthcare and social assistance (71.6 per cent) agriculture, forestry and fishing (69.8 per cent), followed by rental, hiring and real estate services (67.8 per cent).

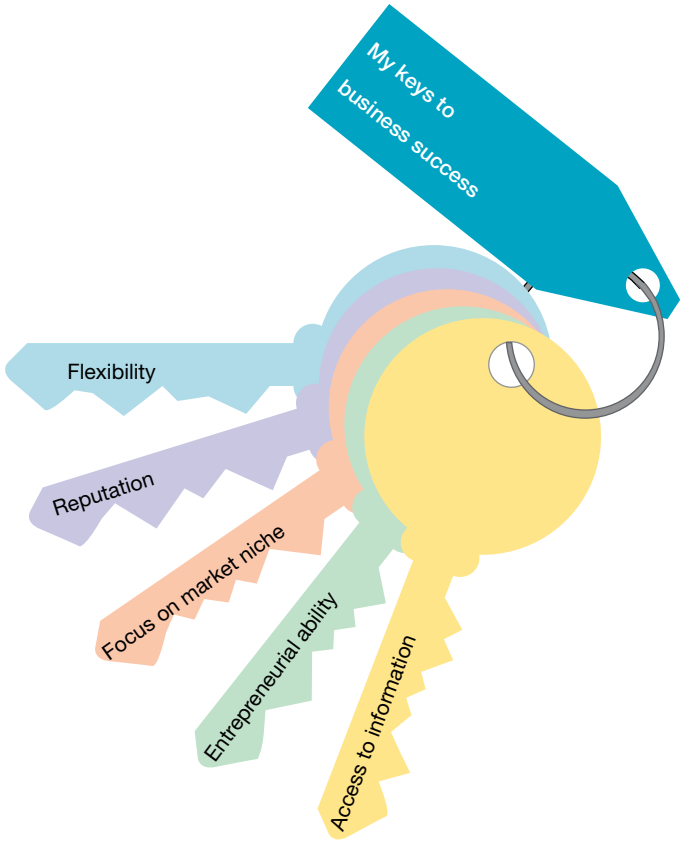
FIGURE 10.8 COVID-19 has devastated many of Australia's small businesses. After 34 years in business, Robert Pintabona's Exclusive Trophies business was forced to stop operating. Just as he was gearing up for his busiest time of year — the winter sports season — the pandemic hit and the phone calls, emails and queries totally stopped. When large gatherings were banned, $25 000 was wiped off his books in one morning. In order for his business to survive, Mr Pintabona is looking to switch his focus towards corporate clients.

10.4.1 Success of SMEs

All SME owners start off optimistically, believing that their business venture will lead to financial success and security. They will probably have read a few of the many books written about being successful in small business. These books often highlight five common 'keys' to SME success (see figure 10.9):

1. *Entrepreneurial abilities.* The people in SMEs are crucial to the success of the enterprise. Attitudes and personalities of owners will vary enormously. Some will have drive and enthusiasm, many will set targets and some will take big risks. Some will thrive on the challenge of a potential failure, enjoying the process of solving the problem. The majority will be highly motivated and optimistic, as outlined in the next case study.
2. *Access to information.* It is always difficult for an SME owner to choose relevant information and to gauge the quantity of information needed. As a bare minimum, the SME operator must have information regarding profitability, the quality of products and services, and the performance of employees. Accurate and up-to-date information will allow the SME owner to make better decisions.
3. *Flexibility.* The small size of the business allows the owner to adapt quickly to changes in the external environment. Because there are fewer levels of management, decisions can be made quickly. In addition, the close contact between owners and their customers allows the establishment of personal relationships, helping owners to respond quickly to clients' changing tastes and preferences.
4. *Focus on market niche.* Small businesses can concentrate their efforts on a small market of consumers in an attempt to fulfil their needs and develop a strong, lasting relationship. This provides the opportunity for the SME to become more specialised and able to deliver a high level of service.
5. *Reputation.* Because the SME is servicing a narrow market niche, it can develop an enviable reputation for quality and service.

FIGURE 10.9 Keys to SME success



BizFACT

According to a recent study, SMEs are most likely to find success if they adopt a niche marketing strategy. This is because the most fundamental threat to SMEs is the ultra-competitive and over-advertised global marketplace. To overcome this challenge and survive despite having a low budget, SMEs need to find a small market niche so they can operate in an environment with less competition.

SNAPSHOT

Case study: Successful small business Koskela survives despite small business failures on the rise

Australian furniture and homewares retailer Koskela has been in the small business game for almost 20 years. But setting up business has not been without its challenges.

'I do remember having a few sleepless nights waking up going, "OK just remember what's the worst thing that could happen? We lose the money we've put into it and we go back and do what we did before". Which wasn't so terrible after all,' co-founder Sasha Titchkosky said.

She started the business with husband Russel Koskela in 2000 when they walked away from lucrative careers in the corporate world.

'The idea of being able to create and shape a company was pretty exciting for me,' Ms Titchkosky explained. 'For my husband it was definitely about furniture design. That was his real passion.'

The social and environmentally conscious business started out initially as a manufacturer, and ventured into retail six years ago, just as the sector started to fall.

'Everyone was predicting the demise of retail,' Ms Titchkosky said.

While there have been times when Koskela's future was in doubt, they have pulled through. The company now employs 28 staff and sells their wares to homeowners and corporate clients such as Apple and Airbnb.

Australia has more than 2 million small businesses

The Bureau of Statistics shows there are 2.1 million small businesses in Australia. But starting one and, more importantly, keeping it afloat is never smooth sailing.

'I don't know anybody who says, "Gee, it was easier than I thought",' Council of Small Business Organisations chief executive Peter Strong said.

He said retail in particular had been doing it tough. 'If you talk to people in various parts of retail, they're not looking forward to the future.'

Data and analytics provider illion revealed 54 992 businesses went bust in Australia last financial year. That is a 12.7-per-cent increase in the number of failed businesses compared to the year before.

It is retail that has seen the largest number of businesses shut up shop. The retail failure rate is one-and-a-half times the all-sectors average.

Uncertain future

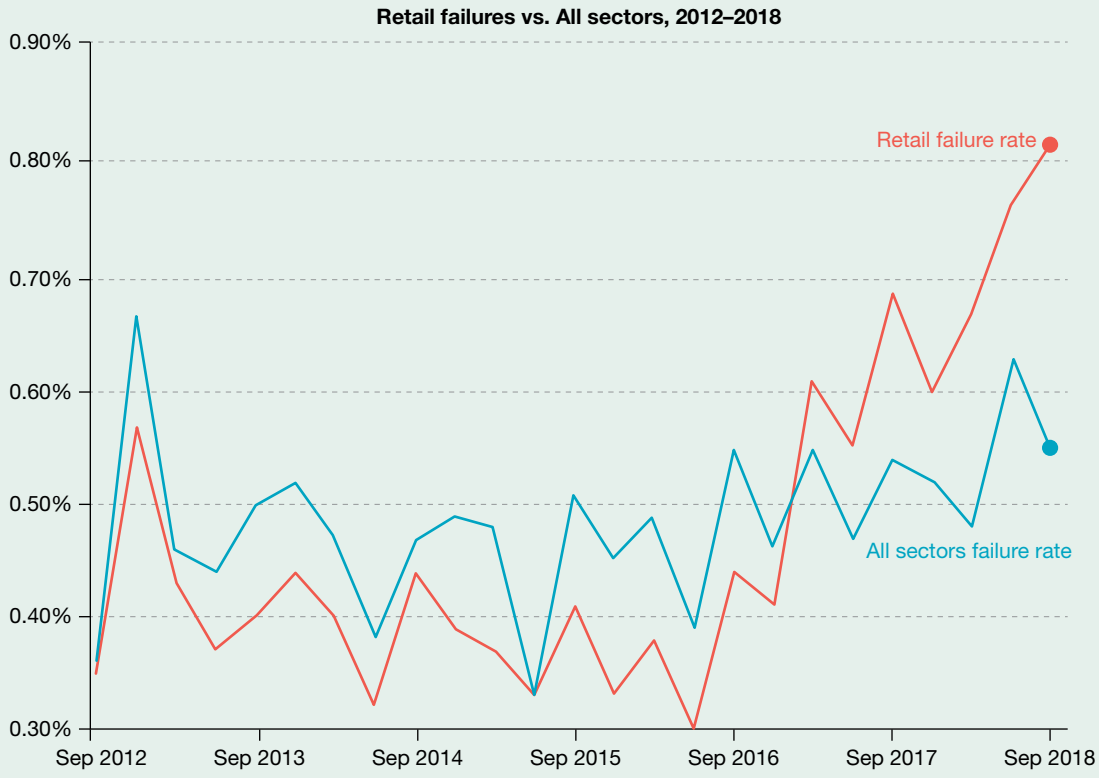
Small business owners don't think the future looks very bright either.

The Economy of Shopping Small Report by American Express and RFi Group surveyed almost 1000 small business operators. It found one in three of them fear they will shut their doors in the next three to five years.

The numbers become more alarming for retailers. Of those in fashion, 43 per cent fear they will become insolvent in the next few years. While 53 per cent of food retailers do not think they will be around for much longer.

Among the biggest challenges for small businesses are rising energy bills, increasing overheads, payroll costs and, most recently, struggles to secure finance.

'It's always been difficult in Australia,' Mr Strong said. 'But the last 12 months with the royal commission and what have you, finance for small business basically has dried up.'



Customer is king

Retail consultant Roger Simpson said every shop that closes its doors has much broader economic repercussions. 'All these retailers employ people. And when of course the business goes under and no-one buys it, they are now looking for jobs, so it just puts extra pressure on the economy.'

He said the success of a retail business all comes down to how they deal with customers. 'They're not offering any real reason to come in. You go into one store and you got to the next store and they're all the same,' he said. 'So, you've really got to differentiate and make it an experience for the customer when they come in,' he said.

Ms Titchkosky said they plan to expand Koskela's operations overseas after securing contracts with Google and Pinterest in the US. She said they have been able to survive and grow as a small business thanks in big part to their staff.

'Retailers need to invest in service and to understand that is what's going to be what will enable them to survive,' she said. 'You've seen it over and over again with retailers that have failed. They stopped investing in really great people and training them in really understanding that would be something to help them survive in the future.'

Source: Rachel Puppazoni, 'Small business failures on the rise as retailers feel the pain,' *ABC Online*, 31 October 2018.

10.4.2 Failure of SMEs

Sometimes enthusiasm and optimism cloud the owner's vision of reality and poor decisions are made. In the real world, success can be hard to achieve. Unfortunately, many SMEs end in failure. Although we do not want to dwell on the negative, it is important to acknowledge the experiences of many SME owners.

In a sense, it is perhaps too easy to establish a business: there are no interviews, no tests to pass and no previous experience required. All that is necessary is a payment of $37 to register the business name for one year and even this is not required if the business owners trade under their own name. It is not surprising then that many businesses end in failure.

BizFACT

If a business owner decides to cease operating because of ill health, the loss of a partner or any other personal reason not associated with financial problems, then the business is not described as a 'failure'.

An SME is classified as a failure when it is:

a. unincorporated and declared bankrupt — a legal process of distributing among the creditors the property of a business or person who cannot or will not pay their debts
b. incorporated and either forced into liquidation or voluntarily closes down because it cannot pay its debts and faces a cash flow problem.

SME failure rates

Accurate figures are hard to obtain because not all business failures are reported. However, statistics collected by the Australian Bureau of Statistics point to an alarming trend: 20 per cent of businesses will fail in the first year and by the third year, 60 per cent will fail. Approximately 55 000 businesses went bust in the 2017–18 financial year.

Table 10.1 shows the SME failure rates, which are calculated from various government surveys.

This table shows that only about 30 per cent of businesses will survive their tenth year in business. Female-owned businesses have a higher survival rate than those operated by men, and businesses jointly operated by both men and women have the highest survival rate of all. The figures in table 10.1 tell a sobering story for anyone contemplating establishing an SME: the chances of failure are high. Therefore, it is absolutely essential to undertake thorough planning so as to minimise the risk of business failure.

TABLE 10.1 SME failure rates from year of establishment

Period from commencement	Cumulative total of approximate failure rate (%)
After 1 year	20
2 years	30
3 years	60
10 years	70

BizFACT

ASIC's annual report on corporate insolvency found that the top reason companies went broke in the 2017–18 financial year was inadequate cashflow or high cash use, which was the top reason in the two previous financial years as well. However, the proportion of businesses reporting issues with cash flow actually increased from 47 per cent of cases in 2016–17 to 49 per cent of cases in 2017–18.

Reasons for SME failure

Small to medium enterprises fail for many reasons. SME failure is not usually caused by one single factor but rather a combination of several factors. In 2018 the Australian Centre for Business Growth revealed new research identifying the reasons why Australian SMEs are failing. Data was collected from CEOs who had been part of a company failure or whose small or medium companies had failed.

A summary of the top reasons for SME failure provided can be seen in table 10.2.

TABLE 10.2 The top reasons for SME failure

Top reasons for SME failure	Percentage
Insufficient leadership and management (13%), planning and execution (12%)	25%
Inadequate market research, marketing, sales	17%
Poor financial management	14%
Underestimating the impact of externalities	13%
Poor governance structures regarding partners, family	11%
Product or service problems	7%
Poor management of people	6%
Inexperienced CEO	4%
Wrong strategy or poor implementation	3%
Total	100%

Source: Data collected by the Australian Centre for Business Growth at the University of South Australia's Business School (2014–2018).

Some other reasons for business failure include:

- failure to plan
- no online presence
- leadership crisis
- inaccurate record keeping
- failure to delegate
- complacency
- incorrect marketing strategy
- poor location
- growing too quickly
- negative cash flow
- new competitors
- illness
- poor use of external support services
- economic downturn
- new taxes
- change in government policy
- insufficient capital
- partnership problems
- lack of management experience
- incorrect pricing policy
- failure to seek advice
- not enough sales
- staff difficulties.

Many SMEs start out on a 'shoestring' budget. Without sufficient capital — undercapitalisation — the business will not be able to purchase stock and materials. This inevitably results in lost sales. A business in this position faces disaster unless alternative finance can be arranged.

When a prospective SME operator fails to develop a business plan, the stage is set for imminent failure. Without a detailed business plan, the SME owner has no certain goals or directions; there is no blueprint for the business's future growth.

The most common fault with many SMEs is their lack of adequate financial reporting and evaluation.

FIGURE 10.10 SMEs have a high failure rate.

"We succeeded in turning around the business ... just in the wrong direction."

BizFACT

Most small business failures are caused by factors within the business under the control of management. The most common causes are managerial inexperience and incompetence, undercapitalisation and lack of planning.

KEY IDEAS

- While many people are successful in their business ventures, many others unfortunately experience failure.
- The five common 'keys' to SME success are:
  - flexibility
  - reputation
  - focus on market niche
  - entrepreneurial abilities
  - access to information.
- An SME has failed when it is:
  - unincorporated and declared bankrupt
  - incorporated and either forced into liquidation or voluntary cessation.
- SMEs have a high failure rate. Sixty per cent of businesses will fail in three years.
- The most common causes of SME failure are managerial inexperience and incompetence, undercapitalisation and lack of planning.

10.4 Activities

learnON

To answer questions online and to receive immediate feedback and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

10.4 Quick quiz on | **10.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 4, 6, 8, 10, 11	1, 3, 5, 7, 9, 13	12, 14

10.4 Exercise

Revision

1. **Explain** how an SME owner can maximise his or her chances of success by using the five 'keys' of business success (section 10.4.1).
2. **Recall** what needs to occur for a SME to be classified as a business failure.
3. **Account** for the high failure rate of small businesses in the first few years of operation.
4. **Outline** the two main reasons for small business failure.
5. Answer the following questions by identifying and then writing out the answer that you feel is most appropriate when considering the possible effects of small business failure. Share your answers with the rest of the class and **discuss** any differences.
   - a. *Effect on the owners*
     - i. Because most people who go into business know what they are letting themselves in for, there will be no adverse effects on the owners.
     - ii. There could possibly be some physical effects on the owners.
   - b. *Effects on staff*
     - i. Most employees do not mind being retrenched.
     - ii. Being retrenched is never easy to accept and there is usually a certain amount of stress associated with finding new employment.
   - c. *Effects on creditors*
     - i. The high number of SME failures is bound to cause financial hardship to creditors.
     - ii. Most creditors are large companies and can therefore afford for small businesses to go bankrupt without it being too much of a financial drain on them.
   - d. *Effects on consumers*
     - i. When an SME fails, consumers are not inconvenienced at all because there are others to choose from.
     - ii. Often customers find themselves not only inconvenienced by SME failures but also feel left out in the cold when they attempt to receive some type of compensation for their loss.
6. a. Refer to the list of reasons for SME failure in section 10.4.2. Prepare a table and **classify** each reason using the categories 'internal business environment' or 'external business environment'.
   b. Deduce what this table reveals about the reasons for SME failure.
7. 'A business without a plan is doomed to fail'. **Justify** this statement.

Read the 'Successful small business Koskela survives despite small business failures on the rise' case study and answer questions 8 to 11

8. **Identify** the factors that have led to the success of Koskela.
9. **Why** do you think the retail failure rate is one-and-a-half times the average?
10. **Identify** some of the challenges small businesses face.
11. **State** what Roger Simpson suggested retailers do to help increase their chances of success.

Extension

12. In small groups, **create** a list of success strategies for SMEs.
13. Most people who start an SME know of the high failure rate and the reasons for it. **Explain** why they do not take steps to protect their business from failure. **Recommend** the steps they should take.
14. Assume the Minister for Small Business establishes a committee to develop a poster highlighting the rules for success in small business. **Create** your poster and display it in the classroom.

Solutions and sample responses are available in your digital formats.

10.5 Review

10.5.1 Summary

Definition and role of SMEs

- Small to medium enterprises (SMEs) are the 'engine room' of the Australian economy.
- According to the ABS, an SME is classified as a business employing fewer than 200 employees.
- According to the ABS, SMEs account for 99.8 per cent of all private sector businesses.
- The number of SMEs fluctuates over time according to the state of the economy.
- In recent years, SMEs have created many jobs, become more innovative and are increasingly entering overseas markets.

Economic contribution of SMEs

- The SME sector contributes:
  - approximately 55.8 per cent of gross domestic product (GDP)
  - approximately 68.3 per cent of total private sector employment
  - to our balance of payments, since they are often more successful at exporting than large businesses
  - significantly to the level of R&D.
- SMEs can enter the global market by selling directly to customers in export territories, marketing products through a local distributor, participating in a joint venture with a local business partner or selling through a website.

Success and/or failure of SMEs

- While many people are successful in their business ventures, many others unfortunately experience failure.
- The five common 'keys' to SME success are:
  - flexibility
  - reputation
  - focus on market niche
  - entrepreneurial abilities
  - access to information.
- An SME has failed when it is:
  - unincorporated and declared bankrupt
  - incorporated and either forced into liquidation or voluntary cessation.
- SMEs have a high failure rate. Sixty per cent of business will fail in three years.
- The most common causes of SME failure are managerial inexperience and incompetence, undercapitalisation and lack of planning.

10.5.2 Key terms

balance of payments (BOP) a record of a country's trade and financial transactions with the rest of the world over time, usually one year
economic growth when a nation increases the real value of goods and services over a period of time
economy a system used to determine what to produce, how to produce and to whom production will be distributed
gross domestic product (GDP) the total money value of all goods and services produced in Australia over a one-year period

Resources

Digital documents Key terms glossary (doc-35795)
Chapter crossword (doc-36249)

Interactivity Chapter crossword (int-7229)

10.5 Activities

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Exercise 1: Multiple choice questions

1. Which of the following best defines an SME?
   - **A.** A business with less than 20 employees
   - **B.** A business with between 20 and 199 employees
   - **C.** A business with under 200 employees
   - **D.** A business with over 200 employees
2. According to the ABS, what percentage of private sector businesses are SMEs?
   - **A.** 10
   - **B.** 50
   - **C.** 90
   - **D.** 99
3. Which of the following statements is FALSE in relation to the economic contribution of SMEs?
   - **A.** SMEs contribute approximately 55 per cent of Australia's GDP.
   - **B.** Over 88 per cent of exporting businesses in Australia are SMEs.
   - **C.** SMEs employ approximately 68 per cent of total private sector employment.
   - **D.** Smaller businesses in Australia are more likely to invest in R&D than large business
4. Which of the following would NOT contribute to SME success?
   - **A.** Target mass market
   - **B.** Focus on market niche
   - **C.** Entrepreneurial abilities
   - **D.** Flexibility and adaptability to change
5. What term refers to the record of a country's trade and financial transactions with the rest of the world?
   - **A.** Exports
   - **B.** Balance of payments
   - **C.** Gross domestic product
   - **D.** Research and development
6. What percentage of SMEs will fail within 10 years of establishment?
   - **A.** 30
   - **B.** 40
   - **C.** 60
   - **D.** 70
7. Which of the following would NOT contribute to business failure?
   - **A.** Increase in economic growth
   - **B.** Poor financial management
   - **C.** Increasing competition
   - **D.** Failure to plan

8. What is the biggest difficulty facing SMEs when undertaking research and development?
   - **A.** Access to finance
   - **B.** Inappropriate legal structure
   - **C.** Lack of government support
   - **D.** Access to innovative employees

9. What is the total money value of all goods and services produced in Australia over a one-year period referred to as?
   - **A.** Export payments
   - **B.** Balance of payments
   - **C.** Gross national income
   - **D.** Gross domestic product

10. Investment in which of the following areas will lead to innovation?
   - **A.** Exporting
   - **B.** Marketing
   - **C.** Production
   - **D.** Research and development

Exercise 2: Exam practice questions

Question 1 (2 marks)

Define small to medium enterprises.

Question 2 (6 marks)

Outline THREE factors that can contribute to SME success.

Question 3 (6 marks)

Explain TWO factors that can lead to SME failure.

Question 4 (4 marks)

Deduce why the SME failure rate is so high.

Question 5 (4 marks)

How can entering the global market lead to the long-term growth of SMEs?

Question 6 (6 marks)

Assess the economic contribution of SMEs.

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11 Influences in establishing a small to medium enterprise

11.1 Overview

LEARNING SEQUENCE

11.1 Overview
11.2 Personal qualities
11.3 Sources of information
11.4 The business idea
11.5 Establishment options
11.6 Market considerations
11.7 Finance
11.8 Legal considerations and influence of government on SMEs
11.9 Human resources
11.10 Taxation
11.11 Review

11.1.1 Introduction

The thousands of SMEs in Australia today are owned and operated by all types of people. These businesses all had a beginning; they all had a person or small group of people who decided to 'have a go'. When establishing their businesses, they needed to consider a range of influences that combine to determine the level of success achieved. For instance, SME owners need to decide which establishment option will best suit their needs. They will also need to consider the market, what sources of funds they will use to start their business, legal influences, staffing considerations and taxation.

FIGURE 11.1 Millenials (those people born between 1981 and 1996) now run more than a third of Australia's small businesses.

on Resources

Digital document Key terms glossary (doc-35797)

11.2 Personal qualities

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- personal qualities
  - qualifications, skills, motivation, entrepreneurship, cultural background, gender.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

The thousands of businesses in Australia today are owned and operated by all types of people. These businesses all had a beginning, with a person or small group of people who decided to 'have a go'. Not everyone will be suited to the role of business manager or entrepreneur. Certain characteristics are required to succeed in starting and running a business.

FIGURE 11.2 Some questions to ask yourself to assess your entrepreneurial ability

	Yes	No
1 Am I self-motivated, with a desire to succeed?	___	___
2 Am I self-disciplined enough to start and follow through long-term projects?	___	___
3 Am I healthy enough to withstand the extra workload and stress involved?	___	___
4 Do I have leadership qualities to assist in managing and motivating others?	___	___
5 Do I have good organisational and administrative skills?	___	___
6 Am I willing to take managed risks?	___	___
7 Do I have the ability and willingness to learn new skills?	___	___
8 Can I make decisions based on logic rather than emotions?	___	___
9 Am I able to listen to others' advice as well as communicate my ideas to others?	___	___
10 Am I reasonably at ease in my relationships with people, and sensitive to the needs of others, especially employees and custormers?	___	___
11 Am I prepared to work long hours?	___	___
12 Am I prepared to receive lower financial returns in the early years than I would receive if I worked for someone else?	___	___

The success or failure of a business depends largely on the owner's abilities, resources, enthusiasm, initiative, level of management expertise, decision-making skills and, above all else, motivation. Two of the most crucial questions that a potential business owner has to ask themselves are:
- Am I motivated enough to want to do this?
- Do I possess the appropriate qualities and skills required to operate a business?

Starting a new business demands a wide range of skills. It is important for people to recognise their strengths and weaknesses, decide if they have the right personal characteristics to be a business owner and learn the skills they don't presently have. It is best for business owners to select a business opportunity that suits their personality and builds on their strengths. If people have an honest understanding of their own personal qualities, then failure can be minimised: the 'square peg in a round hole' problem can be avoided.

There is no simple checklist of skills and personal characteristics that will guarantee business success. However, many studies have shown that certain personal characteristics are helpful in operating a business, and that the potential business owner should be prepared to honestly answer the questions asked in figure 11.1. Let's have a close look at some of the qualities needed to commence a business, including the characteristics of successful business managers and successful entrepreneurs.

11.2.1 Qualifications

Hundreds of thousands of people start a new business every year. Would you like to be one of them? You do not have to be an exceptional champion of legendary dimensions. Mainly, those who decide to 'give it a go' are ordinary people rather than sensational opportunists who desire adventure. Many start out with only a small amount of money, operating informally from home, at least in the beginning while they are getting established.

Exceptional grades and a dazzling history in business are not essential. What does appear to be important is the eagerness to work long hours. New research by online small business lender Prospa found that 10 per cent of small business owners work between 50 and 59 hours a week, with 16 per cent working over 60 hours. This means over a quarter of small business owners are working in excess of 50 hours each week. Combined with the fact that 24 per cent of small-business owners reported working seven days a week, it is clear that Australia's small business owners are working harder than ever.

Starting an SME knows no age limits. From the very young to the very old, people are starting new businesses at a rapid rate. Particularly encouraging is the large number of young people aged who are operating an SME. Older people are also involved in starting new SMEs; this type of business offers the most opportunities and flexibility to retirees.

BizFACT

According to the Australian Small Business and Family Enterprise Ombudsman, 21.1 per cent of business owners are aged between 15–29 years.

For some types of SMEs, few or no formal academic requirements are needed to commence operating. However, for those who want to gain academic qualifications in small business, many tertiary courses are available. The Business Studies course you are studying is of enormous value should you decide to become an SME owner. Such courses give you knowledge and understanding of what is required to successfully own and operate an SME. Knowledge and understanding can also come from experience through working for other businesses. Your part-time job, for example, is providing you with experience in a business's day-to-day operations, how to manage your time and other people, purchasing and pricing decisions, and a variety of other business functions.

SME owners are a varied group. It is extremely difficult to categorise them or the qualifications they possess that make their business a success. As well, a variety of personal factors encourage individuals to go into business. However, two factors that are often mentioned are motivation and the 'entrepreneurial spirit'. They combine to form a powerful desire to create a new business.

FIGURE 11.3 Carolyn Creswell is the founder of Carman's Fine Foods. She scraped together $1000 when she was 18 years old to buy out the homemade muesli business she worked for. Some people suggest the business was an overnight success, but Creswell responds that she has been successful because of hard work. She learned everything she knows while working on the job and is driven by passion rather than the desire to make money. She believes it is vital to have a clear vision of where the business is heading and to consider that when making every decision.

BizFACT

Millennials, those born between 1981 and 1996, are increasingly breaking away from traditional forms of employment and instead starting their own small businesses. The Council of Small Business Australia has found that this desire has been driven by a decrease in job opportunities in more traditional areas. Social media and technology have also helped young people run successful businesses. BNP Paribas Wealth Management surveyed millennials around the globe and found that nearly 60 per cent of them want to work for themselves. They came up with the term 'millennipreneurs' to describe them.

11.2.2 Skills

Luck has little to do with business success. Skills are essential. These skills can be attained through experience, education and/or training.

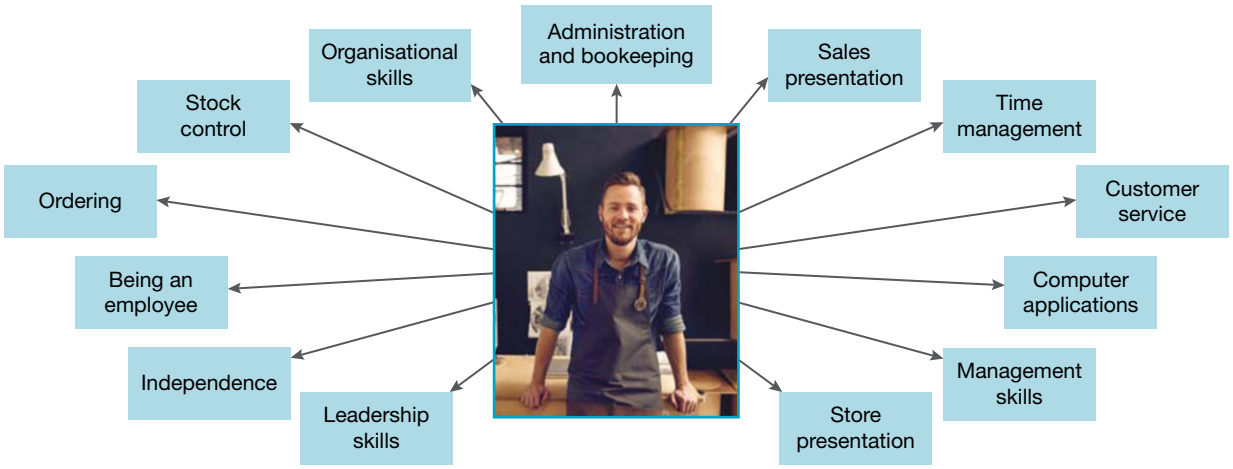
Experience

If a person has been working the last few years as a dedicated employee then, during that time, they will have gained valuable experience. They probably also developed new skills as a result of training or exposure to various aspects of the business's operations. Consequently, apart from well-developed management skills, a person with hands-on experience will have a greater chance of achieving business success.

The best time for a person to gain management experience is before establishing the business. This can be done by either completing a management training course or by undertaking a management role within a business. The best way a person can gain business experience is to work in the type of business in which he or she intends to become self-employed.

These experiences provide a platform from which to work. The experienced person will understand and be realistic about the demands, both financial and personal, that a business will place on them. Figure 11.4 outlines possible experiences, from working in other businesses, that could help someone establish their own business.

FIGURE 11.4 An individual's range of experiences



Education and/or training

Education and/or training is another way to gain skills. Universities, TAFE and business colleges offer courses in many business and industry fields. These courses may be broad in nature, such as a degree in business management, or specific, such as a degree or diploma in marketing, human resource management, computing or accounting. TAFE and business colleges also offer vocational courses and courses for establishing an SME.

The main problem is that some courses are expensive and take years to complete. For this reason they are not always an option, especially for small business owners who may wish to gain the knowledge quickly.

BizFACT

Almost 57 per cent of all NSW small business operators have completed Year 12 or equivalent. For those operators who have post-high school qualifications, 45.1 per cent achieved a certificate level qualification, 16.5 per cent an advanced diploma or diploma, 27.2 per cent a bachelor degree, 2.5 per cent a graduate diploma or graduate certificate and 8.7 per cent a postgraduate degree.

Some government agencies provide opportunities to learn about starting a business. Business Enterprise Centres are an example. The centres are run by business facilitators who have experience in establishing and operating a business. They offer a range of services, such as business start-up advice and assistance, business growth mentoring, seminars, business plan assistance and skills training. They also facilitate networking opportunities and provide information on grants and assistance that may be available.

All of these avenues for education allow the business owner to develop the essential skills necessary for establishing a business. These skills may include:

- accounting
- computer skills
- staff management
- business administration, including inventory control and rosters
- marketing.

11.2.3 Motivation

Motivation refers to your personal drive, determination and desire to achieve a goal or objective. The desire to be your own boss is a major reason for wanting to start your own business. Many people start on their own business because they believe they can do better for themselves than if they remain with their present employer. Often they desire the freedom to choose when and where they work, with whom they work and whether to work from home. The underlying attraction is the desire to transform an idea into a successful product by capturing the attention of potential customers (see the following case study).

SNAPSHOT

Case study: Bella Leopardo empowering women from the ground up

Fast cars and rock ‘n’ roll are just two of the many influences on Belinda Palamara, Bella Leopardo’s funder and creative director.

A self-confessed shoe-o-holic, shoes were an obsession from an early age, and over the years she has certainly built up a rather impressive collection. But it was a conversation with a friend concerning the large number of leopard print shoes adorning her wardrobe shelves that was the catalyst for the Bella Leopardo empire.

What started as a creative hobby to overcome the monotony of her 9–5 corporate career propelled the fashion forward entrepreneur to launch her independent luxury women’s shoe label and world-first fashion house which focuses exclusively on leopard print designs.

The Bella Leopardo philosophy and vision is founded on affordable luxury and empowering women from the ground up.

With clear vision, determination and a strong business acumen, Belinda's admiration for vintage culture coupled with her love of modern fashion has struck the perfect balance between classic and contemporary designs with pieces famed for their quality, comfort and versatility.

By blending the two, Bella Leopardo collections are targeted to both the trendy and the traditional, the modern and the classic woman. Women who are fiercely confident and not afraid to stand out in a crowd, or those who need an extra confidence boost.

Inspired by timeless silhouettes, seductive prints and meticulous craftsmanship, the carefully curated collections are designed to complement the lifestyle of women from all demographics and be the failsafe wardrobe staple they will be reaching for and loving for many years to come.

Belinda says, 'The Leopardo woman is timeless. Her style is not dictated by seasons or trends. She is confident and ambitious, powerful yet feminine, sophisticated and equally seductive and wears the distinctive pattern to be noticed! Leopard print makes a statement and demands an audience; it says "I want to be seen". 'I want every woman who wears a pair of Leopardos to feel like they own something special'.

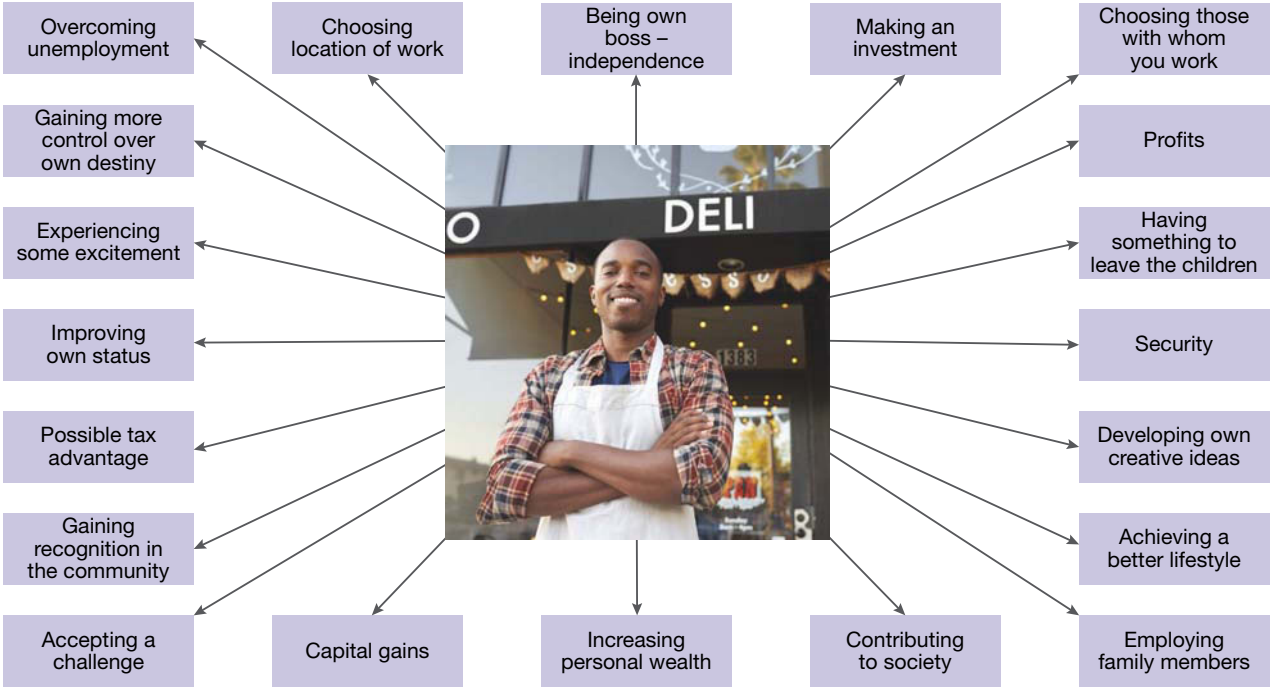
Source: Extracts from Bella Leopardo website, 'About' page.

BizFACT

A recent Suncorp SME vs Me Report revealed the top ten reasons why people start their own business. The number one motivator, cited by just over half of all SMEs, was simply being the boss. Other factors that ranked highly among SMEs were doing what you are passionate about, finding a better work–life balance and taking greater control of your life. The potential for greater financial reward ranked fifth place. Only 14 per cent of SME owners started their business as a result of a great idea for a product or service.

Most business owners are motivated by the rewards they believe can be gained from establishing a business, including both monetary and non-monetary rewards (see figure 11.5).

FIGURE 11.5 Examples of the possible rewards of business ownership

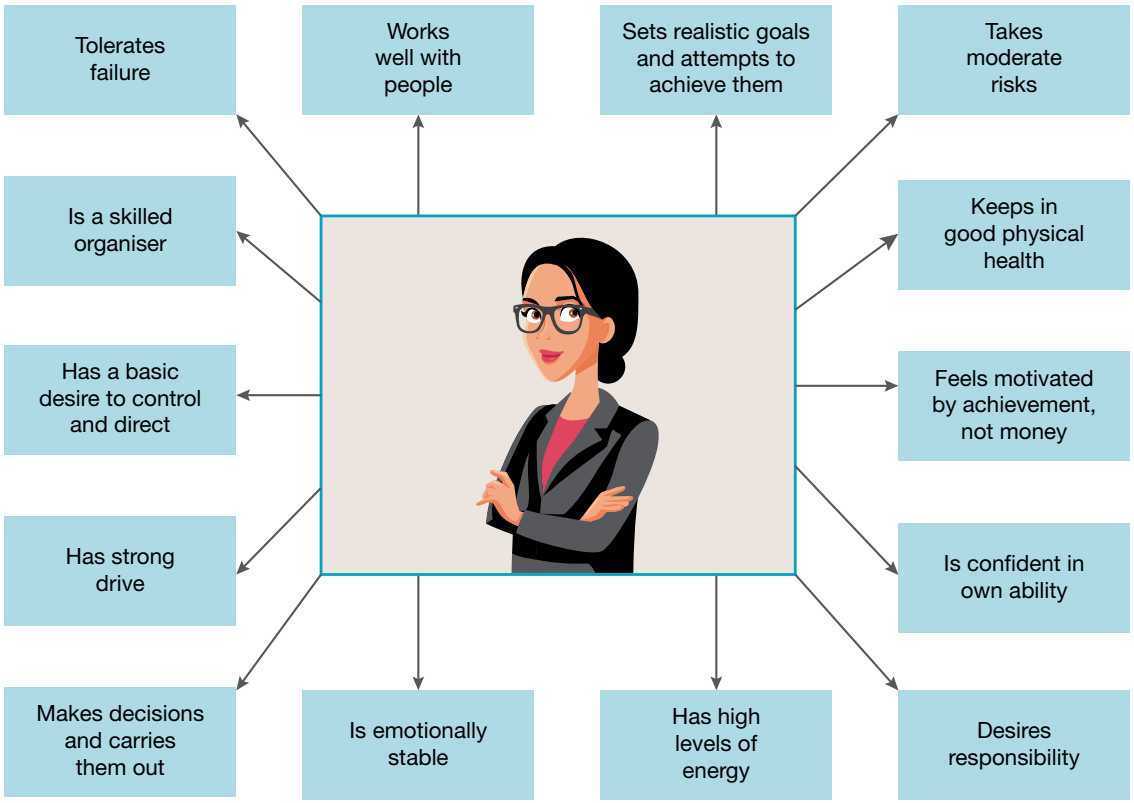


11.2.4 Entrepreneurship

As was outlined in chapter 1, an entrepreneur is someone who starts, operates and assumes the risk of a business venture in the hope of making a profit. The term can apply to any person — male or female, mature age or young — willing to establish a business in a bid for success. Not all entrepreneurs begin by setting up a business premises. An increasing number of people work from home, especially as computers have allowed greater access and communication with business markets. Entrepreneurship is not just an avenue to wealth, but a way of making a living and achieving job satisfaction.

Society is constantly changing and thus creating new opportunities for innovative products and services to be developed. The entrepreneur must have a range of personal characteristics that enable them to take advantage of, and be successful with, these opportunities (see figure 11.6).

FIGURE 11.6 General personal characteristics of a typical entrepreneur



First, entrepreneurs must be prepared to take a risk and incur the results of this risk, whether it is a success or a failure. They must be confident in decision making and willing to accept all responsibility for their decisions. Sometimes a decision requires 'guts and determination' and such times often lead to success. The entrepreneur must always have a will to succeed: they may not achieve the desired goal with the first venture, so they need drive, determination and an ability to recover from poor decisions or mistakes.

Flair and creativity are also essential for an entrepreneur. They allow the entrepreneur to create or seize new opportunities for business, new niche markets or new products and/or services. Success can sometimes depend on finding a new and more innovative way to sell a good or service. Fay Khoury who established Cupcake Savvy's Kitchen is an example of an entrepreneur who successfully developed a niche market. Finally, the most important quality for an entrepreneur is the ability to set goals and have a vision for the business's future. Having achieved their goals, they must set new goals — continually adjusting to changing business, economic and customer markets.

A growing number of younger people are running their own business. Millennials (those people born between 1981 and 1996) now run more than a third of Australia's small businesses. New research by small-business platform Xero has revealed millennials as the fastest-growing segment of small-business ownership and many have major plans to grow their businesses and hire new staff (see the following case study).

SNAPSHOT

Case study: How Chloe Weinthal became a successful businessperson at the age of 17

Despite dropping out of school in Year 11, losing her grandmother to suicide and three hip surgeries, Sahara Soul founder Chloe Weinthal is inspiring the next generation of entrepreneurs to never give up on their dreams.

The 18-year-old, who conceptualised her luxury tanning range at 15, said she was motivated to live her life to the fullest following several setbacks including the loss of her grandma and her last surgery, which left her in a wheelchair for months and unable to move.

'These are the reasons why I live the lifestyle I do. I want to enjoy life,' she said.

'I have family who have suffered with different mental health issues and for me I want to enjoy my lifestyle. I knew if I worked nine to five I would be miserable as I'm not one who likes to be in a closed environment. I like to be creative.'

During her recovery, Weinthal said it was here she decided to start putting her plans into action and, with the help of her dad, Sahara Soul was born.

'I knew that I wanted to have a business on my own,' she said. 'I had been spray tanning from home and I started getting a lot of girls come in asking to buy products, and after a while I thought that could be really popular so I thought I could do that.'

'At 16 I started to research and found a lovely manufacturer in Melbourne. Dad and I worked together closely and, while he helped fund the basis of the business, I have paid him back. But he will be always my support network should I need it.'

Two years later and with a support base that includes *Sports Illustrated* model Kate Wasley Sports and radio announcer Heidi Anderson, Weinthal said her tanning products, which included a brown-based self-tanning foam, body oil, exfoliating mitt and application mitt had been well-received.

Chloe sells her line on her website, and said that the range was also recently accepted by online retail giant Amazon Australia and would be soon stocked on its US site.

She also hopes to branch out into skincare and fashion and, while some doubted her ability to start a business at such a young age, she said she only saw it as a positive. 'I think I have the advantage of starting young because I don't have the financial stresses of a mortgage,' she said. 'I can organically watch the business develop over time. In ten years' time I want to be in a position where I've got a company that I love but I am not limited to opportunities. I want to break the mould that if you want to do something, do it and live the life you want to live.'

Source: Belinda Cipriano, 'Wanneroo teen Chloe Weinthal inspires after starting luxuy self-tanning business Sahara Soul at 16', *Western Suburbs Weekly*, 1 November 2018.

The benefits of entrepreneurship

A sense of freedom and independence are perhaps the best things about being a business owner. Often, a person will desire the freedom to choose when and where they work, with whom they work and whether to work from home. The great attraction is the belief that owners will have more control over their own destiny.

Someone willing to work hard may believe that they can earn much more by working for themselves than they would by working for someone else. They would expect their extra effort to be rewarded through the profits from their own business. These rewards may not come immediately — even the most successful businesses may lose money in their early start-up phase — but the hope is that eventually the business owner will earn more from being self-employed.

People who work for themselves also experience the satisfaction of guiding the business's growth. They enjoy the challenge of overcoming obstacles, setting and meeting new targets, and gaining a larger customer base. While it can sometimes be a hectic existence, most entrepreneurs seldom complain that running their own business is routine and boring. Ultimately, they take pride in having made it on their own.

The burdens of entrepreneurship

Small to medium enterprise owners must accept the responsibilities of entrepreneurship. Being in business requires a person's full attention. The work hours for a business owner will invariably be longer than an employee's work hours. As well, self-employed people find it difficult to leave their problems at work; they constantly 'live and breathe' the business's problems. The anticipated freedom and flexibility may be illusive.

Even if the business succeeds, the owner still might have little money to spend apart from the salary the owner pays him or herself. Instead, the owner might have to reinvest the profits to generate long-term growth. Alternatively, short-term accounts may need to be paid with cash. In some cases, the owner may not even be able to draw a salary until the business becomes more established. As one entrepreneur claims: 'The commitment you have to make is enormous; entrepreneurs usually put everything on the line.'

on Resources

Weblink Top Business Entrepreneurs

Video eLesson Global Kidz Oz 1 (eles-2296)

11.2.5 Cultural background

A person's cultural background can influence their reasons for establishing a business. Cultural influence can arise from a community's traditions and beliefs, such as the 'work ethic' — the willingness to work long and hard in an effort to be successful — which is strong in many European and Asian cultures. Many migrants come to Australia with few resources except a strong desire to improve their lives. Their determination often translates into business success (see the following case study). Cultural influences can also arise from centuries of experience in certain trades or services, enabling a person to use this knowledge to achieve business success. A person from a Thai cultural background, for example, may be able to succeed in a restaurant business that aims to provide quality, specialist Thai food.

BizFACT

Twenty-nine per cent of Australian small business operators were born overseas. Of those born overseas, 23.7 per cent were born in North–West Europe, 17.2 per cent were born in North-East Asia, 12.7 per cent were born in Southern and Eastern Europe, and 10.7 per cent were born in North Africa and the Middle East.

SNAPSHOT

Case sudy: Bubble tea entrepreneur Khawlah Asmaa Albaf tastes sweet success and tackles youth issues

Khawlah Asmaa Albaf established her first business after noticing the limited options for young people gaining work experience in her regional town.

'Bubble tea is very popular with the urban youth so I thought it'd be a great thing to bring to regional areas,' said Khawlah, who moved with her family to Young from Sydney four years ago. 'I thought that the youth here needed more opportunities and things to engage them with the community.'

With her older brother Jaleel, the 14-year-old entrepreneur set up a confectionery and drink stall at the fortnightly farmers market held in the central-western New South Wales town. Through the venture, the siblings and their friends are building employment skills while discovering how to cope with challenging situations.

'We're learning a lot of lessons, like resilience,' she said. 'One day it was very windy and we had to fight through that. Everything was flying everywhere and it was pretty difficult, but we got through that.'

Khawlah Asmaa Albaf and her brother Jaleel started a bubble tea market stall to build business experience for young people.

Her mother, Ellisa Sujachmir, said she felt 'immensely proud' of her 'go-getter' children. 'They wanted to do part-time jobs in the community and there's not much available here,' she said. 'So they brainstormed and came up with this.'

Emerging youth advocate

On top of running a part-time business, the year 9 student is tackling the bigger issue of mental health and domestic violence in her town. Khawlah joined the NSW Government's Regional Youth Taskforce to bring issues affecting young people to the attention of politicians.

'It's great knowing my voice gets heard so that we can change things in regional New South Wales for all the young people,' she said. 'It's been an amazing opportunity.'

For her efforts to eradicate stereotypes and improve opportunities for young people, Khawlah was awarded the 2020 Rural and Regional Champion on the Year at the Innate Power of Women forum. The award also recognised her leading role in a campaign walk against domestic and family violence. Additionally, she was nominated in the 2020 Australian Muslim Achievement Awards and the 2021 NSW Woman of the Year 'The One to Watch' category.

Through those achievements, Khawlah said she wants to inspire other young people to actively improve their communities. 'I've always been passionate about making a change and making a difference in the world', she said. 'Everyone can make a change.'

Ambitions for community

Khawlah said the regional town of 10 000 people has been welcoming of her Muslim family since they moved from Sydney for a 'tree change'.

'At first I was very nervous and I thought I wouldn't be accepted because there's not [many] Muslims,' she said. 'I actually found out there is a wide Muslim community here, so it's just great. [Young] actually is very multicultural.'

Her future goals include starting a girls basketball competition and a youth council for the town, Khawlah said. 'If we get more youth involved then we can start making events run by the youth, which will encourage them a lot,' she said. 'And also have other businesses and classes so that they can learn many skills to get them ready for their future.'

Source: Luke Wong, 'Bubble tea entrepreneur Khawlah Asmaa Albaf tastes sweet success and tackles youth issues', *ABC Online*, 27 October 2020.

11.2.6 Gender

Governments of developed economies are realising that employment growth will not come from established large businesses but from the creation or expansion of the small business sector. Policies are being created specifically to assist small business in contributing to the national economy. In response to these policies, and to a general change in social attitudes, an increasing number of women are setting up their own businesses (see the following case study). According to the Australian Small Business and Family Enterprise Ombudsman, while there have been significant fluctuations in the number of female owner/managers from month to month, there has been a clear upward trend since the late 1990s. In 1999, 31 per cent of business owner/managers were women; in 2019 that number rose to just under 35 per cent. The change is not rapid, but it has been sustained over a long period and appears to be continuing.

BizFACT

Approximately 68 per cent of Australian small business operators are male and 32 per cent are female.

SNAPSHOT

Case study: 2Step Dance — women and SMEs

It takes determination, courage, persistence and a high level of motivation to achieve success with any business venture — qualities that sisters Nicole and Rebecca Micallef possess. The pair have been dancing together for over 30 years and their long-term dream was to eventually turn that passion for dance into a new business. While a love for dance and the desire to pass on such a beloved art form are important qualities for running a dance studio, they are by no means sufficient to make it a success. Owning a studio requires capital, business skills, attention to detail and lots of hard work.

After dancing for 20 years, they were eager to begin teaching. This passion to teach gradually developed into a desire to own their own dance studio. The best way to learn about running a studio is to work at one. Nicole and Rebecca worked at a couple of different studios and taught a variety of different classes. The pair learnt a lot from this experience; they were able to observe close up the ins and outs of running this type of business as well as the typical problems and how they're solved.

While working at some well-known dance schools, they choreographed many award-winning eisteddfod routines of their own. Over time, they made a name for themselves and developed a large student following, as well as an excellent reputation in the area. After five years of teaching at various dance studios, they had a growing desire to inspire the dancing generation of today by opening their own studio. When they heard that the owner of the dance school they were working at was closing down her school, they took a leap of faith and decided to open up their own studio: 'We thought it was now or never'.

It took two years of hard work and persistence to get their business started and turn their dream into a reality. Even though they were both very experienced at teaching dance, they knew there was a lot more involved. They realised they needed to develop skills and educate themselves further about running a business. Nicole therefore undertook a Diploma of Business in order to develop these skills. 'Running a dance studio involves administration, book-keeping, event coordination, payroll, hiring of staff, looking after the emotional needs of all students and much more!'

In 2007, they began 2Step Dance. Their aim was to create a studio that provides the support and disciplines that encourage a positive and non-pressured environment for all abilities and skill levels. Their mission is to strive to bring their love of dance to all ages by sharing its beauty, power and vision in fresh and unique ways.

Rebecca and Nicole are very involved in all aspects of the studio from being the Principals to also teaching all the jazz classes, show teams and private lessons. Their passion for teaching and their care and dedication for their students is evident in every moment of their classes.

The main challenges they encountered during the establishment phase were promoting their business as well as making sure they complied with all the legal regulations associated with owning a dance school (e.g. acquiring the correct licensing and insurance). An ongoing challenge they've faced is ensuring they have sufficient numbers of student each year to cover all their costs.

'In order to succeed, you need to be persistent, patient and passionate. It takes time to create a successful business, but it's so much easier to motivate yourself when you're energised by what you're doing. In business, you are going to face constant challenges. Success doesn't come easy, but if you have determination and a positive mindset, you can do anything.'

Rebecca and Nicole's determination has definitely paid off. Over the years, their ground-breaking choreography and style have revolutionised and captivated their audience. In 2016, the pair celebrated 10 years as 2Step Dance. During this time, they have never had to invest a lot of money in advertising; most of their business has come from word of mouth and recommendations. In the 15 years since they opened, the business has gone from strength to strength but the pair have always remained true to their vision for starting the business in the first place.

Research undertaken by both federal and state government departments has highlighted the following points regarding women in business:

- Women own approximately one-third of all small businesses operating in Australia.
- Over the past decade, there has been a rapid growth in the number of women who chose to be self-employed.
- The major industries in which women own businesses are service oriented.
- Women own almost half of all home-based businesses.
- Women setting up businesses from home is the fastest growing sector of the Australian economy.
- Women-owned businesses have less external debt, are more profitable and are profitable much earlier than those owned by men.
- Women starting their own business generally:
  - are aged 26–45 years
  - have sole financial responsibility for the business
  - acquired skills used in their business from previous work experience
  - borrow very little money.
- The main reasons for women establishing a business include the following:
  - the desire to be their own boss
  - wanting greater flexibility in terms of family needs
  - personal challenge
  - an avenue to utilise their skills and talents
  - wanting to achieve financial security
  - experience of restrictions in terms of promotion within a previous career.

FIGURE 11.7 More than a third of all small businesses are run by women. ABS data revealed that 34.8 per cent of business owner-managers were female in 2019. There has been a 46 per cent increase in the last two decades. Statistics have also shown that small businesses owned by women are significantly less likely to go broke than men. Many businesses run by women are microbusinesses that are online or based at home.

KEY IDEAS

- Personal qualities such as someone's qualifications, skills, motivation, entrepreneurship, cultural background and gender will have an influence on the establishment of a small-to-medium enterprise.
- Business qualifications and skills can be attained through experience, education and/or training.
- These factors will affect planning decisions on issues such as the type and size of business, the business location and the individual's own role.
- An entrepreneur is someone who starts, operates and assumes the risk of a business venture in the hope of making a profit.
- An entrepreneur must have a range of skills and characteristics to own and operate a business successfully.

11.2 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.2 Quick quiz on | **11.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 7, 8, 11, 12, 14, 15, 17, 18, 20, 21, 22, 24, 25, 26	5, 6, 10, 13, 16, 19, 23, 27, 28, 29, 32, 33	1, 4, 9, 30, 31

11.2 Exercise

Revision

1. **Assess** your own entrepreneurial ability by completing the questions shown in figure 11.2 in section 11.2.1. Someone with an entrepreneurial personality would answer 'yes' to most of the questions. Write a self-evaluation report based on your answer.
2. Choose a business you would like to own. **Outline** the personal qualities you think are needed to be successful in this business. Share your response with a classmate and discuss the main differences in your answers.
3. Divide a page into three columns as shown below. In the first column, **identify** the skills that you presently possess and could bring to a small business. In the second column, **identify** other skills that you would need to develop. In the third column, **outline** how you would go about obtaining these new skills.

Skills I presently possess	Skills I would need to develop	How I would obtain these new skills

4. Refer to figure 11.5 in section 11.2.3 and classify the possible rewards of business ownership into monetary or non-monetary benefits. **Interpret** the results.
5. **Describe** the main characteristics of an entrepreneur.
6. Select the characteristic you regard as the most important and **justify** your choice.
7. **Outline** why an entrepreneur should continually set new goals.
8. Prepare a 'T' table format to **summarise** the benefits and burdens of entrepreneurship. The 'T' table has been started for you.

Benefits	Burdens
• Sense of freedom and independence.	

9. **Determine** which you consider to be more persuasive: the benefits or the burdens. Give reasons for your answer. Share your response with the rest of the class.
10. **Propose** what you consider to be the main reasons for women starting their own businesses.
11. In small groups, brainstorm the problems women face when they attempt to establish and operate an SME. **Outline** your problems to the rest of the class.
12. Conduct online research to answer the following questions.
    a. **Outline** the role of Business Enterprise Centres Australia.
    b. Describe some of the services BEC offers.
13. Research online to identify two female entrepreneurs. The **Women's Network Australia** weblink in the Resources tab is a useful resource. **Compare** the main factors that made each business a success.

Read the 'Bella Leopardo empowering women from the ground up' case study and answer questions 14 to 16.

14. **Outline** the factors that motivated Belinda to start this business.
15. **Identify** the entrepreneurial skills and characteristics Belinda demonstrates.
16. **Describe** Bella Leopardo's target market.

Read the 'How Chloe Weinthal became a successful businessperson at the age of 17' case study and answer questions 17 to 19.

17. **Identify** some of Weinthal's personal qualities that have enabled her to become a successful entrepreneur.
18. **Outline** what motivated Chloe Weinthal to start her own business.
19. **Why** does Weinthal believe starting a business young is advantageous?

Read the 'Bubble tea entrepreneur Kawlah Asmaa Albaf tastes sweet success and tackles youth issues' case study and answer questions 20 to 23.

20. **Identify** the entrepreneurial qualities displayed by Khawlah
21. **Outline** what motivated Khawlah to start her own business.
22. **Summarise** Khawlah's social goals.
23. **Explain** how Khawlah's cultural background has had an influence on her business.

Read the '2Step Dance — women and SMEs' case study and answer questions 24 to 27.

24. **Identify** the personal qualities Nicole and Rebecca possess that have enabled them to achieve success with their business.
25. **Outline** what motivated Nicole and Rebecca to establish their own dance studio.
26. **State** some of the challenges Nicole and Rebecca have encountered.
27. **Describe** the factors that have led to the success of 2Step Dance.
28. Select one of the entrepreneurs discussed in this section and answer the following questions:
    a. Why is this person an entrepreneur?
    b. Has he or she been successful so far? **Explain**
    c. **How** did they put their business idea in place?
29. Do you think you have 'got what it takes' to be an entrepreneur? **Explain**, drawing attention to what you see as your strengths and weaknesses for such a career.

Extension

30. 'The entrepreneur has an important role in the Australian economy.' **Assess** the accuracy of this statement.
31. Investigate how the role of women in business changed over the past decade. **Predict** the importance of this role in the future.
32. **Create** a rap song explaining the meaning of 'entrepreneur' and describing the qualities needed to be a successful SME owner.
33. Write out the 12 questions asked in figure 11.2 in order of importance, from most important to least important. **Compare** your list with the rest of the class and be prepared to justify your rankings.

Solutions and sample responses are available in your digital formats.

on Resources

Weblinks Women's Network Australia
Business Enterprise Centres (BEC)

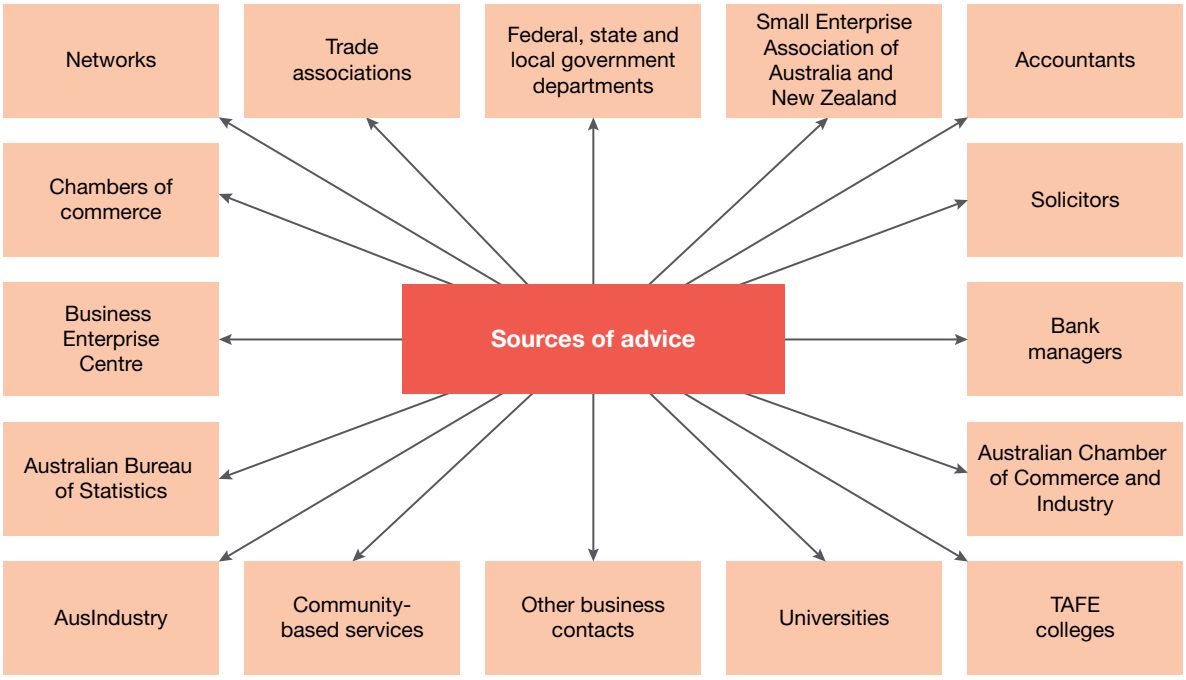
11.3 Sources of information

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- sources of information.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

SME owners cannot be experts in all areas of their business. Further, they do not normally have the funds to employ a specialist or consultant to assist with management. They thus need to possess a variety of skills, including marketing, human resources, finance, administration and public relations skills. Obviously, this multifaceted role is not an easy task. However, the SME owner can receive assistance from a large number of government and private support agencies, examples of which are shown in figure 11.8.

FIGURE 11.8 Sources of help and advice for the SME owner



11.3.1 Professional advisers

It is important for the business owner to have a good relationship with an accountant, solicitor and bank manager, and to keep in touch with them on a regular basis. Management consultants can also be used, especially when restructuring the business or changing its core business activity.

Business owners tend to be totally immersed in the day-to-day operations of their businesses, so they find it difficult to remain objective. However, the professional adviser is able to examine the business much more objectively and provide an independent analysis of the organisation. Professional advisers are also more aware of changes within the legal, economic and financial environment. It is advisable for business owners to use the information and advice from the following advisers:

- *Accountants.* Accountants provide valuable advice on all financial management issues and taxation obligations. They have access to the latest changes to taxation and financial reporting requirements.

- *Solicitors.* Solicitors provide information concerning business formation and structures, registration, contracts, leases, partnership agreements, patents and legislation. Solicitors are up to date with any changes to company law and can advise the small business owner on how best to deal with such changes.
- *Bank managers.* The bank manager is another valuable contact who can provide information and advice on financial services, sources of finance and basic business management. The bank manager usually has a wide range of experience to draw on and is able to access the resources of the bank.
- *Management consultants*. If a business management problem arises that the owner cannot deal with, then the advice of a management consultant may be necessary. Coming from outside the business, the consultant is able to be more objective and view problems in an unbiased manner. When outsourcing to management consultants, it is wise to check their credentials and experience.

11.3.2 Government agencies

State governments

All state governments have established agencies that provide support and advice to business owners. In NSW, the Department of Planning, Industry and Environment offers a number of programs designed to assist businesses. The main programs are described below.

Business Connect

Business Connect aims to support small businesses to start up, create jobs through growth, help established SMEs become sustainable and increase business confidence across NSW. Business Connect achieve these aims by:

- providing general and specialist business advice and government information to startups and SMEs
- promoting business growth through innovation, improving resilience and boosting productivity
- supporting digital readiness and regional business development.

FIGURE 11.9 The NSW Government's strategy is to make NSW the easiest place to start and grow a business. The strategy demonstrates how the NSW government is unlocking more opportunities for small business. Some key initiatives outlined in the strategy include enabling better access to cash flow and capital, exploring opportunities for taxation relief, investing in new skills for business and providing tools to build resilient businesses.

Boosting Business Innovation Program

The NSW Government has invested $18 million in the Boosting Business Innovation Program, giving small businesses access to research organisations to build strong local business communities and stimulate economic growth in metropolitan and regional NSW. The NSW Government is working with all 11 NSW universities and CSIRO to deliver a range of new innovation spaces and activities for business communities.

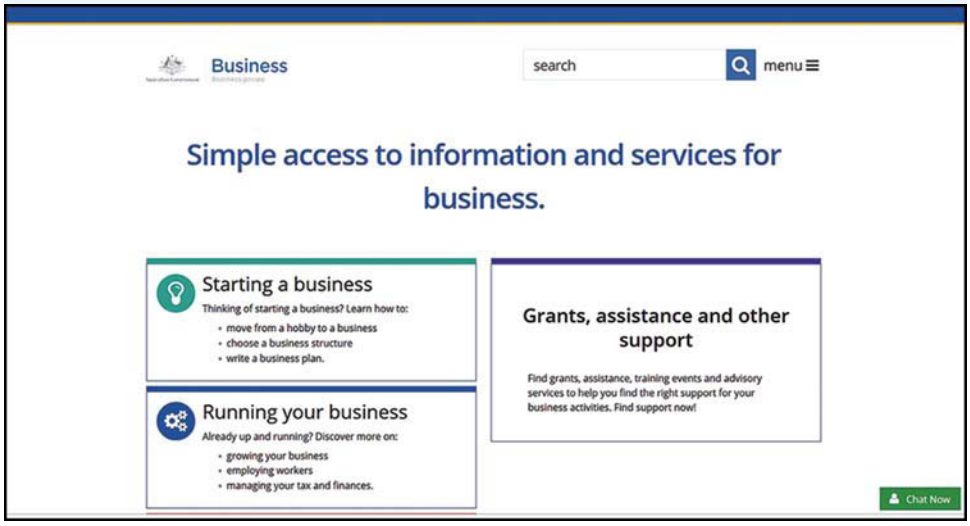
Federal government

The federal government delivers assistance, programs and services that support businesses. The Department of Industry, Science, Energy and Innovation maintains a website, a contact centre and a national network to streamline access to information and advice for businesses.

The Australian Tax Office (ATO) is the federal government's main revenue collection agency. It can provide information about starting and running a business as well as taxation.

Austrade (otherwise known as the Australian Trade and Investment Commission) is the federal government's trade, investment and education promotion agency. It can help businesses to develop international markets by providing information, advice and services.

FIGURE 11.10 The federal government website, business.gov.au, is a useful resource for someone establishing, managing or growing a business.



The federal government operates a website, business.gov.au, as a service to businesses of all sizes. It is an online government resource for the Australian business community that offers access to all government departments. business.gov.au offers simple and convenient access to all of the government information, assistance, forms and services businesses need.

Technological advice

Establishing an online business presence, networking a number of computers within the business premises, or making maximum use of mobile devices can all improve business efficiency. Purchasing equipment from a dealer who offers advice and backup support, or establishing a relationship with an ICT consultant, is another important decision to be made by the prospective business owner.

As a technological support service for small business, the federal government has established Digital Business Kits (DBK), which provide industry-specific information and resources to help SMEs and not-for-profit organisations engage in the digital economy and take advantage of the opportunities available through digital technology.

FIGURE 11.11 The Office of the NSW Small Business Commissioner, in partnership with the NSW Business Chamber, launched the Small Business Friendly Councils (SBFC) Program in 2014 to increase the number of NSW councils working proactively with small businesses. Currently, 76 local councils in NSW have joined the Program, demonstrating their commitment to their local small business community.

Source: Office of the NSW Small Business Commissioner

Local government

This level of government is becoming more involved in encouraging business because it creates employment. Local councils offer advice on land zoning, assist with subsidised land and consider development applications.

11.3.3 Other sources

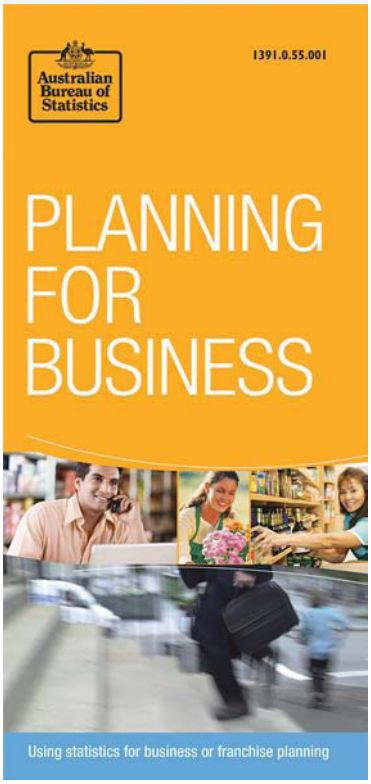
Chambers of commerce

Chambers of commerce are local associations of businesspeople, usually centred on a suburb or region. They provide legal and financial help, taxation advice, an explanation of legislation and industrial relations information. The chambers also organise training seminars, arrange industry conferences and liaise with government departments.

Small Enterprise Association of Australia and New Zealand (SEAANZ)

SEAANZ is a not-for-profit organisation committed to the development and understanding of SMEs within Australia and New Zealand. It is dedicated to research, policy development and the dissemination of ideas relating to entrepreneurship and small business management for the SME sector. They publish a journal, *Small Enterprise Research*, dedicated to small businesses. The association provides a forum for exchanging news and views relating to small business matters. It also organises training days and promotes the role of small business and its importance in the total economy.

FIGURE 11.12 Whether starting up, or already operating an SME, the Australian Bureau of Statistics provides information to assist making informed business decisions.



Source: © Australian Bureau of Statistics

Trade associations

Trade associations offer specific industry information and assistance. Examples include:

- Australian Retailers Association
- Plastics and Chemicals Industries Association (PACIA)
- Australian Medical Association.

Each association is made up of organisations that are in the same line of business, so it can provide specific details about product development and industry trends.

Libraries and reference material

Libraries are a valuable source of information because they have access to vast amounts of reference material. Most libraries have online access to large databases with search facilities that help locate specific material. Librarians are highly trained and will undertake a search of the literature available. Most libraries also subscribe to trade and industry journals.

Australian Bureau of Statistics

The Australian Bureau of Statistics provides valuable data on social, economic and demographic trends. It also provides specialised data on business activities. Information useful to business owners can be obtained from the following:

- Census on Population and Housing
- Demographic Trends and Statistics
- Household Expenditure Surveys.

Having access to such information assists the business owner in analysing and understanding changes to the external environment.

Business mentors

Small business owners will often seek advice on a regular basis from a person who is experienced or knowledgeable in the field. This person is known as a mentor and can provide invaluable advice and strategies to the small business owner on a variety of issues. The mentor may charge for such services, or may simply

share their wealth of knowledge out of goodwill. Regardless, a mentoring relationship can be rewarding for the mentor as well as the mentee.

Resources

Weblinks Business Connect
business.gov.au

KEY IDEAS

- A variety of support services exist to provide assistance to a business owner who lacks experience. Some of them are free and some are in the form of other businesses that charge for their services.
- Business owners should use information from professional advisors such as accountants, solicitors, bank managers and management consultants.
- Both local, state and federal governments have established agencies that provide advice and support to business owners.
- Some other sources of information include chambers of commerce, the Small Enterprise Association of Australia and New Zealand (SEAANZ), trade associations, libraries and reference materials, the Australian Bureau of Statistics and business mentors.

11.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.3 Quick quiz | **11.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 3, 4	2	5, 6

11.3 Exercise

Revision

1. **a. Recall** the professional advisers a business owner should seek advice from.
   b. State the information each one provides.
2. **Examine** the range of information provided by the business.gov.au website. Summarise your findings.
3. Jamahl wishes to set up a hot bread shop in his local shopping centre. **Identify** five government agencies or organisations he could approach for support.
4. Use the **Business Connect** weblink in the Resources tab to answer the following questions.
   a. Outline how Business Connect supports startups and SMEs.
   b. Click on 'Success stories'. Select a success story from the list and explain how Business Connect assisted the SME.

Extension

5. Arrange for a representative of the local chamber of commerce or the local traders' association to visit your class. Before the visit, prepare a number of questions to ask the representative on issues relevant to both informal and formal support services provided for local business owners. If possible, video record the session (obtain the visitor's permission in advance). **Create** a 500-word report on what you learned from the visit.
6. Research a trade association and **assess** their role in assisting SMEs.

Solutions and sample responses are available in your digital formats.

11.4 The business idea

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- the business idea
- competition.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Have you ever thought to yourself, 'If only I could buy this product somewhere' or 'someone could make a fortune with this idea' or 'this is a great idea for a business'? This is the starting point of a business concept. As well as determining whether or not they have the motivation and personal qualities to start a business, potential SME owners will have a clear idea of what they wish to sell. Sometimes it is an original idea for a good or service that is quite different from anything already on the market, or a distinct improvement on something already available. Or it may be a realisation that particular goods or services are unavailable in a particular area. All the businesses in the world must have started from an initial idea and then grown according to their success within the market. Coke, for example, started as a medicinal tonic sold off the back of a travelling wagon. Now, Coca-Cola Amatil is an internationally successful business that dominates the soft drink market throughout the world.

BizFACT

Most new ideas are 99 per cent perspiration and 1 per cent inspiration. This means that a lot of time and effort needs to be put into fully developing a new business concept.

The source of a business idea may come from a person's own experiences, interests, abilities or imagination. Inspiration for ideas can be generated by:
- listening to people, particularly for ideas on the goods or services people want, but that may not be readily available
- reading magazines and books, and researching on the internet
- visiting displays and exhibitions in areas such as new technology or new products from overseas
- accessing government statistics and research information
- identifying a 'gap' in the market — that is, a demand not currently being satisfied
- determining improvements that could be made to an existing product.

FIGURE 11.13 Over the past ten years there has been a rise in individuals who take pleasure in posting false and hurtful online content. These people can do enormous damage to the reputation of businesses or individuals. Removify founders Andrew Whitford and Nick Bell saw a gap in the market when their clients sought services to remove negative or false online reviews. Removify charges between $500 and $1500 to remove unwanted content and help restore online reputations

The successful identification of a gap in the market is a key to establishing a lucrative business. It means that the new business provides something not already available. Breaking into a market that is already well served means that the new business has to do something exceptional to draw customers away from existing businesses.

For example, if a shopping centre currently has three hairdressing salons, would a hairdresser be wise in setting up a fourth salon in the same centre? It is unlikely that a gap in the market exists unless the other three hairdressers are so heavily booked that locals find it difficult to make an appointment.

SNAPSHOT

Case study: How Nimble jumped on the activewear fashion trend

Hailing from Melbourne, best friends Vera Yan and Katia Santilli are most comfortable dressed all in black.

But after moving to Bondi the pair embraced the area's lifestyle and found themselves attending exercise classes on a daily basis and getting around in their activewear.

'We saw activewear was not just for the gym anymore,' says Yan. 'There was a lot of technical apparel available like Lululemon and Nike but there was not the fashion option.'

Seeing a gap in the market for an activewear brand that featured fashionable prints, met technical requirements and was sold at an accessible price point, the pair launched Nimble Activewear in 2014.

Within three years the business grew to employ 14 staff, turn over $4 million a year and open two stores in Bondi in Sydney and Armadale in Melbourne.

Launching from the kitchen table

Yan and Santilli started Nimble Activewear on the side while still working, and self-funded the business without any outside investment.

'Our office was our kitchen table and our warehouse was the hallway,' says Santilli. 'We see every step through ourselves — from the design process, to sourcing fabrics to the pattern making and manufacturing process.'

The early days of building the business had its challenges.

'Part of being in business is about being so resilient,' says Yan. 'We did a photo shoot with a photographer who accidentally used an underwater camera. It was a cheap deal for a photographer and a studio to shoot in, but when the photos came back the model looked so distorted and short. We had to completely reshoot the whole thing.'

Vera Yan and Katia Santilli started their business through an online store, and then also established bricks and mortar stores in Bondi and Armadale.

Bricks and mortar retail

The pair started out selling Nimble through their own online store and via Stylerunner and The Iconic.

'Julie [Stevanja, founder of Stylerunner] was amazing and picked us up very early,' says Yan.

Traditional retail stores came next.

'Opening up the Bondi store was a really big turning point for us,' says Yan. 'For us the bricks and mortar is so important. Online and retail are an equal split of our business. We hold a lot of free instore events, whether that is a yoga or pilates class or free talks. We try to team up with like-minded businesses.'

Activewear boom

Nimble has tapped into the rise of leggings as the new jeans, with Ibisworld valuing the fitness and athletic clothing stores market at $2 billion in Australia.

'Sportswear is no longer confined to gyms or sporting fields, with consumers increasingly wearing their fitness apparel and footwear as streetwear or casual wear,' Ibisworld's report states. 'This trend has driven strong demand for fashionable activewear that can be worn in or out of the gym.'

'When we launched, activewear was really crossing over in the fashion space,' says Santilli. 'People are very busy, they don't want to get changed after the gym and they want to be comfy. We showed in fashion week in Sydney in May and that was a real indication of the crossover.' Activewear was one of the few industries that saw a huge boost in sales during the COVID-19 pandemic. People working from home stocked up on the comfortable apparel, no longer needing traditional work attire. Industry leader Lululemon saw its shares increase by 92 per cent from March to May in 2020.

Yan and Santilli list their major competitors as The Upside, PE Nation, Running Bare, Dharma Bums and Lululemon.

'There is more and more competition, but I think that is a healthy thing,' says Santilli. 'We have put a lot of research into our product because at the end of the day we are a technical brand. If they can't sweat and do an intense workout people won't come back to us.'

'We think activewear is the Australian apparel product that swimwear was,' says Yan.

Source: Extracts from C. Waters, 'Not just for the gym: How Nimble jumped on the activewear fashion trend', *The Sydney Morning Herald*, 22 December 2017.

11.4.1 Identifying business opportunities

Identifying a **business opportunity** is not just about having an idea. An opportunity is something that a person can see as an avenue to success. It is often identified when a person feels they can provide goods or services in a better or different way from that already in the market. If you look around, you will see so many opportunities for starting a business. Potential business owners are always searching for opportunities, including ideas for new products, new customers and new ways of running businesses. Successful business managers and entrepreneurs will be very quick to seize their opportunities. There are many ways of identifying an opportunity, for example:

- *analysing and reviewing particular parts of the market to find an opening for particular goods or services.* Sometimes you can find the best opportunities by seeking those goods or services that larger businesses are unable or unwilling to provide to their customers. Angela, for example, may want to open a plant nursery, but she is afraid that the larger nurseries will be able to undercut her prices in most products simply because they can buy in bulk. Angela could concentrate on the provision of services — maybe plant delivery services, landscaping, garden consultations, soil testing and more — which the larger nurseries tend to overlook.
- *identifying whether many other people share a particular interest or hobby.* This interest or hobby may become the main catalyst in identifying a business opportunity. An individual is not always driven by the motive to make a profit, but rather by a belief in the product itself. The most important issue is that such interest does not always equal success. There must be a large enough market to sustain sales of the product or service.

Once a business opportunity is identified, a number of areas need further investigation before the business opportunity becomes a reality. The most important of these is a consideration of the competition.

business opportunity something an entrepreneur can see as an avenue to success. It is often identified when a person believes they can provide goods or services in a better or different way from those already on the market.

FIGURE 11.14 Keira Rumble established Krumbled Foods after discovering the 'healthy' snacks she was eating were full of sugar and contributed to her gaining 25 kilograms and being diagnosed as pre-diabetic. At the time, she was also spending a considerable amount of money on supplements to boost her skin and gut health. These problems sparked an idea to create an all-in-one bar with health and skincare benefits. The 'beauty bites' were a huge success and recently resulted in a multi-million dollar deal with Coles.

11.4.2 Competition

Competition is rivalry among businesses that seek to satisfy a market. When identifying a business opportunity, the entrepreneur must decide on the type of market in which their goods or services will compete. This means deciding whether to target the goods or services at a broad market (mass market) or a more specialised market (niche market). Once this decision is made, the business owner is able to identify the level of competition and the main competitors.

The business owner must then decide how to make the business competitive or, more simply, how to develop a customer base or gain a market share from its competitors. Again, the type of market will influence the strategies used by a business. If the product is aimed at a niche market, for example, then there may be no competitors. On the other hand, a mass-market strategy will require extensive planning to create market share. There are two main ways of achieving competitiveness — cost of production and differentiation of the goods or services.

1. Cost will largely depend on production techniques. The business that can produce a good or service at the lowest possible cost and thus sell at the lowest price has the greatest ability to attract market share.
2. Differentiation is about making a product or service different, unique or better than its rivals — for example, selling a computer with extra service, lessons or added software.

competition rivalry among businesses that seek to satisfy a market

KEY IDEAS

- A business idea describes the core activities of the business, and the specific features and value of the goods or services it provides.
- A business opportunity is something an entrepreneur can see as an avenue to success.
- Opportunities may arise due to either a 'gap' in the market, or an interest or hobby.
- Competition is rivalry among businesses that seek to satisfy a market.
- SME owners must decide how to make a business competitive. This can be done by either reducing the costs of production or providing something not already available.

11.4 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.4 Quick quiz on | **11.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4, 6	1, 5, 7, 8, 9, 10, 11	12

11.4 Exercise

Revision

1. There are many ways of coming up with an idea for a business. The following table provides some examples. In small groups, **propose** one suggestion of your own for each example given.

Source of idea	Example	Your suggestion
An inspiration	A self-filling printer cartridge	
Listening to people	A skateboard facility	
Noticing a gap in the market	A home gardening service	
Own interests and abilities	A graphic design consultant	
Improving an existing product	A better video store	
New technology	A mobile HDTV screen	
Developing a hobby	Making ceramic pottery	
Combining two existing ideas	Antiques/coffee shop	
Social trends	Home-cooked, prepared meals	
'Ridiculous' ideas	A musical hair dryer	

2. **Define** the term 'business opportunity'.
3. **Summarise** two ways of identifying a business opportunity.
4. Choose a business — large, medium or small. **Identify** its main competitors.
5. Keeping ahead of the competition is essential for long-term business success. **Recommend** five strategies a café can use to keep 'on top' of its competitors.

Read the 'How Nimble jumped on the activewear fashion trend' case study and answer questions 6 to 9.

6. **Outline** why Vera Yan and Katia Santilli started an activewear business.
7. Yan and Santilli initially established their business as online only. **Why** do you think they did this?
8. **Describe** Yan and Santilli's initial source of finance, and the factors that would have affected that choice.
9. Using examples, **explain** how factors in the external environment influenced the business.

Extension

10. 'The business idea is the starting point for any new small business.' **Explain** this statement.
11. When commencing a new small business, **justify** which of the following you think might be the most important:
    a. the money required to commence the business
    b. the development of the business idea
    c. the skills of the people who will operate the business.
12. Choose a good or service you could provide/invent that is (to your knowledge) not already available.
    a. Clarify why you chose this good/service.
    b. **Predict** its chance of success.

Solutions and sample responses are available in your digital formats.

11.5 Establishment options

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- establishment options
  - new, existing, franchise.

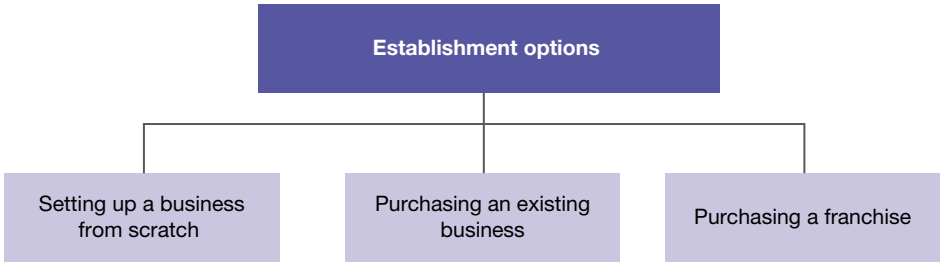
***Source**: Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

When planning a business, a prospective business owner will need to decide on one of the following establishment options:

1. setting up a new business from scratch
2. purchasing an existing business
3. purchasing a franchise

This decision will affect business planning, and ultimately the success of the business, because each option has a number of advantages and disadvantages.

FIGURE 11.15 Many prospective small business owners find it difficult to select an establishment option. Each option has its own advantages and disadvantages, which must be taken into consideration before making a decision. A wrong choice may place the owner in a vulnerable position.



11.5.1 Setting up a new business — starting from scratch

Sometimes conditions are more favourable for starting a new business than for buying an existing operation, for example:

- when a person has created something unique and starts a business to market their innovation or invention
- when a person recognises a gap in the market, where it is clear that customers' needs are not satisfied by existing businesses
- when the market has grown and existing businesses cannot supply all customers.

If these conditions do not exist, then starting from scratch could be more difficult because existing SMEs will provide considerable competition.

FIGURE 11.16 Steve Takchi started his business Path to Health from scratch to pursue his dream of getting people moving and enjoying a quality life without pain. He wanted to create a one stop shop for health and osteopathy that offers personalised healthcare and a holistic approach, while also considering the complete person (physical, psychological and spiritual) in the management of the problem.

Advantages and disadvantages

Starting from scratch has advantages and disadvantages (see table 11.1).

TABLE 11.1 The advantages and disadvantages of starting a business from scratch

Advantages	Disadvantages
• The owner has the freedom to set up the business exactly as they wish. • The owner is able to determine the pace of growth and change. • There is no **goodwill** for which the owner has to pay. • If funds are limited, it is possible to begin on a smaller scale.	• There is a high risk and a measure of uncertainty. Without a previous business reputation, it may prove difficult to secure finance. • Time is needed to set up the business, create procedures, develop a customer base, employ and train staff, and develop lines of credit. • If the start-up period is slow, then the business may not generate profits for some time.

11.5.2 Buying an existing business

When an existing business is purchased, the business is already operating and everything associated with the business is included in the purchase — for example:

- stock and equipment
- premises
- existing customer base
- staff
- location
- reputation and goodwill.

goodwill the monetary value attached to the reputation of a particular business

BizFACT

If you are buying an existing business, the financial information about the profitability of that business must be fully investigated. According to the Australian Competition and Consumer Commission, if the vendor is reluctant to disclose the full financial details of the business it is better not to purchase it. Buying a business is just like buying a house — a huge cost is involved and the foundations of both must be sound.

When purchasing an existing business, it is essential for the potential purchaser to know why the business is for sale. If the business has been struggling, it may not be a very good purchase. It is also important to examine detailed accounts for at least the previous three years to determine the financial health of the business. The true value of goodwill is one aspect of the financial statements that is often hard to estimate. The seller of the business may overestimate the value of the business's reputation; therefore, consultation with an accountant is important to confirm the accuracy of the value placed on goodwill by the seller.

FIGURE 11.17 Sam Dimartino purchased an existing business because he believed it would be easier than setting up a new business from scratch. The existing suppliers, equipment and customers helped Sam generate instant income.

Source: © Sunrise Mobile Cafe

Advantages and disadvantages

Buying an existing business has a number of advantages and disadvantages, as shown in table 11.2.

TABLE 11.2 The advantages and disadvantages of buying an existing business

Advantages	Disadvantages
• Sales to existing customers will generate instant income. • A good business history increases the likelihood of business success. • A proven track record makes it easier to obtain finance. • Stock has already been acquired and is ready for sale. • The seller may offer advice and training. • Equipment is available for immediate use. • Existing employees can provide valuable assistance	• The existing image and policies of the business may be difficult to change, especially if the business had a poor reputation. • The success of the business may have been due to the previous owner's personality and contacts, so may be lost when the business is sold. • It may be difficult to assess the value of goodwill, with the likelihood that the newcomer will pay more than it is worth. • There may be hidden problems. • Some employees may resent any change to the business operation.

11.5.3 Buying a franchise

Under a **franchise** agreement a person buys the rights to use the business name and distribute the products or services of an existing business. The business that grants the right to others to use its name and products is known as a **franchisor**, while the business that buys those rights is known as a **franchisee**. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the startup money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

franchise buying the rights from another business to distribute its products under its name

franchisor an individual or business that grants a franchise

franchisee an individual or business that purchases a franchise

BizFACT

The national chocolate store franchise San Churro was named the 2019 Australian Established Franchisor of the Year by the Franchise Council of Australia. San Churro's first franchise store opened in Fremantle, WA in 2006. Since then, the company has grown to 51 franchises. Giro Maurici, CEO and founder of San Churro believes the secret 'sauce' to the business's success is the level of support provided to franchisees. He has developed a very motivated and skilled support staff who almost outnumber the number of franchise partners.

People choose to buy a franchise in the hope of avoiding many of the problems of starting a new business. For a set fee, the small business owner receives the benefits of a successful business formula, a well-recognised name and established trademarks. Franchising has a success rate of almost three times that of independent businesses, largely because it involves an established business name backed up by managerial expertise. Franchising is the area of fastest business growth in Australia. Subway® (sandwiches and salads) is an example of a franchise. Other wellknown franchises include McDonald's, Optus 'Yes' stores, Dymocks bookstores, 7 Eleven, Bakers Delight, Domino's Pizza and The Athlete's Foot.

Advantages and disadvantages

Buying a franchise has a number of advantages and disadvantages, as shown in table 11.3.

TABLE 11.3 The advantages and disadvantages of buying a franchise

Advantages	Disadvantages
• Immediate benefit is derived from the franchisor's goodwill because the name is established. • The franchisor often provides training and management backup. • A franchisee can succeed despite having limited experience. • Equipment and premises design are usually established and operational. • Well-planned advertising often exists. • Volume buying is possible, often resulting in cheaper stock. • A business plan and proven business methods already exist.	• The franchisor controls the operations, with little scope for franchisee individuality. • Profits must be shared with the franchisor through the payment of ongoing franchise fees. • The franchisor often charges additional service fees for advice. • The franchisee is often required to purchase stock from the franchisor and cannot shop around for cheaper supplies. • Contracts may be biased in favour of the franchisor. • The franchisee must share any burden of the franchisor's business mistakes.

BizFACT

According to IBISWorld, the Franchising industry is expected to experience revenue declines in 2019–20 and the following year, due to negative consumer sentiment and volatility in discretionary income.

BizFACT

According to the Franchising Australia 2016 survey:

- there were 1120 franchisors in Australia in 2016
- there were an estimated 79 000 franchisees
- more than 472 000 people were employed directly in franchising
- annual sales turnover of the entire franchising sector was estimated at $146 billion.

FIGURE 11.18 Domenico and Marco Lopresti founded Gelatissimo in 2002 as a single store on King Street in Sydney. The business has since become Australia's biggest chain store selling gelato. Initially, the owners had chosen a company-owned model; however, in 2004 they started franchising. The Lopresti brothers saw franchising as an ideal way to grow their business quickly. Furthermore, as product quality and product presentation are critical for the business, the owners felt that a franchising model was best as it allows franchisees to bring passion and commitment to their own store.

SNAPSHOT

Case study: Mortgage Choice — a successful franchise

An interview with Maria Zappia, owner of Mortgage Choice Gladesville.

Maria, what made you want to start your own business?

I had been working within the business as a broker for a number of years. This experience helped me to gain a very good understanding of the business — the upsides as well as the downsides. When the opportunity to purchase the business came up, I put together a detailed business plan and five-year projections to check the viability of purchasing the business myself. Putting together the business plan highlighted for me where the risks lay, but at the same time, it helped me realise a number of potential opportunities to exploit.

What other business planning did you undertake prior to making the decision to purchase the franchise?

Cost was a major consideration so it was critical to put together a detailed budget that took into account not only the obvious ongoing costs such as rent, staff salaries, and general day-to-day running costs, but also had to allow for changes in the business going forward.

I also had to do a SWOT self-analysis to gauge my ability to not only work 'within the business' (as a productive and income generating broker) but also 'run the business' (as a business owner looking after staff, premises and cash flow). One of the challenges for people that transition from being an employee of a business to being the owner of the business is that they need to develop both the mindset and the organisational skill to allow time to 'work **within** the business' and 'work **on** the business'. This is an ongoing challenge.

When establishing your business, why did you decide to purchase an existing franchise as opposed to establishing a new business?

Buying an established business has its risks, one of main risks being customer and staff loyalty. Having worked within the business for a number of years, I had built a large base of established clients. These were people I knew well, having built relationships and trust over time. In addition (and very importantly) these established relationships were providing repeat and referral business. It made the transition rather seamless for most of our clients and also for me.

The main reason I decided to purchase a franchise was to leverage the benefits of the established brand. Without a strong, proven brand, many startup businesses struggle to succeed. Mortgage Choice was going from strength to strength and I wanted the added value of a strong and reputable consumer brand as well as the support services that go with the brand.

Another reason I decided to purchase a franchise was to leverage the benefits of Mortgage Choice's well-established market share. A number of marketing activities performed over several years prior to me purchasing the franchise had lifted local presence and local market share.

What are the advantages of operating a franchise?

1. 'Sameness' and presenting a 'united front' across the network has its advantages with regard to marketing activities, advertising and branding.
2. You are part of a strong brand and can leverage off the strength of the brand.
3. You are part of a large multinational network which competes with other providers for market share.

4. Licencing and regulatory requirements are met by regular compliance audits conducted by the franchisor. Regular training programs and appropriate processes and procedures are provided to ensure compliance.
5. Opportunities provided by the franchisor to diversify into financial planning, car and equipment finance, personal loans, specialist property referrals, and so on. These opportunities to diversify help the franchisee to develop additional income streams and to better meet the needs of clients as a whole, rather than just the home loan.

Are there any disadvantages of operating a franchise?

1. Possible disagreements with the franchisor regarding marketing and advertising — not so much at the local level, as there is always more control over this, but more so nationally. There could be an adverse effect on branding if the franchisor doesn't quite get it right. This is minimised if the franchisee has some input in the formulation of the marketing strategy.
2. Remuneration/commission policies need regular review in the broking industry and we are reliant on the franchisor to set fair and equitable policies with regard to this.
3. There isn't much scope for 'individuality' when it comes to running the business. The whole purpose of belonging to a franchise network is that everyone gets on board with systems and processes, marketing and advertising etc.

What support do you receive from the franchisor?

- Marketing and IT support
- Assistance with compliance and regulatory obligations
- Franchise development support
- Training and development/CPD opportunities: Mortgage Choice offers an intensive two-week induction training course at their head office in North Sydney. In addition, each franchisee is assigned a mentor for their first two years in operation under the Accelerate Program. The mentor is an important and valuable support as it can be hard to quickly absorb all the product knowledge required. This program provides continuous web-based and face-to-face training and development for the whole two-year period.
- Troubleshooting with our lender panel and assistance sorting out any problems with the banks.
- Often lenders make changes to their credit policies, rates, special offers, processes etc. When these changes occur, this is communicated to the network and the Mortgage Choice systems are updated to reflect these changes.
- Mortgage Choice also offers an excellent support system via their Group Office staff. I have daily access to Mortgage Choice's lending support team and the marketing, public relations and finance teams whenever I need them.
- The franchise network is also supported via a comprehensive intranet site. This contains an extensive array of information and resources including marketing material, public relations tools and content, business operations, budgets and just about anything to do with running a mortgage broking business.

KEY IDEAS

- Starting a completely new business, purchasing an existing business or purchasing a franchise are the three main ways of going into business.
- The most common reason for setting up a completely new business is the recognition of a gap in the market.
- When purchasing an existing business, it is essential for the potential purchaser to know why the business is for sale.
- People choose to buy a franchise in order to use an existing brand and reputation.
- There are advantages and disadvantages for each option.

on Resources

Weblink Franchise Council of Australia

11.5 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.5 Quick quiz on | **11.5 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 7, 9, 10, 12, 17	4, 5, 6, 8, 13, 15, 18	11, 14, 16

11.5 Exercise

Revision

1. **Recall** in what circumstances someone might choose to start a business from scratch.
2. **Identify** and explain what you consider to be the two most significant advantages and two most significant disadvantages of starting a business from scratch.
3. **Identify** and explain what you consider to be the two most significant advantages and two most significant disadvantages of purchasing an existing business.
4. **a.** Assume you have decided to purchase an existing small business. Select one of the following advertisements and **propose** a list of questions that you should ask before making a purchase.
   b. Justify which business offers the best prospects. Give reasons for your answer.

SOUND ESTABLISHED HAIRDRESSING SALON

Well equipped.
Established over 10 years.
Sound financial position.
Taking approx. $2500 p.w.
No goodwill required.
Pay only for premises, fittings and stock.
Excellent opportunity.

Phone 3856 2764

ATTENTION

Sack your boss.
Work from home instead.

Phone (03) 9856 2764
www.lastchance.com.au

SOUND INVESTMENT

Established Convenience Store – Beach Location
Once-in-a-lifetime opportunity to be your own boss.
Easily managed. Training provided.
Low rent only $770 per week.
Current t/over exceeds $5200 per week.
Increases in summer. Price includes fixtures and fittings, the shop plus 4 bedroom residence.

ASKING PRICE $915,000

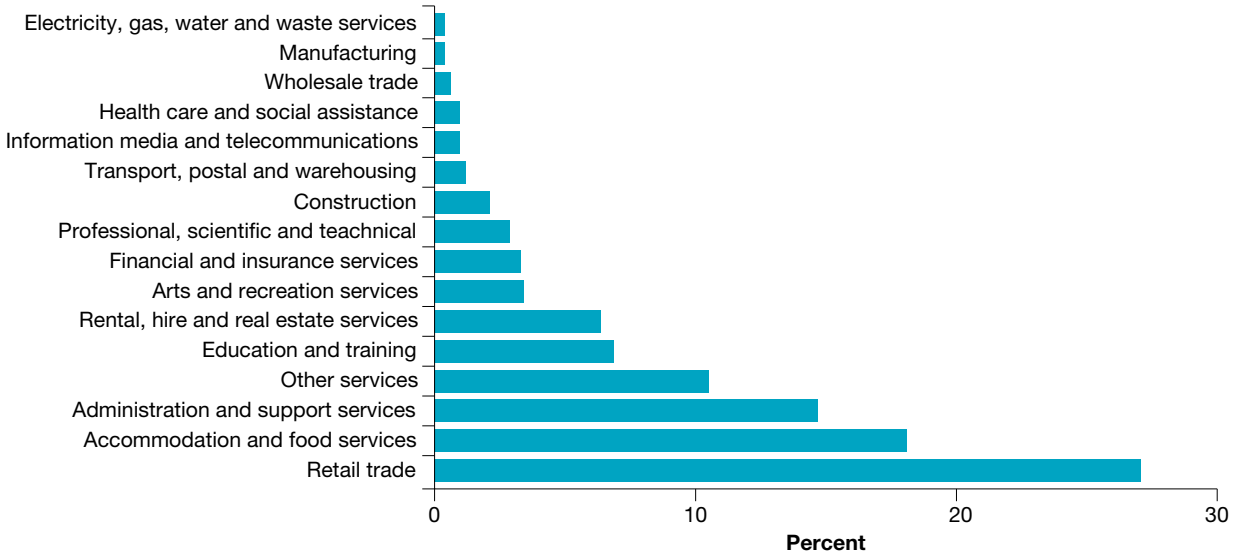
Phone 0421 01516 7934 AM

5. Consider a small business that you would like to start. **Recommend** which of the three business options would be most appropriate. Give reasons for your answer.
6. **Investigate** why people choose to purchase an established business rather than start from scratch. Compare your answer with other class members.
7. **Outline** the factors potential business owners should consider when buying an established business.
8. The Red Rooster restaurant franchise mission statement is 'Be in business for yourself, but not by yourself'. **Explain** what is meant by this statement.
9. **Clarify** why businesses operating as a franchise have a success rate three times that of independent businesses.
10. **Identify** what the franchisor receives in a franchise agreement. **Identify** what the franchisee receives. **Identify** what each party provides.
11. **Determine** one main benefit of franchising for (a) the franchisor and (b) the franchisee.

Read the 'Mortgage Choice — a successful franchise' case study and answer questions 12 to 14.

12. **Recall** what motivated Maria to start her own business.
13. **Explain** the benefits of operating a franchise.
14. **Assess** Maria's decision to purchase an existing franchise as opposed to the other establishment options.

15. The graph below indicates the proportion of franchise units held by franchisors in each industry segment. Use this graph to answer the questions that follow.



a. Identify the industry sector in which the majority of franchise networks are involved.
b. **Why** do you think the majority of franchises operate in the industry you identified in part (a)?

Extension

16. Read the following story and then answer the questions.
Bianca was bored working for someone else and decided to start her own business. She lives in a small New South Wales country town with a population of approximately 2500. The town has no major shopping centre and no established franchises. Bianca decided to open a café in the town. Her mother provided the funding for the business and gave her what little advice she could.
After only six months in business, Bianca realised that the business was not profitable. Her debts were increasing and she could see no way out of her problems. She wanted to sell the business but could not find a buyer.
   a. **Determine** whether it would have been wiser for Bianca to purchase an established business rather than commencing from scratch. Give reasons for your answer.
   b. If Bianca had conducted some basic market research, **predict** whether she would have opened a franchise instead of an independently owned business.
   c. Propose what Bianca should do. Share your answer with other class members.
17. Select a small business that you patronise regularly and answer the following questions:
   a. **Outline** why you use this particular business.
   b. **Identify** the strengths and weaknesses of this business.
   c. If this business were for sale, determine whether you would consider purchasing it. Give reasons for your answer.
18. **Compare** three franchise operations that interest you (the **Franchise Council of Australia** website is a useful starting point) and then answer the following questions:
   a. Summarise the business's concept.
   b. Identify the training provided by the franchisor.
   c. Outline the agreement terms.
   d. State the level of investment required.
   e. Describe the personal qualifications required.
   f. Assess which franchise operation you consider to be the best business proposition. Give reasons for your answer.

Solutions and sample responses are available in your digital formats.

11.6 Market considerations

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- market considerations
  - goods and/or services, price, location.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

There will always be a risk involved in starting up a new business. Will the proposed new good or service attract customers? Will the product appeal to enough customers to generate sufficient sales to cover costs and make a profit? Many business owners are so enthusiastic about starting their new business that they often overlook some of these crucial questions.

Once the idea for a business has been developed into a business concept, anyone thinking about starting a business should first gather some facts and figures to determine if the business would survive and generate a profit. Two ways to establish how viable the business might be are to conduct a **feasibility study** and undertake market research. Making decisions based on reliable information concerning the needs and wants of consumers helps to minimise the risk of business failure.

FIGURE 11.19 The success of any businesses depends on the research and planning conducted. Research helps to ensure that the good or service provided is likely to satisfy consumers and that the business is aware of the threats and opportunities the market presents.

A feasibility study is an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market. A feasibility study might include:

- *an assessment of the market.* This involves analysing the level and type of demand for the new or improved product, who and where potential customers are and why they will buy the product, who the present and potential competitors are and what their strengths and weaknesses are, and what the business's competitive advantage is.
- *a consideration of the operations.* This involves describing the product that will be sold, the resources needed (plant, equipment, materials, staff and support personnel), the location of the business and legal requirements.
- *an analysis of commercial feasibility.* This involves considering the financial aspects of the business idea, such as how long it will take before the business has its first sale, how the price of the product will be determined, how much finance will be needed to start the business and sustain operations, as well as forecasting sales, costs, cash flow and profit.
- *an appraisal of the potential owner's management ability.* See subtopic 11.2 on the qualities required to be a successful business owner.
- *an understanding of whether others have tried this idea.* This involves finding out whether anyone else has tried the business idea and, if they failed, finding out why they failed.

feasibility study an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market.

11.6.1 Goods and/or services

One of the first decisions potential business owners need to make is to determine what they are going to sell. When starting a business, it is very important that the owners possess the knowledge and experience required regarding their good or service.

Many SME owners display such enthusiasm for their new goods or service that they often fail to consider whether any customers want to purchase it. Without customers, a good or service — even though revolutionary, efficient, record-breaking, exciting and so on — is useless. Businesses fail without a market (customers) for their goods or service; therefore, they must always undertake market research.

Market research is the process of systematically collecting, recording and analysing information concerning a specific marketing problem. Without adequate, reliable and correct information, businesses expose themselves to market embarrassments which could result in their product failing to sell. To obtain accurate information, marketers usually follow a three-step approach (see figure 11.20).

FIGURE 11.20 The three steps of the market research process

Step	Explanation
1 Determining information needs	The business will identify exactly what it wants to measure or find out about its target market or customer base.
2 Collecting data from primary and secondary sources	At this stage the researchers know the facts that are needed and those that are already available. Plans must be made to collect missing data. This information may be collected first-hand; for example, through online and telephone surveys or through observation of customers' buying patterns. It can also be collected from existing data sources gathered by specialist companies.
3 Analysing and interpreting data	Facts by themselves do not always provide a solution to the marketing problem. They need to be analysed and interpreted to determine what the results mean for the business.

Using a variety of methods, such as surveys, questionnaires and focus groups, market research can provide a wealth of information about customers' attitudes, perceptions and opinions. It presents a business owner with questions that focus on who will buy the product, for example:

- Who are our customers?
- What do we know about them?
- What is their age and gender?
- Why do they buy our product(s)?
- What do they see as our strengths and weaknesses?
- How can we gain more customers?
- Who are our competitors? How many do we have?
- What do our competitors offer that we do not?
- What are we really selling?
- To whom would we like to sell?

11.6.2 Price

One of the most crucial decisions that any business owner has to make is to determine the prices at which goods and services are provided to customers. This will have a major impact on the success of the business, as prices set too high may drive away potential customers, while prices set too low may make it difficult to achieve a profit.

As discussed in chapter 8, three pricing methods can be used:

1. *Cost-based:* a pricing method derived from calculating the total cost of producing or purchasing a product and then adding a mark–up for profit.
2. *Market-based:* a method of setting prices according to the interaction between the levels of supply and demand — whatever the market is prepared to pay (see figure 11.20).
3. *Competition-based:* choosing a price that is either below, equal to or above that of the competitors.

11.6.3 Location

Location, location, location! An important aspect of planning for a business is deciding on its location. The physical location of a business can determine whether or not it will ultimately succeed. It is therefore crucial for the business owner to invest time and effort into finding the ideal location for the business. To do so, they must consider all the factors that will be affected by the location of the business. Different types of businesses will be suited to different locations, and the business owner must consider a number of factors when determining the most appropriate location for their particular business (refer to chapter 3). A suitable location might be a shopping centre or retail shopping strip, or the business owner may choose an online presence or prefer a home-based business.

Local government **zoning** determines where some types of businesses can operate. Zoning is designed to keep business activities separate from residential areas and prevent householders being disturbed by businesses operating late at night. The process sets aside commercial and industrial zones and it is in these areas that most SMEs will operate.

Shopping centre complex

The suburban shopping centre complex has been in existence in Australia for less than 50 years. Typical suburban shopping centre complexes have one or more supermarkets and a number of small specialist stores such as hairdressers, clothing stores, pharmacies, cafés, newsagents, and often a post office and bank branches. Larger regional shopping centres, such as Macquarie Centre, Centro Roselands, Westfield Bondi Junction and Warringah Mall often include major department stores and cinemas, as well as the full range of specialist retail outlets.

Although it can be quite expensive, locating a business in a busy shopping centre could be a good option for a prospective SME, especially if there is no competition. Shopping centres have parking for several hundred cars, access to public transport and most of the shops are undercover, facing internal walkways.

However, this location may not suit every business. Leasing a store in a shopping centre can be expensive, particularly in larger centres. A business may need to remain open during the shopping centre's hours, which may be seven days a week. A business may also need to rely on the centre renewing its lease. If this does not occur, the business will be forced to move elsewhere.

zoning a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

BizFACT

The average rent for businesses in Westfield shopping centres is $1326 per square metre.

Retail shopping strips

In metropolitan Sydney, shopping strips developed along major arterial roads during the second half of the nineteenth century. The busiest shopping strips were located near public transport, such as tram routes and suburban railway stations. Parramatta Road is an example of a major road in Sydney with extended shopping strips.

Many shopping strips in the metropolitan area have struggled to compete with the growth of shopping centre complexes offering off-street parking and an air-conditioned environment. Retail shopping strips offer the advantage of high visibility for passing traffic, but many shopping strips suffer from lack of parking, particularly those located on major arterial roads that are clearways during peak hours. Because many shopping centres close in the evenings, shopping strips have become popular locations for restaurants and 'after hours' entertainment. Norton Street in Leichhardt is a good example of this.

FIGURE 11.21 According to a recent report by real estate firm Cushman & Wakefield, Sydney's Pitt Street Mall is ranked as the seventh most expensive in retail rent globally. The average rent on Pitt Street Mall is $13 900 per square metre. Of course, that's just an average; some shops with a street frontage are paying much more than that. Hong Kong's Causeway Bay recently overtook New York's Upper 5th Avenue to rank as the most expensive, costing $38 506 per square metre.

Online presence

Given the rapid rise in technology, many businesses do not consider their location as important at all. Most SME owners have the use of a computer and access to the internet. This allows for the possibility of conducting business online, so the business is no longer limited to dealing with people who can physically visit its premises. Businesses are increasingly seeing the need to expand through the use of the internet. Many businesses have established themselves as an online-only presence, forgoing the need for a physical store and thereby avoiding many associated expenses, such as rent. Others have added this component to their business to ensure they keep up with the competition, while retaining their physical stores.

SNAPSHOT

Case study: What's the true cost of an online store versus a physical shop?

Too often I see people jumping into their online store dream without treating it with the proper preparation and respect it deserves.

Trying to get something done on the cheap, yet expecting quick, big results.

You need to ask, would you be doing this if you were embarking on running a physical shop?

The success of an online business really depends on the right investment of time, money and resources into setting up the most effective e-commerce shop for your business.

When starting up an online business, it can sometimes be easy to forget that the hard-earned money you are investing into your new e-commerce store needs to be compared to that of a physical street front shop.

So what really is the true cost of an online store versus a physical shop? Let's try to work that out.

As there are so many variables, in my research I have tried to compare running a small and effective online shop with that of a comparable local small-sized shop.

For the sake of this exercise, let's assume both businesses are selling fishing rods to people in Sydney. And let's further assume both businesses sell about 500 different products and make a 50 per cent profit margin.

Sound fair?

Ok let's set the scene...

Business A: Street Front Fishing Rod Shop

Business A employs 2.5 full-time staff to man the shop and rents a $4000/month, 100-square-metre shop on a main road in Sydney.

As it is on the main road, Business A gets plenty of street visibility and loads of walk-in customers. Its main customers are really limited to the local area, as it rarely gets customers from further afield.

Let's also say Business A has an annual revenue target of $550 000.

Business B: Online Fishing Rod Shop

Business B, being an online business, only needs to employ 1.5 full-time staff, and runs its business from home.

Having no physical store, Business B also rents out a double car garage-sized storage for $400/month for its products.

Being an online business, Business B needs to put quite a lot of energy into promoting its products online through paid digital marketing. Also, being an online business, they sell to customers all around Australia.

Let's say Business B has a smaller annual revenue target of $350 000.

General costs

Of course, there are a range of general costs that businesses need to pay, regardless of whether they have an online presence or a street front shop.

Some of these costs include:

- purchase of inventory
- insurance, licences, registration etc.
- bank fees, workers' compensation etc.
- logo and other graphic design.

Set-up costs

So what are the costs to set up each business?

Let's compare the initial investment both businesses need to make to get up and running.

(Please note, these exclude the above general costs and, for the sake of this exercise, I am assuming that Business A is taking over an existing premises, hence doesn't need to build a brand new shop.)

Business A: Street Front Shop	
Shop fitout	$50 000 (typically $30 000 to $150 000)
Shop signage	$3000 (Typically $2000 to $10 000)
Other	$2000
Total	**$55 000**

Business B: Online Shop	
Website	$12 000 (typically $5000 to $25 000)
Photography	$2000
Other	$1000
Total	**$15 000**

Monthly ongoing costs

Business A: Street Front Shop	
Rent	$4000 (typically $3000 to $6000)
Electricity and rates	$400 (typically $300 to $800)
Other	$500
Staff (2.5)	$12 500 (based on $60k/yr per FTS)
Total	**$17 400/month**

Business B: Online Shop	
Website hosting and support	$150 (typically $100 to $300)
Digital marketing and promotion	$3000 (typically $500 to $5000)
Stock storage rent	$400 (typically $300 to $500)
Other	$500
Staff (1.5)	$7500 (Based on $60k/yr per FTS)
Total	**$11 550/month**

Summary

Here is a summary of how the costs affect each business.

Set-up cost

As you can see the cost for setting up the physical store for Business A is about $55 000 compared to only $15 000 for setting up an online store for Business B.

That equates to a saving of $40 000 which could easily be put towards promoting Business B online!

Ongoing costs

Business A has $17 400 of expenses to cover each month. At a profit margin of 50 per cent, Business A would need to sell over $36 000 in sales every month to break even.

This means Business A needs to be doing $550 000 in annual revenue to run a stable business.

In contrast, Business B has $11 550 in monthly expenses; therefore it would need only $23 000/month in sales to break even. This means Business B would need to aim for $350 000 in annual revenue to run a stable business.

As you can see, it is nearly $6000 cheaper per month to run the online store business. And the annual turnover is a whopping $200 000 less to be a stable business.

Overall

The lesson to be learnt here is that it is quite important to make sure you compare the costs for your online store with those of a physical store.

Clearly, it can be far cheaper to run an online business than a street front shop.

But you need to remember you will need to put extra effort into both your website and ongoing online promotion to succeed!

Source: Kevin Fouché

Home-based businesses

Many tradespeople and other service providers have traditionally run their businesses from home. Plumbers, electricians, painters and various other service providers do not need a dedicated business location as they provide services in the customer's own home or business premises. Increasingly, the development of information and communication technologies has allowed home-based businesses to use mobile phones, the internet and computer applications. Although home-based businesses have traditionally been service providers rather than goods retailers, online ordering and payment has allowed for the expansion of home-based retail businesses.

FIGURE 11.22 Almost one million people run a business from home in Australia. Working from home can offer flexibility and convenience, and can often be a great opportunity to start a new career. Computers and the internet have increased the potential for home-based businesses.

Locating a business at home means that the business owner does not face any substantial expenditure on renting or purchasing premises. This means that risk is reduced if the owner is starting a new business. Locating a business at home also provides flexibility around when the owner works and reduces commuting time. A potential disadvantage is that it can be difficult for the owner to keep their work and home life separate. In addition, the owner may feel isolated from other people and miss social interaction.

on Resources

Video eLesson Sublime Greengrocer and Juice Bar (eles-0839)

KEY IDEAS

- The first thing business owners need to determine is what good or service they are going to sell.
- Businesses fail without a market (customers) for their goods or services, so they must always conduct a feasability study and undertake market research.
- A feasibility study is an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market.
- Market research is the process of systematically collecting, recording and analysing information concerning a specific marketing problem.
- Price can be set by using the cost-based, market-based or competition-based pricing methods.
- One of the key decisions of a prospective small business owner is concerning the actual location of the business.
- Different types of business will be suited to different locations.

11.6 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.6 Quick quiz on | **11.6 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 7, 8, 10, 13, 16, 17, 18	4, 6, 9, 11, 12, 14, 15, 19, 20, 23	21, 22

11.6 Exercise

Revision

1. **Clarify** the purpose of a feasibility study.
2. **State** the methods an SME owner could use to gather information about customers' attitudes, perceptions and opinions.
3. From the following table, **identify** the appropriate number (event) and letter (price-setting method).

Event	Method of setting prices
1. A house is sold at auction.	(a) Cost-based
2. A percentage is added to the cost price of the goods.	(b) Market-based
3. The butchers all copy the prices of Mighty Meats.	(c) Competition-based

4. **Calculate** the selling price for a computer using the mark-up supplied.

Computer cost price	Mark-up	Selling price
$800	50%	
$1000	80%	
$950	100%	

5. **Clarify** two factors to consider when setting a selling price for the item in each of the following cases:
   a. A small publishing business has developed an idea for a new fashion magazine for 16-year-olds.
   b. John wants to sell his car online.
   c. Troy has won a new mountain bike in a raffle but he doesn't need it.
   d. Jemma wants to sell her handmade jewellery at markets and online.

6. **Explain** how local council decisions affect the location of different types of businesses.
7. **Outline** the advantages shopping centres have over traditional 'main street' shopping strips.
8. **Summarise** some of the main types of online activities SME operators undertake.
9. **Demonstrate** how an online presence can assist a business owner to operate from home.
10. **Identify** three types of businesses that can operate as home-based businesses and explain why they are suited to this type of operation.
11. In small groups, **propose** what factors need to be considered when choosing a location for the following businesses:
    a. fast-food outlet
    b. dental surgery
    c. agricultural machinery supplier
    d. HSC coaching college
    e. hair salon
    f. panel beater.

Choose a spokesperson to share the group's comments with the rest of the class.

12. Angela is considering purchasing an established sandwich bar that is located on a main street, adjacent to a large industrial estate and near a parking area. **Explain** to Angela the importance of each of these factors. In terms of a favourable location, **recommend** whether Angela should purchase this business.
13. **Outline** those factors a potential business owner needs to consider before operating from home.
14. Briefly **explain** the value of market research to someone who is thinking of commencing a business.
15. **Distinguish** between a feasibility study and market research.
16. **Outline** three things a prospective café owner would consider in an initial feasibility study and explain why each is important.

Read the 'What's the true cost of an online store versus a physical shop?' case study and answer questions 17 to 19.

17. **Identify** the factors that the success of an online business depends on.
18. **Identify** some general costs that will be common to both an online and a physical store.
19. **Compare** the set-up and ongoing costs of an online and physical store.

Extension

20. Copy and complete the following table. **Propose** three examples of items sold under each of the methods of setting prices. Use the internet for your research.

	Cost-based pricing	Market-based pricing	Competition-based pricing
Example 1			
Example 2			
Example 3			

21. 'Location is a crucial factor for the success of some small businesses but not for others.' **Critically analyse** this statement and provide relevant examples.
22. Visit the local shopping centre or mall. Identify the best located shops. **Determine** why they have the best locations. Arrange to interview the owners of some of these stores and question them about the reasons for their location.
23. Choose a small business that you are familiar with and **explain** the ways in which this business has advantages or disadvantages in relation to:
    a. visibility
    b. cost (in terms of likely premises expenses and transport costs)
    c. proximity to suppliers
    d. proximity to customers
    e. proximity to support services.

Solutions and sample responses are available in your digital formats.

11.7 Finance

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:

- finance — source cost.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Finance refers to the funds required to carry out the activities of a business. It is a crucial issue when an entrepreneur is identifying a business opportunity, especially considering that it is often difficult to raise (see the following case study).

BizFACT

Recent YouGov research estimates that 9 million Australians have dreamed of working for themselves and starting their own business. However 60 per cent of these Australians (5.4 million) cited 'access to money' as the reason holding them back.

SNAPSHOT

Case study: SMEs continue to face challenges accessing finance

Each year the Reserve Bank organises a Small Business Finance Advisory Panel to better understand the financial challenges faced by small businesses. In 2020, the panel focused on the effects of the COVID-19 outbreak.

One of their key findings was that, overall, there was little demand from SMEs for new loans due to the increased uncertainty about the economic outlook. During 2020, very few businesses sought additional finance. Instead, many put in place strategies to minimise expenses and investment and reduce their debt. Many businesses took advantage of government initiatives and focused on improving liquidity in order to help them overcome the challenges faced by decreased consumer demand. This is despite the fact that interest rates on loans to SMEs are at a historically low level.

Recent reports by the Reserve Bank have revealed that small businesses are continuing to struggle to gain access to finance. Even prior to the pandemic, the Small Business Finance Advisory Panel reported that around one-fifth of businesses found it difficult to access finance. This is especially the case for startups, where access to finance has been extremely limited. The panel found that banks are reluctant to finance startups due to the high risks involved. This has led to many entrepreneurs bootstrapping their ventures with personal credit products (such as credit cards) to finance their working capital needs.

The panel also revealed that SMEs find it even more difficult to access unsecured loans. In order to obtain finance from banks, businesses often need to provide security, such as real estate, or personal guarantees (like, for example, the business owner's house). In fact, over 90 per cent of SME loans are secured and about half of them are residentially secured. This is in contrast to large businesses where only about two-thirds of loans are secured. As a result, many business owners delay expansion until it can be funded from retained profits.

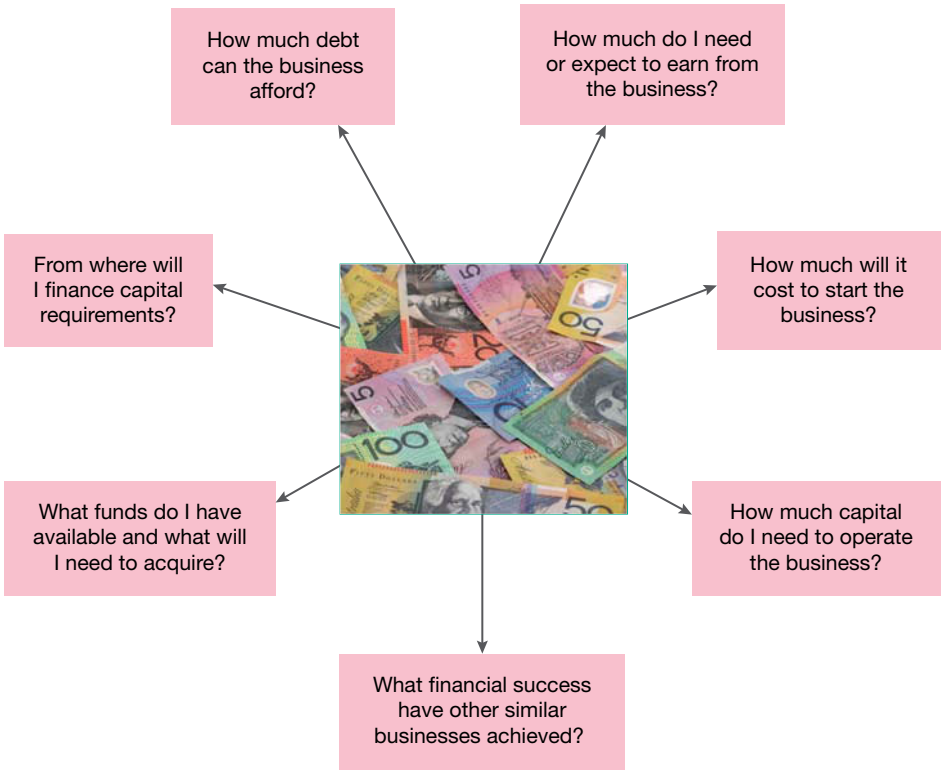
The main reason why smaller businesses, in general, find it harder than other borrowers to access finance is due to their relative risk profiles. Studies by the major banks indicate that SME loans are around twice as likely to default as standard mortgage customers. This is part of the reason why interest rates on loans to SMEs are higher than those for mortgage holders or larger businesses.

During the pandemic, this situation has been made worse, with the availability of credit to small businesses tightened even further. Banks have been even more reluctant to lend to small businesses due to the weak economic conditions and the heightened uncertainty. They are especially cautious to lend to businesses in those industries that are significantly affected by the pandemic.

These reports illustrate the significant barriers small businesses continue to face when accessing finance. These barriers will have a huge impact on business growth, employment and investment.

A number of preliminary factors need to be reviewed before any action can be taken. First, the entrepreneur must consider a series of questions as shown in figure 11.23. These questions allow the entrepreneur to consider the financial concerns of a business opportunity. Second, the entrepreneur needs to determine the most appropriate source of finance.

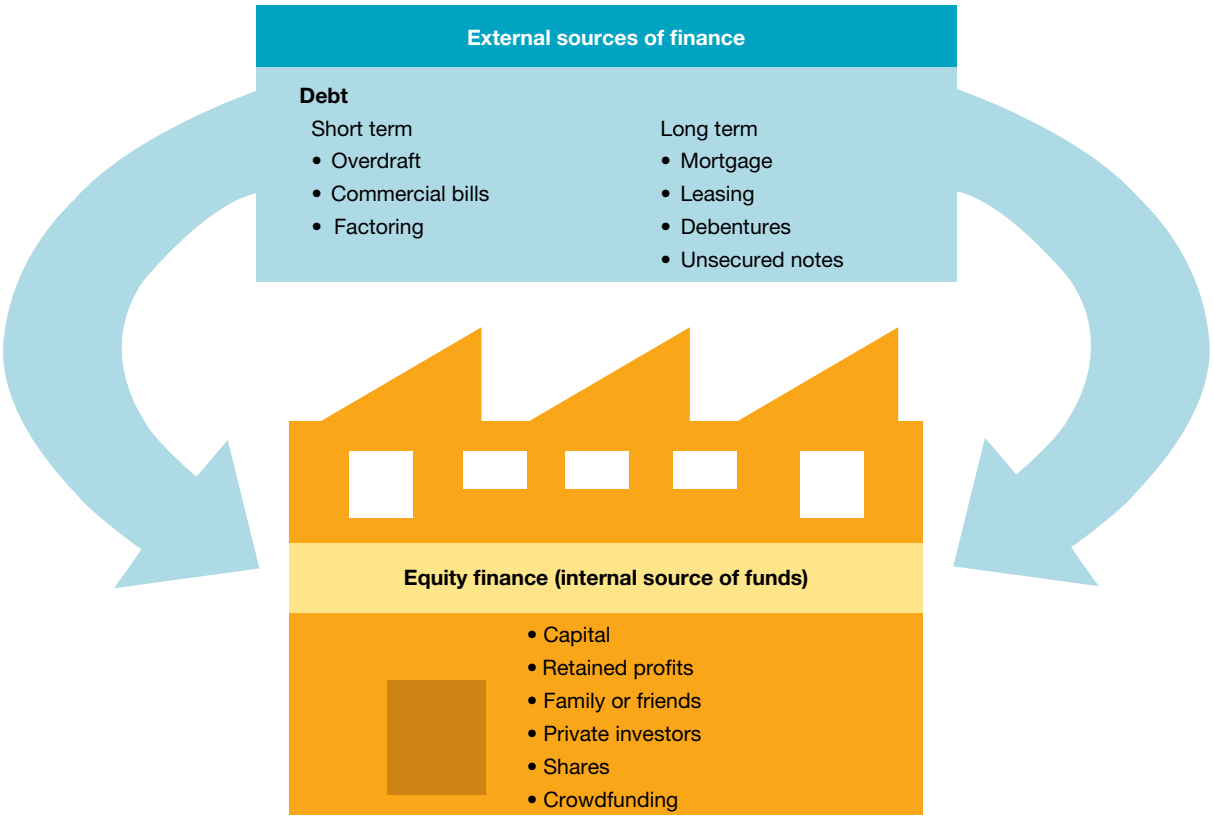
FIGURE 11.23 Questions to consider when assessing finance for a business



11.7.1 Sources of finance

A business cannot start without funds. Effective business planning requires the owner to know where to obtain finance as well as decide on the finance option that is best suited to the business. The funds that a business requires can come from a variety of people and/or institutions. These groups or institutions can be classified as one of two sources. The business owner can contribute their own funds (equity or capital), which is an internal source of funds. The business can also obtain finance (debt) from external sources (see figure 11.24). There are advantages and disadvantages associated with each source of finance.

FIGURE 11.24 The two main sources of finance available to business owners



Debt finance

Debt finance relates to the short-term and long-term borrowing from external sources by a business. The main advantage with debt financing is that the owner does not have to sell any ownership in the business. Also, debt financing has certain taxation advantages. For these two reasons, debt financing is the most popular source of finance used by businesspeople when starting a business.

Once the type of finance has been decided, the next step is to choose the appropriate term or length of time. The two main terms for debt financing are:

- short-term — less than one year
- long-term — greater than one year.

Short-term borrowing is money needed to fund the day-to-day workings of the business. For this reason, it is commonly called working capital: current assets (receivables, inventories) less current liabilities (overdrafts, creditors).

The main types of short-term finance include:

- **overdrafts**: where the bank allows a business to overdraw their account up to an agreed limit for a specified time to overcome a temporary cash shortfall
- **commercial bills**: primarily short-term loans issued by financial institutions for larger amounts (usually over $100 000) for a period of generally between 30 and 180 days
- **factoring**: the selling of accounts receivable for a discounted price to a finance or factoring company.

debt finance relates to the short-term and long-term borrowing from external sources by a business

overdraft when the bank allows a business to overdraw their account up to an agreed limit for a specified time to overcome a temporary cash shortfall

commercial bills short-term loans issued by financial institutions for larger amounts for a period of generally between 30 and 180 days

factoring the selling of accounts receivable for a discounted price to a finance or factoring company

FIGURE 11.25 The NSW Business Chamber found that access to finance is a significant concern for many SMEs. Their research indicated that around 30 per cent of SMEs feel they have missed an opportunity due to a lack of credit. They identified that, of SMEs rejected for a loan, around 55 per cent felt that the rejection significantly constrained business growth; around 21 per cent felt that it significantly increased their chances of bankruptcy; and 18 per cent had to lay off staff.

BizFACT

Expensive items such as land and buildings, new technology, industrial and office equipment are often leased. Leasing is especially recommended for equipment that becomes obsolete very quickly, such as computers.

Long-term borrowing, for a period of more than a year, is usually used to purchase buildings, land, plant and equipment.

The main types of long-term finance include:

- **mortgage**: a loan secured by the property of the borrower (business)
- **debentures**: issued by a company for a fixed rate of interest and for a fixed period of time
- **unsecured note**: a loan from investors for a set period of time. It is not secured against the business's assets.

mortgage a loan secured by the property of the borrower (business)

debenture a type of bond issued by a company for a fixed rate of interest and for a fixed period of time

unsecured note a loan from investors for a set period of time. It is not secured against the business's assets.

Equity finance

Equity finance refers to the funds contributed by the business owner(s) to start and then expand the business. Equity has an advantage over other sources of finance because it does not have to be repaid unless the owners leave the business. It is cheaper than other sources of finance because there are no interest payments for the business. An owner who contributes the equity to a business retains control over how that finance is used. A disadvantage is that the owner may expect a good return on their investment, but the small amount of finance may generate only low profits and low returns. Let's have a closer look at some of the common sources of equity finance.

equity finance the funds contributed by the business owner(s) to start and then expand the business

- *Self-funding.* Self-funding is when the owner/s of the business use their personal finance to fund the business. However, there is a risk that the owner/s will lose all of their investment should the business fail. This source of finance is often referred to as bootstrapping. This involves the business financing the operations without borrowing from external sources. In this situation, the business is funded purely from personal finances and any revenue that the business makes. Business owners using bootstrapping will need to be very cautious with their expenses.
- *Family or friends.* Family or friends can provide finance for a business. In some cases, they may expect a share of the profit in return. This can be an easy and quick way to obtain extra finance. However, this source of finance should be considered carefully, as there is a danger that relationships could be adversely affected. Business owners using this source of finance should put the details of the arrangement in writing.
- *Private investors.* A prospective business owner may be able to find private investors for their business if an attractive idea and strong business plan can be presented. The investors may contribute funds to the business in return for a share in the business's profit and equity. These individuals or businesses are often willing to provide support and advice to the business owner, as well as receive a return on their investment. While this source of finance may benefit the business, taking on investors means that the owner will lose complete control of the business — as part-owners, investors will have a say in how the business operates.
- *Shares.* A business may raise funds by offering shares in the business. However, only companies can make use of this source of finance. Publicly listed companies can access more capital than private limited companies because they are able to issue shares to the public. This option is also known as an initial public offering (IPO). This involves listing on the stock exchange so that members of the public can freely trade the shares. It can be an expensive and complex option.
- *Crowdfunding.* Crowdfunding is a method of raising finance by using online and social media networks. A business might, for example, appeal to a large group of people to provide funding for the launch of a new product using a crowdfunding platform. This may involve setting a goal for the project, providing the details of the project and inviting people to contribute finance. GoFundMe, one of the largest crowdfunding platforms, provides business owners and entrepreneurs with the opportunity to raise money to start or improve a business. This can be a quick way to raise finance with few fees and allows the business owner to connect to potential customers and receive feedback, as well as gain some guidance on how to improve the business or product. However, generating interest in the project requires a great deal of work, and there is no guarantee that the owner will reach their funding target. A failed project may result in damage to the business's reputation.

SNAPSHOT

Case study: The benefits of equity financing

When starting a new business or expanding an existing one, you must decide whether you want to borrow money or sell ownership interest to equity investors. Before selecting an option, it is important that you understand the pros and cons of each option.

Equity financing refers to raising funds by selling shares in a company to investors. As opposed to debt financing, any money raised through equity doesn't have to be paid back in instalments with interest. Instead, investors contribute money to the business and then become partial owners of that business, which means they are entitled to a share of the company's profits over time.

For small businesses, however, the most common source of equity is friends and family. Unlike debt, investments made by friends and family can be paid back after the business starts to make money. This may not be until after a number of years. These investments are usually made when businesses are starting out because the owners may experience difficulties obtaining debt finance since they don't have a track record and there is a high risk of business failure.

Daniel Tartak is the chief executive of Bingo Industries, a waste management and recycling company that has its corporate headquarters in the western Sydney suburb of Auburn. In 2005, Tony Tartak, Daniel's father, bought the business for less than $1 million dollars. At that time it was just a small skip bin collection company with four trucks, 100 skip bins and six employees. Five family trusts owned by various members of the extended Tartak family each owned 20 per cent of the company. Over 12 years, the family gradually built the company into a large family business with 158 trucks and 10 recycling centres.

Daniel Tartak, who has always been involved with the family business, began running Bingo in 2015 after his parents retired. To achieve his aim of expanding the company into a national firm within five years, Daniel listed his company on the ASX in 2017. The company raised $420 million in proceeds from the float. The Tartak family will retain 104.7 million shares worth $188 million at the issue price, which means they retain only 30 per cent of the company. However, they will collect $348 million in cash from the float, which will enable them to achieve their long-term strategic objectives.

The type of financing businesses seek depends largely on the nature of the business. If a business is just getting started, they may consider a loan from family, friends or even a bank. As they grow, equity funding may become an option, but only if the owners are willing to give up a portion of their company.

11.7.2 Cost of finance

The cost of finance will depend on the following:

- the type of finance
- the source
- the term.

The type of finance used by a business will influence the cost of capital. Debt financing requires the use of money from an external source, such as a bank, building society or finance company, and the cost is the **interest** (cost of borrowing money) charged by the institution.

interest the cost of borrowing money

If capital is raised through equity finance, no interest is charged because the entrepreneur and/or partners and shareholders have invested the money. The cost of using this form of capital is the return paid at the end of the financial year if the business makes a profit. This return is called a dividend if the business is a company. The company does not pay a dividend if it does not return a profit.

The cost of equity finance can also be measured in terms of liability. Liability is unlimited if the business is operated as a sole trader or partnership. This means that creditors will sell all business and personal assets to recover the debt. However, liability of a company is limited to just the assets of the company and all funds put in by shareholders. The cost of capital will depend on the term and type of finance used by the business. Table 11.4 outlines examples of the types of loans available to businesses and the cost incurred for each type.

TABLE 11.4 Examples of financing options available to businesses and the costs incurred for each type

Type	Description	Source	Cost
Trading bank loans	Available for the purchase of land and buildings for a period of 3–10 years	Major trading banks — e.g. ANZ, Westpac	Standard interest rate cost for fixed period of time
Overdrafts	Used for short-term finance to assist in the daily operations of a business in times of need	Trading banks	Higher interest rate (not designed for long-term use)
Personal loans	Secured against the borrower's own assets	Trading banks, building societies, finance companies	A general rate of interest with banks and building societies; finance companies usually charge a higher rate of interest than banks and building societies due to the higher risk involved in lending.
Leasing finance	Allows use of an asset without actual purchase	Trading banks, finance companies	Interest rates that are above those for short– or medium– term loans, but benefit of tax–deductible finance repayments
Owner's equity or shareholders' equity	Money invested by owner/partner or shareholders. Risk of loss of the funds invested if the business fails, but share of profit if the business is successful	Owner of the business or a company shareholder	No interest on the use of these funds, but a return (dividend) on profits to be paid to shareholders

KEY IDEAS

- A business cannot commence without finance to enable it to pursue its activities.
- SME owners must determine how their business will be financed throughout the life of the business.
- Businesses can obtain funds from either internal (equity) or external (debt) sources.
- Debt finance relates to the short-term and long-term borrowing from external sources by a business.
- Examples of short-term finance available to businesses include an overdraft, commercial bills and factoring. Examples of long-term finance include a mortgage, debenture and unsecured note.
- Equity is the funds contributed by the owner(s) of a business to start and expand the business.
- Some of the common sources of equity finance include self-funding (bootstrapping), family or friends, private investors, issuing shares and crowdfunding
- The business owner must consider the cost of finance. This will depend on the type of finance, the source and the term.

11.7 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.7 Quick quiz on | **11.7 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
3, 4, 6, 8	1, 2, 5, 7, 10, 11, 13	9, 12, 14

11.7 Exercise

Revision

1. **Account** for the importance of finance in terms of establishing and operating a business.
2. **Distinguish** between equity and debt finance.
3. **Outline** the advantages and disadvantages of using debt to finance a business.
4. **Outline** the advantages and disadvantages of using equity to finance a business.
5. **Compare** the following forms of debt finance by completing the table below.

Form of debt	Main features	Advantages/disadvantages
Overdraft		
Commercial bill		
Factoring		
Mortgage		
Debenture		
Unsecured note		
Leasing		

6. **Recall** the three factors that will impact on the cost of finance.

Read the 'SMEs continue to face challenges accessing finance' case study and answer questions 7 to 9.

7. **Why** are SMEs having difficulty accessing finance?
8. **Identify** the sources of funds being increasingly relied on by SMEs.
9. **Assess** the impact restricting funds to small businesses will have on the economy.
10. Polly is hoping to finance her business using crowdfunding. **Discuss** Polly's decision to use crowdfunding as a source of finance.
11. **Describe** two common sources of equity finance.

Extension

12. Contact a bank's loan manager and request a summary of:
    a. the different types of lending options for small businesses
    b. methods of repayment on money borrowed.

    Assess the most suitable form of finance for a person wanting to establish a computer repair business that is operated from home.
13. In small groups, collect five advertisements offering different types of finance funding for small businesses. Use information from magazines, banks and websites. **Compare** the offers under the headings in the following table. Display your database in the classroom.

Source	Interest rate	Borrowing limit	Terms	Main advantage

14. **Analyse** why it is important to match the term of a loan to the life of the asset for which the finance was obtained.

Solutions and sample responses are available in your digital formats.

11.8 Legal considerations and influence of government on SMEs

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise
- legal — business name, zoning, health and other regulations.

***Source**: Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

It is essential that business owners have a sound working knowledge of the laws that will affect their operations when they are planning their business. Businesses that do not obey the law risk losing customers and their reputation, being fined or losing the right to continue trading.

Many licences, permits, approvals and authorities must be taken into account by SME owners. All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business. Fulfilling all legal obligations may be frustrating at times, particularly when more than one level of government is involved.

The three levels of government (federal, state and local) all have regulations to which small business owners must adhere. The regulations are imposed primarily to promote fairness, protect consumers and encourage efficiency.

11.8.1 Business name

The Australian Securities and Investments Commission (ASIC) is now responsible for a national business name registration service. Businesses need to register their business name, except when the name is that of the owner and then it is optional. But if something is added to a personal name, such as 'Pty Ltd', 'Motors', 'and Associates' or 'and Co.', then the business name must be registered. This is to prohibit anyone else from trading under a similar name. (If two traders want to register the same name, the first application for registration is accepted and the second trader must register a different name.)

Registration of a business name does not protect or establish any specific rights to that name. If the business name is a crucial part of the business's operation, then it should also be registered as a trademark with the federal agency responsible for intellectual property (IP Australia), which administers the *Trade Marks Act 1995* (Cwlth).

With the rapid growth of e-commerce, it is becoming a necessity for most businesses to develop an online presence. A key element of a business's online presence will be the domain name, which is the address of the business's website on the internet. It is important that the business chooses a unique domain name that represents its activities. It also helps if the domain name is easy to remember and spell, so that customers can find the website without any hassles — for example, kpaplumbing.com.au.

A business can register multiple domains to help its customers find it more easily and to prevent other businesses from registering a similar domain name that might confuse customers. A business can see whether a domain name has already been registered by checking the registry online. Domain names can be registered through resellers and registrars by visiting the Australian Domain Administration website.

on Resources

Weblink Registering a business name

FIGURE 11.26 Almost every aspect of a business will be affected by legislation and government regulation.

11.8.2 Zoning

The acquisition and development of business premises will be influenced by local government zoning. In other words, the local government has the authority to restrict where certain businesses can locate. Local government ensures that activities that do not belong together, such as those associated with factories and residential areas, are kept separate. This function assists the local community in terms of planning. Each council has a local planning scheme that describes the types of activities or developments that may occur in different areas of a suburb or district. Land is zoned for particular uses, such as residential, commercial, industrial, agricultural or recreational.

When commencing a business, the owner must enquire with the local council to determine which zoning regulations will affect the business now and in the future. For example, a manufacturing business that uses heavy equipment and wants to operate a 24-hour shift would need to be located where zoning regulations allow it to operate in this way. A location close to a residential area would not be suitable mainly because of the noise pollution the business would create in such an area.

11.8.3 Health regulations

Local government also imposes health regulations under the *Public Health Act 2010* (NSW). Each local council supplies businesses (primarily those dealing with food, such as cafés, restaurants, butcher shops and bakeries) with the requirements and standards to meet in order to receive a licence to operate. Some requirements include:

- the temperature for food storage
- kitchen layout
- employee clothing requirements
- time for which food can be kept
- correct food handling.

FIGURE 11.27 The NSW Food Authority, in partnership with councils, implements the Food Act at the local level through the monitoring and inspection of food premises. Local councils are required to obtain and test food samples to determine if the food produced is safe and suitable for human consumption.

A health inspector will assess premises regularly and often without warning to ensure the business owner/operator maintains standards. If problems occur, then the business is given a period of time to rectify the situation or they will be closed down.

The purpose of the *Food Act 2003 (NSW)* is to ensure that food for sale is both safe and suitable for human consumption. The NSW Food Authority has a partnership with local councils across NSW and they conduct regular inspections of retail food businesses in their local area (see the following case study). Council environmental health officers (EHOs) are authorised officers under the Act and check that good food safety practices are in place, such as temperature control, cleanliness, hand washing and labelling.

SNAPSHOT

Case study: NSW Food Authority

The NSW Food Authority publishes a 'name and shame' register of businesses that have breached NSW food safety laws. Publishing the lists gives consumers more information and confidence when making decisions about where they eat or buy food.

Individuals and businesses can either receive a penalty notice for their alleged offence or be prosecuted before a court. Each of these are listed on a separate register; that is, there is a 'Register of penalty notices' for those businesses issued with an on-the-spot fine for an alleged food safety offence, and there is a 'Register of offences (prosecutions)' for those businesses that have been prosecuted before a court and have been found guilty of breaching food safety laws.

According to the NSW Food Authority's annual report in 2019, only a handful of businesses in NSW are being convicted and publicly identified for breaking food safety laws each year. In the 2018–19 financial year, 60 161 food safety inspections were carried out in NSW with a 96 per cent compliance rate — above the NSW Food Authority's goal of 95 per cent. Out of those, 817 retail food businesses appeared on the 'name and shame' register and a total of 1483 penalty notices were published. This represents less than 3 per cent of NSW retail food businesses.

The most common food safety breaches during this financial year were for unclean food premises (18 per cent), improper food storage (12 per cent), poor handwashing facilities (12 per cent), pest control (11 per cent), and unclean fixtures and fittings and equipment (11 per cent).

In addition, NSW local councils launched ten prosecutions against retail food businesses for food safety law breaches. NSW businesses that are successfully prosecuted in court are 'named and shamed' on the public register for two years. The register currently lists 20 cases.

One of the retailers prosecuted was a Sydney dumpling manufacturer who was convicted and fined following a consumer complaint. The charges against the company related to various hygiene and pest control offences, a breach of a prohibition order, and providing false and misleading information to authorised officers. The total fines issued amounted to $78 300.

The greatest success of the register, however, is that there are very few repeat offenders. The register therefore serves as an excellent deterrent because, once a food business has made the shame file, they don't want to appear on it again.

11.8.4 Other regulations

Competition and Consumer Act

The ***Competition and Consumer Act 2010*** (Cwlth) has a function to protect both consumers and business, and applies to virtually all businesses in Australia, including the commercial activities of government. First, it is designed to protect consumers from deceptive practices such as misleading packaging or misrepresentation of the place of production. It also deals with product safety and the conditions and warranties associated with products. Further, the act aims to regulate certain trade practices that may restrict competition (such as monopolistic power) because they can affect the price and quality of goods for the consumer. Table 11.5 outlines some of the undesirable and misleading practices that are illegal under the Act.

Competition and Consumer Act 2010 a law that protects both consumers and businesses. It protects consumers from deceptive or misleading practices, and it regulates the trade practices of businesses.

Breaches of any of these provisions may result in penalties of up to $10 million for companies and $500 000 for individuals. Other actions may include an injunction — that is, a restraint on a person — or the awarding of damages.

TABLE 11.5 Undesirable and misleading practices illegal under the Competition and Consumer Act

Illegal practices	Description
Misleading or deceptive conduct	Advertisements must not use words that are deceptive or claim that a product has some specific quality when it does not. Such actions convey a false impression of the exact nature of the product. Additionally, price reductions or specials must be genuine.
Unconscionable conduct	This is conduct in business transactions that is unfair or unreasonable and goes against good conscience.
False or misleading representations regarding goods or services	A false or misleading representation is a statement of fact that is untrue, such as claiming that a motor vehicle has a certain fuel consumption performance when it does not.
Offering gifts and prizes in connection with the supply of goods and services and then not providing them	It is illegal for a business to offer a prize in connection with the supply of goods and services and not provide them.
Conduct that may mislead the public	For example, using a brand name similar to a well-known brand, or using an Australian-made logo when the product was made overseas
Bait advertising	A business attempts to attract customers by advertising some products at lower prices. When the advertised products quickly run out, customers are directed (or switched) to higher priced items.
Referral selling	This occurs when a business offers a customer a special deal or special price if the customer refers other potential customers to the seller. This is illegal because it may encourage consumers to spend more money than they planned with the expectation that they may recoup some if they encourage others to buy.

Employment regulations

While the majority of businesses are owner-operated, many also employ casual, part-time or full-time staff. Business owners who are planning to employ staff will need to comply with a variety of employment laws and regulations. Legislation covers conditions of employment, unfair dismissal, dispute settling methods, protection of human rights in employment, and employer responsibilities for tax payments on behalf of employees. Employee welfare is provided for through occupational health and safety legislation.

Business owners also need to be aware of their legal responsibilities when recruiting and selecting staff, especially in regard to discrimination and equal employment opportunities. Larger businesses will often employ human resource professionals whose responsibility, among others, is to ensure that the business is acting in accordance with all legislation related to employment.

FIGURE 11.28 The ACCC launched legal action against Google for allegedly misleading millions of people after it started tracking and collecting potentially sensitive information about the private browsing history of its users on non-Google apps and websites in 2016. The ACCC is claiming that Google's pop-up notification about this move didn't let users make an informed choice about the increased tracking of their activities. Google uses some of this data in its targeted advertising business.

KEY IDEAS

- All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business.
- Of the many laws and regulations that small business owners need to comply with, some important regulations relate to:
  - business name
  - land zoning
  - health regulations.
- The *Competition and Consumer Act 2010* (Cwlth) is a federal government statute that aims to:
  - promote fair trade and competition in the marketplace
  - protect both consumers and businesses from deceptive or misleading practices.
- Business owners who are planning to employ staff will need to comply with a variety of employment laws and regulations.

on Resources

Weblink Australian Competition and Consumer Commission (ACCC)

11.8 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.8 Quick quiz on | **11.8 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 6, 7, 8, 9, 10, 11	4, 12, 13	14, 15

11.8 Exercise

Revision

1. **Recall** the main objectives of imposing government regulations.
2. **State** when it is compulsory to register a business name.
3. **Outline** the purpose of land zoning.
4. **Demonstrate** how land zoning will influence where specific businesses can locate.
5. **Identify** the types of health regulations that local councils impose on businesses.
6. Read the 'Competition and Consumer Act' in section 11.8.4. Complete the paragraph below by **recalling** the correct word from the list that follows.

deceptive	safety	warranties
price	consumer	regulate
consumers	misleading	competition

The *Competition and* _____ *Act 2010* (Cwlth) has a function to protect both _____ and business. First, it is designed to protect consumers from _____ practices such as _____ packaging or misrepresentation of the place of production. It also deals with product _____ and the conditions and _____ associated with products. Further, the Act aims to _____ certain trade practices that may restrict _____ (such as monopolistic power) because they can affect the _____ and quality of goods for the consumer.

7. Refer to table 11.5 in section 11.8.4. **Outline** two practices that are illegal under the Competition and Consumer Act.
8. **State** the legal penalties or remedies that might apply after a successful prosecution for breaches of restrictive trade practices provisions of the Act.
9. **Outline** some of the employment laws and regulations influencing SMEs.
10. **State** the two registers that are kept.
11. **Identify** some of the most common food safety breaches.
12. **Explain** the benefits of having the 'name and shame' register.

Extension

13. Imagine you are about to open a pizza restaurant. **Investigate** the government regulations you would need to satisfy.
14. **Evaluate** the role of the ACCC. To help you, use the **Australian Competition and Consumer Commission** weblink in the Resources tab.
15. 'Government regulations are needed to create a fair marketplace for businesses and consumers.' **Evaluate** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

11.9 Human resources

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- human resources
  - skills
  - costs — wage and non-wage.

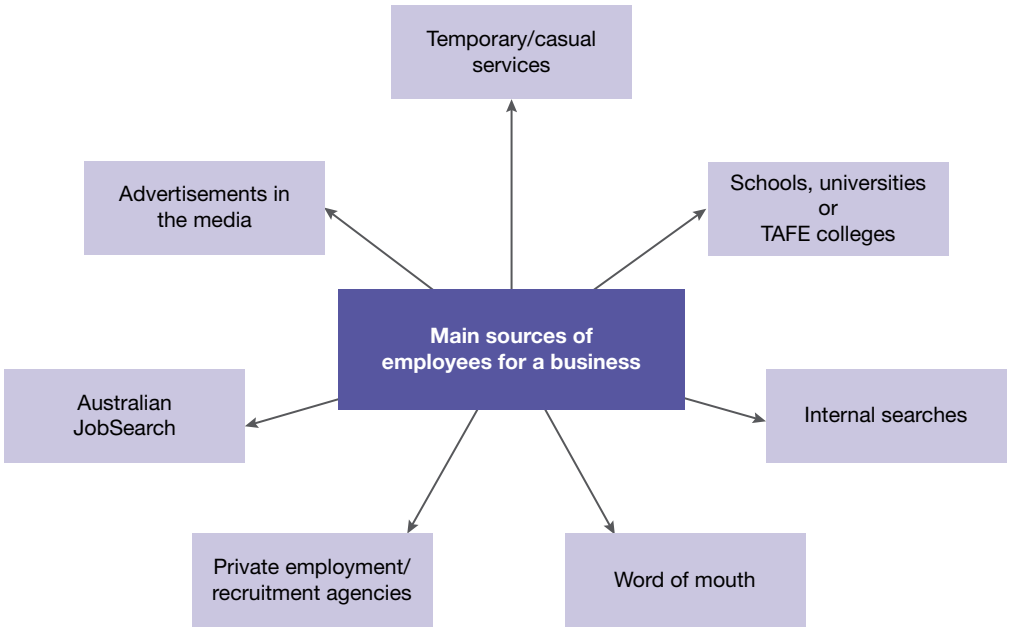
***Source**: Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

As outlined in chapter 8, employees are the most valuable resource of any business. Hiring the 'right' people at the 'right' time, with the 'right' skills in the 'right' quantity is crucial for business success. Consequently, one of the most important influences in establishing a SME is staffing: the people side of the business.

In the establishment phase, the SME owner must answer one crucial staffing question: How many employees, if any, will be required to operate the business?

If an SME owner decides to hire staff, many sources are available. The source chosen will depend on the size of the business, the type of position available and the nature of the labour force in the business's particular area. Figure 11.29 outlines the main sources of employees available to a business.

FIGURE 11.29 The main sources of employees for a business



Once the business is operating and if people are employed, the SME owner must fulfil a number of important human resource requirements that deal with:
- staffing objectives
- specific duties to be performed
- the skill base of existing staff
- a forecast of future staff requirements and skills
- methods the business will use to recruit extra staff
- a form of the organisational chart
- administrative records to be kept to manage the employees.

Of all these requirements the most important are those that deal with the skill level of employees. Skilled employees are highly productive and result in creating wealth for the business.

11.9.1 Skills

A business owner should always remember that the overriding objective of recruitment is to attract a pool of qualified applicants — people with the most suitable skills — from which to choose the most appropriate person for a particular job. Skilled employees are more productive and create wealth for the business. This is the same principle that a sports coach uses when selecting a team. To improve the chance of winning, the coach wants those players who possess the highest level of skills.

FIGURE 11.30 It is important to recruit people who have the required skills since a business's most important asset is its people. Having the right people with the right skills in the right position can make the difference between business success and failure.

The skill base of existing employees should also be detailed so that training needs can be identified. If the skills level of employees is not adequate enough for them to fulfil their jobs effectively, then the business owner has two options:

- provide training to improve the skills level of existing employees
- recruit people who have the required skills.

While there will always be job-specific skills that an employer is looking for, that's not nearly as important as some general skills that those responsible for hiring are increasingly looking for. These general job skills are sometimes called 'employability skills' and will make people more effective at work, no matter what job they do. They are sometimes also known as transferable skills because people develop them over time and take them with them as their career develops. Some of the most sought after general skills include good teamwork, communication, problem-solving, initiative, being a quick learner and having the ability to plan and organise work.

11.9.2 Costs — wage and non-wage

A business will only employ someone if the return is greater than the cost. The total cost of an employee is not solely the wage or salary paid. The employer is also responsible for other employee expenses, referred to as **on-costs**, which account for around 30–40 per cent of the total remuneration package (see the following case study).

on-costs payments for non-wage benefits

SNAPSHOT

Case study: Staffing a business — on-costs

When employing new staff, there are many other costs that are not always taken into account. The following case study reveals that these hidden costs quickly add up. The on-costs in the table are based on a salary of $50 000.

Cost breakdown	Amount $
1. **Superannuation**. The employer must pay 9.5 per cent superannuation of all employees earning more than $450 in a calendar month.	4750
2. **Annual leave**. Normally 4 weeks per year. This means that the employer must pay an additional 17.5 per cent annual leave loading for four weeks annual leave.	673
3. **Public holidays**. There are about 10 public holidays in Australia each year. This is 3.85 per cent (2/52).	1953
4. **Sick leave**. Most awards provide for 10 days each year. This is another 3.85 per cent.	1953
5. **Workers' compensation insurance**. The rate charged varies broadly depending on the risk of the industry. In some instances it can be 15 per cent. For this example a rate of 5 per cent will be used.	2500
6. **Payroll tax**. This state government tax is levied once an employer's annual payroll (including superannuation) exceeds a certain amount. In New South Wales the threshold is $900 000 and the rate is 5.45 per cent.	2725
7. **Recruitment**. The average cost of recruiting the base-grade employee is about $5000. This includes the cost of recruiting, lost production and training of the new employee. For this example, assume the employee stays for 2 years.	2500
Total of on-costs	**17 054**

The total of the on-cost for this 'average' employee is $17 054. Businesses are responsible for these costs and must budget accordingly. Therefore, based on this case study, the total cost of employing someone on a base salary of $50 000 is $67 054.

The above table only deals with the most common on-costs for the 'average' employee. For some employees, especially senior executives, other specialised on-costs can include fringe benefit tax, car allowance, housing subsidy, travel and meal allowance, bonus fee and association membership fees.

The main on-costs include:

- work health and safety requirements
- long service leave
- sick leave
- superannuation
- holiday pay
- study leave
- maternity and paternity leave
- workers' compensation
- leave loading.

Two examples of these on-costs (non-wage costs) are superannuation and leave loading.

Superannuation

Under the federal Superannuation Guarantee scheme, all employers must make provision for employees' superannuation. **Superannuation** (otherwise known as super) requires all employers to make a financial contribution to a fund that employees can access when they retire. The main aim of superannuation is to give employees a sum of money that can be used:

- for their retirement
- if they become an invalid
- by the beneficiaries upon a person's death.

In some circumstances they can access the money if they leave a job, although tax disincentives apply. Employers are not required to provide for the superannuation of employees earning less than $450 per month or for employees aged under 18 years old and working 30 hours or fewer per week.

superannuation a scheme set up by the federal government. It requires all employers to make a financial contribution to a fund that employees can access when they leave or retire from a job. The percentage an employer must contribute will increase gradually to 12 per cent by 2025.

FIGURE 11.31 Legislation to increase the superannuation guarantee was introduced in 2012. At the time, the superannuation guarantee was 9 per cent and was set to increase to 12 per cent by July 2019 because of a concern at the time that this rate would leave retirees with insufficient funds for a comfortable, independent income when they retire. While it did rise to 9.5 per cent in 2014, it was then frozen by the government. From July 2021 it is due to incrementally increase until it reaches 12 per cent in July 2025.

BizFACT

All contributions must be made to a complying superannuation fund that meets the federal government's standards, so as to protect the employee's superannuation. Since 2005, many employees have been able to choose into which fund their employer superannuation contributions are paid.

The employer's main obligation is to make a financial contribution — presently 9.5 per cent of an employee's earnings for their ordinary hours of work — to their employees' superannuation account.

As with taxation, employers are required to keep records of all superannuation-related transactions, including payments contributed, payroll and employee records, and the level of entitlement of each employee. Employees are allowed access to all documentation, especially when leaving a workplace.

Annual leave loading

All employees, except casual employees, are entitled to a minimum of four weeks annual leave, or holidays, for each year they work. Leave loading is an extra payment most employees receive on top of their annual leave pay. This extra amount — presently 17.5 per cent — is added to an employee's holiday pay. The amount is calculated on the four weeks annual leave to which each full-time, permanent employee is entitled. Not all employees are entitled to leave loading, although this is a common feature of most modern awards. An employee's award, enterprise agreement or contract will state whether or not they are entitled to this.

BizFACT

There is pressure from employer associations to abolish leave loading.

Leave loading was introduced at a time when workers' wages were low and most worked more than a 40-hour week. Unions negotiated a percentage loading (presently 17.5 per cent) for workers so that the average family could afford to go away for a holiday (in addition to paying their regular rent or house repayments).

KEY IDEAS

- One of the most important influences when establishing an SME is staffing.
- If an SME owner decides to hire staff, many sources are available.
- The overriding recruitment objective is to attract a pool of qualified applicants with the most suitable skills.
- Skilled employees are more productive and create wealth for a business.
- A business will employ someone only if the return is greater than the cost.
- On-costs are payments for non-wage benefits, including long service leave, workers' compensation and annual leave loading.

11.9 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

11.9 Quick quiz on | **11.9 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 4, 8, 11	1, 3, 5, 6, 7, 9, 10, 12	

11.9 Exercise

Revision

1. **Explain** why hiring the 'right' employee is so important for a business.
2. **Identify** three sources of external employee recruitment.
3. 'Skilled employees are more productive and create wealth for the business.' **Discuss**.
4. **Recall** two options a business owner has if the skill-level of employees is not adequate enough for them to fulfil their jobs effectively.
5. **Why** do most employers consider general skills more important than job-specific skills?
6. Unscramble the following on-costs and then **construct** a sentence to explain their meaning.
   a. ypa dyohlia
   b. eelav gaoldni
   c. nnuepsnrtoiaau
7. **Explain** why on-costs are also referred to as non-wage costs.
8. **Outline** what the obligation of employers is towards employees in relation to superannuation.
9. **Discuss** the likely impact of abolishing leave loading from the perspective of (i) an employer and (ii) an employee.
10. **Calculate** the percentage on-costs represent of the base salary.
11. **Explain** why on-costs are sometimes referred to as 'hidden costs'.

Extension

12. Competent employees are important for the success of any business. Imagine you need to employ a new staff member in your boutique store. You choose an inexperienced salesperson. **Propose** three strategies you could use to train the employee.

Solutions and sample responses are available in your digital formats.

11.10 Taxation

SYLLABUS LINK In this subtopic you will learn about influences in establishing a small to medium enterprise:
- taxation – federal and state taxes, local rates and charges.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Taxation is the compulsory payment of a proportion of earnings to the government. Taxation is an important issue when a person is considering all aspects of opening a business.

11.10.1 Federal and state taxes

taxation the compulsory payment of a proportion of earnings to the government

Many different federal and state taxes apply to different businesses, and it is important that a person starting a business becomes familiar with all appropriate tax requirements. The main taxes that affect a business (see table 11.6) are imposed by the federal and state governments. The Australian Taxation Office (ATO) is the government body in charge of administering and collecting tax for the federal government.

TABLE 11.6 Major taxes that apply to businesses

Tax	Levied by
Income tax — pay-as-you-go (PAYG) • Imposed on the employee • Taken from the employee's salary or wage directly • Lodged with the tax department by the business • Detailed in a group certificate that the employee receives at the end of the financial year • Taxed at progressive tax rates — the more you earn, the higher your rate of tax.	Federal government
Fringe benefits tax (FBT) • Tax on the provision of a benefit to an employee — such as cars for private use, low-interest loans, entertainment expenses, and housing and accommodation — in place of a salary or wage • Paid by the employer at a rate of 47 per cent of the value of the benefit provided	Federal government
Goods and services tax (GST) • A broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia	Federal government
Company tax • Paid on the earnings of a company and calculated on the company's taxable income (which is income left after allowable deductions are calculated) • The full company tax rate is 30 per cent and the lower company tax rate for base rate entities is 27.5 per cent.	Federal government
Capital gains tax • Calculated on the profit made on the sale of assets acquired after 19 September 1985, including the sale of a business or properties bought and resold within 12 months	Federal government

(continued)

Tax	Levied by
Stamp duty • A tax levied on the transfer of property (e.g. businesses, real estate and shares) • Imposed on the individual or business	New South Wales government
Land tax • A tax on land owned by individuals or businesses over a certain value (in 2018 it was $629 000 or more) • Land used for primary production or an individual's primary residence are exempt from land tax	New South Wales government
Payroll tax • Payable on wages paid by an employer to their employees on payrolls that exceed $1.2 million at a rate of 4.85 per cent (2020)	New South Wales government

All businesses must pay their taxes if they wish to continue to operate as a legitimate business. Small to medium enterprise owners should structure their records and finances in such a way that they have the necessary information and money to efficiently manage their taxation obligations. Apart from the moral and ethical considerations, tax avoidance normally results in an Australian Taxation Office (ATO) investigation and the possibility of a fine or prison sentence.

Different taxes apply to different businesses, so a person operating an SME must become familiar with all appropriate tax requirements (see the following case study). Businesses pay taxes to their federal and state governments on the basis of what they earn, what they own and even what they purchase. One of the most important tax obligations is the goods and services tax (GST).

FIGURE 11.32 Keeping up with tax requirements can be a daunting task for individuals, let alone businesses with many complicated transactions. It is important for a business to seek help from the Australian Taxation Office or a registered tax agent when unsure.

SNAPSHOT

Case study: ATO, bills and paperwork bring thousands of small business owners to breaking point

Paperwork and taxes are no-one's favourite pastime, but there is evidence they are causing thousands of small businesses owners great distress, and some are not coping.

The Australian Taxation Office is so concerned about entrepreneurs falling into financial stress that it is ramping up efforts to monitor their mental health, offering a counselling service when business owners feel overwhelmed.

But there is also evidence the tax office could itself be adding to small business stress, with owners feeling hounded by the ATO's constant payment reminders.

Bills, taxes, late payers, customers and more bills

Cafe owner, 'Mary', who asked not to be identified, described each day on the job as relentless.

'We cook everything on site, we bring in all fresh food and everything is cooked on site,' she told RN Breakfast.

'But there are a number of people who want to know why we don't have more, and why that can't be served in under five minutes. They like to arrive and yell their orders at you, they tell you what temperature they want the water on the table, and so it starts.'

That is just the day-to-day running of the business.

On top of that, Mary has to monitor her cash flow and make sure she can pay every bill, on time — and it's stressful.

'There's all of your rental, electricity, gas, garbage collection — 101 others that are monthly,' she explained. 'And then there's a lot that are quarterly, like the tax department and local government.'

Mary has hit breaking point twice in the past decade, but she pushed on.

'And I really considered enough was enough. I had to take a very deep breath and decide — is it worth it?'

The ATO wants to help, but is it causing the problem?

The Australian Tax Office said there had been a noticeable increase in bill stress for small businesses, with hundreds of thousands of businesses calling in for help with payments last financial year.

And it is worried about how it is affecting the wellbeing of business owners across the country — so much so that earlier this month it sent out an email to over 2 million businesses encouraging them to call the ATO if they needed help.

It provided extra training to frontline staff so they could be more understanding and potentially spot those mental health issues, and invited Beyond Blue to talk with tax agents and share stories.

'[They are] really focusing on empathy in those phone calls, so we can help get those small business who are going through a hard time back on track,' said Deborah Jenkins, the deputy commissioner of small business at the ATO.

But while the tax office insists it is there to help, it has in the past come under fire for making the lives of small business owners harder.

In May 2018, in a major joint Four Corners/Fairfax investigation, the actions of the Tax Office were put under the microscope, looking at what happens when a taxpayer finds themselves in the crosshairs of the ATO.

'We've lost our investments, we've lost our home, I've personally lost my business reputation,' one small business owner told Four Corners.

'I've never come across such a mongrel bunch of bastards in my entire life,' said another.

Cafe owner Mary told RN Breakfast the ATO still hounds her to pay her bills on time. 'They give you a due date and once you have a due date, you will be hounded after that due date.'

'I can appreciate how that might feel when they are contacted by us,' Ms Jenkins said.

'Our focus is on making sure that people know what they need to do, when they need to do it, and that we're here to support them if they can't manage to meet their tax and superannuation obligations.'

Peter Strong, CEO of the Council of Small Business Organisations of Australia, was behind the original push, several years ago, to encourage the ATO to reach out to small businesses in distress. He believes the ATO is now better placed to guide small business through their own individual financial storms.

'It always takes time for the small business community to hear about things — there's so many of us and we're so busy,' he said.

But people are beginning to feel more comfortable about picking up the phone and asking for help, Mr Strong said.

'I hear all the time from people who say, "I rang up the Tax Office, and gee they were good".'

Source: David Taylor, 'ATO, bills and paperwork bring thousands of small business owners to breaking point', *ABC Online*, 22 November 2018.

Goods and services tax (GST)

The **goods and services tax (GST)** is a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia. One of the stated purposes for the introduction of the GST was to make it more difficult for businesses and individuals operating in the 'cash economy' to avoid tax. The GST had a major impact on many aspects of business operations because businesses became responsible for collecting the tax on behalf of the government.

The GST is paid at each step in the supply chain, with businesses charging GST as part of the price of the goods and services they supply. Any business with an annual turnover of $75 000 or more operating within Australia must register for the GST. The business is then entitled to claim **input tax credits** from the ATO for any GST included in the price of inputs that the business purchases. This means the consumer bears the cost of the GST, not the business providing the good or service. It is the responsibility of the business, however, to pay to the ATO the amount of GST collected from the consumer.

The GST requires all registered businesses to prepare a set of accounts — the **business activity statement (BAS)** — at regular reporting intervals, either monthly or quarterly. The key to successfully managing GST reporting and associated 'paperwork', therefore, is to be organised, especially in terms of the input tax credit. Failure to claim for these credits will result in them becoming a cost to the business.

goods and services tax (GST) a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia

input tax credit an allowable tax deduction that a business can claim for any GST included in the price of business inputs

business activity statement (BAS) a document that records a business's claim for input tax credits and accounts for GST payable

SNAPSHOT

Case study: The GST system — how it works

Timber merchant sells timber for $110 including $10 GST	**Business activity statement**		
	GST on sales	$10	
	less input tax credit	$0	
	GST to pay	$10	$10 GST paid by timber merchant to ATO
Furniture manufacturer sells table for $220 including $20 GST	**Business activity statement**		
	GST on sales	$20	
	less input tax credit	$10	
	GST to pay	$10	$10 GST paid by manufacturer to ATO
Retailer sells table for $330 including $30 GST	**Business activity statement**		
	GST on sales	$30	
	less input tax credit	$20	
	GST to pay	$10	$10 GST paid by retailer to ATO
Consumer pays $330 (including $30 GST to the retailer)			**$30 total GST paid**

GST is paid at each step in the supply chain. GST-registered businesses must include GST in the price of goods and services they supply or sell. If you're registered for GST, you can claim back the GST included in the price of your business purchases as input tax credits.

Registered businesses collect GST from sales to their customers, then claim back the GST on business purchases as input tax credits. The cost of GST, therefore, flows along the supply chain and is finally included in the price paid by the end consumer.

Consumers cannot claim input tax credits, so while the liability for paying the GST rests with GST-registered businesses and organisations, the economic cost is borne by the end customer. This can be seen clearly in the example above of the manufacture and sale of a piece of furniture.

The example above shows how three businesses, each registered for GST, charge and pay the GST. The timber merchant sells timber to a furniture manufacturer for $110, including $10 GST. The manufacturer uses the timber to make a table, which he sells to a furniture retailer for $220, including $20 GST. The retailer then sells the table to a consumer for $330, including $30 GST.

The timber merchant pays $10 GST to the ATO. The furniture manufacturer, who is registered for GST, is entitled to an input tax credit for the $10 GST, which is included in the price paid to the timber merchant. The manufacturer will offset that $10 against the $20 collected on the sale of the table to the furniture retailer and pay $10 GST to the ATO.

The furniture retailer, who is registered for GST, is entitled to an input tax credit for the $20 GST included in the price paid to the furniture manufacturer. The retailer will offset that $20 against the $30 GST collected on the sale of the table to the consumer and pay $10 GST to the ATO.

The consumer who buys the table pays the GST, because consumers cannot register for GST and cannot claim input tax credits.

The Australian Business Number (ABN)

As part of the tax reforms and the GST in 2000, the Australian government introduced the **Australian Business Number (ABN)**. The ABN is a single identifying number that a business uses when dealing with government departments and agencies. The ABN also allows the business to participate in the GST system, because input tax credits can be claimed only if a supplier has an ABN. If a business does not have an ABN, tax at the rate of 47 per cent can be withheld. This is known as withholding tax and can be avoided by quoting an ABN on invoices for the supply of a good or service.

Australian Business Number (ABN) a single identifying number that a business uses when dealing with government departments and agencies

on Resources

Weblink ATO

11.10.2 Local government rates and charges

Although they are often considered of lesser importance compared to the numerous state and federal taxes, local government rates and charges must be considered and budgeted for. Rates — a system of property taxation usually based on the value of land — is the main local government charge a business will face. The three main areas in which fees or charges are levied are:

- water and sewerage
- waste management services
- development and building approval fees
- inspectors' fees
- parking permits
- use of public property.

The income generated from these taxes is used to provide better facilities for the local community. Sometimes a local council will offer exemptions or reductions in the rates and charges to encourage people to establish businesses within the council area.

KEY IDEAS

- Taxation is the compulsory payment of a proportion of earnings to the government.
- Businesses are responsible for checking their obligations concerning income tax (PAYG), fringe benefits tax, goods and services tax, company tax, capital gains tax, stamp duty, land tax and payroll tax.
- Goods and services tax (GST) is a 10 per cent value added tax imposed on most goods and services.
- The customer pays GST when buying goods and services, which is passed on to the business that in turn passes it on to the Australian Taxation Office (ATO).
- GST collection and payments to the ATO are recorded on the business activity statement (BAS), which is also the means by which a business can claim input tax credits.
- The Australian Business Number (ABN) is a single identifying number that a business uses when dealing with government departments and agencies.
- Property rates is the main local government charge a business will face.

11.10 Activities

learnON

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11.10 Quick quiz on | **11.10 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 4, 7, 8, 12, 13	1, 3, 5, 6, 9, 10, 11, 14	15

11.10 Exercise

Revision

1. **Distinguish** between income tax — pay-as-you-go (PAYG) — and company tax.
2. **Recall** an employer's obligations in relation to the stamp duty tax system.
3. **Distinguish** between fringe benefits tax and capital gains tax.
4. **State** the business owner's requirements in relation to structuring financial records for taxation purposes.
5. **Explain** the operation of each of the following state taxes:
   a. payroll tax
   b. land tax.
6. Denise runs a real estate agency, which is registered as a proprietary company. She employs eight permanent staff and three casuals and paid a total of $870 000 in wages in the last financial year. The business provides five employees with a car each to assist them to visit properties as well as for their own personal use. Denise regularly uses her business contacts to buy cheap properties, renovate them and sell at a profit. Her business owns its own premises, which are currently valued at over $1 million.
   Identify and **explain** each of the Commonwealth and state taxation obligations of Denise's business.
7. **State** what the following acronyms represent:
   a. GST
   b. BAS
   c. ABN.
8. **Define** the term 'goods and services tax (GST)'.
9. **Explain** the importance of a BAS.
10. **Describe** the effect of the system of input tax credits on businesses and consumers.
11. An electrical goods manufacturer sold a dozen refrigerators to an electrical retailer for $880 each, which included $80 GST per refrigerator. The electrical retailer then sold each of the refrigerators to its customers for $1320 each, including GST.
    a. **Calculate** the amount of GST paid by each customer.
    b. Identify who, in this example, can claim input tax credits.
    c. **Calculate** the amount claimed as an input tax credit for each refrigerator by the electrical retailer.
    d. **Calculate** how much GST the electrical manufacturer would be required to pay to the ATO.
    e. **Calculate** how much GST the electrical retailer would be required to pay to the ATO.
12. **Recall** why it is important for a business to apply for an ABN.
13. **Identify** the main local government rates and charges.
14. Read the 'ATO, bills and paperwork bring thousands of small business owners to breaking point' case study and answer the following questions:
    a. **Explain** how tax regulations affect business owners.
    b. **How** has the ATO tried to help small businesses?

Extension

15. In small groups, **critically analyse** the following statement: 'In today's commercial world, tax avoidance happens. The only problem is being caught.' Choose a spokesperson to share the group's comments with the rest of the class.

Solutions and sample responses are available in your digital formats.

11.11 Review

11.11.1 Summary

Personal qualities

- Personal qualities such as someone's qualifications, skills, motivation, entrepreneurship, cultural background and gender will have an influence on the establishment of a small to medium enterprise.
- Business qualifications and skills can be attained through experience, education and/or training.
- These factors will affect planning decisions on issues such as the type and size of business, the business location and the individual's own role.
- An entrepreneur is someone who starts, operates and assumes the risk of a business venture in the hope of making a profit.
- An entrepreneur must have a range of skills and characteristics to own and operate a business successfully.

Sources of information

- Starting a completely new business, purchasing an existing business or purchasing a franchise are the three main ways of going into business.
- The most common reason for setting up a completely new business is the recognition of a gap in the market.
- When purchasing an existing business, it is essential for the potential purchaser to know why the business is for sale.
- People choose to buy a franchise in order to use an existing brand and reputation.
- There are advantages and disadvantages for each option.

The business idea

- A business idea describes the core activities of the business, and the specific features and value of the goods or services it provides.
- A business opportunity is something an entrepreneur can see as an avenue to success.
- Opportunities may arise due to either a 'gap' in the market, or an interest or hobby.
- Competition is rivalry among businesses that seek to satisfy a market.
- SME owners must decide how to make a business competitive. This can be done by either reducing the costs of production or providing something not already available.

Establishment options

- Starting a completely new business, purchasing an existing business or purchasing a franchise are the three main ways of going into business.
- The most common reason for setting up a completely new business is the recognition of a gap in the market.
- When purchasing an existing business, it is essential for the potential purchaser to know why the business is for sale.
- People choose to buy a franchise in order to make use of an existing brand and reputation.
- There are advantages and disadvantages for each option.

Market considerations

- The first thing business owners need to determine is what good or service they are going to sell.
- Businesses fail without a market (customers) for their goods or services, so they must always conduct a feasability study and undertake market research.
- A feasibility study is an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market.
- Market research is the process of systematically collecting, recording and analysing information concerning a specific marketing problem.
- Price can be set by using the cost-based, market-based or competition-based pricing methods.

- One of the key decisions a prospective small business owner makes is concerning the actual location of the business.
- Different types of business will be suited to different locations.

Finance

- A business cannot commence without finance to enable it to pursue its activities.
- SME owners must determine how their business will be financed throughout the life of the business.
- Businesses can obtain funds from either internal (equity) or external (debt) sources.
- Debt finance relates to the short-term and long-term borrowing from external sources by a business.
- Examples of short-term finance available to businesses include an overdraft, commercial bills and factoring. Examples of long-term finance include a mortgage, debenture and unsecured note.
- Equity is the funds contributed by the owner(s) of a business to start and expand the business.
- Some of the common sources of equity finance include self-funding (bootstrapping), family or friends, private investors, issuing shares and crowdfunding
- The business owner must consider the cost of finance. This will depend on the type of finance, the source and the term.

Legal considerations and influence of government on SMEs

- All business owners have a legal obligation to observe the statutory regulations when commencing and operating a business.
- Of the many laws and regulations that small business owners need to comply with, some important regulations relate to:
  - business name
  - land zoning
  - health regulations.
- The *Competition and Consumer Act 2010* (Cwlth) is a federal government statute that aims to:
  - promote fair trade and competition in the marketplace
  - protect both consumers and businesses from deceptive or misleading practices.
- Business owners who are planning to employ staff will need to comply with a variety of employment laws and regulations.

Human resources

- One of the most important influences when establishing a SME is staffing.
- If an SME owner decides to hire staff, many sources are available.
- The overriding recruiting objective is to attract a pool of qualified applicants with the most suitable skills.
- Skilled employees are more productive and create wealth for a business.
- A business will employ someone only if the return is greater than the cost.
- On-costs are payments for non-wage benefits, including long service leave, workers' compensation and annual leave loading.

Taxation

- Taxation is the compulsory payment of a proportion of earnings to the government.
- Businesses are responsible for checking their obligations concerning income tax (PAYG), fringe benefits tax, goods and services tax, company tax, capital gains tax, stamp duty, land tax and payroll tax.
- Goods and services tax (GST) is a 10 per cent value added tax imposed on most goods and services.
- The customer pays GST when buying goods and services, which is passed on to the business that in turn passes it on to the Australian Taxation Office (ATO).
- GST collection and payments to the ATO are recorded on the business activity statement (BAS), which is also the means by which a business can claim input tax credits.
- The Australian Business Number (ABN) is a single identifying number that a business uses when dealing with government departments and agencies.
- Property rates is the main local government charge a business will face.

11.11.2 Key terms

Australian Business Number (ABN) a single identifying number that a business uses when dealing with government departments and agencies
business activity statement (BAS) a document that records a business's claim for input tax credits and accounts for GST payable
business opportunity something an entrepreneur can see as an avenue to success. It is often identified when a person believes they can provide goods or services in a better or different way from those already on the market.
commercial bills short-term loans issued by financial institutions for larger amounts for a period of generally between 30 and 180 days
competition rivalry among businesses that seek to satisfy a market
Competition and Consumer Act 2010 a law that protects both consumers and businesses. It protects consumers from deceptive or misleading practices, and it regulates the trade practices of businesses.
debenture a type of bond issued by a company for a fixed rate of interest and for a fixed period of time
debt finance relates to the short-term and long-term borrowing from external sources by a business
equity finance the funds contributed by the business owner(s) to start and then expand the business
factoring the selling of accounts receivable for a discounted price to a finance or factoring company
feasibility study an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market.
franchise buying the rights from another business to distribute its products under its name
franchisee an individual or business that purchases a franchise
franchisor an individual or business that grants a franchise
goods and services tax (GST) a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia
goodwill the monetary value attached to the reputation of a particular business
input tax credit an allowable tax deduction that a business can claim for any GST included in the price of business inputs
interest the cost of borrowing money
mortgage a loan secured by the property of the borrower (business)
on-costs payments for non-wage benefits
overdraft when the bank allows a business to overdraw their account up to an agreed limit for a specified time to overcome a temporary cash shortfall
superannuation a scheme set up by the federal government. It requires all employers to make a financial contribution to a fund that employees can access when they leave or retire from a job. The percentage an employer must contribute will increase gradually to 12 per cent by 2025.
taxation the compulsory payment of a proportion of earnings to the government
unsecured note a loan from investors for a set period of time. It is not secured against the business's assets.
zoning a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

on Resources

Digital documents Key terms glossary (doc-35797)
Chapter crossword (doc-36250)

Interactivity Chapter crossword (int-7231)

11.11 Activities

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Exercise 1: Multiple choice questions

1. Which of the following is an advantage of buying an existing business?
   - **A.** There is no goodwill to pay for.
   - **B.** Equipment is available for immediate use.
   - **C.** The seller provides training and management backup.
   - **D.** The owner has complete freedom to set up the business as they wish.
2. Which of the following would best describe the term 'entrepreneur'?
   - **A.** Time efficient
   - **B.** Good manager
   - **C.** Risk taker
   - **D.** Does not tolerate failure
3. Which organisation is responsible for the national business name registration service?
   - **A.** NSW Fair Trading
   - **B.** Australian Domain Administration
   - **C.** Australian Securities and Investments Commission
   - **D.** Australian Competition and Consumer Commission
4. A hairdresser decided to survey potential customers about how much they'd be willing to pay for a variety of services she wants to offer. She also calculated the costs involved in providing each service so that she can find a suitable price.
   Which two pricing strategies has she used?
   - **A.** Cost- and competition-based
   - **B.** Competition- and market-based
   - **C.** Market- and cost-based
   - **D.** Cost- and quality-based
5. In order to attract, motivate and retain staff, Billy Electronics provides cars to employees for work and private use. However, the business has to pay the government a tax for providing such a benefit to its employees.
   What is the name of the tax levied on the business?
   - **A.** Fringe benefits tax
   - **B.** Goods and services tax
   - **C.** Company tax
   - **D.** Payroll tax
6. Which of the following is an example of an on-cost?
   - **A.** Bonus
   - **B.** Commission
   - **C.** Salary
   - **D.** Superannuation
7. Who controls zoning regulations?
   - **A.** State government
   - **B.** Local government
   - **C.** Federal government
   - **D.** Australian Taxation Office
8. What is an example of equity finance?
   - **A.** Debenture
   - **B.** Factoring
   - **C.** Overdraft
   - **D.** Shares

9. What is an example of short-term finance?
   - **A.** Debenture
   - **B.** Mortgage
   - **C.** Overdraft
   - **D.** Unsecured note

10. Which of the following is a disadvantage of buying a franchise?
   - **A.** There is a higher risk.
   - **B.** Profits must be shared.
   - **C.** Training and management backup is provided.
   - **D.** It may be difficult to assess the value of goodwill.

Exercise 2: Exam practice questions

Question 1 (2 marks)

Identify four personal qualities required to run a successful SME.

Question 2 (4 marks)

Outline two sources of information available to SME owners.

Question 3 (4 marks)

Discuss the establishment option of purchasing an existing business.

Question 4 (4 marks)

Identify ONE legal regulation and **explain** how it influences SMEs.

Question 5 (4 marks)

John wants to start his own plumbing business. **Recommend** ONE source of equity finance he can use to purchase the equipment he needs.

Question 6 (5 marks)

Assess the impact of the goods and services tax (GST).

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Teacher–led video Chapter 11 Exam questions solutions (tlvd-1897)

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12 The business planning process

12.1 Overview

LEARNING SEQUENCE

12.1 Overview
12.2 Business planning process
12.3 Sources of planning ideas
12.4 Vision, goals and objectives
12.5 Organising resources
12.6 Forecasting
12.7 Monitoring and evaluating
12.8 Taking corrective action — modification
12.9 Review

12.1.1 Introduction

Businesses do not plan to fail; they fail to plan — this quotation is a sad reflection of reality. SME owners start keen, convinced their idea will succeed. They are full of optimism. However, while enthusiasm is an essential ingredient in the success of a business, it is not enough by itself. If prospective business owners neglect to undertake thorough planning, so they can put together a carefully researched business plan, the stage is set for business failure. Optimism will turn to despair as the small business owner faces the grim reality. All SME owners must have a good understanding of the:

- role of the business plan
- process of business planning.

FIGURE 12.1 A business plan is similar to a travel itinerary — it plots the route the business will travel.

Resources

Digital documents Key terms glossary (doc-35799)

12.2 Business planning process

SYLLABUS LINK In this subtopic you will learn about the business planning process.

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12.2.1 The role of the business plan

A **business plan** is similar to a travel itinerary. You would not go on a year-long trip around Australia without first preparing a plan. You would need to decide which modes of transport you would use to get from place to place, where to stay and what sights to visit. During the trip, you would need to constantly refer to the map to make sure you were heading in the right direction. Also, on hearing about local events or conditions, you would need to modify your travel plan to accommodate for these factors.

It is the same in the world of business. Anybody who is starting a new business should spend time planning. It is amazing that many people put more planning into a holiday than they do into their business. Without planning, the business owner does not know where the business is heading. The business 'journey' will probably end in disaster, with the owner asking, 'How did I end up here?' Therefore, the essential role of the business plan is to act as a guide or map on which the business's journey can be plotted. It is one of the most useful management tools a business owner can use. In all businesses, the best results come from effective management and detailed planning.

BizFACT

The first task of anyone wanting to commence a business is to undertake thorough planning. The planning will provide the foundation on which the business will be built. Strong, firm foundations will usually result in a successful business.

However, preparing the business plan is only the first stage. Many SME owners realise the need to prepare a business plan before establishing a business, but they then make a fundamental mistake — they forget to constantly refer back to their plan. This would be similar to a student preparing a set of summary notes for a topic and then never looking at them.

Even if an SME owner manages to avoid the mistake of not regularly consulting the business plan, there is still another trap. An inexperienced person may not be flexible enough to modify their business plan as the internal and external business environments change. Sticking too rigidly to a plan, and not adapting it to suit the changed conditions, can be as detrimental as not having a plan.

The business plan must always be seen as a working document. It is not a straitjacket restricting the business and preventing change. The unexpected can and often does happen. Unfavourable factors, such as a customer not paying an account or a new competitor moving into the market, will force the business owner/manager to modify their plan. Favourable conditions, such as a new marketing opportunity, will need to be seized and they will also require some modification to the plan.

business plan a written summary and evaluation of the business idea. It sets out the desired goals and direction of the business, and how it will maintain its focus.

12.2.2 What is a business plan?

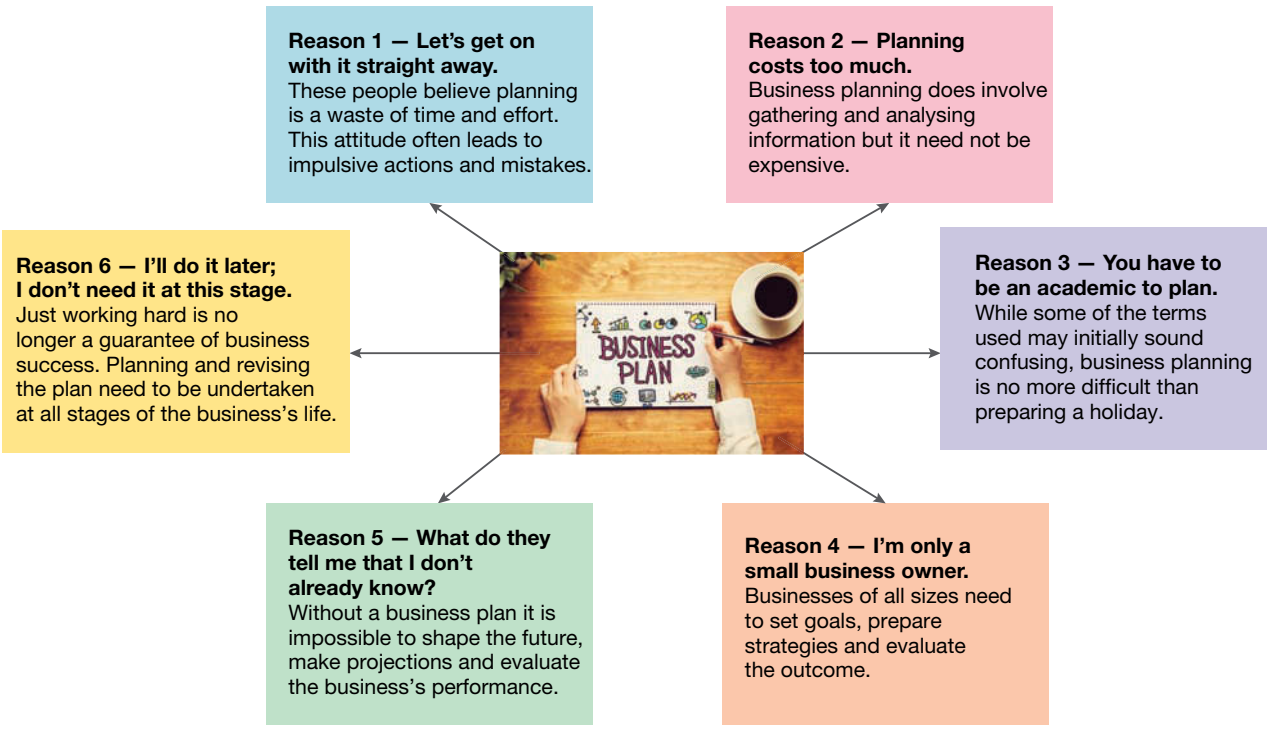
A business plan is exactly what it says — a plan for a business. A business plan is a written summary and evaluation of the business idea. It sets out the desired goals and direction of the business, as well as how it will maintain its focus. It enables the owner to think through all the facets of a new business and to examine strategies relative to management, marketing, finance, operations and human resources. The business plan identifies areas of strength and weakness, opportunities and threats, and shows the owner the probability of success.

The 'writing' is important because ideas tend to be no more than wishful thinking until transferred to paper. Thinking about something is not planning. A few ill-conceived ideas scribbled on the back of an envelope are likely to lead to business failure.

A comprehensive business plan will assist when arranging finance for the business. The plan provides information that lenders need to know and it also shows that the business is being properly organised and managed.

If a business plan is so important, why do some people attempt to establish a business without first preparing one? Figure 12.2 highlights some of the main reasons.

FIGURE 12.2 The main reasons for business owners' failure to plan



BizFACT

A business plan is essential for those business owners who wish to thrive and not just survive.

Planning is not always easy and it can be time consuming. However, the time invested in planning is never wasted in the long run because, with it, the chances of success are greatly improved.

Just as no two businesses are identical, neither are any two business plans. Each plan will be unique, containing information and strategies that apply to one particular business. A business plan for a transnational corporation, for example, will be detailed and comprehensive. It will add up to hundreds of pages, having taken much time, effort and money to prepare. Its presentation will be highly professional and distributed to a large number of the company's senior management. On the other hand, a business plan for an SME may be only 10–15 pages in length, word processed at home and circulated to only a few people.

FIGURE 12.3 There is nothing mysterious about planning. It simply means deciding in advance where the business is heading and working out the details of how to get there. Planning is required to achieve your goals in assessment tasks. It is the same in business.

Depending on variables such as the product, the market, the size of the business and its location, each business will have a unique set of information in its business plan. However, regardless of their type, length, appearance and distribution, all business plans have a number of common elements, as shown in table 12.1.

TABLE 12.1 The common elements of a business plan

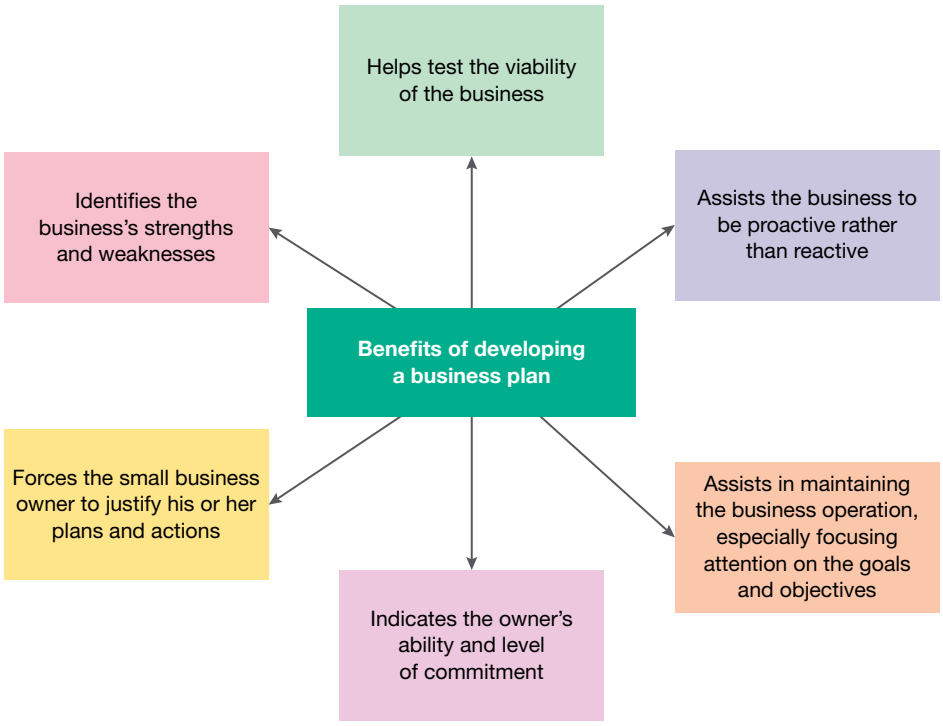
Element	Purpose
1. Executive summary	A brief overview of the plan
2. Goals	What the business hopes to achieve
3. Strategies	An overview as to how the business will attempt to achieve the goals
4. Business description and outlook	An overview of the industry in which the business will operate, including a situational analysis
5. Management and ownership	The nature and type of organisational structure
6. Operational plans	Details the production process and the people required now and in the future
7. Marketing plans	The product, price, promotion and distribution details
8. Financial plans	A description of the business's financial needs and methods for evaluating its performance
9. Human resource plans	Details both the present and future staff requirements

While all business plans contain similar information, a comprehensive and detailed business plan is most beneficial. A sketchy, quickly prepared business plan will not serve any lasting purpose. Some plans may only briefly refer to some of the areas, but all points need to be at least considered.

12.2.3 Benefits of a business plan

The planning process acts as a link or bridge between the business owner's ideas and the actual operation of the business; it is a way of turning dreams into reality. The written plan becomes a useful reference point for the running of the business. Any small business with a plan has direction, which ultimately saves money, time and effort, and also increases the likelihood of success. Preparing a business plan is very similar to completing an assessment task. The result will reflect the amount of time, effort and research that goes into the plan and its final presentation.

FIGURE 12.4 The benefits of developing a business plan



SNAPSHOT

Case study: Marketing4Restaurants — it's all about the plan

James Eling is the owner of Marketing4Restaurants, a business that provides a variety of marketing tools to help restaurants and cafés find new customers and turn them into repeat customers. He has built a team of employees who are passionate about helping restaurant owners run small businesses that are profitable and fun.

James Eling believes that business planning brings clarity to his business. His business plan acts as a 'road map' for his business. He draws up five-year, one-year and 90-day goals for his company, which then reveal the missing pieces in his strategy that are needed to meet those goals. 'It raises a whole heap of questions and those questions form part of your short-term goals,' he says.

In his business plan, Eling also includes analysis of his industry, the customers and competitors. That analysis revealed, for instance, that distribution channels were the biggest hurdle the business faced, allowing him to focus more effort there.

Eling says he also knows the costs of not having a business plan. Extreme Networks, an IT business he founded with his wife, was named a BRW Fast 100 company in 2004 and doubled its revenue in 2007; however, soon after the couple gave up on business plans. 'At that point, we thought we were really good at running an IT company and we just lost focus and were going backwards,' James says. 'Probably our biggest regret in the 15 years that the company's been running were those five years that were completely wasted.'

12.2.4 Business planning process

Planning is a process, a series of actions to achieve a goal. If you decide to have a party next Saturday night, for example, this becomes your goal. Unless you undertake some planning you will be unable to achieve this goal. You will need to invite people, organise food and drinks, arrange music and decide on a venue. These tasks are the 'series of actions' — an action plan — that you need to undertake to achieve the goal. **Planning** is therefore the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.

FIGURE 12.5 You need to consider a range of planning activities, whether your goal is a party or business success.

Planning is not always straightforward. However, a number of activities can be undertaken to make it easier (figure 12.5). A business plan is far more than just listing a few ideas. It is more than merely drawing up a marketing timetable or keeping financial records. The business plan needs to analyse the whole business by examining all parts of the operation. As a result, each part of the business can function effectively and achieve its goals, helping the overall success of the business.

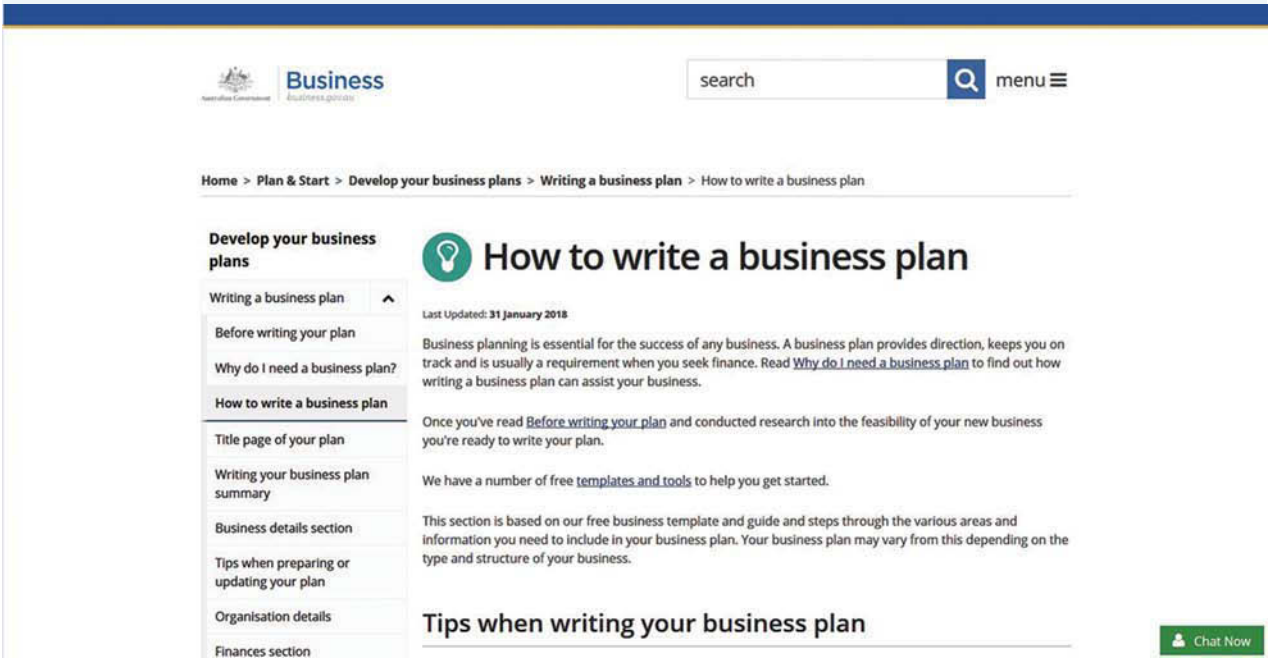
planning the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.

TABLE 12.2 The activities and terms involved in planning a party

Party example	Activities — something you do	Terms — the names of what you will be doing
I think my friends would like a party.	1. Predicting something in the future	Forecasting
I want it to be a successful party.	2. Determining what you wish to achieve	Setting goals
Anyone who becomes aggressive will be forced to leave.	3. Outlining how to cope with any current and future problems that stand in the way of achieving the goal	Formulating policies
I will: • invite people • arrange a venue • organise food and music.	4. Deciding on a course of action — that is, the tasks that will help achieve the goals	Programming Scheduling
I'll borrow $200 from Michelle.	5. Arranging the finances to satisfy the goals	Budgeting
PARTY!	6. Putting the plans into action	Implementing
I want everyone to enjoy the party.	7. Checking on the progress of the activity, evaluating and adjusting the plans if necessary	Monitoring Evaluating Modifying

Government departments — such as the New South Wales Small Business Commissioner or the federal government's business.gov.au — provide free and comprehensive advice on a wide range of small business matters including how to write a business plan. As well, numerous small business magazines often contain articles examining business planning.

FIGURE 12.6 The business.gov.au website contains a wealth of information about how to write a business plan, including templates, reference material and an app to help create one.



on Resources

Weblink business.gov.au — business plans

KEY IDEAS

- It is vital that an SME owner completes a business plan. Businesses do not plan to fail; they fail to plan.
- A business plan is a written statement of the goals for the business and the steps to be taken to achieve them. It is a summary and an evaluation of a business concept in written form.
- A business plan will also assist the SME owner when arranging finance for the business.
- A typical business plan may include, as a minimum, an executive summary, an operations plan, a marketing plan, a financial plan and a human resources plan.
- The planning process acts as a link or bridge between the business owner's ideas and the actual operation of the business.

12.2 Activities

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12.2 Quick quiz on | **12.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 7, 10, 11	2, 3, 4, 5, 6, 8, 12, 14	9, 13, 15, 16, 17

12.2 Exercise

Revision

1. **Define** the term 'business plan'.
2. **Explain** why it is important for a business owner to develop a business plan.
3. **Why** do many SMEs fail to prepare a business plan?
4. A friend has asked you to help her prepare a business plan for a new fitness centre she wants to open. **Propose** the elements she should include in the business plan.
5. 'A plan is similar to a travel itinerary — it plots the route the business will travel.' **Discuss**.
6. **Explain** how the business plan acts as a link or bridge between the owner's ideas and the actual operation of the business.
7. **Identify** the benefits of developing a business plan.
8. **Explain** why planning is a process.
9. Examine figure 12.5, then **create** a plan for one of the following:
   a. taking an overseas holiday
   b. completing an assessable task
   c. organising a hockey match.
10. **Identify** the most appropriate words from below to complete the following sentences.

plan	review	flexible	fail	loan
direction	link	strength	costs	goals

   a. Businesses do not plan to _____; they fail to _____.
   b. Business plans should be _____ — that is, modified as conditions change.
   c. A business owner should regularly _____ the business plan and modify it when the business environment changes.
   d. Without a business plan, the business lacks _____.
   e. Many business owners do not prepare a plan because they think it _____ too much.
   f. When reviewing an application for a _____, financial institutions will want to examine the business plan.
   g. _____ are what you want to achieve.
   h. A business plan helps identify the business's _____ and weaknesses.
   i. The planning process is the _____ between the owner's ideas and the actual operation of the business.

Read the 'Marketing4Restaurants — it's all about the plan' case study and answer questions 11 and 12.

11. **Outline** some of the information that James Eling includes in his business plan.
12. **Explain** how James Eling has benefited from a business plan.

Extension

13. 'Businesses do not plan to fail; they fail to plan.' **Critically analyse** this statement.
14. Interview a local small business owner to **investigate** the following aspects of the business:
    a. the planning options that had to be considered when starting the business
    b. the purpose of the business plan
    c. the role of the business plan within the operation of the business
    d. the importance of planning to the overall success of the business
    e. the government departments and/or private organisations that offered assistance in developing a business plan.
15. 'The process of planning is more important than the finished plan.' **Determine** the benefits this process offers an SME owner.
16. Bruce Thurow, senior loans manager for a local bank, receives a lot of business plans from clients. He recalls one plan that arrived in three cardboard boxes as volumes of looseleaf notebooks. Overkill? 'I knew I wasn't going to read them. I just put them aside.' In small groups, **determine** why such a detailed plan was inappropriate when all the small business owner was requesting was a small loan.
17. 'The most important aspect of the business planning is the process of examining the environment, one's self and the business opportunities the two represent.' **Analyse** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

12.3 Sources of planning ideas

SYLLABUS LINK In this subtopic you will learn about the business planning process:
- sources of planning ideas
  - situational analysis.

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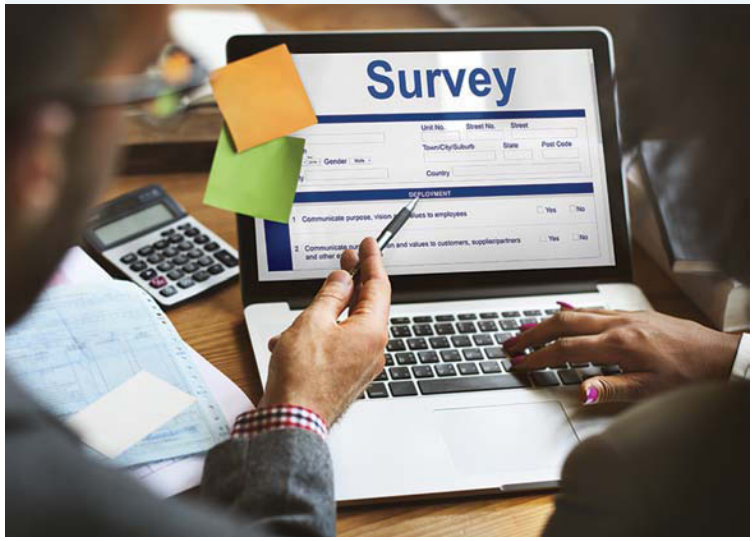
We have already examined how the business environment is divided into two categories:

1. *The internal business environment.* This covers the factors within the direct control of the owners. It represents what occurs within the business.
2. *The external business environment.* This larger environment within which the business operates. It consists of factors over which the business has little control and represents what occurs on a larger scale outside the business.

Information is the essential ingredient needed to prepare a business plan. Having access to up-to-date, relevant and accurate information will allow the business owner to prepare a much superior business plan. Information for planning is obtained from different sources within and outside the business.

FIGURE 12.7 All of the facts and information that are relevant to the business plan must be gathered. Some methods to use might simply be talking to people or completing surveys.



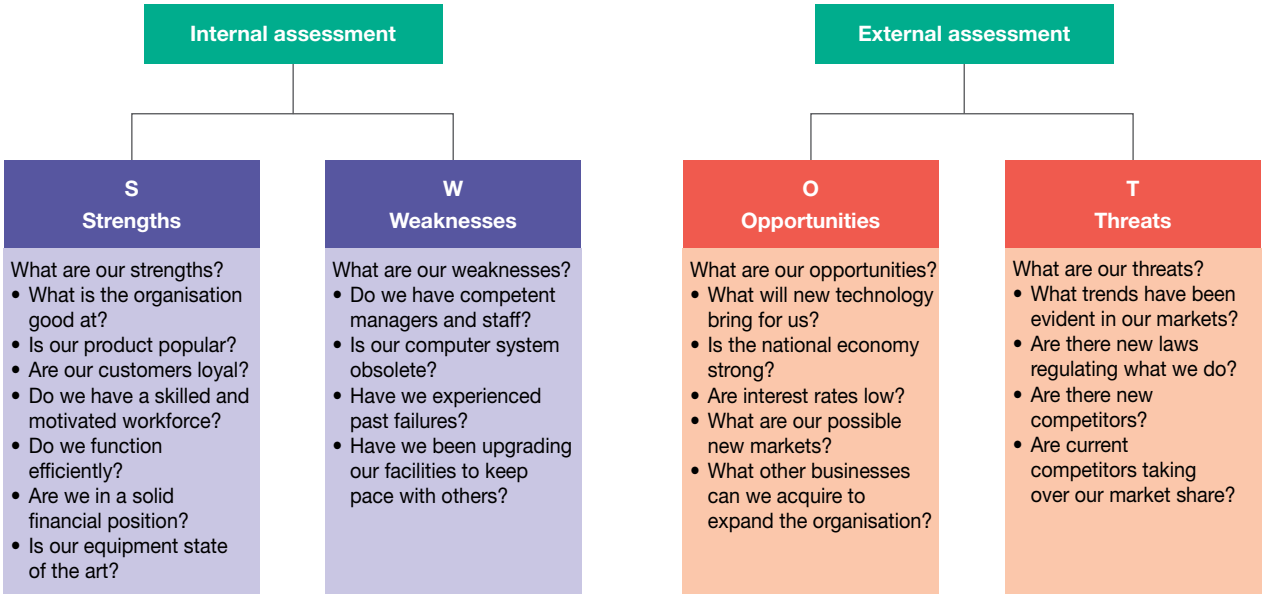
The different levels of management and, in many cases, employees, may contribute ideas about how the business could achieve its goals. Research and development undertaken by a business may extensively contribute to planning.

The external environment is also a source of ideas for planning. Economic, political, social, technological, geographic and legal factors have an impact on the business. The business must account for each factor during the planning stage and gather information about each one. Specialists such as accountants, finance brokers, consultants, bank managers and solicitors all provide knowledge to assist a business in its planning.

12.3.1 Situational analysis

A situational analysis refers to a collection of methods that managers can use to analyse a business's internal and external environment. One method of analysis is a SWOT analysis. A **SWOT analysis** is an excellent technique for gathering information for use in the business plan. SWOT is an acronym for strengths, weaknesses, opportunities and threats (see figure 12.8). It is a powerful tool that can be used at all stages of the planning process. Analysis of the business's strengths and weaknesses is an internal analysis. Given that the business has a degree of control over its internal environment, the analysis will provide information that can help place the business in a stronger financial position. From this position, the business can set new goals.

FIGURE 12.8 A SWOT analysis



Analysis of the business's opportunities and threats is an external analysis. Particularly important to the business plan is the identification of unmet or unsatisfied demand that the business can perhaps satisfy. At the same time, the business owner should attempt to convert threats into opportunities.

However, a business owner should be aware that a SWOT analysis is only a small part of the business planning process. Market research and a business plan should also be completed when planning a business. A SWOT analysis may also generate a large amount of information — not all of which may be useful. A SWOT analysis does not provide solutions to weaknesses or threats; nor does it help the business owner choose which strengths or opportunities are the best options.

SWOT analysis the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment

KEY IDEAS

- The internal and external business environments are sources of planning ideas.
- Information is the essential ingredient needed to prepare a business plan.
- A situational analysis refers to a collection of methods that managers can use to analyse a business's internal and external environment. One method of analysis is a SWOT analysis.
- A SWOT analysis can be used at all stages of the planning process.

12.3 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au. A **downloadable solutions** file is also available in the Resources tab.

12.3 Quick quiz on | **12.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4	1, 5	6

12.3 Exercise

Revision

1. **Distinguish** between a business's internal and external environments.
2. **Identify** two sources of information for planning (i) within, and (ii) outside the business.
3. **Recall** what the acronym SWOT represents.
4. **Outline** the benefits of a situational (SWOT) analysis as a planning tool.
5. **Construct** a situational (SWOT) analysis for either:
   a. a business that you deal with regularly
   b. your school.

Extension

6. In small groups, use the brainstorm technique to **determine** the advantages of obtaining ideas from employees in the planning process.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink SWOT analysis

12.4 Vision, goals and objectives

SYLLABUS LINK In this subtopic you will learn about the business planning process:

- visions, goals and/or objectives
  - vision
  - business goals
  - long-term growth.

You will also learn to explain how SMEs can enter the global market for long-term growth.

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12.4.1 Vision

A business's vision is often expressed in their vision statement. A **vision statement** broadly states what the business aspires to become in the future. The vision of the Commonwealth Bank is 'to excel at securing and enhancing the financial wellbeing of people, businesses and communities'.

vision statement a broad statement about what the business aspires to become in the future

Vision statements may relate to customers (using such phrases as 'maximise customer satisfaction', 'remember that customers are our strength', 'never have a dissatisfied customer') or employees (for example, 'make the firm an enjoyable and rewarding place to work', 'offer opportunities for career advancement', 'remember that our employees are our strength'). A clear vision statement should be concise, creative, focused and realistic. It may contain any special features of the business, what it values and what it hopes to achieve.

BizFACT

Vision statements are sometimes called mission statements. The two terms are often used interchangeably.

The main purpose of the vision statement is to guide and direct the business owners, managers and employees. It creates the culture within the business and acts as a benchmark against which to measure all the business's decisions and operations.

FIGURE 12.9 Vision statements from a range of businesses

IKEA
'To create a better everyday life for the many people'

Westpac
'To be one of the world's great service companies, helping our customers, communities and people to prosper and grow'

RSPCA
'To be the leading authority in animal care and protection'

Tourism Australia
'To make Australia the most desirable (first time visitors) and memorable (attracting repeat visitors) destination on earth'

Oxfam
'A just world without poverty'

12.4.2 Business goals

Once the owner has formulated the vision statement for the business, he or she can determine specific goals. People start up a business because they want to achieve something; they have a goal they want to accomplish. As explained in chapter 6, a goal states what a business expects to achieve over a set time, which will assist in realising the business's vision.

Goals for businesses could include the following:

- to become the largest business in the market
- to improve market share
- to provide a reasonable return for investors
- to contribute to the wellbeing of the community.

All these goals have one thing in common: they are the motivating force behind the business.

APPLYING BUSINESS MANAGEMENT THEORIES TO A PRACTICAL ACTIVITY

Ask your teacher for permission to complete this activity in class time. The aim of this activity is to apply your theoretical understanding of business management to a practical activity.

Instructions

1. Arrange your class into groups of three to four.
2. Find a place where your class can set up to have shots at basketball rings. You or your teacher may need to book the school gym or the basketball court. (*Note:* Other sports can be substituted, so long as it is possible to achieve the objective of the activity — to score a goal.)
3. Work out an order among the members of your group. Every student should have ten shots at goal.
4. As each student is shooting at goal, record the result. Did they score a goal, hit the ring or miss completely?

Materials required

- Basketballs
- Basketball rings
- Space

Questions

1. How can you measure the effectiveness of your group's performance in this activity?
2. Can you think of a way to measure your group's efficiency?
3. Complete the following table, using the results from your goal shooting. The table has already been started for you.

	Efficient	Inefficient
Effective	Score a goal from every shot	
Ineffective		

Levels of goals and objectives

objective a specific statement detailing what a business (or individual) needs to achieve in order to accomplish its vision

Once the goals have been established, an SME owner usually then decides how to achieve them. As outlined in 12.3, this involves developing an effective and worthwhile action plan. The action plan breaks down the goals into **objectives** — specific statements detailing what a business (or individual) needs to achieve in order to accomplish its vision. For example, you may have a goal of achieving a certain result in the Business Studies Trial HSC examination. Consequently, you will need to set some objectives, such as increasing by 60 minutes each week the time spent revising past papers, or weekly practice sessions answering ten multiple choice questions.

In a business, senior management will normally set the **strategic goals**, which focus on long-term, broad aims and apply to the business as a whole. For example, the chief executive officer (CEO) may establish a strategic goal of 'increasing market share'. This will involve the input of the four key business functional areas — operations, marketing, finance and human resources. Middle management set **tactical objectives**, which focus on mid-term, departmental issues and describe the course of action necessary to achieve the business's strategic goals. To use the example of increasing market share, a marketing manager may set a tactical objective of researching consumer tastes and preferences in order to help achieve the strategic goal. Front-line managers or supervisors set **operational objectives**, which focus on short-term issues and describe the course of action necessary to achieve the business's tactical objectives. For example, a marketing supervisor may set an objective of arranging for 20 customers to attend a focus group to help achieve the tactical objective and strategic goal.

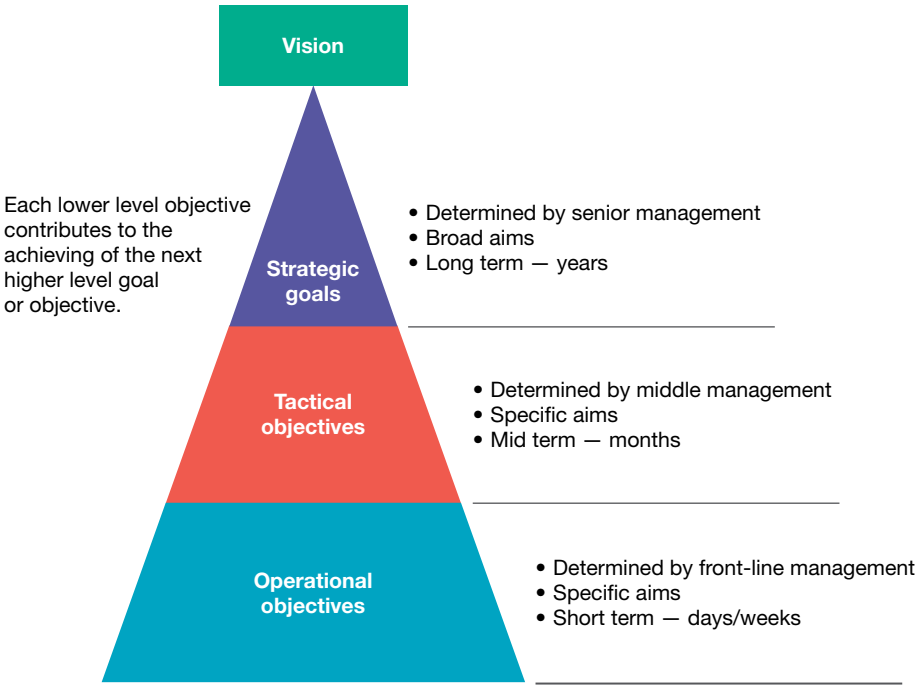
strategic goals goals that focus on long-term, broad aims and apply to the business as a whole

tactical objectives objectives that focus on mid-term, departmental issues and describe the course of action necessary to achieve the business's strategic goals

operational objectives objectives that focus on short-term issues and describe the course of action necessary to achieve the tactical objective and strategic goal

In practice, think of the levels of goals and objectives as pyramid-shaped as shown in figure 12.10.

FIGURE 12.10 The objectives established at each layer of the business's hierarchy are devised with the purpose of helping to achieve the strategic goal.



BizFACT

The terms goal and objective are often used synonymously as both terms refer to something a business wants to accomplish. However, the people, timeframe and resources involved in achieving each goal and objective vary significantly.

A business needs to have a clear idea of what it is trying to achieve; in other words, it needs clear goals and objectives. It is the interaction between the vision statement, goals and objectives that provide a process for a business to accomplish this (see table 12.3).

TABLE 12.3 The relationship between a vision, goal and objective

Term	Definition	Personal example	Business example — renewable energy company
Vision	Broad statement of overall purpose	Be healthy	To be a company of choice in the alternate energy sector
Goal	More specific statement of what is intended to be achieved	Lose weight	To be the market leader in alternate energy sales
Objective	Very specific statement of how the goal is to be achieved	Lose 2 kilograms by 1 December	To increase sales by 10% each year

As explained in chapter 6, common business goals include:

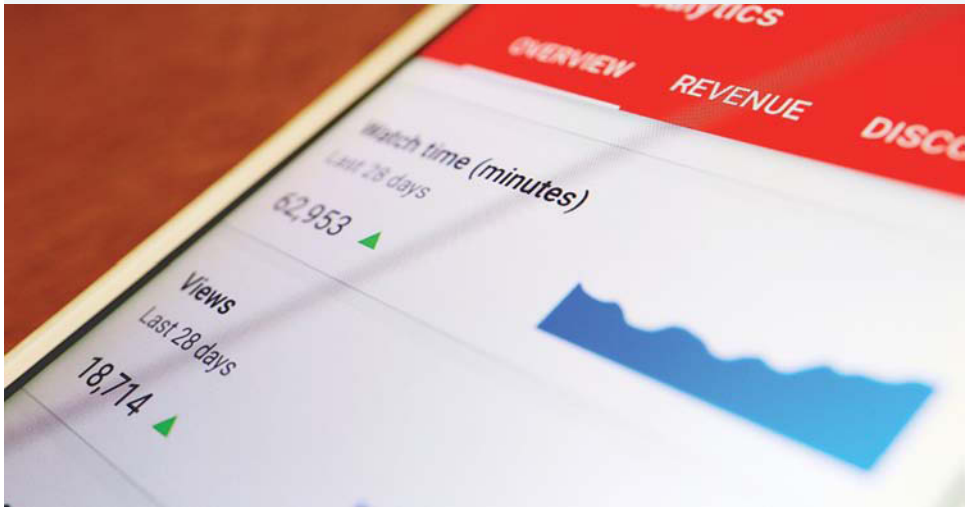
- maximising profits
- increasing market share
- growth
- improve share price
- social goals
- environmental goals.

12.4.3 Long-term growth

As outlined in chapter 6, an important aspect of profit maximisation is the business's ability to maintain profits over time. To achieve this, a business must aim for **long-term growth** — the ability of a business to continually expand.

long-term growth the ability of a business to continually expand

FIGURE 12.11 Fay Khoury of Cupcake Savvy's Kitchen continuously strives to achieve long-term growth. She uses YouTube analytics to measure the success of her marketing efforts as well as to monitor her progress towards achieving specific goals in relation to growth (i.e. growing subscribers and increasing video views). These analytics are useful in helping her to identify which strategies are most effective in achieving sustained growth.



Long-term growth depends on a business's ability to develop and use its asset structure to increase sales, profits and market share. It is an important goal of management as it ensures that the business is sustainable into the future. Long-term growth does not happen accidently. Instead, it requires comprehensive, strategic planning. Consequently, for a business to not only survive competition but also prosper and grow, it must have a sustainable competitive advantage. This can be achieved by having a unique good or service, a consistent marketing plan and adopting a relationship marketing philosophy to encourage customer loyalty.

FIGURE 12.12 Aligning employees with company goals is essential to any small-business owner striving for long-term growth. Employees who identify as aligning the mission and vision with their own roles in the business are likely to work intentionally to help the business owner get where they want to go. Getting everyone on the same page is not as simple as stating that it needs to happen. It's about creating a company culture around the mission, vision, values and goals.

Some other strategies that successful businesses have used to achieve long-term growth include:

- *customer feedback.* Google, the internet's number one search engine, continuously and rapidly upgrades its operating system by listening to its customers.
- *supplier and customer partnerships.* Bridgeport Manufacturing provides customers with the opportunity to develop products in consultation with the business's designers.
- *cost.* IKEA focuses on producing products that are affordable for most people to buy. The company is constantly trying to do do things more efficiently and cost-effectively so they can maintain their low prices.
- *Six Sigma.* This business management approach, originally developed by Motorola and used extensively in all types of businesses, aims to improve business performance by improving quality, reducing costs and creating new opportunities. Six Sigma is a set of techniques and tools for process improvement.
- *staff motivation.* Many businesses have found that aligning staff motivation with business objectives inspires employees to work harder to achieve the business's goals.

12.4.4 Explain how SMEs can enter the global market for long-term growth

While the Australian market is quite big, it's often not large enough for many business owners. For growth-oriented entrepreneurs, entering the global market improves their potential for expansion and long-term growth. An example of an SME that achieved significant growth after entering the global market is Bondi Sands (see the following case study).

SNAPSHOT

Case study: Bondi Sands' long-term growth

In 2012, friends Blair James and Shaun Wilson noticed a gap in the beauty market. They realised that there weren't any Australian self-tanning brands in the market, which was especially surprising given Australia's beach culture. They spotted an opportunity for self-tanning after solariums were banned in Australia due to the heightened risk of skin cancer. While there were some good brands available at the time, they were quite expensive. They therefore set out to develop a salon-quality product that could be sold at a more affordable price. After extensive research, Bondi Sands was born.

In the beginning the pair pitched their initial three products to Priceline, who agreed to stock the brand. They also focused on social media to generate brand awareness and to help them penetrate the domestic market.

In 2015 Bondi Sands launched in the UK, and by 2018 the company became one of the largest beauty brand exporters of Australian owned and manufactured products. Close to 10 million units of their products were sold that financial year.

In 2019 Bondi Sands signed an incredible deal with the United States'second-largest pharmacy, Walgreens. This saw the brand reach millions of Americans within days. It was one of the largest ever launches for an Australian beauty brand in the United States. The company also launched in Norway and Germany that year. Bondi Sands turned over more than $100 million that financial year.

By 2020, the company had expanded its product range to over 100 products across self-tan, skincare and sun care. Its wide range of products is now sold in over 4500 stores across Australia as well as over 30 000 stores globally. They now have offices in Melbourne, London and Los Angeles. They have also become the number one self-tanning brand in Australia, New Zealand and the UK. Bondi Sands' point of difference is its affordable price point and products proudly manufactured in Australia. James and Wilson have a strong strategic focus on growth and hope to expand the business further with plans to launch more than 80 new products across four different categories, including sunscreen, in the next 18 months. Their main focus to achieve growth, however, is through international expansion.

KEY IDEAS

- The vision statement broadly states what the business aspires to become.
- Vision statements guide and direct the business owners, managers and employees.
- Once the goals have been established, an SME owner determines the objectives.
- Objectives are specific statements detailing what a business needs to do to accomplish its vision.
- Strategic goals and tactical and operational objectives are determined by different levels of management.
- Many businesses strive to achieve goals relating to profits, market share, growth and share price as well as social and environmental goals.
- Longer term growth is the ability of a business to continually expand.
- Longer term growth depends on a business's ability to develop and use its asset structure to increase sales, profits and market share.
- For growth-oriented entrepreneurs, entering the global market improves their potential for expansion and long-term growth

12.4 Activities

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12.4 Quick quiz on | **12.4 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2, 3, 4, 5, 8, 9, 10, 11, 12	1, 6, 7, 13, 16	14, 15

12.4 Exercise

Revision

1. Select a number of annual reports for public companies. State the vision (or mission) statements for each company. **Explain** how these relate to the business's goals. To help you, you could use the **Business vision statements** weblinks in the Resources tab for the following public companies:
   a. Boral Limited
   b. Westpac Limited
   c. Origin Energy Limited
   d. Woolworths Limited.

2. **Identify** which of the following are vision statements. Give reasons for your answers.
   a. All breakages must be paid for.
   b. Care for the customer is our number one priority.
   c. Application of an integrated accounting system
   d. A safe and healthy workplace
   e. Commitment to excellence
   f. To increase sales revenue by 5 per cent in the next six months
3. **Recall** three main goals of most businesses.
4. **Outline** the relationship between goals and objectives.
5. **Identify** three objectives you would need to set if you wanted to achieve the goal of improving your Business Studies results.
6. **Distinguish** between strategic goals, tactical objectives and operational objectives.
7. **Deduce** why a business needs clear goals and objectives.
8. **Recall** the correct level of management that determines the following goal or objective.

Goal or objective	Level of management
Strategic goal	
Tactical objective	
Operational objective	

9. **Define** the term 'longer term growth'.
10. **State** three methods a business can use to achieve a competitive advantage.
11. **Outline** five strategies a business can use to achieve longer term growth.

Read the 'Bondi Sands' long-term growth' case study and answer question 12 and 13.

12. **Outline** the source of the business idea.
13. **Explain** how entering the global market has helped Bondi Sands achieve long-term growth.

Extension

14. 'The main goal of a business is to maximise profits.'
    a. Define the term 'profit'.
    b. **Determine** under what circumstances a business may be prepared to accept reduced profits in the short term.
    c. In your opinion, **assess** whether profit should be the only goal of a business.
15. Arrange to interview a local business owner. **Create** a business profile by asking the following questions.
    a. What motivated the owner to start the business?
    b. Why is there a need for the business's goods or services?
    c. How has the business been funded?
    d. Has the business been upgraded or expanded?
    e. What are the future growth areas of the business?
    f. What has been the business's biggest problem or greatest mistake?
    g. What external threats face the business?
16. **Examine** figure 12.9 (section 12.4.1), then answer the following questions.
    a. Identify the common features of these vision statements.
    b. Explain why it would be important for employees, managers and customers to be familiar with a business's vision statement.
    c. Determine under what circumstances the vision statement would need to be altered.

Solutions and sample responses are available in your digital formats.

on Resources

Weblinks Business vision statements

12.5 Organising resources

SYLLABUS LINK In this subtopic you will learn about the business planning process:
- organising resources
  - operations
  - marketing
  - finance
  - human resources.

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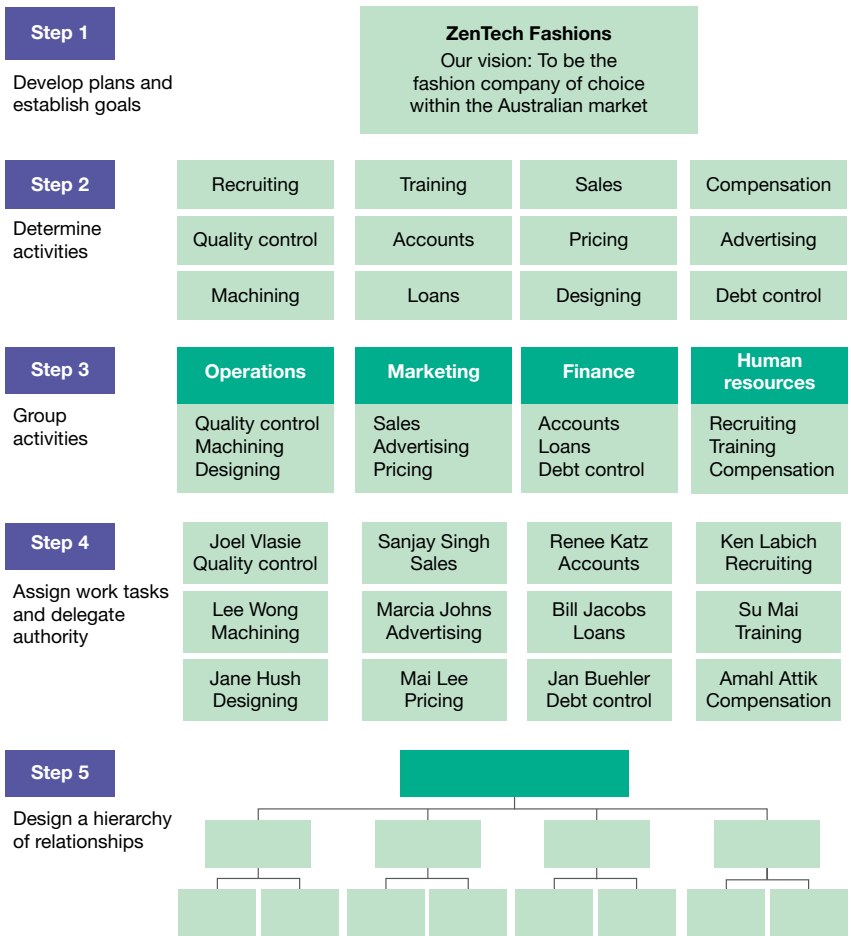
organisational structure
the framework in which the business defines how tasks are divided, resources are used and departments are coordinated

Once the SME owner has formulated the vision, goals and objectives, the next stage in the planning process requires organising the resources — human effort, time, money, equipment and materials — needed to fulfil the plan. As outlined in chapter 7, organising is determining what is to be done, who is to do it and how it is to be done.

At this stage, the owner must determine all the activities that employees perform — from ordering stock through to preparing financial reports to meeting with clients — and all the equipment, money and facilities that employees need to carry out those activities (see figure 12.13). This results in the creation of an **organisational structure**, which defines how tasks are divided (as shown by the organisation chart) and resources used.

FIGURE 12.13 The five steps involved in the organising process (organising resources)



While driving the business towards its central purpose, as expressed in the vision statement, the benefits of a properly implemented organising process is that it:

- establishes a chain of command that results in an orderly way of communicating within the business
- creates a coordinated work environment by outlining sensible guidelines for who does what and who is responsible for various activities
- provides a sense of common purpose so that all employees are working towards a common vision, goal or objective
- organises resources in the most efficient manner so that all employees can perform their tasks.

Organising is a device that SME owners can use to gather resources for getting things done. Part of the organising process requires **resource allocation**, which refers to the efficient distribution of resources so as to successfully meet the goals that have been established. Resource allocation establishes what work will be performed by what person and/or machine, and under what conditions. The materials needed must be determined and ordered. The work tasks must be distributed to different departments. Human resource requirements must be calculated and time schedules set for each stage of the production process.

Each of the key business functions — operations, marketing, finance and human resources — require specific resources that need to be effectively organised.

12.5.1 Organising resources — operations

As outlined in chapter 8, the operations function of a business involves transforming different types of inputs (raw materials, labour, equipment and other resources) into finished or semi-finished goods or services. To produce either a good or service, therefore, a business needs to have essential equipment and knowledge. Consequently, to undertake successful production, the following questions will need to be asked:

- What type of equipment and raw materials are needed?
- Which suppliers will be used to purchase the equipment and raw materials?
- How much money needs to be allocated for the purchase of the raw materials and resources?
- What storage, warehouse and delivery systems are required?
- What level of technical expertise will employees need to achieve maximum production from the raw materials and equipment?

Researching the answers to these questions enables the SME owner to clarify what changes may need to be made to either the structure of the business or the production process. For example, Caroma, Australia's leading bathroom manufacturer, needed to purchase automated robots for their production process. To arrange for the finance required to purchase the new machines, the managers had to revise their business plan. Organising their operational resources in this way has enabled the company to become a market leader.

12.5.2 Organising resources — marketing

As outlined in chapter 8, a marketing plan will succeed only if all sections of the business are involved in satisfying a customer's needs and wants while achieving the business's goals. This means that the marketing plan needs to become integrated into all aspects of the business. Adequate resources, therefore, must be devoted to the marketing plan. Where existing employees do not have the expertise or levels of skills required, additional training may be needed to bring them up to the levels needed. Additional funds may be needed to accomplish all the marketing objectives given to a specific department or team. The efforts of all employees in the marketing department must be coordinated and this is best achieved by adequate resourcing. For example, the sales consultants, advertising personnel, market research staff, distribution people and so on must be provided with the informational, financial and physical resources to perform their jobs.

resource allocation the efficient distribution of resources to successfully meet the goals that have been established

12.5.3 Organising resources — finance

As outlined in chapters 8 and 11, new business ventures, even micro ones, require funds to operate. In organising the financial resources, one of the most important questions the SME owner needs to answer is 'What will be the most appropriate source of financing?' The most common sources are personal savings and/or loans from family, friends or banks.

FIGURE 12.14 Deciding which source of funds you will use to start a business venture can be difficult. There are many sources of finance available for SMEs. They fall under the two broad categories of debt and equity. Figuring out which option is best for your business can be confusing, especially because each alternative has its own advantages and disadvantages

Another important issue associated with organising finances is the amount of equity (ownership of the business) and potential control an SME owner must hand over to obtain the necessary financing. If the SME owner decides to fund the business by using equity capital, the investor will be given some form of ownership in the business. Frequently, SMEs that are aiming for relatively moderate growth use mainly debt capital with the owners retaining most or all of the equity.

Finally, when organising the financial resources, the SME owner must explore the wide range of federal and state government **grants** — any monetary or financial assistance that does not generally have to be repaid — and other funding programs. Generally, there are no grants for starting a business. Grants are usually provided for:

- expanding a business
- research and development
- innovation
- exporting.

grant any monetary or financial assistance that does not generally have to be repaid

12.5.4 Organising resources — human resources

Of course, new business ventures often require the help of others — employees — besides the entrepreneur or SME owner. In fact, since each employee in an SME represents a large percentage of the business's workforce, a specific individual's contribution can be especially important to the success of the business. This is why, as explained in chapter 8, employees are an SME's most important resource. A great deal of care and thought, therefore, needs to be given to how best to organise this crucial resource.

FIGURE 12.15 Highly skilled employees can provide expertise and better service, potentially increasing business revenue.

Businesses should consider the following factors when organising their human resources needs:

- How many workers will be needed and what kind of skills will they need?
- How will the business attract and select suitable employees?
- How will the business motivate and retain these workers?
- What kind of training should the business offer to its workers to help them grow and benefit the business?
- How will the business provide fair pay and healthy working conditions for its employees?
- What are the legal responsibilities of the business towards its employees?
- How will the business resolve any disputes that arise with employees?
- Does the location of the business allow access to the types of workers that it needs?

KEY IDEAS

- Once the SME owner has formulated the vision, goals and objectives, the next stage in the planning process requires organising the resources — human effort, time, money, equipment and materials — needed to fulfil the plan.
- Organising is a device that SME owners can use to gather resources for getting things done.
- Resource allocation refers to the efficient distribution of resources so as to successfully meet the goals that have been established.
- Each of the key business functions — operations, marketing, finance and human resources — require specific resources which need to be effectively organised.

12.5 Activities

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12.5. Quick quiz on | **12.5 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 3, 5, 7	4, 6, 8	9, 10

12.5 Exercise

Revision

1. Examine figure 12.13 in section 12.5.1 **State** the five steps of the organising process.
2. **Summarise** the benefits of a properly implemented organising process.
3. **Define** the term 'resource allocation'.
4. Imagine you have been asked to make 50 family-size pizzas for a celebration lunch. You have five people to help with the task. In small groups:
   a. Identify the resources you would need to make the pizzas.
   b. **Classify** the resources as either (i) raw materials, (ii) equipment or (iii) knowledge.
   c. **Demonstrate** how you would allocate the resources.
5. **Recall** five questions an SME owner needs to ask in order to undertake successful production.
6. **Propose** what may happen if an SME owner fails to organise adequate resources for the marketing plan. Give reasons for your answer.
7. **Identify** the two main sources of finance for a business.
8. **Investigate** the range of grants available for business and industry. You can use the **Grants and programs** weblink in the Resources tab to help get you started. Select two grants that interest you and briefly **outline** their purpose.

Extension

9. **Create** an organisational chart for your school. **Determine** the advantages and disadvantages of this structure for you as a student.
10. 'The purposes of organising are to give each employee a distinct task and to ensure these tasks are coordinated and adequately resourced so that the business achieves its goals.' **Evaluate** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

on Resources

Weblink Grants and programs

12.6 Forecasting

SYLLABUS LINK In this subtopic you will learn about the business planning process:
- forecasting
  - total revenue, total cost
  - break-even analysis
  - cash flow projections.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

A business needs more than just information about present business conditions. It also needs information about possible future events. **Forecasts (or projections)** are the business's predictions about the future.

Students sometimes forecast the results they hope to achieve in an assessable task. But just like weather forecasts, what is predicted and what actually happens may be quite different! Nevertheless, forecasts are needed to enable effective planning. An owner may need to forecast the availability of labour, raw materials, finance and building requirements. For this task, business owners rely on internal and external information sources.

One very useful set of data is the forecast for total revenue and total cost.

12.6.1 Total revenue and total cost

When trying to determine whether a business will be financially successful, a SME owner can attempt to forecast the amount of money the business may receive as sales — its total revenue, and how much it has to pay for business expenses — its total costs.

Total revenue

Total revenue (TR) is the total amount received from the sales of a good or service and is calculated by multiplying the selling price (P) by the quantity (Q) of units sold. This can be represented mathematically as:

$$P \times Q = TR$$

It is possible to forecast total revenue by estimating how many units are expected to be sold. For example, if the price of each unit is $100 and 25 are expected to be sold, then the total revenue forecast will be $2500.

Estimates of future sales are determined by the demand for the business's good or service and the amount of competition in the marketplace. Sales forecasting data:
- can be gathered by using market research techniques such as customer surveys
- are more precise if the business has some previous sales history to act as a guide.

Total cost

The costs involved in operating a business can be broadly classified as either fixed or variable costs. **Fixed costs (FC)** are costs that do not vary regardless of how many units of a good or service are produced. **Variable costs (VC)** are costs that depend on the number of goods or services produced. Variable cost, therefore, will increase if more goods and services are produced and decrease when fewer goods and services are produced (see the BizFact in section 12.6.2).

forecasts (or projections) the business's predictions about the future

total revenue (TR) the total amount received from the sales of a good or service

fixed costs (FC) costs that do not vary regardless of how many units of a good or service are produced

variable costs (VC) costs that depend on the number of goods or services produced

The **total cost (TC)** of producing a certain number of goods or services is the sum of the fixed costs (FC) and variable costs (VC) for those units. This can be represented mathematically as:

$$FC + VC = TC$$

It is possible to forecast total cost by estimating the change in variable costs at different levels of production. Fixed cost, of course, will remain the same.

The forecast of total revenue and total cost make it possible to use the very useful forecasting technique referred to as the break-even analysis.

12.6.2 Break-even analysis

Break-even analysis determines the level of sales (total revenue) that needs to be generated to cover the total cost of production (see figure 12.17). Total cost of production includes fixed costs (costs that do not change regardless of how much is sold) and variable costs (costs that depend on the amount of sales — for example, materials). Sales above the break-even point will mean a profit; sales below the break-even point will mean a loss.

Break-even analysis is an important planning tool because management can determine the level of sales required to obtain a profit. It can also be used to determine the effect on profit if sales increase or decrease. This planning tool is used in the strategic planning stage, before budgets are prepared.

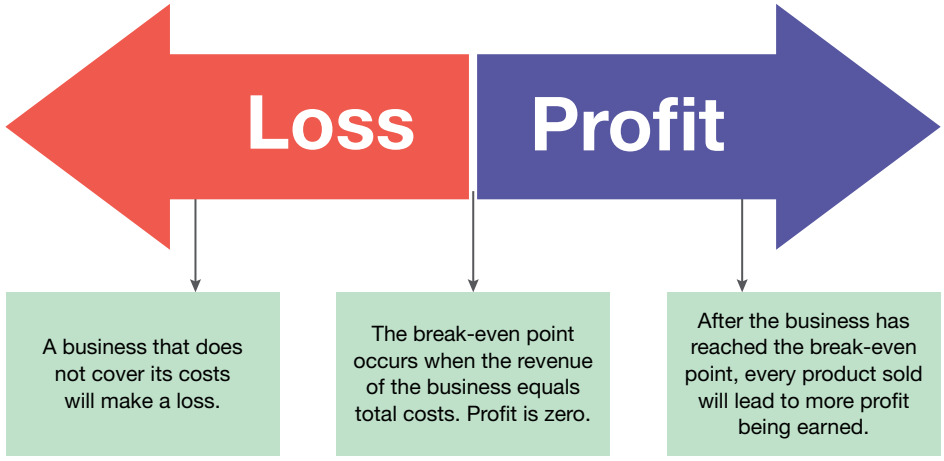
total cost (TC) (of producing a certain number of goods or services) the sum of the fixed and variable costs for those units

break-even analysis used to determine the level of sales that needs to be generated to cover the total cost of production

The break-even sales quantity can also be calculated by using the formula:

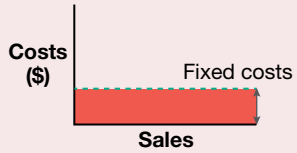
$$\text{Quantity (Q)} = \frac{\text{Total fixed costs}}{\text{Unit price} - \text{Variable costs per unit}}$$

FIGURE 12.16 A break-even analysis is used to determine the number of items that need to be sold to break even — that is, to cover all costs without making either a profit or a loss.

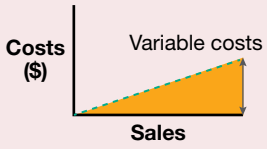


BizFACT

Fixed costs do not change as sales increase or decrease. They include rent, insurance, salaries of management and office staff, rates, depreciation, interest on loans and office expenses.

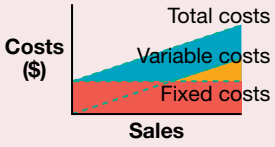


Variable costs increase as sales increase or decrease when sales go down. For example, for every $1 of sales, a business has estimated that 25c (or 25 per cent of sales) represents variable costs.



Examples of variable costs are direct labour and materials, commission on sales, delivery, freight, packaging.

Total costs are the sum of the fixed costs and the variable costs.



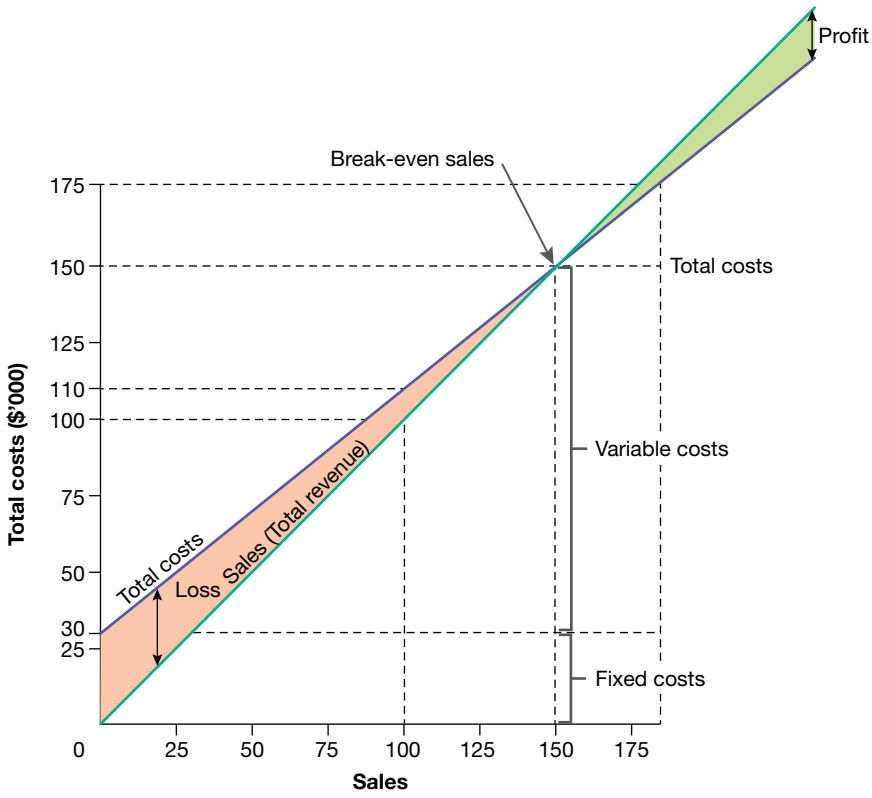
Example: Break-even quantity

Better Rackets produces different lines of tennis goods, including racquets, tennis balls and tennis bags. It plans to introduce a new style of tennis racquet and estimates that the new racquet should be priced at $200. Fixed costs are $600 000 and variable costs are $80 per racquet. The number of units that need to be produced to break even is:

$$\begin{aligned} Q &= \frac{600\,000}{200 - 80} \\ &= \frac{600\,000}{120} \\ &= 5000 \text{ units} \end{aligned}$$

Break-even is the point where sales equal costs (fixed and variable); that is, where at this point neither a profit nor a loss is made. In this case, 5000 units will need to be sold to break even.

FIGURE 12.17 Break-even analysis. Sales of $100 000 will mean a loss of $10 000 because total costs at this point are $110 000. The point at which total costs ($150 000) intersect total revenue ($150 000) on the diagram is the break-even point at which neither a profit nor a loss is made. Sales above the break-even point indicate a profit of up to $25 000 ($150 000 to $175 000).



12.6.3 Cash flow projections

The **cash flow projection** shows the changes to the cash position brought about by the operating, investing and financial activities of the business. It provides information concerning the business's expected cash receipts (cash inflows) and cash payments (cash outflows) over an accounting period, usually 12 months.

Cash flow plans consist of a month-by-month projection of the flow of money into the business. Cash transactions recorded include cash sales, the collection of debts and the payments the business expects to make. From the information found in the cash flow projection, the SME owner should be able to estimate the business's bank balance for each month and identify the extent and duration of possible cash shortfalls. A positive cash flow occurs when the amount of money coming into the business is greater than the amount leaving it. Overall, this information will point out periods when business expenses are too high or times when a short-term investment is possible to deal with a cash surplus.

The cash flow projection is an important tool for cash flow management. It offers:

- the SME owner a clear indication of how much capital investment the business idea requires
- a bank loans officer evidence that the business is a good credit risk.

It is important to not confuse a cash flow projection with a cash flow statement. The cash flow statement indicates how much cash has flowed into and out of the business in the *past* period of time. The cash flow projection shows the cash that is expected to be made or spent over a period of time into the *future*.

cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business

Figure 12.18 Example of a cash flow projection

Isabella's Sweets
Cash flow projection for January and February 2021

	January ($) Forecast	February ($) Forecast	January ($) Actual	February ($) Actual
Opening cash balance	25 500	28 320	25 500	28 410
Cash inflows				
• Cash sales	6000	6100	6100	6300
• Interest received	20	20	20	20
Total inflow	6020	6120	6120	6320
Cash outflows				
• Loan repayments	450	450	450	450
• Wages	2200	2200	2200	2200
• Electricity		300		280
• Supplies	550	560	560	570
Total outflow	3200	3510	3210	3500
Net flow	2820	2610	2910	2820
Closing cash balance	28 320	30 930	28 410	31 230

KEY IDEAS

- Forecasts are the business's predictions about the future.
- Total revenue is the total amount received from the sales of goods or services.
- The total cost of producing a certain number of goods or services is the sum of the fixed and variable costs for those units.
- Break-even analysis determines the level of sales that need to be generated to cover total production costs.
- The cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business.

12.6 Activities

learnON

To answer questions online and to receive **immediate feedback** and **sample responses** for every question, go to your learnON title at www.jacplus.com.au A **downloadable solutions** file is also available in the Resources tab.

12.6 Quick quiz on | **12.6 Exercise**

Select your pathway

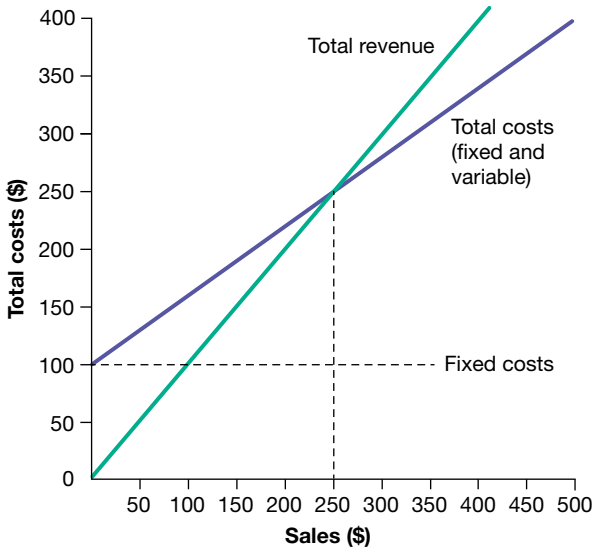
LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4, 5	3, 6, 7, 8, 9, 11	10, 12

12.6 Exercise

Revision

1. **Define** the term 'forecasting'.
2. **State** how total revenue and total cost are calculated.
3. **Distinguish** between fixed costs and variable costs.
4. **Identify** three fixed costs and three variable costs your school incurs.
5. **Outline** why the break-even analysis is an important planning tool for businesses.

6. **Explain** how a house painter might make use of break-even analysis when providing a quote to a potential customer.
7. **a. Calculate** the level of break-even sales, given fixed costs of $50 000, variable costs of $11 per unit and a selling price of $16 per unit.
   b. Calculate the level of break-even sales, given fixed costs of $600 000, variable costs of $500 per unit and a selling price of $2000 per unit.
   c. From the graph below, **calculate** amounts for (i) to (v).
   i. the amount of fixed costs
   ii. the break-even point
   iii. the loss or profit if sales are $100 000
   iv. the loss or profit if sales are $300 000
   v. the amount of variable costs when sales are $250 000



8. **Why** is a cash flow projection an important tool for cash flow management?
9. **Distinguish** between a cash flow projection and a cash flow statement.
10. Refer to figure 12.18 in section 12.6.3 **Analyse** the cash flow projection for Isabella's Sweets by comparing the forecast cash flow to the actual cash flow.

Extension

11. CCD Enterprises has been very successful producing and selling a range of sporting goods in the Australian market. It has decided that there is potential in the Asian market. **Describe** two planning tools that the company may have used in deciding to expand into the overseas market.
12. 'The more accurate the predictions, the better the chances the business has of surviving.' **Evaluate** this statement.

Solutions and sample responses are available in your digital formats.

12.7 Monitoring and evaluating

SYLLABUS LINK In this subtopic you will learn about the business planning process:
- monitoring and evaluations
  - sales
  - budgets
  - profit.

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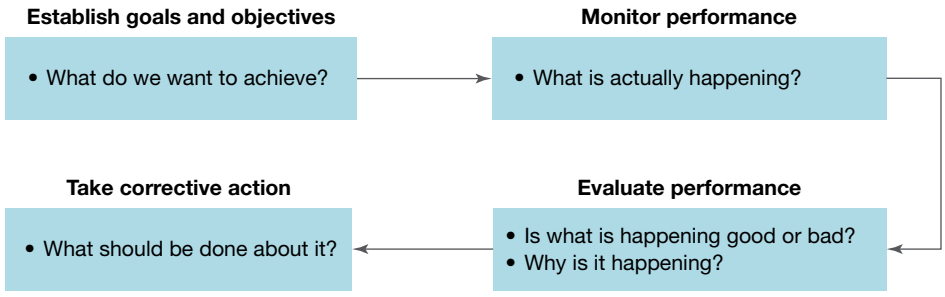
Drivers constantly monitor and evaluate the road conditions, and make necessary changes to speed and direction as they receive updated information. A business also has to monitor and evaluate its environment and take corrective action — that is, it adjusts its business plan to avoid any problems.

Devising a business plan will not guarantee the achievement of the business's goals. The plan must be constantly monitored and evaluated so the business can make accurate modifications as necessary (see figure 12.19).

FIGURE 12.19 The monitoring and evaluating process



SNAPSHOT

Case study: How Fay Khoury monitors and evaluates success

As we saw in the case study in the topic opener, Cupcake Savvy's Kitchen is a successful YouTube channel that provides short videos containing tips and tricks for creating cakes, cupcakes and sweet treats. Let's now look at the monitoring strategies Fay Khoury uses to evaluate her business's success.

Fay Khoury monitors her performance daily to determine how many views and subscribers her channel is receiving. The reason she tracks this data daily is due to the unpredictable nature of YouTube. Fay finds it impossible to predict how a video will perform. She often uploads videos thinking 'this will be the one that goes viral' and it flops! The opposite is also true. She sometimes uploads a video thinking it will have an average performance and then it goes on to exceed all her expectations.

YouTube provides a practical analytics tools that allows creators to measure the success of their content. The statistics provided by YouTube are extremely detailed. Fay uses this data to monitor current performance as well as predict future performance. She also uses the data to monitor her progress towards achieving specific goals like growing subscribers or increasing video views to identify what works and what doesn't. YouTube analytics tools allow creators to monitor and measure just about everything, from YouTube channel analytics right down to real-time video metrics.

Fay also monitors the success of her business using the website Social Blade. Social Blade compiles data from YouTube and other social media platforms, and uses the data to create statistical graphs and charts that track progress and growth. It also provides other information such as estimated earnings and future projections.

These tools combined help Fay better understand her audience and make more informed decisions to improve her videos and grow her YouTube channel.

Goal date	Time until	Subs prediction	Views prediction
2021-01-07	2 months	522 887	39 958 113
2021-03-07	4 months	590 295	45 734 993
2021-05-07	6 months	673 995	52 986 308
2021-07-07	8 months	771 937	61 537 541
2021-09-07	10 months	886 077	71 561 018
2021-11-07	12 months	1 012 734	82 733 399
2022-01-07	1 year 2 months	1 153 632	95 205 699
2022-03-07	1 year 4 months	1 303 458	108 505 759
2022-05-07	1year 6 months	1 472 371	123 535 276
2022-07-07	1 year 8 months	1 55 525	139 864 712
2022-09-07	1 year 10 months	1 856 275	157 793 903
2022-11-07	2 years	2 068 144	176 744 486
2023-01-07	2 years 2 months	2 294 254	196 994 989
2023-03-07	2 years 4 months	2 526 500	217 818 228
2023-05-07	2 years 6 months	2 780 625	240 625 948
2023-07-07	2 years 8 months	3 048 992	264 733 586
2023-09-07	2 years 10 months	3 336 351	290 568 491
2023-11-07	3 years	3 633 433	317 297 277
2024-01-07	3 years 2 months	3 944 756	345 325 982
2024-03-07	3 year 4 months	4 264 868	374 163 328
2024-05-07	3 years 6 months	4 604 439	404 770 561
2024-07-07	3 years 8 months	4 958 252	436 677 712
2024-09-07	3 years 10 months	5 332 458	470 439 990
2024-11-07	4 years	5 714 986	504 968 289
2025-01-07	4 years 2 months	6 111 755	540 796 506
2025-03-07	4 years 4 months	6 509 063	576 686 715
2025-05-07	4 years 6 months	6 933 847	615 072 150
2025-07-07	4 years 8 months	7 372 872	654 757 504
2025-09-07	4 years 10 months	7 833 688	696 425 496
2025-11-07	5 years	8 301 428	738 731 997

Source: YouTube Future Projections For Cupcake Savvy's Kitchen (7/11/2020–09/11/2025).

12.7.1 Monitoring

Monitoring is the process of measuring actual performance against planned performance. This process involves constantly asking two questions about the business plan:

1. What does the business want to achieve — that is, what are its goals?
2. Are these goals being achieved?

This will indicate the business's true achievements, rather than vague generalisations such as 'things aren't too bad'.

These questions should be asked at every stage of developing the business plan. Such monitoring involves two distinct steps:

1. establishing forecast performance standards
2. comparing actual performance with forecast performance.

The first step in the monitoring process requires the business to outline what it wants to accomplish — that is, to establish a performance standard. A **performance standard** is a forecast level of performance against which actual performance can be compared.

A performance standard could be, for example:

- a 5 per cent increase in monthly sales
- a production quota of 1000 units per week.

The second step in the monitoring process is to compare or evaluate actual performance against the performance standard. Budgets, sales statistics and cost analyses can be used to evaluate results. A business owner could compare each individual salesperson's results, for example, with their sales quota. It is only by establishing performance standards and then comparing them with actual performance that a business owner can evaluate the effectiveness of the business plan.

12.7.2 Evaluating

SME owners evaluate their business's performance to determine whether the goals have been achieved. They do this by constantly asking:

- how the business is performing in terms of profit etc.
- whether the business is performing as planned
- whether its performance has improved over time
- how its performance compares to that of similar businesses.

When an SME owner undertakes this task, he or she is engaged in **evaluation** — that is, the process of assessing whether or not the business has achieved its stated goals.

Once measurements have been collected, the SME owner can compare them with the planned goals. The SME owner needs to ask whether the business operations achieved the desired results and, if not, where and why he or she failed. If the business plan was successful, the SME owner should examine what strategies made it a success and re-use them. By evaluating a successful business plan, the SME owner may also identify weak spots that could be improved and modify the plan to fix them.

The three areas that need constant monitoring and evaluating are sales, budget and profit.

monitoring the process of measuring actual performance against planned performance

performance standard a forecast level of performance against which actual performance can be compared

evaluation the process of assessing whether the business has achieved stated goals

12.7.3 Monitoring and evaluating sales

The number of sales of a product is a measure of the number of goods or services (products) sold. Measuring the number of sales helps a business evaluate its performance, especially its marketing strategies.

Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.

Sales generate revenue for the business, so it is important that the sales management control function be regularly performed. Sales management control involves comparing budgeted sales against actual sales, and making changes where necessary. For example, if a new selling technique is introduced, the level of sales will need to be closely monitored to determine whether actual sales are above or below what was forecast. The new selling technique will be deemed a success if the sales are above what was forecast. If the figures are below what was forecast, the business will need to take some type of corrective action.

FIGURE 12.20 Sales records indicate whether the business is achieving its objectives.

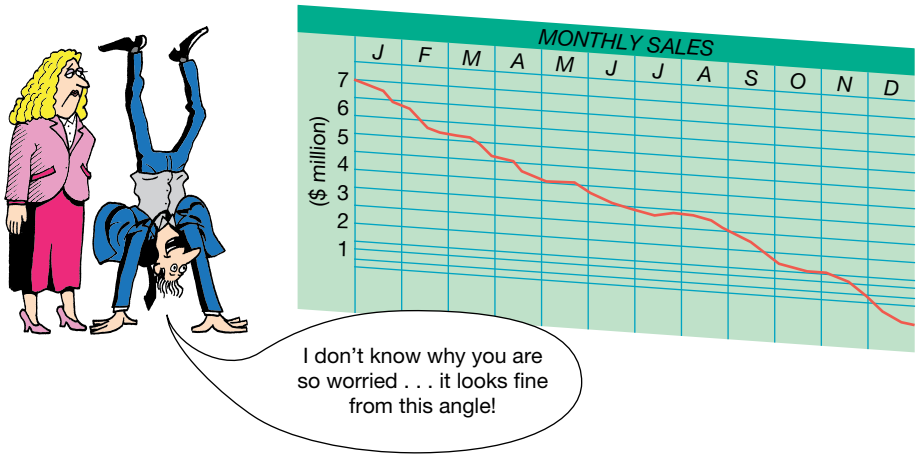


FIGURE 12.21 Second quarter sales for DeltraWear Fashions Pty Ltd

Sales for DeltraWear Fashions Pty Ltd — 2nd quarter				
Sales territory	**Forecast sales $**	**Actual sales $**	**Difference* $**	**% change^ (– decrease + increase)**
1	25 000	29 000	4 000	+16.0
2	40 000	42 500	2 500	+6.3
3	35 000	33 500	–1 500	–4.3
4	32 500	36 000	3 500	+10.8
5	22 500	25 000	2.500	+11.1
Total sales revenue	155 000	166 000	11 000	+7

*Difference = Actual sales – Forecast sales

$$\text{\%change} = \frac{\text{Difference}}{\text{forecast sales}} \times 100$$

Consider the sales figures for April, May and June — the second quarter of the year — for DeltraWear Fashions Pty Ltd (see figure 12.21). The figures reveal that total sales revenue increased by $11 000 or 7.1 per cent above what was forecast. DeltraWear would be pleased with this result. There would be some concern about the result in sales territory 3, which would require further investigation. However, all the other territories performed above expectations. This tells the business that the new selling technique is a success and should be continued.

12.7.4 Monitoring and evaluating budgets

A **budget** is an estimation of the business's financial performance for a given period in the future. There are a number of different types of budgets that a business can prepare, including cash flow budgets, budgeted income statements and budgeted balance sheets. Budgets may be prepared monthly, quarterly or yearly.

Budgets enable constant monitoring of goals and whether they are being achieved. Budgets assist in emphasising the goals of the business and provide a basis for administrative control, direction of sales effort, production planning, control of stocks, price setting, financial requirements, control of expenses and production cost control.

Budgets are used in both the planning and the monitoring aspects of a business; for example, the business owner can measure planned performance against actual performance and take corrective action as needed.

A budget is an important part of the planning process. Its preparation must account for various factors, such as:

- a review of past figures and trends, and estimates gathered from relevant departments in the business
- potential markets or market share, and trends and seasonal fluctuations in the market
- proposed expansion or discontinuation of projects
- proposals to alter price or quality of products
- current orders and plant capacity
- considerations from the external environment (for example, financial trends from the external environment, availability of materials and labour).

BizFACT

Despite all the benefits of budgets, a large proportion of Australian SMEs don't use formal budgets in their business planning. The main reasons for this are time and expertise. Many SME owners don't know where to start, don't know how to forecast accurately or just can't find the time away from the business to do it.

The budget should be regularly compared with actual revenue and expense amounts to detect any discrepancies. By comparing actual with planned results, the business can ask questions about why certain targets were not reached or why results were better than anticipated. Completing budgets also helps the business to establish standards and use them as a benchmark against which to compare actual events.

A profit budget will establish the viability of the business by predicting how much profit is likely to be made from the expected sales. These figures are estimates, but the budget must be realistic. Figure 12.22 illustrates the information that should be included in a profit budget.

Once the budget has been completed, the business owner can determine the extent and timing of financial requirements. This profit budget should then be reviewed at least once per month, and the owner should compare the projected amounts and the actual amounts. Modifications must be implemented if there are any discrepancies.

budget the business's financial plan for the future

FIGURE 12.22 Example of a profit budget

Profit budget for 12 months ending 30 June 2021

	$	$
Sales		341 000
Less cost of goods sold		
Opening stock	43 000	
Purchases	13 000	
Closing stock	36 000	20 000
Gross profit		321 000
Less expenses		
Advertising	35 000	
Insurance	3 000	
Wages	98 000	
Rates	4 000	
Electricity	6 000	
Water	3 000	149 000
Net profit		**172 000**

SNAPSHOT

Case study: Working to a budget — the school dance

You have been appointed manager of a student group that operates the annual Year 11 school dance as a part of the Business Studies curriculum. This is a major event in the school calendar and your principal has stipulated that the school expected you to deliver a profit of $500. This will be donated to a charity of the students' choice. The school also wants its own costs covered from the evening. The key points to consider are:

- Between 300 and 400 people are expected, depending on the success of your promotion to other schools. Art students at your school will be designing and then distributing posters.
- The event is in the school hall.
- You are expected to provide food, drink, security and music.
- The costs for last year's dance are:
  - *School costs.* Printing of posters, plus electricity, water and gas on the night — $100
  - *DJ Snoopy Spins*. Music and light show — $900 for 4 hours
  - *Decorations.* Supplied by local company Party Guys & Sons — $300
  - *Finger food and drink.* Party pies and soft drink — $500
  - *Security.* Two security guards from Crusher Securities — $400 for 4 hours.

12.7.5 Monitoring and evaluating profit

As the following headlines suggest, profit is at the centre of a business's activities and one of the most intensely watched financial indicators.

Flight Centre shares soar after company lifts profit outlook.

ANZ Bank cuts thousands of jobs on road to $3.4 billion profit.

Natural disasters take $767m bite out of QBE profits.

Virgin Australia records $185 million loss but stops burning through cash.

QANTAS delivers second-highest profit ever.

In a sense, a business's profit levels can be compared to a student's subject grades: they are an indication of performance. Such feedback is crucial to evaluate whether or not specific goals have been achieved and what, if any, changes need to be implemented.

There are five main reasons why a business's profit levels must be carefully monitored and evaluated:

1. *Profit as reward*. As outlined in chapter 1, profit is what remains after all business expenses have been deducted from the business's sales revenue. Profit is regarded as the return, or reward, that business owners receive for taking the risks in operating a business that produces goods and services that consumers want.
2. *Profit maximisation*. In chapter 6, it was explained that one of the main goals of a business is to maximise its profits in the long term.
3. *Profit as a source of finance*. Chapter 11 outlined that one of the most important sources of finance for businesses is profits that have been ploughed back.
4. *Profit as a performance indicator*. The profit level also acts as the main indicator of a business's performance. Changes to the level of profit act as a guide to how well the business is succeeding or failing.
5. *Profit as a dividend payment*. For incorporated businesses a proportion of the profit is allocated to shareholders as dividends.

Evaluating the profit levels will also reveal important information about a business's costs and revenues. These amounts must be accounted for and business owners need to be able to identify their source and quantity. For example, a fall in a business's profit level may be a result of simply a rise in costs or a fall in revenue. Therefore, variations to the profit level act as a 'signal' alerting the business owner to a change in the business's performance.

FIGURE 12.23 Careful monitoring and evaluation of its profits by a business will pay off.

When running a small business, one of the most challenging tasks will be evaluating profitability. Profitability can be evaluated in numerous ways, but a popular method of evaluating profit is to calculate financial ratios. Three financial ratios that will help a business evaluate profit are the net profit ratio, the gross profit ratio and the return on equity ratio. Comparing these ratios to that of competitors and the industry average can help managers evaluate the profitability of their business. (These ratios will be examined in greater detail in the HSC course.)

KEY IDEAS

- SME owners need to monitor and evaluate the business's performance by asking themselves:
  - Is my business performing as planned?
  - Has the performance of my business improved over time?
  - How does the performance of my business compare to that of similar businesses?
- Budgeted sales should be compared against actual sales.
- The budget should regularly be compared with actual revenue and expense amounts to detect any discrepancies.
- When using indicators, the main types of analysis are:
  - comparing figures within one financial year
  - comparing figures from different financial years.
- Profit levels are an indicator of a business's performance and should be carefully monitored and evaluated.

12.7 Activities

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12.7 Quick quiz on | **12.7 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
3, 11, 15	1, 2, 4, 5, 6, 7, 8, 9, 10, 12, 13, 14, 16	17, 18

12.7 Exercise

Revision

1. **Distinguish** between monitoring and evaluating. **Discuss** how the two processes are linked.
2. 'Any business that fails to monitor its sales will not be able to evaluate the effectiveness of its selling techniques.' **Discuss**.
3. **Identify** the data DeltraWear Fashions Pty Ltd (see section 12.7.3) needed to collect to monitor the new selling technique.
4. A business has a sales potential of $70 000 but achieves actual sales of only $32 000. **Interpret** what this signifies. **Recommend** what the business should do next.
5. You have just been appointed sales manager for Digital@Work Software. One of your first tasks is to conduct a sales management control using the following sales figures:

Sales for Digital@Work — 1st quarter				
Sales territory	**Forecast sales$**	**Actual sales $**	**Difference $**	**% change (– decrease + increase)**
1	29 000	35 000	_____	_____
2	54 000	58 000	_____	_____
3	32 000	36 000	_____	_____
4	37 000	33 000	_____	_____
5	44 000	52 000	_____	_____
Total sales revenue	_____	_____	_____	_____

a. Complete the table.
b. **Examine** the forecast and actual sales. Analyse what these figures indicate.
c. **Recommend** whether you would continue with the selling technique. **Explain** your reasons.

6. **Examine** the following market share results for Crystal Water:

Year	Sales revenue ($ million)	Market share (%)
2007	28	18
2008	25	18
2009	33	14

a. **Explain** how it is possible for sales revenue to decrease but market share to remain the same.
b. If you were the owner of Crystal Water, identify which year's result you would find most pleasing. Give a reason for your answer.

7. 'No business should operate without monitoring and evaluating its profit levels.' **Discuss**.
8. **Explain** why the budget should be regularly compared with actual revenue and expense amounts.
9. Read the 'How Fay Khoury monitors and evaluates success' case study and **explain** how she monitors and evaluates her business.

Read the 'Working to a budget — the school dance' case study and answer questions 9 to 13.

10. **Calculate** last year's costs for the school dance to work out its break-even point (they charged $10 per ticket).
11. a. As manager of the school dance, **identify** what type of market you are seeking to target.
    b. Predict what might happen if ticket prices and promotional material are not 'positioned' for this market.
12. Working in small groups, **discuss** ways in which you could reduce your costs for the school dance. For example, you might consider offering your suppliers (of catering, security, DJ and decorating services) the chance to promote their businesses on the night in exchange for a reduction in their usual charge.
13. As a group, **construct** a cash budget for the dance. You must also explain your price structure in terms of the agreed cost of tickets.
14. You sell 380 tickets at $15 each. The finger food and drink expense increased by $63, but you needed only one security guard. You had to pay insurance of $689 at the last minute. All prices include GST. **Calculate** the profit or loss you made for this event. Remember to reduce all amounts by one-eleventh to remove the GST component.

Extension

Read this case study, then answer questions 15 to 17.

Anna and Bill are technicians working in a relatively small electronics factory. They are trained and competent tradespeople, and live and work for new developments in the electronics field. At home, both have accumulated journals and papers on what's new in the electronics field. They met by coincidence on an overseas trip and their mutual interests brought them together, eventually to work with the same company. Before joining the company, Bill worked with the government and Anna was in a sales position for a retail firm. This was a position that really came about by accident through personal contacts by her family. The sales position held no real interest and this led to a change in employment.

For some time they have been thinking about an idea that would mean leaving the electronics factory and setting up their own business. There are a number of electronic components currently imported from overseas that they believe they could manufacture locally for a reasonable price and perhaps launch into the export arena.

They have both talked with their spouses, immediate families and a number of friends about the possibility of branching out on their own. Together they believe they would have some $60 000 available through equity capital and loans. The amount of money required to establish a factory and various outlets is unknown at this stage, but they are assuming that individual funds would be available from banks or other sources.

15. **Identify** what other personal factors Anna and Bill should consider before making the final decision.
16. **Investigate** what factors may be important in the preparation of their business plan.
17. If you were in their position, **determine** how you would go about analysing market prospects.
18. **a. Determine** what is the most important aspect of preparing a business plan.
    b. Explain why a financial institution would require a business plan before approving a loan to the business.
    c. Explain why a business plan should be flexible and constantly revised.

Solutions and sample responses are available in your digital formats.

12.8 Taking corrective action — modification

SYLLABUS LINK In this subtopic you will learn about the business planning process:
- taking corrective action.

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Students are constantly involved in comparing planned performance with actual performance — for example, planning to score 70 per cent for an assessable task but receiving only 43 per cent. A mismatch between the planned and the actual performances means a student has to take some corrective actions and modify their behaviour: study more for the next assessable task, complete all the homework, drop out of the course or prepare a topic summary.

FIGURE 12.24 During the coronavirus lockdown, many restaurants in NSW had to make modifications to their business in order to stay afloat. Many began offering takeaway for the first time.

Modifying is the process of changing existing plans and using updated information to shape future plans. Sometimes the planned performance standards are unrealistic when they are first formulated. At other times, changes to the external environment make the standards unattainable. Whatever the case, the situation cannot continue and the business owner must undertake some corrective action or modification.

Corrective action may involve changes to the materials, products that are the firm's output, the costs of turning raw materials into products, management practices, delivery of products to the market and so on. It may also involve changes to the organisation's human resources, because each individual's performance in the organisation is as important as the finished product.

modifying the process of changing existing plans and using updated information to shape future plans.

KEY IDEAS

- If there are changes in the internal and external business environment, then this usually means that modifications need to be made to the business plan.
- Corrective action involves making changes to any part of the business plan.

12.8 Activities

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12.8 Quick quiz on | **12.8 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 2, 4	3	5, 6

12.8 Exercise

Revision

1. **Recall** what is meant by modification.
2. **Outline** TWO reasons why business plans may need to be modified.
3. A business's profits have been declining over the past two years. **Recommend** two modifications the business could take to correct the situation. **Justify** your answer.

Extension

Recall a situation in which you evaluated your performance. An example could be an assessment task, a part-time job or sports event then answer questions 4 to 6.

4. **Identify** your goal for this activity.
5. **Assess** whether you achieved your goal. Give reasons for your answer.
6. **Analyse** what corrective action, if any, you were required to take.

Solutions and sample responses are available in your digital formats.

12.9 Review

12.9.1 Summary

Business planning process

- It is vital that an SME owner completes a business plan. Businesses do not plan to fail; they fail to plan.
- A business plan is a written statement of the goals for the business and the steps to be taken to achieve them. It is a summary and an evaluation of a business concept in written form.
- A business plan will also assist the SME owner when arranging finance for the business.
- A typical business plan may include, as a minimum, an executive summary, an operations plan, a marketing plan, a financial plan and a human resources plan.
- The planning process acts as a link or bridge between the business owner's ideas and the actual operation of the business.

Sources of planning ideas

- The internal and external business environments are sources of planning ideas.
- Information is the essential ingredient needed to prepare a business plan.
- A situational analysis refers to a collection of methods that managers can use to analyse a business's internal and external environment. One method of analysis is a SWOT analysis.
- A SWOT analysis can be used at all stages of the planning process.

Vision, goals and objectives

- The vision statement broadly states what the business aspires to become.
- Vision statements guide and direct the business owners, managers and employees.
- Once the goals have been established, the SME owner determines the objectives.
- Objectives are specific statements detailing what a business needs to do to accomplish its vision.
- Strategic goals, tactical and operational objectives are determined by different levels of management.
- Many businesses strive to achieve goals relating to profits, market share, growth and share price as well as social and environmental goals.
- Longer term growth is the ability of a business to continually expand.
- Longer term growth depends on a business's ability to develop and use its asset structure to increase sales, profits and market share.
- For growth-oriented entrepreneurs, entering the global market improves their potential for expansion and long-term growth.

Organising resources

- Once the SME owner has formulated the vision, goals and objectives, the next stage in the planning process requires organising the resources — human effort, time, money, equipment and materials — needed to fulfil the plan.
- Organising is a device that SME owners can use to gather resources for getting things done.
- Resource allocation refers to the efficient distribution of resources so as to successfully meet the goals that have been established.
- Each of the key business functions — operations, marketing, finance and human resources — require specific resources which need to be effectively organised.

Forecasting

- Forecasts are the business's predictions about the future.
- Total revenue is the total amount received from the sales of goods or services.
- The total cost of producing a certain number of goods or services is the sum of the fixed and variable costs for those units.
- Break-even analysis determines the level of sales that need to be generated to cover total production costs.
- The cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business.

Monitoring and evaluating

- SME owners need to monitor and evaluate the business's performance by asking themselves:
  - Is my business performing as planned?
  - Has the performance of my business improved over time?
  - How does the performance of my business compare to that of similar businesses?
- Budgeted sales should be compared against actual sales.
- The budget should regularly be compared with actual revenue and expense amounts to detect any discrepancies.
- When using indicators, the main types of analysis are:
  - comparing figures within one financial year
  - comparing figures from different financial years.
- Profit levels are an indicator of a business's performance and should be carefully monitored and evaluated.

Taking corrective action — modification

- If there are changes in the internal and external business environment, then this usually means that modifications need to be made to the business plan.
- Corrective action involves making changes to any part of the business plan.

12.9.2 Key terms

break-even analysis used to determine the level of sales that needs to be generated to cover the total cost of production
budget the business's financial plan for the future
business plan a written summary and evaluation of the business idea. It sets out the desired goals and direction of the business, and how it will maintain its focus.
cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business
evaluation the process of assessing whether the business has achieved stated goals
fixed costs (FC) costs that do not vary regardless of how many units of a good or service are produced
forecasts (or projections) the business's predictions about the future
grant any monetary or financial assistance that does not generally have to be repaid
long-term growth the ability of a business to continually expand
modifying the process of changing existing plans and using updated information to shape future plans.
monitoring the process of measuring actual performance against planned performance
objective a specific statement detailing what a business (or individual) needs to achieve in order to accomplish its vision
operational objectives objectives that focus on short-term issues and describe the course of action necessary to achieve the tactical objective and strategic goal
organisational structure the framework in which the business defines how tasks are divided, resources are used and departments are coordinated
performance standard a forecast level of performance against which actual performance can be compared
planning the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.
resource allocation the efficient distribution of resources to successfully meet the goals that have been established
strategic goals goals that focus on long-term, broad aims and apply to the business as a whole
SWOT analysis the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment
tactical objectives objectives that focus on mid-term, departmental issues and describe the course of action necessary to achieve the business's strategic goals
total cost (TC) (of producing a certain number of goods or services) the sum of the fixed and variable costs for those units
total revenue (TR) the total amount received from the sales of a good or service
variable costs (VC) costs that depend on the number of goods or services produced
vision statement a broad statement about what the business aspires to become in the future

Resources

Digital documents Key terms glossary (doc-35799)
Chapter crossword (doc-36251)

Interactivity Chapter crossword (int-7233)

12.9 Activities

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Exercise 1: Multiple choice questions

1. How is total revenue calculated?
   - **A.** Price x fixed cost
   - **B.** Price x variable quantity
   - **C.** Price x fixed and variable cost
   - **D.** Price x quantity sold
2. Yin's Clothing has decided to expand overseas. The business has fixed costs of $500 000, where the variable cost per unit is $25 and the price per unit on average is $75. What is the current break-even point for the business?
   - **A.** $10 000
   - **B.** $6666
   - **C.** $20 000
   - **D.** $50 000
3. Yin's Clothing has fixed costs of $500 000, where the variable cost per unit is $25 and the price per unit on average is $75. What could be the break-even point if Yin's management could take advantage of economies of scale and reduce its variable cost by $10 per unit?
   - **A.** $10 250
   - **B.** $12 500
   - **C.** $50 000
   - **D.** $8333
4. What level of management would be responsible for day-to-day operational issues?
   - **A.** Front-line supervisors
   - **B.** Teams
   - **C.** Middle management
   - **D.** Senior management
5. Marissa, the CEO of a clothing retailer, has set a goal to expand her stores throughout Australia over the next two years. What type of goal would this be an example of?
   - **A.** Objective
   - **B.** Operational
   - **C.** Tactical
   - **D.** Strategic
6. With reference to the cash flow forecast table below, what is the closing balance for March?

	January	February	March
Beginning balance	10 000	22 000	?
Cash in	25 000	35 000	40 000
Cash out	13 000	35 000	–45 000
Closing balance	22 000	?	?

   - **A.** $22 000
   - **B.** $0
   - **C.** $40 000
   - **D.** $17 000

7. McDonald's has suffered a decrease in sales due to the trend for a healthier lifestyle. What element of a SWOT analysis would this be classified as?
   - **A.** Opportunity
   - **B.** Strength
   - **C.** Threat
   - **D.** Weakness
8. What is the formula for calculating total cost (TC)?
   - **A.** Price x quantity
   - **B.** Fixed costs – variable costs
   - **C.** Fixed costs + variable costs
   - **D.** Total fixed costs/unit price – variable cost per unit
9. The warehouse of a business is run and in need of repair. What element of a SWOT analysis would this be classified as?
   - **A.** Opportunity
   - **B.** Strength
   - **C.** Threat
   - **D.** Weakness
10. What is the process of measuring actual performance against planned performance known as?
    - **A.** Budgeting
    - **B.** Forecasting
    - **C.** Modification
    - **D.** Monitoring

Exercise 2: Exam practice questions

Question 1 (2 marks)

Define a vision statement.

Question 2 (3 marks)

Outline what needs to be determined when organising financial resources.

Question 3 (4 marks)

Why is conducting a break-even analysis important for planning?

Question 4 (4 marks)

Discuss the importance of budgets.

Question 5 (5 marks)

Explain how SMEs can enter the global market and achieve long-term growth.

Question 6 (6 marks)

Analyse ONE forecasting tool.

Resources

Teacher-led video Chapter 12 Exam questions solutions (tlvd-1899)

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13 Critical issues in business success and failure

13.1 Overview

LEARNING SEQUENCE

13.1 Overview
13.2 Importance of a business plan
13.3 Management — staffing and teams
13.4 Trend analysis
13.5 Identifying and sustaining competitive advantage
13.6 Avoiding overextension of financing and other resources
13.7 Using technology
13.8 Economic conditions
13.9 Review

13.1.1 Introduction

When a business commences operation, the SME owner/manager is optimistic of success. Most businesspeople are aware of the general pitfalls, but all businesses — regardless of their size or function — must pay close attention to a number of critical issues. These issues include:

- having a business plan
- managing employees
- analysing trends
- identifying and sustaining competitive advantage
- avoiding overextension of financing and other resources
- using technology
- considering economic conditions.

FIGURE 13.1 During the COVID-19 recession, many SMEs experienced severe hardships and were forced to close.

While there are many reasons for business failure (see chapter 4), careful attention to the above factors will allow businesses to avoid failure and achieve success. These critical issues form the basis for discussion in this chapter.

on Resources

Digital document Key terms glossary (doc-35801)
Video eLesson Global Kidz Oz 2 (eles-2297)

13.2 Importance of a business plan

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- importance of a business plan.

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The vital point of the previous chapter was that all business owners must take time to develop a business plan. Chapter 12 also introduced you to the planning process and the activities to be undertaken to prepare the business plan. No two business plans will be identical but they should all contain some common information. Some plans will be structured and detailed; others will be less complex and more informal. However, regardless of its format, a plan must contain reliable and accurate information in enough detail to be valid.

The business plan should contain:

1. a clear, concise statement of the goals of the business — what the business wants to achieve
2. well-developed plans for achieving these goals — how the business is going to achieve the goals
3. reliable control standards for measuring performance — has the business achieved the goals? If not, what needs to be changed?

A comprehensive plan is essential for business success.

As outlined in chapter 12, the business plan is the 'blueprint' for future growth and development within a business. It sets out the desired goals and direction of the business. It is widely accepted that a business plan is essential to long-term success and necessary for all businesses regardless of their size or function. If prospective business owners neglect to develop a business plan or make profit projections, business failure is distinctly possible because there is no clear understanding of the business's future.

Lack of planning can be as disastrous as a lack of capital. In all businesses, the best results come from effective management. This means that the manager uses the business plan and, more importantly, adjusts the plan when changes occur.

FIGURE 13.2 An effective business plan contains a number of important elements that will make the plan an operating tool that assists in the management of the business.

13.2.1 Business plan: presentation and preparation

All business plans should be presented in a professional manner because they may be read by bank managers, accountants, financial advisers, company directors, potential purchasers or interested partners. These people often have first contact with the details of the business via the business plan, so it is important that the plan reflects the skills and abilities of the business owner. A poorly presented plan will convey the impression that little thought has been given to the planning process. This will reflect poorly on the business owner and their capabilities of getting the business 'up and running'. Sometimes it is a good idea to get professional help from an accountant, business adviser, solicitor or marketing consultant, particularly with plan elements such as the projected profit and loss statements, break-even analysis and market research.

Preparing a business plan is similar to completing an assessable task. The final result will reflect the amount of time, effort and research that goes into the plan and its final presentation. Any task that is completed quickly and at the last minute will probably lead to poor performance. But businesspeople who use the planning process effectively will end up with a valuable working document that will help guarantee a business's success.

BizFACT

Accuracy and realistic expectations are crucial to an effective business plan. It is unethical to deceive investors and financiers, and it is unwise to deceive oneself.

KEY IDEAS

- Business plans are essential for owners/managers because:
  - they allow the owner to clearly define the goals and future projections (e.g. finance)
  - they assist in the securing of finance from banking institutions or investors
  - they reflect the skills and abilities of the business owner.

13.2 Activities

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13.2 Quick quiz on | **13.2 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
2	1, 3, 4	5

13.2 Exercise

Revision

1. **Explain** the purpose of a business plan.
2. **Recall** why a business plan should be professionally presented.

Extension

Referring to a business you have studied, answer questions 3 to 5.

3. **Investigate** the planning options that had to be considered when the business was established.
4. **Examine** what essential components were included in the business plan.
5. **Determine** how important the business plan was to the overall success of the business.

Solutions and sample responses are available in your digital formats.

13.3 Management — staffing and teams

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- management — staffing and teams.

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As outlined in chapter 5, management can be traditionally described as being concerned with coordinating a business's resources to achieve its goals. More contemporary descriptions highlight that management is the process of working with and through other people to achieve the goals of the business in a rapidly changing environment. What both these explanations have in common is that management:
- must make the best use of limited resources
- is responsible for the business achieving its goals.

FIGURE 13.3 Being successful as a business owner requires more than coming up with a brilliant idea and working hard. Owners need to learn how to manage and grow their business. In the process, they'll face numerous challenges, and their ability to overcome them will be a major factor in success (or failure).

Think of a manager's role as being similar to that of a chef whose task is to efficiently combine the resources (ingredients) to effectively achieve a goal (a delicious meal). A skilled, competent chef could probably deliver an appetising meal even with limited resources; whereas an unskilled, incompetent chef would probably serve up an unappealing meal even if he or she had access to superb ingredients. The chef's level of skill (ability) is the critical factor determining how well the goal is achieved.

It is the same for the management of a business. A manager's skill is the most critical factor in determining a business's success or failure. For example, a business may have the most up-to-date computer equipment, well-furnished offices, access to adequate sources of finance, a committed and motivated group of employees, an excellent location, and an outstanding range of goods or services backed up by a highly-expensive marketing campaign, but if does not have a competent manager(s), who can make effective and efficient use of these resources, then the business will not succeed.

Overall, the most important accomplishments a skilful manager will achieve for a business include the ability to:
- solve difficult problems
- set and help attain important goals
- develop attitudes of commitment and ownership
- create a positive business culture through their words and actions
- monitor the business's external and internal environments
- plan and allocate resources
- coordinate teams and departments
- monitor the performance of teams and individuals
- successfully put workplace and business changes into action
- develop and implement schedules and operating plans.

Two important areas of business that a manager must pay special attention to are staffing and teamwork.

13.3.1 Staffing

If an SME owner wants the business to succeed, then it is essential to have employees who are satisfied and motivated (as was outlined in chapters 6 and 8) as they will be more productive. They also provide the business with a competitive advantage, especially if the business offers a service where the customers come into direct contact with the employees. Therefore, the management of the staffing function — the recruiting, selecting, maintaining, training and separating of employees — must be undertaken with care.

BizFACT

'Businesses are made by people. We've proven time and again that you can have a wonderful shop and put a bloke in there who's no good, and he'll stuff it up. Put a good bloke in, and it just turns around like that.'

Gerry Harvey, Chairman of Harvey Norman

SNAPSHOT

Case study: Critical issues in business success and failure

It's an idea most desk-bound workers have probably flirted with: throwing in the 9–5 and starting a small business.

But while being your own boss, working flexible hours and doing something you're passionate about sounds idyllic, the reality can be quite different. According to data and analytics provider illion, 51 679 businesses collapsed in Australia last financial year. The figure is down slightly on the previous period but likely still big enough to strike fear into the hearts of would be-entrepreneurs.

So how do you make your great idea work?

According to clear-eyed veteran business coach Brian Childs, the answer hasn't changed for thousands of years. Business 'is about money. 'Money coming in must be greater than money going out,' he said.

Brian Childs works at the West Australian Government's Small Business Development Corporation, an organisation that helps local small businesses get off the ground.

To figure out if your idea will make money he advocates researching and writing a business plan.

But before you get into the nitty-gritty of cost estimates and sales projections, he suggests a cold hard look at your bank account.

'If you have not saved any money, do not go into business,' Mr Childs said. 'Because you've just demonstrated to yourself you lack financial discipline.'

Is there a market for it?

Mr Childs also suggests a frank discussion with your nearest and dearest.

'A family meeting between the intending entrepreneur and the direct family members, and negotiation between the two that the intending entrepreneur is going to devote time and resources to this exercise for say, 6 to 12 months, and during that time they require forbearance from the family,' he said.

'So [everyone knows] they won't be available to cut the lawn on Sunday morning or some such thing.'

So you've saved some money and hired a lawn mowing contractor, now what?

Spend 160 hours researching the viability of your business plan, according to Mr Childs.

Yep, 160 hours, and then 40 hours writing the plan up.

'This should be an 80:20 rule — 80 per cent of the time available is spent on research and 20 per cent is spent converting the research into a set of projections,' he said. 'Those projections would start with the sales forecast.'

'Is there a need in the market for the idea? Because all business viability hinges off someone buying something for more than what it costs to make it.'

He also advocates factoring in a 20 per cent buffer on what you think the business will cost to set up — if you think you need $50 000, make sure you have $60 000.

Do you understand money?

You also have to make sure you're financially literate.

'If business is about money, you need to understand the language of business, which is accounting,' Mr Childs said.

'If you're going to understand accounting, you've got to understand finance, so therefore you should commit to obtaining some financial literacy.

'Now some people go, oh groan, moan, accounting is boring. It's not. It's the lifeblood of the business and the business is the lifeblood of the family; the family cannot survive unless there's a regular income being paid into the family coffers.'

'Go to any bookshop and buy any book on business finance and read it.'

Find an accountant

If you haven't realised yet, Mr Childs is a very straight talker.

He's also a big fan of accountants and suggests seeking advice from one about how to structure your business and protect yourself legally.

Once you've jumped through all his hoops and set up your new dream life, Brian Childs' final piece of advice is don't work more than 44 hours a week.

"There's nothing wrong with spending more than the 44 hours setting it [the business] up; it's like building a house, you work night and day to build the house.

'But once the house is built and you move in, you should be spending no more than 44 hours a week there.'

Source: Eliza Borello, 'How to ditch your day job and start a small business in fewer than 44 hours a week', ABC Online, 3 October 2019.

One mistake that some SME owners often make is not providing enough time or financial resources to satisfactorily carry out the recruitment process. Making hasty recruitment and selection decisions often ends in misfortune for both the SME owner and the employee. For this reason, many SME owners outsource this function and use an external recruitment agency.

Recruitment

It is time-consuming to advertise, screen and interview potential employees. Many businesses use recruitment agencies as a way of decreasing the time involved in searching for a new employee. They pay an agency to interview candidates and recommend a shortlist of potential employees or an employee suitable for the available position. Outsourcing of staff recruitment is becoming popular with small businesses, especially as the skill shortage worsens and owners see the advantage of using an expert to make sure they hire the best people.

FIGURE 13.4 Many SMEs are using recruitment agencies to assist them with their staffing needs. The main reason for this is related to the cost of a poor recruitment decision, which is generally believed to be around two or three times the annual salary of the person recruited. A poor recruitment and selection process leads to increased costs and lower productivity.

Employee skills databases

Once people have been employed, the next important staffing management function is to achieve the right mix and level of employees' skills. This is best accomplished by using a skills audit and skills inventory.

Skills audit

It is important for any business to detail the current skills base of the people involved in the business, as well as identifying any skills needed in the future. A personnel skills audit is used for this purpose. A **skills audit** is a process that establishes the current skills levels of employees and future skills requirements.

The aim of the audit is to identify:

- the skills that will give the business a competitive advantage
- weaknesses in the skills base which, unless overcome by training or recruitment, will threaten the business's survival.

Figure 13.5 provides an example of a skills audit form. One form should be completed for each employee. Once this information is collected, it can be used to produce a skills inventory — that is, a computerised database containing information on the skills and experiences of all present employees.

Skills inventory

An employee database is an important tool used by business owners for recording personal and work details of their employees. This type of database should be regularly updated as new employees join the business and existing ones leave. One particular type of employee database is the skills inventory. A **skills inventory** is a database containing information on the skills, abilities and qualifications of existing staff. It is used to search for appropriate candidates to fill new positions within the business. For example, a business may be seeking a current employee with a commerce or business-related tertiary qualification, at least ten years' experience, fluency in Japanese and with some knowledge of marketing. By accessing the skills inventory, a search can quickly identify employees who match these specifications.

skills audit a process that establishes the current skills levels of employees and future skills requirements

skills inventory a database containing information on the skills, abilities and qualifications of existing staff

FIGURE 13.5 Skills audit form

Skill		1	2	3	4	5
Management	Manages time effectively					
	Punctual					
	Able to meet deadlines					
Computer	Confident using a Mac					
	Able to use all Microsoft products					
	Able to use all Adobe products					
Communication	Able to communicate effectively with customers					
	Able to communicate with colleagues and management					
	Effective written communication skills					
Teamwork	Contributes well to group tasks					
	Interpersonal skills					
	Able to listen to other perspectives					
Self-motivated	Positive and open-minded					
	Helpful					
	Focused and on task					

1 = Poor **2 = Minimal** **3 = Satisfactory** **4 = Good** **5 = Excellent**

13.3.2 Teams

As was outlined in chapter 7, many businesses are starting to realise that a team approach can be a catalyst for superior performance. Teams are replacing individuals as the basic building blocks of businesses of all sizes, especially in those businesses that are adopting flatter organisational structures.

BizFACT

Google spent years studying teams and trying to figure out why some teams perform well while others stumble. Five qualities contributed the most to a team's success. Great teams make members feel psychologically safe, promote dependability, provide structure and clarity, create meaning and communicate impact.

Businesses are learning that teams:

- make more informed and creative decisions
- work without the need for close supervision
- create greater levels of employee cooperation
- provide improved customer service and/or production output.

How teams are managed, therefore, is another critical issue determining business success. However, it can sometimes be difficult for SME owners to have the time or expertise to develop highly functioning teams or improve the communication and efficiency of already established teams. Consequently, many SME owners are seeking professional help from training and coaching businesses. By investing time and money in the development and training of team leaders and team members, the business reaps the rewards of improved productivity (see the following case study).

SNAPSHOT

Case study: Cumberland Realty Group — productive teamwork

In 2016, Francesca Luccitti established her real estate business, Cumberland Realty Group, which currently operates in three locations — Greystanes, Merrylands and Wentworthville. Francesca became a property investor at a young age and developed a passion for property. So, after 20 years in banking finance, she decided to follow her passion and opened her first real estate office.

Francesca's mission was to be the most trusted, ethical and successful agency throughout the Cumberland Local Government Area. Cumberland Realty Group provides a full suite of sales and rentals, and at the core of the business is a strong focus on customer service. Hence, the business is structured into five self-directing teams to better service clients.

- *Residential sales team*: Each seller has a dedicated, skilled and licenced manager who can give them all the focus required to achieve a maximum price. This manager is supported by a team of people who assist in providing the highest level of service to the client.
- *Commercial sales team*: This team is a separate division to the residential sales team but offer the same resources, systems and procedures. Although their main focus is on commercial and industrial properties, they work closely with the residential sales team as many of their clients deal in both residential and commercial real estate.
- *Property management (rental) team*: All landlords are served by a dynamic team devoted to providing the best rental returns while delivering tailored solutions for their clients.
- *Project management team*: This team works closely with developers and builders in the marketing and sales of various residential property projects. Under the assistance of the project manager, this team's dynamic approach and development expertise helps developers and builders sell their projects. They also provide a valuable service to assist buyers interested in buying off-the-plan.
- *Admin and marketing team*: This team supports all other teams to ensure they all meet audit requirements, industry regulations and best practice. The successful marketing of homes and projects is also the first step required in the journey to sell or lease a client's property. Such extensive experience in marketing properties ensures the company attracts the right buyers or tenants.

An astute investor in today's market has interest in all types of property. The key advantage of a real estate office that offers this full range of real estate services is that it helps better meet clients' needs and provide the highest level of customer service. While each of these teams possess a unique skill set, they all interact and work closely together in order to provide clients with the best possible advice. This interaction and level of service helps the business achieve a competitive advantage.

Francesca sets clear goals at the beginning of each financial year for each individual, as well as for each team overall. Every employee has a set of annual targets that are reviewed quarterly with Francesca. At these quarterly meetings, strategies are put in place to help each employee reach their targets. Ongoing training is also provided to all staff members to ensure they can provide the highest level of service. In addition to this, each team has regular informal and structured meetings where all members are encouraged to offer recommendations on any improvements, refer clients to each other and share good news stories for the week. Although Francesca provides strong leadership, she does not need to micromanage her staff, as she is confident they have a clear expectation of their duties and the skills to meet their job description.

In order to build successful teams, you need to have a positive culture and provide strong leadership. It's important not to become complacent and think the business is going to run itself. 'Your teams need to know that you are in it with them and you need to show each individual that you care about them personally so that you and the team can achieve the shared goals.' Francesca makes it a priority to show respect and recognition for every individual in her business. She always makes herself available to her staff and focuses on giving her teams the confidence they need to achieve their goals. 'Show you respect your staff and they'll be much more likely to return the sentiment.'

KEY IDEAS

- Management:
  - must make the best use of limited resources
  - is responsible for the business achieving its goals.
- A manager's skill is the most critical factor in determining a business's success or failure.
- If an SME owner wants the business to succeed, then it is essential to have employees who are satisfied and motivated as they will be more productive.
- Outsourcing of staff recruitment is becoming popular with SME owners.
- Teams are replacing individuals as the basic building blocks of businesses of all sizes, especially in those businesses that are adopting flatter organisational structures.
- How teams are managed is another critical issue determining business success.

13.3 Activities

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13.3 Quick quiz on | **13.3 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1, 3, 5, 7, 8	2, 4, 6, 9, 10	11

13.3 Exercise

Revision

1. **State** what the traditional and contemporary description of management have in common.
2. 'To be successful, every business needs skilled managers.' **Discuss**.
3. **Identify** one advantage and one disadvantage of using a private external recruitment agency.
4. **Why** do many businesses outsource their recruitment function?
5. **State** three benefits of working in teams.
6. Read the 'Critical issues in business success and failure' case study and **explain** the factors that contribute to business success.

Read the 'Cumberland Realty Group — productive teamwork' case study and answer questions 7 to 10.

7. **Outline** the role of each team.
8. **Describe** how Cumberland Realty Group achieves a competitive advantage.
9. **How** does Francesca manage her teams?
10. **Explain** what Francesca believes is key to building successful teams.

Extension

11. 'The output of teamwork is, in many instances, greater than the combined output of its individual members working alone.' **Assess** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

13.4 Trend analysis

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- trend analysis.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

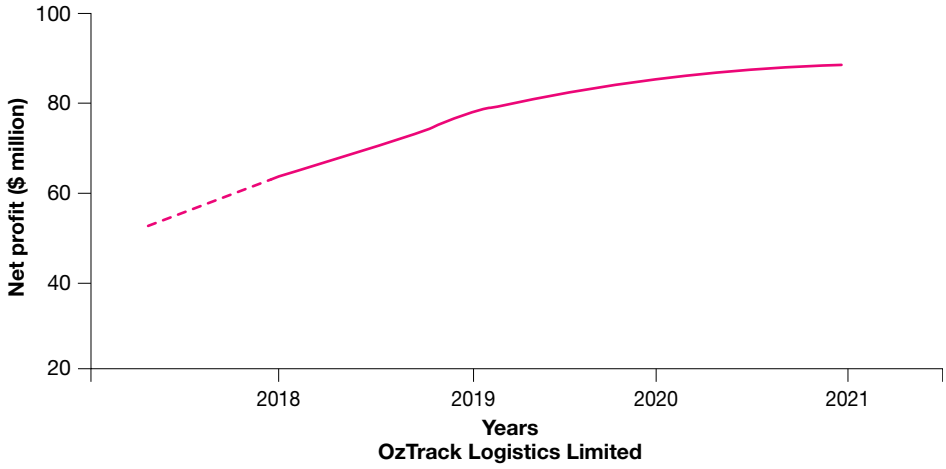
Examine table 13.1 below. What do you notice about the business's net profit results?

TABLE 13.1 Net profit results for OzTrack Logistics Limited 2018–21

OzTrack Logistics Limited	
Year	**Net profit ($ million)**
2018	62
2019	78
2020	85
2021	90

On a quick inspection, you would say that net profit is increasing over the four years. However, upon closer examination, you will detect that the rate of net profit growth is decreasing; that is, net profit is increasing but at a decreasing rate. This *trend* is best shown by graphing the net profit results (see figure 13.6). As a business owner, such a trend could be cause for alarm because it could mean that future net profit may fall.

FIGURE 13.6 OzTrack Logistics Limited net profit results 2018–21



BizFACT

Examinations of a business's financial information or total sales are two of the most common applications of trend analysis.

Trend analysis is a process of investigating changes over time and looking for a pattern (trend) in order to predict the future. Trend analysis is based on the idea that what happened in the past provides an idea of what will happen in the future. For example, as a student you probably keep a record of your grades for each assessable task or test. You do this to determine whether your grades are generally rising, falling or stable. Analysing this information also allows you to predict what mark you will receive for a future assessable task or test. You will

base your prediction on past performance. The more past grades you have to examine, the more accurate your prediction will be.

Trend analysis is a powerful tool which, when used properly, will assist SME owners to achieve business success by helping forecast such factors as:

- potential sales
- total revenue
- total operating costs
- gross and net profits
- availability of labour.

As was outlined in chapter 12, forecasts are needed to enable effective planning, and trend analysis helps make forecasting more accurate. Overall, trend analysis will provide more reliable information on which an SME owner can base decisions. If, for example, a retailer's trend analysis of past sales forecasts sales to decrease, then appropriate strategies — such as new products or a revamped marketing campaign — can be put in place to avoid the poor performance.

KEY IDEAS

- Trend analysis is a process of investigating changes over time and looking for a pattern (trend) in order to predict the future.
- Trend analysis is a powerful tool which assists SME owners to achieve business success by helping with forecasts.

13.4 Activities

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13.4 Quick quiz on	13.4 Exercise

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1	2, 3, 4	5

13.4 Exercise

Revision

1. **Define** the term 'trend analysis'.
2. **How** could you as a student benefit from using a trend analysis?
3. **Examine** figure 13.6 and **explain** why it is easier to identify a trend when using a graph rather than a table of figures.

Extension

4. **What** role does trend analysis play in forecasting gross and net profits?
5. 'A favourite method of forecasting is to base the estimate entirely on past sales.' **Assess** the advantages and disadvantages of using this method to predict future sales.

Solutions and sample responses are available in your digital formats.

13.5 Identifying and sustaining competitive advantage

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- identifying and sustaining competitive advantage.

Source: *Business Studies Stage 6 Syllabus* © Copyright 2010 NSW Education Standards Authority (NESA).

Business success and failure is linked (in the long term) to a business's ability to develop a strategy that allows it to gain an advantage over other competitors in its market. A **competitive advantage** can be defined as the strategies used by a business to ensure it has an 'edge' over its competitors. A business cannot always sustain above-average performances in all areas for long periods. For this reason, it must choose a strategy (outlined below) that will allow it to use and develop its strengths as a business. This strategy can give the business a competitive advantage.

13.5.1 Price/cost strategy

The price of a product can be lowered in two ways. First, the business can simply reduce the price. This will create a competitive advantage if the price is lower than the price offered by competitors and if customers choose the lower priced product. However, it will have the effect of reducing the potential profit that the business can earn. A second and more effective method is to reduce costs. Adopting the price/cost strategy will enable a business to lead the way by achieving the lowest production costs, which in turn will allow it to reduce the product price while still maintaining a healthy profit margin.

While the price is lower, it is important not to compromise the product's quality in relation to that of competitors' products. Figure 13.7 suggests the main ways businesses can reduce costs.

Efficiency of operation refers to the ability of a business to streamline the processes that occur within that business. A manufacturing business, for example, may use more machinery or perhaps specialise parts of the production line (where one operator completes one part of a process, such as placing finished products into boxes while someone else loads the boxes onto the transport).

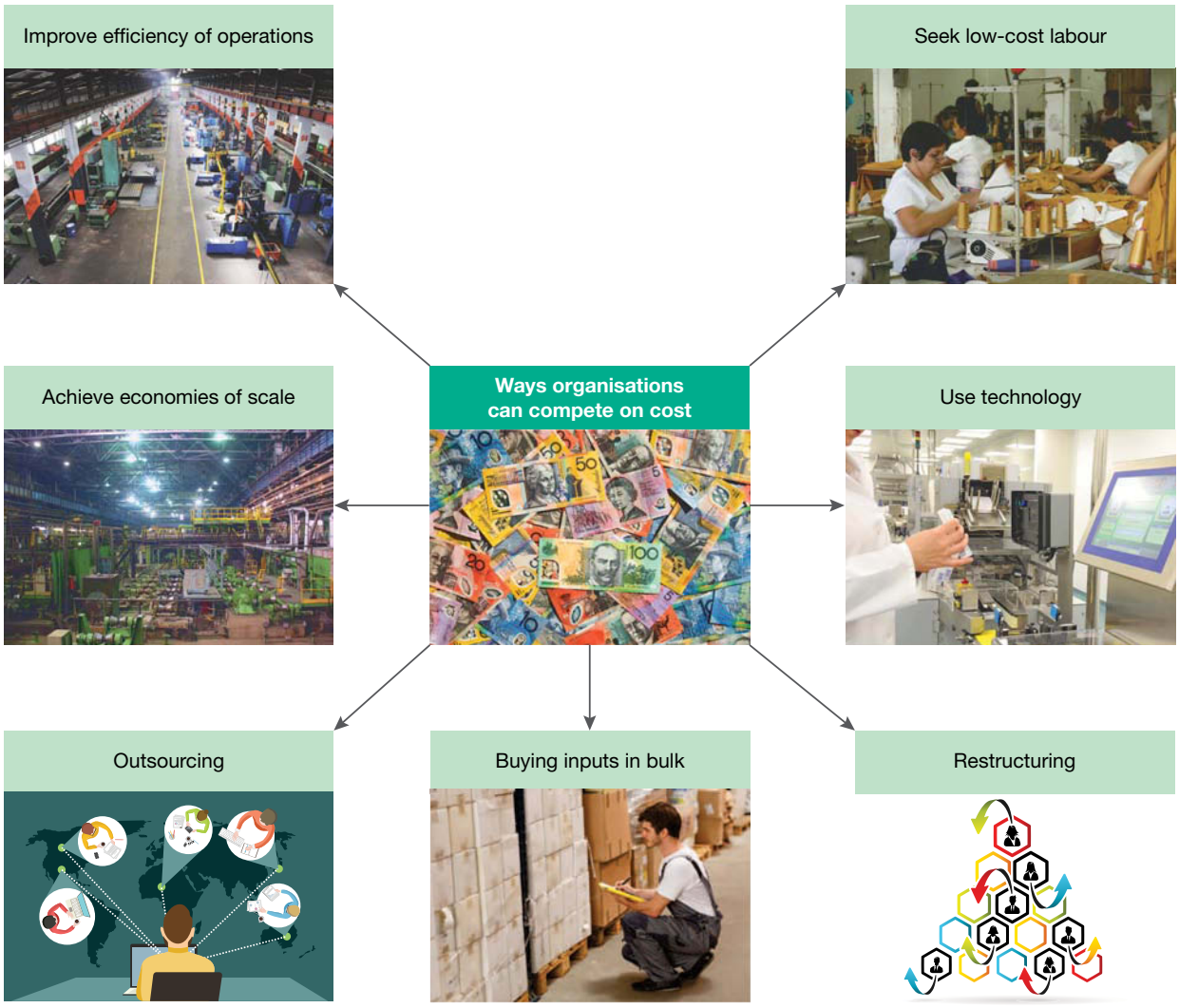
BizFACT

Labour costs in Australia have grown at twice the pace of other OECD countries over the past decade.

Low-cost labour is an obvious way to gain a cost advantage over the competition. In Australia, labour is one of the most expensive components of the production process because minimum wages are set by the government. The union movement has fought for these requirements over the past 100 years. They include minimum wages and working conditions, as well as holiday and sick leave entitlements (as outlined in chapter 8).

competitive advantage the strategies used by a business to gain an 'edge' over its competitors

FIGURE 13.7 How to develop a cost advantage over your competitors



Economies of scale can achieve a cost advantage for the firm. Simply, this concept relates to the level of outputs for a business and the cost of the inputs (for example, the cost of labour or raw material). To achieve economies of scale, the business tries to reduce the cost of inputs — perhaps by using more machinery, buying in bulk or increasing the specialisation of labour — and increase the level of outputs. Some businesses buy their inputs in bulk to take advantage of supplier discounts.

Many businesses attempt to reduce the cost of labour by decreasing the size of their workforce, restructuring or using machinery where possible. Other companies choose to move their operations to countries where labour costs are low. Some countries, such as China, require employers to pay only small wages, so a firm in a labour-intensive industry (such as the clothing and textiles industry) may choose to relocate this part of its operations overseas. An increasing number of businesses have begun outsourcing or contracting out business functions to third-party businesses. The aim is to take advantage of the skills provided by the specialist and to achieve a reduction in labour costs.

The final way to develop a cost advantage over the competition is to use technology. Nearly all businesses today have found that technology — whether computerisation or the use of automation and robotics — has enabled them to improve efficiency and production. As a result, a business can reduce its overall costs. This is obvious in the car manufacturing industry where computers and machinery have gradually replaced labour.

The changes are more subtle, however, in a service industry. They may include, for instance, the computerisation of client information, or the use of advanced communication mediums such as the internet or email.

BizFACT

At Amazon, differentiation is based on the broad range of products that can be purchased via its marketplace, ease of use, lower pricing, speed of delivery and customer service. However, Amazon has also achieved cost leadership when compared with bricks and mortar retailers. The company enjoys economies of scale because of its massive warehousing facilities and order processing capabilities. Amazon is then able to translate this scale into even lower prices and faster, cheaper shipping. Australians have been able to test Amazon's differentiation strategy first-hand since they commenced operations in Australia in 2017.

13.5.2 Differentiation strategy

The concept behind this strategy is to offer customers something that is not already offered by business rivals. SMEs will find it very difficult to compete on cost due to the large budgets of bigger companies, as well as the economies of scale that can be achieved. They can, however, adopt a differentiation strategy and compete on other factors, such as value, quality, brand image, service and flexibility.

SNAPSHOT

Case study: Catherine's Cutting It — differentiation

Catherine O'Keefe started her own salon, Catherine's Cutting It, in 2007. When operating in a highly competitive marketplace such as the salon industry, it is important to make your business stand out and ensure it stays relevant and competitive against other salons in the area. Catherine successfully achieved this by differentiating her salon from her competitors, enabling her to develop and sustain a competitive advantage

Two points of difference for Catherine's Cutting It is in relation to quality and customer service. The professional staff are highly skilled and have a combined 25 years' experience in the hair and beauty industry. The staff always strive to provide clients with the highest quality service possible and treat every client as if they were family. They also specialise in all aspects of hair cutting and styling, from on trend hair cuts, creative colours, extensions and wedding styles to the mature clientele visits. Catherine ensures she only recruits qualified and enthusiastic staff members who have a passion for what they do. She also makes sure her employees constantly update their skills so that they remain on the cutting edge of the latest trends as well as the latest technology.

The business's major point of difference, however, is the underwater themed kid's salon, Spikey-Tales, which is situated within the main salon. Being a mother herself, Catherine was inspired to create a unique salon that welcomed all ages. This part of the salon is dedicated to young people from birth to teens and is fitted out with specially themed chairs, such as a boat or mermaid, for children to sit on while they get their hair done. The salon also provides a bright, friendly and fun environment with entertainment for children in the form of a play area equipped with a wide variety of children's toys. Children are able to play as long as they like while their parents, grandparents or guardians get their own hair styled. Catherine wanted to create a salon where mums could go and know their kids would feel welcomed while they got pampered.

The experienced staff who work in this part of the salon are adept at dealing with all children and know how to relate to them.

The employees at Catherine's Cutting It are also skilled in working with children with special needs. They understand that different kids need different things and so are committed to doing whatever it takes to make each child feel comfortable. Catherine wanted to create a safe environment for children who have sensory issues so they could be free to roam the salon while getting a hair cut. This was the driving force behind the salon — to create a place where all children feel welcome and safe.

BizFACT

The Iconic has become one of Australia's most successful online shopping sites. When launching the business, the founders considered what customers care about when shopping online and came up with ways to exceed their expectations. The Iconic offers customers a large range of products at good prices, as well as an easy-to-use website. Through their adoption of smart technology, clever processes and passionate staff, the company is also able to offer three-hour delivery for metropolitan areas. All these factors have given The Iconic a competitive advantage.

Many businesses adopt a range of strategies to develop and enhance differences in their product. An example of this strategy is the use of celebrities to endorse and contribute to a product's image, such as Beyoncé's association with Pepsi and Justin Bieber's endorsement of Calvin Klein.

Once a business achieves its product differentiation strategy, the challenge then is to sustain this competitive advantage, especially as competitors attempt to match this strategy.

13.5.3 Ensuring long-term success

Long-term success can be difficult to achieve if a business is unable to develop a competitive advantage. The business may succeed for a short period, but often only because other businesses in the same industry are not striving for any sort of advantage so they all exist at the same level.

Sustaining a competitive advantage is just as important as developing that advantage. Long-term success is assured if a business sustains its competitive edge. The business must be able to resist the actions of competitors that introduce new strategies, while also tracking changes within the industry (especially technological changes).

To limit the advances of competitors, a business must protect itself and reduce opportunities available to the competitors. This may be achieved through:

- research and development, which helps the business develop innovative products
- patents/copyrights, which protect against copying of inventions
- exclusive contracts with suppliers, which mean a supplier gives preference to the business
- lobbying government to limit foreign competition, which aims to restrict imported products.

Most importantly, for a business to sustain a competitive advantage, the actions of management must be dynamic. Staying in front of the competition requires constant action. All businesses operate in a changing environment. The owner/manager must be constantly aware of issues that may affect their operation, market share and profit. If a business is not looking to the future and its impact, then its competitors will be. To sustain a competitive advantage, a manager must be able to predict changes and trends, and act on these predictions.

KEY IDEAS

- Business success and failure is linked (in the long term) to a business's ability to develop a strategy that allows it to gain a competitive advantage over other competitors in the market.
- A competitive advantage refers to a business's ability to gain an 'edge' over its competitors.
- A competitive advantage is achieved through:
  - *price/cost strategy*. This is best accomplished by achieving the lowest production costs, which in turn allow it to reduce the product price.
  - *differentiation strategy.* The concept behind this strategy is to offer customers something that is not already offered by business rivals.
  - *ensuring long-term success*. This is assured if a business sustains its competitive edge by limiting the advances of competitors.
- A price/cost competitive advantage is best achieved by:
  - efficiency of operation
  - low labour costs
  - economies of scale
  - technology.
- For a business to sustain a competitive advantage, the actions of management must be dynamic.

13.5 Activities

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13.5 Quick quiz on | **13.5 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
3, 4, 6	1, 2, 5, 7	8

13.5 Exercise

Revision

1. **Explain** competitive advantage and how a business can try to achieve it.
2. **a. Explain** cost advantage.
   b. Discuss why it is considered important to a business trying to achieve a competitive advantage.
3. **Outline** the differentiation strategy in terms of achieving a competitive advantage.
4. **Identify** three examples of businesses that may use the differentiation strategy.
5. **Explain** what is meant by a sustainable competitive advantage.
6. **Outline** how a business can limit the advances of its competitors.
7. Read the 'Catherine's Cutting It — differentiation' case study and **explain** how the salon has developed a sustained competitive advantage.

Extension

8. 'All businesses must be able to achieve a competitive advantage if they wish to succeed.' **Assess** the accuracy of this statement.

Solutions and sample responses are available in your digital formats.

13.6 Avoiding overextension of financing and other resources

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- avoiding over-extension of finance and other resources.

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Ideally, those financing a business should start small and gradually expand. Unfortunately, some business owners overextend their capacity in the establishment or takeover stage, resulting in excess expenditure that is financed primarily by external sources such as banks. A business can overextend financially by:
- using hire purchase and/or leasing commitments made on cars, equipment, office furniture, plant and machinery and premises
- purchasing excess stock
- employing too many staff for the business's current needs.

BizFACT

A study of 600 Australian small businesses by Prushka Fast Debt Recovery in 2017 found that 57 per cent of the businesses surveyed reported having more than $10 000 in outstanding debt.

These types of expenditures are fixed, which means the business has a lease contract that is valid for a certain period (such as one or two years). This can create a higher degree of business risk. If economic conditions weaken, for example, businesses that are highly geared (that is, they have a higher debt-to-equity ratio) come under greater financial pressure and are more susceptible to bankruptcy.

Another expenditure problem can arise if the business owner purchases the business premises. **Leasing** is an effective option, yet many owners decide to buy premises and may find themselves overborrowing. If the business cannot meet its capital and interest repayments, then its working capital will also be affected.

There are many tips for a business of any size and type to avoid overextending financially, including:
- *business planning.* This involves the completion of cash flow projections, preliminary establishment costs, personal financial budgets and financial statements of position, along with the setting of the business's goals and objectives.
- *avoiding an overdependence on debt financing.* This helps avoid problems during weak economic periods when lenders or creditors are unwilling to wait for the business to overcome difficulties.
- *long-term financial planning.* This concerns not just the current financial aspects of the business, but anticipating future problems and planning the business's direction in terms of growth and expansion.
- *a small start.* Many businesses 'walk before they crawl' and quickly find themselves in difficulty. It is important to start slowly and allow the market to determine the right times for expansion and growth.

13.6.1 Overextension of other resources

Finance is not the only area in which a business can overextend. A business can also overcommit to resources. Resources refer to the inputs necessary for a business to carry out its function. The following two factors have the potential for problems if they are not monitored by management: stock and staff.

Stock

A business that overextends in terms of stock has invested too much money in goods or raw materials. This may occur if the business anticipates customer demand incorrectly, or purchases a 'bargain' from a supplier (such as end-of-season stock) without establishing whether it is saleable among its own customers.

leasing a long-term source of borrowing for businesses. It involves the payment of money for the use of equipment that is owned by another party.

Stock is unrealised sales, and a business with too much stock not only ties up its own cash but also potentially loses revenue. Many businesses avoid stockpiling, and prefer to keep only limited supplies and order regularly.

Just-in-time is a method used by some firms to ensure that inventory (stock) is not lying idle. The business has an arrangement with a supplier that orders will be supplied immediately. Thus, the business carries little or no inventory and relies on the supplier to fill the orders. Many major companies, including the Coca-Cola bottling plant in Australia, use this practice.

Staff

A business may find itself with too many staff. This may be due to overoptimism about sales levels, or just poor job allocations and hiring. Staff are costly, but options are available for a business to decrease its dependence on this resource and reduce costs in the long term. These options include:

- outsourcing
- redefining current job descriptions
- using more equipment/machinery.

KEY IDEAS

- A business can overextend financially by:
  - hire purchase or leasing overcommitments
  - purchasing excess stock
  - employing too many staff for the business's current needs.
- Overextending expenditure can create a high degree of business risk.
- To avoid overextending financially, a business should:
  - undertake thorough planning
  - avoid overdependence on debt financing
  - engage in long-term financial planning
  - grow at a sustainable rate.
- Overextension of stock ties up a business's cash and can lose the business revenue.
- Overextension of staff results in employing too many staff.

13.6 Activities

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13.6 Quick quiz on | **13.6 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1	2	3, 4, 5

13.6 Exercise

Revision

1. **Identify** the main ways in which a business can overextend financially.
2. **Explain** how a business can protect against overextending its finances.
3. Identify one other resource that businesses may overextend on and **analyse** the implications of this.

Extension

4. **Analyse** the importance of financial planning for short-term and long-term success in business.
5. 'Business expansion should be slow and steady.' **Evaluate**.

Solutions and sample responses are available in your digital formats.

13.7 Using technology

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- using technology.

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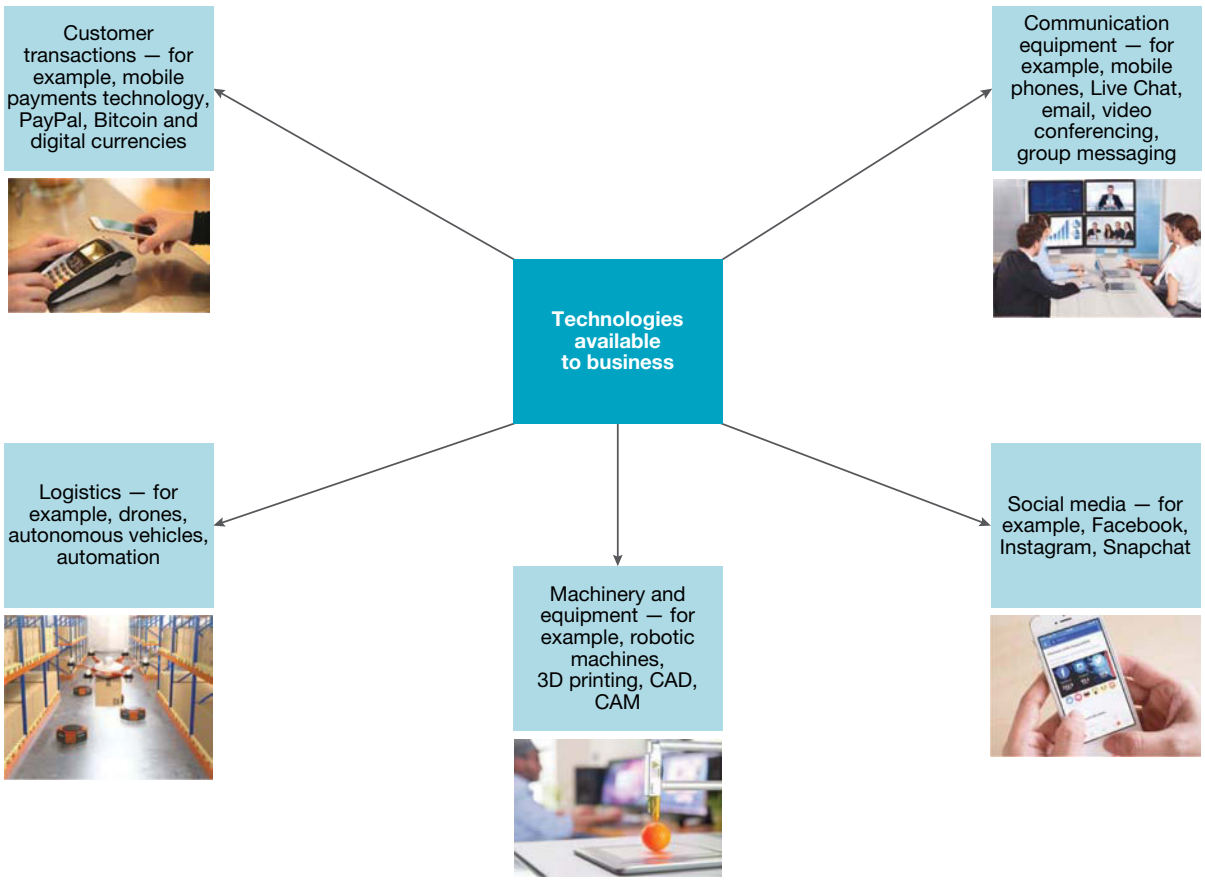
Technology is having many effects on the business world. It is changing the machinery and equipment we work with and changing the workplace environment. These changes have had a major impact on the internal and external business environments, and the extent and speed of change is likely to continue.

Advances in information technology have reduced communication time and improved distance communication between colleagues, suppliers and customers. It is not just information technology that has advanced; robotics, machinery and equipment for production processes have allowed for faster production times, higher productivity and greater flexibility, which in turn reduce overall costs.

There is little hope for a business that is not prepared to use some forms of technology. Figure 13.8 illustrates some of the technology available for all types of businesses.

FIGURE 13.8 Examples of the technology available to business



13.7.1 Internet applications (e-business and e-commerce)

A business that wants to be competitive must adopt the appropriate technology. If it is slow to exploit technology, a business is likely to fail because its competitors will strive to capture greater market share and develop a sustainable competitive advantage. Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. As such, technology, and any advances in technology, should be considered as a critical issue in business success.

While most business owners are aware that taking a business online will increase exposure, a study conducted by YouGov Galaxy in 2019 found that 59 per cent of small businesses in Australia do not have a website. Despite this, the majority of small business owners accepted that having a website provides many benefits. Fifty-eight per cent stated that having a website opened up new business opportunities and that it contributed as much as 25 per cent growth to their business. With over 80 per cent of Australian consumers searching the internet to better inform their purchasing decisions, and over half the online population using their smartphones to access the internet, it is imperative that SMEs acknowledge this growth area and actively develop an online presence.

BizFACT

A study conducted by YouGov Galaxy in 2019 found that the three main reasons why most small business owners do not have a website are they feel their business is too small (44 per cent); that it is too expensive (30 per cent); and they don't have the time to build or manage one (17 per cent).

Accessing electronic information services via the internet

One of the main advantages of accessing material electronically is that specific information can be located quickly, 24 hours a day, 7 days a week. An internet search is relatively inexpensive and fast. Such a search can also be designed to answer individual requests. These individual requests may include:

- legal requirements for starting a business or changing the formation of a business
- techniques for marketing a good or service
- changes to business administrative requirements, such as taxation changes
- current requirements for industrial relations, such as award conditions
- work health and safety requirements
- support from government agencies, such as Austrade or the Australian Taxation Office.

However, there are some disadvantages, including:

- expense in terms of hardware, software and service provider charges
- slowness to display web pages
- corruption by a virus
- unwanted spam
- information overload.

BizFACT

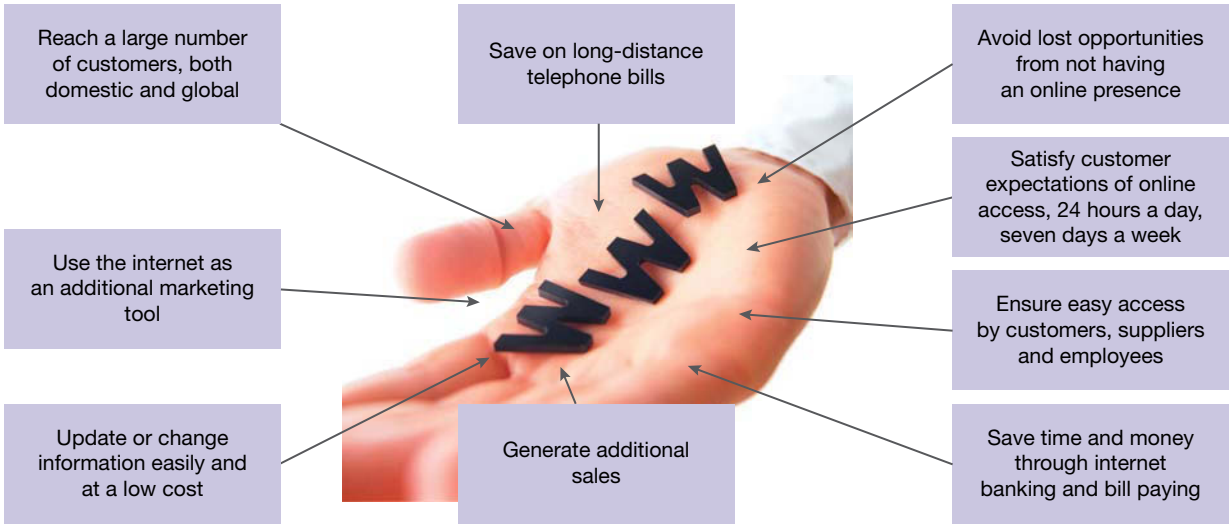
According to data gathered by the accounting software program Xero, companies that attempted to transform their businesses by embracing digital solutions lost less revenue and fewer staff during the COVID-19 pandemic.

E-business

E-business (electronic business) is using the internet to conduct business. It occurs when a business:

- uses the internet to find information — such as suppliers, prices and product details — and to keep track of delivery schedules
- uses email to communicate with customers and suppliers
- uses the internet to streamline their physical transactions into electronic transactions (e.g. online banking, financial management and stock control)
- creates an intranet to manage business activities
- uses the internet to trade goods and services online
- provides online training for their staff
- uses the internet to research market conditions, industry trends and economic forecasts
- uses its website to market its goods and services
- uses the internet to lodge forms or apply for licences via a government department's website.

FIGURE 13.9 E-business can bring a range of competitive advantages to the small business owner.



E-commerce

The term **e-commerce** (electronic commerce) has a narrower meaning than that of e-business. It refers to the buying and selling of goods and services via the internet — it is a part of e-business. Today consumers expect a business to have an online presence. In response, more Australian small businesses are using the internet to cover all aspects of e-commerce.

Due to the perceived cost and complexity of e-commerce, some small business owners are tentative in their use of it. Apart from having an email facility and a website, they do not make full use of the technology and consequently do not realise its full potential.

e-business (electronic business) using the internet to conduct business

e-commerce the buying and selling of goods and services via the internet

KEY IDEAS

- The integration of technology into the business is essential to succeed in contemporary society.
- Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity.
- E-business (electronic business) is using the internet to conduct business.
- E-commerce (electronic commerce) is the buying and selling of goods and services via the internet.

13.7 Activities

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13.7 Quick quiz on | **13.7 Exercise**

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
1	2, 3, 4, 5, 7, 8	6

13.7 Exercise

Revision

1. **Outline** why technology is so crucial in terms of business success and failure.
2. **Distinguish** between e-business and e-commerce. Provide two examples of each.
3. Select and **explain** two advantages and two disadvantages (for a business) of using the internet to access information.
4. **Investigate** the operation of three large e-tailers. The weblinks **ASOS**, **Amazon** and **The Iconic** are provided in the Resources tab, or you can evaluate other e-tailers of your choice. In your evaluation, report on:
   a. the ease of navigation
   b. the layout of the home page
   c. methods of payment
   d. the ease of product selection
   e. the return and refund policy.

Extension

5. 'Technology has had a great impact on the internal and external business environment.' **Discuss**.
6. **Determine** the advantages and disadvantages of the dynamic nature of technology in Australian business.
7. **Investigate** one of the following technologies and explain what benefits this technology can bring to businesses:
   - Cloud applications
   - Mobile payments technology
   - PayPal
   - Drones
   - Digital currencies
   - Video conferencing
   - Robotic machines
   - 3D printing.
8. Arrange to interview a small business owner whose business has an online presence. **Investigate**:
   a. the reasons for going online
   b. the benefits of a web presence
   c. the difficulties encountered in setting up the website.

   You may wish to video the interview, then watch and discuss it in class.

Solutions and sample responses are available in your digital formats.

on Resources

Weblinks ASOS
Amazon
The Iconic

13.8 Economic conditions

SYLLABUS LINK In this subtopic you will learn about critical issues in business success and failure:
- economic conditions.

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As outlined in chapter 3, a nation's economy will go through fluctuations; it will experience good times — booms — and downturns — recessions. The economic conditions are an aspect of the external business environment in which the business has no control.

Changes in the economic conditions in the economy have the ability to have a dramatic impact on a business in regards to success and failure.

13.8.1 Economic conditions that promote business success

When an economy is in a boom, it will most likely mean that consumers are prepared to increase their spending because consumer confidence is high. Consumers are certain their jobs are secure and incomes are expected to increase; they have an optimistic outlook.

In periods of strong economic activity the economy will experience:
- *high levels of consumer spending.* This will mean businesses have a greater capacity to sell goods and services and therefore profits are maintained and improved. Businesses that sell more luxury type goods and services (such as brand clothing, jewellery and imported cars) will benefit in this type of economic condition because the consumer has a higher level of disposable income.
- *falling unemployment.* Unemployment is lower as businesses can afford to hire more employees when sales and profits are steady and growing. As well, to meet the increased demand for goods and services, businesses will be required to increase the size of their workforce.
- *increased production.* Businesses' output will increase to meet buoyant trends that provide opportunities for future increased sales and profit.

13.8.2 Economic conditions that lead to business failure

When an economy is in a downturn, it will most likely mean that consumers are not spending as much. This is because consumer confidence is low. Consumers fear they may lose their job or their wages may not increase. Overall, reduced consumer spending translates to reduced profits for business. This will eventually lead businesses to reducing their production levels.

In periods of weak economic activity the economy will experience:
- *lower levels of consumer spending.* This will mean businesses have a reduced capacity to sell goods and services and therefore profits will decline. Businesses that sell more necessities and budget-type goods and services (such as groceries and cheaper clothing) will benefit in this type of economic condition. This is because consumers become more cost conscious and will seek out goods and services they consider to be value for money.
- *rising unemployment.* Unemployment is higher as businesses cannot support current employee numbers when sales and profits are decreasing or negative. As well, cutting back production levels may reduce inventories of goods and services that are potentially unsaleable. Consequently, existing employees may be made redundant.
- *decreased production.* Businesses' output will decrease in response to the fall in consumer spending. As a result, profits will also decrease.

During the COVID-19 recession, many SMEs experienced severe hardships (see the following case study).

SNAPSHOT

Case study: Coronavirus pandemic leaves businesses struggling to survive

Restaurateur Edward Wolkowinski has a three-month-old son who is blissfully unaware of COVID-19 or the stress, fear and sleeplessness it's causing his father.

'One day I'll be able to tell him, "Son, when you were a baby, the whole world shut down,"' he says.

Years from now when he tells that story, Mr Wolkowinski is hoping he will go on to say that his business survived the global pandemic by rapidly adapting, then treading water long enough to come out the other side.

One of the cruellest parts of the economic crisis induced by the coronavirus outbreak is the uneven way its pain has been inflicted.

Some businesses have been forced to the wall directly through government-ordered shutdowns that make their operating models impossible. Others can technically still operate, but have suffered under the impact of people being urged to stay home.

Even those that can still successfully operate — some of which find themselves overwhelmed with business due to the changed environment — are struggling to cope.

In the week since new restrictions which forced the closure of thousands of small businesses across Australia, the federal and state governments have announced billions of dollars in stimulus and support packages for business owners. But many business owners are still coming to terms with the closures, and whether these measures will be enough to allow them to 'hibernate' for however long this storm lasts.

Some have been able to quickly adapt to the changed circumstances, but for others, adaptation options are limited.

Business models transformed overnight

Mr Wolkowinski's restaurant, The Heritage Wine Bar in Perth's CBD, is one that has had to completely transform its business model overnight.

The restaurant and bar usually serves high-end meals and wine, but sales have plummeted between 80 and 90 per cent since he was forced to close the doors.

While many restaurants and cafes have shifted to takeaway and delivery meals, Mr Wolkowinski says this is not suitable for his business.

'The style of our food doesn't suit being on the back seat of a car,' he says. We also don't have the support of a local neighbourhood as we're based in the CBD, which is effectively now a ghost town.'

Instead, his business has temporarily become an online provedore, offering deliveries of produce hampers, oven-ready food and wine.

Mr Wolkowinski says 6 of his original 18 staff qualify for the federal government's JobKeeper wage subsidy. The remaining 12 were all casuals who had been working at the establishment for less than a year.

He should also get the WA Government's electricity and licensing fee relief and his landlord has deferred rent for the month of April.

He is hopeful that all of this, combined with sales from his produce deliveries, will be enough for the business to break even this month. But the future is still uncertain.

'I don't know to what extent, but we should be able to see the other side,' he says.

Source: Rhiannon Shine, 'Coronavirus pandemic leaves businesses struggling to survive the COVID-19 shutdown', ABC Online, 4 April 2020.

KEY IDEAS

- A nation's economy will experience periods of boom and recession.
- In periods of strong economic activity, consumer spending, sales of goods and services, production and profits are rising.
- In periods of weak economic activity, consumer spending, sales of goods and services, production and profits are falling.

13.8 Activities

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13.8 Quick quiz on	13.8 Exercise

Select your pathway

LEVEL 1	LEVEL 2	LEVEL 3
5	1, 2, 3, 4	

13.8 Exercise

Revision

1. **Distinguish** between an economic boom and a recession.
2. **Explain** the impact a period of (i) strong and (ii) weak economic growth will have upon most businesses.
3. Read the 'Coronavirus pandemic leaves businesses struggling to survive' case study and **explain** the impact the COVID-19 pandemic has had on some businesses.

Extension

4. Arrange to interview a small business owner who has been affected by the COVID-19 recession. **Investigate**:
   a. how the COVID-19 recession has affected the business
   b. what changes the owners made to their business model to adapt to the changing conditions
   c. how effective these modifications were.
5. **Identify** businesses or industries that experienced an increase in sales during the COVID-19 recession. Explain why they were not negatively affected by the recession.

Solutions and sample responses are available in your digital formats.

13.9 Review

13.9.1 Summary

Importance of a business plan

- Business plans are essential for owners/managers because:
  - they allow the owner to clearly define the goals and future projections (e.g. finance)
  - they assist in the securing of finance from banking institutions or investors
  - they reflect the skills and abilities of the business owner.

Management — staffing and teams

- Management:
  - must make the best use of limited resources
  - is responsible for the business achieving its goals.
- A manager's skill is the most critical factor in determining a business's success or failure.
- If an SME owner wants the business to succeed, then it is essential to have employees who are satisfied and motivated as they will be more productive.
- Outsourcing of staff recruitment is becoming popular with SME owners.
- Teams are replacing individuals as the basic building blocks of businesses of all sizes, especially in those businesses that are adopting flatter organisational structures.
- How teams are managed is another critical issue determining business success.

Trend analysis

- Trend analysis is a process of investigating changes over time and looking for a pattern (trend) in order to predict the future.
- Trend analysis is a powerful tool which assists SME owners achieve business success by helping with forecasts.

Identifying and sustaining competitive advantage

- Business success and failure is linked (in the long term) to a business's ability to develop a strategy that allows it to gain a competitive advantage over other competitors in the market.
- A competitive advantage refers to a business's ability to gain an 'edge' over its competitors.
- A competitive advantage is achieved through:
  - *price/cost strategy*. This is best accomplished by achieving the lowest production costs, which in turn allow it to reduce the product price.
  - *differentiation strategy.* The concept behind this strategy is to offer customers something that is not already offered by business rivals.
  - *ensuring long-term success*. This is assured if a business sustains its competitive edge by limiting the advances of competitors.
- A price/cost competitive advantage is best achieved by:
  - efficiency of operation
  - low-labour costs
  - economies of scale
  - technology.
- For a business to sustain a competitive advantage, the actions of management must be dynamic.

Avoiding overextension of financing and other resources

- A business can overextend financially by:
  - hire purchase or leasing overcommitments
  - purchasing excess stock
  - employing too many staff for the business's current needs.
- Overextending expenditure can create a high degree of business risk.

- To avoid overextending financially, a business should:
  - undertake thorough planning
  - avoid overdependence on debt financing
  - engage in long-term financial planning
  - grow at a sustainable rate.
- Overextension of stock ties up a business's cash and can lose revenue.
- Overextension of staff results in employing too many staff.

Using technology

- The integration of technology into the business is essential to succeed in contemporary society.
- Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity.
- E-business (electronic business) is using the internet to conduct business.
- E-commerce (electronic commerce) is the buying and selling of goods and services via the internet.

Economic conditions

- A nation's economy will experience periods of boom and recession.
- In periods of strong economic activity, consumer spending, sales of goods and services, production and profits are rising.
- In periods of weak economic activity, consumer spending, sales of goods and services, production and profits are falling.

13.9.2 Key terms

competitive advantage the strategies used by a business to gain an 'edge' over its competitors
e-business (electronic business) using the internet to conduct business
e-commerce the buying and selling of goods and services via the internet
leasing a long-term source of borrowing for businesses. It involves the payment of money for the use of equipment that is owned by another party.
skills audit a process that establishes the current skills levels of employees and future skills requirements
skills inventory a database containing information on the skills, abilities and qualifications of existing staff

on Resources

Digital documents Key terms glossary (doc-35801)
Chapter crossword (doc-36252)

Interactivity Chapter crossword (int-7235)

13.9 Activities

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Exercise 1: Multiple choice questions

1. Which of the following factors would be experienced during periods of strong economic activity?
   - **A.** Falling unemployment
   - **B.** Decreasing business profits
   - **C.** Lower levels of consumer spending
   - **D.** Businesses may decrease production
2. What management skill would most likely be needed when creating a business plan?
   - **A.** Strategic thinking
   - **B.** Adaptability and flexibility
   - **C.** Problem solving
   - **D.** Communication
3. Why is having too much stock an issue for a business's owners and management?
   - **A.** It reduces profitability.
   - **B.** It creates a cash flow problem.
   - **C.** It increases a business's liability.
   - **D.** It decreases the owner's equity.
4. Which of the following would NOT be included in a business plan?
   - **A.** Business goals
   - **B.** Strategies to achieve goals
   - **C.** Balance sheet and income statement
   - **D.** Control standards to measure performance
5. Which of the following statements is FALSE in relation to teams?
   - **A.** Fosters creativity
   - **B.** Increases employee cooperation
   - **C.** Promotes a greater sense of employee ownership
   - **D.** Used in businesses with a more hierarchical structure
6. What is the process of investigating changes over time and looking for patterns to predict the future known as?
   - **A.** Forecasting
   - **B.** Differentiation
   - **C.** Projection
   - **D.** Trend analysis
7. Which of the following would be an example of overextending financially?
   - **A.** Investing in technology
   - **B.** Having more debt than equity
   - **C.** Using a credit card for short-term payments
   - **D.** Employing too many staff for the business's current needs
8. Which of the following would be a disadvantage of using technology?
   - **A.** Reduced communication time delays
   - **B.** Limited opportunity for growth
   - **C.** Increased production times
   - **D.** Need for increased training

9. What term refers to the strategies used by a business to gain an edge over its competitors?
   - **A.** Goals
   - **B.** Trend analysis
   - **C.** Overextension
   - **D.** Competitive advantage

10. Which of the following strategies would be an effective way of managing staffing?
   - **A.** Writing a business plan
   - **B.** Conducting a trend analysis
   - **C.** Avoiding overextension of resources
   - **D.** Using a skills audit and skills inventory

Exercise 2: Exam practice questions

Question 1 (2 marks)

Outline the role of a trend analysis.

Question 2 (3 marks)

Describe ONE strategy a manager could implement to help manage staffing.

Question 3 (4 marks)

Explain how a period of weak economic activity could affect business.

Question 4 (4 marks)

A furniture store has been experiencing increased competition and a loss of market share. **Recommend** a strategy managers could implement to achieve a competitive advantage.

Question 5 (6 marks)

Assess the importance of a business plan.

Question 6 (6 marks)

Analyse the impacts of businesses overextending financing or other resources.

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Topic 3 Business planning review

Business planning: Practice examination

Section I — Multiple choice questions

1. Which of the following characteristics best describes an entrepreneur?
   - **A.** An inventor
   - **B.** A risk taker
   - **C.** An academic
   - **D.** A highly skilled employee
2. What legislation is designed to protect both consumers and businesses?
   - **A.** Fair Work Act
   - **B.** Small Business Act
   - **C.** Consumer Affairs Act
   - **D.** Competition and Consumer Act
3. Which statement is TRUE in relation to equity finance?
   - **A.** Interest is charged.
   - **B.** It doesn't have to be repaid.
   - **C.** It can be acquired at short notice.
   - **D.** You don't lose any ownership control.
4. The variable cost of producing yo-yos is $2 and management suggests that the selling price be $5. The business expects to sell 50 000 yo-yos in the next year. Fixed costs are $30 000. What is the break-even number of units of production of yo-yos required for next year?
   - **A.** 50 000
   - **B.** 10 000
   - **C.** 20 000
   - **D.** 30 000
5. A business has been able to achieve long-term success by having lower costs of production than its competitors.
   Which critical issue in business success is this an example of?
   - **A.** Trend analysis
   - **B.** Economic conditions
   - **C.** Avoiding overextension
   - **D.** Sustaining a competitive advantage
6. Which of the following statements is FALSE in relation to a business plan?
   - **A.** A business plan is prepared only when the business is initially established.
   - **B.** A business plan is a statement of goals for the business and the strategies taken to achieve them.
   - **C.** A business plan allows stakeholders to determine the viability and profitability of the business.
   - **D.** Having a business plan is a critical factor determining business success and failure.
7. Which of the following is considered to be an on-cost for a business?
   - **A.** Wages
   - **B.** Superannuation
   - **C.** Staff training costs
   - **D.** Goods and services tax
8. What is an advantage of starting a business from scratch?
   - **A.** It is easier to obtain finance.
   - **B.** Equipment is available for immediate use.
   - **C.** Sales to existing customers will generate instant income.
   - **D.** The owner has the freedom to set up the business as they wish.

9. The owners of a café have implemented policies to ensure they comply with local government regulations. Which influence in establishing an SME are they addressing?
   - **A.** Legal
   - **B.** Market
   - **C.** Taxation
   - **D.** Sources of information
10. Which of the following best describes a vision statement?
   - **A.** It details the main purpose of the business.
   - **B.** It states what the business aspires to become.
   - **C.** It explains the role of each key business function.
   - **D.** It provides information of the financial stance of the business.

Section II — Short answer questions

1. When establishing a business, the entrepreneur risks capital and personal confidence.
   - **a.** **Describe** the personal qualities essential to all entrepreneurs. **3 marks**
   - **b.** **Discuss** entrepreneurship and its importance in terms of the development of new businesses. **4 marks**
2. Referring to a business you have studied, answer the following questions:
   - **a.** **Identify** the three personal qualities that should be taken into account before establishing a new business. **3 marks**
   - **b.** **Describe** how a business can achieve a competitive advantage in terms of its chosen market. **3 marks**
   - **c.** **Explain** two considerations that are necessary when identifying business opportunities. **6 marks**
3. **a.** **Define** the phrase 'identifying a business opportunity'. **2 marks**
   - **b.** **Explain** its importance. **4 marks**
   - **c.** **Determine** what factors need to be considered before the business idea can be developed. **4 marks**
4. **a.** **Define** the term 'target market'. **2 marks**
   - **b.** **Demonstrate** why it is essential for a business to identify its target market. **4 marks**
   - **c.** Once a business has identified its target market, **recommend** three strategies the business can use to achieve a competitive advantage. **6 marks**
5. **a.** **Outline** two advantages and two disadvantages of buying an existing business. **8 marks**
   - **b.** **Explain** how a franchise operates. **4 marks**
   - **c.** **Discuss** the establishment option of purchasing a franchise. **4 marks**
   - **d.** **Discuss** why franchises have become so popular in recent years. **5 marks**
6. Location is considered crucial in terms of business success.
   - **a.** **Outline** the main factors that must be considered in terms of choosing a business location. **6 marks**
   - **b.** **Compare** the location choice for a manufacturing business as opposed to a retail clothing store. **6 marks**
7. 'Government regulations are necessary for the business sector to function efficiently and equitably.'
   - **a.** **Outline** two of the legal requirements to which businesses must adhere. **4 marks**
   - **b.** **Examine** the accuracy of this statement. **5 marks**
8. **a.** **Define** the term 'business plan'. **2 marks**
   - **b.** **Explain** the purpose of a business plan. **4 marks**
   - **c.** **Evaluate** the importance of planning to the overall success of a business. **8 marks**
9. **a.** **Outline** what motivates people to start their own business. **2 marks**
   - **b.** **Identify** the personal skills required to successfully operate a small business. **3 marks**
10. **a.** **Define** the term 'business idea'. **2 marks**
   - **b.** **Explain** how a prospective business owner might devise a business concept. **4 marks**
   - **c.** **Analyse** the role of innovation and entrepreneurship in the establishment of new businesses. **4 marks**
11. **Outline** two sources of information that small business owners should use. **4 marks**

12. **a.** **Identify** three advantages that the use of computers can bring to a small business. **3 marks**
    b. **Explain** the benefits of three innovative technologies small businesses could take advantage of. **9 marks**
    c. **Analyse** how the use of information and communications technology can assist a small business owner to make appropriate decisions. **10 marks**
13. **a.** **Identify** two business objectives that could be assisted by a business engaging in e-commerce. **2 marks**
    b. **Distinguish** between e-business and e-commerce. **4 marks**
    c. **Recommend** two strategies a small business could implement to increase revenue as a result of engaging in e-commerce. **6 marks**
14. **a.** **Distinguish** between debt and equity financing. **4 marks**
    b. **Investigate** why funds should be borrowed for as long as it will take the increased profits to repay the loan. **6 marks**
15. Gerry has had an interest in antique and unusual children's toys since he was a child, and has been collecting toys from the 1940s and 1950s for many years. He is interested in setting up a toy shop and incorporating a museum or similar display for his collection. His hope is that the display of antique toys will be a means of attracting customers.
    a. **Identify** the source of inspiration behind Gerry's business concept. **1 mark**
    b. **Outline** how he has sought to differentiate his business from those of possible competitors. **3 marks**
    c. To assist Gerry in making a decision about whether to implement his business idea, **propose** a list of six questions that a market researcher might ask. **6 marks**
    d. **Create** a step-by-step process that Gerry can undertake to determine whether or not there is sufficient demand for the type of business he is proposing. **12 marks**

Section III — Extended response questions

1. Research reveals that women-owned small businesses are good prospects for financial institutions that lend money. Yet women still face discrimination when organising finance and often end up borrowing from family members. **Investigate** why this discrimination still occurs.
2. **Discuss** the key considerations for an entrepreneur in terms of setting up a business. Use examples.

Read the following case study and then answer question 3.

> Phillip and Janice worked in a bank, but had always wanted to run their own business. While on holiday in a small seaside town, they noticed that the local general store and takeaway food shop was up for sale. The business was the only one of its type in the town, but the town was very small and seemed to have a reasonably large population only during summer and holiday periods, when the local camping and caravan park, and other holiday accommodation are all full. They are very interested in purchasing the store, but realise they have to make a number of important decisions before committing to making an actual offer on the store.

3. As a business consultant, prepare a report that could be given to Phillip and Janice. In your report, you should:
   a. **Outline** the main personal qualities needed to successfully operate a small business.
   b. **Discuss** the establishment option of purchasing an existing business.
4. Referring to a business that you have studied, **determine** three critical issues that will influence the success or failure of the business.
5. 'Competitors can be a threat to a business but they can also ultimately lead to business success.' **Explain** how competition may in fact be good for business.
6. **Investigate** how the following factors act as the primary influences on an individual's decision to establish a business:
   i. personal qualities
   ii. motivation

iii. experience
iv. expectations.

Read the following quote and answer question 7.

> 'Choosing the right location was crucial because not everyone is interested in upmarket garden accessories. We chose a location that had the right demographics — people took pride in their gardens and most of the people who live in the area are professional working people with cash to spend. It was also a big decision to set up our website where customers can order our garden accessories online.'
> Sonya Mezups, Proprietor, Blooming nursery

7. **Assess** how selecting the correct location can make the difference between success and failure.
8. Select a small business you are familiar with. Imagine this business were for sale and a friend of yours was interested in purchasing it. **Evaluate** whether or not they should purchase this business.
9. **Assess** the relationship between key success factors and the competitive edge that a small business should seek.
10. You have been employed as a business reporter with the local newspaper. You are asked to prepare an article that **examines** the number of government and private support agencies that provide assistance to small business owners. A major focus within your article should be an evaluation of two government websites that assist small businesses.
11. A friend wishes to go into business for herself. She is not sure whether to purchase an existing business or set up a new business. She comes to you for advice. **Outline** for her the advantages and disadvantages of each option.

Read the following case study and answer question 12.

> Jane has just set up a small business as a wedding planner. She hopes that couples planning a wedding will commission her to put together a 'total wedding package', for which she will charge a fee. To create the type of wedding packages her customers want, she has to deal with a number of different wedding service suppliers. These include reception venues, wedding car hire businesses, photographers and video businesses, florists, printers, dressmakers and formalwear hire businesses. Jane wants to make sure she fulfils all her legal responsibilities and she wants to have a reputation as an ethical business owner, because she knows that most of her business will come from personal recommendations and word of mouth.
> Jane's biggest concern is that she doesn't know whether the other businesses she has to deal with share her principles. Imagine you are her solicitor and she comes to you seeking advice. She wants to know how she can tell whether or not the wedding service suppliers she will be dealing with are acting legally and ethically, because any unlawful or inappropriate activities will reflect on her and her business.

12. **Construct** a report for Jane that will help her identify whether or not her business is meeting its legal responsibilities to its customers, to other businesses and to the community. Your advice should include the following:
- how to tell whether a business is conforming to the Competition and Consumer Act
- the responsibilities of food businesses, such as reception venues, in ensuring food safety
- what Jane can do to ensure she manages her legal responsibilities in an ethical and socially responsible manner.

13. 'Undertaking a break-even analysis in the early stages of the planning process is crucial. The information it provides determines how I advise the client to proceed.' Nick Aquilano, Small Business Consultant, BizVest Planning.
a. **Define** the term 'break-even analysis'.
b. **Explain** why it is an important planning tool.
c. **Demonstrate** how to calculate the break-even point.

GLOSSARY

accountability when a business acts in the best and highest interests of its owners. Full and complete 'disclosure', which means to be open and not hide the truth, ensures that the books of account are kept accurately and that the information reflected in them, and which is summarised in reports, is based on the true and actual transactions. Another term for accountability is stewardship.

accounting a managerial and administrative tool for recording financial transactions, so that a summary of what has happened to business money can be traced

acquisition when one business takes control of another business by purchasing a controlling interest in it

acquisition (HR) the process of attracting and recruiting the right staff for roles in a business

assets items of value owned by the business that can be given a monetary value

audit an independent check of the accuracy of financial records and accounting procedures

Australian Business Number (ABN) a single identifying number that a business uses when dealing with government departments and agencies

autocratic leadership style a manager using an autocratic leadership style tends to make all the decisions, dictates work methods, limits worker knowledge about what needs to be done to the next step to be performed, frequently checks employee performance and sometimes gives feedback that is punitive.

award a legally binding agreement that sets out the minimum wages and conditions for a group of employees

balance of payments (BOP) a record of a country's trade and financial transactions with the rest of the world over time, usually one year

balance sheet represents a business's assets and liabilities at a particular point in time, expressed in money terms, and represents the net worth of the business

bankruptcy a declaration that a business or person is unable to pay his or her debts

behavioural approach an approach that stresses that people (employees) should be the main focus of the way in which the business is organised

benchmark a standard by which something can be measured or judged

best practice those business practices that are regarded as the best or of the highest standard in the industry

brand a name, term, symbol or design that identifies a specific product and distinguishes it from its competitors

brand logo a graphic representation that identifies a business or product

break-even analysis used to determine the level of sales that needs to be generated to cover the total cost of production

budget the business's financial plan for the future

business the organised effort of individuals to produce and sell, for a profit, the products that satisfy individuals' needs and wants

business activity statement (BAS) a document that records a business's claim for input tax credits and accounts for GST payable

business (corporate) culture the values, ideas, expectations and beliefs shared by members of the organisation

business environment refers to the surrounding conditions in which the business operates. It can be divided into two broad categories: external and internal.

business ethics the application of moral standards to business behaviour

business information system (BIS), also referred to as a **management information system (MIS)**, gathers data, organises and summarises it and then converts the data into practical information

business life cycle refers to the stages of growth and development a business can experience

business opportunity something an entrepreneur can see as an avenue to success. It is often identified when a person believes they can provide goods or services in a better or different way from those already on the market.

business plan a written summary and evaluation of the business idea. It sets out the desired goals and direction of the business, and how it will maintain its focus.

bureaucracy the set of rules and regulations that controls a business

cash flow the money coming into the business in the form of cash receipts, and the money leaving the business as cash payments

cash flow projection shows the changes to the cash position brought about by the operating, investing and financial activities of the business

cash flow statement a financial statement that indicates the movement of cash receipts and cash payments resulting from transactions over a period of time

chain of command a organisational structure that shows how each member of a company reports to one another

change any alteration in the internal or external environments

change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process

change management a methodical approach to dealing with change, both from the perspective of a business and on the individual level

choice the act of selecting among alternatives

classical approach (to management) stresses how best to manage and organise workers so as to improve productivity (output)

closing stock the value of stock on hand at the end of the financial year

commercial bills short-term loans issued by financial institutions for larger amounts for a period of generally between 30 and 180 days

common law law developed by courts and tribunals

communication the exchange of information between people; the sending and receiving of messages

competition rivalry among businesses that seek to satisfy a market

Competition and Consumer Act 2010 a law that protects both consumers and businesses. It protects consumers from deceptive or misleading practices, and it regulates the trade practices of businesses.

competitive advantage the strategies used by a business to gain an 'edge' over its competitors

complementary business one that sells a similar range of goods and services

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

consumer buying behaviour the decisions and actions of consumers when they purchase goods and services for personal household use

contingencies unanticipated events that can lead to financial difficulty. For a business to be well managed, it needs to have saved money for such events.

contingency approach stresses the need for flexibility and adaptation of management practices and ideas to suit changing circumstances

continuous improvement an ongoing commitment to achieving perfection

controlling the process of evaluating performance and taking corrective action to ensure that the set objectives are being achieved

control process involves establishing standards in line with the goals of the business, measuring the performance of the business against those standards or benchmarks, and making changes where necessary to ensure that the goals of the business have been met

corporate social responsibility refers to open and accountable business actions based on respect for people, community/society and the broader environment. It involves businesses doing more than just complying with the laws and regulations.

cost of goods sold (COGS) the value of stock that a business has sold to its customers

creditors those people or businesses who are owed money

curriculum vitae or **résumé** a summary of a person's previous employment experience

corporate code of conduct a set of ethical standards for managers and employees to abide by

data unprocessed facts and figures such as sales figures and customer complaints

debenture a type of bond issued by a company for a fixed rate of interest and for a fixed period of time

debt finance relates to the short-term and long-term borrowing from external sources by a business

decision making the process of identifying the options available and then choosing a specific course of action to solve a specific problem

delegate to hand over certain tasks or responsibilities to an employee who is suitably capable and qualified to carry them out

deregulation the removal of government regulation from industry, with the aim of increasing efficiency and improving competition

development refers to activities that prepare staff to take greater responsibility in the future

dismissal when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employee's employment contract

distribution channels ways of getting the product to the customer

diversification (or conglomerate integration) when a business acquires or merges with a business in a completely unrelated industry

dividend a distribution of a company's profits (either yearly or half-yearly) to shareholders that is calculated as a number of cents per share

division the separation of key business functions into specialised units or departments. The business is divided into functional areas.

driving forces those forces that support the change

e-business (electronic business) using the internet to conduct business

e-commerce the buying and selling of goods and services via the internet

ecologically sustainable when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

economic cycles (or business cycles) the periods of growth ('boom') and recession ('bust') that occur as a result of fluctuations in the general level of economic activity

economic growth when a nation increases the real value of goods and services over a period of time

economy a system used to determine what to produce, how to produce and to whom production will be distributed

effectiveness measures the degree to which a goal has been achieved

efficiency compares the resources needed to achieve a goal (the costs) against what was actually achieved (the benefits)

employee selection involves gathering information about each applicant for a position, then using that information to choose the most appropriate applicant

employee training refers to the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills

employment contract a legally binding, formal agreement between an employer and an employee

enterprise agreements collective agreements made at a workplace level between an employer and a union acting on behalf of its employees, or between the employer and a group of employees, about terms and conditions of employment

entrepreneur someone who starts, operates and assumes the risk of a business venture in the hope of making a profit

entrepreneurship the ability and willingness to start, operate and assume the risk of a business venture in the hope of making a profit

equity finance the funds contributed by the business owner(s) to start and then expand the business

evaluation the process of assessing whether the business has achieved stated goals

expenses costs. Specifically, expenses are the costs incurred in the process of acquiring or manufacturing a good or service to sell and the costs (direct and indirect) associated with managing all aspects of the sales of that good or service.

external environment includes those factors over which the business has very little control

external recruitment filling job vacancies with people from outside the business

employee training refers to the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills

factoring the selling of accounts receivable for a discounted price to a finance or factoring company

feasibility study an assessment of the business idea's potential for success. This involves determining how practical the idea is and if it would successfully translate to the market.

finance how a business funds its activities — for instance, where it gets the money to trade, why it chooses to use certain lenders — as well as the costs, risks and benefits of different types of borrowings
financial resources the funds the business uses to meet its obligations to various creditors
financial statements reports that summarise transactions over a period of time
finished product one that is ready for customers to buy and use
fixed costs (FC) costs that do not vary regardless of how many units of a good or service are produced
flatter organisational structures have evolved due to a 'de-layering' of management structures resulting in the elimination of one or more management levels
flexible being responsive to change and able to adjust to changing circumstances
float the raising of capital in a company through the sale of shares to the public
forecasts (or projections) the business's predictions about the future
franchise buying the rights from another business to distribute its products under its name
franchisee an individual or business that purchases a franchise
franchisor an individual or business that grants a franchise
geographical spread the presence of a business and the range of its products across a suburb, city, state or country, or the globe
globalisation the process that sees people, goods, money and ideas moving around the world faster and more cheaply than before
goal a desired outcome (target) that an individual or business intends to achieve within a certain time frame
goods items that can be seen or touched
goods and services tax (GST) a broad-based tax of 10 per cent on the supply of most goods and services consumed in Australia
goodwill the monetary value attached to the reputation of a particular business
government enterprises government-owned and operated businesses
grant any monetary or financial assistance that does not generally have to be repaid
gross domestic product (GDP) the total money value of all goods and services produced in Australia over a one-year period
gross profit the term given to the revenue less cost of goods sold (COGS)
holistic an approach that looks at the whole picture.
horizontal integration when a business acquires or merges with another business that makes and sells similar products
human resource management (HRM) the effective management of the formal relationship between the employer and employees
human resources the employees of the business; generally its most important asset
income money received by a person for providing his or her labour, or a business from a return on its investments
income statement a summary of the income earned and the expenses incurred over a period of trading. It helps users of information see exactly how much money has come into the business as revenue, how much has gone out as expenditure and how much has been derived as profit.
incorporated refers to the process companies go through to become a separate legal entity from the owner/s
industry businesses that are involved in similar types of production
inertia refers to an unenthusiastic response to proposed change
information processed data that has been deliberately selected and organised to be useful to an individual manager
information resources the knowledge and data required by the business, such as market research, sales reports, economic forecasts, technical material and legal advice
innovation either creating a new product, service or process, or significantly improving an existing one
inputs the resources used in the transformation (production) process
input tax credit an allowable tax deduction that a business can claim for any GST included in the price of business inputs
insolvent when a company is not able to pay its debts as and when they fall due
intangibles services that cannot be touched

interdependence the mutual dependence that the key functions have on one another. The key business functions work best when they overlap, and employees work towards common goals. For each function area to perform at capacity, it depends on the support of the others.
interest the cost of borrowing money
internal environment includes those factors over which the business has some degree of control
internal recruitment filling job vacancies with present employees, rather than looking outside the business
interpersonal skills those skills needed to work and communicate with other people and to understand their needs
intrapreneur an individual who takes on an entrepreneurial role within a business
involuntary cessation when the owner is forced to cease trading by the creditors of the business
involuntary separation when an employee is asked to leave the business against their will
job analysis a systematic study of each employee's duties, tasks and work environment
job description a written statement describing the employee's duties, tasks and responsibilities associated with the job
job specification a list of the key qualifications needed to perform a particular job in terms of education, skills and experience
labour productivity measures how much an employee can produce in a set period of time
large business a business with 200 or more employees
leadership the ability to influence people to set and achieve specific goals
leadership style a manager's way of doing things — their behaviour and attitudes
leading the process of influencing or motivating people to work towards the achievement of the business's objectives
learning organisation an organisation that monitors and interprets its environment, seeking to improve its understanding of the relationship between its actions and its environment
leasing is a long-term source of borrowing for businesses. It involves the payment of money for the use of equipment that is owned by another party.
liabilities items of debt owed to other organisations (e.g. suppliers, banks) and include loans, accounts to be paid by the business, mortgages, credit card debt and accumulated expenses
limited liability a feature of corporate ownership that limits each owner's financial liability to the amount of money he or she has paid for the business's shares
liquidation when an independent and suitably qualified person — the liquidator — is appointed to take control of the business with the intention of selling all the company's assets in an orderly and fair way in order to pay the creditors
liquidity the amount of cash a business has access to and how readily it can convert its assets into cash so that debt can be paid
local business a business that has a restricted geographical spread; it serves the surrounding area.
long-term growth the ability of a business to continually expand
management the process of working with and through other people to achieve business goals in a changing environment. Crucial to this process is the effective and efficient use of limited resources.
management consultant someone who has specialised knowledge and skills within an area of business
management hierarchy the arrangement that provides increasing authority at higher levels of the hierarchy
manager someone who coordinates the business's limited resources in order to achieve specific goals
market concentration refers to the number of competitors in a particular market. There are four main types of market concentration.
marketing a total system of interacting activities designed to plan, price, promote and distribute products to present and potential customers
marketing mix the combination of the four elements of marketing, the four Ps — product, price, promotion and place — that make up the marketing strategy
marketing strategies actions undertaken to achieve the business's marketing goals
market segmentation when the total market is subdivided into groups of people who share one or more common characteristic
market share refers to the business's share of the total industry sales for a particular product

mass markets in mass markets the seller mass-produces, mass-distributes and mass-promotes one product to all buyers
mass production the process of manufacturing standardised goods on a huge scale by automation
medium business a business with 20–199 employees
mentor someone — usually a more experienced employee — who helps develop a less experienced employee (the protégé)
mentoring the process of developing another individual by offering tutoring and coaching, and modelling acceptable behaviour
merger when the owners of two separate businesses agree to combine their resources and form a new organisation
micro business a business with fewer than five employees
modifying the process of changing existing plans and using updated information to shape future plans
monitoring the process of measuring actual performance against planned performance
monopolistic competition where there is a large number of buyers and sellers in a particular market (e.g. local retailing shops)
monopoly complete concentration by one business in the industry (e.g. Australia Post)
mortgage a loan secured by the property of the borrower (business)
motivation the individual, internal process that directs, energises and sustains a person's behaviour
multinational corporation a company that has branches in many different countries
multiskilling allows employees to develop skills in a wide range of tasks through ongoing training
national business a business that operates within just one country
net profit the difference between the gross profit and operating and non-operating expenses
niche market a narrowly selected target market segment
nonverbal communication any message that is not written or spoken
objective a specific statement detailing what a business (or individual) needs to achieve in order to accomplish its vision
oligopoly where a small number of larger firms have a greater control over a market (e.g. car manufacturers)
on-costs payments for non-wage benefits
opening stock the value of stock (or inventory) that the business has at the start of the financial year
operating expenses all the costs of running the business except the cost of goods sold
operational (short-term) planning provides specific details about the way in which the business will operate in the short term
operational objectives objectives that focus on short-term issues and describe the course of action necessary to achieve the tactical objective and strategic goal
operations the business processes that involve transformation or, more generally, 'production'
operations management all the activities in which managers engage to produce a good or service
organisation process the range of activities that translate the goals of a business into reality
organisational structure the framework in which the business defines how tasks are divided, resources are used and departments are coordinated
organising the structuring of the organisation to translate plans and goals into action
outputs the result of a business's efforts — the service or product that is delivered or provided to the customer
outsourcing the use of external sources or businesses to undertake business functions or activities for the business
overdraft when the bank allows a business to overdraw their account up to an agreed limit for a specified time to overcome a temporary cash shortfall
owner's equity the funds contributed by the owner(s) to establish and build the business. It is also called 'capital'.
packaging involves the development of a container and the graphic design for a product
participative democratic leadership style a leadership style in which the manager consults with employees to ask their suggestions and then seriously considers through suggestions when making decisions
partnership a legal business structure that is owned and operated by between 2 and 20 people with the aim of making a profit

perfect competition where there is a large number of small firms that sell similar products. They are unable to differentiate products from each other and so can only use price as a way of achieving market share (e.g. fruit and vegetable growers).
performance standard a forecast level of performance against which actual performance can be compared
physical resources the equipment, machinery, buildings and raw materials used by the business
place or **distribution** activities that make the products available to customers when and where they want to purchase them
planning the preparation of a predetermined course of action for a business. It refers to the process of setting objectives and deciding on the methods to achieve them.
primary industry includes those businesses involved in the collection of natural resources
primary target market the market segment at which most of the marketing resources are directed
privatisation the process of transferring the ownership of a government business to the private sector
proactive to initiate change rather than simply to react to events
proactive (management) refers to a management style that incorporates dynamic action and forward planning to achieve particular objectives
problem solving a broad set of activities involved in searching for, identifying and then implementing a course of action to correct an unworkable situation
product a good or service that can be bought or sold
production refers to those activities undertaken by the business that combine the resources to create products that satisfy customers' needs and wants
product life cycle the life of a product over four stages: introduction, growth, maturity and decline
profit what remains after all business expenses have been deducted from sales revenue
profit maximisation occurs when there is a maximum difference between the total revenue (that is, the number of sales made multiplied by the price) coming into the business and total costs being paid out
promotion the methods used by a business to inform, persuade and remind a market about its products
proprietary (private) company an incorporated business and usually has between 2 and 50 private shareholders
prospectus a document giving details of a company and inviting the public to buy shares in it
quality the degree of excellence of goods or services and their fitness for a stated purpose
quality assurance the use of a system so that a business achieves set standards in production
quality circles groups of workers who meet to solve problems relating to quality
quality control the use of inspections at various points in the production process to check for problems and defects
quality management the strategy which a business uses to make sure that its products meet customer expectations
quality of life refers to the overall wellbeing of an individual, and is a combination of both material and non-material benefits
quaternary industry includes services that involve the transfer and processing of information and knowledge
quinary industry includes services that have traditionally been performed in the home
reactive to wait for a change to occur and then respond to it
realisation the process of converting the assets of a business into cash
receivership when a business has a receiver take charge of the affairs of the business. Unlike liquidation, the business may not necessarily be wound up.
recruitment the process of finding and attracting the right quantity and quality of staff to apply for employment vacancies or anticipated vacancies
redundancy when a person's job no longer exists, usually due to technological changes, an organisational restructure or a merger or acquisition.
regulations rules, laws or orders that businesses must follow
research and development (R&D) a set of activities undertaken to improve existing products, create new products and improve production
resignation the voluntary ending of employment by the employee 'quitting' their job

resource allocation the efficient distribution of resources to successfully meet the goals that have been established
restraining forces those forces that work against the change
retirement when an employee decides to give up full-time or part-time work and no longer be part of the labour force
revenue the money a business receives as payment for its products
risk refers to the possibility of loss
salary a fixed regular payment, usually paid on a fortnightly or monthly basis but often expressed as an annual sum, made to a permanent employee of a business
scientific management an approach that studies a job in great detail to discover the best way to perform it
secondary industry includes businesses that take a raw material and make it into a finished or semi-finished product
secondary target market usually a smaller and less important market segment
separation the ending of the employment relationship
services things done for you by others
share a part ownership of a public company
shareholders people who are part owners of a company because they own a number of shares
skill the ability that comes from the knowledge, practice and talent to do something well
skills audit a process that establishes the current skills levels of employees and future skills requirements.
skills inventory a database containing information on the skills, abilities and qualifications of existing staff
small business a business with 5–19 employees
small to medium enterprises defined by the Australian Bureau of Statistics as firms with fewer than 200 full-time equivalent employees and/or less than $10 million turnover
social justice in business is about adopting a set of policies to ensure that employees or other community members are treated equally and fairly
socialisation the process a new employee undergoes in the first few weeks of employment through which he or she learns how to cope and succeed
sole trader a business that is owned and operated by only one person
specialisation of labour the degree to which tasks are divided into separate jobs
staff involvement involving employees in the decision-making process and giving them the necessary skills and rewards
stakeholder any group or individual who has an interest in, or is affected by, the activities of a business
stakeholder engagement refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision making
strategic goals goals that focus on long-term, broad aims and apply to the business as a whole
strategic (long-term) planning planning for the following three to five years. This level of planning will assist in determining where in the market the business wants to be, and what the business wants to achieve in relation to its competitors.
strategic thinking allows a manager to see the business as a whole and to take the broad, long-term view
strategies the actions that a business takes to achieve specific goals
superannuation a scheme set up by the federal government. It requires all employers to make a financial contribution to a fund that employees can access when they leave or retire from a job. The percentage an employer must contribute will increase gradually to 12 per cent by 2025.
support services the activities needed to assist the core operations or prime function of a business
sustainable competitive advantage refers to the ability of a business to develop strategies that will ensure it has an 'edge' over its competitors for a long period of time
sustainable development when the needs of the present population are met without endangering the ability of future generations to meet their own needs
SWOT analysis the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment
tactical objectives objectives that focus on mid-term, departmental issues and describe the course of action necessary to achieve the business's strategic goals

tactical (medium-term) planning flexible, adaptable planning, usually over one to two years, that assists in implementing the strategic plan
tangibles goods that can be touched
target market a group of customers with similar characteristics who presently, or who may in the future, purchase the product
taxation the compulsory payment of a proportion of earnings to the government
teamwork when people interact regularly and coordinate their work towards a common goal
tertiary industry involves people performing a vast range of services for other people
time and motion studies a process of examining each of the steps in a production procedure and the time taken to perform them
total cost (TC) (of producing a certain number of goods or services) the sum of the fixed and variable costs for those units
total quality management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation
total revenue (TR) the total amount received from the sales of a good or service
traditional definition of management the process of coordinating a business's resources to achieve its goals
training the process of teaching staff how to perform their job more efficiently and effectively by boosting their knowledge and skills
transformation the conversion of inputs (resources) into outputs (goods or services)
transformed resources those inputs that are changed or converted in the operations process
transforming resources those inputs that carry out the transformation process
triple bottom line the economic, environmental and social performance of a business
unfair dismissal when an employee is dismissed by their employer and they believe the action is harsh, unjust or unreasonable.
unlimited liability when the business owner is personally responsible for all the business's debt
unsecured note a loan from investors for a set period of time. It is not secured against the business's assets.
variable costs (VC) costs that depend on the number of goods or services produced
venture capital money that is invested in small and sometimes struggling businesses that have the potential to become successful
vertical integration when a business expands at different but related levels in the production and marketing of a product
vision the clear, shared sense of direction that allows people to attain a common goal
vision statement a broad statement about what the business aspires to become in the future
voluntary administration when an independent administrator is appointed to operate the business in the hope of trading out of present financial problems
voluntary cessation when the owner ceases to operate the business of their own accord
voluntary separation when an employee chooses to leave the business of their own free will
wage money received by workers, usually on an hourly or daily basis, for services they provide to an employer
zoning a means by which local councils allocate land for different uses, such as residential, commercial, recreational and industrial

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