

**eBOOK**

David Broadbridge  
Warren Dobs

2nd Edition

# HSC Business Studies 101

OPERATIONS

FINANCE

MARKETING

HUMAN RESOURCES



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EDUCATION

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# HSC Business Studies 101

David Broadbridge

Warren Dobs



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## About the authors

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The HSC Syllabus is split into **4 Topics** with **CHUNKS!**

**The 4 topics are:**

1. Operations
2. Finance
3. Marketing
4. Human Resources

**Each topic in the HSC SYLLABUS has 4 CHUNKS except for Human Resources which has 5 Chunks, the last one being effectiveness.**

**Chunk 1 is always: Role**

**Chunk 2 is always: Influences**

**Chunk 3 is always: Processes**

**Chunk 4 is always: Strategies**

**Chunk 5 for HR is: Effectiveness**

**Role, influences, processes, and strategies:**

- The role is what each function is expected to accomplish within the organisation. HOW the specific business function is expected to run effectively.
- Influences are external or internal factors that can impact how a business function operates. They can be positive (enablers) or negative (barriers).
- Processes are the specific methods, procedures, or series of actions taken to fulfil the role of the business function. They are about the 'how' of achieving the objectives.
- Strategies are the tools or methods a business uses to achieve the role. This involves choosing the best ways to implement various processes. Strategies are about making decisions on resource allocation, priority setting, and how to navigate the influences impacting the specific business function.

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# CHAPTER 1

## Operations

### Role of Operations Management:

1. Strategic role (cost leadership, good service differentiation)
2. Goods and/or services in different industries
3. Interdependence with other key business functions.

### Influences on Operations Management:

1. Globalisation
2. Technology
3. Quality expectations
4. Cost-based competition
5. Government policies
6. Legal regulation
7. Environmental sustainability
8. Corporate social responsibility

### Operations Management Processes

1. Inputs (transformed and transforming resources)
2. Transformation processes (influence of 4V's, sequencing & scheduling, technology, task design, process layout etc)
3. Outputs (goods and services, customer service, warranties)

### Operations Strategies:

1. Performance Objectives
2. New product or service design and development
3. Supply chain management
4. Outsourcing
5. Technology
6. Inventory management
7. Quality management
8. Overcoming resistance to change
9. Global factors

## 1. The Role of Operations Management

Operations as a business function refers to the management of the processes that transform resources (such as labour, materials, and technology) into products or services. There are 3 roles of operations management in the syllabus.

### 1. *The strategic role of Operations Management*

Operations management ensures business efficiency and resource optimisation, aiming to boost productivity, quality, and cost-effectiveness in achieving long-term success.

- It is the engine room of the business.
- It aims to:
  - efficiently and effectively carry out the transformation processes in order to help the business achieve its business objectives.
  - make best use of its resources.

Operations management plays a strategic role in achieving cost leadership and differentiating goods or services, focusing on efficiently managing resources and processes for long-term cost-effectiveness, while also innovating and maintaining quality to distinguish products or services in the market.

#### a) Cost Leadership approach

This involves a business aiming to have the lowest operational costs in its industry, thereby enabling it to offer products or services at a lower price than its competitors.

It is the competitive advantage a business holds over its rivals by having the lowest production cost. A key aspect to cost leadership is that although trading with the lowest cost, the overall business should still be profitable.

To gain cost leadership, operations management must find ways to minimise costs. A number of methods are available:

- Economies of Scale. These are minimisations of cost because of the size of the business (savings of size). The bigger the business, the more 'purchasing power' it can exert in obtaining its inputs and it gains efficiencies from the improved use of technology. Fixed costs can be spread over more units which will drop the total cost per unit.
- Standardisation. The more uniform (same) the product or service production costs per unit is lower (due to increased speed).
- Operational efficiency refers to a business's capability to simplify tasks and enhance process effectiveness, often through modern techniques and technology.
- Waste Minimisation. Minimising waste will result in lower production costs. 'Waste' can take the form of excess production, under utilisation of labour or equipment, faulty or defective production and excess inventory.

## b) Good/Service differentiation approach

This approach does not mean competing based on cost like cost leadership approach but by adding features to differentiate its product/service from its competitors.

Good/Service differentiation means making goods or services stand out from competitors by focusing on aspects like quality, design, customer service, technology, or special features

Different ways a business can differentiate its product are:

- Higher quality/better performance
- Added value/more customer support
- Convenience
- Trust/respected image/conscience
- Faster delivery
- Custom-designed products
- More features and applications
- Incorporation of new technology

The risks associated with this strategy are that competitors can imitate the market leader's innovations and consumer preferences can change.

## 2. *Goods and or services in different industries*

Operations are shaped by the range and types of goods and services they produce.

Operations management plays a crucial role in various industries by ensuring the efficient production and delivery of goods and services.

Operations is pivotal across various industries, streamlining processes and resource utilisation.

- In manufacturing, it transforms raw materials into products, while in services, it ensures high-quality delivery.
- Retail focuses on inventory and customer interactions, healthcare on patient care, and technology on product development and quality.
- The hospitality industry optimises guest experiences, transportation and logistics manage goods movement, and banking and finance streamline transactions and workflows.

The management of these different industries is integral to meeting customer demands and achieving business objectives in diverse industries.

Goods are a physical product that you can see, touch, consume. Services are activities/tasks performed by a business for a customer.

Goods (manufacturing) and Services share many similarities – they are driven by consumer wants, they can be standardised or customised, they are created by using people and technology etc

However, there are differences which impact on operations (make operations different).

- Goods are tangible. Services are intangible. Goods are consumed, services are experienced. Goods can be perishable or non-perishable. The manufacturing of goods can use more automotive technology. Services rely more on information-based technology. Also goods need to be located close to raw materials, labour etc. For services more emphasis is on being close to customers.
- Demand for services is more difficult to predict. Services cannot be stored and therefore, cannot use physical inventory as a buffer for fluctuations in demand.
- Goods and services require different operational HR skills. Goods require more technical skills. Services require service management skills.
- Services require that the customer be present therefore Operations is designed for customer interaction. Goods facilities are designed purely for efficiency because the customer is not present.

### *3. Interdependence with other key business functions*

Interdependence refers to the mutual reliance that the key functions have on one another.

- This means that the four main functional areas of a business need each other in order to carry out their own responsibilities, and in order for the business to operate 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.

Because of its central role, operations must be performed in coordination with other business activities. Human resources, finance and marketing exist because of and to support the operations function. However, operations cannot succeed without their contribution to and direct participation in the transformation of inputs into the final outputs.

- Operations and HR closely collaborate: Operations guides HR on workforce needs for effective task execution, while HR recruits, trains, and retains skilled employees to meet these needs. This teamwork aligns staff skills with business goals, boosting productivity and performance.
- Operations depend on finance for funds to cover equipment, inventory, labour, and expenses. A business's financial success hinges on operational efficiency, which reduces costs and boosts productivity, thus enhancing profits. This allows finance to better allocate resources, invest in growth, and manage cash flow. In turn, operations must create goods or services that generate revenue.

- Operations develop products that marketing then promotes and sells, using insights from market research and customer feedback to inform product development and quality control. This collaboration ensures products meet consumer needs and expectations, driving business success.

### Exercise 1.1

Indicate whether the following statements is true or false.

True / False Questions	True / False
1. Operations usually employ most of the business labour.	
2. Standardisation means giving customers more options.	
3. Good are intangible.	
4. Marketing and operations work together to determine product.	
5. Demand for goods is more difficult to predict than services.	

## 2. Influences on Operations Management

Influences on operations refers to the various internal and external factors that impact the way a business manages and conducts its operational processes.

The business environment has a significant impact on operations management. These influences/challenges require operational responses.

- Influences on operations have a dual effect on businesses.
- First, it can cause the business to undergo change and to continually adjust to external factors. Responsiveness to change is a constant issue for business.
- A second affect is the threat and the opportunity that these influences represent to operations processes.

Responsiveness to change is a constant issue for businesses.

Operational influences significantly impact the strategies implemented by businesses.

There are 8 influences listed in the syllabus.

### 1. Globalisation

Globalisation means a woven world; one that is more integrated, more interrelated.

Globalisation is the increasing interconnectedness and interdependence of global businesses and markets, fuelled by international trade, advanced technology, and the sharing of ideas and resources.

It is the worldwide movement toward economic, financial, trade, and communications integration. Globalisation significantly impacts how businesses operate, offering new opportunities for growth and expansion but also presenting challenges that require adaptation and strategic planning.

Globalisation has a big influence on operations management:

Globalisation affects how businesses work. It makes them be more creative and flexible in how they operate to meet the needs of people all around the world. This results in a wider variety of products and solutions that fit different cultural tastes. Businesses also try to make their products really good to compete globally. They focus on being efficient and using new technology. They also follow international rules and try to be more sustainable and ethical in what they produce.

Globalisation helps businesses like Apple by giving them access to resources, materials, and workers from all over the world. This makes it cheaper to make good products. It also creates a big network of suppliers, making things more efficient and competitive. Plus, it lets businesses get special skills and technology from different countries, which helps make better products.

Outsourcing in business, enhanced by globalisation, involves hiring external firms for specific tasks, allowing companies to tap into cheaper or more efficient global suppliers for materials and components. This leads to improved quality and efficiency in production and services.

Globalisation impacts operations strategies in both negative and positive ways.

Global factors that can be used as an operations strategy include:

- global sourcing,
- economies of scale,
- scanning and learning,
- research and development

## 2. Technology

Technology refers to the tools, systems, and software used to enhance efficiency, productivity, and effectiveness in business processes.

As an influence, technology has drastically transformed operations management.

- It enables automation of repetitive tasks, leading to significant efficiency gains and cost reductions.
- Advanced data analytics and AI provide insights for better decision-making and forecasting, improving strategic planning and resource allocation.
- Technology facilitates improved communication and collaboration within and across businesses, streamlining workflows and enhancing overall operational effectiveness.

Examples of operational technology include things like:

- Sophisticated and automated factories
- Computer systems that run accounting systems and stock control systems
- Computer controlled machine tools
- Robots
- Information technology (internet, intranet, extranet)

Technology can improve operational performance by affecting:

- Quality (being right)
- Speed (being fast)
- Dependability (being reliable)
- Flexibility (being able to change)
- Customisation (being able to provide more options)
- Cost (being productive)

Operational managers must understand new technology – what it can do, advantages it can bring, constraints (cost, need for retraining, downsizing) it might impose.

### *3. Quality Expectations*

Quality expectations refer to the standards and benchmarks that define the desired level of excellence for products or services.

Customers will make purchase decisions on an expectation of quality. Customers today have higher quality expectations. This influences operations by creating constant pressure to ensure customer expectations are fully met, and if possible, to be exceeded. It determines the way products and services are designed, created and delivered to customers.

Quality may be understood to be a specific reference to how well designed, made and functional goods are, and the degree of competence with which services are organised and delivered.

For businesses, meeting or exceeding these quality expectations is crucial for maintaining customer satisfaction, brand reputation, and market competitiveness.

Quality expectations for goods include:

- Quality of design (meeting customer needs, type of materials, innovation)
- Fitness of purpose / how easy it is to use
- Durability (reliability, ease of maintenance)

Quality expectations for services include:

- Professionalism of the service provider, courtesy of staff
- Reliability of service provider / efficiency
- Level of customisation / meets needs of consumers

### *4. Cost-based Competition*

This is the actions of competitors and how they price their products.

Cost-based competition refers to the strategy of gaining a competitive advantage by reducing operational costs to offer products or services at lower prices than competitors.

This approach is crucial in markets where price is a key differentiator. For businesses, it means a constant focus on minimising costs without compromising quality.

This can involve streamlining processes, adopting cost-effective technologies, optimising supply chains, and reducing waste. Businesses might also negotiate better terms with suppliers or outsource to lower-cost regions.

## 5. Government Policies

Government policies refer to the broader guidelines and objectives set by the government, such as economic policies or sustainability goals, which can impact operations indirectly.

All businesses operating in Australia are subject to policies applied by three levels of government – Local, State or Territory and Federal. Government policies have a big impact on operations.

Government policies shape the legal and regulatory environment that businesses must adhere to, covering areas such as environmental practices, worker safety, and employment standards. Compliance with these laws affects various business operations, from waste management to workplace safety. To avoid legal issues and maintain smooth operations, businesses must continually update their practices to align with these changing regulations.

## 6. Legal Regulation

Because operations involve labour, technology, energy (environment), finance etc. there are numerous regulations (laws of business). To remain in operation, a business must comply with these regulations. The range of laws with which a business must comply are collectively termed 'compliance'.

Compliance costs are the expenses associated with meeting the requirements of legal regulations, i.e. abiding by all laws.

Penalties for non-compliance are severe.

Compliance with these legal regulations is crucial for businesses to avoid legal penalties, litigation risks, and reputational damage.

- Compliance costs are the expenses associated with meeting the requirements of legal regulations, i.e. abiding by all laws.
- Penalties for non-compliance are severe.

The most crucial laws relevant to operations include:

- **Work Health and Safety Act (WHS Act 2011):** This law mandates the provision of a safe work environment for all employees. It includes requirements for risk management, accident reporting, and employee training to ensure workplace safety.
- **Fair Work Act:** Governing labour relations, this act includes provisions for fair employment practices, minimum wage, leave entitlements, and dispute resolution. It ensures fair treatment of employees and sets standards for working conditions.
- **Environmental Protection Laws (Protection of the Environment Operations Act 1997):** These include various state and federal laws that regulate waste management, pollution control, and resource conservation. Businesses must comply with these laws to minimise their environmental impact.

Note: Government policies and legal regulations are two distinct influences on operations management.

- Government policies refer to the broader guidelines and objectives set by the government, such as economic policies or sustainability goals, which can impact operations indirectly.
- Legal regulations are specific laws and rules that businesses must follow, including those related to safety, environmental standards, and labour practices, directly affecting day-to-day operations.

While government policies provide a strategic framework, legal regulations impose mandatory requirements, making compliance with both crucial for effective operations management.

## 7. *Environmental Sustainability*

Environmental sustainability is the responsible management and use of resources to ensure the preservation and protection of the environment for future generations.

This approach involves integrating eco-friendly practices throughout the operational process, from sourcing raw materials to waste management. Businesses focusing on environmental sustainability adopt strategies like reducing carbon emissions, conserving energy, utilising renewable resources, and minimising waste.

This not only helps in preserving the environment but also often leads to cost savings and enhances the business's reputation. With increasing environmental awareness among consumers and stricter environmental regulations, sustainable practices have become a crucial part of operations management.

Environmental sustainability impacts operations by:

- Law (Environmental protection laws/carbon tax)
- Being part of their ethical/social responsibility
- Impacting on consumer demand as they want environmentally friendly products
- Affecting inputs like the move to more renewable sources e.g. solar energy
- Affecting outputs that are more environmentally friendly e.g. Toyota Prius

## 8. *Corporate Social Responsibility*

CSR (formerly called the 'triple bottom line') refers to open and accountable business actions based on respect for people, the community and the environment.

- In the context of operations management, CSR involves integrating ethical concerns into business operations, going beyond compliance, and engaging in actions that further social good, beyond the interests of the firm and that which is required by law.
- Operations managers have to balance being economically viable yet socially responsible.

(CSR) involves a business considering its economic, social, and environmental impact and striving to maximise benefits while minimising negative effects.

Corporate social responsibility (CSR) in operations management often involves:

- **Sustainable Supply Chains:** Choosing suppliers that adhere to ethical labour and environmental standards to avoid contributing to human rights abuses or environmental harm.
- **Reduced Carbon Footprint:** Adopting cleaner, energy-efficient technologies, and renewable energy to lower greenhouse gas emissions.
- **Waste Reduction:** Overhauling operations to minimize waste through recycling, using less packaging, and repurposing by-products.

a) The difference between legal compliance and ethical responsibility

Legal compliance refers to operating within the letter of the law and adhering to all applicable regulations and standards. Ethical responsibility, however, goes beyond just following the law; it's about doing what is right based on societal norms, values, and expectations. While legal compliance is mandatory and regulated by governmental authorities, ethical responsibility is voluntary and governed by corporate conscience and stakeholder expectations. Companies that prioritise ethical responsibility can build trust and enhance their reputation, even when the choices are not dictated by law.

b) Environmental sustainability and social responsibility

Environmental sustainability in CSR means companies going beyond legal requirements to protect the environment. This includes reducing carbon emissions, conserving resources, and pursuing innovative sustainability solutions. Social responsibility, on the other hand, involves businesses undertaking initiatives to benefit society, like fair labour practices, community involvement, and philanthropy (promoting the welfare of others, typically through charitable donations of funds, goods, services, or time to support various causes). Companies enact social responsibility by investing in community projects, developing sustainable and ethical supply chains, running employee volunteer programs, aiding in disaster relief, implementing eco-friendly practices, and fostering workplace diversity and inclusion.

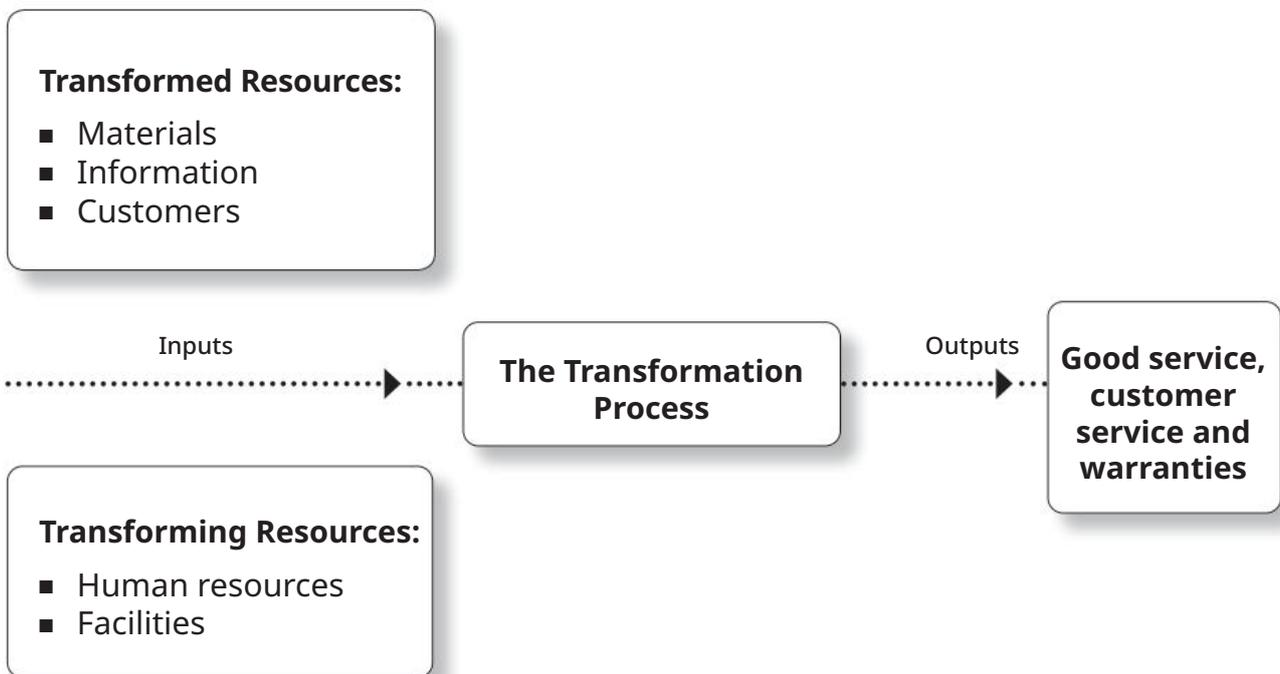
### 3. Operations Processes

An operations process is simply defined as the organisational method for getting a task accomplished. It consists of four distinct primary activities, which are planning, preparing, executing, and assessing.

Operations processes are those processes involved directly with transformation of inputs into outputs, using an input- transformation - output process.

Operations are processes that take a set of input resources which are used to transform something or are transformed themselves, into outputs of goods and services.

**Figure 1 Input - Transformation - Output Processes**



The processes may be broadly classified according to their role in transformation:

- Inputs into transformation processes
- The actual processes or transformation
- Outputs of the transformation process

## 1. *Inputs*

Inputs are the resources used in the transformation process.

Inputs are classified as:

### a) Transformed Resources

Transformed resources are the inputs which are changed or converted into something else.

The three transformed resources in business operations are:

- **Materials:** These include raw materials and intermediate goods, essential for the production process.
- **Information:** Data and knowledge from research, investigation, and instruction, crucial for executing operations and managing material inputs.
- **Customers:** Their needs and desires influence the business operations, making them active participants in the creation of products or services. In services like education, healthcare, and personal grooming, the customer's active participation is essential. They undergo a transformation through the service - gaining knowledge in education, improving health in healthcare, or changing appearance in grooming. This transformation is integral to the service delivery, making the customer a key part of the process that achieves the final result.

### b) Transforming Resources

Transforming resources are those inputs that carry out the transformation process. They are resources in the production process that are used to transform other resources but are not themselves part of the finished product.

They include;

- **Human Resources.** This refers to the employees and staff who provide labour, skills, and expertise in the operations process.
- **Facilities.** These are the physical assets and infrastructure used in the operations process. Facilities can include machinery, equipment, buildings, and technology systems that are necessary to produce goods and services.

This table shows how Qantas utilises various resources in its operations.

Resource Type	Description for Qantas
<b>Transformed Resources</b>	
Materials	Aircraft, fuel, in-flight meals and other materials used for airline operations.
Information	Customer data for bookings, flight schedules, weather information, navigation data.
Customers	Passengers who experience the service, undergoing a journey from one location to another
<b>Transforming Resources</b>	
Human Resources	Pilots, cabin crew, ground staff, customer service and management personnel involved in day-to-day operations.
Facilities	Airports, lounges, maintenance hangars and the fleet of aircraft themselves that are used to provide services.

## 2. Transformation Processes

A business must determine HOW it will produce its goods and/or services. Transformation is the conversion of inputs (resources) into outputs (goods and services).

There are 4 Bullet points in the syllabus linked to transformation processes.

### a) The influence of Volume, Variety, Variation in Demand and Visibility (4Vs)

Operational processes must be focused on how much or what quantity of output to produce. The four V's—Volume, Variety, Variation in Demand, and Visibility (customer contact)—are crucial in understanding and managing the transformation process in operations management. The 4Vs are crucial as these aspects shape the strategies and practices and approaches to process design, capacity planning, quality management, inventory control etc.

- Volume (V1) indicates the quantity of goods or services a business produces. High volume businesses often create standardised products with repetitive labour, leading to economies of scale and lower costs per unit. In contrast, low volume businesses typically make customised products needing specialised skills, resulting in higher costs per unit but increased flexibility.
- Variety (V2) involves the range of products or services offered. A greater variety can attract more customers but can also complicate operations and increase costs. High variety should result in a higher cost per unit. Low variety should result in a lower cost per unit.

- Variation (V3) in demand refers to changes in customer demand over time, affecting business operations. Businesses need to adapt quickly to high demand by scaling up and manage resources efficiently during low demand. Steady, predictable demand leads to consistent, high-volume operations, while volatile demand requires highly flexible operations.
- Visibility (V4) or customer contact pertains to the extent of customer involvement and observation of the production process. High visibility requires that operations are customer-focused, maintaining high standards of service and quality.

**Figure 2 Implications of 4V's on Operations Processes**

<b>Implications</b>		<b>Implications</b>
High repeatability capital intensive low unit costs		Low repetition, labour intensive high unit costs
Flexible, complex high unit costs		Routine, standardised low unit costs
Changing capacity flexibility high unit costs		Stable, more predictable low unit costs
High customer contact high unit costs		Low contact skills low unit costs

*Source: Operations Management by Slack, Chambers and Johnston*

## b) Sequencing and Scheduling

Sequencing and scheduling are processes used to organise and prioritise tasks and resources effectively to ensure the smooth and efficient completion of projects or production.

Both methods help organise and structure the transformation process by identifying all necessary steps (task analysis) and arranging them in the most efficient sequence for operational execution.

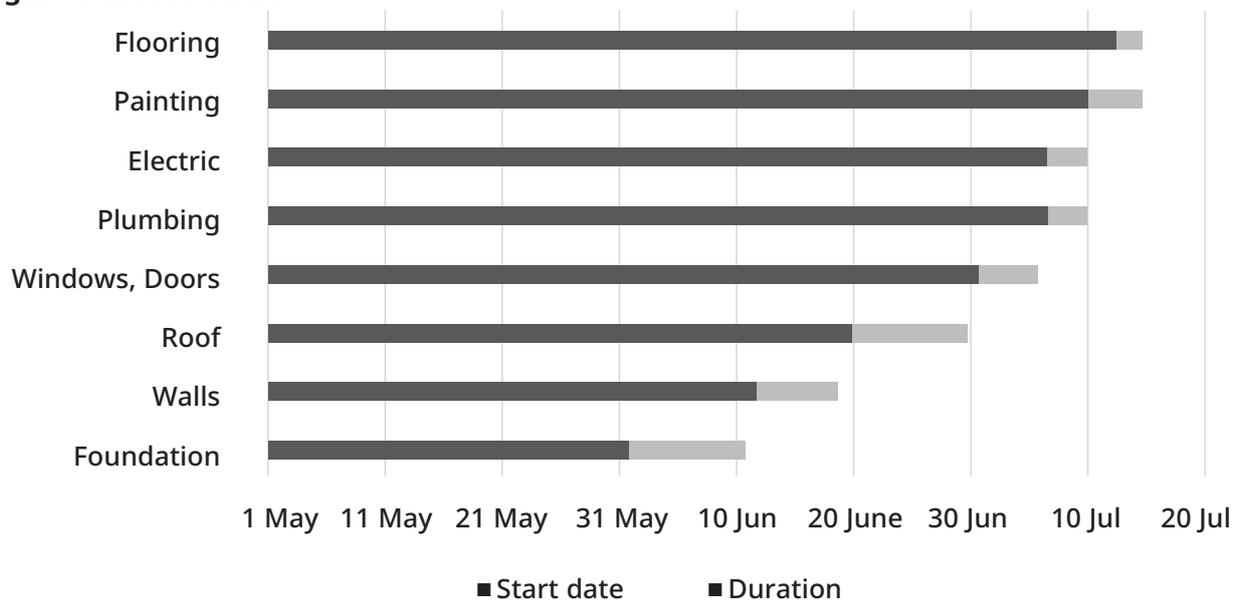
Sequencing refers to **the order** in which activities in the operation process occur.

Scheduling refers to **the length of time** activities take within the operations process.

The two main tools for sequencing and scheduling are:

- Gantt Charts
- Critical Path Analysis
  
- GANTT CHARTS – A Gantt chart is a visual tool used in operations management which represents a project schedule with bars that indicate tasks, their durations, start and end dates. This chart aids in planning the order (sequencing) and timing (scheduling) of operational tasks, ensuring effective coordination, and tracking of project progress against set timelines.

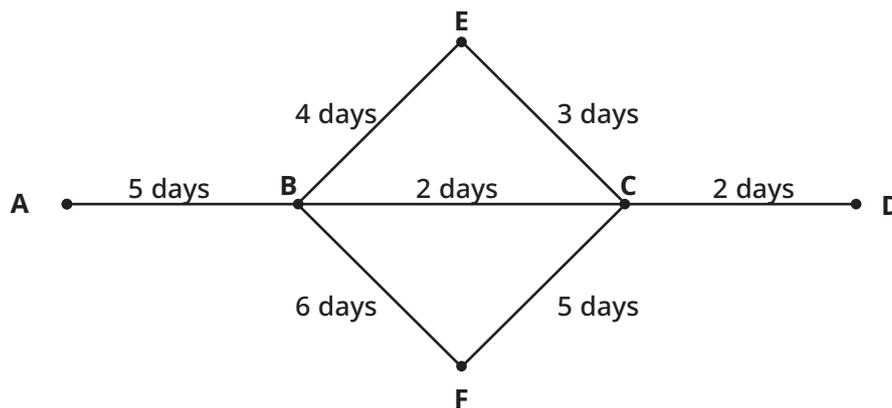
**Figure 3 GANTT Chart**



- Critical Path Analysis (CPA) identifies the longest series of essential tasks in a project that must be finished on time to keep the project on schedule. It highlights critical tasks that cannot be delayed and assists in resource allocation and prioritisation. CPA outlines the required tasks, their duration, and the necessary sequence for their completion, acknowledging that some tasks depend on the completion of others.

CPA enables the business to determine the critical path and which tasks can be done simultaneously.

**Figure 4 CPA**



### c) Technology, Task Design AND Process Layout

- Technology refers to the application of digital tools, machinery, and systems to enhance operational efficiency, productivity, and innovation. It encompasses the use of automation, data analytics, information systems, and modern communication platforms.

The top 3 technologies impacting operations are:

- Automation and Robotics: These technologies improve efficiency and accuracy in manufacturing by automating repetitive tasks.
- Artificial Intelligence (AI) and Machine Learning (ML): They analyse large datasets to optimise decision-making and trend forecasting, essential in predictive maintenance and customer service.
- Internet of Things (IoT): Involves interconnected devices that exchange data, allowing real-time inventory tracking, equipment monitoring, and efficient system control, thus enhancing operational efficiency and safety.

Some other specific examples of technology impacting on operations:

- Office – blackberries, laptops, iPad, wireless etc. (telecommuting)
- Manufacturing involves using robotics for versatile tasks previously done by humans, with CAD and CAM software enabling architects, engineers, and designers to create and control 3D designs on computers.

- Task design is the breaking down of the operations process into the individual tasks to be performed. It is the process of arranging and planning work tasks to improve employee performance and satisfaction, affecting various aspects of operations like productivity, quality, and cost management, while also ensuring the organisation's efficiency and sustainability.
- Process layout involves arranging resources, equipment, and workstations to streamline the flow of materials, information, and people in production or service settings, with the goal of reducing time and costs in manufacturing and improving customer experience and efficiency in service settings like hospitals.

In operations, process layout can be categorised into four types: Functional, Product, Fixed Position, and Office Layout.

- Functional layout groups similar activities or processes together, such as all drilling machines in one area, optimising for specialised tasks but potentially increasing movement of materials.
- Product layout, often seen in assembly lines, arranges equipment in the sequence of operations; products move linearly from one station to the next, ideal for high-volume, low-variety production.
- Fixed Position layout is used for large or immovable products (like ships or buildings), where workers and materials come to the product site, suitable for large-scale, one-off projects.
- Office Layout focuses on arranging workspaces to facilitate information flow, collaboration, and efficiency in administrative environments, balancing the need for interaction with the need for individual focus areas.

### d) Monitoring, Controlling and Improvement

Having created a plan for the operations through sequencing and scheduling, technology task design and process layout each part of operations must be monitored and controlled to ensure that planned activities are happening and to focus on continuous improvement.

Monitoring is the process of regularly observing and recording performance to ensure goals are met, spot problems early, make data-based choices, maintain quality, and use resources efficiently.

Control involves assessing operations against planned performance (performance targets) and making corrective action (changes) if required.

Improvement involves using data analysis to find ways to make things better, such as streamlining processes, reducing waste, or using new technologies, to systematically eliminate inefficiencies and problems.

### 3. Outputs

The most obvious output of the operations process is the actual goods made or services provided.

Customer service and warranties are two subtler key outputs.

- Customer service refers to the support and assistance provided to customers before, during, and after purchasing a product or service. It's crucial for enhancing customer satisfaction and building brand loyalty.
- Warranties are promises from the manufacturer or seller to fix or replace a product if needed, boosting product value, consumer trust, and post-purchase support, and monitoring warranty claims can reveal operational issues.

The *Fair Trading Act (NSW)* and the Competition and Consumer Act 2010 stipulate all businesses must ensure that the goods they sell:

- Have a level of quality comparable to the price and description
- Are suitable for the purpose or job they will be used for
- Match the product description in any advert or promotion
- Are free from defects or faults.

This is covered in more detail in the "Marketing" topic.

### Exercise 1.2 Matching

Match the following statements with the correct terms below.

1. Guarantees made by the manufacturer or seller to the customer, promising to repair or replace the product if necessary, within a certain period.	
2. The expenses associated with meeting the requirements of legal regulations.	
3. Open and accountable business actions based on respect for people, the community and the environment.	
4. The collection of techniques, skills, methods and processes used in the production of goods and services.	
5. Globalisation refers to the process where businesses and markets worldwide become increasingly interconnected and interdependent, primarily driven by international trade, advanced technology, and the exchange of ideas and resources.	

**Word Bank:** Globalisation, Corporate social responsibility, Warranties, Compliance costs, technology

## 4. Operations Strategies

To achieve operations goals and broader business goals, operations managers can apply numerous operations strategies. All strategies relate to activities involved in the production of a good or the provision of a service. An effective operations strategy will give a business a competitive advantage.

There are 9 strategies for improving operations in the syllabus.

### 1. Performance Objectives

A performance objective is a specific, measurable goal that reflects the efficiency and effectiveness of a business's operations. Performance objectives are used to measure the operational effectiveness of a business, and they are key indicators of operational success.

There are 6 performance objectives in the syllabus.

#### a) Quality

Quality refers to the degree to which a product or service meets customer expectations and adheres to certain standards. Consistently producing goods and services to customer expectations. Good quality prevents costs caused by product recalls and repairs made under warranty.

#### b) Speed

Speed refers to the rate at which goods or services are delivered to the customer. It encompasses the time taken from receiving an order to fulfilling it, effectively measuring the quickness of converting inputs into outputs. Goals for speed include reduced wait times, shorter lead times and faster processing times.

#### c) Dependability

Dependability refers to the ability of a business to deliver products or services reliably, consistently, and as promised. It encompasses the trustworthiness and predictability of operations in meeting commitments to customers, including adherence to schedules and maintaining consistent quality. When a business is dependable, it also means fewer problems and delays, which can save money and make things run smoother.

#### d) Flexibility

Flexibility in business means being able to change production, create new products, customise services, and adjust operations to meet market and customer changes.

#### e) Customisation

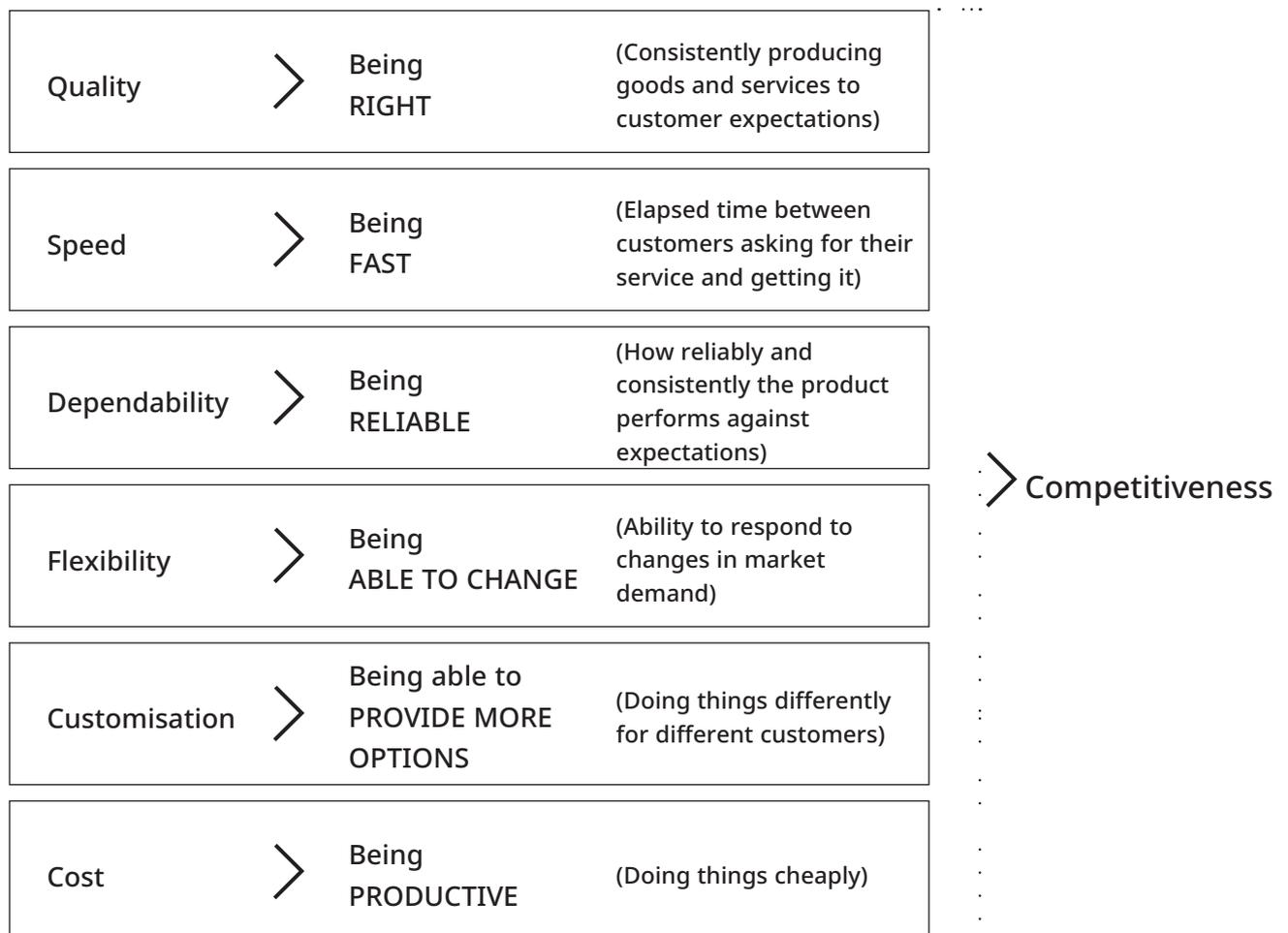
Customisation means tailoring products or services to meet individual customer preferences, improving customer satisfaction, loyalty, and potentially increasing sales, but it can be more expensive than mass production, making it suitable mainly for adaptable products or businesses focused on customisation.

## f) Cost

Cost refers to the total expenditure involved in the production of goods or the delivery of services. This includes expenses like materials, labour, overheads, and logistics. Often the costs of operations will determine the price so improving efficiencies in processes and obtaining cheaper inputs can lower price. Costs in operations may be reduced by:

- Utilising new/leading-edge technologies
- Minimise waste in production
- Use inputs more effectively
- Reduce supplier costs
- Manage inventory effectively
- Maximise flexibility
- Taking advantage of economies of scale

**Figure 5 Effectiveness of Operations Management**



## *2. New Product or Service Design and Development*

Businesses must constantly innovate and create new products or services to stay competitive. This involves researching customer needs, designing and testing new offerings, and implementing production or delivery processes to meet market demands and maintain a competitive edge. A business would use new product or service design and development as an operations strategy by systematically identifying market needs and trends, then innovating and creating products or services to meet those demands. This involves planning, designing, and testing to make sure these new offerings are good and what customers are looking for.

## *3. Supply Chain Management (SCM)*

Supply chain management involves controlling the flow of supplies from raw materials to customer delivery for efficient and cost-effective production. Reducing the number of suppliers can reduce administrative headaches and improve relationships, but reliance on a single supplier can cause delays. Knowing supplier lead times is crucial for flexibility and adaptability in production.

Using SCM as an operational strategy involves THREE key components:

### **a) Logistics**

Logistics involves overseeing the movement and storage of goods, covering transportation, warehousing, inventory control, and delivery coordination. Its goal is to make sure products are in the right place at the right time, in good shape, and without unnecessary expenses, which is vital for an efficient supply chain, happy customers, and staying competitive.

### **b) E-commerce**

E-commerce in supply chain management means using online platforms to buy and sell goods and services, including order management, inventory tracking, and efficient delivery. Businesses often use electronic ordering (E-procurement) to manage their supply chains, connecting stock changes with supplier orders and enabling electronic payments.

### **c) Global sourcing**

Global sourcing means businesses buying supplies or services from suppliers anywhere in the world to meet their needs, often for cost savings or shorter lead times. However, it comes with risks like fluctuating exchange rates and foreign laws.

## *4. Outsourcing*

Outsourcing is the practice where a business contracts out certain tasks or services to external providers or companies. Outsourcing is used for tasks that aren't central to a business's main activities. It lets the business focus on what it does best while using the skills and efficiencies of outside experts. A decision to outsource is based on the expectation that this will be cheaper and

more efficient than performing the task in-house. Having made that assessment, management must seek and select suitable suppliers and their location, and develop contracts for supply which include critical KPI's on quantity, quality, timeliness, dependability, flexibility and cost.

#### a) Advantages of Outsourcing

- **Cost Reduction:** Outsourcing can significantly reduce operational costs, as businesses often outsource to companies in regions with lower labour costs.
- **Focus on Core Activities:** By outsourcing non-core functions, a company can concentrate its resources on its main business areas, enhancing productivity and innovation.
- **Access to Expertise:** Outsourcing provides access to specialised skills and knowledge that may not be available in-house.
- **Flexibility:** It offers flexibility in scaling operations up or down based on business needs without the commitment of hiring permanent staff.

#### b) Disadvantages of Outsourcing

- **Quality Control Issues:** There may be challenges in maintaining the quality and standards of the outsourced work.
- **Dependency on Suppliers:** Outsourcing creates a dependency on external suppliers, which can be risky if the supplier faces issues.
- **Cultural and Communication Barriers:** Differences in language and culture can lead to misunderstandings and communication problems.
- **Security Risks:** Sharing sensitive data with third-party providers can pose security and confidentiality risks.

### 5. Technology

Technology refers to the tools, techniques, and systems a business employs to produce goods or deliver services. It is a critical aspect of business operations, shaping the efficiency, effectiveness, and competitive edge of a business.

There are 2 broad categories in the syllabus:

#### a) Leading edge

This technology is the latest and most advanced in its field, often featuring groundbreaking innovations. Successfully incorporating it into a business can bring significant benefits, like gaining a competitive edge, capturing more market share, and commanding higher prices, resulting in increased revenue and profits. However, it comes with potential risks and costs, such as unexpected issues and uncertainties.

The 2 most significant examples of leading-edge technology used in business operations are:

- Artificial Intelligence and Machine Learning are essential technologies that help businesses automate tasks, analyse data for insights, predict market trends, personalize customer experiences, and optimize supply chains.
- Internet of Things connects devices for real-time data collection, enhancing resource management and operational efficiency.

### b) Established technology

Established technology, unlike cutting-edge tech, is tried and tested, widely used, and reliable. It includes tools like spreadsheets and email, which are essential for businesses due to their proven efficiency and versatility.

## 6. *Inventory Management*

Inventory management is about overseeing stock or goods in a business, from ordering and storage to using them. It's crucial for balancing the cost of holding inventory with the need to meet customer demand, as having too much or too little can impact a company's efficiency and revenue. Deciding the right amount of inventory is a key strategic decision because it affects costs and production. Holding excess stock adds production costs, while holding too little can lead to disruptions and lost sales.

There are 4 bullet points in the syllabus linked to inventory management:

### a) Advantages and disadvantages of holding stock

Advantage of holding stock

- Help ensure operations run smoothly
- Allows a business to respond to changes in demand
- Allows greater potential for customisation
- Can reduce costs if they can buy their materials more cheaply in bulk

Disadvantage of holding stock

- Stocks have to be stored – storage space costs money
- Stock must be insured
- Stocks tie up resources (working capital)
- Risk that stocks will become spoiled, outdated or obsolete over time

The specific inventory strategies, such as LIFO, FIFO, and JIT, represent different approaches to managing inventory and the flow and valuation of stock - each with its advantages and disadvantages. Each strategy has implications for financial reporting and tax purposes, and businesses choose the one that aligns best with their operational and financial goals.

## b) LIFO

LIFO involves using or selling the newest inventory items first, which can lead to older stock remaining unsold.

This method can be advantageous for tax purposes in environments of rising prices, as it can result in lower taxable income. LIFO is illegal in Australia primarily because the Australian accounting standards and the ATO, which adhere to the International Financial Reporting Standards (IFRS), do not permit its use for inventory valuation. The Australian Taxation Office (ATO) requires businesses to use alternative methods like FIFO (First-In-First-Out) or the Weighted Average Cost Method.

LIFO can be effective for managing non-perishable items like machinery parts or canned food, as these items are less likely to become obsolete or unusable over time compared to perishable goods.

## c) FIFO

FIFO (First-In-First-Out) is the opposite, where the oldest items are used or sold first.

This will reduce the risk of obsolescence but potentially missing out on cost benefits from recent price drops. It's particularly useful for perishable goods or products with a short shelf life. The cost of the FIRST goods purchased would tend to be cheaper than more recent goods purchased.

Summary of the difference between LIFO and FIFO

- LIFO – most recent stock is used first (LAST STOCK IN is the FIRST STOCK OUT)
- FIFO – oldest stock is used first (FIRST STOCK IN is the FIRST STOCK OUT)

How do you value stock?

Inventory Strategy	LIFO (Last-In-First-Out)	FIFO (First-In-First-Out)
COGS (Cost of Goods Sold)	HIGHER (Reflected in Revenue Statement)	LOWER (Reflected in Revenue Statement)
Profits	LOWER (Reflected in Revenue Statement)	HIGHER (Reflected in Revenue Statement)
Tax Implications	LOWER TAX (Illegal for Tax purposes by ATO in Australia)	HIGHER tax liability
Closing Stock Value	LOWER on the BALANCE SHEET	HIGHER on the BALANCE SHEET

## d) JIT (Just-in time)

Just-In-Time (JIT) is a method for managing inventory by only getting items when they're needed in production, reducing waste and costs. It relies on a fast and adaptable supply chain,

with suppliers delivering goods quickly as the business requires them, preventing delays in production and satisfying customer demands.

Advantages of JIT

- Avoids all disadvantages of holding stock – storage costs, wasted working capital etc.
- Allows business to respond precisely to market demand
- Forces the transformation process to become more efficient

## 7. Quality Management

Quality management refers to the cohesive processes a business uses to maintain product consistency, reliability, safety, and fit for purpose suitability. It is a vital operations strategy because it ensures that a business's products or services meet customer expectations and regulatory requirements.

This strategy focuses on maintaining consistent, reliable, and suitable product output. Quality is judged by customer satisfaction, which can lead to more orders and positive recommendations. Balancing quality and price are crucial for business success.

There are 3 pillars of quality management in the syllabus.

### a) Quality control (QC)

Quality control is about maintaining process integrity, finding and fixing problems, and checking the final product for defects to ensure it meets set standards. It's a reactive approach that involves inspecting and testing products during and after production to ensure they meet quality standards.

### b) Quality assurance (QA)

Quality assurance involves ensuring things are done correctly right from the beginning. It revolves around adhering to established standards and procedures during production to prevent errors and defects, as opposed to rectifying issues later. ISO standards are utilised to maintain consistency, efficiency, and customer satisfaction, thereby enhancing a company's reputation and credibility.

### c) Quality improvement (QI)

Quality improvement entails a continuous commitment to enhancing processes to ensure the delivery of superior products or services. It's about regularly looking at how you do things and making them better to meet quality standards. This method checks what you're doing now, figures out what needs to be improved in different areas, and uses techniques like Six Sigma or Total Quality Management (TQM) to reduce mistakes and work more efficiently. TQM means everyone in the company works together to keep making things better.

## 8. *Overcoming Resistance to Change*

All businesses must adapt and modify their operations due to external factors. These changes can be challenging to implement because of various constraints. To succeed, managers should use effective change management strategies, starting by understanding why stakeholders resist change. Understanding resistance to change helps management implement effective strategies to overcome it, which is vital for a business's competitiveness and operational efficiency.

In the context of overcoming resistance to change, the 6 points listed in the syllabus each represent distinct challenges a business must address:

### a) Financial Costs

This refers to the interest and additional costs of borrowing money needed to make changes. These expenses are important in the process of change because getting money for new projects can greatly affect a business's financial situation.

### b) Purchasing new equipment

Involves the costs and steps required to acquire and install new machines or technology to improve operations. This includes the initial purchase price, setup expenses, training, maintenance, and potential productivity loss during the adjustment period.

### c) Redundancy payments

This refer to the financial compensation given to employees who are let go because their roles are no longer needed. This often happens when a business changes how it operates, like automating tasks or restructuring.

### d) Retraining

Involves teaching existing employees new skills and knowledge to adapt to changes in processes, technologies, or procedures. It addresses resistance to change and concerns about time, effort, costs, and productivity.

### e) Reorganising plant layout

Involves rearranging machines and workstations in a factory to improve efficiency or accommodate new technology. However, this change may face resistance from employees who need to adapt to the new arrangement.

### f) Inertia in change management

Refers to the tendency of people and businesses to resist change due to comfort with the familiar and fear of the unknown. This resistance can appear as a hesitation to embrace new work methods, technologies, or processes, thereby constituting a significant challenge to workplace change initiatives.

Overcoming resistance to change: To successfully manage change, a business should:

- Recognise when change is needed and being proactive.
- Understand why people might resist the change.
- Set realistic goals using a SWOT analysis to understand strengths, weaknesses, opportunities, and threats related to the change.
- Build a culture that supports change by clearly explaining why it's needed and promoting teamwork. Use mentors, known as change agents, to guide and motivate colleagues.
- Apply change models, like Lewin's unfreeze/change/refreeze method, to help implement the change effectively.

## 9. *Global Factors*

Business operations cannot avoid the influence of globalisation. This presents opportunities to improve operations but it also creates new risks (volatile markets, different laws etc.).

Global factors refer to the external international elements that businesses strategically manage to optimise their operations, enhance efficiency, and maintain competitiveness in the worldwide market.

There are 4 global factors listed in the syllabus:

### a) Global Sourcing

Global sourcing is the practice of obtaining goods or services from various countries to cut costs and boost quality. It offers advantages like accessing new skills and technology, cheaper labour and materials, tax benefits, and greater product choices. But it can also raise ethical concerns such as labour exploitation, environmental harm, support for harmful governments, negative impacts on local communities, and inconsistent quality standards.

Global sourcing decisions bring their own challenges:

- Greater management complexity;
- Different legislative and regulatory frameworks, especially in contract and proprietary protection law;
- Different cultural behaviour and different languages;
- Some increased costs such as relocation and logistics;
- Exchange rate variations

### b) Economies of Scale

Economies of scale mean that when a business increases its production, the cost of making each item decreases. This is because fixed costs, like rent and machinery, are spread over a larger number of products, reducing the cost of each. In global markets, this allows a business to produce and sell more at lower prices worldwide. Additionally, buying materials in bulk further

reduces costs. These savings make the business more competitive globally and increase its profit margins, making economies of scale a crucial strategy for international success.

### c) Scanning and Learning

Scanning and learning is a strategy where businesses stay updated on global trends, technology advancements, and market shifts to adjust their operations and strategies. This helps them respond quickly to opportunities and challenges, fostering innovation, improving processes, and meeting customer needs to stay adaptable, sustainable, and competitive internationally.

### d) Research and Development (R & D)

Research and development involves creating and innovating new products, services or processes to enhance a business' competitive advantage on a global scale. R&D is essential for global businesses because it helps them create new and better products through innovation and technology. This keeps them competitive, improves product quality, and can open up new market opportunities, enabling them to adapt to global changes and meet customer needs worldwide.

### Exercise 1.3

Indicate whether each of the following statements is true or false

True / False Questions	True / False
1. Many businesses have rationalised their number of suppliers.	
2. High levels of inventory will decrease storage costs.	
3. Technology has made inventory management more efficient.	
4. Reduced costs are the main reason outsourcing is popular.	
5. The shorter the lead time the less flexible purchasing inputs becomes.	

### Exercise 1.4 Multiple Choice

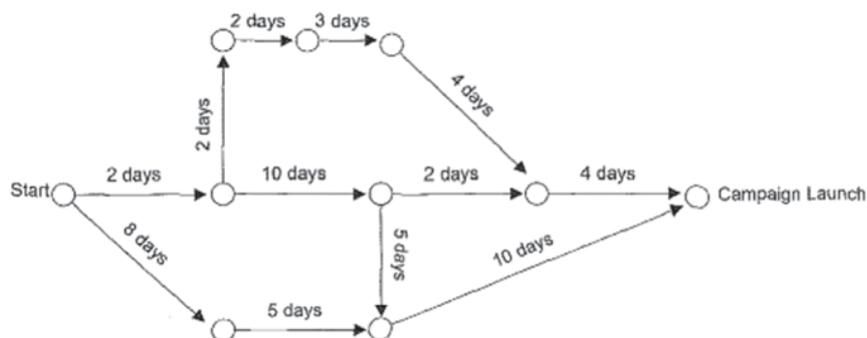
Select the alternative A, B, C or D which best answers the question.

1. What is the role of operations?
  - a) Source finance for the business
  - b) Develop newly hired staff
  - c) Determine promotion strategies
  - d) Transform inputs into outputs

2. Which is the most likely result of a business achieving economies of scale?
- a) Higher average cost of production
  - b) Greater efficiencies in production
  - c) Greater flexibility
  - d) Higher sales price per unit
3. A manager consults a manufacturing team to assist in creating a new staff training program. This demonstrates the interdependence of which two business functions?
- a) Finance and Marketing
  - b) Marketing and Operations
  - c) Operations and Human Resources
  - d) Human Resources and Finance
4. A shopping centre has decided to install 40 solar panels on its roof to reduce power consumption. Which of the following factors has been responsible for this decision?
- a) Globalisation
  - b) Legal regulation
  - c) Quality expectations
  - d) Environmental sustainability
5. The recently elected Federal Government introduced new laws that increase restrictions on carbon pollution. 'Perfect Power' has also received numerous letters and emails from stakeholders protesting the level of pollution they generate from the burning of coal. Which two factors are influencing the business's operations?
- a) Globalisation and quality expectations
  - b) Quality expectations and legal regulations
  - c) Legal regulations and environmental sustainability
  - d) Environmental sustainability and globalisation
6. How should an Australian firm operating a clothing factory in Bangladesh ensure they act in an ethically responsible manner?
- a) The business should comply with foreign environmental laws
  - b) The business should ensure that copyright and patents are not broken
  - c) The business should provide work health and safety conditions that go beyond the scope of the foreign laws.
  - d) The business should provide wages and working conditions in accordance with the foreign laws.

7. Which of the following operations influences would increase short-term costs but should lower long-term costs?
- Increased quality expectations
  - Increased technology
  - Government policies which increase legal regulations
  - Increased environmental sustainability
8. What term describes the process where a manufacturer promises to fix a defect that occurred in the making of product?
- Customer service
  - Quality control
  - Guarantee
  - Warranty

Use the stimulus below to answer Question 9



Marketing Campaign for the Launch of a New Soft Drink

9. What is the critical path for the campaign launch?
- 23 days
  - 17 days
  - 27 days
  - 24 days

10. A factory manager is deciding the best order in which to complete a project. Which operations process is being carried out?
- a) Sequencing
  - b) Scheduling
  - c) Task design
  - d) Logistics
11. Which of the following would be an example of a transforming resource in the production of a new iPhone?
- a) Glass
  - b) Employees on the factory floor
  - c) Orders from the customers online
  - d) Information gathered from research about the memory size of the iPhone
12. Which of the following combinations would result in the highest production cost per unit?
- a) Extensive customer contact, extensive product variety and low volume
  - b) Extensive customer contact, extensive product variety and high volume
  - c) Limited customer contact, limited product variety and low volume
  - d) Limited customer contact, limited product variety and high volume
13. A Gantt chart for Waz's Coffee Shop is shown.

	Jan	Feb	Mar	Apr	May	Jun
Obtain lease and refit shop	■					
Purchase stock		■				
Select and train staff			■			
Advertising campaign				■		
Commence trading						■

What does this Gantt chart show?

- a) Selection and training of staff will begin in February
- b) All stock will be purchased before the advertising campaign begins
- c) Trading will commence only once the advertising campaign has concluded
- d) Select and train staff and the purchase of stock will be done simultaneously

14. The management of Springbok Ltd is looking to implement an operational strategy which will improve transportation, warehousing and packaging of its products.

Which of the following concepts is management concerned with?

- a) Distribution strategies
- b) Logistics
- c) Global sourcing
- d) Performance objectives

15. A manufacturing company is replacing a range of manual tasks with automated machinery. They have offered the affected staff attractive voluntary redundancy or retraining.

What operations strategy is this?

- a) FIFO
- b) Global factors
- c) Quality management
- d) Overcoming resistance to change

### Exercise 1.5

ABC Underwear is a well-known underwear brand that is currently manufactured in North Sydney. The high quality brand is becoming more recognised and demand for their products has increased. Recently, they have been contacted by stores and consumers overseas who are interested in buying their underwear.

- a) Outline ONE aspect of the 'strategic role' of operations at ABC Underwear. 2
- b) With reference to ABC Underwear, explain the interdependence between operations and finance if the business expands globally. 4
- c) How would globalisation influence operations management at ABC Underwear? 4

**Exercise 1.6**

- a) Identify TWO performance objectives used in operations strategy and recommend ONE way each objective could be achieved through operations management. 4
- b) With reference to a business you have studied, assess how technology can help this business sustain a competitive advantage. 6

**Exercise 1.7**

Skinstad's café operates in Western Sydney. Unfortunately their operational process is ineffective and as a result some of its costs are rising. Consequently there has been a decrease in the company's profit.

- a) Identify TWO operational performance objectives. 2  
OBJECTIVE 1: \_\_\_\_\_  
OBJECTIVE 2: \_\_\_\_\_
- b) Explain how Skinstad's cafe could use technology to improve the efficiency of its operational process. 4
- c) Using examples, explain how Skinstad's café could achieve corporate social responsibility. 4

## Answers to Exercises

### Exercise 1.1

1. True, 2. False, 3. False, 4. True, 5. False

### Exercise 1.2

1. Global Web, 2. Compliance cost, 3. Corporate social responsibility, 4. Technology, 5. Globalisation

### Exercise 1.3

1. True, 2. False, 3. True, 4. True, 5. True

### Exercise 1.4

1. D, 2. B, 3. C, 4. D, 5. C, 6. C, 7. B, 8. D, 9. A, 10. B, 11. B, 12. A, 13. B, 14. B, 15. D

### Exercise 1.5

- a) Answers could include: Good/service differentiation, cost leadership  
Sample Answer: As ABC Underwear is a 'high quality underwear brand' the main role of operations management at ABC Underwear is to focus on goods/service differentiation. This is where a business aims to achieve a competitive advantage through product differentiation, in this case, excellent quality.
- b) Sample Answer: Interdependence is the mutual dependence that finance and operations have with each other as they both work towards common goals. Operations refers to the business processes that involve transforming inputs into outputs (production). At ABC Underwear, operations depend on finance (the planning and monitoring of a business's financial resources) to allocate budgets/finance and manage the payments for the purchase of inputs such as raw materials (cotton), machinery and staff (machine operators). The budgets allocated will determine the quality of inputs acquired (a high quality level to maintain premium underwear). Finance relies on operations to produce underwear that meets consumer needs (high quality) which will generate sales revenue income for the business. Finance also expects operations to be managed efficiently and effectively to minimise costs to maximise profitability (eg Checking raw material deliveries in and out of the stock receiving areas to ensure the correct amount is received and paid for).
- c) Sample Answer: Globalisation refers to the removal of barriers of trade between nations. It allows consumers the opportunity to purchase products from businesses that provide the most value for money, which could dramatically impact on ABC Underwear's operations, particularly in the need to be price and quality competitive. Globalisation will enable ABC Underwear to source raw materials using global supply chains ("global web"); these inputs may be of better quality or lower cost. Global

outsourcing of production is another opportunity which could be explored, to take advantages of lower wage costs overseas. Globalisation will also allow ABC Underwear to sell its outputs to global consumers who desire global brands, as well as expanding the overall market for a business' output, possibly resulting in the achievement of economies of scale for the operations of the business.

**Exercise 1.6**

- a) Answer could include: Quality, Speed, Dependability, Flexibility, Customisation, Cost  
Sample answer: Performance objectives are goals that relate to particular aspects of the production process. Two Performance objectives are Quality and Cost. Quality is how well designed, made and functional goods are and the degree of competence with which services are delivered. Quality can be achieved through operations management by the quality of design that determines the inputs that go into the product. By sourcing the best quality inputs the performance objective of quality can be achieved. Cost as a performance objective refers to the business making efficiency savings and eliminating waste to ensure that products are produced as cheaply as possible. This can be achieved using technology in production that ensures accuracy to minimise waste and can substitute for labour to minimise wages expenses.
- b) Sample Answer: Technology refers to the design, construction and/or application of innovative devices, methods and machinery upon the production process. Technology could be office technology to improve planning and administration of business activities or manufacturing technology that increases speed efficiency and accuracy in producing goods and services. Technology involves an investment by business and therefore an upfront cost or expense; it also may involve staff retraining or redundancies. This can be costly in the short run but technology can increase efficiency (it can be run 24 hours a day) and quality (it makes fewer errors) so in the long run it improves quality and reduces costs. Qantas have introduced new Dreamliner aircraft (leading edge technology) to their fleet. This improves the quality of the service for Qantas as the planes are quieter and more comfortable for passengers and lower pressurisation in the cabins leads to less jet lag giving Qantas an edge over other airlines. Furthermore, the new technology planes are more fuel efficient reducing Qantas costs and giving them a financial advantage over competitors. This allows Qantas to be price competitive allowing them to achieve a long term competitive advantage over other airlines that do not have new airplanes.

**Exercise 1.7**

- a) Answers could include: Quality; Flexibility; Speed; Customisation; Dependability; Cost
- b) Answers could include: Leading Edge Technology, Established Technology  
Sample Answer: Technology refers to the design, construction and/or application of innovative devices, methods and machinery upon operations. Improving efficiency will enable the business to cut costs and increase profits. Leading Edge Technology is the technology that is the most innovative at any point in time. Skinstad's cafe

may implement use of the mobile phone APP "Beat the Queue" which allows the customer to order & pay for their food and drink online/on their phone and then collect. Skinstad's cafe may use established technology such as computerised stock management systems (with barcoding) to track stock for more efficient ordering and reduced waste/stock loss. Established technology is technology which is already being tested and found to be successful in increasing a business's efficiency.

In these examples, technology will allow the business to achieve improved efficiency by cutting costs, improving the speed of production, improving quality and dependability of the output and reducing waste in the production process. Technology can also enable the business to cut back on its staffing requirements and labour costs.

c) Answers could include:

Sample Answer: Corporate Social Responsibility (CSR) is an important influence on business and it integrates financial, social and environmental goals. It involves Skinstad's cafe going above the basic legal requirements and addressing broader social, community and environmental goals.

E.G. Skinstad's cafe can achieve better CSR by not only complying with Labour Laws for workers in the Café but allow some flexibility in terms of special sick leave etc. Environmental sustainability and social responsibility are features of an ethical approach to operations management.

Skinstad's cafe can address the issue of waste management by becoming a café that only serves coffee and tea to customers with their own plastic recycle "Keep Cup". All food that is served in the café is not placed in Styrofoam containers.



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# CHAPTER 2

## Finance

### Role of Financial Management:

1. Strategic role of financial management
2. Objectives of financial management
3. Interdependence with other key business functions

### Influences on Financial Management:

1. Internal sources of finance
2. External sources of finance
3. Financial institutions
4. Influence of government
5. Global market influences

### Financial Management Processes:

1. Planning and implementing
2. Monitoring and controlling
3. Financial ratios
4. Limitations of financial reports
5. Ethical issues related to financial reports

### Financial Management Strategies:

1. Cash flow management
2. Working capital management
3. Profitability management
4. Global financial management

## 1. The Role of Financial Management

There are 3 roles of financial management in the syllabus.

### 1. *The strategic role of Financial Management*

The strategic role of financial management involves the strategic planning, optimisation, and control of a business's financial resources (money and funds) to achieve its long-term objectives, such as profit maximisation. Financial planning aligns a company's strategic goals with the necessary resources, focusing on the optimal mix of debt and equity to minimise costs and maximise shareholder value.

Financial management plays a crucial and long-term role because:

- finance plays a key role in every aspect of the business
- it is usually done by senior management (big boys)
- enables the business to achieve its goals
- it is essential for business growth
- it is often one of the biggest causes of business failure, it is essential for survival

For an organisation to achieve its long-term goals it must have a number of specific short-term objectives.

### 2. *Objectives of Financial Management*

There are 5 financial objectives in the syllabus.

These objectives are a means of measuring the effectiveness of a business' financial management. The finance function can be evaluated by these 5 indicators (objectives).

#### a) Liquidity

Liquidity is how easily a business can turn assets into cash or have enough cash to pay off its short-term debts (CL) and keep running smoothly. Keeping enough liquidity is crucial for a business's continuous financial stability and flexibility. It means the business can quickly pay its bills, settle debts, and take advantage of sudden opportunities without risking its financial health.

#### b) Profitability

Profitability measures a business's ability to generate more revenue than its costs, crucial for long-term survival and growth. Profit protects against risks like competition and economic downturns and serves as a primary source of finance for growth. It also increases share price and allows for dividend payments to shareholders.

#### c) Efficiency

Efficiency is about maximising output or returns from a given set of inputs or resources. It aims

to achieve the best possible outcomes with minimal resources, reducing waste and costs. This increase in efficiency can lead to higher profits.

#### d) Growth

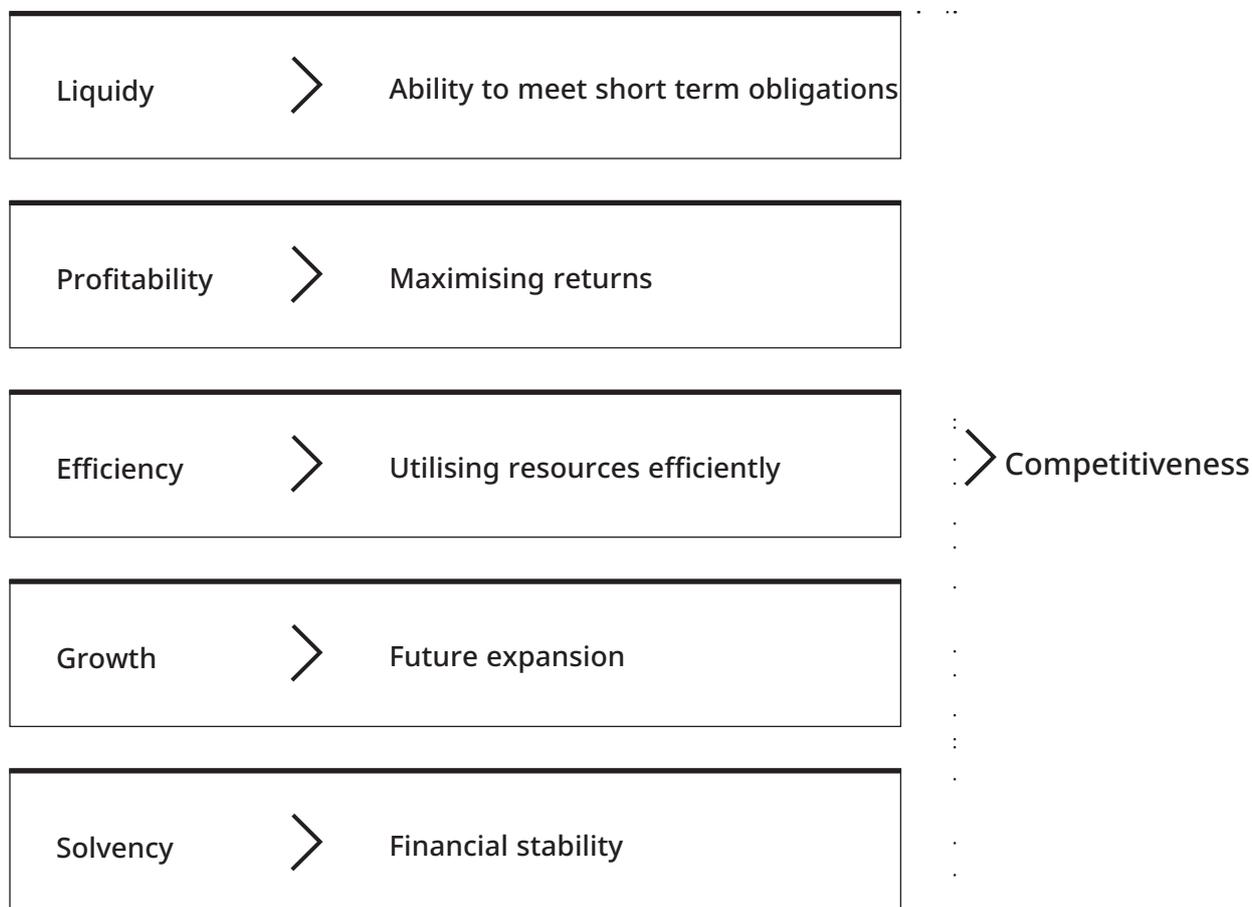
Growth involves increasing a company's size and value over the long term by expanding operations, customer base, revenue, and market share. This strategic expansion aims to maximise shareholder returns and can be achieved through diversification, acquisitions, mergers, and takeovers, ensuring the company's continued success.

#### e) Solvency

Solvency is a business term that describes a company's ability to meet its long-term debts and financial obligations. It reflects financial health by ensuring sufficient assets to cover liabilities, crucial for longevity and maintaining trust with lenders and stakeholders.

Note: Liquidity and solvency are both measures of a company's financial health, but they focus on different aspects. Liquidity assesses a company's ability to cover short-term debts with current assets, indicating how quickly it can convert assets to cash. Solvency evaluates a company's ability to manage long-term debts, reflecting its long-term financial stability and viability. In essence, liquidity concerns immediate financial security, while solvency looks at long-term sustainability against liabilities.

**Figure 6 Effectiveness of Financial Management**



## Short-term and long-term

Businesses set short-term and long-term financial objectives to manage immediate needs and future growth. Short-term objectives focus on financial stability and solvency within the next 12 months, ensuring smooth daily operations and debt management. Long-term objectives aim for sustainable success and expansion by enhancing profitability, efficiency, and growth, ensuring a competitive edge and meeting long-term financial commitments.

Financial management involves balancing immediate needs with long-term growth opportunities. This includes deciding between maintaining cash for current expenses and investing in initiatives like market expansion or operational improvements. Prioritising growth can strain short-term cash flow, but the expectation is that these investments will yield higher profits in the long run.

### 3. *Interdependence with other key business functions*

Interdependence refers to the mutual reliance of key business functions on one another. In business, key functions like marketing, finance, operations, and human resources are interdependent and influence each other to achieve the company's goals. Effective coordination among these departments is essential for smooth and efficient operations.

For example, finance relies on marketing to generate revenue, while marketing needs financial support (funds) for its strategies. Operations require funding to produce goods or services that finance can capitalise on. Human resources depend on finance for recruitment and training, providing finance with a competent workforce.

#### Exercise 2.1

Indicate whether the following statements is true or false.

True / False Questions	True / False
1. The strategic role of financial management is to meet the needs and wants of consumers.	
2. Liquidity is defined as: The ability to convert assets into cash to meet current liabilities	
3. There are only three functions of a business.	
4. Outsourcing is a financial objective of a business.	
5. The operations function is dependent on the financial function to provide it with the funds it requires to purchase the inputs it needs for the production process.	

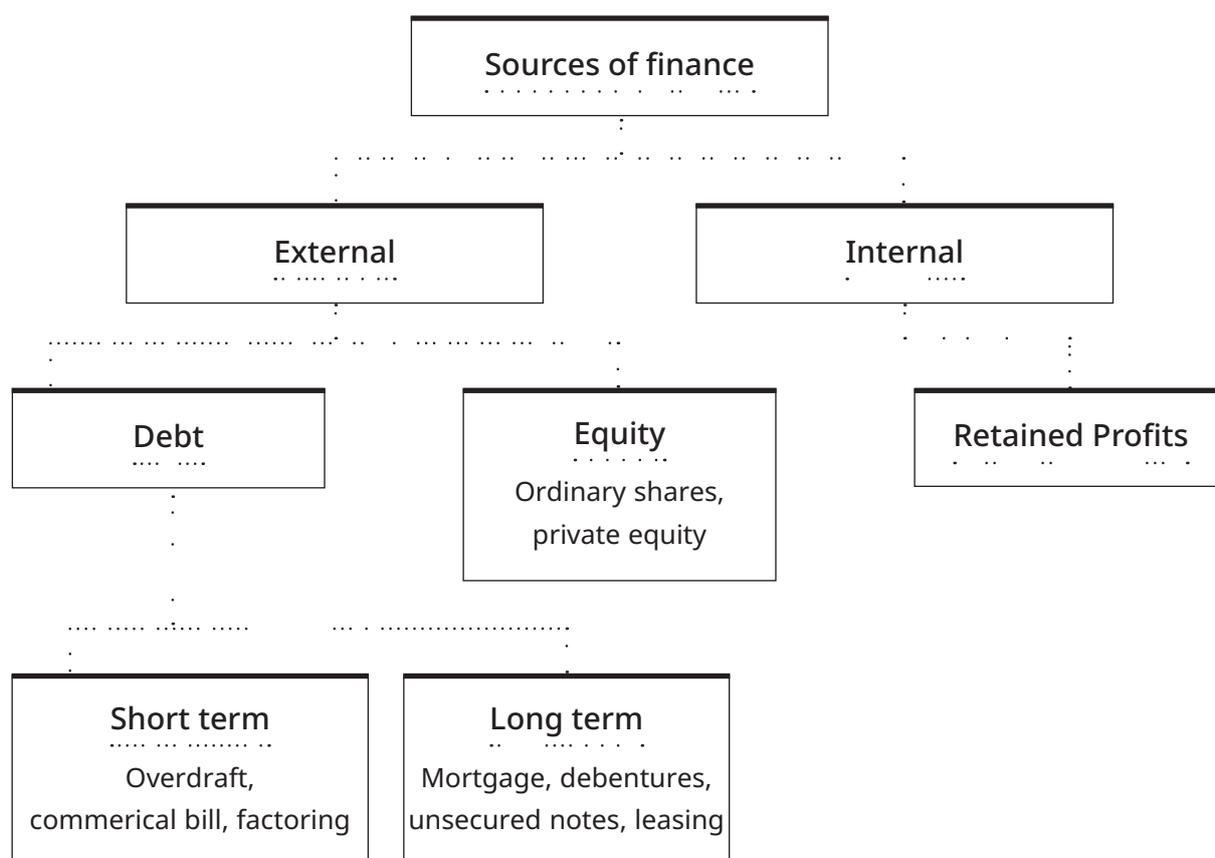
## 2. Influences on Financial Management

There are 5 influences on financial management in the syllabus.

### *Sources of finance*

Businesses need funds to establish, operate, and grow. Effective financial decision-making involves finding appropriate funding sources. These sources can be categorised into two main types: internal finance and external finance.

**Figure 7 Sources of Finance**



### *1. Internal Sources of Finance*

Internal finance consists of funds from business activities, specifically retained profits. Retained profits are the portion of net earnings kept after paying dividends to shareholders. These profits are reinvested for growth, development, or debt repayment, serving as a vital internal financing source. This strategy supports business expansion and increases shareholder value without diluting ownership or accruing more debt.

### *2. External Sources of Finance*

External sources of finance are funds provided from outside the business, including debt and/or equity. This financing is vital for businesses aiming to grow, launch new projects, or manage

cash flow without solely relying on their own resources. External funding can be obtained from various sources such as banks and superannuation funds.

### a) Debt Finance

Debt finance involves short-term and long-term borrowing from external sources by a business. This type of financing depends on external rather than owner funds, increasing risk due to mandatory interest, bank, and government fees. Additionally, Australia's tax system encourages debt financing by allowing interest expense deductions.

Debt finance:

- Involves a contractual relationship (loan contract i.e. length of time, interest rates, fees, default penalties).
- Failure to pay debt back will probably result in legal proceedings (liquidation).
- Provided by non-government and government sources (usually non-government).
- Can be secured or unsecured.
- Classified as either short term or long term.

#### Short-term borrowing

These are funds that would need to be repaid within 1 year. There are 3 types of short-term borrowing in the syllabus.

- **Overdrafts:** An overdraft allows account holders to withdraw more money than they have, up to a set limit, with interest charged only on the overdrawn amount and for the duration borrowed. It is a flexible, efficient short-term financing solution for managing temporary cash shortages or unexpected costs. Despite higher interest rates, its key advantage is the flexibility to address unexpected expenses or cash flow issues and repay without penalties when funds become available.
- **Commercial Bills:** Commercial bills are a short-term financing tool, backed by business assets and typically offered by banks in amounts above \$100,000. They last between 30 to 180 days and help businesses meet immediate needs such as paying bills, funding debtors, buying inventory, and managing urgent expenses. This method suits businesses that need cash temporarily for a set period and anticipate enough incoming funds to meet the repayment terms, helping them avoid cash flow problems.
- **Factoring:** Factoring involves businesses selling unpaid invoices to a finance company at a discount for quick cash. This improves cash flow by converting invoices into immediate funds. The finance company assumes the risk of collecting payments. Businesses use factoring to get instant cash, manage customer payments, pay urgent bills, or reduce the impact of unpaid invoices. However, it reduces profit margins as invoices are sold for less than their full value.

**Figure 8 Advantages and Disadvantages of Factoring**

Advantages of factoring	Disadvantages of factoring
<ul style="list-style-type: none"> <li>■ Immediate access to funds</li> <li>■ Don't have to chase up accounts receivables</li> </ul>	<ul style="list-style-type: none"> <li>■ Don't get the full amount</li> <li>■ May be perceived to your customers that you are in financial trouble</li> <li>■ You don't control the methods used to collect the debt</li> </ul>

### Long-term Borrowing

Long-term borrowing finance relates to funds borrowed for periods of longer than 1 year. There are 4 types of long-term borrowing listed in the syllabus.

- **Mortgage:** A mortgage is a loan secured by real estate, such as homes or commercial properties, used to finance their purchase. Typically provided by banks or finance companies, these loans often last 25 to 30 years with either variable or fixed interest rates. Mortgage rates are usually lower than other types of loans and vary based on the borrower's credit score and current interest rates. Financing for specific assets like aircraft is available from specialised lenders, not typical mortgage providers.
- **Debentures:** Debentures are corporate bonds issued by companies or governments to raise funds. Investors lend money to these entities in exchange for regular interest payments and the return of the principal on a specified date. This financing strategy helps companies grow without diluting ownership, offering investors predictable returns. The details of debentures are usually specified in a prospectus for interested investors.
- **Unsecured notes:** An unsecured note is a type of debt where a company borrows money without offering any collateral, relying instead on their creditworthiness. These notes promise to pay interest regularly and return the principal at maturity. Due to the lack of collateral, they carry higher risk, often resulting in higher interest rates for lenders. Unsecured notes are similar to debentures but typically offer better returns.
- **Leasing:** Leasing allows businesses to rent assets like premises, equipment, or technology for a set period with regular payments, often with an option to buy at the end. It enables immediate asset use without full ownership or significant initial costs, making it a cost-effective option. Leases are tax-deductible, help preserve working capital by avoiding large upfront payments, and reduce financial risk by transferring asset obsolescence risk to the lessor. Leasing also provides flexibility, fewer restrictions compared to loans, helps maintain liquidity, and simplifies cash flow management by spreading expenses over time.

**Figure 9 Advantages and Disadvantages of Leasing**

Advantages of leasing	Disadvantages of leasing
<ul style="list-style-type: none"> <li>■ No large capital outlay (small monthly fee)</li> <li>■ Much easier to update</li> <li>■ Lease payments are tax deductible (expense for the business)</li> </ul>	<ul style="list-style-type: none"> <li>■ Can't take advantage of capital appreciation</li> <li>■ Do not own the asset once the lease contract is up</li> </ul>

## b) Equity Finance

### Ordinary Shares

There are 4 types of ordinary shares in the syllabus.

Ordinary shares signify equity ownership in a public company, granting holders voting rights at shareholders' meetings and potential dividends from company earnings. Also termed equity shares, they are widely traded in Australia.

- **New Issue:** This refers to a company issuing additional shares to the public, either as an initial public offering (IPO) or a follow-on offering. Both require approval from ASIC and must comply with ASX regulations. An IPO, or "floating a company," involves selling shares to the public for the first time and listing them on the ASX, raising capital by exchanging ownership stakes. This process occurs in the primary market, where the company directly sells new securities to investors.
- **Rights issue:** A rights issue allows companies to raise capital by offering current shareholders the chance to buy more shares at a lower price, helping them maintain their ownership percentage and avoid dilution. This strategy is often used after an IPO. Shareholders can choose to participate, adding flexibility. To ensure clarity and protect investors, the Australian Securities and Investments Commission (ASIC) requires a prospectus for all rights issues.
- **Placements:** A share placement occurs when a company sells new shares directly to large institutional investors or wealthy individuals, rather than the public. Regulated by the Australian Securities and Investments Commission (ASIC), this method helps companies quickly raise funds but can dilute the ownership percentage of current shareholders. Superannuation funds and investment banks are the primary buyers in this process.
- **Share Purchase Plans:** A Share Purchase Plan (SPP) allows current shareholders to buy discounted shares directly from the company without brokerage fees. Eligible shareholders can invest up to \$30,000 on a set date. This enables small investors to increase their stake without purchasing the full amount offered. SPPs typically have a variable discount rate and do not require a prospectus, making them simpler than IPOs or other fundraising methods.

Method	Description
New Issues	Includes IPOs or follow-on issues to raise capital.
Rights Issues	Offers additional shares to existing shareholders in proportion to their holdings.
Placements	Direct sale of shares to selected investors, bypassing public offering.
Share Purchase Plans (SPPs)	Allows existing shareholders to buy shares at a discount, typically with a cap of \$30 000 on investment.

### Private Equity

Private equity is when investors give money to private companies in exchange for a piece of ownership. Think of "Shark Tank" - investors there (the "sharks") offer money to entrepreneurs in return for a part of their company. If they like the idea, they become part-owners and help the company grow with money, advice, and connections.

#### Exercise 2.2

Indicate whether the following statements are true or false.

True / False Questions	True / False
1. Debt funds are provided by the owners.	
2. Retained profit is a type of debt finance.	
3. Debentures are issued by a company for a fixed rate of interest.	
4. Debt finance can be classified as either short term or long term.	
5. Debt finance is external finance.	

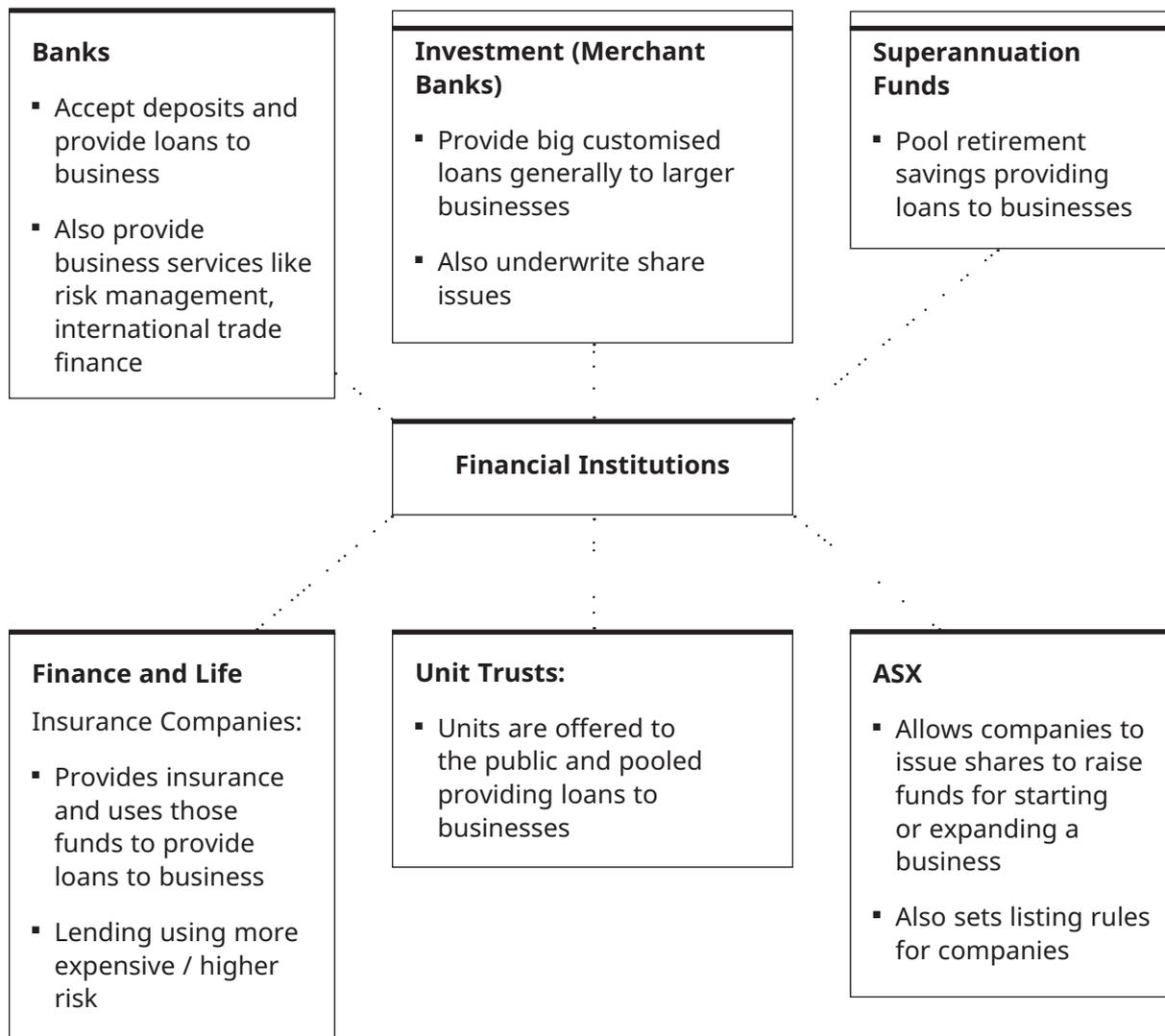
### 3. Financial Institutions

There are 6 financial institutions listed in the syllabus. They include: Banks, investment banks, finance companies, superannuation funds, life insurance companies, unit trusts and Australian Securities Exchange.

A financial institution is an organisation that provides a wide range of financial services which can include savings, loans, and investments. Financial Institutions are very important to a business

because they are the organisations, which provide funds for a business to start up, to invest in new plant and equipment or grow. They offer a variety of financial products and services, such as loans, lines of credit, and investment capital, which are essential for businesses at different stages of their development.

**Figure 10 Financial Institutions**



**a) Banks**

Banks are key players in finance for individuals and small businesses, offering a range of services such as savings accounts, loans, credit cards, and insurance. In Australia, traditional banks like CBA, Westpac, ANZ, and NAB also provide investment banking services alongside their usual offerings.

**b) Investment Banks**

Investment banks are specialised institutions offering advice and services to large businesses, governments, and investors. They assist companies in raising funds, provide guidance on

mergers and acquisitions, manage assets, trade stocks and bonds, conduct economic and market research, and offer risk management and financial advice. Macquarie Bank is an example of an investment bank.

### Case Study



Headquartered in Sydney, Macquarie Group is a prominent global investment bank employing around 18,000 staff across over 30 countries. The bank specialises in international finance, corporate loans, share underwriting, and offers expertise in mergers and acquisitions, as well as investment research. Known for its high profitability, Macquarie has often been dubbed the “millionaires’ factory” due to the lucrative rewards for its executive team.

### c) Finance Companies

Finance companies specialise in lending money to small and medium-sized businesses. They are experts in smaller business loans and often take on riskier loans that traditional banks avoid, resulting in higher interest rates. Besides business loans, they offer personal loans, mortgages, and car loans. A notable example is AFG, the Australian Finance Group.

### d) Life Insurance Companies

Life insurance companies provide coverage in the event of death. They use customer payments for various purposes, including equity and loans to the corporate sector. These companies offer life insurance policies and invest the collected premiums in shares, bonds, and real estate to earn returns for their policyholders. Examples include TAL Life Limited and Suncorp.

### e) Superannuation Funds

Superannuation funds, such as NGS Super Fund, are major players in the financial sector, ranking second in asset size. They collect funds from both mandatory employer contributions, as required by Australian law, and voluntary contributions from employees. These funds invest in various assets, including shares, government bonds, and real estate. Their primary function is to manage retirement savings, ensuring employees' financial security post-retirement as stipulated by government policies.

### f) Unit Trusts

Unit trusts, also known as investment funds, mutual funds, or managed funds, are collective investment schemes where investors pool their money to buy units in a trust managed by a professional fund manager. The funds are invested in a diversified portfolio of assets such as shares, property, and fixed-income securities. These funds are managed on behalf of investors for a fee. An example is the Vanguard Australian Shares Index Fund.

### g) ASX

The Australian Securities Exchange (ASX) is Australia's main securities exchange, serving as a vital financial marketplace for trading shares, bonds, derivatives, and other securities. It supports trading, facilitates public and private fundraising through shares and bonds, and ensures market integrity by regulating listed companies. The ASX hosts equities, debt securities, and derivatives markets, providing platforms for initial public offerings (IPOs) and trading existing securities. It also monitors compliance among listed companies and has the authority to suspend trading for rule violations.

## 4. Influence of Government

As an economic manager, the federal government influences business financial management decision-making through:

- Economic policies such as Monetary Policies (interest rates)
- Economic policies such as Fiscal Policy (tax and government spending), e.g. Company tax – a flat rate on companies' profits, designed to enhance competitiveness and create jobs
- Establishing ASIC to enforce and administer the Corporations Act (reduce fraud and unfair practices, protect investors)

There are 2 government influences in the syllabus.

### a) Australian Securities and Investment Commission (ASIC)

ASIC, an independent government body established under the Australian Securities and Investments Commission Act 2001, regulates and monitors companies and financial markets in Australia. It ensures that businesses, whether public or private, comply with laws such as the ASIC Act and Corporations Act. ASIC's main role is to ensure fair, transparent, and efficient operations of these entities and to protect investors by enforcing financial information accuracy, consumer protection, and compliance with government regulations in areas like investments, insurance, superannuation, and banking, aiming to reduce fraud and unfair practices. In contrast, APRA primarily regulates financial institutions in Australia.

### b) Company Tax

Company taxation is the tax that companies must pay to the government on profits that they earn. At present the tax is levied at a flat rate of 30% and 25% for small businesses with an aggregate turnover of less than \$50 million.

## 5. Global Market Influences

Financial risks associated with global markets are greater than those encountered domestically, but such risk-taking is necessary for implementing a business strategy. Global market influences refer to factors that affect the demand, supply, and pricing of goods and services internationally.

There are 3 global marketing influences in the syllabus.

These influences are part of the external environment and beyond a business's control.

A business can implement appropriate financial management strategies to minimise the negative effects.

#### a) Economic outlook

Predictions about the global economy, considering inflation, employment, and market trends. Financial managers use these to anticipate changes in demand and competition. During a global downturn, growth slows, unemployment rises, and the Australian dollar weakens. Conversely, during an upswing, growth increases and unemployment falls.

#### b) Availability of funds

Access to international financial markets for borrowing. Global conditions, such as the COVID-19 pandemic, can tighten credit and reduce liquidity, making financing harder and more expensive. Governments and central banks implement measures like monetary easing and support programs to stabilise markets and ensure fund access.

#### c) Interest rates

The cost of borrowing money, influencing spending and investment decisions. Global market forces affect borrowing abilities. Higher Australian interest rates might lead businesses to seek loans from countries with lower rates. Managing currency fluctuations with derivatives is crucial. Lower rates encourage borrowing, while higher rates restrict it.

### Exercise 2.3

Indicate whether the following statements are true or false.

True / False Questions	True / False
1. The ASX is a government body.	
2. Investment banks traditionally focus on the consumer market.	
3. The rate of company tax for large companies is 30%.	
4. ASIC stands for: Australian Securities and Investment Club.	
5. Financial Institutions provide funds for businesses to start up.	

## 3. Processes of Financial Management

### 1. Planning and Implementing

Planning and implementation are crucial in financial management. Effective planning enhances efficiency, provides direction, and coordinates activities to meet business objectives. It sets the stage for successful implementation, helping a company achieve desired outcomes and maximise financial performance.

Planning involves creating a roadmap of actions and decisions to achieve specific goals. In financial management, this means developing a comprehensive financial plan or budget that outlines the company's financial goals, objectives, and strategies.

Implementing a financial plan involves allocating resources, optimising their use, setting up financial controls like accounting systems and reports, and regularly monitoring and adjusting the plan for effectiveness.

There are 5 steps to financial planning and implementing in the syllabus.

The planning stages (Financial Needs, Budgets, and Financial Risks) involve setting goals and preparing strategies to meet those goals. The implementing stages (Record Systems and Financial Controls) are about executing those strategies, monitoring progress, and making adjustments as necessary to stay on course.

### a) Financial needs

Before diving into financial planning and implementation, businesses must evaluate their current financial situation and pinpoint their financial requirements. This includes analysing their existing finances, establishing SMART (Specific, Measurable, Achievable, Relevant, Time-bound) goals, estimating the expenses needed to reach these goals, understanding the available resources, and devising a strategic plan to achieve these objectives effectively. This comprehensive approach facilitates proactive financial management, uncovering potential shortcomings, and identifying avenues for growth and stability.

### b) Budgets

Budgeting in financial management involves creating a spending plan to allocate resources strategically, ensuring alignment with business goals. This includes forecasting income and expenses, setting financial targets, and prioritising fund allocation across business functions. Effective budgeting is essential for efficient resource management and financial stability, allowing businesses to adjust their plans to meet objectives.

### c) Record systems

Record systems assist businesses in accurately and efficiently managing financial data, ensuring it is reliable and accessible. Financial records, such as balance sheets, income statements, and cash flow statements, track and verify past transactions, representing financial activity over time. Effective record-keeping is essential for monitoring cash flow, managing losses, and making informed financial decisions.

### d) Financial risks

Financial risks involve potential losses from financial activities or market conditions. Businesses need to identify, assess, and manage these risks through strategies like insurance and careful planning. The main financial risks are market risk and credit risk. Market risk arises from changes in conditions like exchange rates and interest rates, while credit risk occurs when customers fail to pay for goods or services.

### e) Financial controls

Financial controls are measures businesses use to manage money and prevent risks. They include insurance for potential damage and interruptions, ensuring accurate transactions, asset

protection, proper payments, record-keeping, and cybersecurity. Key tools are internal audits and budget-to-actual variance analysis to maintain accuracy and align strategies with financial goals.

### Debt and Equity Financing – Advantages and Disadvantages of each

The planning process should outline the required funding through debt or equity. Debt involves borrowing from banks, while equity entails selling ownership shares. Each option has pros and cons, so selecting the right fit is essential. Assessing risk is crucial when choosing between debt and equity. Gearing, which measures the debt-to-equity ratio, plays a critical role. Higher gearing indicates more financial risk, potential for higher profits, and a greater chance of insolvency.

### Advantages and Disadvantages of Debt and Equity Financing

Advantages of debt	Disadvantages of debt
<ul style="list-style-type: none"> <li>■ Fast (simpler to arrange)</li> <li>■ Doesn't change the ownership structure of the business (debt holders have no voting rights) so owner maintains control</li> <li>■ Increased funds should mean higher profits</li> <li>■ Interest payments are tax deductible</li> </ul>	<ul style="list-style-type: none"> <li>■ Involves greater risk</li> <li>■ Lenders have first claim on business assets if business goes bust</li> <li>■ Have to pay interest (more expensive) and regular repayments</li> </ul>
Advantages of equity	Disadvantages of equity
<ul style="list-style-type: none"> <li>■ Involves less risk</li> <li>■ No interest (cheaper), no regular repayments</li> </ul>	<ul style="list-style-type: none"> <li>■ Slower to set up</li> <li>■ Changes the ownership structure (dilutes ownership) of the business (equity holders have voting rights)</li> <li>■ May mean lower profits</li> <li>■ Dividends are not tax deductible</li> </ul>

### Matching the terms and source of finance to business purpose

Choosing the right financing is crucial for a business to maintain stability and achieve its goals without excessive debt or risk. Finance choices, whether short-term or long-term, depend on their use for current or non-current assets. Short-term finance suits immediate needs like inventory, while long-term finance is for larger investments like property. The decision is influenced by factors such as financing costs, creditworthiness, and loan duration. Financing terms cover repayment period, interest rate, and schedule. Sources can be internal, like retained profits, or external, like bank loans. Properly aligning financing types with business needs ensures favourable terms and effective financial management.

Factors to consider in financing business activities:

- Set-up costs
- Interest costs
- Availability of funds
- Flexibility of funds
- Level of external control

### Exercise 2.4

Indicate whether the following statements is true or false.

True / False Questions	True / False
1. Inventory should be financed with a bank overdraft.	
2. Global expansion should be financed by commercial bills.	
3. Purchase of property should be financed by a mortgage.	

## 2. Monitoring and Controlling

Financial statements are essential tools for monitoring and managing a business's finances. These include cash flow statements, income statements, and balance sheets. They provide insights into a company's performance, assist management in decision-making, are required by law and have to be published for public companies.

### a) Cash Flow Statement

The cash flow statement is a financial report that shows the movement of cash receipts (inflows) and cash payments (outflows) from transactions over a period. A Cash Flow Statement (CFS) is crucial for assessing a business's financial health by tracking past cash transactions. It helps financial managers evaluate the firm's ability to pay debts, fund expansion, and determine if external financing is needed. By reviewing the CFS, managers can ensure sufficient cash for future operations, make informed investment decisions, and identify potential cash flow issues early.

**Figure 11 Simple Cash Flow Statement for BRSS Pty Ltd**

	For the period ending 30 June 2024 in 000's	For the period ending 30 June 2025 in 000's
Total cash inflows (TCI)	1800	2300
Total cash outflows (TCO)	1700	2400
Net Cash Flow (NCF)	100	-100
Cash at the beginning of the year	100	200
Cash at the end of the year	200	100

*Points to note:*

- Only cash transactions are included in the Cash Flow Statement
- $NCF = TCI - TCO$  (Net cash flow = total cash inflows – total cash outflows)
- Cash at the end of the month or year = Cash at the beginning of the month or year + NCF

Detailed cash flow statements are divided into three sections – operating, investing, and financing activities – to provide a comprehensive view of a company's cash transactions. Operating activities cover cash related to primary business operations, such as payments from customers, suppliers, and employees. Investing activities include cash flows from buying and selling long-term assets and investments. Financing activities involve cash associated with borrowing, repaying debt, issuing equity, and paying dividends.

**b) Income Statement**

The income statement is a financial report that shows a company's earnings and expenses to reveal its net profit over a specific time period.

**Figure 12 Income Statement for BRSS Pty Ltd**

	For the period ending 30 June 2024 in 000's	For the period ending 30 June 2025 in 000's
Sales	2000	3200
Less COGS	800	1440
Gross Profit	1200	1760
Less Operating Expenses		
Selling Expenses	520	860
General Administration Expenses	80	130
Financial Expenses	400	320
Net Profit	200	450

*Points to note:*

- It's also known as a profit & loss statement or revenue statement.
- An income statement is completed before the balance sheet.
- Sales is revenue generated by the business.
- Cost of goods sold (COGS) is how much the goods or services have cost the business before sale. ( $COGS = \text{Opening Stock} + \text{Purchases} - \text{Closing Stock}$ ) (This is assumed knowledge!).
- Gross profit = Sales – COGS (This is assumed knowledge!).
- Operating expenses are those expenses (costs) incurred in the normal operations of the business they are divided into 3 categories:
  - a) Selling expenses cover costs associated with marketing and selling products or services, such as advertising, sales commissions, travel, and sales staff salaries.

b) Administration expenses include costs related to managing and running a company, such as administrative staff salaries, rent, and office supplies.

c) Financial expenses relate to costs from financing a business, including interest, bank fees, and lease payments.

- Net Profit = GP – Expenses (This is assumed knowledge!).

### c) Balance Sheet

The balance sheet is a financial report that shows a business' assets, liabilities and owner's equity at a particular point in time.

**Figure 13 Balance Sheet of BRSS Pty Ltd:**

	\$ As at 30 June 2024 in 000's	\$ As at 30 June 2025 in 000's
<b>Current Assets</b>		
Cash at Bank	200	100
Accounts Receivable (debtors)	400	500
Inventory	900	1400
<b>Non-Current Assets</b>		
Property, equipment, motor vehicles	1500	1550
<b>Total Assets</b>	3000	3550
<b>Current Liabilities</b>		
Accounts Payable (creditors)	700	940
Accrued Expenses	50	60
Bank Overdraft	0	100
<b>Non-current Liabilities</b>		
Bank Loan	250	400
Shareholders Equity		
Share capital	1900	1900
Retained earnings	100	150
<b>Total Liabilities + Shareholders Equity</b>	3000	3550

*Points to note:*

- The Balance Sheet shows the accounting equation  $A=L+OE$ .
- There are 2 ways a balance sheet can be formatted: T-Account OR Statement form.
- Assets are items of value the business owns. There are 3 common types:
  - 1) Current assets – cash and other types of assets that are reasonable expected to be converted into cash, sold or consumed in the next 12 months. These include inventories, receivables and cash.
  - 2) Non-Current assets – (also known as fixed assets) are assets that are expected to be used for a number of years i.e. not held for resale. They are not expected to be converted into cash within the next 12 months. This include property, fixtures and fittings, equipment and vehicles.
  - 3) Intangible assets – assets that usually do not have a physical substance but are expected to provide future benefits to the business e.g. goodwill, copyrights, patents and brand names.
- Liabilities show what a business owes. They can be classified into 2 categories:
  - 1) Current liabilities- amounts a business owes that is expected to repaid within 12 months. They include: payables, overdrafts and loans.
  - 2) Non-current liabilities – (also known as long term liabilities) amounts a business owes that are not expected to be repaid within 12 months. They include: mortgages and debentures.
- Owners' equity – This shows the equity of the owner in the assets of the business.
 

If the business is unincorporated (sole trader or partnership), owner's equity looks like:  
Capital + net profit – drawings.

If the business is incorporated (company) shareholders' equity looks like:  
Share capital + net profit – dividends paid

Note: Retained earnings = Net profit – dividends paid

Analysis of the balance sheet can indicate whether:

- the business has enough current assets to cover current liabilities – liquidity.
- the business has enough assets to cover its debts – solvency.
- the interest and money borrowed can be paid.
- the assets of the business are being used to maximise profits.
- the owners of the business are making a good return on their investment.

Figures from previous years Balance Sheet can be analysed to show changes and trends.

### 3. *Financial Ratios*

Financial ratios are numerical tools used to assess a company's financial health and performance. They help interpret financial statements and evaluate profitability, liquidity, gearing, and operational efficiency. Financial managers, investors, and analysts use these ratios to determine a business's financial needs and overall condition.

Once financial ratios are calculated they need to be analysed and interpreted. Analysis transforms financial information into useful formats that highlight business relationships. However, analysis is ineffective without interpretation, which involves using the data to make informed decisions and judgments.

Ratio analysis assesses 4 crucial financial metrics of a business to gauge its financial health:

**Liquidity:** The ability of a company to cover its short-term debts with its current assets.

**Gearing (and Solvency):** The balance between debt and equity financing in a company, showing the extent to which operations are financed by loans versus equity. Solvency looks at the stability of the business by comparing total assets to total liabilities.

**Profitability:** How effectively a company turns revenue into profit, indicating its success in managing operations.

**Efficiency:** The effectiveness of managers in utilising resources to ensure the firm's financial stability and profitability.

There are 7 ratios used to measure a business' financial performance:

1. The current ratio which measures LIQUIDITY
2. The debt to equity ratio which measures GEARING and SOLVENCY
3. The gross profit ratio which measures PROFITABILITY
4. The net profit ratio which measures PROFITABILITY
5. The return on equity ratio which measures PROFITABILITY
6. The expenses ratio which measures EFFICIENCY
7. The accounts receivable turnover ratio which measures EFFICIENCY

#### a) Liquidity ratios

This ratio is used to evaluate a business' ability to meet its short-term obligations (CL). A liquidity ratio helps stakeholders understand the company's short-term financial health and operational efficiency.

The current ratio is used to calculate the liquidity of a business.

**Current Ratio (Working Capital Ratio) = Current Assets ÷ Current Liabilities**

It is expressed as a ratio and higher is better (but too high may indicate that you are not using current assets effectively ie. idle cash).

As a general rule:

Less than 1:1 – the business is NOT liquid

Between 2:1 and 1:1– the business is liquid but NOT liquid ENOUGH

Over 2:1 – The business is VERY liquid but may have potential for more efficient asset use

**Figure 14 Liquidity Ratio for BRSS Pty Ltd**

Liquidity Ratio	Formula	BRSS 2024		BRSS 2025	
a) Current Ratio (Working Capital Ratio)	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	1500	2:1	2000	1.8:1
		750		1100	

#### ANALYSIS

- a) The Current Ratio has decreased from 2:1 (2024) to 1.8:1 (2025). This means that BRSS is less able to meet its short-term obligations.

#### b) Gearing ratio

Gearing indicates how much a company depends on debt compared to equity to fund its operations, represented by the debt-to-equity ratio. This ratio helps determine the appropriate source of finance, reflecting the company's financial risk. Investors and creditors use it to assess their payment likelihood and risk level. It is expressed as a % or a ratio and lower is always better as this indicates less RISK of becoming insolvent.

A highly geared firm, with more debt than equity, is at higher risk of insolvency (bankruptcy). The gearing ratio indicates a business's stability by showing its ability to meet long-term financial obligations and pay off debts as they come due.

NOTE: There is no optimal level of gearing. However, if your gearing is more than 100% then the business is considered Highly Geared and a HIGHER RISK of INSOLVENCY.

A high gearing ratio means that a business is:

- Less solvent (stable)
- Exposed to greater gearing (risk) of insolvency
- More vulnerable to an economic downturn
- More vulnerable to a rise in interest rates

There is no optimal level of gearing but a business should consider:

- Return on investment
- Cost of debt
- Size and stability of earning capacity
- Liquidity
- Purposes of short-term debt

The debt to equity ratio is used to calculate the gearing of a business.

**Debt to equity ratio = Total Liabilities ÷ Owners' Equity X 100**

It is preferably calculated as a %. However, this can also be calculated as a RATIO! (then you do NOT multiple by 100).

NOTE (ASSUMED KNOWLEDGE): Often when asked to calculate this ratio examiners assume you know how to calculate OE or TL using the following accounting equation:

Owners' Equity = Total Assets – Total Liabilities

Gearing Ratio	Risk Level	Solvency/Stability
Less than 100%	Low Risk/Gearing	High Solvency/Stability
Less than 100%	High Risk/Gearing	Low Solvency/Stability

**Figure 15 Gearing Ratio for BRSS Pty Ltd**

Gearing Ratio	Formula	BRSS 2024		BRSS 2025	
a) Debt to Equity Ratio	$\frac{\text{Total Liabilities}}{\text{Owners Equity}} \times 100$	$\frac{1000}{2000} \times 100$	50%	$\frac{1500}{2050} \times 100$	73%

*ANALYSIS*

a) The Debt to Equity ratio has increased from 50% (2024) to 73% (2025). This means BRSS's gearing has increased (less solvent). BRSS is less financially stable.

**c) Profitability ratios**

These ratios are used to evaluate a business' profit performance. They are expressed as a % and higher is always better.

Profitability ratios measure a business's ability to generate revenue above its costs and expenses, reflecting its efficiency and effectiveness in utilising resources to maximise profits.

There are 3 profitability ratios used to measure profitability.

**GPR:** The gross profit ratio indicates the percentage of profit made from sales before accounting for selling and administrative expenses. It helps assess how efficiently a business produces and sells its products.

**Gross Profit ÷ Sales X 100** (A reminder  $GP = Sales - COGS$ )

**NPR:** The net profit ratio shows the proportion of revenue that becomes net profit after all expenses are deducted. It reflects how much profit each dollar of revenue generates; a high ratio suggests strong profitability, while a low ratio indicates difficulties in generating profit and managing expenses.

**Net Profit ÷ Sales X 100** (A reminder that  $NP = GP - expenses$ )

**ROER:** Return on equity (ROE) is a financial ratio that measures how effectively a company converts shareholder equity into profits, calculated by dividing net profit by shareholders' equity. A higher ROE indicates more efficient use of invested capital.

**ROER: Net Profit ÷ Owners' Equity X 100**

**Figure 16 Profitability Ratios for BRSS Pty Ltd**

Profitability Ratios	Formulae	BRSS 2024		BRSS 2025	
a) Gross Profit Ratio	$\frac{GP}{Sales}$	$\frac{1200}{2000}$	60%	$\frac{1760}{3200}$	55%
b) Net Profit Ratio	$\frac{NP}{Sales}$	$\frac{200}{2000}$	10%	$\frac{450}{3200}$	14%
c) Rate of return on Owners Equity	$\frac{Net\ Profit}{Owners\ Equity}$	$\frac{200}{2000}$	10%	$\frac{450}{2050}$	22%

**ANALYSIS:**

- The Gross Profit ratio has decreased from 60% (2024) to 55% (2025). This means that the proportion of GP that contributes to sales has decreased. BRSS is less profitable.
- The Net Profit ratio has increased from 10% (2024) to 14% (2025). This means that the proportion of NP that contributes to sales has increased. BRSS is more profitable.
- The Rate of Return on Owners Equity has increased from 10% (2024) to 22% (2025). This means that the return earned on owners funds by management has increased. BRSS is more profitable.

### d) Efficiency ratios

These ratios used to measure a business's ability to use its resources effectively)

Financial efficiency is a company's ability to maximise profits and minimise costs by effectively managing resources such as cash, inventory, assets, and liabilities. This is vital for a company's long-term success as it enhances financial performance.

2 key efficiency ratios are:

ER: The expense ratio is a simple efficiency metric that calculates the percentage of sales revenue used for expenses by dividing total expenses by total sales. This ratio shows how much a company spends for every dollar of sales.

**ER:  $\text{Total Expenses} \div \text{Sales} \times 100$**

In general, a lower expenses ratio is considered better because it indicates that a company is more efficient in managing its expenses relative to its sales.

ARTR: The Accounts receivable turnover ratio evaluates how effectively a company manages and collects its accounts receivables, indicating the efficiency of its credit policies.

**ARTR:  $\text{Sales} \div \text{accounts receivables}$**

The accounts receivable turnover (ART) ratio shows how often a company collects its average receivables in a year. A higher ART, such as 12 times per year, is favourable as it indicates quick collection of receivables. Note: Often you may be asked to work out the ARTR in DAYS!!! This would require a student to take the ARTR and convert it to DAYS.

How would you do this? **ARTR in days =  $365 \div \text{number of times (ARTR)}$**

Ideally, this period should be as short as possible. Typically, businesses have a 30-day credit policy for receivables.

ART Ratio	ARTR in Days	Efficiency
Low	High	Inefficient/Bad
High	Low	More Efficient/Good

**Figure 17 Efficiency Ratios for BRSS Pty Ltd**

Ratio	Formula	BRSS 2024		BRSS 2025	
a) Expense Ratio (The Lower the better)	$\frac{\text{Total Expenses}}{\text{Sales}} \times 100$	$\frac{1000}{2000} \times 100$	50%	$\frac{1310}{3200} \times 100$	41%
b) Accounts Receivable Turnover (The higher the ratio the better)	$\frac{\text{Credit Sales}}{\text{Accounts Receivables}}$	$\frac{2000}{400}$	5 times	$\frac{3200}{500}$	6.4 times
c) Average Collection period in days (The lower the number of days the better)	$\frac{365}{\text{Accounts receivable turnover}}$	$\frac{365}{5}$	73 days	$\frac{365}{6.4}$	57 days

NB Assume all sales are made on credit.

#### ANALYSIS

- a) The Total Expense ratio has decreased from 50% (2024) to 41% (2025). This means that the proportion of expenses that contributes to sales has decreased making BRSS more efficient.
- b) & c) The Accounts Receivable turnover has increased from 5 times (2024) to 6.4 times (2025). This means that BRSS is more efficient because they are collecting their accounts receivables faster. On average they used to collect every 73 days, now its down to 57 days.

#### SUMMARY TABLE of the 7 RATIOS

Measurement	Ratio	Formula	Purpose
Liquidity	Current Ratio	$\text{Current Assest} \div \text{Current Liabilities}$	Measures ability to cover short-term obligations
Gearing	Debt to Equity Ratio	$\text{Total Liabilities} \div \text{Total Equity}$	Determines the best source of finance for the business
Profitability	Gross Profit Ratio	$\text{Gross Profit} \div \text{Sales}$	Measures overall profitability
Profitability	Net Profit Ratio	$\text{Net Profit} \div \text{Sales}$	Measures profitability after cost of good sold
Profitability	Return on Equity Ratio	$\text{Net Profit} \div \text{Total Equity}$	Measures profitability relative to equity investment
Efficiency	Expense Ratio	$\text{Total Expenses} \div \text{Sales}$	Measures efficiency in cost management
Efficiency	Accounts Receivable Turnover Ratio	$\text{Sales} \div \text{Accounts Receivable}$	Measures efficiency in collecting receivables

### e) Comparative Ratio Analysis

For analysis to be meaningful, comparisons and benchmarks are needed.

Comparative ratio analysis is like taking a deep dive into a company's financial health by comparing its key numbers with those of similar companies and historical data. This helps businesses understand where they stand, what they're good at, and where they need to improve. By doing this, they can make smarter decisions to strengthen their finances and ensure long-term success.

Judgements are made by comparing a firm's analysis against other figures, percentages, and ratios.

There are 3 comparative ratio analysis methods in the syllabus.

- **Over different time periods:** This involves comparing the same financial ratios for a company over multiple periods to identify trends and patterns in performance.
- **Against standards:** This involves comparing a company's financial ratios to industry benchmarks or internal standards to determine its performance and identify areas that need improvement.
- **With similar businesses:** This involves comparing financial ratios of a company with other companies in the same industry or sector.

## 4. *Limitations of Financial Reports*

Financial reports are valuable for business decision-making but have limitations. Companies might not disclose all relevant information and could manipulate reports to appear more favourable. Thus, investors, creditors, and lenders should approach financial reports cautiously and seek additional sources for informed decisions.

There are 6 limitations of financial reports in the syllabus.

### a) Normalised earnings

Normalised earnings adjust a company's earnings to remove seasonal effects, irregular items, and other one-time events. This aims to provide a clearer view of ongoing performance but can introduce subjectivity as companies choose what to exclude. This makes direct comparisons between companies or over time harder and may lead to overly optimistic views, potentially misleading investors and analysts.

### b) Capitalising expenses

Capitalising expenses means treating certain costs as assets rather than immediate expenses. Instead of recording them on the income statement, they're listed as assets on the balance sheet. This boosts reported profits and increases long-term assets, making the company appear financially stronger. However, it can mislead investors by prioritising long-term investments over immediate expenses and cash availability. Examples include research and development, property, plant, equipment, improvements, replacements, and software development.

### c) Valuing assets

Asset valuation is the process of determining the market worth of a company's assets, such as properties and investments. This is essential for maintaining precise financial records and influencing strategic decisions like disinvestment or acquisition. However, valuation can be subjective, leading to inconsistencies in financial reporting and decision-making. Companies may use various methods to value these assets, making comparisons of financial statements challenging. Assets may appreciate or depreciate over time, with appreciation denoting increased value and depreciation reflecting declines due to wear and tear.

### d) Timing issues

Timing issues in accounting arise when financial events are not recorded as they occur, distorting a company's financial reports. For example, delaying or rushing the recording of revenues or expenses can mislead stakeholders about the company's financial health and complicate comparisons with other companies. These discrepancies can alter profit figures, inflate current-year profits, and misrepresent the true financial status. Businesses might exploit these issues to present a misleading impression of their financial position, undermining the usefulness of financial reports.

### e) Debt repayments

Debt repayments in financial statements show money paid to settle debts but don't fully reveal associated risks. Repaying debt reduces cash reserves, potentially making a company appear less stable. The true cost, including interest, may obscure actual profits, and long-term risks like refinancing difficulties might not be highlighted. While crucial, debt repayments alone don't indicate overall financial health or sustainability. Evaluating debt risks and challenges requires considering broader financial factors like cash flows, assets, economic conditions, and future challenges.

### f) Notes to financial statements

Financial statement notes provide important information about a company's finances, like accounting policies and significant transactions. They can limit the usefulness of financial reports due to their complexity and varied presentation styles, potentially confusing non-experts and making it easy to overlook crucial details.

## 5. *Ethical issues related to financial reports*

Ethical financial reporting means honestly sharing a company's financial status, following principles like transparency, integrity, and accountability. It's more than just meeting legal requirements—it builds trust among investors and stakeholders, ensuring the health of the financial market.

Companies do this by being transparent, honest, and timely in their reporting, following a code of ethics, implementing internal controls, and undergoing regular independent audits. These

measures assure investors of the reliability of financial information and help maintain the company's reputation.

Internal audits, conducted by internal auditors working with management, systematically review systems and operations to ensure risks are managed effectively and procedures are followed. Legally, all public companies must undergo an annual external audit by a qualified auditing firm to provide an independent opinion on the fairness of their financial statements.

2 important and common ethical financial reporting practices include:

1. Adopting a Code of Ethics: Creating guidelines that emphasise the company's commitment to honesty in financial reporting and behaviour, guiding employees and stakeholders.
2. Implementing Robust Internal Controls: Setting up procedures to ensure financial reports are accurate and reliable, which includes verifying financial information and preventing fraud.

**Exercise 2.5 Matching**

Match the following statements with the correct terms below

1. Earnings adjusted to take into account cyclical changes in the economy.	
2. Independent check on the accuracy of accounting.	
3. Explains how a company finances its operations – either through debt or equity.	
4. A financial document used to project a business's future financial goals.	
5. When business owners take money out for their own use.	

**Word Bank:** audit, normalised earnings, budget, drawings, gearing

## 4. Financial Management Strategies

Financial management strategies serve as the pivotal tools through which a business fulfills its strategic role.

There are 4 financial management strategies in the syllabus.

Good cash flow and working capital management are crucial for business success, enhancing stability, profits, and growth. These financial metrics help finance teams evaluate a company's health and resilience. Working capital assesses short-term liquidity and ability to pay current liabilities, while cash flow shows the ability to generate cash and manage expenses. Effective management of these metrics ensures financial stability.

## 1. Cash Flow Management

Cash flow is the money that is moving (flowing) in and out of your business in a month.

Cash flow management involves monitoring, analysing, and optimising a business's cash inflows and outflows to ensure there is enough cash to meet financial obligations and support growth. Maintaining positive cash flow or liquidity is a major challenge. A business must have enough cash to pay expenses and current debts, matching inflows with outflows to avoid shortages. Effective cash flow management requires planning, efficient operations, and regular checks to ensure bills are paid, opportunities are seized, and objectives are achieved.

Potential issues:

- Temporary cash shortfalls – Many businesses use overdrafts to cover these shortages in cash. Banks allow the business to overdraw their account to a set limit with the payment of competitive interest rates.
- Longer periods of cash shortfall are of greater concern for a business as this can lead to insolvency or bankruptcy. It would be better to use long term debt finance to cover long periods of cash shortfall.

Why have strategies? To ensure that cash is available to make payments when they are due!

There are 2 cash flow management points in the syllabus.

### a) Cash flow statement

Analyse your past year's cash flow statement to understand current finances and anticipate issues. It tracks receipts and payments, revealing your bank balance and identifying months with low cash flow.

Cash flow forecasting/Cash budget: Project cash inflows and outflows to identify surpluses or shortages. A cash budget helps plan and control future cash flow, prioritise expenses, and prepare for large outflows or seasonal variations, guiding effective cash flow management strategies.

This information guides businesses in implementing the most suitable cash flow management strategies.

### b) Implement appropriate cash flow management strategies

There are 3 cash flow strategies in the syllabus which a business could use to manage their cash flow:

- Distribution of Payments: Businesses need to manage their cash flow effectively to stay financially stable. They should match expenses with income to maintain financial stability. One strategy is to time and prioritise payments to ensure sufficient cash on hand. This involves paying bills at the right time and splitting large expenses into smaller instalments.

By doing this, companies can avoid running out of money and needing to borrow. However, businesses might incur additional costs or interest when splitting expenses into instalments, reducing overall profit.

- **Discounts for Early Payment:** Early payment discounts involve offering reduced prices to customers who pay invoices before the due date, aiming to speed up cash flow. Encouraging prompt payment through discounts and considering credit card processing for faster transactions can result in immediate cash. Slow payments from debtors can cause cash shortages, but offering discounts can prompt earlier payments, ensuring steady cash flow throughout the year. However, offering discounts can impact profits as it reduces the revenue earned per sale.
- **Factoring:** Factoring involves selling invoices to another company at a discount for quick cash. This improves cash flow, reduces the risk of unpaid bills, and allows the business to pay expenses and creditors promptly, avoiding penalties. However, factoring can negatively impact profits because it involves selling invoices at a discount, meaning the business receives less than the full value of the invoices.

## 2. Working Capital (liquidity) Management

Working capital management involves handling a company's short-term assets (CA) and liabilities (CL) to ensure sufficient cash flow for daily needs and obligations. It's crucial for operational efficiency, financial stability, and profitability. This includes optimising inventory, receivables, payables, and short-term financing to meet liquidity needs and cash flow. Poor management can lead to cash flow problems, higher costs, reduced profitability, reputational damage, insolvency, and business failure.

There are 3 bullet points on working capital management in the syllabus.

### a) Control of Current Assets

Effective management of current assets involves optimising their utilisation to facilitate seamless business operations. The objective is to strike a strategic balance between maintaining sufficient current assets to sustain operational activities and minimising the associated holding costs of these current assets.

- **Cash:** Cash is essential for covering costs, settling debts, handling unexpected expenses, and seizing growth opportunities. Strategies include budgeting, overdrafts, prompt payment incentives, leasing, even payment distribution, and effective inventory management. These optimise cash flow, minimise risks, and enhance financial health.
- **Receivables:** Receivables are money owed by customers on credit. Effective management ensures steady cash flow, involving credit assessment, invoice handling, payment terms, and chasing overdue payments. Strategies include clear credit policies, monitoring creditworthiness, payment discounts, improved billing and collection, late payment penalties, and factoring. These ensure sufficient cash flow and financial stability.
- **Inventories:** Inventories are goods held for sale or production. Good management balances costs and demand, avoiding surplus or deficit. Techniques optimise stock levels using systems like Just-In-Time and technology-based tracking for accurate tracking and cost reduction.

## b) Control of Current Liabilities

Managing current liabilities involves overseeing and controlling short-term debts and obligations to maintain sustainable levels. This includes making timely payments, negotiating favourable terms, and strategically scheduling debts for financial stability and liquidity. Effective management of current liabilities, like payables, loans, and short-term debts, is crucial for keeping debt levels manageable. It improves cash flow, cuts costs, and boosts financial health, allowing for operational flexibility.

- **Payables:** Payables are what a business owes its suppliers. To keep cash flow healthy and maintain good supplier relationships, a business should handle payables strategically. This means negotiating good credit terms, timing payments smartly to keep cash on hand, avoiding penalties by paying on time, and regularly exploring other supplier options for better deals. It's also wise for businesses to think about renegotiating payment schedules or refinancing with current creditors to stay financially flexible.
- **Loans:** Businesses sometimes need short-term loans, usually less than a year, to cover expenses like imports or unexpected costs. These loans, from banks or other financial institutions, can be expensive due to high interest rates and fees. To reduce costs, businesses can explore cheaper financing options, pay back loans on time, and renegotiate terms if possible.
- **Overdrafts:** An overdraft is a short-term loan from banks, allowing businesses to exceed their account balance up to a limit. It helps manage temporary cash flow issues. To reduce costs, businesses should monitor interest rates and bank fees, such as maintenance and setup charges. Clear guidelines, timely repayments, and using overdrafts mainly for bridging finance are essential. Choosing the best overdraft involves comparing rates and fees across banks and creating repayment plans to minimise interest expenses.

## c) Working Capital management strategies

There are 2 strategies for managing working capital (liquidity) in the syllabus.

Leasing and sale-leaseback are seen as ways for Aussie businesses to release cash locked in assets without disrupting operations. These strategies help maintain liquidity, ensuring enough working capital for short-term needs and commitments, boosting financial stability and flexibility.

- **Leasing:** Leasing helps Aussie businesses snag gear and property without upfront cash, saving working capital and boosting cash flow. It's a smart move for resource allocation, keeping funds free for essentials rather than buying assets outright. With steady payments and tax perks, leasing simplifies finances compared to loans, improving working capital and syncing with cash flow.
- **Sale and lease back:** A business sells an asset to a lessor then leases it back, securing immediate cash while maintaining asset use. This approach benefits asset-rich businesses facing short-term cash-flow problems by boosting their working capital's current cash assets.

## 4. Profitability Management

Profitability management is essential for a business's financial well-being and involves monitoring profitability and implementing strategies to increase profits by maximising revenue and minimising costs.

There are 2 bullet points on profitability management in the syllabus.

### a) Cost Controls

Costs should be monitored and controlled with the aim of reducing expenses and maximising profits. There are 3 cost controls in the syllabus.

- **Fixed and variable costs:** To manage costs effectively, Aussie businesses must understand their fixed and variable expenses. Sorting costs helps pinpoint areas to cut without disruption, enabling targeted reductions and better budgeting. Key tactics for fixed costs include leasing assets, renegotiating contracts, outsourcing non-essential tasks, and refinancing debts. For variable costs, strategies include smart inventory management, flexible workforce structures, finding cost-effective suppliers, and improving processes. These measures enhance financial health and operational efficiency.
- **Cost Centres:** A cost centre is a specific department or area within a business where costs are directly attributed. It tracks expenses related to its functions, aiding in resource allocation and accountability. This division helps businesses monitor and control costs effectively while pinpointing overspending departments.
- **Expense minimisation:** Expense minimisation strategies seek to cut costs while upholding quality and efficiency by refining processes, boosting productivity, haggling for better prices from suppliers, and slashing waste, often termed as cost cutting. These methods, including streamlining operations, optimising supply chains, outsourcing non-core tasks, and adopting energy-efficient measures, aim to boost operational efficiency and trim overheads.

### b) Revenue Controls

Revenue control involves managing and monitoring business-generated income to track trends and inform operational decisions. Financial managers aim to maximise profitability through revenue control, often focusing on marketing efforts since it generates revenue. Revenue control is more challenging than cost control due to its dependency on customer demand.

There is 1 revenue control in the syllabus.

- **Marketing objectives** are clear goals that shape a business's marketing strategy, providing direction and benchmarks. They mainly aim to boost sales, improve pricing, satisfy customers, and control costs. Key components include setting sales objectives, managing the sales mix, and defining pricing policies.

Financial managers help make informed decisions to align marketing with revenue goals. Sales targets should be achievable for profitability. Collaboration between marketing and finance

emphasises their role in generating revenue. Analysing and adjusting the sales mix optimises profitability by focusing on profitable products. Pricing decisions affect profitability by balancing volume and margins.

## 5. Global Financial Management

Global financial management involves strategically overseeing financial activities and resources at an international level. Businesses operating globally navigate a spectrum of financial risks alongside domestic management challenges.

There are 5 global financial management strategies in the syllabus.

### a) Exchange Rates

Global business involves trading with fluctuating currencies, impacting revenue, costs, and profitability. Exchange rates, reflecting currency value, are determined by market demand. Converting currencies in international trade introduces risk and costs due to changing rates, managed through the foreign exchange (FOREX) market. Fluctuations affect business costs and revenues, with hedging through derivatives mitigating risks but being complex and costly. An exchange rate indicates the value of one currency in terms of another (e.g. \$1 AUD equals \$0.64 USD). A stronger Australian dollar benefits importers but hurts exporters as their goods become pricier overseas. Conversely, a weaker Australian dollar makes exports cheaper for foreign buyers, benefiting exporters but increasing costs for local importers.

### b) Interest Rates/Overseas Borrowing

An interest rate is the expense of borrowing funds, usually shown as a percentage of the loan. The Reserve Bank of Australia (RBA) determines the cash rate, which is what banks pay on borrowed money. Variations in Australian interest rates in comparison to global rates can affect investment and borrowing choices. Borrowing from abroad can expose businesses to currency exchange risks, as repayments must be made in foreign currency. Businesses seeking investment often prefer countries with higher interest rates, while those borrowing prefer countries with lower rates.

Summary Table:

Interest Rate Movement	Investment Funds Flow	Australian Business Borrowing Preference
Rise in Australian Rates Relative to Overseas	Into Australia	Overseas
Drop in Australian Rates Relative to Overseas	Limited into Australia	In Australia (if rate is cheaper)

The complexities of global business must be well managed. These issues include:

### c) Methods of international payment

Global business payments are complex due to foreign partners, language barriers, diverse legal systems, and currency variations. Overseas transactions carry higher risks, demanding secure payment methods. International deals also raise the risk of non-compliance. Pursuing legal action against foreign entities is often more challenging and costly due to geographical and legal disparities.

The method of payment chosen depends upon:

- Amount
- Perceived risk
- Relationship between buyer and seller
- Industry practices
- Terms offered by competitors

There are 4 methods of international payment in the syllabus available to a business when transacting globally.

- Payment in Advance or Prepayment – This is when the seller (exporter) only ships the product after receiving advance payment from the buyer (importer), eliminating risk for the exporter but is extremely risky for the importer.
- Clean Payment or shipping in advance – Clean payment, also known as open account, involves the exporter shipping goods before receiving payment, allowing the importer to pay after receiving the goods, often on credit and possibly 30 days later. This arrangement poses high risk for the export and no risk for the importer.

With both these methods there is a clear winner and a clear loser. New methods were developed to even out the score (even out the risk). Banks are normally involved. When banks are involved they charge fees. Both these methods are expensive therefore they are usually only used by bigger companies.

- Letter of credit (LC) – In global trade, exporters risk not getting paid after delivery, while importers risk receiving poor quality goods or none at all after paying upfront. A letter of credit (LC) from a bank minimises these risks. It assures the seller of payment upon meeting conditions like proof of shipment, even if the buyer defaults. It also ensures the buyer receives goods as agreed. Both parties can request an LC, building trust and reducing risks in international transactions. Banks usually charge a fee, typically a percentage of the LC amount, to cover costs and risks. LCs offer a balanced risk management approach for exporters and importers compared to upfront payment or clean transactions.
- Bills of Exchange (BOE) – A BOE, or bill of exchange, is a formal document commonly used in global trade. It's a promise from one party to pay another a set amount, either immediately or in the future. Usually, the buyer initiates it, committing in writing to pay the seller at an agreed time and location, ensuring payment for delivered goods or services. While sellers may create BOEs, they mainly serve to ensure timely payment and legal protection. Banks play a role in BOE processing but don't guarantee payment as they do with Letters of Credit.

### d) Hedging

Hedging is the process of minimising the risk of financial transactions. The exchange rate changes constantly and consequently there is uncertainty for business transactions where a time lag exists between contracts being made and payment is greater than 2 days. A hedge is used to reduce any substantial losses or gains suffered by an individual or an organisation. When people decide to hedge, they are insuring (protecting) themselves against a negative event.

To avoid this risk a business can hedge. It involves purchasing financial instruments like derivatives to offset potential losses from fluctuations in foreign exchange rates, commodities, and interest rates. Primarily, hedging helps businesses and investors manage the uncertainties in international markets, allowing them to stabilise their financial performance by locking in costs or revenues at current (spot) rates, thus protecting against future price volatility.

### e) Derivatives

A derivative is a financial contract whose value is tied to future price changes of an underlying asset, such as commodities, shares, or currencies. Derivatives are used to manage risks associated with fluctuations in exchange rates, interest rates, and commodity prices, effectively providing certainty and reducing financial uncertainty. There are several types of derivatives used for hedging and speculating. These instruments help businesses lock in prices, mitigate risks, and speculate on future price movements.

- **Forwards:** A forward contract is a customised agreement between two parties to buy or sell an asset at a specified price on a future date, used to lock in prices and hedge against price volatility.
- **Futures:** Similar to forwards, futures are standardised contracts traded on an exchange (ASX) that require the buyer to purchase, and the seller to sell, a specific quantity of an asset at a predetermined price at a future time. They are commonly used for commodities, currencies, and financial instruments, offering liquidity and accessibility but may not meet the specific needs of all businesses.
- **Options:** Options grant the holder the right, but not the obligation, to buy (call option) or sell (put option) an asset at a specified price by a certain date. Useful for hedging, they allow holders to protect against price drops while benefiting from price rises, paying a fee (premium) for this flexibility.
- **Swaps:** Swaps are financial agreements where two parties exchange financial assets or cash flows over time based on a predetermined formula. These are privately negotiated (OTC) and can be customised to the specific requirements of the participants.

**Exercise 2.6 Matching**

Match the following statements with the correct terms below

1. A type of hedging tool	
2. Spreading expenses over the whole year	
3. A strategy designed to reduce investment risk in financial transactions	
4. Provides the right to buy or sell an exchange rate at a fixed price	
5. Element of a business where costs are separately figured.	

**Word Bank:** Hedging, Derivative, Cost Centre, Option, Distribution of payments

**Exercise 2.7 Multiple Choice**

Select the alternative A,B,C or D which bests answers the question.

1. Which of the following are profitability management strategies?
  - a) Factoring, marketing objectives and cost centres
  - b) Fixed and variable costs, distribution of payments and expense minimisation
  - c) Cost centres, marketing objectives and expense minimisation
  - d) Factoring, distribution of payments and leasing
  
2. Which of the following are non-government financial institutions that influence financial management?
  - a) Investment banks, finance companies, ASX and ASIC
  - b) ASIC, ASX and ACCC
  - c) Investment banks, finance companies, unit trust and ASX
  - d) Superannuation funds, life insurance companies and ASIC
  
3. Which of the following are strategies used by businesses to improve cash flow?
  - a) Leasing, sale and lease back
  - b) Distribution of payments, discount for early payment, factoring
  - c) Factoring, leasing, sale and lease back
  - d) Distribution of payments, discount for early payment, leasing

Use the following information to answer questions 4 and 5. The answers have been rounded to the nearest whole number.

*Springbok Computers Ltd has recorded the following figures as at 30 June 2025*

	2025 (\$)
Cash	20 000
Accounts Payable	15 000
Net Profit	23 000
Mortgage	190 000
Capital	75 000
Property	230 000
Accounts receivable	12 000
Equipment	35 000
Overdraft	7 000
Inventory	8 000
Drawings	5 000

Return on Equity Ratio = Net profit ÷ total equity

Current Ratio = Current Assets ÷ Current Liabilities

4. What is the return on total equity?

- a) 24.7%
- b) 32.9%
- c) 57.5%
- d) 86.6%

5. Which of the following describes the liquidity of Springbok Computers Ltd?

- a) The firm is not liquid, with \$1 in current assets to cover \$1.8 of current liabilities
- b) The firm is liquid, with \$1.8 in current assets to cover \$1 of current liabilities
- c) The firm is not liquid, with \$1 in current assets to cover \$1.39 of current liabilities
- d) The firm is liquid, with \$1.39 in current assets to cover \$1 of current liabilities

6. Which of the following methods of payment represent the highest risk for exporters?
- a) Payment in advance
  - b) Letter of credit
  - c) Clean payment
  - d) Bill of exchange
7. Which of the following are sources of short-term debt finance for a business?
- a) Overdrafts, factoring and leasing
  - b) Unsecured notes, mortgages and debentures
  - c) Overdrafts, factoring and commercial bills
  - d) Factoring, commercial bills and leasing
8. Which of the following is the government body which enforces and administers the Corporations Act?
- a) FWC
  - b) ASIC
  - c) ASX
  - d) ACCC
9. An exporting business has just signed a contract for delivery of goods in 6 months. Management is expecting the currency to depreciate significantly in this time. Which global financial management strategy should the business employ to minimise financial risk?
- a) Insurance
  - b) Derivatives
  - c) Clean Payment
  - d) Bill of exchange
10. An allotment of shares and or debentures made directly from the company to investors is known as what type of equity finance?
- a) Placements
  - b) Share purchase plan
  - c) Rights issue
  - d) Unsecured notes

Use the following information to answer questions 11 and 12. The answers have been rounded to the nearest whole number.

*Income statement for Dingo Pty Ltd*

	2025 (\$)
Sales	350 000
COGS	90 000
Net Profit	180 000

Gross Profit Ratio = Gross Profit ÷ Sales

Net Profit Ratio = Net Profit ÷ Sales

Expenses Ratio = Expenses ÷ Sales

11. Which of the following statements is true?

- a) The net profit ratio is 54%
- b) The net profit ratio is 50%
- c) The gross profit ratio is 74%
- d) The gross profit ratio is 69%

12. What is the expense ratio for Dingo Pty Ltd in 2025?

- a) 23%
- b) 51%
- c) 26%
- d) 44%

13. Solvency is the ability of a business to

- a) meet short-term financial commitments
- b) maximise profits
- c) increase its market share
- d) meet long-term financial commitments

Use the table below to answer question 14.

*Profitability ratios for Chairs Warehouse*

Year	Gross Profit Ratio	Net Profit Ratio	Expenses Ratio
2024	80%	20%	60%
2025	80%	10%	70%

Industry Averages for 2025:

Gross Profit Ratio: 80%

Net Profit Ratio: 20%

Expenses Ratio: 61%

14. Which of the following statements is true about efficiency for Chairs Warehouse in 2025?

- It is better than industry average and has improved since 2024.
- It is worse than industry average but has improved since 2024.
- It is better than industry average and has worsened since 2024.
- It is worse than industry average and has worsened since 2024.

15. Which of the following groups would suffer the worst financial impact as a result of an increase in the value of the Australian dollar?

- Australian producers selling beer to America
- Chinese shareholders of an Australian bank
- Australian TV makers purchasing inputs from Italy
- New Zealand travel agents organising tours for Australians

**Exercise 2.8 (12 marks)**

Mango Airlines Ltd is a new airline in Australia which aims to differentiate itself from its competition by offering a higher quality service and more choice of flights than any other airline. The airline is aiming to expand its operations and requires \$40 Million to achieve their strategic financial goals.

- Outline the strategic role of financial management. 2
- Why are interest rates an important financial consideration for Mango Airlines Ltd? 2
- Examine ONE external source of finance that would be appropriate for Mango Airlines Ltd's expansion. 4
- Analyse ONE global financial management strategy Mango Airlines Ltd could use in order to reduce the risk of currency fluctuations in the global market place. 4

**Exercise 2.9 (8 marks)**

a) The table shows an extract from a cash flow statement for a business.

	March	April	May	June	July	August
Cash in (\$)	10 000	6 000	2 000	3 000	6 000	6 000
Cash out (\$)	5 000	4 000	8 000	10 000	2 000	2 000

The opening cash balance for March is \$3 000

- (i) Calculate the closing cash balance for August. 1
- (ii) In which month did the business end with a negative cash balance? 1
- b) Outline ONE financial institution available to businesses when looking to finance their operations. 2
- c) Discuss factoring as a strategy for cash flow management. 4

## Answers to Exercises

### Exercise 2.1

1. False, 2. True, 3. False, 4. False, 5. True

### Exercise 2.2

1. False, 2. False, 3. True, 4. True, 5. True

### Exercise 2.3

1. False, 2. False, 3. True, 4. False, 5. True

### Exercise 2.4

1. True, 2. False, 3. True, 4. False

### Exercise 2.5

1. Normalised earnings, 2. Audit, 3. Gearing, 4. Budget, 5. Drawings

### Exercise 2.6

1. Derivative, 2. Distribution of payments, 3. Hedging, 4. Option, 5. Cost Centre

### Exercise 2.7

1. C, 2. C, 3. B, 4. A, 5. B, 6. C, 7. C, 8. B, 9. B, 10. A, 11. C, 12. A, 13. D, 14. D, 15. A

### Exercise 2.8

a) Answers could include: The strategic role of financial management involves long-term planning and oversight of a company's financial resources (funds) to ensure that the business meets its goals and objectives effectively.

b) Answers could include: Interest rates are crucial for Mango Airlines' financial planning, affecting both expansion costs and profitability. Higher rates increase costs and lower profitability, while lower rates decrease expenses and boost profits. Additionally, if Mango Airlines expands internationally or borrows from overseas markets, they must consider both interest and exchange rate fluctuations, as these could impact their financial outcomes. CHAPTER 2 Finance

c) Answers could include:

Long-term borrowing (mortgage, debentures, unsecured notes, leasing) Equity – ordinary shares (new issues), private equity

A debenture is a fixed-interest loan secured against company assets, used for purposes like Mango's overseas expansion. Alternatively, unsecured notes carry higher interest but may impact profitability. Leasing benefits Mango's airline business with tax-

deductible payments and capital freedom. Mortgages offer long-term, property-backed financing with lower rates, suitable for Mango's property acquisitions. Issuing new shares raises capital by selling equity, supporting expansion but diluting ownership.

d) Answers could include: Hedging, Derivatives

Mango Airlines in Australia can use hedging to manage currency risks. This means using derivatives like forward exchange contracts to lock in future exchange rates, securing stable revenue from international flights despite currency market changes. They can also use foreign currency options to manage finances flexibly, protecting against bad exchange rate shifts while potentially benefiting from good ones. This helps Mango Airlines keep profits steady in their global operations.

### Exercise 2.9

a) Answers could include:

- i. Closing cash balance for August = 5000
- ii. Negative cash balance at the end of June

b) Answers could include:

c) Banks gather savings as deposits and provide loans and investments. Investment banks specialise in business lending, tailoring loans to specific needs. Finance companies focus on short to medium-term commercial loans. Life insurance companies invest premiums into financial assets, providing equity and loans. Superannuation funds invest in long-term securities with mandatory contributions. Unit trusts pool funds from small investors to invest in diverse financial assets.

d) Answers could include:

Factoring allows a business to quickly raise funds by selling its accounts receivable at a discount to a specialised firm. This can provide up to 90% of the receivable value within 48 hours, enhancing cash flow and reducing the burden of collecting accounts, though not the full amount is received.



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# CHAPTER 3

## Marketing

### Role of Marketing:

1. Strategic role of marketing goods and services
2. Interdependence with other key business functions
3. Production, selling, marketing approaches
4. Types of markets - resource, industrial, intermediate, consumer, mass, niche

### Influences on Marketing:

1. Factors influencing customer choice
2. Consumer laws
3. Ethical

### Marketing Processes:

1. Situation analysis
2. Market research
3. Establishing market objectives
4. Identifying target markets
5. Developing Marketing Strategies
6. Implementation, monitoring and controlling

### Marketing Strategies:

1. Market segmentation, differentiation and positioning
2. Products- goods and/or services
3. Price
4. Promotion
5. Place/distribution
6. People, processes and physical evidence
7. E-marketing
8. Global marketing

## 1. The Role of Marketing

There are 4 key points under the role of marketing in the syllabus.

### 1. *The strategic role of marketing goods and services*

Marketing is the only business function that generates REVENUE through SALES.

The strategic role of marketing is to connect a business with its customers by understanding and meeting their needs. It involves developing and promoting products, setting prices, and distributing effectively through a marketing mix (product, price, place, promotion) to generate sales, increase market share, and achieve long-term profitability.

Part of the strategic role is to develop a “SMART” marketing plan. The business plan is the road map and the marketing plan are signposts showing the direction.

- Its role is to satisfy customer needs and wants.
- It's a major link between the business and its target market.
- It gives the business direction and helps manage a changing environment by continually researching customers.
- It involves a process of exchange (the seller requires payment to satisfy the buyer's need).

### 2. *Interdependence with other functions*

Interdependence refers to the mutual reliance of key business functions on each other. This dependence is crucial for carrying out responsibilities and ensuring effective business operations. The collaboration among functional areas significantly impacts business decisions.

The decisions and actions of other functions affect the task of marketers.

- Finance: Marketing efforts drive sales, which bring in revenue and funds for the business. Finance allocates the necessary funds/budget for marketing strategies and campaigns.
- Operations: Marketing informs operations of customer needs and forecasts demand, guiding product development. Operations, in turn, creates and delivers products efficiently to meet these needs.
- Human Resources: Marketing and HRM are interdependent in shaping an organisation's brand, culture, and talent pool. Marketing promotes the business's image and values to attract customers and potential employees, while HRM recruits and retains talent that embodies these values and delivers excellent customer experiences. HRM hires the staff needed by marketing to effectively promote the business.

### 3. *Marketing Approaches*

An approach is a method or perception of how marketing should be done, or an explanation of why marketing is done in a particular way. Over time, marketing approaches have evolved due

to changes in environmental factors such as competition and consumer behaviour.

There are 3 approaches to marketing in the syllabus:

#### a) Production approach

- The production approach to marketing focuses on making high-quality, affordable products efficiently, assuming customers prefer readily available and low-cost goods.
- It emphasises maximising output, minimising costs, and ensuring product availability.
- This approach is effective in markets where customers prioritise availability and affordability but less so in markets with varied and sophisticated customer preferences.

#### b) Selling approach

- The selling approach is a marketing strategy that uses aggressive sales tactics and promotions to persuade customers to buy.
- It focuses on immediate sales rather than long-term relationships, relying heavily on advertising, discounts, and direct selling.
- This approach assumes customers need convincing to purchase, sometimes regardless of their actual needs.
- While it can boost short-term sales and work in competitive markets, it may not build long-term customer loyalty if customers feel their needs aren't genuinely addressed.

#### c) Marketing approach

- The marketing approach centres on understanding and meeting customer needs, prioritising long-term satisfaction and relationships.
- It involves market research, tailored products, and an integrated marketing mix (product, price, place, promotion) to meet customer expectations.
- By emphasising strong customer relationship management (CRM) and personalised service, it creates value for both customers and the business.
- This customer-centric strategy prioritises long-term satisfaction and relationship-building, adapting to changes in market conditions, competition, and consumer behaviour.

### 4. *Types of markets*

A market is a platform where buyers and sellers interact to exchange goods, services. The group of potential customers share similar needs or characteristics that a business can target with its products or services. Businesses sell a range of different products to a range of different customers, which means they sell products in a range of different markets. Marketing plans and strategies vary depending on the intended market.

There are 6 types of markets in the syllabus.

**Figure 18 Types of Markets**

Type of Market	Characteristics	Examples
a) Resource	The resource market consists of individuals or groups in primary production activities like mining, agriculture, forestry, and fishing. These markets supply raw materials and natural resources essential for producing goods and services across various industries.	BHP
b) Industrial	The industrial market includes industries and businesses that purchase products for use in the production of other goods or for their daily operations.	Apple, Toyota
c) Intermediate	The intermediate market involves wholesalers and retailers who purchase products in large quantities from manufacturers to resell them to consumers or other businesses.	David Jones, Coles
d) Consumer	The consumer market in marketing, also known as the B2C (business-to-consumer) market, refers to the market where businesses sell products and services directly to individual consumers or households for their personal use or consumption.	Us
e) Mass Markets	A mass market is a broad, general market that aims to reach a large audience with common needs or interests.  This approach relies on high-volume sales and economies of scale to achieve profitability.	Utilities, household essentials, popular electronics, and widely consumed food products
f) Niche Markets	A niche market is a focused, targeted segment of a larger market that is defined by its unique preferences, needs, or identity.	Organic barn laid eggs, different magazines, Fox Sports, Burquini

**Exercise 3.1**

Indicate whether the following statements are true or false.

True / False Questions	True / False
1. Customisation means marketers can gain economies of scale	
2. The selling approach to marketing originated in the United Kingdom	
3. Overtime approaches to marketing have not changed	
4. During the time of the product approach demand was greater than supply	
5. Toyota would be an example of an industrial market	

**Case Study BURQINI**

The Burqini (body covering swimwear) was designed by Aheda Zanetti the founder of Adilda Pty Ltd. The word is a hybrid of a burka and bikini. It is a great example of a niche market because it is targeted at a small but specific and well-defined segment of the market namely Muslim women who want to dress modestly at the beach in line with Islamic values and codes of dressing.

**2. Influences on Marketing**

Influences refer to the various factors or forces that shape or impact the development, implementation, and outcomes of marketing strategies and tactics.

There are 3 main influences in the syllabus.

**1. Factors Influencing Customer Choice**

Marketers need to base their strategies upon what they believe drives customers to make decisions (like purchasing a product or gaining a favourable impression of a brand). Each person is motivated by a different set of factors in different ways but there are a number of common ones.

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

Businesses must understand consumer behaviour to understand why they make certain choices. If businesses are aware of the psychological, sociocultural, economic and government influences they can better predict trends in consumer behaviour and how the consumer might react to marketing strategies. Marketers base their strategies upon their understanding of what drives customers to make decisions.

There are 4 factors influencing customer choice in the syllabus.

**a) Psychological**

Psychological influences are factors within an individual that affect his or her buying behaviour and are based on customers' thoughts, emotions, attitudes, and perceptions. They include motives/motivation, perception, attitudes/lifestyle, personality and self-image.

**b) Sociocultural**

Sociocultural influences come from society and culture i.e. cultural background, family, reference groups and social class.

**c) Economic**

Economic influences are the various economic conditions and dynamics that affect how consumers make choices and purchase products or services. Economic influences include income levels, employment status, economic conditions, pricing, credit availability, market trends, and government policies. These factors affect consumers' financial capacity and confidence in spending.

**d) Government**

Government influences on consumer choice encompass various policies and regulations that affect purchasing decisions. They include regulations and standards ensuring product safety and quality, tax policies affecting affordability, and subsidies making certain products more attractive.

## **2. Consumer Laws**

Consumer laws in Australia, especially the Australian Consumer Law (ACL), significantly impact business marketing by setting clear standards for customer interactions and product promotion.

Effective from 1 January 2011, the ACL is part of the Competition and Consumer Act 2010 and applies nationwide. It ensures fair and transparent business practices, regulates consumer transactions, and protects consumer rights.

Enforced by the ACCC, the ACL mandates product quality, safety standards, and provides remedies for breaches, promoting fair business operations and competition in the marketplace.

There are 4 consumer laws in the syllabus

**a) Deceptive and Misleading Advertising**

Deceptive and misleading advertising, prohibited under the Australian Consumer Law (ACL), involves false or misleading information that deceives consumers.

- The ACL requires advertisements, product descriptions, and claims to be accurate and truthful to protect consumers' trust and economic interests.
- Businesses must avoid false claims, exaggerations, and omissions to prevent legal, financial, and reputational damage.

- Misleading statements about a product's price, quality, or availability are prohibited across all forms of advertising, packaging, staff communications, and online content.

### Case Study RIBENA

The Ribena case was one of the worst instances of deceptive and misleading advertising. Their advertisements claimed the blackcurrant in Ribena had 4 times the vitamin C of oranges. In fact, the ready to made drink contained no detectable level of Vitamin C. This was first discovered by 2 New Zealand school girls during a science experiment.

#### b) Price Discrimination

Unlawful price discrimination occurs when a business charges different prices to different customers for the same product or service without a valid reason, thereby harming competition.

- Price discrimination is considered unlawful when it lacks a legitimate basis, such as differences in production costs, bulk discounts, or specific delivery requirements.
- Common illegal practices include charging different prices based on race, gender, or ethnicity; predatory pricing to eliminate competitors; unjustified regional pricing; and exclusive dealing that restricts competition.
- These actions distort the market and are prohibited under Australian Consumer Law.

#### c) Implied Conditions

Implied conditions under ACL are unspoken and unwritten terms of a contract that automatically guarantee certain standards for goods and services.

- Goods must be of acceptable quality, fit for purpose, match descriptions, and have clear title.
- Services must be provided with due care and skill, fit for purpose, and completed within a reasonable time.
- These conditions cannot be excluded or modified by businesses, offering consumers the right to remedies such as repairs, replacements, or refunds if products or services fail to meet these standards.

#### d) Warranties

A warranty is a voluntary promise by a manufacturer, retailer, or seller about the quality or performance of a product.

- It usually includes commitments to repair, replace, or refund if the product is faulty.
- Unlike statutory consumer guarantees under ACL, warranties are not mandatory and vary by product and manufacturer.
- They offer additional benefits beyond consumer guarantees and are legally binding, with non-compliance potentially leading to legal issues.

### 3. *Ethical Influences*

Ethical behaviour in marketing involves conducting promotional activities with honesty, transparency, and moral responsibility. It means adhering to integrity, fairness, and respect for all stakeholders, while avoiding deception, false claims, and manipulative tactics and choosing to go beyond legal requirements to uphold higher ethical standards.

There are 5 ethical influences in the syllabus

#### a) Truth and accuracy in advertising

Truth and accuracy in advertising are critical ethical issues because they ensure that advertisements provide factual and verifiable information.

Truth means all claims are based on facts and can be substantiated, while accuracy involves providing precise and correct information to avoid misrepresentation. This commitment fosters trust and transparency, maintaining consumer confidence and responsible marketing practices. Ensuring truthful and accurate advertising goes beyond avoiding legal deception, building a trustworthy relationship between businesses and consumers.

#### b) Good taste in advertising

Good taste in advertising involves creating content that is culturally sensitive, respectful, and non-offensive.

While perceptions of what constitutes good taste can be subjective, it is crucial for advertisements to address the ethical responsibility of marketers by considering societal norms and values. This means avoiding content that might offend or alienate audiences, even if it complies with legal standards. In Australia, the Advertising Standards Bureau (ASB), now known as Ad Standards, self-regulates advertising to ensure that acceptable standards are maintained.

#### c) Products that may damage health

Ethical marketing plays a crucial role when it comes to products that may damage health, such as gambling and alcohol. It involves promoting these items responsibly, ensuring transparency about the associated risks, and avoiding misleading vulnerable populations.

Specifically, ethical marketing practices should avoid targeting vulnerable groups and using misleading advertisements. Instead, they should focus on transparency about health risks and encourage responsible behaviour. Best practices in this area include providing clear disclaimers, implementing age verification processes, running educational campaigns, and offering support resources to help individuals make informed decisions.

#### d) Engaging in fair competition

Engaging in fair competition is an important ethical marketing practice that promotes healthy competition and ensures businesses compete on a level playing field.

It involves conducting business activities that uphold fairness, honesty, and transparency while competing in the marketplace. This means adhering to ethical standards and avoiding practices

that could harm consumers, competitors, or the overall market. Fair competition focuses on the quality of products, services, and customer experience, rather than using unethical tactics.

### e) Sugging

Sugging, or “selling under the guise of research,” involves disguising sales pitches as surveys to gather personal information or make sales.

Although not illegal, it is considered unethical due to its deceptive nature, lack of informed consent, exploitation of psychological influences, and damage to trust and reputation. Sugging invades privacy and undermines genuine research efforts, often using unsolicited calls, emails, or surveys, and sometimes offers incentives to collect personal data for marketing purposes.

### Exercise 3.2

Indicate whether the following statements are true or false.

True / False Questions	True / False
1. Truth and accuracy in advertising is a legal influence on marketing	
2. Price discrimination is illegal if it could be proven to substantially reduce competition	
3. Sugging is legal and ethical	
4. A warranty is the unwritten guarantees that the product or service will do the job that it is intended to do	
5. Personality and self-image are psychological factors influencing customer choice	

## 3. Marketing Processes

Marketing processes refer to the series of steps or activities that a business undertakes to market its products or services to consumers effectively.

A company needs a marketing plan for each product it markets. A marketing plan is a document that lists activities aimed at achieving marketing outcomes in relation to goods and services. The plan provides a template for future action aimed at reaching business goals, such as profit maximisation.

The marketing process enables a business to have a clear marketing plan. The steps in the marketing process are arranged in this order to provide a logical and structured approach to creating and implementing effective marketing strategies.

There are 6 steps to a Marketing Plan in the syllabus.

## 1. *Situational Analysis*

A situational analysis is a thorough evaluation of a business's internal and external environments to understand its current position (i.e. WHERE ARE WE NOW?) and inform strategic planning. This analysis helps identify strengths, weaknesses, industry conditions, market trends, key competitors, and potential changes that could impact the business.

It includes the following 2 things:

### a) SWOT analysis

SWOT analysis is a strategic tool used in a situational analysis to assess a business's Strengths, Weaknesses, Opportunities, and Threats.

It identifies internal strengths and weaknesses, such as resources and capabilities, while also evaluating external opportunities and threats, like market trends and competitive pressures.

This comprehensive overview helps businesses understand their current position, capitalise on strengths, mitigate weaknesses, seize opportunities, and defend against potential threats, ultimately guiding strategic decision-making and planning.

### b) Product lifecycle

The product life cycle (PLC) is the stages a product passes through introduction, growth, maturity and decline. As part of a situational analysis, understanding the PLC helps businesses evaluate their product's current phase—introduction, growth, maturity, or decline—and adapt marketing strategies accordingly.

**Figure 19 Product Life Cycle**

Stage in PLC	Characteristics	Possible marketing strategy
Introduction	Slow sales, profit negative, new product	Promote heavily to increase customer awareness, price may be lower to gain a foothold
Growth	Sales rapidly increase, profit grows quickly, number of competitor's increase	Encourage brand loyalty, promotion seeks a wider audience, increased distribution channels
Maturity	Sales level off, markets saturated, profits start to fall	Redesign packaging, new product features to differentiate the product
Decline	Sales fall, product is outdated. A new product may have replaced it, profits negative eg VCR	Narrow distribution channels, promotion discontinued

## 2. Market Research

Market research involves gathering and analysing data about a target market's characteristics, preferences, behaviours, and needs. As an early step in the marketing process, it provides essential insights into customers and competitors, forming a foundation for informed decision-making and strategy development.

Marketing strategies perform best when they are based on accurate, up to date, detailed and relevant information- which places the business in a stronger position.

Releasing a new product is risky. For every successful launch there are at least four which fail. Market research attempts to identify and outline marketing opportunities and problems as well as evaluating the implementation of the marketing plan. It is an intermediate rather than continual source of marketing information.

To obtain information marketers use a 3 step approach.

### a) Determine Information needs

Identifying what information would be useful to address the marketing problem.

### b) Data collection (primary and secondary)

Gathering relevant information, which includes primary data (collected from original sources through surveys, observations, experiments, focus groups, questionnaires, and interviews) and secondary data (previously collected information such as financial reports, customer feedback, ABS data, magazines, and publications).

**Figure 20 Secondary Data Sources**

<b>Internal data</b>	<b>External data</b>
Research reports	ABS magazines
Financial statements	Private data collection firms
Annual reports	Government reports
Sales figures	Industry reports
Customer feedback	
Management reports	

### c) Data Analysis and Interpretation

Using statistical interpretation to focus on data representing averages, typical patterns, or deviations to draw meaningful conclusions.

### *3. Establishing market objectives*

After completing market research, businesses can establish specific, measurable, attainable, relevant, and time-bound (SMART) marketing objectives.

- These objectives provide practical, actionable, and measurable goals, ensuring strategic alignment with overall business goals and offering a clear roadmap for success.
- Positioned as the third step in the marketing process, they serve as benchmarks for assessing the effectiveness of marketing initiatives and guide decision-making.

4 common marketing objectives include:

- Sales volume
- Market share (proportion that product has in relation to the total market of the product or service)
- Boost customer retention
- Improve online engagement

### *4. Identifying Target Markets*

After conducting market research, the next step is to analyse the data to identify promising target markets based on size, growth potential, purchasing power, and competition. This involves determining the group of consumers most likely to be interested in your product, sharing similar needs and behaviours.

Identifying the target market is crucial as it informs decision-making, resource allocation, marketing strategies, product development, and competitive positioning, ultimately enhancing customer satisfaction, increasing sales, and ensuring long-term success.

### *5. Developing marketing strategies*

Once the target market is identified, the next step is to develop marketing strategies. Marketing strategies are a set of planned actions and approaches aimed at achieving a business's marketing objectives by effectively utilising the marketing mix. This includes the 7Ps: product, price, promotion, place, people, process, and physical evidence.

NOTE: This will be covered in more detail in the 'Marketing strategies' section.

### *6. Implementation, monitoring and controlling*

The implementing, monitoring, and controlling marketing process involves executing the marketing plan, tracking its progress, and making adjustments to achieve desired outcomes.

There are 3 elements to implementation, monitoring and controlling in the syllabus.

#### **a) Implementation**

Implementation is the stage where the marketing strategy is executed (put into action).

- Develop a financial forecast estimating expected revenues, costs, and profits.

- Forecast based on sales volumes, pricing, production costs, and other expenses.
- Provides a benchmark for comparing actual results.

### b) Monitoring

Marketing effectiveness is measured by tracking progress against planned objectives and financial forecasts, using four key indicators to evaluate marketing processes and strategies.

Use key indicators: sales performance, market share, and profitability.

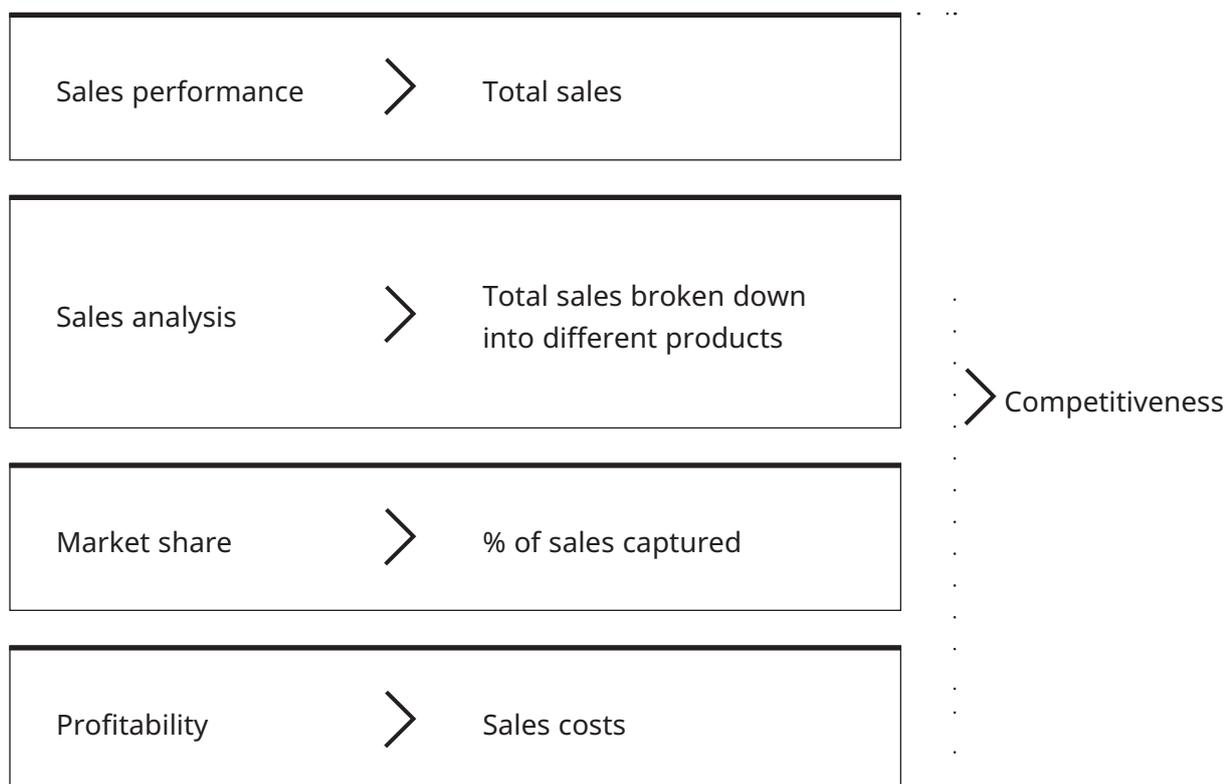
- Sales performance Analysis: involves comparing actual sales and expenses to forecasts to identify issues and opportunities.
- Sales Analysis: Evaluate product and sales team performance by examining volume, value, trends, and segments.
- Market Share Analysis: Assess a company's sales percentage in a market compared to competitors.
- Profitability Analysis: Evaluate profit generation of products, customer segments, or marketing campaigns.

### c) Controlling

Controlling involves correcting deviations from the plan to achieve marketing objectives.

- Revise the marketing strategy if needed (e.g., change advertising medium, modify promotional message, reallocate budget).
- Ensure marketing activities stay on track and objectives are met efficiently.

**Figure 21 Measures of Effectiveness used to monitor and control the marketing process.**



**Exercise 3.3**

Indicate whether the following statements are true or false.

True / False Questions	True / False
1. The first step of the market research process is data collection	
2. At each stage of the PLC a different marketing strategy is necessary	
3. In the maturity phase of the PLC companies seek to rationalise product ranges	
4. Marketers get their planned results from financial forecasts	
5. Once the marketing plan has been implemented it must be monitored and controlled	

**4. Marketing Strategies**

A marketing strategy is a tool used to achieve specific business goals by effectively promoting products or services to target customers through various channels and tactics. There are 8 marketing strategies in the syllabus.

**1. Market segmentation, product/service differentiation and positioning****a) Market Segmentation**

Market segmentation divides a broad target market into subsets of consumers with common needs, preferences, or characteristics. It is the first step in creating a successful marketing strategy, as it helps understand customers, tailor marketing efforts, and optimise resources.

By targeting specific groups within a market, businesses can design more effective campaigns that improve customer satisfaction and business success.

Market segmentation can be based on the following 4 factors.

- **Demographic characteristics:** Divides the market based on population characteristics or features. This could include age, gender, income, occupation, family life cycle.
- **Geographic segmentation:** Divides the market based on location and regional characteristics. The market is split into different groups based on where people live or where they are. Geographic factors can include factors such as location, climate, region, and population density.
- **Psychographic segmentation:** Divides a target market into distinct segments based on consumers' psychological and lifestyle characteristics, attitudes, values, beliefs, interests, and behaviours. It explores deeper motivations and traits that drive consumer behaviour, beyond demographic and geographic factors.

- Behavioural segmentation: Examines consumer behaviour, including purchase frequency, brand loyalty, and desired benefits. Qantas uses this approach in its frequent flyer program, categorising customers by their interaction with the airline. This allows Qantas to offer tailored benefits, such as priority boarding for frequent flyers and discounts for occasional travellers, enhancing customer loyalty and strengthening its competitive position.

### b) Product/service differentiation

After identifying target segments, the next step is differentiation, which involves tailoring offerings to meet the unique needs of each segment and making them more attractive than competitors.

- By highlighting unique qualities, benefits, or experiences, businesses can position their products or services as superior, leading to increased sales, market share, customer satisfaction, loyalty, and profitability.
- Key points of differentiation include price, packaging, labelling, quality of service, value for money, convenience, customer service, environmental concerns, and social/ethical issues.

### c) Positioning

After segmenting the market and differentiating the product, positioning ties everything together.

- It involves creating a marketing strategy to shape how a product or brand is perceived by consumers relative to competitors.
- Effective positioning ensures the target segment perceives the product uniquely and favourably, emphasising its value and relevance.

## 2. *Products – goods and/or services, including branding and packaging*

Market segmentation, differentiation, and positioning are interconnected strategies that help businesses define, develop, and promote products to specific customer segments, creating a competitive advantage and influencing customer choices.

A product is a good or service offered to satisfy a need or want. The total product concept encompasses both the tangible and intangible benefits a product offers.

### a) Branding

A brand is a unique identifier for a product, including names, symbols, and designs, distinguishing it from competitors. Branding creates this identity through logos, slogans, and imagery that convey the brand's values and mission. A trademark protects the exclusive use of a brand's name and symbol. Effective branding builds recognition, loyalty, and differentiation, allowing for premium pricing and strong customer relationships. Consistent, strategic branding shapes customer perceptions and drives business success.

b) Packaging

Packaging involves the materials and design used to enclose and protect products for distribution, storage, sale, and use. It serves functional and aesthetic purposes, safeguarding goods from damage and contamination while communicating brand identity and product information. As a key marketing tool, packaging ensures product safety, enhances functionality, and addresses sustainability. Increasing environmental consciousness has driven demand for recyclable, biodegradable, and sustainably sourced packaging, positioning brands as eco-friendly.

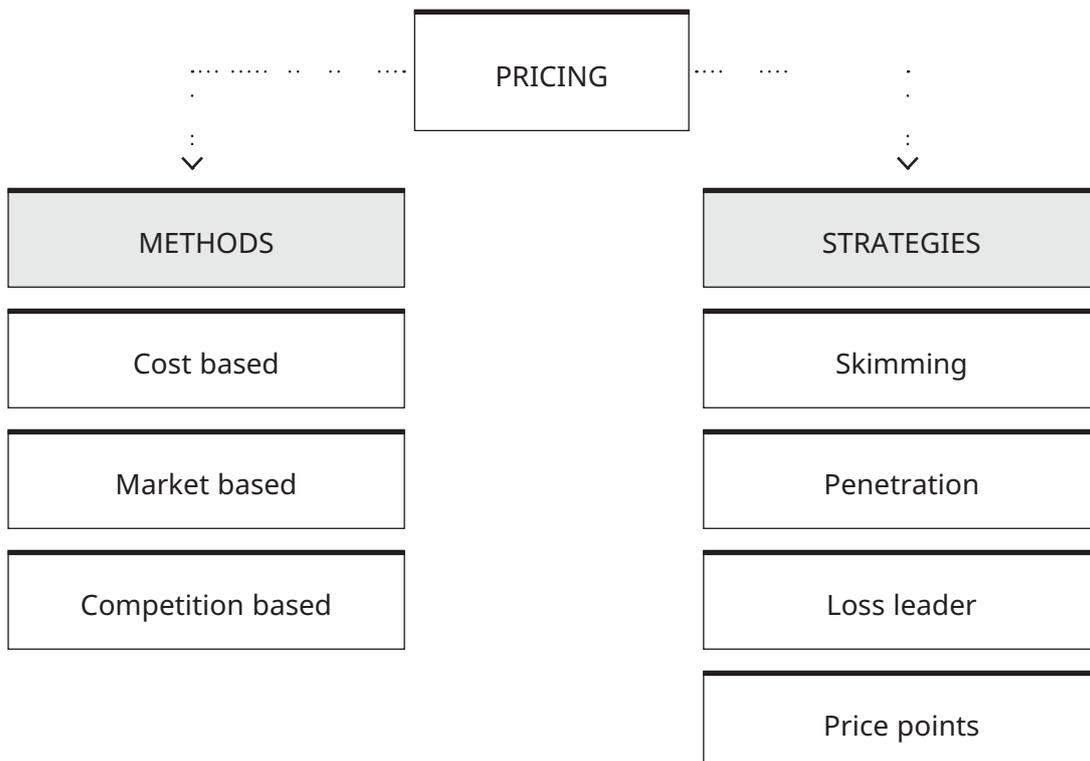
3. Price

Price refers to the amount of money a customer must pay to acquire a product or service offered by a business. Price is a critical element in the marketing mix because it is the only component that generates revenue, while the other elements (product, place, and promotion) represent costs.

Price is crucial, a price that is too low or too high not only discourages consumers from buying it but also effects their attitudes and perceptions of the product. Price is especially important because it directly affects the number of sales and therefore profit. It's now even more important because:

- Consumers are more price sensitive/conscious, and they shop around.
- There is a lot more competition including overseas.
- There is much more de-regulation (looser rules) has made the market more competitive.

Figure 22 Pricing Methods and Strategies



### a) Price methods

A price method is an approach used to set the initial price of a product or service, considering factors like production costs, market conditions, and competitor pricing.

There are 3 price methods in the syllabus.

Businesses set prices by selecting a pricing approach that includes one or more of the following methods:

- **Cost based pricing:** Price is based on the business' cost of production with a mark-up!
- **Market based pricing:** Market-based pricing sets the price of a product or service based on market conditions, customer demand, and perceived value. (i.e. based on supply and demand).
- **Competition based pricing:** Competitor-based pricing sets prices based on what competitors charge for similar products, with prices set above, below, or equal to competitors depending on the business's strategy.

### b) Price Strategies

Once the base price is set using a pricing method, a business adjusts it with strategies to achieve specific objectives. Pricing strategies (tactics) are flexible plans that adapt to business growth and market changes, aiming to attract customers, maximise profits, or retain loyal buyers. Unlike methods that set the initial price, strategies focus on ongoing price management to meet business goals.

There are 4 price strategies in the syllabus

#### ■ Skimming

Price skimming sets a high price for a new, unique product when launched, then lowers it as competition increases.

- This strategy maximises early revenue from customers willing to pay more for novelty.
- Over time, prices drop to attract more price-sensitive customers.
- For example, Apple launches new iPhones at high prices for early adopters and reduces prices of older models as new ones come out.

Best thing about skimming:

- Usually the most profitable strategy.
- Attracts a prestige image.
- Great if demand is inelastic and there is some patent protection.

#### ■ Penetration

Penetration pricing involves setting a low initial price for a new product similar to existing ones in the market to quickly attract customers and gain market share.

- Companies may gradually increase the price as the product gains acceptance.
- For example, ALDI used penetration pricing in Australia by offering groceries at lower prices than competitors, quickly gaining a substantial market share.

Best thing about penetration:

- Great for market share (attracts customers)
  - Discourages competition from entering the market
  - Can gain economies of scale (savings of cost by selling more)
- Loss Leader

A loss leader product is sold at a loss to attract customers, who are then expected to buy other profitable items.

This strategy drives traffic by offering a discounted item, with the hope that other purchases will offset the loss.

Examples include Microsoft's Xbox One, sold cheaply to profit from games and subscriptions, and supermarkets discounting items like toilet paper to draw shoppers. Gyms and streaming services use free trials to attract long-term customers.

The goal of loss leading is to attract customers initially, leading to more sales of regular-priced items.

- Price points: Price points are specific pricing levels aimed at different customer segments and budgets, aligning with customer perceptions and preferences.
  - This strategy attracts a broader customer base, appeals to diverse market segments, and enhances satisfaction.
  - Qantas uses price points for different service levels—Economy, Premium Economy, Business, and First Class—catering to various budgets.
  - Apple prices new iPhone models at premium levels and reduces prices for older models, offering high-end (iPhone Pro) and budget options (iPhone SE) to appeal to a broad range of consumers.

### c) Price and Quality interaction

Price and quality interaction is the perceived link between a product's price and its quality. Higher prices often signal better quality, allowing businesses to position their products as luxury, mid-tier, or budget offerings. This strategy helps differentiate products, build trust, and appeal to various market segments, enhancing competitiveness and profitability.

## 4. Promotion

Promotion encompasses all activities a business undertakes to make its products or services known to its target market and stimulate demand. This includes methods to inform, educate, persuade, and remind the market about its offerings.

Effective promotional strategies involve selecting the right mix of tools to raise brand awareness, attract customers, differentiate from competitors, and drive sales and growth.

Promotion includes:

- a) Elements of the Promotions Mix (advertising, personal selling and relationship marketing, sales promotions, publicity and public relations)
- b) The communication process (opinion leaders, word of mouth).

The Promotions Mix

The promotions mix is the combination of tools and activities a business uses to communicate with its target audience and promote its products or services.

There are 4 elements of the promotions mix in the syllabus.

#### ■ Advertising

Advertising is a paid, non-personal communication method where businesses use various media, including TV, radio, print, online platforms, and billboards, to convey messages about their products or services to their target audience.

- Its goal is to generate awareness, interest, desire, and action through persuasive messages. Advertising includes print ads, commercials, online banners, social media campaigns, influencer endorsements, and billboards, aiming to inform, persuade, and remind consumers.
- Modern advertising also involves social media and e-marketing, utilising paid strategies like ad placements and sponsored content on platforms such as Facebook, Instagram, Twitter, LinkedIn, TikTok, and Pinterest, with targeting options based on demographics like age, interests, location, and behaviour.

#### ■ Personal selling and relationship marketing

Personal selling is a customised, interactive process where salespeople engage individually with potential customers through channels like face-to-face meetings, phone calls, and online platforms.

- This approach involves understanding customer needs, building relationships, and persuading purchases using various communication methods.
- Relationship marketing extends this by focusing on long-term customer relationships through personalised offers, loyalty programs, and excellent service. An example is the Qantas Frequent Flyer program, which provides personalised rewards and benefits based on travel history, fostering loyalty and repeat business.

#### ■ Sales promotion

Sales promotions are short-term marketing activities designed to stimulate immediate sales and increase customer engagement through incentives like discounts and special offers.

- Managed by the marketing department, these 'below the line' promotions attract new customers, boost sales, clear inventory, and promote new products. Examples include flash sales, buy-one-get-one deals, and seasonal promotions.
- Effective for achieving short-term goals and generating brand awareness, they must align with overall marketing strategies and offer genuine value.
- In 2024, Qantas launched a successful sales promotion offering a limited-time "Fly More, Save More" deal, where customers received significant discounts on return flights when booking multiple trips within Australia.

### ■ Publicity and Public Relations

Publicity in marketing involves gaining unpaid media attention for a business by sharing newsworthy information to boost awareness and credibility. Publicity includes news stories, articles, or TV segments, which can occur organically or through strategic efforts by public relations (PR) professionals.

- Public Relations is the process of building, maintaining and managing positive relationships between a business and its stakeholders while protecting and enhancing its reputation. Effective public relations strategies build trust, enhance brand credibility and shape positive public perceptions through events and press releases.
- Social media platforms like LinkedIn, Facebook, and Instagram play a crucial role in increasing brand visibility, engaging with stakeholders, managing crises, attracting talent, and fostering employee advocacy.

### Communication Process

The communication process is fundamental to promotional marketing, detailing how messages are sent from a company to customers and how feedback is received. This understanding is crucial for crafting effective promotional messages and campaigns. Opinion leaders and word of mouth are integral, as they influence the target audience and enhance marketing effectiveness.

Often customers may be more willing to purchase the product if the messages come via a respected and trusted channel.

There are 2 elements of the communications process in the syllabus.

### ■ Opinion leaders

Opinion leaders influence purchasing decisions through their expertise, charisma, or social standing, are crucial in promoting business products.

- They shape consumer perceptions, drive purchasing decisions, and advocate for brands.
- Businesses engage with them because their endorsements are impactful.
- Opinion leaders amplify or shape messages, affecting receivers' perceptions and decisions. Modern examples include social media influencers like Instagram celebrities and YouTubers.

### ■ Word of mouth

Word of mouth is a powerful promotional tool where people share experiences about a product or service, significantly influencing others.

- Positive word of mouth can boost a product's popularity, while negative word of mouth can be detrimental, as consumers trust it more than business-sponsored commercials due to its perceived unbiased nature.
- With social media, word of mouth has become more powerful, enabling individuals to share experiences with a vast audience.
- Positive reviews and user-generated content can go viral, boosting a brand's reputation and attracting new customers.

Why is it important to use a mix of promotional strategies? Each element of the promotion mix offers unique benefits, catering to different segments of the target market. Using a mix ensures comprehensive reach and can influence the same consumer in multiple ways. Coordinating these components enhances the overall communication process, making it more effective and helping achieve marketing objectives.

## 5. Place/Distribution

"Place" or "Distribution" involves making products accessible to consumers through various channels and methods that align with their purchasing habits. This includes managing inventory, transportation, warehousing, and choosing the right distribution channels (intensive, selective, or exclusive). Effective distribution ensures products are available at the right place and time, impacting a product's reach and success in the market.

There are 3 place/distribution strategies in the syllabus.

### a) Distribution channels

Distribution channels are the routes products take from seller to customer, including retail stores, e-commerce, wholesalers, distributors, and direct sales.

- Direct – involves businesses selling products directly to consumers through their own websites or sales teams, eliminating intermediaries.
- Indirect – uses intermediaries like wholesalers, retailers, agents, or brokers to facilitate the product's journey to the end consumer.

Intermediaries in distribution are third-party entities that facilitate the movement of products from producers to consumers.

### Length of distribution

This is how many people in the distribution chain.

producer → consumer

producer → retailer → consumer

producer → wholesaler → retailer → consumer

The shorter the chain the more control you have.

## b) Channel Choice

“Channel choice” (Intensity of distribution) refers to a business’s strategic decision on how widely or selectively to distribute its products or services to reach target customers.

The intensity of distribution refers to the level of market coverage and the number of outlets or intermediaries used to distribute products or services within a target market.

These decisions are crucial as they significantly impact a company’s reach, brand image, and sales potential.

The selection of the appropriate distribution channel depends largely on the business’s market location and market coverage. Market coverage refers to the number of outlets a firm chooses for its products and will influence the intensity of distribution.

There are 3 channel choices/intensity channels in the syllabus.

- **Intensive:** Intensive distribution aims for maximum market coverage by making products available in as many outlets as possible, targeting the broadest audience.
  - This strategy, common for mass-market items like soft drinks and candies, ensures products are accessible wherever customers might buy them, saturating the market.
  - Examples include Coca-Cola, Pepsi, Sprite, chips, chocolates, and candy bars, found in supermarkets, convenience stores, gas stations, vending machines, restaurants, movie theatres, airports, and online platforms.
- **Selective:** Selective distribution involves distributing products through a limited number of chosen outlets based on factors like reputation, location, and clientele.
  - This strategy balances broad reach with maintaining brand image and exclusivity by partnering with retailers that provide a desired customer experience.
  - For example, specialty health products like organic skincare and natural supplements use selective distribution through health food stores, specialty pharmacies, or wellness clinics.
- **Exclusive:** Exclusive distribution is a marketing strategy that involves granting exclusive rights to a single intermediary or outlet to distribute a product or service within a specific geographic area or market segment.
  - This approach enhances product value, controls distribution, and creates exclusivity.
  - In Australia, Coles exemplifies this through its exclusive partnership with celebrity chef Curtis Stone, selling his branded pre-prepared meals, marinated meats, and signature sauces.
  - This exclusivity differentiates Coles in the competitive grocery market, attracting customers and reinforcing both the Curtis Stone brand’s premium positioning and Coles’ market appeal.

## c) Physical distribution issues

“Physical distribution issues” refer to challenges in the storage, transportation, and management of products from the manufacturer to the end consumer.

Effective management ensures timely delivery, good condition, and reasonable cost, enhancing customer value and loyalty. Key functions include transportation, warehousing, and inventory management.

There are 3 physical distribution issues in the syllabus.

- **Transportation:** Transportation involves moving products from manufacturer to consumer, ensuring timely delivery, product integrity, and cost control. Effective management includes choosing suitable transport modes, optimising routes, and coordinating with carriers to meet schedules. Challenges include delays, logistics costs, and product safety. Efficient transportation enhances customer satisfaction and loyalty by delivering products on time and in good condition, while also reducing operational costs.
- **Warehousing:** Warehousing involves strategically storing products to ensure efficient movement and availability. Effective warehousing minimises costs and delays, maintains product safety, and ensures timely dispatch to meet customer demand. It enhances inventory management, reduces transportation costs, and supports supply chain efficiency. This interdependence with operations ensures seamless coordination of production schedules, inventory levels, and distribution processes, optimising business performance.
- **Inventory:** Inventory management is crucial in place/distribution strategy as it affects product availability and delivery efficiency, essential for meeting customer demand and maintaining satisfaction. It involves maintaining optimal stock levels to avoid excessive costs or shortages, ensuring timely and reliable product access. By aligning production with demand forecasts and optimising storage and transportation, inventory management supports overall supply chain management and enhances customer satisfaction and loyalty.

## 6. *People, processes and physical evidence*

“People, processes, and physical evidence” refer to the elements that contribute to the overall customer experience and the delivery of a company’s products or services. Businesses sell not just physical products but also the overall experience and customer service.

### a) People

People involved in delivering a product or service, such as employees, sales representatives, and customer service personnel, shape customer perceptions through their behaviour and interactions.

- The “People” component of the 7Ps is crucial as it directly impacts customer experience and brand perception.
- Effective training and development (link to the HR function) ensure high service levels, differentiate the company, and foster loyalty, trust, and credibility.
- Engaged staff also drive innovation and adaptability, keeping the company competitive.

### b) Processes

Processes include the procedures, systems, and workflows that ensure smooth delivery of products or services, including order processing, customer support, quality control, and supply chain management.

- Efficient processes enhance customer satisfaction, consistency, and trust, as customers value a hassle-free experience.
- Inefficient processes can lead to customer loss and damage a business's reputation.

### c) Physical Evidence

Physical evidence includes the tangible elements and atmosphere customers encounter when interacting with a business, such as the environment, equipment, and marketing materials.

- It shapes perceptions of quality, reliability, and professionalism.
- For example, a restaurant with good physical evidence has a well-designed, clean interior, quality table settings, and well-presented menus.

## 7. *E-marketing*

E-marketing, or digital marketing, uses electronic channels like websites, search engines, social media, email, content marketing, and mobile apps to promote products or services and engage customers.

- It targets specific demographics, builds brand awareness, drives website traffic, generates leads, and converts prospects into customers.
- E-marketing has grown in popularity due to widespread internet use and the effectiveness of digital channels in influencing purchasing decisions.
- It offers advantages over traditional marketing, such as precise targeting, real-time performance tracking, personalised messages, two-way communication, and cost-effectiveness.

## 8. *Global marketing*

Global marketing strategies are strategies that businesses use to promote and sell their products or services in multiple countries or regions around the world. Global marketing involves creating strategies that consider consumer behaviour differences across countries and cultures. It requires understanding and adapting to unique market factors to ensure local relevance while balancing standardisation for cost efficiency. This approach is crucial for TNCs, helping them expand reach, increase market share, and build a strong global presence.

There are 5 global marketing strategies in the syllabus.

### a) Global branding

Global branding refers to the strategy of building and managing a consistent brand image and identity across international markets.

- It ensures a uniform perception of the brand regardless of location through consistent logo design, taglines, marketing campaigns, product quality, and customer experience.
- Notable examples of successful global brands include Coca-Cola, Nike, and Apple.

## b) Standardisation

Standardisation in business entails maintaining uniformity across products, services, and marketing strategies globally.

- This approach ensures consistency by offering products with minimal variations, maintaining a uniform brand image and messaging, and using centralised advertising and promotions across regions, contributing to the global success of brands like Coca-Cola and McDonald's.

## c) Customisation

Customisation, or adaptation, involves tailoring products, services, and marketing strategies to meet specific local market needs and preferences, taking into account cultural, social, and economic differences across regions.

- This approach includes modifying products to suit local tastes, regulations, and conditions, crafting marketing messages that resonate with local cultures.
- McDonald's offers the McSpicy burger in India and the Teriyaki burger in Japan to cater to local tastes.

## d) Global pricing

Global pricing in marketing means setting prices for products and services in different countries, leading to price differences.

- This happens because of factors like local economies, production costs, competition, consumer preferences, currency exchange rates, and local regulations.
- It's also complicated by managing currency changes, different taxes, import fees, and varying distribution costs worldwide.

## e) Competitive positioning

Competitive positioning involves making a brand stand out by creating unique value that sets it apart from competitors.

- It requires understanding competitors, knowing consumer preferences, and leveraging strengths to dominate specific areas.
- By targeting specific consumer groups and aligning product features, placement, and promotions, brands can enhance their competitive edge.
- This strategy works globally by defining the brand's uniqueness, adapting to global consumer trends, and maintaining consistent messaging while respecting local differences.

**Exercise 3.4 Matching**

Match the following statements with the correct terms below

1. What is the flow of activities that a business will follow to deliver a service?	
2. Where the product is available at every possible outlet?	
3. Using the internet to perform marketing activities.	
4. Using a uniform brand around the world is called?	
5. Using a well-known person to influence consumers to buy their product is called?	

**Word Bank:** Global Branding, E-Marketing, Intensive Distribution, Process, Opinion Leader

**Exercise 3.5**

Multiple Choice Questions

Select the alternative A, B, C or D which best answers the question.

1. Which of the following best describes production orientated marketing?
  - a) Increasing production through improvements in efficiency
  - b) Monitoring competitors to ensure a sustained competitive advantage
  - c) Using an aggressive sales force to persuade customers to purchase products
  - d) Offering a customised range of products
  
2. The use of a "Coffee card" by retailer C U Latte provides a free coffee after every fourth purchase. What type of marketing orientation does this demonstrate?
  - a) Selling
  - b) Marketing
  - c) Production
  - d) Relationship marketing

- 
3. Peterson's Department Store purchases goods from other businesses for the purposes of reselling them to the general public. Which type of market is being described?
    - a) Intermediate
    - b) Resource
    - c) Consumer
    - d) Mass
  
  4. Julie drinks low fat milk because she believes it is healthier for her? What factor is influencing her choice?
    - a) Economic
    - b) Government
    - c) Sociocultural
    - d) Psychological
  
  5. Atlas Pharmacy sends emails to customers from its database to inform them of special offers and competitions. Which elements of the promotions mix is Atlas Pharmacy using?
    - a) Sales promotion and publicity
    - b) Relationship marketing and sales promotion
    - c) Personal selling and relationship marketing
    - d) Publicity and personal selling
  
  6. A manufacturer's claim that its cranberry juice contains Vitamin C has been clinically proven to be false. Which of the following aspects of consumer law has been breached?
    - a) Implied conditions
    - b) Price discrimination
    - c) Resale price maintenance
    - d) Deceptive and misleading advertising
  
  7. Kelly decides to carry out a SWOT analysis on part of her marketing process. Which of the following is an example of a threat?
    - a) The business fails to meet financial objectives.
    - b) The business has a poor reputation.
    - c) Kelly relies on unreliable technology.
    - d) There is an economic downturn.

8. A product is experiencing brand acceptance, an increase in market share and wider distribution channels. What stage of the product life cycle is this?
- a) Decline
  - b) Growth
  - c) Maturity
  - d) Establishment
9. A company has decided to review its marketing strategy as they have not reached the desired market share. Which marketing process is this an example of?
- a) Monitoring
  - b) Controlling
  - c) Forecasting
  - d) Implementation
10. When would price skimming be an appropriate price strategy to use in a business?
- a) The business is attempting to develop brand loyalty
  - b) Demand is high for an innovative product and there is limited competition
  - c) The business is attempting to attract customers to other products
  - d) The business is able to offer different prices to different users of the product
11. Which of the following could be looked at when segmenting a market by demographic characteristics?
- a) Personalities, gender, age, marital status
  - b) Product use, personality, age, occupation
  - c) Age, gender, religion, nationality
  - d) Personality, age, religion, occupation
12. Which of the following is an ethical rather than a legal issue of marketing?
- a) Price discrimination
  - b) Warranties
  - c) Sugging
  - d) Implied conditions

13. John Dory's chain of Fish Cafés across Australia sell a signature dish on its menu to consumers. Which channel choice is the chain of Cafés using to distribute this product to its consumers?
- Intensive
  - Exclusive
  - Selective
  - Deceptive
14. The third step in the marketing planning process is?
- Market research
  - Situational analysis
  - Identifying target markets
  - Establishing marketing objectives
15. Crawford Lawyers, a large law firm in the Sydney CBD, have developed a dress code for their staff. This dress code, among other details, emphasises the need for staff to be in professional, corporate attire at all times, and have a clean and tidy personal presentation. Which of the following marketing strategies relates to Crawford Lawyers' policy on professional dress?
- Processes
  - People
  - Physical evidence
  - Promotion

### Exercise 3.6

- Describe TWO ethical influences on marketing. Use examples to support your answer. 4
- Outline the importance of a situational analysis in marketing. 2
- Describe TWO elements of the promotion mix that a business can use to get their message to their target market. 4

### Exercise 3.7

Bronwyn has launched a premium facial cream for the ageing population. Despite its high price, she is confident in its value and plans to use innovative marketing strategies to reach her target market.

- Outline TWO elements of the communication process that might help increase sales of this product. 2
- Describe how price and quality interact in the marketing of goods. 2
- Describe TWO factors influencing customer choice for the facial cream. 2
- Explain how ONE consumer law and ONE ethical concern may influence marketing management of this product. 4

**Exercise 3.8**

- a) Outline the interdependence of marketing with finance. 2
- b) Identify TWO physical distribution issues when marketing a product. 2
- c) With reference to a business you have studied, explain the difference between standardisation and customisation when marketing a product globally. 6

## Answers to Exercises

### Exercise 3.1

1. False 2. False 3. False 4. True 5. True

### Exercise 3.2

1. False 2. True 3. False 4. False 5. True

### Exercise 3.3

1. False 2. True 3. True. 4. False 5. True

### Exercise 3.4

1. Process 2. Intensive Distribution 3. E-Marketing 4. Global Branding 5. Opinion Leader

### Exercise 3.5

1A, 2D, 3A, 4D, 5B, 6D, 7D, 8B, 9B, 10B, 11C, 12C, 13B, 14D, 15C

### Exercise 3.6

- a) Sample answer: Truth and accuracy in advertising – think exaggerated claims, vague statements, untruths due to concealed facts and Products that may damage health – think digital advertising of junk food to children
- b) Sample answer: A situational analysis is a part of market research including; a SWOT and Product Life Cycle. It provides clear information needed to complete the situational analysis and give a clear indication of the business' position compared with its competitors.
- c) Sample answer: Elements in the promotion mix include:
- Advertising
  - Personal selling
  - Relationship marketing
  - Sales promotions
  - Publicity
  - Public relations

### Exercise 3.7

- a) Answers could include: word of mouth, opinion leaders. Sample Answer: To increase sales of Bronwyn's expensive facial cream for the ageing population, leveraging opinion leaders and stimulating word of mouth are crucial. Opinion leaders, such as skincare experts or influencers within the ageing community, can enhance

credibility. Encouraging satisfied customers to share their positive experiences can generate organic buzz and trust, ultimately boosting sales through personal recommendations.

- b) Answers could include: In marketing Bronwyn's expensive facial cream for the ageing population, the interaction between price and quality is crucial. Higher pricing can signal premium quality, influencing consumer perceptions positively and positioning the product as exclusive. This strategic alignment helps differentiate the cream, enhances brand perception, and supports profitability in competitive skincare markets.
- c) Answers could include: psychological, economic, government, sociocultural. Sample answer: Two factors influencing customer choice for Bronwyn's facial cream are socio-cultural norms surrounding ageing and beauty standards, and psychological perceptions of product efficacy and prestige. These factors influence how customers perceive and choose premium skincare products like Bronwyn's cream over alternatives.
- d) Answers could include: consumer laws (deceptive and misleading advertising, price discrimination, implied conditions and warranties), ethical (truth, accuracy and good taste in advertising, products that may damage health, engaging in fair competition, suggesting). Sample answer: For Bronwyn's facial cream, complying with consumer laws against deceptive advertising ensures that all claims about its benefits are truthful and backed by evidence. Ethically, she should ensure advertising is accurate and tasteful, avoiding exaggerated promises that exploit consumer insecurities about ageing. These practices help build trust and maintain credibility in the market.

### Exercise 3.8

- a) Answers could include: Interdependence refers to the mutual dependence that the key business functions have on one another. Finance depends on marketing to generate funds and marketing relies on finance for the funds necessary to implement the marketing plan.
- b) Answers could include: Transport, warehousing, inventory
- c) Answers could include: A standardised global marketing strategy assumes product use and customer needs are the same worldwide, leading to cost savings but potentially ineffective targeting. A customised strategy tailors to different countries' needs, enhancing targeting but increasing costs and time. Qantas exemplifies a customised approach by offering varied food options based on flight origin and employing multilingual staff.

# CHAPTER 4

## Human Resources

### Role of HR Management:

1. Strategic role of human resources
2. Interdependence with other key business functions.
3. Outsourcing – human resource functions and – using contractors – domestic, global

### Key Influences:

1. Stakeholders
2. Legal – the current legal framework
3. Economic
4. Technological
5. Social – changing work patterns, living standards
6. Ethics and corporate social responsibility

### Processes of HR Management:

1. Acquisition
2. Development
3. Maintenance
4. Separation

### Effectiveness of HR Management:

- Indicators
1. Corporate culture
  2. Benchmarking key variables
  3. Changes in staff turnover
  4. Absenteeism
  5. Accidents
  6. Levels of disputation
  7. Worker satisfaction

### Strategies in HRM:

1. Leadership style
2. Job design – general or specific tasks
3. Recruitment – internal or external, general or specific skills
4. Training and development – current or future skills
5. Performance Management – developmental or administrative
6. Rewards – monetary and non-monetary, individual or group, performance pay
7. Global – costs, skills, supply
8. Workplace disputes – resolution: negotiation, mediation, grievance procedures, involvement of courts and tribunals

## 1. The Role of Human Resource Management (HRM)

There are 3 roles of HRM in the syllabus.

### 1. *The strategic role of Human Resources*

Human Resource Management (HRM) strategically manages employer-employee relations to boost performance, ensure legal compliance, and align with long-term business goals.

- Modern HRM sees employees as assets, rather than costs and encourages open communications and goal orientation.
- Modern HRM accepts that legitimate differences exist in workplaces but aims to reduce conflict through effective procedures and relationships.
- Firms with effective employment relation practises manage change more effectively and thus enhance their ability to gain a sustainable competitive advantage.

### 2. *Interdependence with other key business functions*

Interdependence in business refers to the mutual reliance of the four main functional areas on one another. This concept highlights that business functions are closely linked, with decisions in one area impacting others. All key functions depend on human resource management for a properly skilled and motivated workforce to perform business activities.

HR supports operations by hiring the right people, fostering employee growth, and maintaining motivation. Operations, in turn, helps HR identify the required workforce and their optimal use. HR relies on finance for funding to hire, pay, and train staff, while finance depends on HR for skilled financial personnel and workforce management. HR provides the skilled employees and structure for successful marketing, which creates demand and builds a strong brand to attract top talent. Marketing generates demand for products, which operations then produces.

### 3. *Outsourcing*

There are 2 points relevant to outsourcing in the syllabus.

#### a) Human resource functions

Outsourcing HR functions involves transferring entire HR processes, such as acquisition, development, maintenance, or separation to an external provider who takes full responsibility and operates independently, usually through long-term contracts.

Outsourcing HR functions provides specialised expertise, cost efficiency, and allows businesses to focus on core activities. It enables flexible scaling of HR services, ensures legal compliance, and utilises the latest HR technologies.

Advantages of outsourcing HR functions: It enhances efficiency, reduces administrative burdens, and enables quick adaptation to market changes. (Access greater expertise).

Disadvantages of Outsourcing HRM: It can lead to a loss of control over HR processes and company culture, as well as variability in the quality of services provided. This reduced oversight makes it challenging to maintain consistent standards and find reliable providers.

### b) Using contractors

Outsourcing using contractors involves hiring external individuals or firms for specific HR tasks, either domestically or globally. Businesses retain control, integrating contractors' work into their systems for flexibility in short-term or project-based needs.

Contractors provide specialised skills and expertise, enhancing effectiveness and efficiency without long-term commitments, making this approach cost-effective and allowing businesses to leverage local or global expertise for international operations.

#### ■ Domestic Contractors

These providers operate within the same country as the business, understanding local labour laws, culture, and market conditions. Communication is straightforward due to shared language and time zones, ensuring alignment with national regulations and practices.

#### ■ Global Contractors

These providers operate internationally, offering cost savings due to lower labour costs in different regions. They provide diverse perspectives and 24/7 support due to different time zones and enable access to a wider talent pool.

Outsourcing HR functions, such as payroll processing and talent acquisition, allows businesses to leverage external expertise and advanced HR technology, reducing administrative burdens and enhancing efficiency. This practice helps companies stay agile, manage costs effectively, and focus on their primary objectives, leading to improved operational efficiency and cost savings.

### Exercise 4.1

Indicate whether the following statements is true or false.

True / False Questions	True / False
1. Long service leave, sick pay and holiday pay are known as "on-costs"	
2. HRM refers to the relationship between the employer and customers.	
3. Modern HRM does not accept that legitimate differences exist in work places	
4. Modern HRM sees employees as assets rather than costs	
5. Cultural differences are an advantage of outsourcing	

## 2. Key influences on HR

An influence in the context of Human Resource Management (HRM) refers to any factor that can affect, shape, or guide the strategies, practices, and outcomes related to managing people within an organisation.

There are 6 key influences in the syllabus.

### 1. Stakeholders in the Human Resource process

Stakeholders are groups such as employers, employees, unions, employer associations, government, and society, who influence or are impacted by HR decisions and actions. Stakeholders in human resource management often have differing interests, which can lead to conflicts. It is the responsibility of HRM to manage and balance the influences of each stakeholder.

There are 6 stakeholders in the syllabus.

#### a) Employers

An employer is responsible for hiring staff, shaping workforce strategies, implementing policies, allocating resources, and ensuring compliance to drive organisational success and employee well-being. Their decisions impact hiring, training, performance management, and compensation, ensuring alignment with business objectives and legal standards. Effective employer influence boosts employee satisfaction and drives organisational success.

#### b) Employees

Employees are individuals hired by the organisation to perform specific tasks and roles, making them primary stakeholders who directly affect and are affected by HR policies and practices. Their needs, performance, and satisfaction are central to the organisation's success. Employees influence HR practices through expectations for fair compensation, career development, a supportive work environment, and work-life balance, with their feedback shaping HR initiatives. Neglecting employee needs can decrease morale and productivity, impacting organisational performance. Therefore, HRM must prioritise employee satisfaction and foster a positive work culture to achieve organisational objectives.

#### c) Employer Associations

Employer associations are organisations representing the interests of employers in specific industries, providing advocacy, support, and resources related to employment and industrial relations. Employer associations are key stakeholders in HRM because they provide critical support and representation for employers, offering guidance on HR practices, ensuring legal compliance, and facilitating workforce development to standardise and improve HR policies across industries

- These were originally created as counterparts to unions.
- Their main role now is to act on behalf of employers i.e. promote interests of employers within the business environment.
- They provide advice on such things as awards, unfair dismissals, legislative changes and discrimination issues.
- They negotiate agreements and lobby governments on key policy issues.
- One of the largest employer associations in Australia is the ACCI (Australian Chamber of Commerce and Industry), which includes members like the Australian International Airlines Operations Group (AIAOG) and Qantas, while another major association is the AIG (Australian Industry Group).

#### d) Unions

A union is an organisation representing employees' collective interests in negotiations with employers. In Australia, unions advocate for fair wages, safe working conditions, and equitable treatment, influencing HRM through collective bargaining and shaping labour laws. They are key stakeholders because they ensure employee rights are protected and workplaces are fair, promoting industrial harmony and positive employer-employee relationships.

The largest union in Australia, the Australian Council of Trade Unions (ACTU), represents various unions to secure better pay, conditions, and safe workplaces. Its primary role is lobbying the government to achieve these goals.

#### e) Government Organisations

A government organisation in the context of HRM is a regulatory body that enforces employment laws and standards to ensure fair and equitable treatment in the workplace. Government organisations are influential due to their regulatory and legislative roles.

Over time they have significantly affected the industrial relations system as a result of their key roles as:

- Legislator – i.e. they pass laws in parliament which provide the legal framework for industrial relations, e.g. Superannuation Guarantee Act (by Federal Government)
- Employer – Federal and State Government employee nearly 1/3 of Australian workers, e.g. Teachers, nurses, transport workers, post workers, police force.
- Responsible economic manager – Government has some economic goals, i.e. sustained economic growth with low inflation. Government goals often conflict and they can affect industrial relations. e.g. Government wants to improve productivity (micro-economic reform: workplace relations reform) which may conflict with unions and result in job losses.
- Administrator of government policies on industrial relations such as the Fair Work Commission (and industrial tribunals and courts e.g. Federal Court)

The Fair Work Commission (FWC):

- **Role:** The FWC acts as Australia's national workplace relations tribunal. Its primary functions include setting and adjusting minimum wages, approving enterprise agreements, resolving disputes, and maintaining and modernising awards.
- **Responsibilities:** The FWC deals with the approval of enterprise agreements, resolving workplace disputes through conciliation and arbitration, handling unfair dismissal claims, and managing industrial actions.
- **Focus:** It focuses on judicial and legislative aspects of workplace relations, making legally binding decisions to ensure compliance with the Fair Work Act 2009.

Fair Work Ombudsman (FWO):

- **Role:** The FWO is an independent statutory agency responsible for promoting and enforcing workplace laws. It provides education, assistance, and advice to employers and employees.
- **Responsibilities:** The FWO investigates complaints and alleged breaches of workplace laws, conducts audits and inspections to ensure compliance, provides guidance on workplace rights and obligations, and takes enforcement action against non-compliant employers.
- **Focus:** It focuses on education, compliance, and enforcement, ensuring that workplace laws are understood and followed by both employers and employees.

Key Differences:

- **Nature of Functions:** The FWC is a tribunal that makes judicial decisions and resolves disputes, while the FWO is an enforcement and advisory body that educates and ensures compliance with workplace laws.
- **Activities:** The FWC approves agreements, resolves disputes, and sets wage standards. The FWO investigates complaints, provides advice, and enforces compliance.
- **Authority:** The FWC has the authority to make legally binding decisions and resolve disputes, whereas the FWO has the power to investigate, provide guidance, and take enforcement action against breaches of workplace laws.

f) Society

In human resource management, society includes the broader community and social norms influencing HR practices. In Australia, societal expectations shape corporate responsibility, ethical behaviour, and fair employee treatment. These values affect HR policies on diversity, sustainability, and work-life balance. Organisations must adopt fair labour practices, support community initiatives, and ensure transparency to maintain a positive public image, attract talent, and gain consumer trust, which are crucial for business success.

## 2. Legal Influences – the current legal framework

Legal influences, encompassing the current legal framework, play a crucial role in human resource management by establishing the rules and regulations that govern employment practices.

This framework includes various state and federal laws in Australia that dictate standards for fair treatment, workplace safety, anti-discrimination, wages, and benefits. Compliance with these laws is essential to avoid legal penalties, lawsuits, and reputational damage, making the legal framework a key influence on HRM practices and policies.

There are 3 key legal influences in the syllabus

### a) The employment contract

An employment contract is a legally binding agreement outlining the terms and conditions of employment, including job responsibilities, salary, hours, benefits, and termination conditions.

#### Common law rights and responsibilities

Common law rights and responsibilities refer to the duties and entitlements established by judicial decisions and legal precedents rather than by statutes. Unlike specific terms and conditions explicitly included in contracts, common law rights and obligations are generally implied terms. Implied terms are not expressly stated in the contract but are assumed to be part of the agreement based on the nature of the contract, the conduct of the parties, and the custom and practice of the relevant industry.

Under common law in Australia, employers have the following rights and obligations:

- Rights:
  - Expect employees to perform their duties with reasonable care and skill.
  - Receive loyalty and good faith from employees.
  - Enforce workplace policies and lawful instructions.
- Obligations:
  - Provide a safe and healthy work environment.
  - Pay agreed wages and benefits.
  - Act in good faith and fairly towards employees.
  - Ensure compliance with employment contracts and relevant laws, including the Fair Work Act.

Under common law in Australia, employees have the following rights and obligations:

- Rights:
  - Right to a safe and healthy work environment
  - Right to be paid agreed wages and entitlements

- Right to reasonable notice before termination of employment
- Right to fair treatment and non-discrimination
- Right to privacy and confidentiality
- Obligations:
  - Obligation to perform job duties with reasonable care and skill
  - Obligation to follow lawful and reasonable instructions from the employer
  - Obligation to act in good faith and with loyalty towards the employer
  - Obligation to maintain confidentiality of the employer's information
  - Obligation to avoid conflicts of interest and not to act against the employer's interests

### Minimum employments standards

Minimum employment standards in Australia, governed by the National Employment Standards (NES), are a set of 13 legally mandated rights and entitlements that provide the foundation for fair work conditions.

- These standards apply to all employees covered by the national workplace relations system and ensure basic workplace protections, shaping key aspects of human resource management.
- The Fair Work Information Statement is a mandatory document given to new employees in Australia, outlining their rights and entitlements under the Fair Work Act 2009, including standards, awards, agreements, termination rights, and protections against bullying and discrimination.

### Minimum wage rates

Minimum wage rates, set by the Fair Work Commission, are the lowest legal pay for employees. As of 1 July 2024, the National Minimum Wage is \$24.10 per hour or \$915.90 per week for full-time adult employees, with award minimum wages increased by 3.75%.

- These rates are reviewed and updated annually to ensure they meet basic living standards.
- They impact HRM by influencing payroll costs, employee satisfaction, and retention.
- Compliance is essential to avoid legal penalties and uphold fair labour practices, fostering a positive work environment and community trust.

### Awards

Modern awards in Australia are legal documents setting out minimum pay rates and employment conditions for specific industries and occupations.

- They supplement the National Employment Standards (NES) and are overseen by the Fair Work Commission (FWC), they cover pay, working hours, overtime, allowances, and leave entitlements.
- As of 2024, there are over 100 modern awards covering most Australian workers, including those in retail, hospitality, construction, health and aged care, manufacturing, and cleaning.

## Enterprise Agreements

Enterprise agreements in Australia are legally binding agreements between employers and employees within a specific business or organisation, outlining terms such as wages, working hours, and employment conditions.

- Negotiated collectively and approved by the Fair Work Commission, these agreements provide a tailored framework for workplace relations that exceed basic industry award conditions.
- They play a crucial role in HRM by allowing businesses and employees to customise working conditions to suit their circumstances, enhancing workplace harmony and productivity while ensuring compliance with national employment standards.
- Enterprise agreements must comply with the Fair Work Act and pass the “Better Off Overall Test” (BOOT) to ensure employee benefits exceed relevant award standards.

## Other employment contracts

In Australia, employment contracts include various types, each with specific terms and conditions.

- Individual (common law) contracts, negotiated directly between employer and employee, must comply with National Employment Standards and allow for customised terms. Unlike collective enterprise agreements, these contracts are tailored to the individual and are prevalent in the private sector.
- Full-time and part-time contracts offer ongoing employment with entitlements to paid leave and superannuation, differing mainly in hours worked.
- Casual contracts provide flexibility with no set hours but higher hourly rates to compensate for lack of benefits.
- Fixed-term contracts specify employment for a set period or project duration, offering similar benefits to permanent roles but ending automatically at the term’s conclusion.
- Independent contractors, often known as consultants or freelancers, undertake work for others but do not have the same legal status as employees. They carry the risk for the job, covering their own superannuation, tax, insurance, and leave. These contracts are common in the construction industry and in outsourcing arrangements for services like cleaning, gardening, and maintenance.

## b) Work Health and Safety and Workers Compensation

### Work Health and Safety (WHS)

These laws in NSW, governed by the Work Health and Safety Act 2011 (NSW) and enforced by SafeWork NSW, ensure the health, safety, and well-being of workers, customers, visitors, and suppliers involved in workplace activities. These laws set standards for hazard management, incident reporting, personal protective equipment (PPE), and emergency plans.

- WHS regulations are crucial for HRM as they mandate safe work environments, which reduce work-related injuries and boost productivity, despite initial compliance costs for training and safety equipment. Businesses must also have workers' compensation insurance for work-related injuries, and non-compliance can lead to fines, legal action, and reputational damage.
- Worker's compensation
  - Worker's compensation in NSW is a mandatory insurance system providing financial and medical support to employees with work-related injuries or illnesses. Governed by the Workers Compensation Act 1987 (NSW) and the Workplace Injury Management and Workers Compensation Act 1998 (NSW).
  - It provides financial and medical support for employees with work-related injuries or illnesses, covering lost wages, medical expenses, and rehabilitation.
  - Regulated by the State Insurance Regulatory Authority (SIRA) and SafeWork NSW, these laws require businesses to have workers' compensation insurance, protecting employees and reducing employers' financial risks.
  - Compliance helps manage injuries, reduces absenteeism, and prevents legal penalties.

### c) Anti-Discrimination and Equal Employment Opportunity

- Anti-discrimination
  - Australia's federal anti-discrimination laws include the Age Discrimination Act 2004, Disability Discrimination Act 1992, Racial Discrimination Act 1975, Sex Discrimination Act 1984, and the Australian Human Rights Commission Act 1986.
  - These laws protect against discrimination based on age, disability, race, sex, gender identity, and sexual orientation in public life, including employment and education.
  - In NSW, the Anti-Discrimination Act 1977 covers similar grounds, with recent amendments like the Anti-Discrimination Amendment (Religious Vilification) Act 2023 prohibiting religious vilification.
  - The Australian Human Rights Commission and Anti-Discrimination NSW oversee these laws to ensure equality and fairness.
- Equal Employment Opportunity
  - Equal Employment Opportunity (EEO) in NSW aims to create a workplace free from discrimination and harassment, promoting diversity and inclusion across all organisational levels.
  - Governed by the Anti-Discrimination Act 1977 (NSW), EEO ensures that employment decisions are based on merit and that all employees have equal access to opportunities, irrespective of their race, gender, age, disability, sexual orientation, or other personal characteristics.
  - These policies often focus on disadvantaged groups, including women, Indigenous Australians, people with disabilities, different religious groups, culturally and linguistically diverse communities, and LGBTQ+ individuals.

### Case Study 7-Eleven



7-Eleven franchise operators have been fined over a \$1 million after an enquiry by the Fair Work Commission found that they have breached federal workplace laws by failing to pay its workers the minimum hourly rate, keep appropriate employment records and issue pay slips.

Some franchises were paying staff hourly rates as low as \$13 an hour. In some cases, franchises paid staff correctly but required employees to withdraw a portion of their wages at a ATM and pay it back in cash. Typically, these staff were student visa-holders from non-English speaking backgrounds.

As well as the heavy fines 7-Eleven have been ordered to make major changes to its payroll system including installing biometric shift scanning systems and CCTV at all stores to allow head office to monitor work hours to make sure employees are paid correctly.

### 3. Economic Influences

Economic influence on Human Resource Management (HRM) refers to how the broader economic environment affects workforce management.

- The economic environment is crucial as it impacts organisational budgets, employee expectations, and overall HRM practices.
- In Australia in 2024, economic conditions shaped by post-pandemic recovery, global trade dynamics, and domestic fiscal policies significantly influence HRM.
- These factors determine resource availability, labour costs, and employment demand, affecting recruitment, retention, compensation, and training strategies.
- During economic growth, businesses invest more in wages, benefits, and training programs, enhancing employee skills and productivity.
- Conversely, economic downturns may necessitate layoffs, cost-cutting, and reduced investment in training and development.

### 4. Technological Influences

Technology as an influence on human resource management (HRM) refers to the integration and use of digital tools, software, and platforms to enhance and streamline HR functions, improve data management, facilitate communication, and support strategic decision-making within organisations.

- It automates tasks, supports remote work, and enhances recruitment. It enables virtual training and uses AI to make hiring fairer and more efficient.
- Technology boosts productivity, reduces costs, and aids decision-making with data analytics.
- With the rise of remote work, it ensures smooth communication, compliance with regulations, and helps attract top talent, creating a flexible and resilient workforce.

## 5. *Social influences*

Social influences on human resource management (HRM) refer to societal trends and shifts, including changing work patterns and living standards, that affect how organisations manage their workforce.

- The rise of remote and flexible work, driven by the COVID-19 pandemic, has reshaped employee engagement, with higher living standards and a growing demand for work-life balance prompting employees to seek more meaningful work experiences.
- These trends require HR strategies to evolve, ensuring employee well-being, satisfaction, and productivity.
- For example, Qantas has adapted by offering flexible work arrangements to meet new expectations.
- Understanding and integrating these social trends is crucial for organisations to attract and retain talent, maintain morale, and enhance productivity, ultimately driving long-term success in a competitive market.

There are 2 key social influences in the syllabus.

### a) Changing work patterns

Changing work patterns, particularly the rise of remote and flexible work accelerated by the COVID-19 pandemic, have significantly influenced human resource management (HRM) by altering traditional work structures and employee engagement. These changes necessitate evolving HR strategies to support remote infrastructure, maintain productivity, and ensure employee well-being.

### b) Living standards

Higher living standards, marked by increased income, better education, improved healthcare, and overall quality of life, significantly impact HRM. Employees now expect competitive salaries, comprehensive benefits, work-life balance, and professional growth opportunities. HR strategies must thus focus on attractive compensation, flexible working conditions, and supportive workplace cultures.

## 6. *Ethics and Corporate Social Responsibility*

Ethics in HRM involves guiding principles ensuring actions are morally right, fair, and respectful, fostering trust and integrity among employees. CSR in HRM integrates socially responsible practices, focusing on sustainable development, community involvement, and ethical labour, which builds a positive organisational reputation.

- These practices are crucial as they create a positive culture, boost morale, and foster loyalty. Companies prioritising ethical behaviour and social responsibility attract and retain talent effectively.
- HR plays a key role in embedding CSR by integrating these principles into recruitment, management, and development, fostering a culture where CSR is embraced and rewarded.

- A Code of Ethics outlines an organisation's ethical standards and values, influencing HRM by promoting fairness, guiding recruitment, resolving conflicts, and aligning with CSR initiatives, thus supporting ethical practices and performance management.

### Exercise 4.2

Indicate whether the following statements is true or false.

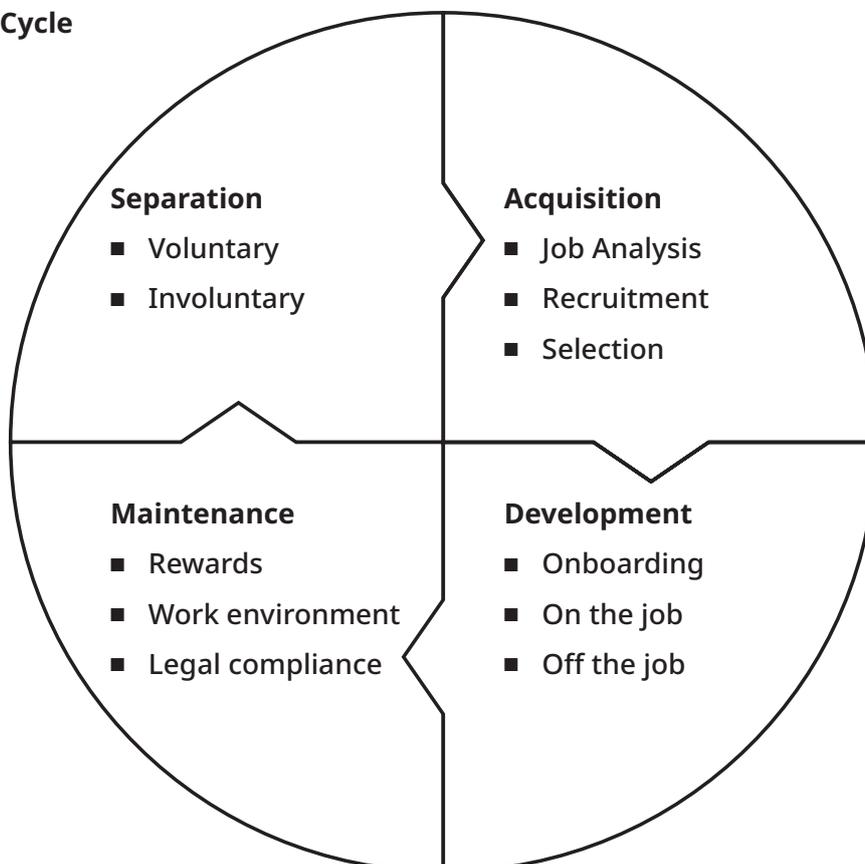
True / False Questions	True / False
1. Economic conditions have little impact on how staff are managed.	
2. Population shifts have created a more ethnically and diverse workforce.	
3. An agreement sets out minimum wages and working conditions.	
4. The views and demands of stakeholder's influence HRM.	
5. Employers are not legally required to take out worker's compensation.	

## 3. Processes of HRM

HRM is an ongoing process.

There are 4 processes, known as the Human Resource cycle, in the syllabus.

Figure 23 HR Cycle



HRM processes consist of a series of activities or steps designed to manage an organisation's workforce effectively. These activities or steps are structured to ensure the systematic and strategic management of human resources.

## *1. Acquisition*

Acquisition in HRM refers to the systematic process of attracting, recruiting, and selecting the most suitable candidates to meet the organisation's workforce needs and goals.

Acquisition involves 3 steps.

### **a) Job Analysis and Workforce Planning**

Identifying the roles and skills required for the organisation's current and future needs.

### **b) Recruitment**

Recruitment is the process of attracting and encouraging many potential candidates to apply for a job opening. It involves creating job advertisements, sourcing candidates, and promoting the job to generate a pool of applicants. Recruitment is critical in the acquisition process as it attracts diverse, high-quality talent, ensuring a suitable match for job requirements and organisational culture. Efficient recruitment reduces time-to-hire and costs, enhances workforce diversity, builds a talent pipeline for future growth, strengthens employer branding, provides a strategic advantage, and ensures legal compliance, thereby reducing hiring risks.

### **c) Selection**

Selection is the process of assessing and choosing the most suitable candidate from the pool of applicants. This involves evaluating candidates' qualifications, skills, and experience through interviews, tests, and other assessment methods to identify the best fit for the role and the organisation.

## *2. Development*

Human Resource Development (HRD) is a strategic and continuous process aimed at enhancing employees' skills, competencies, knowledge, and performance.

### **■ Onboarding**

Introducing new hires to the organisation's culture, policies, and procedures to ensure a smooth transition and integration into the team. Onboarding is part of the development process in HRM, helping new employees transition smoothly into their roles and the organisation. It introduces them to company culture, policies, and responsibilities, ensuring a successful start and setting the stage for future development. While it involves initial training, its focus is on integration.

- HRD helps employees develop their personal and organisational abilities through training, career development, performance management, coaching, mentoring, and succession planning.

- By investing in employees, HRD creates a stronger, more effective workforce, retaining talent, enhancing motivation, and improving performance.
- Planning is crucial to align the development process with business needs. HR managers must identify the goals of training and development programs.
- While often mentioned together, training and development are distinct: Training is a short-term intervention providing specific skills for current roles, addressing immediate needs, while development is a long-term process preparing employees for future roles and enhancing their overall capabilities.
- Development activities may include mentoring, coaching, job rotation, leadership programs, and educational opportunities.

## Benefits of Training and Development

**Figure 24 Benefits of Training and Development**

<p><b>For Employee</b></p> <ul style="list-style-type: none"> <li>■ enhanced skills</li> <li>■ more marketable</li> <li>■ better job satisfaction</li> </ul>	<p><b>For Business</b></p> <ul style="list-style-type: none"> <li>■ more efficient</li> <li>■ more productive</li> </ul>
<p><b>For Economy</b></p> <ul style="list-style-type: none"> <li>■ more competitive</li> <li>■ more productive</li> </ul>	<p><b>For Customer</b></p> <ul style="list-style-type: none"> <li>■ gets a better service/product</li> </ul>

Training and development encompass both on-the-job and off-the-job methods, offering diverse opportunities for learning and growth.

- On-the-job training, such as job rotation, enlargement, and shadowing, provides practical experience and immediate skill application during regular duties.
- Off-the-job training occurs in settings like classrooms, seminars, workshops, or online courses, allowing focused learning without work distractions.

Coaching and mentoring are also key components of HR development.

- Coaching focuses on skill development and performance improvement.
- Mentoring provides long-term personal and professional growth through guidance and support.

Together, they enhance employee skills, performance, engagement, and retention, demonstrating the organisation's commitment to development.

	<b>Advantages</b>	<b>Disadvantages</b>
On the job training	<p>Generally the most cost effective</p> <p>Employees are productive</p> <p>Opportunity of learning whilst doing</p> <p>Training alongside real colleagues</p>	<p>Quality depends on the ability of the trainer and time available</p> <p>Bad habits may be passed on</p> <p>Learning environment may not be conducive</p> <p>Potential disruption of operations</p>
Off the job training	<p>A wider range of skills or qualifications can be obtained</p> <p>Can learn from outside specialists and experts</p> <p>Employees can be more confident when starting a job</p>	<p>More expensive</p> <p>Lost working time and potential output from employee</p> <p>Employees now have new skills and qualifications and may leave for better jobs</p>

Performance appraisal is a systematic process used by organisations to assess employee performance and contributions. It plays a key role in both HR development and maintenance.

- In development, it identifies strengths and areas for improvement, guiding personalised plans, training, and coaching.
- In maintenance, it ensures employees meet job standards, influencing promotions, compensation, and other decisions.

### **3. Maintenance**

Maintenance is a key part of the HR process, focusing on retaining staff and managing their overall well-being. Maximising employee well-being involves creating a supportive environment with inclusive decision-making, teamwork, and collective bargaining, while addressing concerns through regular staff surveys and promoting work-life balance with flexible hours, job sharing, and telecommuting.

- Maintenance encompasses health and safety, industrial relations, and legal responsibilities, including compensation and benefits (rewards).
- It aims to create a supportive work environment, ensure compliance with labour laws, and address employee needs.

Key elements of HR maintenance include:

- Promoting open communication, resolving conflicts, and fostering a supportive work culture. Effective communication through team meetings, newsletters, staff seminars, and social functions is vital to prevent workplace conflict and high turnover.
- Performance management involves providing feedback, recognising achievements, and addressing performance issues. Performance appraisals are integral to maintenance, offering regular feedback and recognition to enhance job satisfaction and motivation.
- Ensuring fair compensation and competitive benefits (rewards), such as health insurance and retirement plans, adheres to the National Employment Standards (NES). Employee compensation and benefits - both monetary (competitive salaries, bonuses, superannuation, paid leave, tuition assistance) and non-monetary (flexible working, professional development, wellness programs, on-site childcare, recognition, career advancement, employee discounts), are crucial for attracting and retaining talent.
- Health and safety measures comply with Australian regulations and include providing a safe work environment and safety training. Workplace health and safety compliance requires employers to provide a safe environment free from hazards like noise and chemicals. This involves conducting regular risk assessments, implementing safety controls, and ensuring employees receive adequate training on emergency procedures and hazard prevention.
- Career development focuses on training, skill enhancement, and career advancement opportunities which improves employees' abilities, supporting professional growth, and enabling progression in their careers, benefiting both individuals and the organisation.
- Employee engagement initiatives boost morale and job satisfaction, while talent retention strategies aim to keep top talent.
- Legal compliance involves adhering to Australian labour laws, employment standards, and contractual obligations. E.g. NES, Work Health and Safety, Workers Compensation, Anti-Discrimination, EEO etc.

Together, these practices foster a motivated, engaged, and productive workforce, enhancing overall well-being, job satisfaction, and a positive organisational culture.

Poor maintenance will lead to unmotivated staff. Problems associated with unmotivated workers include:

- Unmotivated employees are likely to work inaccurately and inefficiently.
- There could be an increase in absenteeism which could disrupt projects and increase costs.
- Unmotivated employees can affect the morale of other workers.

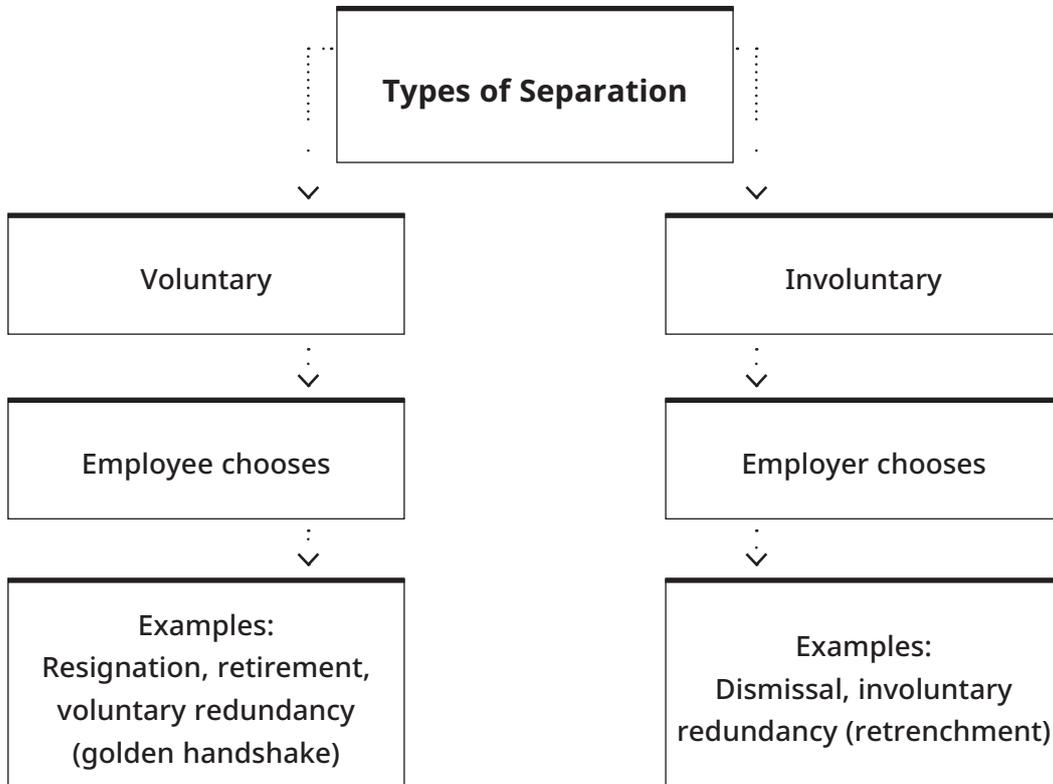
#### *4. Separation*

Separation in the HR cycle refers to the process of an employee leaving an organisation, whether through resignation, retirement, termination, or redundancy.

Separation can be either voluntary or involuntary.

- Voluntary separation happens when an employee chooses to leave for personal or professional reasons.
- Involuntary separation is initiated by the organisation due to reasons such as poor performance, disciplinary issues, restructuring, or downsizing.

**Figure 25 Types of Separation**



HR should conduct the separation process fairly and transparently to minimise business disruptions, personal conflicts, and potential legal action, while maintaining morale, productivity, and the business’s reputation.

Redundancy occurs when an employee’s job is no longer needed due to various reasons such as technological changes, decreased demand, business closure, relocation, or restructuring.

- This results in the elimination of the role itself.
- Legal requirements include redundancy pay and consultation processes to ensure fair treatment of affected employees.

Unfair dismissal occurs when an employee is terminated harshly, unjustly, or unreasonably, such as without valid reason or proper procedure, including inadequate consultation in redundancy.

- The Fair Work Act 2009 protects against unfair dismissal, setting criteria based on employment length and employer size.
- Employees can appeal to the Fair Work Commission within 21 days for reinstatement, compensation, or other remedies if they’ve been unfairly dismissed.

**Exercise 4.3**

Indicate whether the following statements is true or false.

True / False Questions	True / False
1. Voluntary separation is when the employer decides.	
2. The main purpose of recruitment is to attract a sufficient number of applicants.	
3. Ongoing training should be part of every workplace.	
4. Off the job training is generally the most cost effective.	
5. Separation is the ending of the employment contract.	

**4. Strategies in HRM**

Businesses are increasingly recognising the value of effective human resources. Therefore, they are seeking strategies to better manage their staff. Strategies in HRM involve planning and implementing practices (methods) to manage an organisation's human resources, focusing on acquisition, development, maintenance, separation, and aligning workforce capabilities with business goals.

There are 8 strategies in HRM in the syllabus.

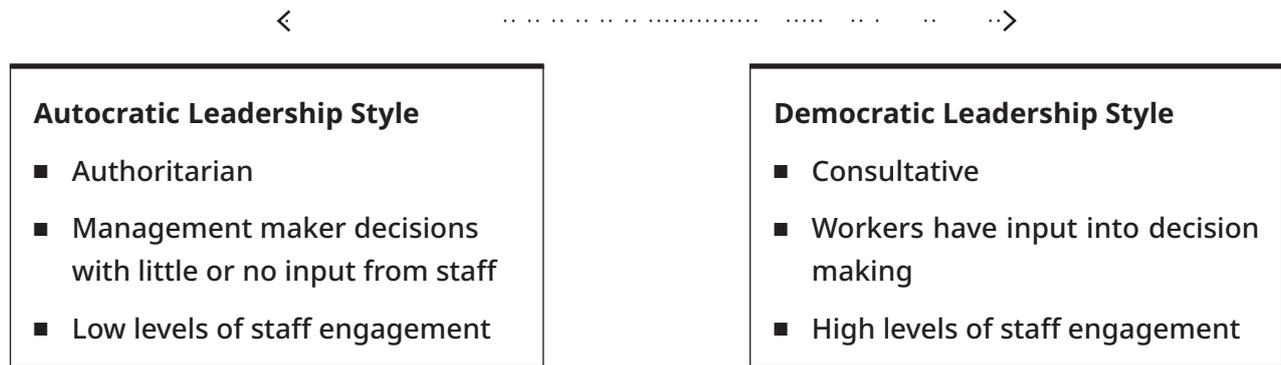
**1. Leadership style**

Leadership styles are the various approaches and methods leaders use to guide, motivate, and manage their teams. They determine how decisions are made, focusing on the level of input and freedom given to workers.

Different styles are employed to manage different workers and situations effectively.

Leadership style is a strategy in HRM impacting organisational culture, employee engagement, and productivity. The right style creates a positive work environment, improves communication, and boosts satisfaction. It aligns the workforce with goals, fosters improvement, and ensures effective conflict resolution and decision-making.

Effective leaders influence team behaviour and morale, inspiring efficient achievement of objectives. They possess strong interpersonal skills, adaptability, energy, confidence, and decisiveness. No single style is best; each has strengths suited to different situations.

**Figure 26 Leadership Styles**

2 other leadership styles include:

- **Bureaucratic:** This style relies on strict adherence to established procedures and hierarchical structures, with leaders making decisions based on rules and regulations. This style works best where jobs are dangerous and strict procedures should be followed, i.e. risky tasks are carried out. The problems with this style are that it usually results in de-motivated staff.
- **Laissez-faire:** This style involves minimal interference from leaders, who provide broad goals and guidelines while allowing team members significant autonomy in decision-making and task execution. This style works best with staff that are experienced.

## 2. Job Design

Job design involves structuring work tasks and responsibilities to enhance efficiency, productivity, and employee satisfaction. It includes job simplification to reduce complexity, job enlargement to add variety, job rotation to develop skills, and job enrichment to increase autonomy and responsibility.

Well-designed jobs align tasks with skills, streamline processes, and provide meaningful work and development opportunities, which boosts productivity and job satisfaction while reducing turnover and absenteeism, thereby improving organisational effectiveness and employee well-being.

Job design strategies include:

- **Job rotation-** Employees move from one job to another. Pluses – variety, challenge, and multiskilling.
- **Job enlargement –** Employees are given additional tasks. Pluses – increase motivation, and a pathway to promotion.
- **Job enrichment –** Employees are given more challenging tasks. Pluses – increased responsibility and autonomy, leading to greater job satisfaction and higher retention rates.

Job design in HRM optimises job roles and enhances organisational effectiveness through general and specific tasks.

### a) General tasks

General tasks involve simplifying roles to improve efficiency and using job enlargement to add variety and reduce monotony.

### b) Specific tasks

Specific tasks focus on job enrichment, adding autonomy and responsibility to increase employee motivation and satisfaction.

These strategies collectively align job roles with organisational objectives, enhance job satisfaction, and optimise performance, requiring ongoing assessment to meet evolving needs.

## 3. Recruitment

Recruitment was covered in detail as part of the acquisition process.

Recruitment is a crucial HRM strategy focused on attracting, selecting, and appointing suitable candidates for job positions within an organisation.

- Recruitment is a strategic HRM function that aligns an organisation's workforce with its goals and objectives.
- A well-planned recruitment strategy attracts and retains the right talent, essential for success.
- It involves understanding current and future talent needs, employer branding, and creating a positive candidate experience.
- Recruitment can be categorised into internal and external methods and can focus on acquiring general or specific skills. It is a crucial part of the HRM acquisition process.

Recruitment methods include:

### a) Internal

Internal recruitment involves filling job vacancies with current employees from within the organisation.

### b) External

External recruitment involves attracting candidates from outside the organisation to fill job vacancies.

**Figure 27 Recruitment Methods**

	<b>Internal Recruitment</b>	<b>External Recruitment</b>
Examples	Promotions, transfers	Advertisements (particularly online), contractors, head hunters, competitors
Benefits	<p>Familiarity with employees aids in accurate job placement</p> <p>Provides motivation of employees to perform well and develop skills</p> <p>Lowers overall training and induction costs</p> <p>Vacancies can be filled more quickly at a lower cost</p>	<p>Tends to increase selection accuracy</p> <p>Prevents the ripple effect that arises from hiring from within</p> <p>Tends to bring in new ideas and innovations</p>
Limitations	<p>Employees may not be prepared or qualified for the vacancy</p> <p>May cause a ripple effect as one vacancy filled from within causes another vacancy</p> <p>May lower the influx of new ideas and innovation</p>	<p>Increases the recruitment and selection costs</p> <p>Increases training and induction costs</p> <p>Takes longer to fill vacancies</p> <p>May lower employee motivation and morale</p>

Businesses may need to attract staff with:

### c) General Skills

General skills recruitment focuses on hiring candidates with broad and versatile skill sets that are applicable across various roles and departments. This includes skills such as communication, problem-solving, teamwork, and adaptability.

### d) Specific skills

Specific skills recruitment targets candidates with highly specialised skills and qualifications required for particular job roles. This approach focuses on finding individuals with expertise in niche areas, such as technical skills, certifications, or industry-specific knowledge.

People with general skills can adapt to various roles and are often a good cultural fit within a workplace, allowing their job to be customised to their talents. However, these skills may not be crucial for performing specific tasks. On the other hand, complex jobs often require specific skills to maintain quality and ensure tasks are completed effectively. Individuals with specific skills may be less adaptable, harder to find, and may demand higher wages.

Thus, organisations benefit from hiring people with both general and specific skills.

#### ***4. Training and Development (T&D)***

Training and development encompass organisational activities aimed at enhancing employee performance and self-fulfilment by acquiring new skills, knowledge, and abilities. Training focuses on short-term skill acquisition, while development is oriented towards long-term growth and career progression.

There are 2 training and development strategies in the syllabus.

##### **a) Current Skills**

Training for current skills focuses on enhancing employees' proficiency in their present job roles. This can include learning new technologies to boost efficiency or adopting updated quality management practices to minimise errors. The impact of this training is immediate, as employees can quickly implement their new skills, leading to increased productivity and improved work standards.

##### **b) Future Skills**

Training for future skills is aimed at preparing employees for potential future roles and responsibilities. This involves developing a diverse skill set that allows employees to step in for absent colleagues or advance to higher positions. Such training is also a strong motivational tool, as it promotes personal growth and marketability, making employees feel valued and invested in. This approach supports succession planning and equips the organisation to adapt to future challenges and opportunities.

- Training and Development (T&D) of current skills as an HRM strategy refer to the essential abilities and competencies employees need to perform their existing job roles effectively.
- Training and Development (T&D) of future skills as an HRM strategy refer to the abilities and competencies employees will need to adapt to emerging technologies, industry trends, and organisational changes.

**Figure 28 Current v Future Skills**

	<b>Current skills</b>	<b>Future skills</b>
<i>Definition</i>	Employees taught skills to do their job better	Employees taught skills that can be used in the future
<i>Examples</i>	Teaching employees to use new technology, software, process	Developing management skills, training staff to do tasks performed by others
<i>Advantages</i>	Allows employees to keep up with new technology, can motivate staff because they feel they can do their job better, leads to a higher standard of work (productivity)	Great for succession planning, can be a very effective motivational tool, reduce staff turnover
<i>Disadvantages</i>	If they are learning the same things this may not be a good motivator (may get bored), once a certain level of competence is achieved further improvements may be minor	Employees may leave the business before applying their new skills, future is unpredictable

## 5. Performance management

Performance management as a HRM strategy involves aligning employee performance with organisational goals through continuous assessment and improvement.

Performance management is crucial as a HRM strategy because it aligns employee performance with organisational goals, enhancing productivity and clarity. It fosters development and engagement through regular feedback and growth opportunities, leading to higher job satisfaction and retention. It also ensures fair, transparent decisions on promotions and compensations, maintaining trust and legal compliance. Overall, it maximises employee potential and supports organisational success.

There are 2 performance management strategies in the syllabus.

### a) The developmental approach

The developmental approach to performance management focuses on employee growth by providing regular feedback, setting clear goals, and creating personalised development plans to enhance skills and job satisfaction.

## b) The administrative approach

The administrative approach to performance management emphasises formal evaluations, using systematic appraisals, ratings, and documentation to make informed decisions about promotions, compensations, and terminations, ensuring fairness and legal compliance.

The developmental approach focuses on nurturing talent and motivation, while the administrative approach ensures accountability and transparency. Together, they create a balanced performance management system that supports employee growth and informed decision-making.

## 6. Rewards

A reward refers to the various incentives and benefits provided to employees to motivate, retain, and enhance their performance. These rewards can be financial or non-financial and are designed to align employee efforts with the organisational goals, improve job satisfaction, and foster a positive work environment.

Rewards can be:

- Monetary and non-monetary
- Individual or group
- Based on performance, known as performance pay.

### a) Monetary rewards

- A monetary reward refers to financial incentives provided to employees, including salaries, bonuses, profit sharing, and share options.

### b) Non-Monetary rewards

- These non-monetary rewards refer to various forms of recognition, benefits, and perks that businesses provide to employees without direct financial compensation, aimed at motivating, retaining, and enhancing their performance and satisfaction.

**Figure 29 Examples of Monetary and Non-Monetary Rewards**

Monetary (Financial) Rewards	Non-monetary Rewards
Bonus, commission, profit share, employee share schemes	Flexible working conditions, recognition, career opportunities, interesting work

Strategies for rewarding workers with monetary benefits:

### c) Individual or Group

Individual rewards refer to benefits given to employees based on their personal performance and achievements. These can include performance bonuses, salary increases, promotions,

and personalised recognition programs. Group rewards are benefits provided to a team or group of employees based on their collective performance and achievements. These rewards can include team bonuses, profit-sharing schemes, and collective recognition events. Group rewards aim to foster collaboration, enhance team cohesion, and create a shared sense of achievement.

#### d) Performance Pay

Performance pay, also known as performance-based compensation, is a reward system in HRM that ties an employee's pay directly to their performance and achievements. This can include bonuses, commissions, and merit-based salary increases. Performance pay is designed to incentivise employees by rewarding them for meeting or exceeding specific performance targets.

### 7. *Global*

A global Human Resource Management (HRM) strategy involves planning and implementing HR policies to manage a company's workforce across multiple countries. Key elements include attracting and retaining global talent, providing culturally relevant training, creating competitive compensation packages, and establishing consistent performance management processes. It ensures compliance with local labour laws, promotes diversity and inclusion, manages employee relations, leverages HR technology, and supports leadership development.

There are 3 global strategies in the syllabus.

#### a) Costs

A global HRM strategy manages international operation costs by offering competitive compensation, covering expatriate relocation, and providing culturally relevant training. It includes compliance with diverse labour laws, implementing global HR systems, and addressing varied healthcare needs. Effective cost management balances competitive offerings with budget constraints to ensure financial sustainability and attract top global talent.

#### b) Skills

A global HRM strategy focuses on developing and utilising a multinational workforce's skills to enhance global operations and competitiveness. Key elements include attracting globally competent talent, providing culturally relevant training, fostering continuous learning, and creating leadership and succession plans. It also involves consistent performance management, promoting cultural sensitivity and inclusion, and using HR technology to track and develop skills across regions, ensuring employees are equipped to drive organisational success in a competitive global market.

## Case Study GOOGLE

Google is one of the top technology companies in the world. As well as providing great monetary benefits to its employees the tech giant has an amazing array of non-monetary benefits that attracts and keeps great staff like even bringing pets to work. These include:

- **Healthcare Benefits:** Comprehensive medical, dental, and vision insurance, onsite health clinics, and fitness facilities.
- **Free Meals:** Free breakfasts, lunches, and dinners at various office cafes and canteens.
- **Transportation:** Free rides to and from work on designated Wi-Fi-equipped buses.
- **Parental Leave:** 18 weeks of paid leave for mothers and 6 weeks for fathers, plus a baby bonus.
- **Onsite Daycare:** High-quality daycare facilities with tailored learning plans.
- **Fitness and Wellness Programs:** Access to fitness centres, free gym memberships, mental health support, and wellness programs.
- **Flexible Work Arrangements:** Hybrid work model with two work-from-home days weekly and four “work from anywhere” weeks annually.
- **Career Development:** Opportunities through training, seminars, and the 80/20 rule for passion projects.
- **Paid Time Off:** Generous PTO including vacation, sick leave, bereavement leave, and holidays.
- **Financial Benefits:** Competitive compensation, 401(k) matching, stock options, and student loan reimbursement.
- **Additional Perks:** Free cooking classes, onsite services like laundry and haircuts, and massage credits for outstanding performance.

### c) Supply

A global HRM strategy ensures a skilled, diverse workforce for international operations by sourcing talent globally, creating pipelines for local and expatriate employees, and tailoring recruitment strategies to regional needs. It includes accessible training programs, continuous learning, leadership succession planning, and maintaining an adaptable talent pool. This approach ensures the organisation has the right people in the right places to support its global business objectives.

**Figure 30 Global Advantages and Disadvantages**

Global advantages in terms of costs, skills and supply	Global disadvantages in terms of costs, skills and supply
<ul style="list-style-type: none"> <li>■ Labour rates are much lower especially in Asia</li> <li>■ Increases the labour supply from which HR managers can recruit workers (Aust in particular faces skills shortages)</li> </ul>	<ul style="list-style-type: none"> <li>■ Harder to control the quality and product requirements (may see a fall in quality)</li> <li>■ Cost of training labour in new skills</li> <li>■ Can produce bad publicity for the business</li> <li>■ Differences in language, culture etc makes management difficult</li> </ul>

A global business can use one of the following staffing models:

- Ethnocentric – employing staff from the parent company (expat) to key management positions.  
Advantages: They already know about the business and its culture, possibly more qualified and skilled.
- Polycentric – employing a local (from the host country) to a key management position.  
Advantages: They already understand local laws, cultures, language etc, avoids expenses with expatriate managers (relocation costs)
- Geocentric – employing the best, most suitable candidate irrespective of country/ nationality.

### 8. Workplace disputes

Conflict between HR stakeholders is inevitable – they have conflicting interests. Workplace disputes can be damaging. A workplace dispute is a withdrawal from work or a refusal to permit some or all members to work.

Workplace disputes as a Human Resource Management (HRM) strategy involve proactively identifying, addressing, and resolving conflicts to maintain a productive and harmonious work environment.

Disputes usually arise during enterprise bargaining over:

- Remuneration – wages, allowances, entitlements
- Employment conditions – working hours, leave, benefits, health and safety
- Job security/management issues – restructuring, downsizing, outsourcing, suspensions or discrimination

Workplace disputes include things like strikes, pickets, work to rule, lockouts, bans.

Dispute resolution typically refers to processes used to resolve conflicts between the employer and employees. Businesses seek to minimise workplace disputes. Many firms try and develop a corporate culture in which disputes are minimised through cooperative working relationships and by training staff in procedures, policies and guidelines for managing disputes. Effective HR requires prompt and equitable settlement of disputes.

The process of resolving a dispute can be complex and it depends on the willingness of stakeholders to cooperatively work together to reach a settlement satisfactory to all parties.

There are 4 resolution strategies in the syllabus.

#### a) Negotiation

Negotiation as a resolution HRM strategy involves structured discussions between employers, employees, and sometimes union representatives to resolve workplace disputes. Negotiation is usually the first step, where the involved parties try to reach a consensus through direct discussions. This process includes preparation, discussion, clarification, bargaining, agreement, and implementation. This approach prevents disputes from escalating, strengthens employee-management relationships, and leads to sustainable outcomes, thereby maintaining a harmonious and productive work environment.

#### b) Mediation

If negotiations do not lead to a satisfactory resolution, mediation is then introduced as an alternative dispute resolution method. Mediation as a resolution involves using a neutral third party to facilitate discussions between conflicting parties to resolve workplace disputes. This process includes the mediator meeting with both parties separately and together, identifying underlying issues, and encouraging cooperative problem-solving. The most common mediators in workplace disputes are provided by the Fair Work Commission (FWC). The decision reached through mediation is not binding.

#### c) Grievance procedures

Grievance procedures as a resolution HRM strategy involve a formal process for employees to raise concerns or complaints about workplace issues. This process typically starts with the employee lodging a complaint with their immediate supervisor or HR department. The grievance is then investigated, with both parties given the opportunity to present their perspectives. If the issue is not resolved at this level, it may be escalated to higher management or an external body like the Fair Work Commission (FWC).

#### d) Involvement of courts and tribunals

In Australia, the involvement of courts and tribunals in the resolution HRM process occurs when workplace disputes cannot be resolved through negotiation or mediation. Involvement of courts and tribunals as a resolution HRM strategy in Australia refers to escalating workplace disputes to legal bodies for formal adjudication. The Fair Work Commission (FWC) and other relevant tribunals, such as state industrial relations commissions, handle these disputes. The Fair Work Commission (FWC) acts as an arbitrator to resolve workplace disputes. The FWC

can make binding decisions on a range of workplace issues, including unfair dismissal, wage disputes, and industrial action. In some cases, disputes may escalate to the Federal Court or the High Court of Australia. This process ensures a legally binding resolution, requiring all parties to comply with the final decision.

**Exercise 4.4 Matching**

Match the following statements with the correct terms below.

1. When a position is filled by existing employees.	
2. Process of assessing employee behaviour.	
3. The way that a set of tasks, or an entire job is organised.	
4. The steps followed to resolve a workplace difference.	
5. Discussions between parties to solve an industrial dispute.	

**Word Bank:** Grievance procedure, Negotiation, Performance management, Internal recruitment, Job design

**5. Effectiveness of Human Resource Management**

Human Resource strategies are expensive. To ensure the effectiveness of HR strategies, evaluation is essential. The impact on the bottom line (valued in terms of profits/costs) must be justified if the Human Resource function is to be effective.

There are 7 indicators of effectiveness of HRM in the syllabus.

An indicator of HRM effectiveness is a measurable metric used to assess how well human resource management practices contribute to organisational objectives and employee well-being.

*1. Corporate culture*

Corporate culture refers to the shared values, beliefs, attitudes, and behaviours that characterise an organisation, shaping how employees and management interact, make decisions, and approach work tasks. It includes the organisation’s mission, vision, ethics, communication styles, leadership practices, and employee relations, defining the work environment and influencing performance. A strong corporate culture aligns employees with organisational goals, enhances job satisfaction, and fosters engagement. Effective HRM practices that support positive cultural aspects lead to lower turnover rates, higher productivity, and improved employee morale.

*2. Benchmarking key variables*

Benchmarking in HRM involves comparing key performance metrics like employee turnover, absenteeism, training effectiveness, and satisfaction scores against industry standards or

competitors. By assessing these critical variables against established benchmarks, organisations can identify strengths and weaknesses, set improvement targets, and enhance HR processes to align with goals and boost employee satisfaction and productivity.

### *3. Changes in staff turnover*

Changes in staff turnover measure the rate at which employees leave an organisation, expressed as a percentage. Calculated by dividing the number of departures by the average number of employees, turnover can be voluntary (resignations) or involuntary (terminations, layoffs). High turnover often indicates issues like dissatisfaction or poor management, while low turnover suggests stability and satisfaction. This metric is vital for assessing HRM effectiveness, reflecting retention strategy success, employee satisfaction, and organisational health. Monitoring turnover helps HR improve workforce stability and performance.

### *4. Absenteeism*

Absenteeism, defined as regular or recurring unapproved absences during scheduled work hours, includes unplanned absences due to illness or personal issues. It reflects workforce morale, health, and productivity, often indicating issues like disengagement or poor management. Effective HRM addresses absenteeism by fostering a positive work environment, implementing health and safety policies, and offering wellness programs and flexible arrangements. Monitoring absenteeism helps HR professionals identify trends, develop interventions, and enhance HRM effectiveness by improving engagement and reducing costs.

### *5. Accidents*

Accidents, key indicators of HRM effectiveness, refer to unplanned workplace events causing injury, illness, or property damage. Tracking their frequency, severity, and types helps identify safety deficiencies or effective policies. High accident rates indicate poor safety measures; low rates suggest effective ones. Monitoring accidents aids in hazard identification, preventive measures, and safety protocol improvement, enhancing employee well-being, reducing costs, and fostering a positive safety culture. Effective safety management positively impacts organisational performance and employee satisfaction.

### *6. Levels of disputation*

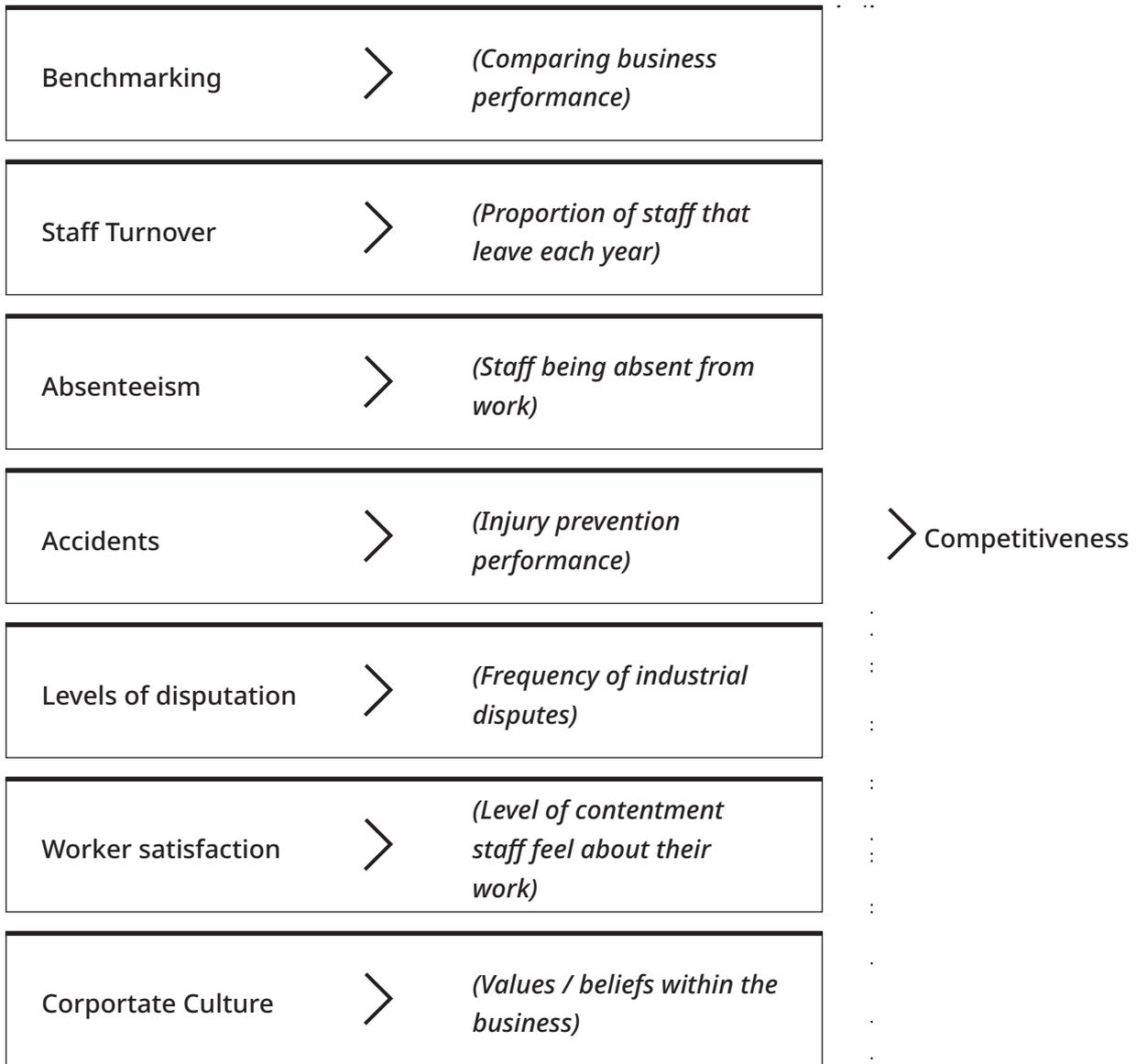
Levels of disputation, key HRM effectiveness indicators, refer to the frequency and severity of workplace conflicts. High rates indicate poor conflict resolution, while low rates suggest effective HR policies. Monitoring these levels helps identify underlying issues, address grievances, and improve employee relations, fostering a harmonious work environment. Effective dispute management enhances organisational performance and employee satisfaction.

### *7. Worker satisfaction*

Worker satisfaction is a key HRM indicator measuring employees' contentment with their roles, work environment, management, and organisational culture. It includes job fulfilment, work-life balance, recognition, compensation, career development, and relationships. Assessed

through surveys and feedback, high satisfaction indicates effective HRM practices, leading to lower turnover and higher engagement, while low satisfaction signals potential issues. Regular measurement helps HR identify improvement areas and enhance employee well-being and performance.

**Figure 31 Effectiveness of HRM**



**Exercise 4.5**

## Multiple Choice Question

Select the alternative A, B, C or D which best answers the question.

1. Which would cause high staff turnover?
  - a) Democratic management style
  - b) Flexible working conditions
  - c) Job rotation
  - d) Autocratic management style
  
2. Which of the following best outlines the strategic role of human resource management?
  - a) Maintenance of employee information records and payroll
  - b) Delivery of line management human resources in all businesses and work places
  - c) Management of the employer/employee relationship to achieve business goals
  - d) Management aimed at increasing competitiveness.
  
3. Which of the following are characteristics of independent contractors?
  - a) They are typically self-employed and are entitled to the same benefits as full time employees
  - b) They are entitled to the same benefits as full time employees and work for a fee within a set timeframe
  - c) They work for a fee within a set timeframe and arrange their own insurance and superannuation
  - d) They arrange their own insurance and superannuation, and their employment is typically ongoing and continuous.
  
4. A sporting goods company prepares a job description for a new role. This is an activity within which human resource process?
  - a) Acquisition
  - b) Selection
  - c) Identify staff needs
  - d) Maintenance
  
5. Which of the following is an example of involuntary separation?
  - a) Resignation
  - b) Retirement
  - c) Redundancy
  - d) Referral

6. What is the process concerned with keeping valuable staff?
- a) Acquisition
  - b) Development
  - c) Maintenance
  - d) Separation
7. What does induction involve?
- a) Examination used to recruit staff
  - b) Introduction to the practices of the business
  - c) Performance appraisal of staff
  - d) Job rotation
8. Which of the following is an example of non-monetary rewards?
- a) Independence and flexible hours
  - b) Profit sharing and redundancies
  - c) Employee share scheme and performance pay
  - d) Increased wages and an upgraded company car
9. Which of the following provisions is included in the National Employment Standards?
- a) Up to five weeks notification by either employee or employer of separation
  - b) Paid leave to work for natural disaster relief organisations like the SES
  - c) A maximum of 38 hours for full-time employees plus reasonable additional hours
  - d) six weeks paid annual leave each year (pro rata).
10. Which of the following Act of parliament is the most current Act which governs occupational health and safety in the workplace?
- a) Occupational Health and Safety Act
  - b) Work Cover Act
  - c) Workers Compensation Act
  - d) Work Health and Safety Act

11. Mason Stein has been recruited as a senior accountant for an accounting firm. He has negotiated a salary of \$150 000 plus superannuation and a company car. Which of the following employment contracts is likely to be used by Mason?
- a) Modern Awards
  - b) Enterprise agreements
  - c) Common Law contract
  - d) Mediation agreements
12. Who administers work health and safety laws and worker's compensation in NSW?
- a) Fair Work Commission
  - b) Safework NSW
  - c) Work Cover NSW
  - d) Fair trading NSW
13. Increased demand for gold due to global financial insecurity causes a gold-mining company to increase the number of people employed in their mines. What type of influence on human resources was this?
- a) Financial
  - b) Social
  - c) Economic
  - d) Legal
14. Kevin works as a teacher at an independent school in NSW. The School has its own salary agreement with its staff. What is the name of the employment contract the school uses to employ its staff?
- a) Modern Award
  - b) Enterprise Agreement
  - c) Australian Workplace Agreement
  - d) Common Law Contract
15. Which of the following correctly lists the four processes of human resource management?
- a) Recruitment, Acquisition, Development and Maintenance
  - b) Acquisition, Development, Separation and Training
  - c) Acquisition, Development, Maintenance and Separation
  - d) Recruitment, Maintenance, Separation and Performance Management

**Exercise 4.6**

SA Airways is a global airline company that is facing increasing competition. Management have decided to downsize the workforce by 30% through making certain positions redundant and offering new financial incentives for remaining staff to increase their productivity.

- a) Identify the TWO human resource processes that will be used in this situation. 2
- b) Explain how changes in technology might influence human resource management at the airline. 2
- c) Explain how TWO stakeholders would influence the human resource process of SA Airways. 4

**Exercise 4.7**

- a) Identify TWO stakeholders of the human resource function. 1
- b) Outline TWO minimum employment standards a Human Resource department should be aware of when re-negotiating a new enterprise agreement. 2
- c) How do unions influence human resource management? 3
- d) Explain ONE advantage and ONE disadvantage of globally outsourcing. 4

**Exercise 4.8**

Kulula International is a leading global hotel company that is facing increasing competition. Management have decided to downsize the workforce by 25% by making certain positions redundant and aim to train and develop the remaining staff.

- a) Identify the TWO human resource processes that will be used in this situation. 2
- b) Outline TWO legal factors which could influence Human Resource management at Kulula International. 4
- c) Describe ONE advantage of a well trained workforce for Kulula International. 2
- d) Explain how human resource maintenance could be used to improve business performance at Kulula International. 4

## Answers to Exercises

### Exercise 4.1

1. True 2. False 3. False 4. True 5. False

### Exercise 4.2

1. False 2. True 3. False 4. True 5. False

### Exercise 4.3

1. True 2. False 3. True 4. False 5. True

### Exercise 4.4

1. Internal recruitment 2. Performance management 3. Job Design  
4. Grievance procedure 5. Negotiation

### Exercise 4.5

1. D, 2. C, 3. C, 4. A, 5. C, 6. C, 7. B, 8. A, 9. C, 10. D, 11. C, 12. B, 13. C, 14. B, 15. C

### Exercise 4.6

- a) Sample Answer: Maintenance and separation
- b) Sample Answer: The introduction of improved technology in airline operations may lead to staff layoffs and position redundancies, requiring management to address employee concerns sensitively. Additionally, the remaining staff will need extra training to adapt to the new technology, potentially facing resistance due to the need to learn new skills.
- c) Answers could include: employers, employees, employer associations, unions, government and society

Sample Answer: SA Airways employers and employees, including their respective associations and unions, will negotiate productivity incentives. Employer associations will assist in crafting legally compliant, cost-effective incentives and guide on legal redundancy procedures. Unions will support employees in negotiating favourable incentives and navigating redundancy rights.

**Exercise 4.7**

- a) Answers could include: Employers, employees, unions, employer associations, government organisations, society
- b) Answers could include: Maximum weekly hours of work, requests for flexible work arrangements, parental leave and related entitlements, annual leave, personal/carer's leave and compassionate leave, community service leave, long service leave, public holidays, notice of termination of employment, provision of fair work information sheet

Sample Answer: The human resource department should be aware of the maximum weekly hours of work which is 38 hours a week plus reasonable additional hours as well as annual leave entitlements which are generally four weeks paid leave per year.

- c) Answers could include: ACTU, Independent education union, transport workers union etc.

Sample Answer: Unions act on behalf of employees in collective bargaining sessions and before industrial tribunals and courts. They provide advice on matters such as unfair dismissals and discrimination issues, make submissions to safety net wage claims, negotiate agreements and lobby governments with the views of employees.

- d) Answers could include: Outsourcing – Global Outsourcing

Advantages – Cost savings, economies of scale, regulatory differences, access new ideas, allows bus to focus on core activity,

Disadvantages – ethical considerations/reputation image, loss of quality, communication issues, logistics complexity, loss of skills, cultural differences

Sample Answer: Global outsourcing involves hiring third-party companies from around the world to perform business functions, offering benefits like cost savings due to cheaper labour in some countries, which can lead to lower production costs, competitive pricing, and increased profits. However, it also introduces challenges such as complicated logistics and coordination, potentially leading to inefficiencies and quality issues that could negatively affect sales.

**Exercise 4.8**

- a) Answers could include: Development and Separation
- b) Answers could include: The employment contract, minimum employment standards, minimum wage rates, awards, enterprise agreements, common law contracts.

Sample Answer: Modern awards provide the minimum legal standards and conditions in a particular occupation or industry. An award covers such employment conditions as pay rates, penalty rates, hours of work, superannuation, and other relevant conditions.

Common law contracts are legally enforceable contracts for higher paid (> \$118k) employees. The terms and conditions are not able to go below the relevant award for the industry.

Both will influence the HR management of a business as they represent minimum costs to the business.

- c) Answers could include: Increased efficiency and productivity

Sample Answer: A well trained workforce at Kulula International will perform their required tasks to a high standard, thereby increasing efficiency and productivity in the business. This may, in turn result in lower costs, greater customer satisfaction, improved relationship marketing and return business, and increased profitability.

Training staff does have an initial and ongoing going financial cost, but relevant and focused training will allow these costs to be outweighed by the benefits to customers and the business.

- d) Answers could include: Monetary and non-monetary benefits. Improved communication in the workplace, employee participation in decision making, flexible work arrangements might lead to improved morale amongst staff.

Sample Answer: Human resource maintenance focuses on managing staff retention and well-being through monetary and non-monetary benefits like wages, superannuation, fringe benefits (e.g., private car usage, gym memberships), and performance incentives. It also involves addressing workplace health and safety, encouraging employee participation in decision-making, and improving communication between management and employees. These processes can enhance business efficiency and profitability.

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# Notes

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