

BUSINESS MANAGEMENT AND ENTERPRISE

YEAR 12 ATAR COURSE – UNITS 3 & 4

SECOND EDITION





WACE STUDY GUIDE

BUSINESS MANAGEMENT AND ENTERPRISE

YEAR 12 ATAR COURSE

Jason Hinton



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About the Author

Jason Hinton taught business management, accounting and finance and information technology subjects in metropolitan and regional secondary schools. He developed mock exam papers and the supporting materials for the launch of the Business Management and Enterprise course for the Curriculum Council. His proposed addition of the Goods and Services Tax as an optional topic in the year 11 Accounting and Finance course was approved and he developed the supporting materials. Jason went on to write secondary textbooks for the Business Management and Enterprise unit curriculum and later the Year 11 and Year 12 General and ATAR courses.

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TO THE STUDENT

This study guide will assist you in your revision and preparation for tests and examinations in Year 12 ATAR Business Management and Enterprise. It covers the Business Management and Enterprise ATAR Units 3 and 4.

This study guide follows the current syllabus and can be used throughout the year. Each chapter includes a topic checklist based on the WA School Curriculum and Standards Authority ATAR syllabus. Notes are provided on key concepts to help with revision. You are also provided with a variety of learning and assessment activities.

Learning activities are included in the key concepts section to build understanding. Review activities at the end of each theory section aim to consolidate and apply learning. These practice assessments could be completed under exam conditions to help you develop good exam technique and time management. Full solutions are included for the review activities.

To improve your results in tests and exams, find examples that are relevant and current.

By providing summaries of key concepts and activities to build and strengthen understanding, I hope that this study guide will help you to improve your performance and results.

At assessment time, remember:

Ensure that you read the question thoroughly so that you do not misinterpret it.	Do you need to answer all questions or only a selection? How much time should you assign to a section? What topic applies to the question?
Familiarise yourself with the meaning of the verbs used in questions.	Identify the verb. For example, do you need to write a definition, write about good and bad points, compare options, list the steps of a process, or detail how something works?
Use the terminology of the course.	Subjects have their own jargon and glossary. You are able to demonstrate your understanding by using the correct terms when answering questions.
Include one current example in your answers.	Show your understanding of a concept by giving a good example of how it can be seen in real life. Examples are based on how the concept works in the real world, including in Australian and international companies. They are drawn from news reports and current changes in the business environment e.g. the economy, consumer demand, competition and regulations. Write examples briefly, in one or two sentences.

All the best with your studies,
Jason Hinton

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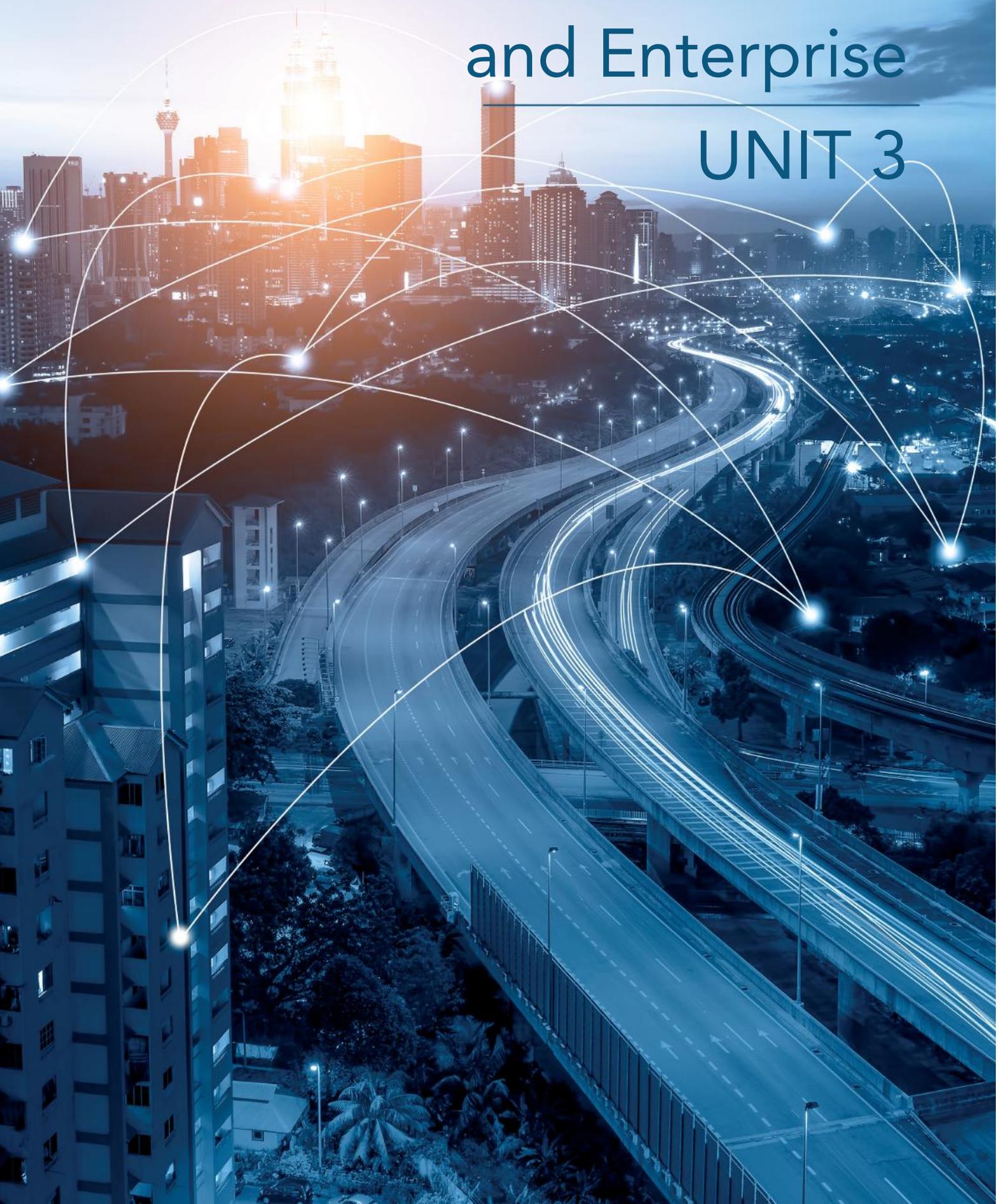
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Business Management and Enterprise

UNIT 3



ENVIRONMENTS

Political and Legal, Economic, Socio-Cultural and Technological (PEST)

1



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Identify factors driving global business development, including:
 - financial growth opportunities and/or loss minimisation
 - consumer purchasing and spending patterns
 - World Trade Organisation (WTO) regulations and sanctions
 - deregulation of the financial market
- Explain the impact of globalisation on:
 - employment levels in developing countries and in developed countries
 - the global spread of skills and technology
 - international cooperation
 - the domestic market
 - tax minimisation – tax havens and transfer pricing
- Discuss benefits of home grown/developed products
- Describe the role of ethics in global business decisions, including:
 - environmental responsibility
 - outsourcing
 - the use of offshore labour
- Outline host country and home government incentives for international trade, including:
 - grants
 - taxation
- Features and role of free trade agreements (FTA), including:
 - ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA)
 - Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA)
- Benefits and challenges to Australian owned businesses as a result of FTAs
- The role of e-commerce in a global environment

1.1 Factors driving global business development

Globalisation is the spread of products, capital, information, labour and technology across borders. It provides opportunities for companies to increase sales, profits and shareholder value. Information technology is an important driver of global business. Cooperation between governments and formal free trade agreements create conditions that encourage global business development.

Financial growth opportunities and/or loss minimisation

Global expansion of domestic businesses means they can look overseas for investors and sources of funding. Australian companies can access services and production at a lower cost than in the domestic market, to reduce costs and help make growth more affordable. Domestic markets may be mature or highly competitive. International markets may provide opportunities for sales growth. Seasonal differences between the northern and southern hemispheres means that companies are able to hedge against seasonal fluctuations in demand.

Consumer purchasing and spending patterns

Confidence in the reliability and security of online shopping provides companies with access to larger, international markets. Social media is used by consumers to review and discuss products and by companies to advertise and build brand awareness. The distribution of digital products (e.g. music, software, movies, e-books, e-learning, training and education) reduces costs associated with transport and distribution and makes it easier for companies to grow internationally. Consumers are more likely to use the internet than bricks and mortar shops to research products, prices and reviews, and compare online options.



World Trade Organisation regulations and sanctions

The WTO aims to maintain safe global trade where countries can trade with clear rules, standards and ways to resolve disputes. It also enforces trade rules that protect the environment and people working in developing nations from exploitation by multinational corporations.

Under WTO rules, Free Trade Agreements must:

- eliminate tariffs and other restrictions on all trade in goods between member countries
- eliminate all discrimination against service suppliers from member countries (helping to increase trade in services)
- simplify customs procedures, trade regulations and other measures to simplify trade between countries.

Deregulation of the financial market

Reducing barriers to the flow of capital between countries, such as foreign investment regulations, is part of globalisation. Deregulation can reduce limits on bank lending, making it easier for companies to secure loans for expansion. Deregulation reduces barriers to entry and can increase competition in the financial industry. Companies benefit from competition as financial institutions compete for customers based on returns on investments, interest rates, services, fees and charges. Deregulation can also increase the risk of businesses and ventures by removing some of the monitoring and compliance of financial institutions by governments.

1.2 Impact of globalisation

There are arguments for and against globalisation. On one hand, it provides opportunities for expansion and growth and economic development. On the other hand, it is criticised for its impact on culture, the exploitation of workers and developing nations, and its impact on climate change and the environment.

Employment levels in developing countries and in developed countries

Offshoring and outsourcing to developing countries are used by companies in developed countries to reduce labour costs. Companies create employment in other countries, but this is at the expense of local employment in their home country. Developing countries may experience labour shortages as skilled people move to developed countries to find work.

Global spread of skills and technology

Globalisation and regulations such as international patents and licensing agreements spread technologies, innovations and new business models. Joint ventures and licencing arrangements transfer technology internationally. Companies take their innovations and technologies to low cost countries to help finance business development. Governments encourage skilled migration so people can move to where there is a demand for their labour and expertise. The internet means that companies can sell their products and services internationally, access secure international payment systems and efficiently operate across countries. There is a digital divide between countries that have stable and fast internet and government support for research and development, and other countries that have lower levels of infrastructure. Remote working during the COVID-19 pandemic confirmed it as a way that companies can employ people around the world.

International cooperation

Governments cooperate internationally through free trade agreements. Free trade agreements reduce regulations and barriers to trade and reduce the costs of importing and exporting goods. Multicultural societies have diverse lifestyles, music, food, art and ideas. International marketing depends upon understanding the culture and norms of other populations; it increases travel and migration and exposure to diversity. When countries reduce migration restrictions and visa requirements, it means that companies can source skilled labour more easily. Information technology means cooperation can take place in real time and information, capital and expertise can be shared quickly and cheaply. Companies from the countries that are party to a free trade agreement compete on a level playing field. Governments have incentives to encourage international companies to work together to create new products and services.

Domestic market

Australian companies that export are affected by changes in exchange rates, trade laws and regulations, prices and demand overseas. Globalisation and the internet mean that domestic companies compete with international businesses. Strong domestic sales and profits can help companies finance global expansion. A mature or declining domestic market encourages a company to look internationally for revenue.

Tax minimisation – tax havens and transfer pricing

Tax havens are countries with secretive tax and financial systems and low taxes for non-residents and foreign owned companies. Tax havens do not permit other governments to access their financial and banking information. They are used in transfer pricing to minimise taxes. Many international companies operate in countries where they can minimise their tax. By minimising their tax burden, companies can access more funds for global growth. This creates an ethical dilemma and a target for government scrutiny. A company technically operates within the law while creating financial arrangements to use tax havens, but ethically they are questionable.



It is estimated that tax havens cost governments globally \$100 billion a year in lost corporate tax revenue. Individual tax payers also hid up to \$36 trillion in tax havens ensuring governments globally lost a further \$200 billion a year in individual income tax.

Transfer pricing is when a corporation uses tax havens to manipulate where revenue is earned and costs are incurred to avoid paying tax. Companies benefit by creating a parent company registered in the tax haven country or by creating complex accounting arrangements to transfer global earnings to the tax haven. International businesses transfer their profits to tax havens by setting unrealistic prices for the financial dealings between different parts of the company.

A country can be classified as a tax haven if in terms of taxation and finance there is:

- a lack of transparency – it is difficult to track capital and access public records about taxation rules and decisions, company earnings and reporting
- a lack of information exchange: governments and financial intermediaries do not share information with others and are resistant to sharing information to assist international investigations into corporate conduct.



1.3 Benefits of home grown/developed products

Domestic products can take advantage of local suppliers to ensure a dependable level of quality and supply. The demands and preferences of domestic consumers can be more easily understood through market research. Distribution channels are established and easier to control. A successful domestic business has an established foundation for international entry. A positive public image and customer loyalty is strengthened by being the local option.

1.4 The role of ethics in global business decisions

Companies are expected to act legally and ethically. Ethics are the way a company and its staff interpret and comply with laws and regulations. Companies are expected to be good corporate citizens and use their economic and social influence to raise living standards domestically and globally. It is argued that business ethics should be about what is best for profit. Sales and profit should dictate judgements and decisions. The counter argument is that companies operate in society just as citizens do, and must be held to the broader ethics of a common good.

Environmental responsibility

Sustainability is about balancing profit with protecting the environment. A company may have a triple bottom line where they report on their profit, environmental impact and contribution to society. Corporate ethics relate to how management chooses between what is best for the company and what is best for society, the community and the environment. Reducing waste and use of resources can reduce costs and be good for business. Staff may be more loyal to a company that is environmentally responsible. A company can build a positive public image if they manage their environmental impact and contribute to reducing climate change. Being proactive can help a company avoid strict regulations from governments.

Outsourcing and offshore labour

Outsourcing involves an organisation identifying activities that can be given to another organisation (the vendor) to perform on their behalf. Instead of a company maintaining manufacturing, market research, administration or customer service operations, these are provided by a third party for a fee. Outsourcing overseas is attractive because Australian companies can take advantage of lower pay and conditions in other countries. Working from home during COVID-19 lockdowns paved the way for an increase in remote working.

Offshoring labour involves employing or contracting staff that live and work in other countries. Outsourcing and offshoring can reduce costs and increase profitability. Outsourced and offshored labour may be in countries that have poor protections for workers' pay and health and safety, and the environment. This reduces costs significantly for companies. The ethical dilemma is whether to outsource or offshore to a lower cost country to increase profit while workers and the environment there are being exploited. Ethics also involve the decision to replace domestic jobs with offshore labour.



1.5 Host country and home government incentives for international trade

State and federal governments encourage international trade by providing support and incentives to Australian businesses. They also negotiate free trade agreements (FTAs) with other countries. Austrade is a federal agency that provides information and advice to assist Australian companies to expand overseas. Austrade also provides information to foreign companies about Australian suppliers and making investments in Australia.

Grants

Austrade administers the Export Market Development Grants (EMDG) scheme for new and existing international businesses. The Free Trade Agreement Market Entry (FTA-ME) Grant assists eligible companies to access FTA target markets. Grants are available to the tourism and travel industry. Grants reimburse up to 50% of export expenses. Businesses that have an income of less than \$50 million per year and incur at least \$15,000 of eligible export expenses are eligible. Grants may be used in the short term to prop up an industry during a crisis or global events such as the COVID-19 pandemic.

Taxation

Eligible companies with a turnover of less than \$20 million can receive tax offsets for their research and development spending. Tax concessions are available for venture capital limited partnerships which may be used to finance global expansion. The Digital Games Tax Offset encourages international businesses to develop digital games in Australia by offering a 30% refundable tax offset. Tax incentives are used to attract international film productions to Australia.

Exports of goods and services from Australia are generally GST-free which can help keep pricing competitive. Australia has entered into taxation treaties and agreements with more than 40 countries. Treaties and agreements prevent double taxation, set guidelines to prevent tax evasion and allow the exchange of taxpayer information including bank information between tax offices. ATO also sets rules for converting foreign income, deductions and foreign tax paid into Australian dollars.

1.6 Features and role of free trade agreements

Free trade agreements (FTAs) between countries aim to standardise import and export laws and regulations. An example is where tariffs and customs duties are reduced, removed or standardised. The countries that are party to the FTA can export their goods and services to each other and sell at similar prices as local products. Product safety, quarantine and quality laws and regulations may also be reduced or removed, therefore open up a market to more imported goods and services. FTAs aim to increase economic growth for the countries involved.

ASEAN-Australia-New Zealand Free Trade Agreement

The ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) involves the ASEAN (Association of Southeast Asian Nations) countries of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. It commenced on 1 January 2010. It covers the industry sectors of goods, services, investment and intellectual property. It includes chapters about the movement of natural persons, electronic commerce, investment, economic cooperation, intellectual property and competition. AANZFTA was upgraded in 2023 with new provisions to keep it aligned with international best practices. New chapters were added on government procurement, micro-, small-, and medium-sized enterprises (MSMEs), and sustainable trade and development.

Key points:

- Eliminate tariffs on 96% of Australia's exports to ASEAN nations
- AANZFTA-certified goods have their tariffs reduced when they enter ASEAN countries
- International arbitration to resolve foreign investment disputes
- AANZFTA sets minimum standards for the treatment of foreign investors and their investments within signatory countries



Australia New Zealand Closer Economic Relations Trade Agreement

The Australia–New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) is a bilateral free trade agreement that covers all trans-Tasman trade in goods, including agricultural products and services. It took effect in January 1983. In March 2023, 40 years of the ANZCERTA was celebrated. Australian and New Zealand products are eligible to enter either country at a zero tariff rate. Australian and New Zealand companies can claim preferential rates of customs duty.

Key points:

- all tariffs and restrictions on import and export between the two countries are prohibited
- minimise government industry assistance and export subsidies and incentives to ensure a level playing field
- food standards standardised
- rules regarding country of origin of products

1.7 Benefits to Australian owned businesses as a result of FTAs

Free Trade Agreements create opportunities for Australian companies to expand their businesses into overseas markets. Access to markets and the reduction in tariffs increases the competitiveness of Australian businesses in foreign markets. As part of any free trade agreement, Australia and its trading partners must remove trade barriers to make it easier and less expensive for Australian businesses to use imported goods and services. The competitive pressure motivates business people to innovate and improve efficiency in order to survive and grow.

Challenges to Australian owned businesses as a result of FTAs

Reducing trade barriers gives consumers easier access to more choice and lower prices from international businesses competing with Australian owned businesses. Australian businesses now have to compete with foreign businesses on a level playing field, for example, the same prices. To benefit from FTAs, Australian businesses must incur substantial costs for international market research, market entry, distribution, and customising marketing strategies for foreign markets.

1.8 The role of e-commerce in a global environment

E-commerce has created a global environment with secure payment systems, around the clock access to online shopping and the digital distribution of products. This enables Australian companies to compete with global businesses. M-Commerce is the use of mobile devices such as phones and tablets to conduct business over the internet. E-commerce enables businesses to have a market presence without having to set up infrastructure such as distribution channels, premises and staff internationally.

TEST YOUR KNOWLEDGE

Chapter 1 Environments – PEST

1. What are two advantages of globalisation?

2. What are two disadvantages of globalisation?

3. Explain why a low cost country is advantageous for global growth.

4. Describe how globalisation can lead to the spread of skills and technology.

5. Describe and give an example of offshoring.

6. Why do businesses use tax havens?

7. How does Austrade assist businesses that want to expand overseas?

8. Explain the role of the World Trade Organisation (WTO).

9. Discuss some ethical dilemmas involved with environmental responsibility.

10. What is a free trade agreement (FTA)? List three examples of FTAs to which Australia is a signatory.

11. Explain how the removal of tariffs in other countries can assist Australian businesses wanting to expand overseas.

12. Discuss how e-commerce can be used by an Australian company to expand globally.

13. Describe two benefits of home grown products within the Australian economy.

14. Global business – the role of ethics

An Australian company wants to expand globally and decides to move their manufacturing offshore to reduce costs. They find that workers overseas are paid a lot less than in Australia and do not get the same conditions, such as annual leave, set hours per day and safe workplaces. Although what workers receive is far below Australian pay and conditions, it is better than what most other people receive in the country.

- a) Discuss the ethical considerations of offshoring.

- b) How can offshoring impact on Australian employment?

15. Tax minimisation

Glowball Australia buys \$20,000 worth of inventory from Glowball France. The two companies agree to record a purchase price of \$10,000. On paper, Glowball France made a \$10,000 loss on the sale and Glowball Australia has expenses of \$10,000. The transaction results in a minimised tax bill for the Glowball group.

- a) What is the name of the strategy used by the Glowball group?

- b) Explain how the strategy works.

- c) Discuss the ethical dilemma in using this strategy.



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Identify benefits to a business of having a global brand
- Identify factors that determine the feasibility of expanding into a foreign market, including:
 - level of demand by consumers
 - consumption patterns
 - competitor activity
- Discuss standardisation or adaptation when applying elements of the marketing mix to global brands
 - corporate slogan
 - product name
 - product features
 - positioning

2.1 Benefits to a business of having a global brand

One benefit of a having a global brand is consistency. A company can communicate consistent images and messages to all markets. This can result in stronger brand awareness and positioning as all marketing supports the same message. Another benefit is lower risk, as businesses can use marketing strategies that have been tested and proven in markets such as distribution, promotions and advertising. A global brand lowers costs, as a business can achieve economies of scale by using the same advertising and packaging throughout the world. A centralised team of people can develop the four Ps of marketing strategy for all markets. There is no need for different campaigns with different packaging, product names, slogans and advertising in different countries or regions.

A global brand is easier to manage, as a standardised approach to global branding is less complex than working with multiple advertising agencies, market research projects, marketing teams and different strategies. A consistent global brand provides better differentiation and will stand out from the competition more than a business that tries to blend in with domestic businesses. Everywhere a consumer travels, they will see the same logo, colours, product names and advertising.

2.2 Factors that determine the feasibility of expanding into a foreign market

An important part of planning for global expansion is to assess its feasibility. Feasibility is about the potential of a market and the likelihood of success. It assesses whether the proposed venture is likely to provide a level of sales that will result in sustainable profit.

Level of demand by consumers

A business needs to estimate the total market demand for the general product category. This includes estimating the total demand for the same or similar products and the possible market share that could be captured. The business also needs to forecast demand over time and consider economic characteristics that impact on demand. For example, interest rate and inflation settings, unemployment levels, exchange rates and economic growth can all impact demand.

Consumption patterns

A developing country may grow in wealth and there may be a new middle class of people that have higher wages and more discretionary income. Wealthier countries consume more luxury or non-essential products, entertainment and travel. The rise of middle classes also sees changes in food consumption patterns from fresh food to more processed and packaged foods. Other changes have been the increased consumption of meat and of healthier foods and other foods based on dietary requirements such as gluten and lactose free. Consumption patterns change in response to economic factors – low wages, high unemployment, inflation and economic downturn can impact on household budgets and food consumption. A country's religious and cultural characteristics impact on what foods are consumed and fluctuations in demand, for example, Thanksgiving, Easter, halal and kosher requirements.



Competitor activity

Analysis of competitors must include importers, local businesses and online sellers. A research company in the target country is a good source of primary data to assess competition in a foreign country.

Competitor activity that supports market entry includes:

- few competitors
- products that are easily copied or substituted
- customers unsatisfied with products on offer
- competitors not offering choice or value for money
- competitors missing a market need or niche market.

Competitor activity that makes market entry difficult includes:

- size and market dominance of competitors
- wealth of competitors. Can they outlast others in a price war?
- established brands that are part of the country's culture
- established distribution channels with strong working relationships with suppliers and retailers
- strong intellectual property protections for products and designs.

2.3 Standardisation or adaptation when applying elements of the marketing mix to global brands

International market research will identify differences between international markets to devise better targeted marketing strategies. The differences between markets impact on the design and implementation of marketing strategies, the design of products and packaging and may define target and niche markets.

Adapting marketing strategies increases the costs involved in strategy implementation. It is less expensive to standardise strategies across foreign markets, but using standardised strategies may result in marketing failure. This is due to not adapting marketing strategies to the unique characteristics of foreign target markets.

Product names and corporate slogans

A business must consider language and cultural differences when planning for product names, colours and slogans in different countries. Not researching and understanding the culture can result in failure in a foreign market. A standardised approach may not be possible for the marketing mix.

Following are examples of companies that got it wrong:

Colgate introduced a toothpaste in France called Cue which is the name of a well known pornographic magazine there. In Italy a campaign for Schweppes Tonic Water translated the name into Schweppes Toilet Water. Clairol introduced the Mist Stick, a curling iron, into Germany where 'mist' is slang for manure. When Ford sold their Pinto car in Brazil they discovered Pinto was Brazilian slang for 'tiny male genitals'. Ford renamed the car the Corcel, meaning 'horse'. When General Motors sold the Chevy Nova in South America, it was unaware that 'no va' means 'it won't go' in Spanish. GM renamed the car to Caribe.

Slogans also depend on translations and language differences:

In Chinese KFC's slogan, 'Finger lickin' good' translated into 'eat your fingers off'. In Spain, when Coors Brewing translated its slogan 'Turn it loose' into Spanish it became 'suffer from diarrhoea'. Pepsi's 'Come alive with the Pepsi Generation' translated into 'Pepsi brings your ancestors back from the grave' in Chinese. Parker Pen marketed a ballpoint pen in Mexico with the slogan, 'It won't leak in your pocket and embarrass you'. They made a mistake with the Spanish translation and their ads stated, 'It won't leak in your pocket and make you pregnant'.

Product features

Different cultures place different significance on colours. Product packaging and distribution methods may need to be adapted to different climates to prevent damage in transit and storage.

Different countries have different packaging, labelling and country of origin regulations. Products are designed for specific countries, for example, McDonald's sells mini calzones in Italy and poutine in Canada.

In Australia, red is used in warnings and to signify danger, while in other cultures green or black are used. In Asia, white is the colour of funerals, while white is the colour of weddings in Western cultures. Coca Cola has built global awareness of its red colour by standardising its packaging and product design around the world.

Positioning

Different cultures have different values around individualism and individual success and collectivism. This results in different advertising campaigns. In collectivist cultures advertising will show products helping people feel part of a group or achieving team success. More individualist cultures will show products helping people escape and take a break or stand out from the crowd. In cultures that value collectivism and collective achievement highly marketing that focuses on standing out and being better than others won't resonate with consumers.

Advertisements and positioning may also be based on consumers feeling they have 'made it' if they own a certain product. Positioning must reflect what is valued in a culture, for example, security, sustainability, wealth, equality, freedom etc.



TEST YOUR KNOWLEDGE

Chapter 2 Management – Marketing

1. Identify three factors that determine the feasibility of expanding into a global market.

2. Describe three benefits of global branding for an Australian company.

3. Describe the standardisation and adaptation options for a global brand when applying elements of the marketing mix.

4. Explain the benefits of the standardisation of elements of the marketing mix when launching a global brand.

5. Explain how benefits of the adaptation of elements of the marketing mix when launching a global brand.

6. Outline how the level of demand by consumers impacts on the feasibility of expanding into a foreign market.

7. Outline how consumption patterns impact on the feasibility of expanding into a foreign market.

8. Outline the competitor activity impacts on the feasibility of expanding into a foreign market.

9. Discuss the difference between standardisation and adaptation in terms of product features and positioning.

10. Discuss the difference between standardisation and adaptation in terms of product names and corporate slogans.



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Discuss the rationale for and benefits of global strategic alliances
 - outsourcing
 - acquisition
 - mergers
 - joint ventures
 - franchising
- Identify sources of financial risk in export markets, including:
 - currency fluctuations
 - non-payment of monies
- Outline strategies for minimising financial risk in export markets, including:
 - documentation
 - insurance
 - hedging
- Discuss the role of innovation in improving products, processes and services
- Describe the benefits of innovation for business, including:
 - financial gain
 - expansion of global market presence
 - increased market share
- Outline factors that impact on the success of innovation, including:
 - timing
 - cost
 - marketing strategy
 - technology

3.1 Rationale for and benefits of global strategic alliances

A strategic alliance is when two or more businesses form a partnership for a finite project or for the long term to create a new business. Strategic alliance is a strategy of collaboration between businesses for mutual benefit. The aim for alliance partners is to create synergy in the alliance, to create a competitive advantage greater than they could have on their own.

Strategic alliances enable businesses to gain competitive advantage by sharing not only resources but also customer databases, target markets, knowledge, contacts, technologies, capital and people.

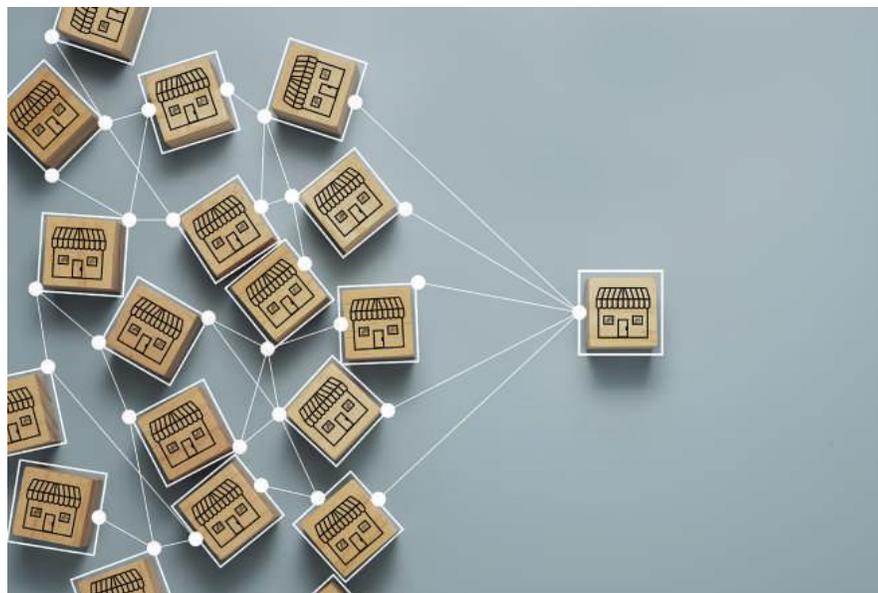
Small or new businesses form strategic alliances to benefit from access to the established channels of distribution, marketing and brand reputation of a larger established business. Established businesses enter alliances to increase their capability for geographic expansion, cost reduction and manufacturing. Strategic alliances are often formed between businesses that are based in different regions of the world.

Because a strategic alliance involves complex arrangements and investments it is very important to plan and negotiate the terms of an alliance. Some of the important steps that need to be undertaken include the following.:

- Set clear goals for the alliance.
- Document the resources to be provided by each partner.
- Identify the key performance indicators that the alliance must achieve for it to be worthwhile.
- Detail the type of alliance to be formed.
- List any operating issues that need to be addressed to achieve the results.
- Consider the need to protect your company's intellectual property before entering an alliance. Who will own the intellectual property (IP) developed in the alliance?

Types of strategic alliances:

1. outsourcing
2. acquisition
3. mergers
4. joint ventures
5. franchising



Advantages of strategic alliances

1. Rapid entry into a new market
2. Access to overseas markets and expanding the customer base
3. Reduce the threat of competition by forming an alliance with competitors
4. Increased sales and market share
5. Access to expertise and technology
6. Possible economies of scale
7. Take advantage of established distribution channels
8. The knowledge of customs and culture the partner will bring

Disadvantages of strategic alliances

1. Weaknesses of the alliance partner. For example; lack of management expertise, poor performing staff, high costs
2. Difficulties of communication with foreign staff and a larger multinational business
3. Delays in decision making and prioritising projects and actions
4. Increased demands and conflict over the allocation of business resources
5. Managing the alliance and making it work takes focus away from core business activities
6. Decentralised and shared control over product quality, operating costs, employees and finances
7. Lack of trust and communication barriers can lead to conflict

Outsourcing

Outsourcing is a strategy that involves contracting an overseas company to perform a business function. Examples of work Australian businesses contract overseas include game development, call centres, mobile app development and payroll processing. India is one of the largest providers of outsourcing services in the world. Operating costs can be reduced due to lower wages and conditions in the supplier country. Stable and reliable communication technologies provide access to locations around the world. By reducing operating costs through outsourcing, a company may be able to fund business growth and activities such as research and development, marketing and product development.

A company can benefit from outsourcing because they are using a business that specialises in a particular function, it may have expertise that the company does not have. Other reasons to outsource functions are:

- lowering costs
- management being able to focus on core business activities
- avoiding costly investments in technology (information, manufacturing)
- improving customer focus.

Costs are also easier to manage. When a company keeps operations in-house they will pay associated fixed and variable costs for office space for employees, their wages, superannuation and training. If an operational function is outsourced, the company pays a set fee that is much easier to plan for in the budget. An additional benefit is increased workforce flexibility. A business may experience seasonal fluctuations in demand or other changing circumstances. It is easier and quicker to change arrangements with an outsourcing vendor as required.

Acquisition

The strategy of acquisition involves a company buying another that is operating in an overseas market. It creates a synergy by combining skills, expertise, technology, capital and market share. Acquisitions are commonly made by buying a majority of company shares.

Acquisitions can be either hostile or friendly.

- **Hostile:** the acquisition is made without the consent or approval of the target owners and directors, often through buying a majority of shares.
- **Friendly:** the acquisition of ownership or the majority of shares occurs as part of a negotiated process with consent of the board of directors.

A takeover and an acquisition are essentially the same thing but under different circumstances. If the directors and management of two companies enter into a process of negotiation and work together to make it happen, it is an acquisition. A takeover or hostile takeover occurs when one company seeks to buy another without their consent or cooperation.

A risk is when a company pays too much for the target business. The cost of acquisition may outweigh the benefits, putting the alliance in financial danger. The company may have to borrow significant funds to finance the acquisition, putting financial pressure on the budget and available working capital. The purchasing company must ensure there is full disclosure from the target company and due diligence about the market and financial position of the target. This ensures there are no surprises after the acquisition that could put the alliance at risk.

Mergers

A merger involves two or more companies combining to form a new merged company. The companies involved agree to form a new company. Rather than a purchase or takeover, it is an agreement between two companies to combine ownership and resources. It may involve new corporate identification and branding to launch the new company. A merger leads to a rationalisation of staff, assets and resources, as there will be a duplication of functions and processes such as payroll, distribution, accounting and marketing.

The Australian Competition and Consumer Commission (ACCC) regulates mergers and acquisitions to prevent them from being anti-competitive by giving a company too much dominance in a market.

Joint ventures

An alliance is when two or more companies start an independent company for a finite project or business opportunity. The new company is formed using resources from all alliance partners and each partner owns a percentage of the joint venture company. This strategy is effective because it doesn't change the existing companies and can reduce the impact and demands on them.

An Australian company entering into a joint venture with a local company in another country will provide local knowledge of culture and customs, competitors, suppliers and markets. They may also have established distribution channels.

A joint venture usually takes one of two forms. The first option is that the venture partners combine resources and create a new company, owned by the venture partners, to run the project. The other option is a joint venture based on contractual arrangements to share resources, networks and marketing without the creation of a new company. Joint ventures are complex arrangements with difficulties that must be discussed when developing the venture agreement. All parties want the joint venture to survive but they also want to preserve their own market presence and competitive position. Joint ventures are often for a set period. After the venture, the partners go back to being competitors. This means that protecting IP is important.

Joint venture management can focus on the project instead of existing management taking on additional challenges and responsibilities. Once a project concludes, the new company can be wound down and assets distributed according to joint venture ownership.

Franchising

Franchising is a strategy involving:

- **A Master Franchisor:** the owner of the business providing the product or service and able to grant franchising rights
- **Franchisees:** sole proprietors, partnerships or companies that pay for the right to market and distribute goods and/or services and use the branding and business model of the franchises

Franchisees pay an upfront payment and ongoing royalties and fees (often on a monthly basis) for the right to run a franchise. A franchisor can enter global markets with lower risk and without having to invest its own capital. A franchisee benefits from a proven business model and brand awareness which can make it a lower risk business venture. Franchisees benefit from global advertising by the franchisor.



Franchising is based on the standardisation of procedures, marketing, branding, uniforms, products and service. A risk of international franchising is that standardisation does not take place. It is difficult for a franchisor in Australia to be sure that a franchisee in Asia or Europe is following their business model. If an individual franchise provides poor quality goods and/or services the reputation of the business as a whole suffers. Another risk is the theft of IP. The rights to use IP (trademark, patent, trade secrets) is part of the franchise agreement. An Australian company entering into international franchising should also make sure their IP is protected in the target countries.

The management of global franchisees and ensuring that standards of service and quality are maintained is very difficult because of:

- distance and time zones
- language barriers
- different economies and cultures
- differences in transport and information technology infrastructure
- different laws and regulations.

3.2 Sources of financial risk in export markets

Global companies depend upon the secure and reliable transportation of goods and also the secure and reliable transfer of money. Domestically it is easier to communicate, make and receive payments and solve any problems. Dealing with export customers and the banking systems in different countries makes international transactions riskier. Distance and different legal systems in different countries makes resolving disputes and errors more difficult.

Financial risks include:

- financial loss due to currency exchange rate variations
- non-payment by export customers
- loss or damage of goods in transit
- increased costs due to distance, customs duties and insurance.

Currency fluctuations

A currency exchange rate is the price at which one currency is exchanged for another currency at a point in time. The value of the Australian dollar is determined by market forces and is outside of the control of exporting companies. Exporters face financial risk from fluctuations in currency exchange rates. If a business deals with international customers and suppliers on a regular basis they are at risk from exchange rate variations that do not go in their favour. For example, if the Australian dollar falls in value between the time an agreement is made and when the customer makes payment.

One way to manage the risk is to list goods and services in Australian dollars and require customers to pay in Australian currency. Another method is hedging. This is where arrangements are made now in anticipation of possible currency changes in the future to minimise losses.

For example:

An Australian exporter sells goods to a customer in France for EUR5000. At the time of the sale the exchange rate is EUR1.00 to AUD1.59. This means that at the time the contract was signed the Australian business would receive:

$$\text{EUR}5000 \times 1.59 = \text{AUD}7960$$

The goods are sent a week later, and the customer makes payment. At the time of payment, the exchange rate has changed and is now EUR1.00 to AUD1.35. The customer pays the invoice, the Australian business receives:

$$\text{EUR}5000 \times 1.35 = \text{AUD}6750$$

The business has lost a cash inflow of \$1210 because of the currency fluctuation.



Non-payment of monies

An exporter can face a financial loss after incurring costs and delivering goods or services and not receiving payment from the customer. It is much more difficult to chase a payment from a customer in another country than a domestic one. A way to manage this risk is with prepayment from customers, either in full in instalments or a deposit.

3.3 Strategies for minimising financial risk in export markets

Exporting companies must consider and monitor these risks to maintain financial viability and profitability. Market success can be undone by the impact on cash flow from these financial risks. There are also documents that can be used to manage the risks involved in international transactions.

Documentation

Documentary letter of credit

A guarantee from the export customer's bank that the money will be paid. The letter of credit includes terms and conditions for payment such as the safe delivery of the goods within a certain time. The bank will make the payment if the terms are met and then seek reimbursement from the customer.

Documents against payment

An exporter sends their goods to the customer's country and they are held in customs. The exporter sends documents to a bank in the customer's country that allows them to collect the goods from customs after payment is made. Once the customer pays, the bank gives the documents to the customers and they can collect the goods.

Insurance

Insurance is a way for an exporter to mitigate or minimise the financial impact of these risks. If there is a loss, the exporter can make a claim to cover the financial loss.

Exporters can obtain insurance cover for:

- non-payment by overseas customers
- loss and damage in transit
- political risks such as war, civil unrest and government regulations that impact on the importation of goods
- currency fluctuations.

Hedging

Hedging can take two forms – forwards and options.

- **Forward:** an agreement is made between the exporter and the customer to set an exchange rate for payment. This protects the exporter from a loss but also prevents any gains from a stronger Australian dollar.
- **Option:** an exchange rate is set which can be used instead of the current exchange rate at the time of payment. If the current exchange rate is better for the business, it can be used in the transaction instead of the agreed rate.



3.4 The role of innovation in improving products, processes and services

Innovation is about finding ways to improve existing technology, products and services, and systems. It can be something totally new. It can also be a solution to a problem. Innovation is more than continuous improvement, which is incremental change. Innovation can increase competitiveness and profitability and also create a market opportunity.

Process innovation

A company's processes include manufacturing, information gathering and storage, financial, recruitment, distribution and sales. Every process has steps, tools, materials, technology and costs. Innovation in a process involves a change that makes it more effective and efficient or reduces cost. For example, reviewing the supply chain to find ways to eliminate waste and find better options. A recent process innovation is cloud computing. Companies are using it to increase efficiency and reduce costs.

Product and service innovation

Improving an existing product can be achieved by adding new functionality, increasing quality or features or creating a product that complements an existing product, for example, AirPods for iPhones. It can involve taking an existing product into new foreign markets. It can be a product or service that is new or has improvements to its features, materials, performance and the way it is used. This can include items that cater to local tastes and preferences. It can involve new products, new features and new ways to use existing products.

3.5 Benefits of innovation for business

Innovation involves changes to the status quo and requires an investment of time and money. There may be resistance to change. A business case must be made to convince management and staff that the innovation is worthwhile. The cost and disruption of the innovation must be outweighed by the financial and operational benefits of making the change.

Financial gain

Innovation can improve profit by increasing income, creating a new source of income or reducing costs. A product's life cycle may be prolonged by extending the maturity stage or delaying the decline stage. New features and better quality and performance may increase or maintain customer demand. Process innovation can result in a reduction in waste and costs, such as reduced costs in a manufacturing process. For example, sourcing different materials may decrease defects and production losses.



Expansion of global market presence

A company can capture market share and increase global competitiveness by protecting the IP of an innovation. Innovation may include the creation of a franchise or licensing model for global expansion. Innovative technologies such as e-commerce, cloud computing, groupware and digital distribution make global expansion achievable. Successful process innovations result in reduced costs and increased production capacity. These will enable a business to implement marketing strategies to enter or expand global markets. Innovations may solve problems that are obstacles to global expansion.

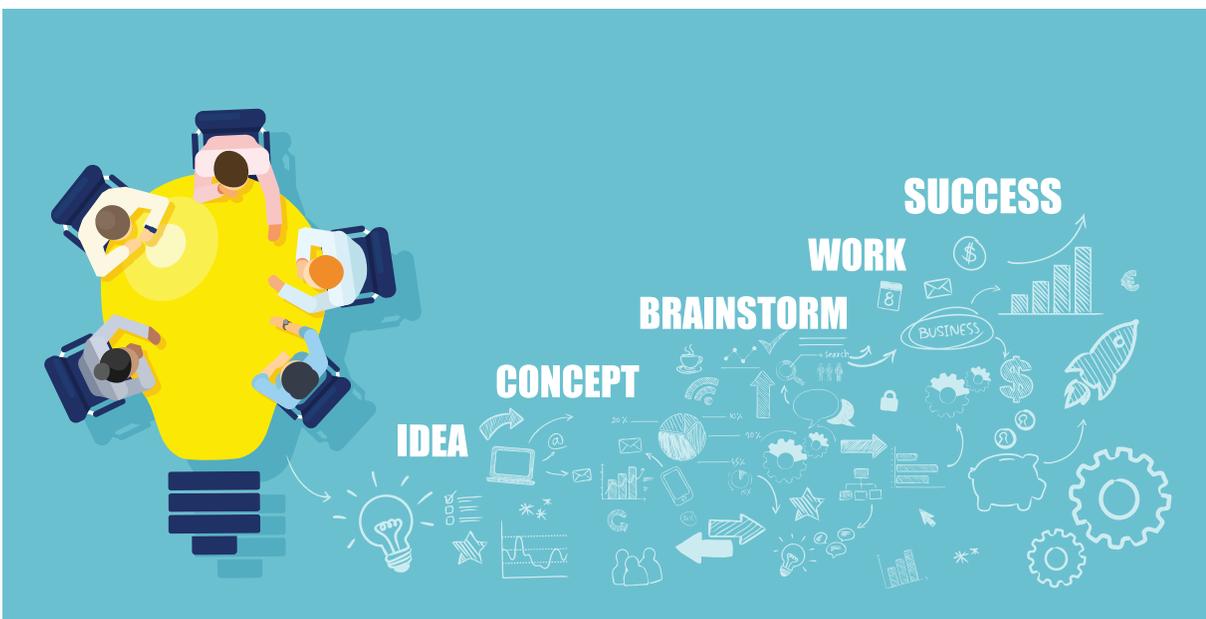
Increased market share

Innovation may result in a new or better product or service that makes it more attractive to consumers. This will result in increased market share or the opportunity to target a new market. Product innovation may respond to a customer demand in a new and better way or anticipate a market trend. Process innovation may result in better ways to interact with customers such as social media, online purchasing and payment methods to increase repeat business. Innovation in environmental management can enhance a company's reputation and public image. A company that uses new or improved technology to reduce their waste, pollution or carbon footprint may create a competitive advantage by being more green.

3.6 Factors that impact on the success of innovation

A successful innovation is one that:

- **works:** the innovation is implemented successfully, and the anticipated benefits are realised
- **is commercialised:** an innovation has been managed to the stage of market launch
- **integrates into an existing process, product or service:** the improvement has been incorporated into existing products, services and processes
- **increases revenue:** income and profit are generated by the innovation
- **is accepted by staff and customers:** staff and customers understand the benefits of the innovation and are on board.



Timing

Innovation is more likely to be successful when consumers have more discretionary income and consumer confidence is good, as this is when consumers are more likely to try a new product. Existing or growing demand for a product or service encourages retailers and wholesalers to take on the risk of selling a new product or service. The product life cycle impacts on the success of an innovation. In the growth or maturity stage there is brand awareness and demand, and established distribution and marketing strategies. A company will also have substantial data from market research and their customer database to refine innovations and generate ideas. At the maturity stage the company may also have made profits that could finance innovation.

Cost

Innovation requires a considerable investment in time and money. An innovation may take some time to be commercialised and profitable (if at all). The company must bear the costs of research, development and testing until an innovation earns income. There is an opportunity cost by taking money away from existing operations and dedicating it to something new that may not work. Financing innovation allocates people and money to a project and takes resources away from existing operations. Sunk cost is the money spent on developing an innovation. If an innovation is shown to be unsuccessful or is not cost effective, the costs that have been sunk into the innovation up to that point cannot be recovered. Sunk costs may motivate management to spend more money on an innovation in the hope of eventually getting a return. The time, effort and finances dedicated to an innovation project can impact on the financial strength of a company. A measure is, earn versus burn. This refers to the difference between the income earned by the innovation and the money spent to commercialise it (burn).

Marketing strategy

Marketing strategy must support the innovation and be designed for it to succeed. Consumers may not understand the need for the innovation and its benefits at launch. A company may need to educate consumers about a new product or new features to build awareness and demand for an innovation. Wholesalers and retailers will also need to be educated to get them to support the change and to sell the new features and benefits to consumers. Positioning impacts on the success of innovations. A company that has a public image and reputation for innovation will have more credibility and demand for its new products and services.

Technology

Technology, such as the digital distribution of products, may make it easier and more cost effective for consumers to buy an innovation. An innovation in technology may enable a company to solve a problem in their processes or enable them to exploit a market opportunity. Innovation in technology must be managed carefully to control expenditure and timeframe to ensure it can be commercialised in a profitable way.

TEST YOUR KNOWLEDGE

Chapter 3 Management – Operations

1. Describe outsourcing and its benefits for entering a foreign market.

2. Describe acquisitions and their benefits for entering a foreign market.

3. Describe mergers and their benefits for entering a foreign market.

4. Describe joint ventures and their benefits for entering a foreign market.

5. Describe franchising and its benefits for entering a foreign market.

6. Give one example of each of the following strategic alliances:

- a) outsourcing
- b) acquisitions
- c) mergers
- d) joint ventures
- e) franchising.

7. Explain the benefits of innovation for a global business in terms of financial gain and increased market share.

8. Explain the benefits of innovation for a global business in terms of expansion of its global market presence.

9. Outline the benefits a company can experience from product and process innovation.

10. Outline how innovation in technology could assist in corporate social responsibility and achieving environmental sustainability.

11. Explain how the factors of cost and technology impact on the success of innovation.

12. Explain how timing impacts on the success of innovation.

13. Explain how marketing strategy impacts on the success of innovation.

14. Describe two sources of financial risk for an Australian company exporting to overseas markets.

15. Explain how documentation can minimise the financial risk of global business.

16. How can insurance help to manage the financial risk of global business?

17. What is hedging and how can it minimise the financial risk of global business?



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

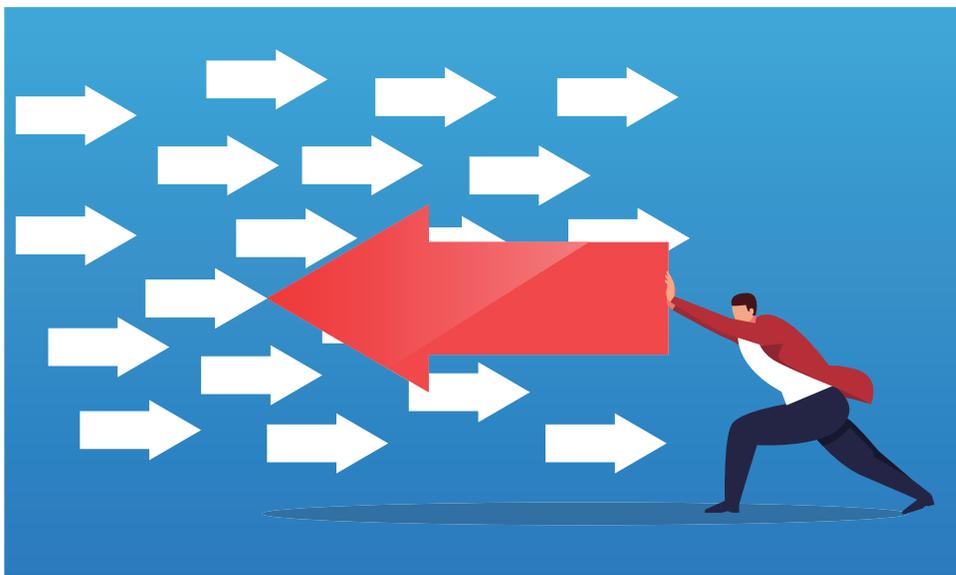
- Outline internal and external factors that drive change in a global environment
- Explain reasons for resistance to change, including:
 - financial costs
 - managerial inertia
 - cultural incompatibility in mergers and takeovers
 - staff attitude
- Describe preparing people for change, including:
 - Lewin's Forcefield Analysis model
 - Kotter's 8 Step change management model
- Discuss managing diversity as a strategy for business growth

4.1 Internal and external factors that drive change in a global environment

Internal Factors	External Factors
Leadership: vision, trust, strong, weak, expertise	Competitors: weak, strong, new entrants
Employees: ability, skills, motivation, attitudes	Customers: demand, changing tastes, preferences
Capital: profit, funding, cash, income, costs	Economy: strong, weak, interest rates, inflation, growth, the cost of living
Culture: resistance to change, tolerance of uncertainty, loyalty, trust in leadership	Government: laws, regulations, trade agreements
	Technology: new and better products, processes and systems

4.2 Reasons for resistance to change

Staff can be resistant to change if they feel that it is implemented without involving them in the planning and decision making. They may resist change because they believe it increases their workload or stress and they do not understand the promised benefits. It can be very stressful to have to learn new skills, work with new people and adapt to new procedures.



Financial costs

Changes to a company's systems and operations often involve significant costs. There may also be a loss in income due to disruption and problems with implementation. Incremental change can be more easily budgeted for as it involves small changes in existing operations. The projected cost of change may create resistance and the likelihood of resistance increases if the benefits of the change are long term, uncertain or unclear. Staff may argue that the costs of the change will create a financial burden that jeopardises current operations.

A company may not be able to fund a change if the benefits will be realised in the medium- to long-term, for example, purchasing new materials and equipment. New technologies can be expensive to purchase, install, migrate information and integrate them with existing systems, and train staff. A change in a product, service or marketing strategy can involve substantial costs because of new advertising campaigns, in store displays, product brochures, manuals and websites. Major change may lead to staff leaving the company because they are incompatible with the new ways of working. This can lead to substantial costs for redundancy payments and the recruitment of new staff. Change may require significant staff training and education, which includes the cost of lost productivity while staff are attending training. When evaluating change, these costs may be seen as outweighing the potential benefits.

Managerial inertia

Inertia is the tendency of people to want to stay in the status quo – if it's not broken, don't fix it. Management may believe that it is better to keep the same systems and procedures because they have worked in the past. Managers may display inertia because the problem or change seems daunting or they may believe they do not have the skills to manage it successfully. They may be stressed and working hard with the existing operations and see that the change will just create more work and stress.

To break inertia and motivate people to change:

- **create a need for change:** convince staff and managers there are problems and opportunities, the change will fix the problems and build a better company
- **involve employees:** ask for ideas and feedback, involve managers in planning and decisions, reward them for progress and success
- **communicate the plan:** all employees should know what is happening, the benefits and goals of the change process. By keeping staff informed you will reduce fear and uncertainty.



Cultural incompatibility in mergers and takeovers

Mergers and takeovers involve companies with individual cultures, histories and values. There will be a clash because of different approaches, policies and procedures. Fear and uncertainty increase because of the potential for reduction in staff when the new company is formed. Language differences may make communication and decision making more difficult. Resistance and uncertainty can increase because of distance, cultural differences, and barriers to effective communication when global companies combine.

Staff attitude

Even if there is education, communication and involvement in the change process, staff attitudes can derail change. Employees may not believe they have the ability to cope with the change. They may have a low tolerance to risk and fear failure. They may believe it is better to avoid change than to risk failing. Staff that have a high tolerance for uncertainty, may see change as a challenge and be motivated to make it work.

Staff may not agree with the benefits of change or think the timeframe is unrealistic. Employees may have a poor opinion of management and may think their plans are not credible. They may not trust that management is acting in their best interests. There may be an attitude that employees are powerless and forced into change. Staff may see change as a criticism of their work and loyalty.

4.3 Preparing people for change

A change process is more likely to be successful if there is preparation and planning. The change may be required and beneficial, but people must be committed to it for it to be successful. Good preparation includes identifying possible resistance, barriers and issues that can delay or derail change. Identifying them means that solutions, responses and contingencies can be planned.



Change is more likely to be successful if you do the following:

- **prepare and plan:** consult, research, plan, discuss options and have a written change plan with clear goals.
- **communicate:** the need for change, what is planned, how staff will be involved and the benefits it will bring.
- **involve staff:** consult employees, seek feedback and include them in planning and decision making.
- **show leadership:** solve problems, role model new procedures, communicate a clear vision for the change, follow through on feedback from staff and promised changes and decisions.
- **celebrate success:** recognise and reward the hard work of employees along the way to encourage continued commitment to making the change work.

CHANGE MANAGEMENT

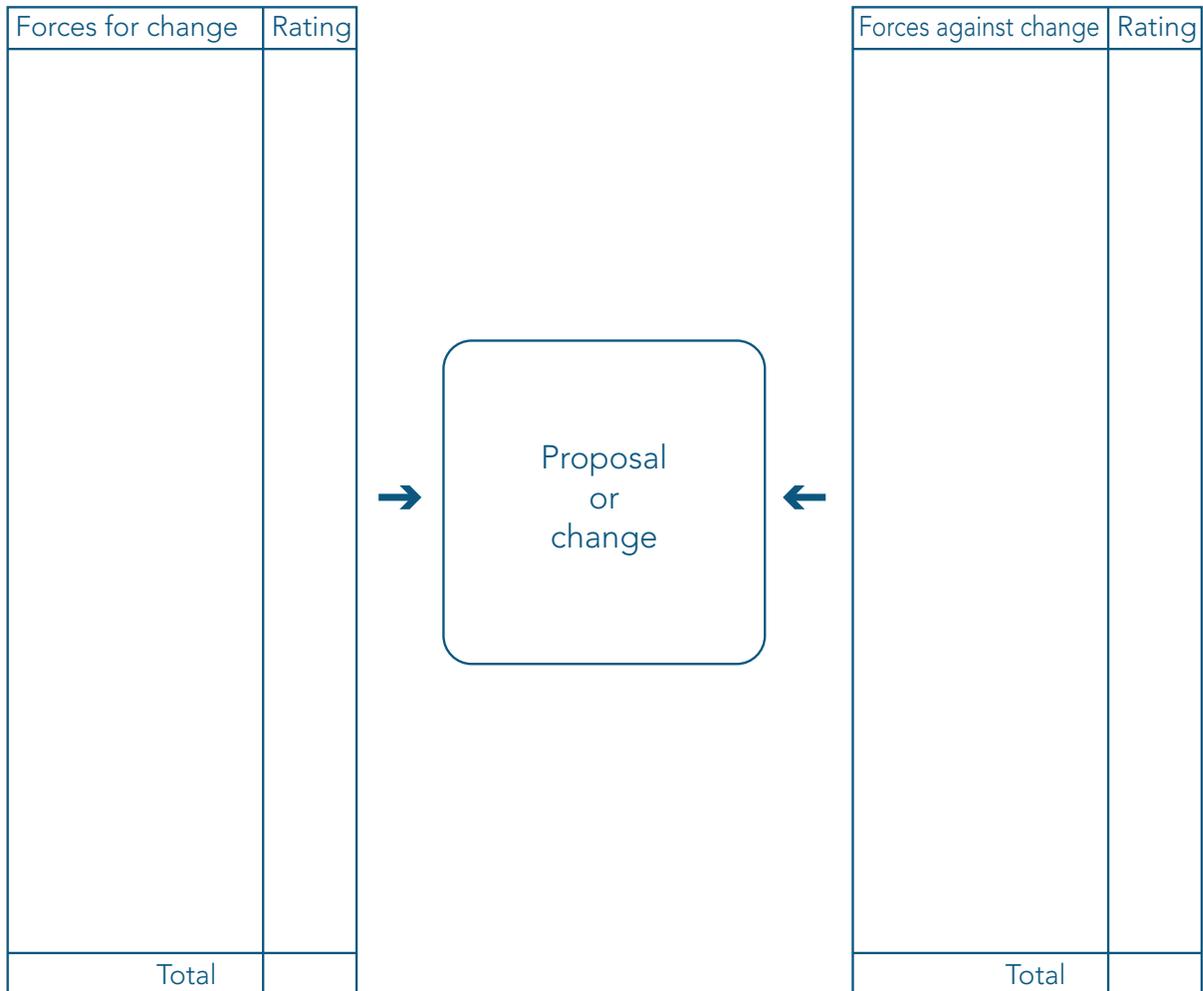


Lewin's Forcefield Analysis model

Force field analysis is a method to analyse and compare the forces for and against change. It can help with convincing management and staff about the need for change and when planning for the implementation of change. Forces for and against change forces are brainstormed and recorded. Then they are reviewed and given a rating out of 5 or 10. A total is calculated for the forces for and against. For a change to go ahead, the score for forces for change must be higher than the total for against. Solutions, adjustments and contingencies can be identified to reduce the scores for the forces against change.

A diagram such as the one following, is used to organise thinking, facilitate discussion and record ideas.

Force Field Analysis



Kotter's 8 Steps change management model

John Kotter developed eight steps that are success factors for the management of change.

Step 1: Create Urgency

Identify the problem or potential failure that the company faces. Discuss the impact if the change does not happen. Convince staff that change is necessary.

Step 2: Build a Coalition

Identify staff with the leadership and technical skills to make the change happen. Build a change team with staff from across the company.

Step 3: Develop the Vision

Have clear goals for change and communicate them so staff know what they are working towards. They will be more motivated if they understand what will be achieved.

Step 4: Communicate the Vision

One staff meeting is not enough. Keep everyone informed with regular meetings, updates and communication. Seek feedback and discuss adjustments and successes. Make sure all staff are involved, including regional, casual and shift workers.

Step 5: Empower Others

Solve problems, change procedures to support change, give staff the authority to enforce new rules and implement new ways of working.

Step 6: Short-Term Wins

Set short term targets and recognise progress and success.

Step 7: Consolidate Change

Monitor work to ensure that the new systems and procedures are being followed by all staff. Conduct training and hire staff to support the change.

Step 8: Formalise the Change

Update policies and procedures. Continue communication and celebrating effort and success to build a new culture.



4.4 Managing diversity as a strategy for business growth

Diversity in a company enables it to draw on the largest pool of potential employees and the widest range of talents, experience, skills and ideas. A diverse workforce resembles a diverse society and can better respond to the community around it. A company must build a culture, policies and work arrangements to recruit and retain people with disabilities and people from a wide range of cultures, genders and ages. Adjustments are required to cater for a diverse workforce such as ramps, wider doorways, automatic doors, screen readers, office layouts, flexible work arrangements and large screens.

Negotiations with companies in other countries are more effective if staff can communicate in the same language and understand the culture. Marketing strategies are more effective if staff share and understand language and culture.

A diverse workplace, free from discrimination, will increase the retention of staff and help build high employee satisfaction and loyalty. This will reduce the disruption and costs of staff turnover. Problem solving and innovation will be improved by having a workforce with a range of experience, qualifications and backgrounds. People with similar backgrounds and experience will look at problems in similar ways.

Ways to use diversity for business growth:

- use a range of experience and perspectives to develop options and solve problems
- refine marketing strategies based on local knowledge
- enter new markets
- advertise and talk to customers in target market languages
- reflect local values and beliefs in advertising
- use seasonal and cultural events and requirements for marketing campaigns, e.g. Easter, Ramadan, Christmas, Lunar New Year
- provide translated information in advertising and for product information and instructions.

There are legal requirements for managing diversity, including:

- *Australian Human Rights Commission Act*
- *Age Discrimination Act*
- *Sex Discrimination Act*
- *Racial Discrimination Act*
- *Racial Hatred Act*
- *Disability Discrimination Act*
- *Workplace Gender Equality Act 2012*
- *Fair Work Act.*



TEST YOUR KNOWLEDGE

Chapter 4 People

1. Outline why it is vital that businesses are aware of the internal and external factors that drive change.

2. Explain how financial costs create resistance to change.

3. Explain why managerial inertia may be a reason for resistance to change in an increasingly globalised world. Provide an example that relates to the increasing reliance on technology in business.

4. Explain how cultural incompatibility can create resistance to change in global mergers and takeovers.

5. Explain how staff attitude creates resistance to change.

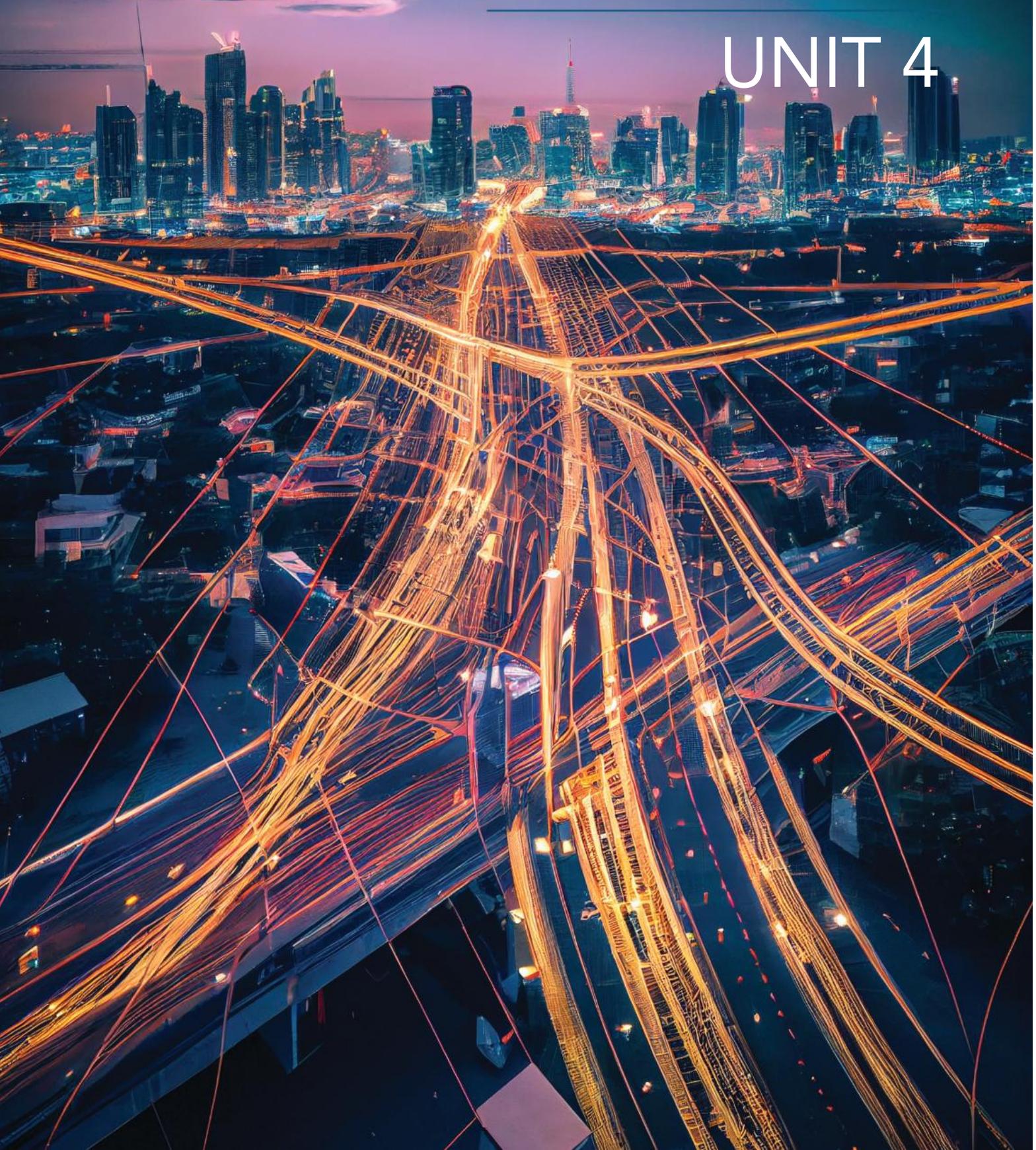
6. Outline how Kotter's 8 Steps change management model facilitates change.

7. Apply the first three steps of Kotter's 8 Steps model to guide an Australian business to change so they can take advantage of a new market trend. For example, a music shop, ticket seller or book retailer changing to digital distribution.

8. Draw and apply Lewin's Forcefield Analysis to a local business that may be considering global expansion.

Business Management and Enterprise

UNIT 4



ENVIRONMENTS

Political and Legal, Economic, Socio-Cultural and Technological (PEST)

5



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Describe the impact of cultural considerations on global business practice, including:
 - levels of education
 - customs
 - holidays and celebrations
 - religious beliefs
 - business etiquette
 - communication protocols
- Discuss the role of business in relation to ethical practice in a global context, including:
 - minimum standards of labour by the International Labour Organisation (ILO), including the use of child labour
 - corporate social responsibility
 - environmental sustainability
- Outline economic factors which impact on business operations in the global market, including:
 - economic activity
 - discretionary spending
 - interest rates
 - currency fluctuations

- Distinguish types of financial institutions, including:
 - banks
 - finance companies
- Identify sources of internal funding, including:
 - retained profits
- Identify sources of external funding, including:
 - debentures
 - share capital
 - trade credit
 - venture capital
 - secured loans
 - financial institutions
 - government
- Outline political factors which impact on business operations in global markets, including:
 - stability of foreign governments
 - relationship of foreign governments with the Australian Government
- Describe the impact of legal systems on business operations in global markets
 - differences regarding competition regulation
 - patent registrations
 - product liability
- Describe the impact of technology on business operations in global markets, including:
 - technology that assists business in the expansion into global markets
 - e-commerce, security and privacy issues

5.1 Impact of cultural considerations on global business practice

Understanding differences in management and communication styles in different countries leads to better business relationships and marketing strategies. Cultural differences can be a source of conflict and misunderstanding. Cultural considerations add another layer of complexity when planning and implementing business strategies.

Levels of education

The OECD research asserts that a basic level of education for all 15 year olds will result in GDP growth. Their research shows that levels of education predict the wealth that countries will produce over time. The wealthier a country is the more disposable income people have and the more likely they will purchase consumer goods and services.

If a country has a skilled labour shortage a company will need to move employees there or use financial packages to recruit skilled staff from around the world. A shortage of people with the required education and technical skills may impact on the success of a business project. Companies have taken advantage of poor education levels to sell products. Tobacco companies target developing countries because they do not have the same systems of health education regarding the dangers of smoking as in developed nations.

Customs

There are different levels of formality in different cultures. In Australia staff may be less formal with their managers than in other countries. Different cultures put different emphasis on time and punctuality. There may be beliefs around colours that will impact on product design and advertising, for example, red is seen as lucky in China, while it is danger in Australia. Black is the colour of death and funerals in Australia, while it is white in parts of Asia. Green is a colour of life, nature and growth in Australia, while it is taboo in some contexts in Indonesia and green hats are related to infidelity in China.

Many countries have strict customs about presenting and receiving business cards. In Japan and Hong Kong, cards must be given and received with both hands, and must be carefully studied and never written upon. The exchange of business cards is an important part of meeting business partners. Some cultures have a social aspect to building a business relationship. A social dinner is a very important part of a successful negotiation, while other cultures focus on formal business meetings.



Holidays and celebrations

Local holidays and celebrations can impact on marketing campaigns and business projects. They may also create opportunities for products and services based on the celebrations and local events such as Easter, Christmas, Lunar New Year and Diwali. The month of Ramadan is important in many parts of the world, and, having critical deadlines during this month is challenging. These may need to be factored into schedules and timeframes for projects.

Religious beliefs

Religious beliefs are part of the foundation of a country's culture. Religious beliefs determine the way people interact, their lifestyles and spending patterns. Religious beliefs are observed in religious and secular ways such as Easter, Christmas and Lunar New Year. Business people may organise their work to include prayer times. Understanding the religious beliefs of a target country and business partners will help refine strategies and build stronger business relationships.

When catering for a business event it is important to be aware of religious rules about food and how it is prepared, such as halal and not serving alcohol for Muslims, kosher for Jewish people and not serving beef to Hindus. Many Hindus are also strict vegetarians and do not eat eggs. In some countries women must dress more modestly than in Australia, such as covering shoulders, arms and cleavage. Some Christian business owners have stated their right to refuse to provide products and services to customers if it involves a same sex marriage, for example, wedding cakes.

Business etiquette

Being aware of etiquette in different cultures means that you can work better with global partners. You will be able to avoid causing offence and misunderstanding. It also shows global partners that you value the business relationship because you have taken the time to learn about their culture.

Examples of differences in business etiquette are:

- Some cultures stand very close and use physical contact during conversations.
- Other cultures maintain personal space during formal communications.
- There are cultures that use bows instead of handshakes when greeting other people.
- Some may expect small gifts as part of building a business relationship.
- Some cultures are very formal and blunt when communicating for business. In Australia, small talk and humour is common when meeting business partners. Some countries, such as Italy, expect to build a personal social relationship before engaging in business negotiations.



Communication protocols

Knowing and demonstrating the correct communication protocols shows professionalism and respect for business partners. In some countries business communication is very formal and direct while elsewhere it is more passive or social. There may be protocols that exist within a foreign company such as following up a verbal conversation with a formal email. Different cultures may have different meanings for the same words and there will be differences in slang and expressions such as, 'be back in a second'.

In some countries it is expected to focus solely on business at meetings, while in Australia business meetings may be less formal and include some socialising. Some cultures are more formal about rank and senior managers lead discussions. It will be seen as disrespectful if subordinates speak without being called upon in a meeting. Some global partners communicate positively during the meeting, but without reaching an agreement. Some cultures believe it is more important to have a smooth, positive meeting and avoid conflict face to face.

5.2 Ethical practice in a global business

Different countries have different ethical standards and expectations regarding issues such as child labour, safety, pay and the environment. This can create an ethical dilemma. The dilemma is whether to exploit lower standards in a target country to increase profit. Whether to accept the lower ethical standards in a foreign country while complying to the higher standards domestically. Successful companies, such as Apple and Nike, have been criticised for using offshore sweatshops to manufacture their products. Adidas and Nike sell their shoes with a profit margin far higher than their manufacturing costs. Workers making the shoes, in places such as Cambodia, are paid extremely low wages, leaving them unable to afford necessities like food and housing. Their success in developed countries depends on global inequality and the exploitation of developing countries.

A country may not have the same regulations on product safety and consumer health than Australia. Should a company sell a toxic or unhealthy product in a country just because they can? For example, marketing strategies for cigarettes in some countries target teenagers, while any tobacco advertising has been illegal for a long time in Australia.

An issue in global business ethics is bribes. In some countries, bribes are seen as a cost of doing business. Payments and gifts to government officials are a part of dealing with a foreign government. In Australia it is illegal and seen as corruption. Between 1999 and 2004 the Australian Wheat Board (AWB), run by the Australian Government, paid bribes to secure wheat exports to Iraq – the AWB oil-for-wheat scandal.

Environmental management is another important ethical issue. Regardless of the environmental regulations in a foreign country, companies are expected to manage their environmental impact. Should an Australian company profit from the lack of environmental protections in a foreign country? Should an Australian company profit from the low wages and poor health and safety practices in a foreign country? Technically it is legal and within the laws of the country, but it is ethically problematic. Is it the right thing to do?

Being ethical is about doing more than just the legal minimum. It is about being committed to making a positive contribution to society. One approach is to have a single code of conduct that applies around the world. Companies can work with strategic partners in other countries to provide fairer wages and conditions and healthy and safe workplaces.

Minimum standards of labour by the International Labour Organisation, including the use of child labour

There is a growing gap between the world's richest and poorest nations. Companies use countries with low labour costs to increase profit, but this leaves the low cost countries with people in poverty. The low cost countries do not receive the benefits of globalisation. The International Labour Organisation (ILO) sets minimum standards in the world of work.

International labour standards are either conventions and recommendations:

- conventions: legally binding international treaties that are agreed to by countries
- recommendations: non-binding guidelines which suggest how conventions should be applied.

Four aspects of ILO labour standards are fundamental to social justice and prosperity:

1. the elimination of discrimination related to employment and occupation
2. the effective abolition of child labour
3. the elimination of all forms of forced or compulsory labour
4. freedom of association and the effective recognition of the right to collective bargaining.

The ILO understands that children may have to work, but they have strict standards to try to prevent the exploitation of children.

The ILO's Minimum Age Convention, 1973, sets out the following standards:

- 13 to 15 year olds only do light work that fits in around their education.
- 15 years old is the minimum age for full-time work.
- 18 years old is the minimum age for hazardous work.

The ILO has a formal complaints process and a Commission of Inquiry and can refer serious cases to the International Court of Justice. In 2015, Woolworths, Coles, IGA and Aldi were implicated in a scandal involving forced child labour in a Thai prawn processing factory.

Corporate social responsibility

Corporate social responsibility (CSR) is a company's strategic commitment to ethical conduct and to manage their impact on the quality of life of employees, the local community and broader society when making business decisions. It involves a triple bottom line that measures success based on profit, impact on the environment and impact on society. If a company is known for their social responsibility and improving the community and society around them, it is more likely they will be accepted by a new market.

Companies committed to CSR can build a positive reputation and public image that can help them increase brand awareness and customer loyalty. CSR prevents companies from reducing costs by using unethical business practices such as child labour, low workplace safety or poor environmental management.



Environmental sustainability

Global companies are motivated by protecting the environment and society and by creating a positive public image for their brands. Green initiatives can also cut costs by reducing packaging materials, minimising transportation costs and decreasing energy costs. Companies can increase sustainability by choosing suppliers that are committed to sustainability. Companies have an ethical dilemma regarding how they manage their environmental impact in countries with few environmental controls. Poor environmental management can lead to financial costs of fines, penalties, environmental clean up and compensation to victims of environmental damage.

Greenwashing means using misleading claims, advertising and labelling to promote a commitment to the environment without actually taking any substantial action. According to the United Nations, greenwashing presents a significant obstacle to tackling climate change. By leading the public to believe that a company or other entity is doing more to protect the environment than it is, greenwashing promotes false solutions to the climate crisis that distract from and delay concrete and credible action. In 2019, McDonald's replaced plastic single use straws with 'recyclable' paper ones as an environmental initiative. It turned out the paper straws were non-recyclable.

5.3 Economic factors which impact on business operations in the global market

Assessing the macro business environment for threats and opportunities is part of planning and operating a business. There are complex economic factors that impact on a company when operating globally. Understanding these factors is important for global businesses to make better decisions and improvements to their strategies and operations.

Economic activity

Economic activity involves the production, distribution, buying and selling of products and services. It is measured by the Gross Domestic Product (GDP) of a country. The strength and growth of economic activity impacts on demand for products and services and business growth. If economic activity is low or slowing in a target country, entering the market has increased risk. Consumers and businesses have less money available for discretionary spending and demand will be lower. Success is more likely in countries where economic activity is strong and expected to continue to grow. Consumer confidence is influenced by economic activity. If the economy is strong, spending is high and unemployment is low, then consumers and businesses are confident that their level of income will continue and grow into the future. They are more likely to borrow and spend on imported goods and services and achieve business growth.

Discretionary spending

Discretionary spending is the money available to consumers after they pay essential costs such as food, housing, health, transport and education. Discretionary spending is on 'wants' not 'needs'. As countries develop and become wealthier, citizens earn more and have more money available for discretionary spending. The more discretionary income consumers have, the more likely they are to spend on imports and purchasing online. Part of assessing the potential of a foreign market is to estimate the level of discretionary spending.

Interest rates

Interest rates are the cost of borrowing money from financial institutions. A country with high interest rates usually has a higher exchange rate for their currency. This has a negative impact on exports because they become more expensive for foreign customers. Low interest rates mean a lower exchange rate, exports are cheaper in foreign markets which will increase global demand. The interest rate indicates the strength of an economy. Interest rates impact on how companies fund expansion into overseas markets. If interest rates are high, debt repayments will be high. This will impact on cash flow and the ability of a business to finance business growth. High interest rates will also limit the borrowing of consumers and other businesses, and their spending on products and services.

Interest rates impact on demand and sales. Low interest rates make debt easier to pay off, so companies can borrow to expand. This is true domestically and in a target country. If a country has low interest rates, customers there will be more likely to spend more and demand for a company's products and services will be higher. If the economy is slowing and spending is shrinking, the Reserve Bank may cut its interest rate to try to stimulate demand and spending, by making debt easier to pay off.



Currency fluctuations

The value of a country's currency is determined by many factors, including trade between countries, interest rates and civil conflict. Changes in exchange rates impact on the affordability of imports and the cost of doing business in foreign markets.

If the value of the Australian dollar rises against foreign currency:

- products exported from Australia become more expensive
- tourists will find Australia more expensive to travel in
- consumer demand for cheaper imports will increase.

If the value of the Australian dollar falls against foreign currency:

- products exported from Australia will become less expensive
- tourists travelling to Australia will be able to spend more
- Australian made goods will be more affordable than imported goods.

5.4 Types of financial institutions

A financial institution is an organisation in the business of financial transactions, such as deposits, loans, investments and currency exchange. Examples of financial institutions or intermediaries are trading banks, credit unions, finance companies and merchant banks.

Banks and credit unions

Trading banks: offer a range of deposit, investment and loan accounts to individuals and businesses. Banks pay interest on deposits and charge interest on loans. Banks make money from the difference between interest paid to customers and interest collected from customers, and fees and charges.

Merchant banks: bring together parties that have large amounts of capital to invest and parties that need large amounts of capital for business projects. Merchant banks may also invest their own funds. Because of the risk of investing in business projects, merchant banks charge higher fees and interest than trading banks.

Credit unions: Credit unions tend to serve a specific industry, region, occupation or community. Credit unions use their profits to provide benefits to members, such as lower fees or reduced interest rates, rather than dividends to shareholders. Examples include the Police Credit Union, Goldfields Money Limited and Railways Credit Union.

Finance companies

Finance companies: provide loans to businesses and consumers but don't accept deposits. They make a profit by charging customers high interest rate and fees.



5.5 Sources of internal funding

Retained profits

Capital is accumulated by allocating profit to a reserve. Reserves can be used for financing operations, paying dividends to shareholders, asset purchases or to pay off debt. Retaining profits allows a business to source funds without increasing debt or diluting ownership through a share issue. It avoids the complications of managing creditors, new partners or outside investors. The process to retain enough profit to finance operations or projects can be a lot slower than organising a loan. The amount needed may be accumulated over a number of financial periods. Retaining too much profit may impact on the working capital available to finance operations.

5.6 Sources of external funding

Debentures

Companies can issue debentures to source funding. A company issues a prospectus detailing their financial performance, future plan, the details of the debentures and how to apply for them. Debentures pay a fixed amount of interest at regular intervals over a fixed period of time. Like shares, debentures can be sold on the open market. Unlike shares, debenture holders are not owners of the company and do not have voting rights. A company can raise money without giving up ownership, with fixed costs that can be planned for over the long term.

Share capital

A new company raises money by selling shares in an initial public offering (IPO) or an existing company can issue shares to finance a new project or expansion. Holders of shares have the right to vote at general meetings of the company. Shareholders are entitled to a share of company profits through the payment of dividends. Dividends are paid if the Board of Directors believes the company can afford it, otherwise the profit is retained by the company. Once sold by the company, shares can be bought and sold on the open market. Shares are a good source of finance, but they impact on the ownership of the company and makes company management more complex.



Trade credit

Companies provide a period of time for invoices to be paid by customers. This period of time is set by the company and can be any time, for example, two weeks or 30 days. This gives a customer a form of interest free finance to delay payment and manage their cash flow. They receive the goods or service, but can pay for it at a later date.

Venture capital

A trading bank is unlikely to approve a loan to a new business or a new project. New ventures don't have a history of income and financial management to support their application for a loan. Venture capitalists are more willing to take the risk because the agreement for finance includes their involvement in the management of the business or project. Instead of a loan, venture capitalists invest in the venture and are entitled to a return that is much higher than just charging interest on a loan. Although the risk is high, the venture capitalist requires a high rate of return on their investment, such as an ongoing percentage of any income. Venture capital is a source of finance for high risk projects, but the cost can be high and it often involves venture capitalists being involved in making decisions. There are also companies that facilitate business relationships between people seeking venture capital and those seeking to invest their money.

The role of venture capitalists is to:

- finance new and expanding companies
- finance the development of new products or services
- bring management expertise to a company
- take on high risks with the expectation of high rewards.



Secured loans

A company can take out a loan that is secured against its assets, such as buildings, vehicles and stock. The amount a business can borrow depends on the security provided to the lender. If the company does not keep up with debt repayments, the lender can forfeit the loan and take the assets that were used as security. It is a common source of financing, but if the borrower defaults they lose the assets they need to operate and earn income.

Financial institutions

Institutions such as building societies and credit unions focus on personal lending and residential home loans. Institutions with a focus on business funding include: banks, merchant banks, finance companies. Financial institutions provide finance, but they also offer other services such as business advice, insurance and investment products.

Government

Governments want to grow the economy by supporting business investment. They do this by providing financial incentives to encourage business expansion, exports, innovation, training and employment. There may be grants – businesses apply for lump sums to help them finance growth or new ventures. Subsidies and financial incentives provide ongoing financial support, such as funding for apprentices and trainees.

5.7 Political factors which impact on business operations in global markets

Political factors that impact on global business are complex because they involve the culture, technology, politics, laws and regulations of different countries with diverse histories, institutions and governments. Political factors can impact on sales and profit. Politics involve the negotiations and agreements over finding a balance between standards of living, environmental protection, workers' rights and economic growth. They affect government policies and the level of support for business. They change over time and are influenced by election cycles. Planning for and monitoring these factors is vital for identifying threats and opportunities in the global business environment.



Stability of foreign governments

Lack of political stability in a country impacts on business. Unstable countries may have civil unrest and general disorder. Frequent changes in government means that businesses do not have clear laws and regulations they must comply with. Instability is often a product of poverty, corruption and warfare, which creates an environment that does not support business.

Relationship of foreign governments with the Australian Government

If governments have disagreements and conflict with one another, one or both governments may put economic restrictions in place. For example, Australia suspended live animal trade with Indonesia after evidence of animal cruelty in Indonesia was uncovered.

Free trade agreements that support business are more likely when countries have a good relationship. Foreign aid for developing countries may create future trade partners because of the long-standing relationship and support.

5.8 Impact of legal systems on business operations in global markets

Managers of a global business must understand the differences between laws and regulations domestically and in foreign markets and manage their impact on operations and business growth. Examples of differences between markets include:

- differences in contract law
- patent registration and other intellectual property protections
- product labelling requirements

- product safety and liability laws
- taxation, customs and quarantine laws
- consumer rights and protections
- competition and foreign investment regulations.

Differences regarding competition regulation

Business growth and success depends on a company establishing a competitive advantage, that is, having something their competitors do not. One way to do this is to protect IP. This means that competitors will find it difficult to create a similar substitute product and creates a barrier to entry into the market.

Patent registrations

A patent gives the patent holder exclusive rights to manufacture and sell any device, substance, method or process that is new, inventive, and useful.

There are two options for a global business:

- apply for a patent in countries individually – good if you only have a few target countries
- register a patent in multiple countries under the Patent Cooperation Treaty (PCT).



The PCT is administered by the World Intellectual Property Organization (WIPO) and takes effect in 148 countries. There are also regional patent agreements such as the European Patent Convention.

A patent is maintained as long as annual fees are paid. Patents must be updated if there are any changes to the device, substance, method or process. If a patent is infringed, legal action can be taken to stop the activity and to sue for damages.

Product liability

Product liability laws hold companies responsible for any loss, damage or injury caused by their products. When managing product liability the different policies and regulations in different global markets must be considered and complied with.

A business can be held liable for:

- negligence: when a company fails to take reasonable care to manufacture and supply a safe product or provide appropriate warnings and instructions
- strict liability: when a product causes harm or injury to a user
- breach of warranty: when a product is not fit and suitable for its purpose.

5.9 Impact of technology on business operations in global markets

Technology enables Australian companies to have a presence in overseas markets. Online shopping, digital distribution, chat bots and online payment systems all support global growth. Social media is an important source of collecting data about consumers and to implement and target advertising, positioning and promotions.

Remote working, cloud file sharing and virtual workplaces are used by companies to operate across regions and countries and improve staff productivity.



Technology that assists business in the expansion into global markets

An online payment process for international buyers is easy to use, secure and minimises the risk of online fraud.

Digital distribution avoids the cost, risk and time involved in manufacturing, storing and distributing physical products, for example, e-books, music, event tickets, movies, TV shows and software.

Data mining uses algorithms and software to collect, organise and analyse data collected from users, consumers and markets. This helps to identify target markets and develop and refine marketing strategies.

Cloud computing greatly reduces the costs and time involved in setting up IT infrastructure and replicating and maintaining IT systems in foreign markets. It also centralises data and reporting and enables managers around the world to view the same information in real time.

Fast, stable internet, such as the National Broadband Network (NBN), improves the speed and quality of communications and service to customers.

Automation, for example, use chatbots and automated sales and distribution systems help customers in different time zones when staff are not working.

Remote meeting and file sharing applications make it easier to meet and share files with people in different countries and time zones.

E-commerce, security and privacy issues

E-commerce must be designed to collect information from international (and domestic) customers and transactions to refine marketing strategies. The e-commerce website can be designed to detect where users are in the world and trigger adjustments to website content such as language, currency, prices, shipping information and product availability.

A security measure is to always request the three- or four-digit Card Security Code (CSC) for every online payment with a card. A website will have a padlock icon in the address bar if they are using the Secure Sockets Layer (SSL) protocol. This encrypts data and authenticates the server and the integrity of the message. It is important to have strong security to protect the customer database and business information systems such as encryption, firewalls and strong passwords.

E-commerce involves collecting and storing private customer information, for example, addresses, financial details and other personal information. Hackers target global businesses to install ransomware and to steal customer data. Businesses have a legal obligation to keep this private information secure. They must include a privacy policy on their website and clearly state what they will and will not do with customers' personal details and tracking tools such as cookies.

Cookies collect information and send it back to the company server. It is a digital identifier that notifies the company whenever a user visits the company website. The website can then customise content and interaction for that user, for example, suggested products, currency and shipping information, and advertising.

Customers around the world are more likely to buy products and services online if they are confident that their personal and payment information is secure and their money is going where it should.



TEST YOUR KNOWLEDGE

Chapter 5 Environments PEST

1. Using an example, explain two ways in which technology can be used to assist marketing in global markets.

2. Describe one impact of technology on business operations in global markets.

3. Analyse the following factors that impact on business operations in global markets. Provide an example for each impact.

- a) economic
- b) political
- c) legal systems

6. Discuss how e-commerce could assist an Australian company to expand into global markets.

7. How can security and privacy issues impact on the success of e-commerce?

8. Different countries have different laws regarding competition regulation. How can patent registrations and product liability impact on business operations in global markets?

13. What role does the International Labour Organization play in ethical labour practices?

14. A business must understand the external environment when planning and managing global business. How can the following factors impact on business operations in global markets?

- a) economic activity
- b) discretionary spending



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Explain the purpose and intent of the strategic planning process
- Outline key features of strategic plans:
 - mission and objectives
 - environmental scan
 - PEST
 - Porter's Five Forces
 - Strengths, Weaknesses, Opportunities, Threats (SWOT) strategies
 - strategic formulation
 - strategic implementation
 - evaluation and control)

6.1 Purpose and intent of the strategic planning process

The strategic planning process involves management and staff assessing the business environment and identifying company goals and objectives. A strategic plan describes the mission and priorities of a company. The plan is a guide for management when making decisions about the allocation of resources and assets.

6.2 Key features of strategic plans

Mission and objectives

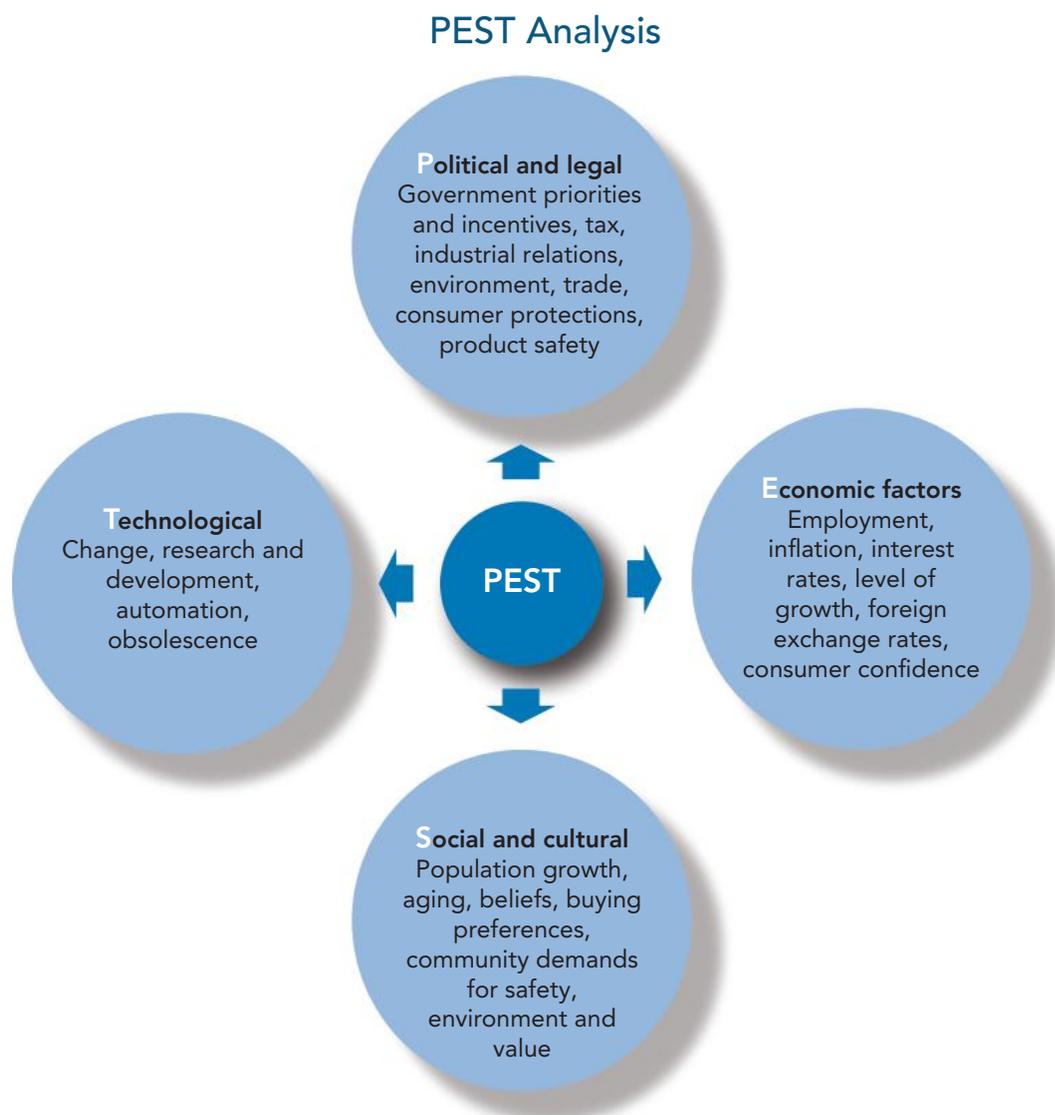
A mission statement outlines a company's purpose and what it wants to achieve. It may also describe how it is different to its competitors.

Environmental scan

Also known as a situational analysis it involves researching and analysing the business environment. The aim is to identify factors that will impact on business growth and success.

Pest

PEST is a method used to analyse the macro environment of a business. A PEST analysis should be done regularly so changes in the business environment can be identified and used to refine planning and decision making.



Porter's Five Forces

Porter's Five Forces analyses a market in terms of its level of competition. A company uses this analysis to evaluate the viability of a new product or service or entering a new market. The five forces explain the difficulty of competing in a market. Porter's forces determine whether a market has high profits or low profits. A company that has control over costs and prices and can protect their market share will be in a high profit market. A market that has a high level of competition results in low prices and low profits. The five forces are:

New entrants

New entrants are a threat to existing companies. The level of threat depends on how easy it is for new competitors to enter a market. Barriers to entry include: high production costs, protection of IP, proprietary technology, economies of scale. The reputation and market share of existing competitors may also make it difficult for new entrants to take market share.

Power of suppliers

This force is how suppliers control the costs of supplies. If there are many suppliers with low power, companies can pick and choose suppliers based on costs and increase their competitiveness. If there are few suppliers or specialised supplies, suppliers have more power over the prices they charge. A competitor may be able to negotiate special prices or an exclusive supply contract to make them more competitive. An example of low supplier power is in the dairy industry. Dairy farms have found it difficult to survive and large national supermarket companies have been able to negotiate very low prices for milk.

Power of buyers

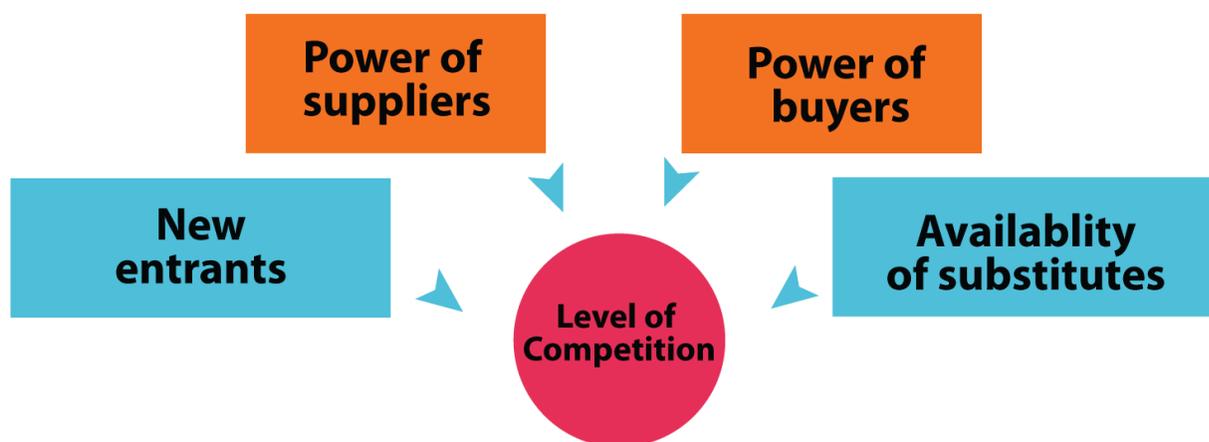
This force is related to the how much control customers have on prices and supply. One customer may be the main source of sales for a company. This powerful customer will be able to negotiate lower prices and a higher level of service that will impact on profit margins. Companies may have negotiated exclusive contracts with some competitors that will prevent new companies entering the market.

Availability of substitutes

This force is the impact that similar or substitute products have on market share and sales. Competitive strength is weakened when customers have options and they can shop based on price and convenience. If products are generic, it is easier for new competitors to enter the market and take market share.

Level of competition

This describes the intensity of competition based on the size and number of competitors in a market. If there are many competitors, and products and services are generic and easily substituted, it is harder for competitors to enter the market and be successful.



SWOT analysis

A SWOT analysis is a planning tool to focus on and assess internal and external factors that impact on current and future business performance and the achievement of goals. The strengths and weaknesses of a company will determine how well it can respond to opportunities and threats.

Strengths

Internal capabilities that can contribute to business success, for example, IP protection, skilled employees, strong leadership, reputation, assets

Weaknesses

Internal weaknesses that could cause barriers to business success, for example, high staff turnover, poor leadership, location

Opportunities

External conditions, events and changes that could create business opportunities, for example, change in laws, free trade agreements, consumer trends, seasonal demand, new technology

Threats

External conditions, events and changes that could impact negatively on business success, for example, competitors, powerful suppliers, technologies, increased regulation



Strategic formulation

Strategies focus time and resources to build competitive advantage and succeed in the market. Strategies are aligned to the mission and goals of the company. They are how the strategic goals are going to be achieved. Managers use the long term strategic goals to develop short and medium term action plans and objectives. Success in the short and medium term contributes to the achievement of long term strategies.

Steps to formulate strategies:

1. Analyse the business and business environment

Use PEST, SWOT and Porter's Five Forces to identify trends and anticipate changes.

2. Set a clear strategic direction

Identify a mission, goals and measurable targets. This means employees will have a common understanding of what is expected and what they are working towards.

3. Develop projects or initiatives

Outline projects or initiatives at the strategic (long term) and tactical (medium term) levels. Successful projects in the short and medium term, will contribute to the achievement of long term goals.

4. Establish action plans

These plans are aimed at the team and individual level (short term). Successful action plans mean that projects are completed, which will lead to the achievement of strategic goals.

Strategic implementation

A strategy is more likely to work if it builds on the strengths of a company and if there is a common understanding of it amongst employees. Managers and staff must understand the aims and benefits of the strategy and why the company is pursuing it. Managers and staff must understand their responsibilities and how they contribute to the achievement of action plans and goals. Overcoming resistance to change is part of successful strategy implementation. Commitment to the strategy is shown by allocating resources in a budget and celebrating successes. Successful implementation requires a communication strategy that 'sells' the strategy and explains its benefits and what the threats are if it isn't implemented.

There should be a communication plan that includes input and feedback from employees and ongoing communication, such as progress meetings, team meetings, email, newsletters, strategy documents, videos etc. Success and progress should be recognised and celebrated. This reinforces the strategic path and keeps staff motivated.

Evaluation and control

Performance measurements and regular reviews of operations are used to refine planning, monitor outputs and progress and make corrective actions. Results are compared to the planned targets and timeframes to evaluate progress. Monitoring internal and external factors enables a business to respond quickly to changes and problems.

Quantitative assessments include sales and profit data, quality control statistics, inventory figures and budget analysis.

Qualitative assessments include customer and staff feedback and their suggestions for improvements.

A basic evaluation cycle is shown in the diagram below.

Strategy Evaluation Cycle





10. Cadbury – SWOT

Cadbury has an efficient manufacturing process that can adapt to changes in consumer tastes. Cadburys has a diverse product range which enables it to compete in emerging markets. Cadbury has a strong brand and its advertising captures consumers awareness.

Cadbury is dependent on confectionary as its main product offering. Entering new markets requires high levels of investment and exposes Cadbury to direct competition with other brands owned by the Mondelez group that owns the brand. In the past, Cadbury has experienced consumer backlash after making changes to its products without undertaking market research.

Emerging markets for Cadbury include China and Russia. Cadbury has considered moving its manufacturing to lower cost countries where labour costs are cheaper. Cadbury is known as a good corporate citizen and has a public image of a caring organisation with strong connections to society.

Cadbury has been impacted by increased costs such as fuel, electricity, transport, packaging and sugar across the world. Competitors use aggressive pricing and promotional activities to try and increase market share and attract increasingly cost-conscious consumers. There is increased concern regarding obesity, and consumers are becoming more health conscious and demanding governments take action to reduce sugar consumption.

Construct a SWOT analysis for Cadbury.

Strengths

Weaknesses

Opportunities

Threats



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

Describe the purpose, features and interpretation of the following basic financial ratios:

- liquidity
 - current ratio
 - formula: $\frac{\text{current assets}}{\text{current liabilities}}$
- profitability
 - gross profit ratio
 - formula: $\frac{\text{gross profit}}{\text{net sales}}$
 - profit ratio
 - formula: $\frac{\text{profit}}{\text{net sales}}$
 - expense ratio
 - formula: $\frac{\text{operating expenses}}{\text{net sales}}$
 - return on equity ratio
 - formula: $\frac{\text{profit}}{\text{equity at end}}$
- stability
 - debt to equity ratio
 - formula: $\frac{\text{total liabilities}}{\text{total equity}}$

- Explain the purpose of production management systems
- Describe the features of product development
- Describe the features of quality management
 - control
 - assurance
 - improvement
- Describe inventory control techniques
 - just-in-time
 - just-in-case

7.1 Purpose, features and interpretation of basic financial ratios

Financial ratios are indicators of performance and are used to measure business activity. Ratios are compared with those of previous periods of time to monitor and identify trends in business performance. Ratios can also be compared to industry averages and similar businesses to evaluate performance.

Limitations of ratios

1. Ratios do not identify the causes of problems.
2. Ratios give limited information and must be viewed in the context of the business and compared to previous periods or industry benchmarks to be meaningful.
3. Comparison with other businesses may be flawed because of different accounting policies.
4. Some figures are based on estimates such as depreciation and doubtful debts.

Liquidity

Current ratio

formula: $\frac{\text{current assets}}{\text{current liabilities}}$

This ratio calculates the amount of current assets for every dollar of current liabilities. Both involve short term cash flows. This ratio indicates the financial strength of a company, how well they can pay short term debt and what money they have left over to pay for operational costs.

From the balance sheet: current assets = \$700,000 current liabilities = \$590,000

$\frac{700000}{590000} = 1.19 =$ For every dollar of short term debt there is \$1.19 to pay for it.
This shows debt can be paid off with money left over.

Profitability

Gross profit ratio

formula: $\frac{\text{gross profit}}{\text{net sales}}$

This calculates how many cents of gross profit are in each dollar of income such as sales. The gross profit ratio can be improved by increasing prices or reducing the cost of inventory.

From the income statement: gross profit = \$180,000 sales = \$450,000

$\frac{180000}{450000} = 0.40 =$ For every dollar of sales the business makes 40c gross profit or 40%.

Profit ratio

formula: $\frac{\text{profit}}{\text{net sales}}$

This calculates how many cents of net profit is made in each dollar of income.

The profit ratio can be improved by reducing operational costs or increasing prices.

From the income statement: net profit = \$90,000 sales = \$450,000

$\frac{90000}{450000} = 0.20 =$ For every dollar of sales the business makes 20c profit or 20%.

Expense ratio

$$\text{formula: } \frac{\text{operating expenses}}{\text{net sales}}$$

This calculates the amount of expenses or operational costs in each dollar of income.

From the income statement: expenses = \$90,000 sales = \$450,000

$$\frac{90000}{450000} = 0.20 = \text{The business pays 20c in expenses for every dollar of sales or 20\%}.$$

Return on equity ratio

$$\text{formula: } \frac{\text{profit}}{\text{equity at end}} \times 100$$

This ratio calculates the return on investment owners receive from the company. It shows a percentage return. This percentage can be used as a measure of success, as a way to compare potential investments and to assess the viability of a project.

From the income statement: profit = \$90,000

From the balance sheet: equity = \$600,000

$$\frac{90000}{600000} \times 100 = 15\% \text{ The owners receive a 15\% return on their investment in the company.}$$

Stability

Debt to equity ratio

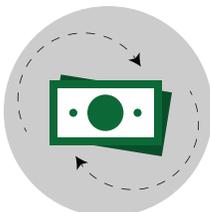
$$\text{formula: } \frac{\text{total liabilities}}{\text{total equity}}$$

This ratio compares how much the owners have invested in the company (equity) to the level of debt (liabilities). A company is more stable if equity is higher because it is made up of the owner's investment and retained profits. If a company depends on debt too much, they are at a higher risk due to debt repayments and fluctuations in interest rates.

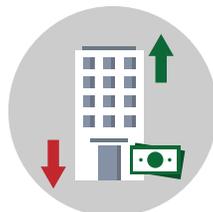
From the balance sheet: total liabilities = \$1,110,000 total equity = \$600,000

$$\frac{1110000}{600000} = 1.85 \text{ For every dollar of equity there is \$1.85 of debt. The company relies on debt more than equity to finance operations.}$$

Financial Ratio



Liquidity
Ratio



Profitability
Ratio



Leverage
Ratio



Efficiency
Ratio

7.2 Purpose of production management systems

Production management systems monitor and control the production process. They ensure inputs are organised, production processes are operating effectively and efficiently and the outputs meet quality standards and client needs. A production management system ensures that a business gets the most out of their production capability.

The purpose of a production management system is to produce goods and services consistently at the:

- right quality
- right quantity
- right time
- minimum cost



7.3 Features of product development

Product development involves investing time, money and skills, and involves a high level of risk. Product innovation takes the following forms:

- **incremental innovation:** product improvements, new features or better performance for existing products
- **disruptive innovation:** a totally new product that will be sold to a new or existing market.

It is important that any product development is based on:

- a clear plan
- market research
- business environment research
- the skills and expertise of staff
- IP protection

The stages of product development are:

1. product ideas
2. evaluate the ideas
3. product concept evaluation
4. prototype testing
5. market testing
6. launch the product.

7.4 Features of quality management

Quality management ensures processes and systems result in a consistently high quality output. Quality management is concerned with detecting and rectifying faults and substandard performance. It isolates and provides feedback on the causes of quality problems. Quality data and feedback are used to identify root causes of problems so they can be fixed.

Control

Quality control is a part of quality assurance. Quality control compares outputs to the requirements and standards of a plan. It ensures that performance and output meets defined quality criteria and the requirements of the customer. Quality control involves observation, monitoring and inspection to identify where the criteria are not being met, so corrective actions can be taken.

Quality control is carried out at four stages of production:

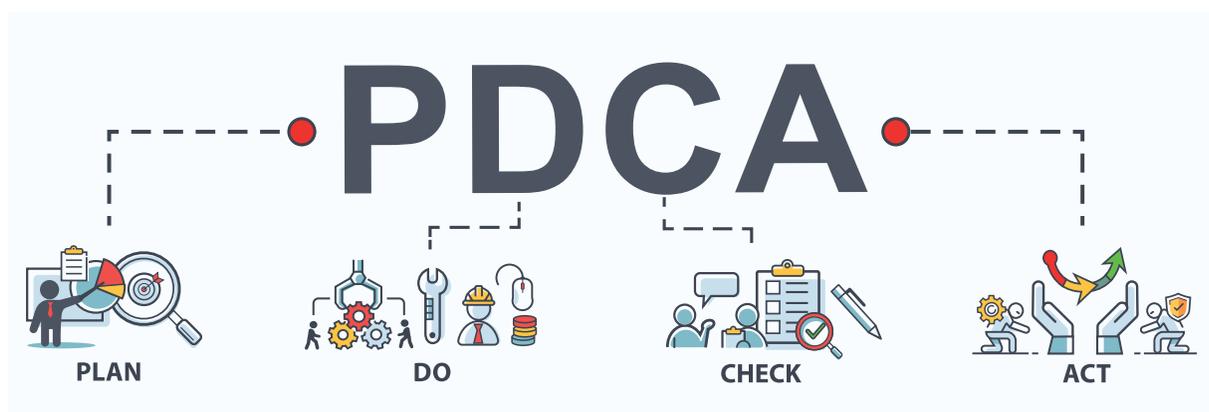
- **specifications:** quality criteria and customer requirements
- **raw materials:** quality of raw materials
- **manufacture:** production equipment, quality inspections
- **final testing:** inspecting and testing of finished products.

Assurance

Quality assurance is a proactive process to prevent substandard performance and output. Quality assurance is a set of procedures to prevent errors and manage quality, and involves checking and reviewing the production process. It can be a part of workplace culture and a commitment of all staff to work to the highest standard. Quality assurance focuses on maintaining a high standard of quality. It can lead to a reduction in production costs, less waste and reduced reworking of products. Quality assurance is the implementation of quality management and control.

Improvement

Improvements can be incremental and build on existing systems and processes. Improvements may be disruptive and involve the introduction of new systems and processes. The outcome of continuous improvement is products and services of higher quality and/or lower cost. Improvements streamline processes to reduce errors, eliminate waste and improve product quality.



A process of improvement involves:

- **planning:** inspect and review performance, identify problems and solutions
- **doing:** choose the best option and implement the improvement
- **checking:** monitor the improvement, seek feedback
- **acting:** update procedures, train staff.

7.5 Inventory control techniques

Inventory control is applied to:

- materials: supplies and raw materials used in production
- work in progress: partially completed products
- finished products: completed products ready for distribution.

Just-in-time

A company does not maintain an inventory of materials or finished products. When an order is placed, products are sourced for delivery. Pull-based means customer demand determines what a company pulls or orders. Just-in-time (JIT) reduces the costs of maintaining stock and storage facilities. There is no need for a warehouse, warehouse staff and bulk purchases of inventory. A company can be more flexible because they can order supplies and materials as needs and orders change instead of having to use the stock on hand.

A company can avoid the cost of obsolete inventory if consumer demand and preferences change. A company must be very efficient and must have good IT systems to avoid supply problems as any delay results in unhappy customers. Companies can be exposed to high prices because they have no choice but to pay the market price, they don't have the time to wait for the best price.

Examples of JIT

Fast food companies like Hungry Jacks do not have a stock of finished burgers waiting for customer orders. Burgers are assembled when orders are taken to maximise freshness.

Dell, the computer company, does not maintain an inventory of parts. It has negotiated with its suppliers to be able to order and receive computer parts within a few hours of scheduled production to fill orders from customers.

Toyota obtains raw materials when an order has been made and a vehicle is ready to be built.

Kellogg's ingredients and products are perishable. The company uses the Kellogg Planning System (KPS) to optimise inventory, production and distribution.



Just-in-case

Just-in-case (JIC) control involves storing and maintaining inventory to avoid running out of stock. This involves higher costs because of inventory purchases and storage. But it eliminates delays and lost sales because of lack of stock. Push based means a company has stock that they must push or sell to customers. A company that can quickly supply a product to a customer may give them a competitive advantage. A company that buys stock in bulk may be able to negotiate better prices with suppliers or exclusive supply contracts.

A business may also use a combination of techniques to ensure supply and customer service. Just-in-case impacts on working capital – the money spent to maintain inventory could have been spent on reducing debt or business growth. If consumer demand or preferences change the stock on hand may become obsolete and must be written off as an expense.

Examples of JIC

Hospitals that experience any delays associated with waiting for supplies of medications, bedding, medical equipment etc. will impact on patient outcomes. Hospitals keep an inventory of supplies so they can provide consistent patient care.

Bunnings are known for their wide variety of products so they maintain large inventories of a wide range of products then use advertising, promotions and sales to try to sell them.

Seasonal products – at times like Christmas, Easter and Halloween, businesses will buy related stocks of products in the hope that the seasonal customer demand will be enough to sell them.



TEST YOUR KNOWLEDGE

Chapter 7 Management – Operations

1. What is the purpose of ratio analysis?

2. Define and interpret the ratio below. How can it be improved?

$$\text{expenses} \quad \frac{\text{operating costs}}{\text{net income}} \quad \frac{190000}{820000} \quad = 0.23$$

3. Define and interpret the ratio below. How can it be improved?

$$\text{debt to equity} \quad \frac{\text{total liabilities}}{\text{closing equity}} \quad \frac{410000}{202000} \quad = 2.03$$



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Outline the use of technology in global markets, including:
 - distribution of products
 - e-commerce
 - social media campaigns

8.1 Use of technology in global markets

Customers demand high-quality communication through the internet and social media and a high level of service through the digital distribution of products, secure payment systems and online shopping on a range of platforms. Customers also expect engaging online content and innovative, mobile commerce tools and applications. Using the wide range of social media platforms and communication methods allows companies to saturate the market with their brands and messages. Technology enables a company to monitor and share information with global sites and partners. Remote working can increase staff productivity and gives companies access to skills and expertise from around the world.

Distribution of products

Technology can help a company find cost effective ways to store and distribute products. Technology can assist Australian companies to get their products to international customers. Online shopping replaces physical products in a network of retail stores. The digital distribution of products (e.g. games, software, tickets, movies and music) saves time and money and enables global growth. Technology can help a company monitor operations and performance to solve problems and manage costs. Technology can keep track of inventory and automate distribution, for example, online ordering links to the warehouse for real time stock availability and automated stock dispatches. If the technology is there to make it easy to track a package, customers will be more confident to purchase online. Similarly, customers feel more confident purchasing with secure, easy online payment systems.

E-commerce

E-commerce provides access to products and services, choices and options and support and purchasing using the internet on a range of platforms. The potential for success online depends on how many people use the internet and how comfortable they are purchasing products online. The longer a country has had easy access to the internet, the more likely a majority of the population has experience with online shopping and confidence in online payment systems. It can enable a domestic company to enter global markets without having a physical presence in the target country. Customising websites for different currencies will be more inviting to customers.



Social media campaigns

Social media engages with customers in a way traditional media does not. Companies and customers share information and communicate in real time. Social media can be used to respond quickly to questions that customers ask and to try to manage negative publicity. Social media can be used to build customer engagement and loyalty. Social media means access to customers wherever they are via their smart phones.

Companies can pay to access and use the huge amount of data collected by social media companies to target advertising. Social media can be used for market research to collect data on consumer lifestyles, preferences and interests. Social media strategies can be time consuming, costly and are no guarantee of success. Social media strategies are high risk as they can offend or exclude consumers and breach their privacy. Astroturfing is when a company uses fake social media profiles to try to create 'grassroots' support for a product or brand.



TEST YOUR KNOWLEDGE

Chapter 8 Management – Marketing

1. Using an example, explain two ways in which technology can be used to assist marketing in global markets.

2. Describe one impact of technology on business operations in global markets.

3. Outline how a company could use technology for the distribution of their products.



SYLLABUS CHECKPOINT

On completion of this chapter you should be able to:

- Discuss adapting leadership styles in a cross-cultural setting, including:
 - autocratic
 - participative
 - situational

- Describe the leadership traits needed in a cross-cultural setting, including:
 - skilled communicator
 - socially aware
 - skilled decision maker
 - future thinker
 - self-discipline
 - responsible
 - motivational

9.1 Adapting leadership styles in a cross-cultural setting

Leadership involves setting goals and navigating challenges. There is an extra layer of complexity in global business. Distance, different languages, time zones, values and cultures all make leading teams and managing the organisation much harder. Workforces are multicultural and companies are entering overseas markets. In a global economy cross-cultural leadership skills are very important. There is a continuum of leadership styles and approaches must be flexible to adapt to different situations, people and cultures.

Autocratic

The autocratic manager does not involve others when making decisions. Their communication style is one way. They direct staff and give instructions to control what staff must do. The team is directed to implement their decisions. It is called micromanaging when the autocratic leader puts their team under constant supervision and controls every aspect of their work. The autocratic style is effective where there is a need for urgent action or where the manager is the source of experience and expertise. It is common in workplaces with standardised, repetitive processes like a factory or in the kitchens at fast food restaurants. The autocratic leader focuses on making sure staff follow rules and keep up the pace of production.

Participative

The participative style is also called democratic because it involves the team in planning and decisions. A participative leader may still make the final decision but will seek ideas and feedback from staff. Some decisions may be made by team agreement. Employees may perform better and have higher job satisfaction because they have more control over how they work. This is an effective style when employees are motivated, skilled and experienced. Employees know what to do to get the job done and the role of the manager is to organise resources for the teams and help them solve problems along the way.



Situational

A situational style is one where a leader adapts their approach depending on the situation. Leaders adapt their actions, methods of communication and decision making processes to the situation. Situational leaders understand the strengths and weaknesses of each leadership style and apply what they think will work best in a work situation or business challenge. For example, a manager may prefer a participative style. But the manager knows that some employees are inexperienced

and will require more direction. For most employees the manager will use a participative style, but will use a more autocratic style when needed. Delegating decisions and being democratic with some staff will free up time that can be spent with inexperienced staff to guide them and develop their skills. A leader may use an autocratic approach early on and then give employees more responsibility later as their experience and expertise increase. A participative manager may also make unilateral decisions now and then when a situation or problem needs urgent attention.

9.2 Leadership traits needed in a cross-cultural setting

Some say there are born leaders, meaning that there are innate qualities in people that make them rise to the top. These qualities have been researched and defined as leadership traits. The idea is that these traits can be learnt and developed. By demonstrating the following traits, leaders can build a good workplace culture and set standards for employee conduct.

Skilled communicator

Communication in global business may involve working via interpreters or struggling with more than one language. It is important to be able to identify the best method of communication for different situations and people. The ability to communicate clearly across cultures is a key global business skill. Strong communication skills will build business networks, solve problems, negotiate deals and resolve conflict. Being able to clearly and succinctly describe what you want done means that teams will work towards the same goals.



Socially aware

Many of these traits depends on understanding social and cultural customs and differences. Recognising cultural differences in social situations means that you can adapt your approaches and also educate your team about how these differences impact on business so they can adapt too. Understanding different cultures and their social norms helps build stronger business relationships because you won't offend or misunderstand people. An important aspect of being socially aware is emotional intelligence.

Emotional intelligence is:

- the ability to recognise emotions in yourself and others
- the ability to understand complex emotions
- the ability to regulate your emotions to promote better communication and decisions.

Being emotionally intelligent is about:

- **self-awareness:** self-confidence, accurate self-assessment, emotional self-awareness
- **social awareness:** empathy, responsiveness to others and understanding body language, social norms and customs
- **self-management:** adaptability, emotional self-control, positive outlook, initiative
- **relationship management:** conflict management, inspirational leadership, influence, teamwork.

Skilled decision maker

Leadership involves making decisions that may not please everyone in situations with time pressure and competing demands. Good leaders know when to make a decision unilaterally and when to consult others and collaborate. Good decisions are based on gathering good information, analysing it and being able to explain and justify the outcome. Skilled decision makers understand how bias, emotions and competition impact on decisions and they know how to manage these factors.



Future thinker

Strong leaders have a global perspective and think strategically. To lead means understanding the current business environment and having a vision for the future of the company. Leaders must make strategic decisions and set goals that are ambitious and achievable on a global scale. Future thinkers have a long-term vision of where the company is going and are pro-active, rather than reactive to issues and obstacles. Leaders motivate people by explaining how their day to day difficulties and achievements contribute to future success. Leaders must scan the macro business environment to identify threats and opportunities and decide how best to respond to them.

Self-discipline

Leaders conduct themselves in a way that gives them an objective perspective on business performance. They must be disciplined to not engage with workplace gossip, conflict and politics. Leaders must also resist getting involved in day to day operations, that is why they have managers. Leaders must be focused on the big picture. Leaders must have a strong vision and the discipline to see plans through, regardless of obstacles and setbacks.



Responsible

Leaders must take responsibility for business performance and their own performance. They don't let problems go unsolved, they follow up on performance issues and ensure employees are working to the expected standard. They also ensure that business opportunities are acted on. When problems arise, they identify them quickly and act to put solutions in place. They may delegate tasks and give directions to others, but good leaders follow up to make sure actions are taken. Instead of blaming others, leaders must manage difficulties and problems and find solutions.

Motivational

Strong leaders guide employees through challenges to build long term success. The challenges of global business and working with other cultures can be difficult and global relationships can be slow to build. Leaders must keep their staff positive and motivated to keep working towards long-term goals, despite the day to day setbacks.

An inspiring leader communicates clearly, concisely and often. They challenge people by setting high standards and then giving them the support and resources to achieve them. They avoid personal criticism and negative thinking and look for ways to get people to work together as a team. When things go wrong, employees look to leaders for answers and judge the situation based upon their reaction. The leader who believes in the vision and goals and works toward them will be an inspiration and a resource to their team.



TEST YOUR KNOWLEDGE

Chapter 9 People

1. Describe four leadership traits needed in a cross-cultural setting.

2. Describe one leadership style and why it may need to be adapted in a cross-cultural setting.

TEST AND EXAM VERBS

When you are being assessed, you will answer short and extended questions. These questions use verbs to tell you how to respond.

Extended answer questions differentiate between ‘describe’ and ‘identify’ in assigning marks. Describe, explain, discuss, analyse are used in extended answer questions because they require more detail and information about the why and how.

Look for the verb to plan your answer and maximise your marks.

Verb	Meaning	Example
Analyse	Break an issue down into its component parts or issues, discuss them and show how they interrelate. Often used in case study questions.	Analyse the impact of two cultural considerations on global business.
Apply	Use a tool or steps of a process in a particular situation. Give an example of how it works, either real or possible.	Apply the first three steps of Kotter’s 8 Steps model to guide the business.
Comment	Identify key points or issues and give your opinion on them. Say what you think are good and bad points.	Comment on the standardisation and adaptation options for this global brand.
Compare	Look for similarities and differences between two things. Use criteria to rank or select options.	Compare the characteristics of just-in-time and just-in-case inventory control methods.
Construct	Use a known format to organise information such as a Force Field or SWOT analysis.	Construct a PEST analysis for the business.
Define	Set out the precise meaning of a concept, word or phrase.	Define Porter’s rivalry force.
Describe	Give detailed information and provide characteristics and features. More detail than identify. List information with a brief explanation.	Describe the purpose of financial ratios.
Discuss	Identify importance and application, and points for and against. Give more detail than identify and outline.	Discuss two benefits for a business that adopts quality assurance.
Distinguish	Focus on the differences between two ideas, strategies, systems etc.	Distinguish between quality control and quality assurance.
Explain	Tell how and why things work, how they came to be the way they are, and their cause and effect. Give more detail than discuss, identify and outline. Answers may involve historical aspects and definitions of key terms.	Explain how patent registrations could impact international business operations
Identify	Pick out and list what you regard as the key features of something. List steps of a task or process.	Identify three features of quality assurance.
Interpret	Give your opinion, give examples, describe the qualities and value or impact.	Interpret the three profitability ratios for each company.
Justify	Express valid reasons for accepting a particular interpretation or conclusion.	Justify why just-in-time is a suitable inventory control technique.
Outline	List the main features of a topic or sequence of events or process. Name an aspect or relevant fact. Less detail than describe and explain.	Outline the purpose of production management systems.
Recommend	Choose an option and provide reasons why it is the best choice.	Recommend the most suitable option based on liquidity.



SHORT ANSWER

Question 1

- a) Using an example, distinguish between standardisation and adaptation when applying elements of the marketing mix. List four differences OR two differences in detail. (4 marks)

- b) Discuss two benefits for a business that adopts adaptation as part of its global marketing strategy. (2 marks)

- c) Describe three factors that determine the feasibility of expanding into a foreign market. (3 marks)

Question 4

- a) Describe the role of innovation in improving processes and products. (4 marks)

- b) Explain the two factors that impact on the success of an innovation. (4 marks)

- c) Comment on the role of e-commerce in a global environment. (3 marks)

Question 3

a) Outline how transfer pricing is used to minimise tax by a global company. (3 marks)

b) Discuss the ethical issues involved in a company using tax havens and transfer pricing. (3 marks)

c) Discuss how tax havens and transfer pricing impact on the Australian economy. (2 marks)

- c) Outline three limitations of using financial ratios when making business decisions.
(3 marks)

- d) Recommend to Kitsch's owner whether or not you consider that importing homewares and furniture from Bali is a desirable business proposition, and why. (3 marks)



CHAPTER 1

Environments

Political and legal, economic, socio-cultural and technological (PEST)

1. What are two advantages of globalisation?

Globalisation creates employment and investment in developing countries and increased revenue for governments. It creates a platform and international relationships that can be used to build global standards for fair trade, environmental protection and human rights. It promotes competition, which leads to better choices and prices for consumers and businesses. It also improves the quality and growth of education and training and improves the standard of living.

2. What are two disadvantages of globalisation?

Free trade creates vulnerable countries that do not have protections for local businesses and workers. Globalisation widens the gap between the rich and the poor when wealthy countries and corporations exploit low pay and conditions, international companies exploit the lack of environmental protection in some countries. Globalisation promotes a single culture as the basis for marketing a way of life, encouraging the values of materialism and individualism and impacting on cultural diversity.

3. Explain why a low cost country is advantageous for global growth.

An Australian company operating in a low cost country will be able to reduce costs and increase their profit margin. The opportunity to increase their profit margin and make a business opportunity viable drives global business

4. Describe how globalisation can lead to the spread of skills and technology.

Companies take their innovations and technologies to low cost countries to help finance business development. Governments encourage skilled migration so people can move to where there is a demand for their labour and expertise. Expanding into foreign markets will introduce new skills and technology.

5. Describe and give an example of offshoring.

Locating business functions in overseas countries to reduce costs.

6. Why do businesses use tax havens?

It results in less taxes paid to the government in the countries where the business operates.

7. How does Austrade assist businesses they want to expand overseas?

Austrade assists businesses by:

- *providing information about international markets and trends*
- *arranging meetings with potential clients and partners*
- *providing ongoing support and information.*

8. Explain the role of the World Trade Organisation (WTO).

The WTO sets standards for international trade and for countries participating in free trade agreements.

9. Discuss some ethical dilemmas involved with environmental responsibility.

An ethical dilemma for business owners and managers exists because of different environmental regulations in different countries. An Australian business may be able to save money and manufacture goods or mine resources at a lower cost because a country does not have the level of environmental protection as in Australia. The business must decide whether to exploit the weaker protection for increased profit while they damage the environment.

10. What is a free trade agreement (FTA)? List three FTAs to which Australia is a signatory.
Free trade agreements are made between countries to form trading partnerships. They reduce and standardise regulations associated with international business. ANZCERTA, SAFTA, AUSFTA, ChAFTA, MAFTA, KAFTA, JAEPA
11. Explain how the removal of tariffs in other countries can assist Australian businesses that want to expand overseas.
Removing tariffs reduces the price of Australian exports so they are more price competitive with local products.
12. Discuss how e-commerce can be used by an Australian company to expand globally.
They can sell goods online with online payment systems, digital distribution of products to overseas customers and sell goods and services without a physical presence in other countries.
13. Describe two benefits of home grown products within the Australian economy.
Home grown products add to the Australian economy through employment and contribution to GDP. Local companies are able to respond better to local customer needs and preferences. Domestic success can help fund global expansion.
14. Global business – the role of ethics
 An Australian company wants to expand globally and decides to move their manufacturing offshore to reduce costs. They find that workers overseas are paid a lot less than in Australia and do not get the same conditions, such as annual leave, set hours per day and safe workplaces. Although what workers receive is far below Australian pay and conditions, it is better than what most other people receive in the country.
- a) Discuss the ethical considerations of offshoring.
The ethical dilemma occurs when a business is outsourcing functions to a country that has lower pay and conditions than in Australia and weaker laws for workplace safety. There is also the issue of decreasing employment in Australia by moving jobs offshore. It may be legal for people to work under those conditions, but should an Australian business benefit from it?
- b) How can offshoring impact on Australian employment?
Employment in Australia may be reduced because the work is no longer done in Australia. Workers who were employed in Australia may be retrenched or made redundant which will increase the level of unemployment.
15. Tax minimisation
 Glowball Australia buys \$20,000 worth of inventory from Glowball France. The two companies agree to record a purchase price of \$20,000. On paper, Glowball France made a \$10,000 loss on the sale and Glowball Australia has expenses of \$10,000. The transaction may result in a minimised tax bill for the Glowball group.
- a) What is the name of the strategy used by the Glowball group?
Transfer pricing
- b) Explain how the strategy works.
By setting up the supply and purchase of goods and services between parts of the same company, losses can be made on paper in countries with high tax and income earned in countries with low tax (tax havens). Tax havens also have lower scrutiny of financial arrangements so tax minimisation strategies can be concealed.
- c) Discuss the ethical dilemma in using this strategy.
Although technically legal, they can greatly reduce the tax paid on income earned in Australia. It may be good for the company, but it means that Australia is being denied tax dollars that could be used to fund government services such as health and education. The spirit or ethics of tax law is that tax should be paid where the income is earned.

CHAPTER 1

Case Study

Australia currently has ten FTAs with 16 countries and more FTAs will be established in the future. FTAs play an important role in deregulating international rules of trade and foreign investment. Through FTAs, Australian exporters and investors can benefit from preferential access to markets overseas and being able to compete against foreign companies at a similar price level.

The China-Australia Free Trade Agreement (ChAFTA) entered into force on 20 December 2015. Australia's Minister for Trade, Tourism and Investment said 'this historic agreement with our biggest trading partner will support future economic growth, job creation and higher living standards through increased goods and services trade, and investment. China, with its population of 1.4 billion people and rapidly rising middle class, presents enormous opportunities for Australian businesses well into the future.'

Before entering the Chinese business market, there are a number of factors to take into account including culture, politics and business etiquette.

- a) What is a free trade agreement?
FTAs between countries aim to standardise import and export laws and regulations. An example is where tariffs and customs duties are reduced, removed or standardised.
- b) Discuss two potential advantages of ChAFTA to Australian owned businesses.
*Removing tariffs in Australia reduces prices for Chinese imported goods.
Removing tariffs in China make Australian goods more competitive on price, e.g. dairy, meat and wine.
Quicker and cheaper visa procedures make it easier to travel, study and work in both countries.
Improved market access for Australian service businesses, e.g. education, legal, insurance and health care.*
- c) Explain another way that the Australian Government can provide incentives for international trade.
*Grants – grants provide financial support for business to help them finance exports
Taxation – tax offsets for research and development, exports are GST free making them more price competitive.*
- d) Discuss why critics of FTAs argue that 'FTAs lead to an erosion of cultural identity'.
*A country may consume more foreign goods, see more foreign brands and standardised marketing.
Imports and foreign businesses may shut out local businesses from the market because of increased competition.*

CHAPTER 2

Management

Marketing

1. Identify three factors that determine the feasibility of expanding into a global market.
Level of demand by consumers, consumption patterns, competitor activity
2. Describe three benefits of global branding for an Australian company.
*Consistency – a company can communicate consistent images and messages to all markets. This can result in stronger brand awareness and positioning as all marketing supports the same message.
Low risk – businesses can use marketing strategies that have been tested and proven in domestic markets such as promotions and advertising.
Lower cost – a business will be able to achieve economies of scale by using the same advertising and packaging throughout the world. A centralised team of people will be able to develop the 4 Ps of marketing strategy for all markets.*

For example – there is not a requirement for different campaigns with different packaging, product names, slogans and advertising in different countries or regions.

Easier to manage – a standardised approach to global branding will be less complex than working with multiple advertising agencies, marketing teams and different strategies.

Better differentiation – a consistent global brand will stand out from the competition more than a business that tries to blend in with domestic businesses. Everywhere a consumer travels, they will see the same logo, colours, product names and advertising.

3. Describe the standardisation and adaptation options for a global brand when applying elements of the marketing mix.

The decision is whether to have a single, consistent marketing mix throughout the world or to change aspects of the mix based on market research in different global markets. This decision is applied to the marketing mix. For example, product names and corporate slogans, product features and positioning.

4. Explain the benefits of the standardisation of elements of the marketing mix when launching a global brand.

It can build greater brand awareness based on a single design, colours and positioning. It can reduce marketing costs because the same advertising and product features are used in every market.

5. Explain the benefits of the adaptation of elements of the marketing mix when launching a global brand.

Because the needs and preferences of local customers are incorporated into the marketing mix, the marketing strategy may be more successful. The company can respond to changes and trends in local markets. Customers may feel more loyal to the brand.

6. Outline how the level of demand by consumers impacts on the feasibility of expanding into a foreign market.

Companies have a break even level where they must have a certain level of demand to cover costs. If demand is growing, there is more opportunity to capture market share and offer an alternative to existing choices. If demand is falling, the business will not survive.

7. Outline how consumption patterns impact on the feasibility of expanding into a foreign market.

As a country develops and becomes wealthier, a growing number of citizens will have more discretionary income. Consumption of luxury or non-essential items will increase. Consumers may change their consumption patterns based on such things as ethics or health concerns. Consumption patterns may change based on seasons, culture or religion, and companies must understand and respond in order to be successful.

8. Outline how competitor activity impacts on the feasibility of expanding into a foreign market.

A small number of competitors and low competitive activity means that market entry is easier and a company will be more likely to capture market share. A high number of competitors and strong competition makes it more difficult to enter that market and take market share.

9. Discuss the difference between standardisation and adaptation in terms of product features and positioning.

Different cultures place different significance on colours. Product packaging and distribution methods may need to be adapted to different climates to prevent damage in transit and storage.

Different countries have different packaging and labelling regulations. Cultures and different values around individualism and individual success and collectivism. Advertisements and positioning may be based on consumers feeling they have ‘made it’ if they own a certain product.

Other cultures value collectivism and collective achievement highly so marketing that focuses on standing out and being better than others won’t resonate with consumers.

Positioning must reflect what is valued in a culture – security, sustainability, wealth, equality, freedom etc.

10. Discuss the difference between standardisation and adaptation in terms of product names and corporate slogans.

Companies must consider language and cultural differences when planning for product names and slogans in different countries. Not researching and understanding the culture can result in failure in a foreign market. A standardised approach may not be possible for the marketing mix.

CHAPTER 2

Case Study

Naturemade offers a range of gluten free products to supply the growing demand for non-allergenic products. The business has expanded within Australia and operates in all states. Naturemade has built good brand awareness and a strong reputation for quality and using local ingredients. Its management team is assessing the viability of entering markets in Asia and the US. There are established companies and a high level of competition in those markets.

Naturemade's Marketing Officer has doubts about the potential of overseas markets. The marketing team believe that they will need to have a high level of adaptation to be successful because of the different characteristics of the markets in Asia and the US, compared to Australia. The company's use of colours in packaging and the slogan 'Nature in a box' may not appeal to Asian customers. The CEO wants to manage the costs of expansion and feels that standardising marketing strategies is the best approach.

Prepare a report for the business that addresses the following:

- a) Describe two benefits of using global branding for Naturemade.

Consistency – a company can communicate consistent images and messages to all markets. This can result in stronger brand awareness and positioning as all marketing supports the same message.

Low risk – businesses can use marketing strategies that have been tested and proven in domestic markets such as promotions and advertising.

Lower cost – a business will be able to achieve economies of scale by using the same advertising and packaging throughout the world. A centralised team of people will be able to develop the 4 Ps of marketing strategy for all markets.

For example – there is not a requirement for different campaigns with different packaging, product names, slogans and advertising in different countries or regions.

Easier to manage – a standardised approach to global branding will be less complex than working with multiple advertising agencies, marketing teams and different strategies.

Better differentiation – a consistent global brand will stand out from the competition more than a business that tries to blend in with domestic businesses. Everywhere consumer travels they will see the same logo, colours, product names and advertising.

- b) Explain two factors that will determine the feasibility of successfully entering a foreign market.

Level of demand by consumers – total market demand, forecast of future demand

Consumption patterns – consumer preferences, changes in needs, changes due to economic factors, religious and cultural preferences

Competitor activity – number of competitors, number of substitutes, unmet demand

- c) Outline standardisation and adaptation in terms of the marketing mix of Naturemade.

They could use standard colours, slogan, advertising and ingredients to try to build a global brand that is consistent around the world. It would also be less expensive if marketing was standardised. But the standard strategies may not necessarily respond to needs, values and preferences in foreign markets.

Adaptation may be more expensive, but it means that marketing responds more closely to the characteristics of foreign markets. The extra costs may result in larger and sustainable sales.

- d) Recommend whether Naturemade should standardise or adapt their marketing mix for their global expansion.

Any decisions must be based on market research. The best approach is to adapt what must be changed such as the slogan and colours, as they are already known to be issues. The markets are very different and because Naturemade is a new brand launching globally they must find ways to take market share from established businesses. Products could also use local ingredients and be adapted to appeal to the tastes of foreign markets.

CHAPTER 3

Management

Operations

1. Describe outsourcing and its benefits for entering a foreign market.

Outsourcing is a strategy that involves contracting an overseas company to perform a business function. Operating costs can be reduced due to lower wages and conditions in the supplier country. By reducing operating costs through outsourcing, a company may be able to fund business growth and activities such as research and development, marketing and product development.

2. Describe acquisitions and their benefits for entering a foreign market.

The strategy of acquisition involves a company buying another that is operating in an overseas market. It creates a synergy by combining skills, expertise, technology, capital and market share. Because they are operating locally, a company can avoid the costs and restrictions of exporting goods to the country. Established businesses and distribution channels and local knowledge will benefit market entry.

3. Describe mergers and their benefits for entering a foreign market.

A merger involves two or more companies combining to form a new merged company. The companies involved agree to form a new company. Rather than a purchase or takeover, it is an agreement between two companies to combine ownership and resources. It may involve new corporate identification and branding to launch the new company. A merger leads to a rationalisation of staff, assets and resources, as there would be a duplication of functions and processes such as payroll, distribution, accounting and marketing. Combining resources such as staff expertise, finances and suppliers may mean that success is more likely.

4. Describe joint ventures and their benefits for entering a foreign market.

A joint venture is an alliance where two or more companies start an independent company for a finite project or business opportunity. The new company is formed using resources from all alliance partners and each partner owns a percentage of the joint venture company. This strategy is effective because it doesn't change the existing companies and can reduce the impact and demands on them.

Joint venture management can focus on the project instead of existing management taking on additional challenges and responsibilities.

5. Describe franchising and its benefits for entering a foreign market.

Franchising is a strategy involving:

- *a franchisor – the owner of the business providing the product or service*
- *franchisees – sole proprietors or companies that purchase the right to market and distribute goods or services, and use the business model.*

A franchisor can enter global markets with lower risk and without having to invest its own capital. A franchisee benefits from a proven business model and brand awareness which makes it a lower risk business venture for them.

6. Give one example of each of the following strategic alliances.

- a) outsourcing

Optus outsourced human resources and finance functions so they could cut costs by reducing their workforce.

- b) acquisitions
Harris Technology sold its distribution business to reduce its losses.
- c) mergers
TPG and Vodafone Australia merged to create TPG Telecom Limited.
- d) joint ventures
Rio Tinto and China Minmetals joined forces for mineral exploration in China.
- e) franchising.
McDonald's, Refresh Renovations, Battery World, Poolwerx, Baker's Delight
7. Explain the benefits of innovation for a global business in terms of financial gain and increased market share.
Innovation improves existing technology, products and services and systems. It can be something totally new. It can also be a solution to a problem. Innovation is more than continuous improvement, which is incremental change. Innovation can increase competitiveness and profitability and also create a market opportunity. Innovation involves a change that can make a business more effective and efficient and reduces cost. This can lead to a better financial position to fund global business.
8. Explain the benefits of innovation for a global business in terms of expansion of its global market presence.
Innovation can make a company the market leader and build public awareness of their brand and the benefits of the innovation. By protecting the intellectual property of the innovation, a company can protect their market share and be more competitive.
9. Outline the benefits a company may experience from product and process innovation.
Process innovation can reduce costs and increase the profit margin for manufacturing and/or distributing products and services. It may be more efficient and reduce the time it takes for a customer to receive their purchase. Product and process innovation may increase the quality of the product which can attract demand. Product innovation may create something new that creates a new market that will be difficult for other competitors to enter. It can also make a product more competitive because of new features that respond better to consumer needs.
10. Outline how innovation in technology could assist in corporate social responsibility and achieving environmental sustainability?
The innovation may be able to reduce waste, use recycled materials or increase the sustainability of manufacturing. It may make a product recyclable or reduce its carbon footprint. Digital distribution avoids the environmental impact of packaging and transport.
11. Explain how the factors of cost and technology impact on the success of innovation.
Cost – innovation requires a considerable investment in time and money, and can take a long time to be commercialised and profitable (if at all). The company must bear the costs of research, development and testing until an innovation earns income. Financing innovation allocates people and money to a project and takes resources away from existing operations. The time, effort and finances dedicated to an innovation project can impact on the financial strength of a company.
Technology – digital distribution of products may make it easier and more cost effective for consumers to buy an innovation. An innovation in technology may enable a company to solve a problem in their processes or enable them to exploit a market opportunity. Innovation in technology must be managed carefully to control expenditure and timeframe to ensure it can be commercialised in a profitable way.
12. Explain how timing impacts on the success of innovation.
The product life cycle impacts on the success of an innovation. In the growth or maturity stage there is brand awareness and demand, and established distribution and marketing strategies. A company will also have substantial data from market research and their customer database to refine innovations and generate ideas. At the maturity stage the company may also have made profits that could finance innovation.

13. Explain how marketing strategy impacts on the success of innovation.

Marketing strategy must support innovation and be designed for it to succeed. A company may need to educate consumers about a new product or new features to build awareness and demand for an innovation. Consumers may not understand the need for the innovation and its benefits at launch. Wholesalers and retailers will also need to be educated to persuade them to support the change and to sell the new features and benefits to consumers. Positioning impacts on the success of innovations. A company that has a public image and reputation for innovation will have more credibility and demand for its new products and services.

14. Describe two sources of financial risk for an Australian company exporting to overseas markets.

Currency fluctuations

- *The value of the Australian dollar is determined by market forces and is outside of the control of exporting companies.*
- *A currency exchange rate is the price at which one currency is exchanged for another currency at one point in time.*
- *Exporters face financial risk from fluctuations in currency exchange rates.*

Non-payment of monies

- *An exporter can face a financial loss after incurring costs and delivering goods or services and not receiving payment from the customer.*
- *It is much more difficult to chase a payment from a customer in another country than a domestic one.*
- *A way to manage this risk is with prepayment from customers, either in full, instalments or a deposit.*

15. Explain how documentation can minimise the financial risk of global business?

Documentation formalises and records the transaction and can be used as evidence to try to enforce the terms and conditions of agreements between companies.

Documentary letter of credit

- *This is a guarantee from the export customer's bank that the money will be paid.*
- *The letter of credit includes terms and conditions for payment, such as the safe delivery of goods within a certain time.*
- *The bank will make the payment if the terms are met and then seek reimbursement from the customer.*

Documents against payment

- *An exporter sends their goods to the customer's country and they are held in customs.*
- *The exporter sends documents to a bank in the customer's country that allows them to collect the goods from customs after payment is made.*
- *Once the customer pays, the bank gives the documents to the customers and they can collect the goods.*

16. How can insurance minimise the financial risk of global business?

Insurance is a way for an exporter to mitigate or minimise the financial impact of the risks of global business. If there is a loss, the exporter can make a claim to cover the financial loss.

Exporters can obtain insurance cover for:

- *credit insurance for non-payment*
- *loss and damage in transit*
- *political risks such as war, civil unrest and government regulations that impact on the importing of goods*
- *currency fluctuations.*

17. What is hedging and how can it minimise the financial risk of global business?

Hedging involves arrangements that can reduce losses in case something goes wrong with international transactions. Hedging can take two forms – forwards and options.

- *Forward – an agreement is made between the exporter and the customer to set an exchange rate for payment. This protects the exporter from a loss but also prevents any gains from a stronger Australian dollar.*
- *Option – an optional exchange rate is agreed to by the exporter and customer. If the exchange rate is better for the exporter at the time of payment, it will apply instead of the agreed rate.*

CHAPTER 3

Case Study

Residential developer Mirvac announced it has taken on a joint venture partner, Chinese insurance giant Ping An, to develop all its residential projects. With a market capitalisation of \$130 billion, Ping An brings capital and clout to the partnership with one of Australia's most prominent publicly listed property companies. Under the deal, Mirvac and Ping An will be 50:50 partners. The Australian developer will provide development, construction and sales management services for its Chinese partner.

- a) Contrast an acquisition strategy against a joint venture strategy.
Acquisition is where a company purchases another to expand into a market. It owns and controls the target company. A joint venture is an alliance where two or more companies start an independent company for a finite project or business opportunity.
- b) How is a joint venture different to outsourcing?
Outsourcing is when a company contracts a business to perform a function or provide a service. Instead of staff performing it, another company provides a service. There is no change in ownership or the creation of a new company. A joint venture involves companies working together on a project where both control the joint venture and benefit from it.
- c) Describe the term outsourcing with reference to an Australian business.
Outsourcing is a strategy that involves contracting an overseas company to perform a business function. Examples of work Australian businesses contract overseas include game development, call centres, mobile app development and payroll. India is one of the largest providers of outsourcing services in the world.
- d) Discuss the issues that may arise when a business outsources to an overseas manufacturer.
Language and cultural differences may make the relationship difficult. There can be a loss of control over quality of the work. It might be difficult to resolve problems because the service provider is overseas. There may be delays in decision making.

CHAPTER 4

People

1. Outline why it is vital that businesses are aware of the internal and external factors that drive change.
By identifying factors and understanding their causes they can be better managed. Their impact on change can be predicted and responses can be planned and prepared for implementation. This will make successful change more likely.
2. Explain how financial costs create resistance to change.
There may be a loss in income due to disruption and problems with implementation. Incremental change can be more easily budgeted for, as it involves small changes in existing operations. The projected cost of change may create resistance which is more likely if the benefits of the change are long term, uncertain or unclear. Staff may argue that the costs of the change will create a financial burden that jeopardises current operations. A company may not be able to fund a change if the benefits will be realised in the medium to long term, such as purchasing new materials and equipment and new technologies.
3. Explain why managerial inertia may be a reason for resistance to change in an increasingly globalised world. Provide an example that relates to the increasing reliance on technology in business.
Inertia is the tendency of people to want to stay in the status quo – if it's not broken, don't fix it. Management may believe that it is better to keep the same systems and procedures because they have worked in the past. They may also resist change because they want to avoid having to learn how to use new technology such as reporting software or databases and keep using the existing systems.

4. Explain how cultural incompatibility can create resistance to change in global mergers and takeovers.
- Mergers and takeovers involve companies with individual cultures, histories and values. There will be a clash because of different approaches, policies and procedures. Fear and uncertainty increase because of the potential for reduction in staff when the new company is formed. Language differences may make communication and decision making more difficult. Resistance and uncertainty can increase because of distance, cultural differences and barriers to effective communication when global companies combine.*
5. Explain how staff attitude creates resistance to change.
- Employees may not believe they have the ability to cope with the change. They may have a low tolerance to risk and fear failure. They may believe it is better to avoid change than to risk failing. Staff that have a high tolerance for uncertainty may see change as a challenge and be motivated to make it work. Staff may not agree with the benefits of change or think the timeframe is unrealistic. Employees may have a poor opinion of management and may think their plans are not credible. They may not trust that management is acting in their best interests. There may be an attitude that employees are powerless and forced into change. Staff may see change as a criticism of their work and loyalty.*
6. Outline how Kotter's 8 Steps for Leading Change model facilitates change.
- The model sets out a change process into clear steps that can be planned and detailed. By breaking change into clear steps, the company can better manage the change process and identify what they need to do to be successful. If there are problems the stages can be reviewed to identify what needs to be improved. The model aims to motivate staff to change, educate them about change and consolidate change once it is implemented.*
7. Apply the first three steps of Kotter's 8 Steps model to guide an Australian business to change so they can take advantage of a new market trend. For example, a music shop, ticket seller or book retailer changing to digital distribution.
- Step 1: Create Urgency – discuss the threat of digital products and the trend of consumer demand for digital music and downloading/streaming.*
- Step 2: Build a Coalition – form a team of staff to research digital methods and to test competitors. The team will report back, make a plan for change and set a timeframe.*
- Step 3: Develop the Vision – set a clear goal and timeframe for change and discuss it with all staff.*
8. Draw and apply Lewin's Forcefield Analysis to a local business that may be considering global expansion.

Factors for		Factors against
This will depend on the chosen business. Factors should be strengths of the business and market opportunities.	Change For example – strategic alliance, open shops overseas, e-commerce, social media campaign, exporting	This will depend on the chosen business Factors should be weaknesses of the business and market threats

9. Explain why managing diversity is an important part of global expansion for a business.
- Diversity in a company enables it to draw on the largest pool of potential employees and the widest range of talents, experience, skills and ideas. Negotiations with companies in other countries are more effective if staff can communicate in the same language and understand the culture. Marketing strategies are more effective if staff share and understand language and culture. This will reduce the disruption and costs of staff turnover. Problem solving and innovation will be improved by having a workforce with a range of experience, qualifications and backgrounds.*

10. Apply Steps 7 and 8 of Kotter's 8 Steps model to a company changing to be more green and sustainable.

Step 7: Consolidate change – regular reporting that compares results to targets, address gaps with training and enforce new rules.

Step 8: Formalise the Change – update policies and procedures regarding supplies and waste management. Set new rules for choosing suppliers based on their sustainability. Reward staff or teams that have implemented the new green procedures with gift vouchers. Include achievements in company newsletters.

11. Discuss two cultural considerations an Australian company must consider when it relocates its manufacturing operations overseas.

Religious considerations – being aware and managing religious celebrations and obligations of overseas staff, e.g. Ramadan, kosher food, prayer. Language differences in company communications. Level of education, skilled and non-skilled labour. Holidays and celebrations that could disrupt business and consumer demand. Business etiquette regarding greetings, gifts, genders and meeting protocols.

CHAPTER 4

Case Study

Read about diversity and inclusion at Woolworths using the links below. Use the information to answer the following questions.

<http://crs.woolworthsgroup.com.au/page/people/>

https://www.woolworthsgroup.com.au/icms_docs/183931_Diversity_Policy.pdf

- a) What are the benefits of an inclusive workplace that embraces and promotes diversity?
Through embracing and promoting diversity, a workplace can experience benefits like: more flexible, creative and innovative solutions to problems are available, global customer needs are met better, greater variation in viewpoints leading to a larger pool of ideas, experiences and understandings of global customers, and more success due to higher productivity, profit and continued existence
- b) Explain the term 'corporate governance'. Why is it important that a business carries out corporate governance?
Corporate governance is defined as 'the system of rules, practices and processes by which a firm is directed and controlled'. This means that it is the control over how a business is run. It is important that a business carries out corporate governance so the business can run better and longer, while still in line with the regulations in place.
- c) How is a diverse and inclusive culture essential to the success of Woolworths?
It creates happier more loyal employees. Consumers believe the company understands and represents them. It builds better relationships with customers. It helps the business understand the market better. It builds a positive public image.
- d) Woolworths third commitment is to embrace diversity. What is one example of these initiatives? Discuss how it will help Woolworths employees and make Woolworths a more successful business.
Inclusive leadership workshops that educate staff about diversity and its benefits, address unconscious bias and build better relationships.
- e) What skills and knowledge do Indigenous Australians bring to Woolworths? How do these skills help both Woolworths and the wider community?
The skills and knowledge brought by Indigenous Australians include the ability to share ideas from a different viewpoint. Woolworths will be able to increase their appeal to the Indigenous Australian community, while being seen in a positive light as they are hiring from the community.

- f) What skills and knowledge do people with disabilities bring to Woolworths? How do these skills help both Woolworths and the wider community?

People with disabilities bring different viewpoints. They bring an understanding of disabled consumers to refine marketing strategies. People with disabilities feel better as they are a part of the workforce and will be motivated workers while the company is seen as being a good corporate citizen.

CHAPTER 5

Environments

Political and legal, economic, socio-cultural and technological (PEST)

1. Using an example, explain two ways in which technology can be used to assist marketing in global markets.

Reliable and secure online payment processes encourages e-commerce. Digital distribution avoids the cost, risk and time involved in manufacturing, storing and distributing physical products, e.g. e-books, music, event tickets, movies, TV shows and software. Data mining uses algorithms and software to collect, organise and analyse data collected from users, consumers and markets. This will help to identify target markets and develop and refine marketing strategies. Cloud computing greatly reduces the costs and time involved in setting up IT infrastructure to support global expansion and replicating and maintaining IT systems in foreign markets. Fast, stable internet, such as the National Broadband Network (NBN), improves the speed and quality of communications and service to customers.

2. Describe one impact of technology on business operations in global markets.

E-commerce, security and privacy issues – e-commerce must be designed to collect information from international (and domestic) customers and transactions to refine marketing strategies. Customers around the world are more likely to buy products and services online if they are confident that their personal and payment information is secure and their money is going where it should.

3. Analyse the following factors that impact on business operations in global markets. Provide an example for each impact.

- a) Economic

Economic activity – this relates to whether an economy is growing or shrinking. A growing economy means there is more opportunity for market success and demand for a new product. Discretionary spending – a higher level of discretionary spending means there is more demand for non-essential purchases such as travel, entertainment or consumer electronics (phones, TVs, drones).

Interest rates – when interest rates are high consumers have less spare money for shopping and debt is harder to pay off, so it discourages credit purchases. Lower interest rates makes debt more attractive and frees up more money for consumer spending.

Currency fluctuations – a stronger Australian dollar makes exports more expensive in overseas markets. A weaker Australian dollar makes exports more attractive. For example, tourism may be less attractive to foreign tourists with a strong dollar because it will be more expensive to travel in Australia.

- b) Political

Stability of foreign governments – lack of political stability in a country impacts on business. Unstable countries may have civil unrest and general disorder. Frequent changes in government means that business does not have clear laws and regulations they must comply with. For example, instability is often a product of poverty, corruption and warfare, which creates an environment that does not support business growth.

Relationship of foreign governments with the Australian Government – if governments have disagreements and conflict, one or both governments may put economic restrictions in place. Free trade agreements that support business are more likely when countries have a good relationship. For example, Australia suspended live animal trade with Indonesia after evidence of animal cruelty was uncovered.

c) Legal systems

Managers of a global business must understand the differences between laws and regulations domestically and in foreign markets and manage their impact on operations and business growth. Two examples of areas of law that impacts on global markets are patent registrations and product liability.

4. Outline three sources of external funding that could be suitable for the purchase of new manufacturing equipment to prepare for global expansion.

Debentures – these pay a fixed amount of interest at regular intervals over a fixed period of time. Unlike shares, debenture holders are not owners of the company and do not have voting rights. A company can raise money without giving up ownership, with fixed costs that can be planned for over the long term.

Share capital – a company issues shares that are sold to the public to raise capital. Shareholders are entitled to a share of company profits through the payment of dividends. Shares are a good source of finance but they impact on the ownership of the company and makes company management more complex.

Trade credit – companies provide a period of time for invoices to be paid by customers. This period of time is set by the company and can be any time, e.g. two weeks, 30 days. This gives a customer a form of interest free finance to delay payment and manage their cash flow.

Secured loans – a company has a loan that is secured against its assets such as buildings, vehicles and stock. The amount a business can borrow depends on the security provided to the lender. If the company does not keep up with debt repayments, the lender can forfeit the loan and take the assets that were used as security.

Financial institutions – institutions provide finance, but they also offer other services such as business advice, insurance and investment products.

Government – governments may offer tax concessions and financial incentives to encourage companies to make investments for growth.

5. Outline an internal source of funding that could be used to fund global growth.

Retained profits – capital is accumulated by allocating profit to a reserve. Reserves can be used for financing operations, asset purchases or to pay off debt. Retaining profits allows a business to source funds without increasing debt or diluting ownership through a share issue. The process to retain enough profit to finance operations or projects can be a lot slower than organising a loan. Retaining too much profit may impact on the working capital available to finance operations.

6. Discuss how e-commerce could assist an Australian company to expand into global markets.

E-commerce enables a business to provide goods and services to an overseas market without having to have a physical presence there. E-commerce can collect information from international (and domestic) customers and transactions to refine marketing strategies. The e-commerce website can be designed to detect where users are in the world and trigger adjustments to website content such as language, currency, prices, shipping information and product availability.

7. How can security and privacy issues impact on the success of e-commerce?

Customers around the world are more likely to buy products and services online if they are confident that their personal and payment information is secure and their money is going where it should. It is important to have strong security to protect the customer database and business information systems such as encryption, firewalls and strong passwords. Cookies collect information and send it back to the company server. A cookie is a digital identifier that notifies the company whenever a user visits the company website. The website can then customise content and interaction for that user, e.g. suggested products, currency and shipping information, and advertising.

8. Different countries have different laws regarding competition regulation. How can patent registrations and product liability impact on business operations in global markets?

A patent gives the patent holder exclusive rights to manufacture and sell any device, substance, method or process that is new, inventive, and useful. Strong patent protection gives a company a competitive advantage and prevents substitutes from entering the market.

Weak protections increase competition and enable competitors to take market share.

Product liability laws hold companies responsible for any loss, damage or injury caused by their products. When managing product liability, the different policies and regulations in different global markets must be considered and complied with. There may be different liability laws that increases costs because of changes to product design and labelling. For example, plain cigarette packaging in Australia. Other countries may have weak liability laws which would make it easier to sell products.

9. Explain how the following cultural considerations might impact on global business:

a) levels of education

Levels of education predict the wealth that countries will produce over time. The wealthier a country is, the more disposable income people have and the more likely they will purchase consumer goods and services. If a country has a skilled labour shortage, a company will need to move employees there or use financial packages to recruit skilled staff from around the world. Companies have taken advantage of poor education levels to sell products. Tobacco companies target developing countries because they do not have the same systems of health education regarding the dangers of smoking as in developed nations.

b) customs

Different cultures put different emphasis on such things as formality, time and punctuality. There may be beliefs around colours that will impact on product design and advertising, e.g. red is seen as good luck in China while it is danger in Australia. Black is the colour of death and funerals in Australia while it is white in parts of Asia. Green is a colour of life, nature and growth in Australia, while it is taboo in certain contexts in Indonesia and green hats are related to infidelity in China. Understanding customs will result in stronger business relationships and can make successful business negotiations more likely.

c) holidays and celebrations.

Local holidays and celebrations may create opportunities for products and services based on the celebrations and local events such as Easter, Christmas and Lunar New Year. The month of Ramadan is important in many parts of the world, and, having critical deadlines during this month is challenging. These may need to be factored into schedules and timeframes for projects.

10. Explain how the following cultural considerations might impact on global business:

a) religious beliefs

Religious beliefs determine the way people interact, their lifestyles and spending patterns. Religious beliefs are observed in religious and secular ways such as Easter, Christmas and Lunar New Year. Understanding the religious beliefs of a target country and business partners will help refine strategies and build stronger business relationships.

b) business etiquette

Being aware of etiquette in different cultures means that you can work better with global partners. You will be able to avoid causing offence and misunderstanding. It also shows global partners that you value the business relationship because you have taken the time to learn about their culture.

c) communication protocols.

Knowing and demonstrating the correct communication protocols shows professionalism and respect for business partners. Understanding and complying with these protocols will result in more efficient communications and stronger business relationships. This may give a competitive advantage and make a successful outcome of negotiations more likely.

11. What are ethics? What is the difference between ethics and laws?

Being ethical is about doing more than just the legal minimum, it means being committed to making a positive contribution to society. Laws are set rules for conduct while ethics relate to how these rules are interpreted and applied. Laws are based on case history and government decisions, while ethics are based on values and beliefs.

12. Leaders in business are expected to act ethically. Describe how each of the following demonstrates ethical business decisions:

a) the role of corporate social responsibility

Corporate social responsibility (CSR) is a strategic commitment to ethical conduct and to manage their impact on the quality of life of employees, the local community and society when making business decisions. It involves a triple bottom line that measures success based on profit, the environment and impact on society.

b) environmental sustainability.

Global companies are motivated by protecting the environment and society and by creating a positive public image for their brands. It demonstrates that a company is thinking beyond just profit and considering their impact on the environment. It is one pillar of CSR.

13. What role does the International Labour Organisation play in ethical labour practices?

The International Labour Organisation (ILO) sets minimum standards in the world of work. The ILO issues conventions and recommendations. Conventions are legally binding international treaties that are agreed to by countries. Recommendations are non-binding guidelines that suggest how conventions should be applied.

14. A business must understand the external environment when planning and managing global business. How can the following factors impact on business operations in global markets?

a) economic activity

The strength and growth of economic activity impacts on demand for products and services and business growth. If economic activity is low or slowing in a target country, entering the market has increased risk. Consumers and businesses have less money available for discretionary spending and demand will be lower. Success is more likely in countries where economic activity is strong and expected to continue to grow.

b) discretionary spending

Discretionary spending is the money available to consumers after they pay essential costs, such as food, housing, transport, education etc. As countries develop and become wealthier, citizens earn more and have more money available for discretionary spending. The more discretionary income consumers have, the more likely they are to spend on imports and purchasing online. Part of assessing the potential of a foreign market is to estimate the level of discretionary spending.

15. A business must understand the external environment when planning and managing global business. How can the following factors impact on business operations in global markets?

a) interest rates

A country with high interest rates has a higher exchange rate for their currency. This has a negative impact on exports because they become more expensive for foreign customers. Low interest rates mean a lower exchange rate, exports are cheaper in foreign markets, which will increase global demand. Interest rates impact on how companies fund expansion into overseas markets. If interest rates are high, debt repayments will be high. This will impact on cash flow and the ability of a business to finance business growth. High interest rates will also limit the borrowing of consumers and other businesses and their spending on products and services. Low interest rates make debt easier to pay off so companies can borrow to expand.

b) currency fluctuations

Changes in exchange rates impact on the affordability of imports and the cost of doing business in foreign markets.

If the value of the Australian dollar rises against foreign currency:

- *products exported from Australia become more expensive*
- *tourists will find Australia more expensive to travel in*
- *consumer demand for cheaper imports will increase.*

If the value of the Australian dollar falls against foreign currency:

- *products exported from Australia will become less expensive*
- *tourists travelling to Australia will be able to spend more*
- *Australian made goods will be more affordable than imported goods.*

CHAPTER 5

Case Study

Making the leap from domestic success to international markets is a huge challenge. Advances in technology, communication and trade agreements have created opportunities the world over to Australian businesses of all sizes. Companies must navigate significant hurdles and risks to successfully expand globally. A very important factor is securing the funding to get a foothold in an overseas market.

- a) Describe one source of internal funding.

Retained profits – capital is accumulated by allocating profit to a reserve. Reserves can be used for financing operations, asset purchases or to pay off debt. Retaining profits allows a business to source funds without increasing debt or diluting ownership through a share issue.

- b) Describe three sources of external funding a company could access to fund global expansion.

Debentures – debentures pay a fixed amount of interest at regular intervals over a fixed period of time. Like shares, debentures can be sold on the open market.

Share capital – a new company raises money by selling shares in an initial public offering (IPO) or an existing company can issue shares to finance a new project or expansion.

Trade credit – companies provide a period of time for invoices to be paid by customers. This gives a customer a form of interest free finance to delay payment and manage their cash flow.

Venture capital – a trading bank is likely to not approve a loan to a new business or a new project. Venture capitalists are more willing to take the risk because the agreement for finance includes their involvement in the management of the business or project. Instead of a loan, venture capitalists invest in the venture and are entitled to a return that is much higher than just charging interest on a loan.

Secured loans – a company has a loan that is secured against its assets such as buildings, vehicles and stock. The amount a business can borrow depends on the security provided to the lender. If the company does not keep up with debt repayments the lender can forfeit the loan and take the assets that were used as security.

- c) Compare two types of financial institutions that a company could approach to discuss funding options.

Banks offer a range of deposit, investment and loan accounts to individuals and businesses. Banks pay interest on deposits and charge interest on loans. Banks make money from the difference between interest paid to customers and interest collected from customers, and from fees and charges.

Merchant banks bring together parties that have large amounts of capital to invest and parties that need large amounts of capital for business projects. Merchant banks may also invest their own funds. Because of the risk of investing in business projects, merchant banks charge higher fees and interest than trading banks.

Finance companies provide loans to businesses and consumers, but don't accept deposits. They make profit by charging customers high interest rate and fees.

CHAPTER 6

Management

Strategic Management

1. What is the purpose of the strategic planning process?

The strategic planning process involves management and staff assessing the business environment, identifying company goals and objectives. A strategic plan describes the mission and priorities of a company. The plan is a guide for management when making decisions about the allocation of resources and assets.

2. Outline and give examples of the four factors in a PEST analysis.

PEST is a method used to analyse the macro environment of a business. PEST analysis should be done regularly so changes in the business environment can be identified and used to refine planning and decision making.

Political and legal – Laws and regulations – tax, industrial relations, environmental, trade, ACL, product safety, free trade agreements

Economic factors – Employment, inflation, interest rates, level of growth, foreign exchange rates, consumer confidence

Social and cultural – Population growth, aging, beliefs, buying preferences, community demands for safety, environment, value, religious requirements

Technological – Change, research and development, automation, obsolescence

3. Outline and give examples of the four factors in a SWOT analysis.

SWOT analysis is a planning tool to focus analysis and assess internal and external factors that are impacting on current and future business performance and the achievement of goals. The strengths and weaknesses of a company will determine how well it can respond to opportunities and threats.

Strength – Internal capabilities that can contribute to business success, e.g. IP protection, skilled employees, strong leadership, reputation, assets

Weakness – Internal weaknesses that could cause barriers to business success, e.g. high staff turnover, poor leadership, location

Opportunity – External conditions, events and changes that could create business opportunities, e.g. change in laws, free trade agreement, consumer trends, seasonal demand, new technology

Threat – External conditions, events and changes that could impact negatively on business success, e.g. competitors, powerful suppliers, technologies, increased regulation

4. Describe the following features of a strategic plan:

- a) strategic formulation

Managers use the long term strategic goals to develop short and medium term action plans and objectives. Success in the short and medium term contributes to the achievement of long term strategies.

Steps to formulate strategies:

- 1. Analyse the business and business environment*
- 2. Set a clear strategic direction*
- 3. Develop projects or initiatives*
- 4. Establish action plans*

- b) strategic implementation

A strategy is more likely to work if it builds on the strengths of a company and if there is a common understanding amongst employees. Managers and staff must understand their responsibilities and how they contribute to the achievement of action plans and goals.

Overcoming resistance to change is part of successful strategy implementation. Successful implementation requires a communication strategy that ‘sells’ the strategy and explains its benefits and the threats if it isn’t implemented. Success and progress should be recognised and celebrated. This reinforces the strategic path and keeps staff motivated.

- c) control and evaluation.

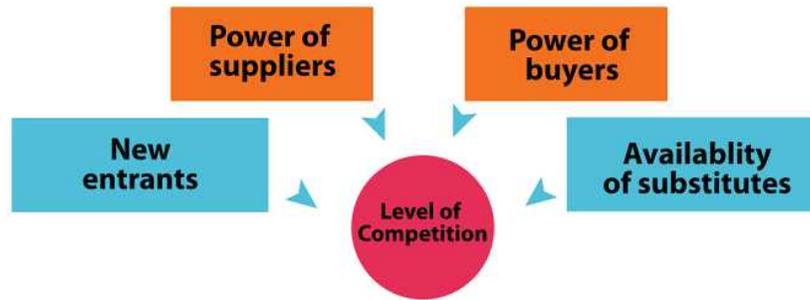
Performance measurements and regular reviews of operations are used to refine planning and make corrective actions. Results are compared to the planned targets and timeframes to evaluate progress. Monitoring internal and external factors enables a business to respond quickly to changes and problems. A basic evaluation cycle:

Collect data and measure performance

Compare results to targets

Make changes

5. Complete the following diagram of the Porter's Five Forces model:



6. Define the following forces:

- a) power of suppliers

This is about how suppliers control the costs of supplies. If there are many suppliers with low power, companies can pick and choose suppliers based on costs and increase their competitiveness. If there are few suppliers or specialised supplies, suppliers have more power over the prices they charge. A competitor may be able to negotiate special prices or an exclusive supply contract to make them more competitive. An example of low supplier power is in the dairy industry. Dairy farms are finding it difficult to survive and large national supermarket companies have been able to negotiate very low prices for milk.

- b) power of buyers

This threat is related to the how much control customers have on prices and supply. A customer may be the main source of sales for a company. This powerful customer will be able to negotiate lower prices and a higher level of service that will impact on profit margins. Companies may have negotiated exclusive contracts with some competitors that will prevent new companies entering the market.

- c) availability of substitutes.

The threat of similar or substitute products on market share and sales. Competitive strength is weakened when customers have options and they can shop based on price and convenience. If products are generic it is easier for new competitors to enter the market and take market share.

7. What is the purpose of a company mission statement?

A mission statement outlines a company's purpose and what it wants to achieve. It may also describe how it is different to its competitors. It communicates this to staff as part of building a workplace culture and to consumers as part of their positioning.

8. Why is it important for a company to set objectives?

Objectives are targets for performance and sets direction for the company and staff. Once set, objectives are used to monitor performance by comparing them to results. They motivate staff because they can understand what they are working towards.

9. Aldi – PEST

Aldi is a discount supermarket company with the majority of Aldi stores situated in Europe, the US, Australia and China. These places are relatively peaceful and free of civil instability. To enter the UK market in 1990, Aldi chose to make a direct investment into the UK rather than a joint venture or export business model. All companies operating in the UK and Europe were impacted by the outcome of the Brexit process.

The effects of Brexit include prices have risen in the UK and the value of the pound has dropped and the increased cost of imported goods. Inflation has impacted on the grocery market. Growth in the grocery market is strong. Inflation means shoppers are more likely to be price conscious and to try to save money in their household budgets, and more likely to eat at home. In 2017, Aldi announced that in the UK it would increase its lowest hourly wage to above the minimum wage.

Supermarkets increasingly use technology to cut costs and introduce self-service checkouts. Aldi has so far limited its adoption of self-service technology.

Construct a PEST analysis for Aldi

<p>Political and legal</p> <p><i>They operate in countries that are relatively peaceful and free of civil instability. Brexit has had a negative impact. Aldi made a direct investment into the UK rather than a joint venture or export business model.</i></p>	<p>Economic factors</p> <p><i>An effect of Brexit is that prices have risen in the UK and the value of the pound has dropped and the cost of imported goods is being pushed up. Inflation has impacted on the grocery market. Growth in the grocery market is strong. Inflation means shoppers are more likely to be price conscious. In the UK Aldi increased its lowest hourly wage above the minimum wage.</i></p>
<p>Social and cultural</p> <p><i>Shoppers are more likely to be price conscious and looking to save money in their household budgets and more likely to eat at home.</i></p>	<p>Technological</p> <p><i>Supermarkets are increasingly using technology to cut costs and introduce self-service checkouts. Aldi has limited its adoption of self-service technology.</i></p>

10. Cadbury – SWOT

Cadbury has an efficient manufacturing process that can be adapted to changes in consumer tastes. Cadbury has a diverse product range which enables it to compete in emerging markets. Cadbury has a strong brand and its advertising captures consumers awareness.

Cadbury is dependent on confectionary as its main product offering. Entering new markets requires high levels of investment and exposes Cadbury to direct competition with other brands owned by the Mondelez group that owns the brand. In the past, Cadbury has experienced consumer backlash after making changes to its products without undertaking market research.

Emerging markets for Cadbury include China and Russia. Cadbury has considered moving its manufacturing to lower cost countries where labour costs are cheaper. Cadbury is known as a good corporate citizen and has a public image of a caring organisation with strong connections to society.

Cadbury has been impacted by increased costs such as fuel, electricity, transport, packaging and sugar across the world. Competitors use aggressive pricing and promotional activities to try and increase market share and attract increasingly cost-conscious consumers. There is increased concern regarding obesity and consumers are becoming more health conscious and demanding governments take action to reduce sugar consumption.

Construct a SWOT analysis for Cadbury

<p>Strengths</p> <p><i>Cadbury has an efficient manufacturing process that can be adapted to changes in consumer tastes. Cadbury has a diverse product range which enables it to compete in emerging markets. Cadbury has a strong brand and its advertising captures consumers' awareness.</i></p>	<p>Weaknesses</p> <p><i>Cadbury is dependent on confectionary as its main product offering. Entering new markets requires high levels of investment and exposes Cadbury to direct competition with other brands in the Mondelez group. In the past, Cadbury has experienced consumer backlash after making changes to its products without undertaking market research.</i></p>
<p>Opportunities</p> <p><i>Emerging markets for Cadbury include China and Russia. Cadbury has considered moving its manufacturing to lower cost countries where labour costs are cheaper. Cadbury is known as a good corporate citizen and has a public image of a caring organisation with strong connections to society.</i></p>	<p>Threats</p> <p><i>Cadbury has been impacted by increased costs such as fuel, electricity, transport, packaging and sugar across the world. Competitors use aggressive pricing and promotional activities to try and increase market share and attract increasingly cost-conscious consumers. There is increased concern regarding obesity and consumers are becoming more health conscious and demanding governments take action to reduce sugar consumption.</i></p>

CHAPTER 7

Management

Operations

1. What is the purpose of ratio analysis?

Financial ratios are indicators of performance and are used to measure business activity. Ratios are compared with those of previous periods of time to monitor and identify trends in business performance. Ratios can also be compared to industry averages and similar businesses to evaluate performance.

2. Define and interpret the ratio below. How can it be improved?

$$\text{expenses} \frac{\text{operating costs}}{\text{net income}} = \frac{190000}{820000} = 0.23$$

This calculates the amount of expenses or operational costs in each dollar of income. In this case the company pays 23 cents to earn every dollar of income. The profit ratio can be improved by reducing operational costs or increasing prices.

3. Define and interpret the ratio below. How can it be improved?

$$\text{debt to equity} \frac{\text{total liabilities}}{\text{closing equity}} = \frac{410000}{202000} = 2.03$$

This ratio compares how much the owners have invested in the company (equity) to the level of debt (liabilities). A company is more stable if equity is higher because it is made up of the owner's investment and retained profits. If a company depends on debt too much, they are at a higher risk due to debt repayments and fluctuations in interest rates. In this case, for every dollar of equity there is \$2.03 of debt. The company relies on twice the debt to equity to finance operations. It can be improved by the owners investing more capital, retaining profits in the company and/or paying off debt.

4. Outline three limitations of using ratio analysis.

Ratios do not identify the causes of problems. Ratios give limited information and must be viewed in the context of the business and compared to previous periods or industry benchmarks to be meaningful. Comparison with other businesses may be flawed because of different accounting policies. Some figures are based on estimates, e.g. depreciation and doubtful debts.

5. Name and describe the financial ratio management you would use to evaluate company stability.

Debt to equity – this ratio compares how much the owners have invested in the company (equity) to the level of debt (liabilities). A company is more stable if equity is higher because it is made up of the owner's investment and retained profits.

6. A company is planning to outsource their human resources function. They have a shortlist of two companies. Part of the evaluation is the analysis of financial ratios. The summary of the ratios for the two companies is below:

Financial Ratio	Company 1	Company 2
Current	1.3:1	2:1
Profit	9%	12%
Expense	58%	60%
Return on equity	7%	9%
Debt to equity	1.4:1	2.5:1

- a) Interpret the three profitability ratios for each company.

Financial Ratio	Company 1	Company 2	Interpretation
Current	1.3:1	2:1	1 – for every dollar of debt there is \$1.30 of current assets 2 – there is \$2.00 of current assets Company 2 has more working capital
Profit	9%	12%	1 – makes 9c profit for every dollar of income 2 – makes 12c profit for every dollar of income Company 2 makes a higher amount of profit
Expense	58%	60%	1 – for every dollar of income the company pays 58c in expenses 2 – for every dollar of income the company pays 60c in expenses Company 1 has a marginally better expense ratio

Return on equity	7%	9%	1 – the owners receive a return of 7% 2 – the owners receive a return of 9% Company 2 has a marginally better return for owners
Debt to equity	1.4:1	2.5:1	1 – for every dollar of equity there is \$1.40 of debt 2 – for every dollar of equity there is \$2.50 of debt Company 2 has a substantially higher reliance on debt to finance operations

- b) Identify the preferred company based on financial stability and the ability to manage short term debt.

Overall, Company 2 is the better option. Although they have a greater reliance on debt, their profit performance is higher than Company 1 and they have a stronger working capital position. This gives them a stronger position to manage their debt.

7. Interpret the following position and make two recommendations for action by management.

Financial Ratio	Year 1	Year 2	Interpretation
Gross profit	35%	32%	Profitability is decreasing over the 2 years with the profit ratio seeing the greatest fall by 5%. Expenses are increasing. The return on equity fell from 8% to 7%. Costs need to be investigated to identify why they increased and also the reason for the fall in profitability.
Profit	25%	20%	
Expenses	10%	12%	Management should look for suppliers with better pricing which would help the profit and expense ratios.
Return on equity	8%	7%	They could also try to pay off debt or retain profits to assist in funding operations

8. Explain three features that a company must consider as part of their quality management.

Control – quality control compares outputs to the requirements and standards of a plan. It ensures that performance and output meets defined quality criteria and the requirements of the customer. Quality control involves observation, monitoring and inspection to identify where the criteria are not being met so corrective actions can be implemented.

Assurance – quality assurance is a proactive process to prevent substandard performance and output. Quality assurance is a set of procedures to prevent errors and manage quality. It can be a part of workplace culture, eliminate a commitment of all staff to work to the highest standard.

Improvement – can be incremental and build on existing systems and processes. Improvements may be disruptive and involve the introduction of new systems and processes. The outcome of continuous improvement is products and services of higher quality. Improvements streamline processes to reduce errors and waste and product quality is improved.

9. Outline the differences between just-in-time and just-in-case inventory control techniques. Give examples of when each technique would be the best choice.

Just-in-time – a company does not maintain an inventory of materials or finished products. When an order is placed, products are sourced for delivery. Just-in-time reduces the costs of maintaining stock and storage facilities. There is no need for a warehouse, warehouse staff and bulk purchases of inventory.

Just-in-case – involves storing and maintaining inventory to avoid running out of stock. This involves higher costs because of inventory purchases and storage. It eliminates delays and lost sales because of lack of stock.

If goods are perishable and difficult to store – just-in-time

When demand and needs are stable and easily predicted – just-in-time

When demand and needs fluctuate and are difficult to forecast – just-in-case

If a company has an unreliable supply chain – just-in-case

Customers do not want to wait for purchase to arrive – just-in-case

A company has limited funds – just-in-time

10. What are the stages of product development?

1. *product ideas*
2. *evaluate the ideas*
3. *product concept evaluation*
4. *prototype testing*
5. *market testing*
6. *launch the product*

11. Explain the differences between incremental innovation and disruptive innovation.

Incremental innovation – product improvements, new features or better performance to existing products.

Disruptive innovation – a totally new product that will be sold to a new or existing market.

CHAPTER 7

Case Study

Your company is considering the takeover of a small company in an overseas market as a strategy for expansion. The financial stability of the target company is an important factor.

Calculate the current and the debt to equity ratios of the following companies.

Balance Sheet Items	Target 1	Target 2
Current Assets	300000	200000
Non-Current Assets	1600000	2900000
Total Assets	1900000	3100000
Current Liabilities	400000	500000
Non-Current Liabilities	700000	2300000
Total Liabilities	1100000	2800000
Net Assets	800000	300000
Equity		
Share Capital	600000	300000
Retained Earnings	200000	
Total Equity	800000	300000

Ratio	Target 1	Target 2
Current $\frac{\text{current assets}}{\text{current liabilities}}$	$\frac{300000}{400000} = 0.75$ For every dollar of CL there is 75c of CA to cover it	$\frac{200000}{500000} = 0.40$ For every dollar of CL there is 40c of CA to cover it
Debt to Equity $\frac{\text{total liabilities}}{\text{total equity}}$	$\frac{1100000}{800000} = 1.38$ For every dollar of equity there is \$1.38 of debt	$\frac{2800000}{300000} = 9.33$ For every dollar of equity there is \$9.33 of debt

a) Analyse the ratios.

Target 1 – there is significant working capital in the business and although not all current liabilities can be covered by current assets, it is a strong position. They rely on debt more than equity to finance operations.

Target 2 – financial stability is weak as current assets do not cover current liabilities (less than half). Debt to equity is also a concern as there is significantly more debt than equity in the business.

b) Select the best takeover target.

Target 1 – they are financially stronger and stable in the short term.

- c) Use the ratios to explain your decision.

The current ratio shows Target 1 is financially stronger with more working capital available to meet short term debt. The bigger concern is with debt to equity – Target 2 relies significantly on debt to operate and may be at risk of insolvency.

CHAPTER 8

Management

Marketing

1. Using an example, explain two ways in which technology can be used to assist marketing in global markets.

Distribution of products

Technology can help a company find cost effective ways to store and distribute products.

Technology can assist Australian companies to get their products to international customers.

Online shopping replaces physical products in a network of retail stores.

The digital distribution of products (e.g. games, software, tickets, movies and music) saves time and money and enables global growth.

E-commerce

E-commerce provides access to products and services, choices and options, support and purchasing using the internet on a range of platforms.

The potential for success online depends on how many people use the internet and how comfortable they are purchasing products online.

Social media campaigns

Social media engages with customers in a way traditional media does not.

Companies and customers share information and communicate in real time.

Social media can be used to respond quickly to questions your customers ask and to try to manage negative publicity.

Social media builds customer engagement and loyalty.

Social media means access to customers wherever they are via their phones.

Companies can pay to access and use the huge amount of data collected by social media companies to target advertising.

Social media can be used for market research to collect data on consumer lifestyles, preferences and interests.

2. Describe one impact of technology on business operations in global markets.

Customers demand high-quality communication through the internet and social media, the digital distribution of products, secure payment systems and online shopping on a range of platforms. Customers also expect engaging online content and innovative, mobile commerce tools and applications.

3. Outline how a company could use technology for the distribution of their products.

A customer purchases a product online. Instead of a physical product being taken from inventory and delivered to the customer, a digital version is delivered online.

Technology can help a company find cost effective ways to store and distribute products.

Technology can assist Australian companies to deliver their products to international customers.

Online shopping replaces physical products in a network of retail stores. The digital distribution of products (e.g. games, software, tickets, movies and music) saves time and money and enables global growth.

4. Describe two ways in which a joint venture might use technology to enhance its success in a global market.

Communication – virtual work groups, teleconferencing, workflow and collaboration software.

File sharing – using the cloud for a central point for sharing and working on files.

5. Outline the difference between e-commerce and ‘bricks and mortar’ retailing.

E-commerce is conducted using online technologies such as payment systems, digital distribution, apps and shopping websites. Bricks and mortar refers to the buildings that house retail shops, staff and physical products that customers visit to make purchases.

6. Discuss how a global company could use social media to help them grow their business.

Social media can be used to respond quickly to questions your customers ask and to try to manage negative publicity. Products and services can be promoted through social media. A company, brand or product social media profile can be used to build a community and increase consumer interest and loyalty. Companies can pay to access and use the huge amount of data collected by social media companies to target advertising. Social media can be used for market research to collect data on consumer lifestyles, preferences and interests.

CHAPTER 8

Case Study

An Australian company, EduText, has been a leading supplier of text books to high schools. Currently students fill out a paper order sheet and mail it to EduText. The text books are then delivered to the homes of students before the school year starts. EduText promotes their products by mailing a catalogue to schools.

In the last few years sales have been falling. EduText conducted some market research and found that schools and students want interactive text books. There is also frustration because deliveries don't arrive when they should and students are starting school without their required text books. Profit is also falling because it is getting very expensive to produce and deliver text books and the catalogue.

The management team is meeting to consider options for the company to respond to their financial problems.

Outline how EduText could use technology to respond to market needs and adapt for the future in terms of:

- production
Create e-books to replace the hard copy books or at least an alternative to them. There could also be online learning to support the text book with videos and interactive content.
- promotion and sales
Use social media to target schools and to promote their products. Use email campaigns to promote sales. Set up a website with online shopping and a secure payment system. Books can be ordered and in the future e-books can be paid for and downloaded.
- distribution.
E-books can be distributed through email or a file sharing service, such as Dropbox, or downloaded from a website after purchase.

CHAPTER 9

People

1. Describe four leadership traits needed in a cross-cultural setting.

Skilled communicator

Communication in global business may involve working via interpreters or struggling with more than one language. It is important to be able to identify the best method of communication for different situations and people. The ability to communicate clearly across cultures is a key global business skill. Strong communication skills will build business networks, solve problems, negotiate deals and resolve conflict. Being able to describe succinctly and clearly what you want done means that teams will be working towards the same goals.

Socially aware

Many of these traits depends on understanding social and cultural customs and differences. Recognising cultural differences in social situations means that you can adapt your approaches and also educate your team about how these differences impact on business so they can adapt too. Understanding different cultures and their social norms helps build stronger business relationships because you won't offend or misunderstand people. An important aspect of being socially aware is emotional intelligence.

Emotional intelligence is:

- *the ability to recognise emotions in yourself and others*
- *the ability to understand complex emotions*
- *the ability to regulate your own emotions to promote better communication and decisions*

Being emotionally intelligent is about:

- *Self-awareness: self-confidence, accurate self-assessment, emotional self-awareness*
- *Social awareness: empathy, responsiveness to others, understanding body language, social norms and customs*
- *Self-management: adaptability, emotional self-control, positive outlook, initiative*
- *Relationship management: conflict management, inspirational leadership, influence, teamwork*

Skilled decision maker

Leadership involves making decisions that may not please everyone in situations with time pressure and competing demands. Good leaders know when to make a decision unilaterally and when to consult others and collaborate. Good decisions are based on gathering good information, analysing it and being able to explain and justify the outcome. Skilled decision makers understand how bias, emotions and competition impact on decisions and know how to manage these factors.

Future thinker

Strong leaders have a global perspective and think strategically. To lead means understanding the current business environment and having a vision for the future of the company. Leaders must make strategic decisions and set goals that are ambitious and achievable on a global scale.

Leaders motivate people by explaining how their day-to-day difficulties and achievements contribute to future success. Leaders must scan the macro business environment to identify threats and opportunities and how best to respond to them.

Self-discipline

Leaders conduct themselves in a way that gives them an objective perspective on business performance. They must be disciplined to not engage with workplace gossip, conflict and politics. Leaders must also resist getting involved in day-to-day operations, that is why they have managers. Leaders must be focused on the big picture. Leaders must have a strong vision and the discipline to see plans through regardless of obstacles and failure.

Responsible

Leaders must take responsibility for business performance and their own performance. They don't let problems go unsolved, they follow up on performance issues and ensure employees are working to the expected standard. They also ensure that business opportunities are acted on. When problems arise, they identify them quickly and act to put solutions in place. They may delegate tasks and give directions to others, but good leaders follow up to make sure actions are taken. Instead of blaming others, leaders must manage difficulties and problems and find solutions.

Motivational

Strong leaders guide employees through challenges to build long term success. The challenges of global business and working with other cultures can be difficult and global relationships can be slow to build. Leaders must keep their staff positive and motivated to keep working towards long-term goals, despite the day-to-day setbacks. They challenge people by setting high standards and then giving them the support and resources to achieve them. They avoid personal criticism and negative thinking and look for ways to get people to work together as a team. When things go wrong, employees look to leaders for answers and judge the situation based upon their reaction. A leader who believes in the vision and goals and works toward them will be an inspiration and a resource to their team.

2. Describe one leadership style and why it may need to be adapted in a cross-cultural setting.

Autocratic – workers may be experienced and work independently, so may not respond well to an autocratic approach. Their culture may value independence and autonomy.

Participative – employees in an overseas office may need to work to strict rules and standards or may be new to the business. A situation where teams can make their own decisions may put standards at risk. Their culture may value respect for authority and obedience to rules.

3. The role of a leader in global companies is important. A single leadership approach will not work in every cross-cultural situation. Explain the meaning of situational leadership.
A situational style is one where a leader adapts their approach depending on the situation. Leaders adapt their actions, methods of communication and decision-making process to the situation. Situational leaders understand the strengths and weaknesses of each leadership style and apply what they think will work best in a work situation or business challenge.
4. Define participative leadership. Identify two strengths and two weaknesses of this approach.
The participative style is also called democratic because it involves the team in planning and decisions. A participative leader may still make the final decision, but will seek ideas and feedback from staff. Some decisions may be made by team agreement.
Advantages
Employees may perform better and have higher job satisfaction because they have more control over how they work. This is an effective style when employees are motivated, skilled and experienced. Employees know what to do to get the job done and the role of the manager is to organise resources for the teams and help them solve problems along the way.
Disadvantages
May not work well with teams that are new and inexperienced. Decision making may take more time, and seeking feedback and input may also delay outcomes.
5. Why might a leader in a global company need to adapt their autocratic leadership style in a cross-cultural setting?
International staff may be experienced and motivated and able to plan and make decisions. There may be a mix of senior and new staff so decisions can be delegated. Staff may have developed their skills and now have the experience to be more autonomous. Their culture may value independence and autonomy and will respond better to a more participative style.
6. Describe why an autocratic style might be appropriate in a global business.
If employees are new and are learning the business, they will need direction and instructions and to be monitored closely until they are up to speed. Their culture may value respect for authority and obedience to rules, so will respond better to an autocratic style. There may be an urgent issue that needs a quick decision, there may not be time to canvas options and seek input.

CHAPTER 9

Case Study

While Steve Jobs was Chief Executive Officer of Apple, his leadership style was uncompromising. He may not have been a great manager, but he led an outstanding team of managers. Despite their reputation and success, Apple is often criticised for its exploitation and underpayment of workers in its Chinese factories. Concerns are also raised about its failure to implement sustainable work practices.

Steve Jobs was seen as an extremely effective leader at Apple. His success may be unique to the American culture. His leadership style may not have been as successful if Apple was a company located in Japan or China. Globalisation means that business leaders must consider cross-cultural issues and global ethics, and how to operate and lead others in a globalised world.

- a) Compare autocratic and participative leadership styles.
Autocratic – the autocratic manager does not involve others when making decisions, their communication style is one way, they direct staff and give instructions to control what staff must do.
Participative – the participative style is also called democratic because it involves the team in planning and decisions. A participative leader may still make the final decision but will seek ideas and feedback from staff and some decisions may be made by team agreement.

- b) Explain the advantages and disadvantages of a participative leadership style in a global business.

Employees may perform better and have higher job satisfaction because they have more control over how they work. This is an effective style when employees are motivated, skilled and experienced. Employees know what to do to get the job done and the role of the manager is to organise resources for the teams and help them solve problems along the way.

The disadvantage is when cultural and language barriers make discussion difficult. Foreign staff may not have the experience to self-manage (and may need time before a participative style is appropriate). The culture may be more individualistic and competitive, and staff may not respond to a more democratic, team approach.

- c) Describe leadership traits that will assist leaders in a global setting.

Skilled communicator – it is important to be able to identify the best method of communication for different situations and people. Strong communication skills will build business networks, solve problems, negotiate deals and resolve conflict. Being able to clearly and succinctly describe what you want done means that teams will work towards the same goals.

Socially aware – understanding social and cultural customs and differences. Recognising cultural differences in social situations means that you can adapt your approaches and also educate your team about how these differences impact on business so they can adapt too. Understanding different cultures and their social norms helps build stronger business relationships because you won't offend or misunderstand people.

Skilled decision maker – leadership involves making decisions that may not please everyone in situations with time pressure and competing demands. Good leaders know when to make a decision unilaterally and when to consult others and collaborate. Skilled decision makers use good information and understand how bias, emotions and competition impact on decisions and know how to manage these factors.

Future thinker – strong leaders have a global perspective and think strategically. To lead means understanding the current business environment and having a vision for the future of the company. Leaders must make strategic decisions and set goals that are ambitious and achievable on a global scale. Leaders motivate people by explaining how their day-to-day difficulties and achievements contribute to future success. Leaders must scan the macro business environment to identify threats and opportunities, and decide how best to respond to them.

Self-discipline – they must be disciplined to not engage with workplace gossip, conflict and politics. Leaders must also resist getting involved in day-to-day operations, that is why they have managers. Leaders must have a strong vision and the discipline to see plans through regardless of obstacles and setbacks.

Responsible – leaders must take responsibility for business performance and their own performance. They don't let problems go unsolved, they follow up on performance issues and ensure employees are working to the expected standard. They also ensure that business opportunities are acted on. When problems arise, they identify them quickly and act to put solutions in place. They may delegate tasks and give directions to others, but good leaders follow up to make sure actions are taken.

Motivational – strong leaders guide employees through challenges to build long term success. Leaders must keep their staff positive and motivated to keep working towards long term goals despite the day-to-day setbacks. An inspiring leader communicates clearly, concisely and often. When things go wrong, employees look to leaders for answers and judge the situation based upon their reaction. The leader who believes in the vision and goals and works toward them will be an inspiration and a resource to their team.



SOLUTIONS TO TRIAL TESTS

TRIAL TEST 1

Short Answer

Question 1

- a) Using an example, distinguish between standardisation and adaptation when applying elements of the marketing mix. List four differences OR two differences in detail. **1 mark for each difference, or two marks for each detailed difference.**

Standardisation

A product with no changes to the marketing mix – price, product, place, promotion or slogan, positioning or product features.

Best if cultures and environments are similar, e.g. customer needs and wants

Packaging, advertising and distribution costs are reduced because they do not need to be changed and remodelled in different markets.

The business will use the same packaging, slogans, website, advertisements and social media in all countries.

A consistent global marketing campaign can be more successful for building a global brand.

Adaptation

Changes are made to the marketing mix in different countries

Consideration of local markets, local tastes, specific market needs

Constant research, review and redesign of brand, product features, packaging and advertising increases costs to the business.

Examples – Coca Cola uses the same design, packaging and slogans, McDonald's has different ingredients and food offerings in different countries.

- b) Discuss two benefits for a business that adopts adaptation as part of its global growth strategy. **1 mark per benefit.**

It shows respect for the foreign markets and their culture. Customers feel more valued and marketing will meet customer needs better and increase customer satisfaction.

It adapts to differences in government legislation.

It takes into account language differences.

It leads to better company image and sales in the foreign market.

Adaptation responds to changes in local markets more rapidly.

- c) Describe three factors that determine the feasibility of expanding into a foreign market. **1 mark for each factor.**

Level of demand

- market size, number of potential customers, including frequency and size of purchases*
- must have enough potential customers to make expansion worthwhile*

Consumption patterns

- changing trends and lifestyles of consumers*
- fluctuations caused by seasonal and cultural differences*
- wealth of the foreign market and level of disposable income*

Competitor activity

- the number of competitors in the global market and their market share*
- barriers to entry*

Question 2

- a) Explain diversity in the workplace. Discuss two examples of how a company can use managing diversity as a strategy for business growth. **1 mark for diversity, 1 mark for each example.**

Diversity means dealing with a variety of customers, suppliers and employees from different cultures, language backgrounds, age, experience, locations, family situations, needs and preferences.

Workers will be more motivated, customers satisfied, suppliers more likely to develop productive relationship.

Openness and communication will lead to better ideas and solutions to problems.

Customers and stakeholders will feel valued and will have stronger relationships.

The ability to manage diversity leads to a greater understanding of needs and wants of customers, suppliers and employees.

Marketing strategies can be refined and better targeted based on the greater understanding of the market.

- b) Describe the role of ethics in deciding to use outsourcing, including offshore labour. **1 mark for each point.**

While reducing the costs of manufacturing, offshore labour may not be paid fair wages or provided with a safe workplace. Sweatshops and exploitative practices may cause negative publicity.

Outsourcing may not comply with International Labour Standards.

Ethical decisions regarding labour may cost a company more, but ethical decisions may result in greater sales and market share because it enhances the reputation and public image of a business.

- c) Discuss three issues that may arise when an Australian company outsources to an offshore manufacturer. **1 mark for identifying, 1 mark for explanation.**

Quality – the overseas party may not work to the same quality standards and management that the domestic company maintains. The company may have limited control over the quality of materials and finished goods of the overseas manufacturer. The contract must include quality standards and the company can insist on regular inspections and quality monitoring.

Communications – communication, problem solving and making decisions can be more difficult and delayed because of language and time zone differences.

Cultural differences – language, religious and cultural differences can create barriers and difficulties to working together.

Ethics – people in a foreign country may have a very different attitude to ethical issues such as bribery, pay and conditions, and reliability. This can cause problems and impact on public image.

Legal – the foreign country may not have the same legal framework to manage equal opportunity, workplace safety, child exploitation and product safety.

Question 3

- a) Outline three impacts of globalisation on the domestic market. **1 mark for each impact.**

Increased competition from overseas businesses could take market share and drive down prices reducing the profits of domestic competitors

Increased availability of alternatives and substitutes improves consumer choice

Domestic companies may have to increase their advertising and promotion spending in the face of new competition

Customer loyalty may decrease if there are alternatives with better value

- b) What is a Free Trade Agreement? Give two examples of FTAs that Australia has signed. **1 mark for definition, 1 mark for each example.**

An agreement signed between 2 or more countries to reduce and standardise trade regulations

Designed to reduce or eliminate barriers to competition, exports and imports

Create strong trade and commercial ties between member nations

Examples – ANZCERTA, SAFTA, TAFTA, AANZFTA, ChAFTA, MAFTA

- c) Discuss the benefits and challenges to Australian owned businesses that result from FTAs. **3 marks each.**

Benefits

- *removal of trade barriers increases the movement of goods, services, labour and capital*
- *tariff reductions mean Australian goods are more price competitive in foreign markets*
- *opportunities to use international supply chains*

- *decreased costs domestically because of cheaper imports*
- *increased trade contributes to GDP growth*
- *Australian businesses must maintain a competitive advantage through innovation and increasing value*

Challenges

- *the benefits of the FTA may not be realistic or realised*
- *increased level of competition from cheap imports and loss of market share*
- *poor quality products dumped in Australia*
- *lower product and safety standards may create unfair price competition*
- *may create trade tensions with countries that are not part of the agreement*

Question 4

- a) Describe the role of innovation in improving processes and products. **1 mark each for any 4 correct points.**

Product innovation refers to changing and improving features, materials or functions.

it may be to respond to customer demand for better features and value, or an untapped market segment.

It could also be a way to anticipate market trends.

An innovation can be used as a way to build and reinforce market awareness and demand of a brand and product.

Process innovation is improving how a business operates, distributes and markets its product. It can reduce operating costs, waste and time, which may result in increased profits.

It may result in a less expensive manufacturing process.

It may increase production capacity – this can mean that customer demand can be met and costs may be lowered through economies of scale.

It may lead to better interactions with and tracking of customers – social media, online purchasing and payment methods and customer data can be used to refine and target marketing strategies.

- b) Explain the two factors that impact on the success of innovation. **1 mark for identifying, 1 mark for explanation of each factor.**

Timing

Timing considerations include the cycle of innovation and how this relates to their customer and seasonal cycles.

The stage in the product life cycle can determine whether it is worthwhile pursuing innovation for a product.

The business must assess whether it is currently financially capable of committing to innovation at that point in time.

The current economic cycle, current levels of employment, currency exchange rates, interest rates and inflation, and levels of disposable income all impact on the potential success of innovation.

Cost

Investment in innovation, research and development can be significant

It requires appropriate financial resources and human resources.

Investment in technology is significant and risky.

New marketing strategies may need to be developed or existing ones changed.

Innovation may require spending on market research.

Marketing strategy

The marketing strategy must be designed to align to the innovation.

The method and timing of the release of the innovation to the market and the use of the appropriate distribution channels must be carefully considered.

Technology

Staff may need substantial training in the new technology.

Distribution and support services may require new technology.

Other areas that may be impacted include the technology used in the e-commerce stage of innovation and in the administrative areas supporting innovation process.

- c) Comment on the role of e-commerce in a global environment. **1 mark each for any 3 correct points.**

E-commerce enables businesses to grow globally easily and quickly without the need to set up a physical presence in another country.

The low cost of computers, internet, mobile devices and the growing use of e-commerce globally due to consumers being more confident in its use and associated payment systems have all lowered the barriers to entry in the e-commerce market.

Businesses can easily conduct transactions across geographical barriers.

Businesses can distribute digital products around the world at low cost.

Extended Answer

Transperth operates the public transport system in Perth that covers the city and metropolitan area. Revenue is falling, operating costs are increasing and there has been a reduction in government budget allocations. In response, Transperth has investigated ways to maintain levels of service and reduce costs. One strategy is to replace trains and buses with automated driverless vehicles. It is a very new technology and Transperth does not have staff with expertise in the technology. Transperth identified the following changes that must be managed to successfully transition to driverless vehicles.

- making drivers redundant
- educating the public about safely using driverless vehicles
- recruiting qualified and experienced control room staff who have used driverless train control systems
- recruiting computer technicians to maintain driverless vehicles.

- a) Explain the role innovation will play in Transperth's future success. **1 mark each for any 3 correct points.**

They can anticipate market trends.

Innovation can be used as a way to build and reinforce market awareness and demand of a brand and product.

It can reduce operating costs which may result in increased profits.

It may increase production capacity – this can mean that customer demand can be met and costs lowered through economies of scale.

It may lead to better interactions with and tracking of customers through social media, online purchasing and payment methods, customer data can be used to refine and target marketing strategies.

- b) Prepare a Forcefield Analysis of the proposed change. **1 mark for correct format, 1 mark each for any 7 correct points.**

Forces For

Transperth is an established brand in WA.

It has experience and expertise in providing public transport.

There is demand and travel routes.

There is existing infrastructure, including bus stops, train tracks and terminals etc.

New technology is interesting and it will be easy to generate awareness and publicity

Forces Against

Budget allocations and revenue are falling.

There is a lack of expertise in driverless vehicles and maintenance.

Redundancies will impact on morale and there will be resistance to change.

The new technology is untested and needs significant investment.

Being untested, there may not be consumer and investor trust in its safety and viability.

Transperth may not be in a financial position to invest the necessary funds.

The innovation will need significant recruitment.

- c) Outline how Kotter's 8 Steps for Leading Change model could be used to manage the change to driverless vehicles. **2 marks for each stage.**

Step 1: Create Urgency

Identify the problem of falling income, consumer interest in the technology, success overseas, successful trials and create a negative picture of what will happen if the change isn't made. Communicate the message to the public: if we don't make this change you may have no public transport at all.

Step 2: Build a Coalition

Set up a team from across the organisation to plan the change.

Step 3: Develop the Vision

Have a clear plan for change with milestones, artist impressions and simulations of the new system and technology.

Step 4: Communicate the Vision

The coalition develops the plan and communicates it to all staff and the public. One staff meeting is not enough. Keep everyone informed with regular meetings, updates and communication. Seek feedback and discuss adjustments and successes. Make sure all staff are included, such as regional, casual and shift workers. Create an education campaign for the public.

Step 5: Empower Others

Give the coalition the authority to make decisions and solve problems.

Step 6: Short-Term Wins

Use milestones to recognise progress and success. Use them as part of the campaign to educate and motivate the public. Test on a small scale, e.g. short city routes.

Step 7: Consolidate Change

Expand trials and continue the small scale tests. Make tests a standard part of the transport system.

Step 8: Formalise the Change

Incorporate driverless vehicles into future planning and budgets. Set KPIs and linked rewards.

TRIAL TEST 2

Short Answer

Question 1

- a) Compare autocratic and participative leadership styles. **1 mark each for any 4 correct points.**

Autocratic

The autocratic manager does not involve others when making decisions.

Their communication style is one way.

They direct staff and give instructions to control what staff must do.

Participative

The participative style is also called democratic because it involves the team in planning and decision.

A participative leader may still make the final decision, but will seek ideas and feedback from staff.

Some decisions may be made by team agreement.

- b) Outline the advantages and disadvantages a participative leadership style has in a global business. **3 marks each.**

Advantages

It draws on expertise and experience of staff.

It motivates staff by giving them accountability and responsibility.

It allows staff more control over their working lives.

It brings in different perspectives and solutions.

Delegating decisions frees up time for the leader.

Disadvantages

It may give too much control to staff who do not have the experience.

It may make decision making difficult and delay outcomes because you need input from more people.

People from more collectivist cultures may not respond well to a democratic approach.

- c) Explain three leadership traits that would be effective in managing a global business. **1 mark for identifying a trait, 1 mark for explanation.**

Skilled communicator – having ability to exchange information in a cross-cultural setting and overcome language barriers.

Socially aware – being emotional intelligent and understanding how emotions and beliefs can impact on cross-cultural communication and awareness of how cultural differences can impact on decisions and relationships.

Skilled decision maker – being able to apply data, knowledge and experience to make the right decision and able to consider different perspectives and options and possible global impacts.

Future thinker – being able to manage change successfully, can lead the company into the future is able to understand opportunities and threats in the global environment and considers how the world is changing and workplaces are becoming more diverse.

Question 2

- a) Describe the franchising model as a strategic alliance. **1 mark for definition, 2 marks for description.**

A strategy involving:

A Franchisor – the owner of the business providing the product or service

Franchisees – sole traders or companies that purchase the right to market and distribute goods or service and use the business model. A franchisor can enter global markets with lower risk and without having to invest its own capital.

A franchisee benefits from a proven business model and brand awareness which makes it a lower risk business venture for them. For the management of global franchises, ensuring that standards of service and quality are maintained is difficult because of distance, language barriers, and different laws and regulations in different countries.

- b) Contrast a merger strategy against a joint venture strategy. **1 mark each for any 4 correct points.**

A merger is where two or more companies combine to create a new single company. It may be for a project or a long-term business venture. The company that is formed from a merger is a standalone business entity. The companies that merge cease to exist and form a new entity.

A joint venture is where two or more parties agree to pool their resources for the purpose of a specific project or task. A joint venture may involve a new entity, but the companies that are party to the joint venture continue to exist and ownership does not change.

- c) Discuss the issues that may arise when an Australian company enters a joint venture with a foreign company. **1 mark each for any 3 correct points.**

Language barriers, difference in culture, time differences and geographic distance can make collaboration and timely decision making difficult. Differences in currency may make purchasing complex. Different legal systems will make working out ownership, IP, employment and work health and safety more complex. Managing the impact of a free trade agreement, or the absence of one. Different economic conditions may make management difficult.

Question 3

- a) Outline how transfer pricing is used to minimise tax by a global company. **1 mark each for any 3 correct points.**

Transactions are conducted or recorded between parts of a single company or business group. The prices paid for goods, services or materials are inflated above or reduced below their true value so that profits are artificially moved between different taxation jurisdictions. It is done in a way to ensure that revenue/profit is earned in a jurisdiction with a low tax (tax havens).

- b) Discuss the ethical issues involved in a company using tax havens and transfer pricing. **1 mark each for any 3 correct points.**

Using tax havens creates an ethical dilemma when a company operates within the law to pay little or no tax. The ethical approach is to pay tax where the income has been earned and to support the country where operations are carried out. It is more socially responsible

to support the society where the customers and suppliers live. This support in the form of taxes paid can then be used by the government to pay for health care, education, roads etc. It is also about paying a fair share of tax

- c) Discuss how tax havens and transfer pricing impact on the Australian economy. **1 mark each for any 2 correct impacts.**

The appropriate tax is not paid in Australia which means the government has less revenue to pay for infrastructure and services. This can impact on growth as the government has less funds to support business, create jobs and support exporters. Multinationals have an unfair advantage over domestic companies because they pay a much smaller tax bill every year. This means they will have more funds available for marketing and business growth. The government is missing out on revenue because companies do not pay the tax they should in Australia. This means that Australia may miss out on economic growth and quality of life because the government cannot fund infrastructure projects, support for business and job creation.

Question 4

- a) Describe the following ratios and how they could be used when making a decision about the acquisition of a company: **2 marks for each ratio.**

current ratio

This ratio calculates the amount of current assets for every dollar of current liabilities. Both involve short term cash flows. This ratio indicates the financial strength of a company and how well it can pay short term debt and what money it has leftover to pay for operational costs. If a current ratio is good that company may be more financially stable and have a good supply of working capital. It would be a good target for acquisition. A low current ratio indicates a high level of debt and low working capital. This means the target company may be a higher risk.

profit ratio

This calculates how many cents of net profit is made in each dollar of income. The profit ratio can be improved by reducing operational costs or increasing prices. A good profit ratio is an indicator of good management and business success. It would make the company a good target as it would add to the financial strength of the company that acquires it. A poor profit ratio may mean that it will be a burden on finances and higher risk. Significant spending may be required to improve the profit ratio.

- b) Explain the differences between just-in-case and just-in-time techniques of inventory control. Give an example of each technique, for when it would be the most suitable method. **2 marks for each difference, 1 mark for each example.**

Just-in-time – a company does not maintain an inventory of materials or finished products. When an order is placed, products are sourced for delivery. Just-in-time reduces the costs of maintaining stock and storage facilities. There is no need for a warehouse, warehouse staff and bulk purchases of inventory.

Examples:

- *Fast food – companies like Hungry Jacks does not have a stock of finished burgers waiting for customer orders. Burgers are assembled when orders are taken to maximise freshness.*
- *Dell – the computer company does not maintain an inventory of parts. It has negotiated with its suppliers to be able to order and receive computer parts within a few hours of scheduled production to fill orders from customers.*
- *Toyota – raw materials are obtained when an order has been made and a vehicle is ready to be built.*
- *Kellogg's – ingredients and products are perishable so the company keeps minimal stock and manufactures to fill orders.*

Just-in-case – involves storing and maintaining inventory to avoid running out of stock. This involves higher costs because of inventory purchases and storage. But it eliminates delays and lost sales because of lack of stock. Push based – a company has stock that they must push or sell to customers.

Examples:

- *Hospitals – any delays associated with waiting for supplies of medications, bedding, medical equipment etc. will impact on patient outcomes. Hospitals keep an inventory of supplies so they can provide consistent patient care.*
- *Bunnings – they are known for their wide variety of products and high number of each item, so they maintain inventories of a wide range of products then use promotions and sales to try to sell them.*
- *Seasonal products – at times like Christmas, Easter and Halloween, business will buy products in the hope that customer demand will be enough to sell them.*

- c) Outline three limitations of using financial ratios when making business decisions. **1 mark per limitation.**

Ratios do not identify the causes of problems.

Ratios give limited information and must be viewed in the context of the business and compared to previous periods or industry benchmarks to be meaningful.

Comparison with other businesses may be flawed because of different accounting policies.

Some figures are based on estimates, e.g. depreciation and doubtful debts.

Extended Answer

The owner of Kitsch plans to grow her business by importing quality furniture and homeware products from Bali to sell in her chain of shops in the metro area. Balinese homewares are unique, interesting and eco-friendly products. The owner has undertaken market research and identified the homewares market, including sustainable and eco-friendly products, as having significant growth potential. While popular in Indonesia, the research shows that Bali themed homewares are increasingly popular in Western markets.

The increasing popularity of Bali themed homewares has developed in response to a combination of factors. These include the growing outdoor lifestyle and al fresco areas in homes, the low cost of products are due to the low-cost of labour and manufacturing in Indonesia, and the close proximity of Bali to Australia. Research also found that some wood products crack and split when they are in Australia's drier climate, and some products may require fumigation before being cleared by Australian customs, which delays delivery and increases import costs. Some trial products have shown that the quality of products can be inconsistent.

The Indonesian and Australian governments recently signed the Indonesia-Australia Comprehensive Economic Partnership Agreement. The Agreement has reduced trade barriers, but Australia's very strict biosecurity rules regarding wood and wood products remain in place. Kitsch's owner has decided to develop a strategic plan.

The owner thinks that growth in demand in Australia, customer demand for natural products, introduction of FTAs, the low cost of products and Bali's proximity to Australia provides the basis for successful business growth.

- a) List the key features of a strategic plan. **1 mark per feature.**

Mission and objectives

Environmental scan

Strategic formulation

Strategic implementation

Evaluation and control

- b) Explain the purpose of the strategic planning process and why it is important when growing a business. **1 mark per purpose, 2 marks for the explanation.**

The strategic planning process involves management and staff assessing the business environment, identifying company goals and objectives. A strategic plan describes the mission and priorities of a company. The plan guides management when making decisions about the allocation of resources and assets.

- c) Construct a PEST analysis for Kitsch. 3 marks per box. 1 mark for correct title, 2 marks for items.

<p>Political and legal Indonesia-Australia Comprehensive Economic Partnership Agreement supports trade Biosecurity laws can increase costs and delay delivery</p>	<p>Economic factors Australian currency exchange means Balinese goods are very inexpensive to source and profit margins can be significant If the Australian economy slows then demand will fall as disposable income will decrease</p>
<p>Social and cultural Growing demand for outdoor homewares and al fresco living Bali is a favourite destination for Australians, they are familiar with Balinese products</p>	<p>Technological Social media can be used to promote the products Websites, email and video calls can be used to communicate with Balinese suppliers and place orders to decrease travel costs</p>

- d) Recommend to Kitsch's owner whether or not you consider that importing homewares and furniture from Bali is a desirable business proposition, and why. 1 mark for a recommendation, 2 marks for the explanation.

Kitsch should try the venture. The economic partnership agreement supports trade between the countries and may make trade easier and cheaper in the future. There is growing demand for the products and importing them is easy to do. The products are low cost and good quality.

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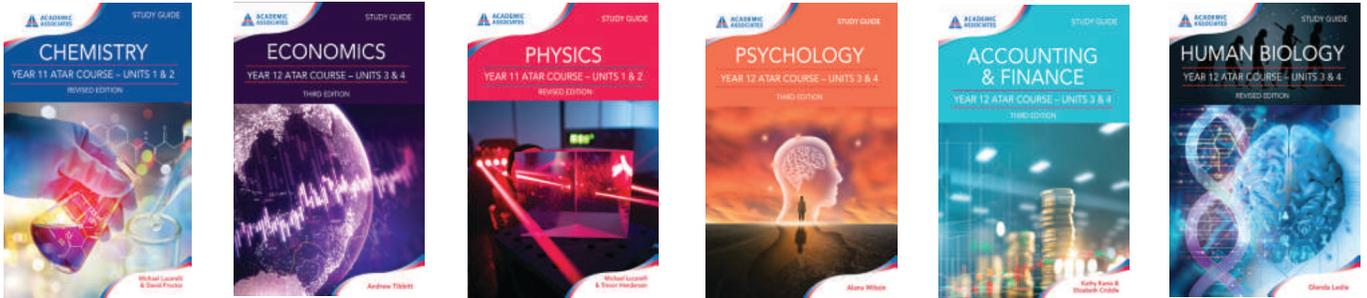


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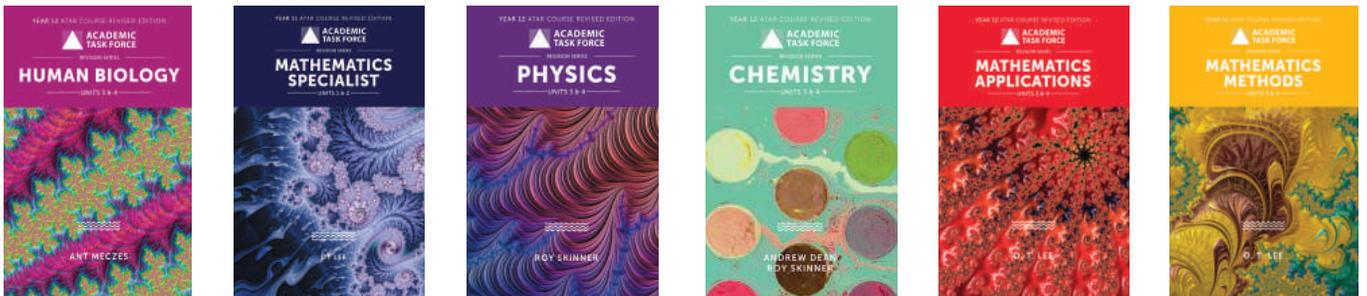
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