THE CPAP STUDY GUIDE TO VCE BUSINESS MANAGEMENT

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ABOUT THE AUTHOR

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CONTENTS

The Unit 3 Outline: Managing a Business

This unit focuses on the key principles and issues associated with managing a business efficiently and effectively to achieve the business objectives. Students will look at the challenges and complexities of managing a business and strategies used to effectively manage staff and operations to meet objectives.

AREA OF STUDY 1: Business foundations

In this area if study, students are introduced to the key characteristics of businesses and their stakeholders. Students will examine a range of management styles and skills that can be used by managers and will apply these to contemporary business case studies.

Outcome 1

On completion of this unit the student should be able to discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.

Key knowledge

- types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises
- business objectives including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations
- characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations
- the areas of management responsibility including operations, finance, human resources, sales and marketing, and technology support, and how each area contributes to the achievement of business objectives
- management styles including autocratic, persuasive, consultative, participative and laissez-faire
- the appropriateness of management styles in relation to the nature of task, time, experience of employees and manager preference
- management skills including communicating, delegating, planning, leading, decision-making and interpersonal
- the relationship between management styles and management skills
- corporate culture both official and real, and strategies for its development

AREA OF STUDY 2: Managing employees

In this area of study, students will investigate the factors involved in managing employees effectively to ensure that business objectives are successfully achieved. Students will consider the motivation theories of Maslow's Hierachy of Needs, Locke and Latham's Goal Setting Theory and Lawrence and Nohria's Four Drive Theory. Students will then use these theories to propose and justify solutions to employee management in business case studies.

Outcome 2

On completion of this unit the student should be able to explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees.

Key knowledge

- the relationship between managing employees and business objectives
- key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria)
- motivation strategies including performance related pay, career advancement, investment in training, support and sanction
- advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation
- training options including on-the-job and off-the-job training, and the advantages and disadvantages of each
- performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation
- termination management including retirement, redundancy, resignation and dismissal, entitlement and transition issues
- the roles of participants in the workplace including human resource managers, employees, employer associations, unions, and the Fair Work Commission
- awards and agreements as methods of determining wages and conditions of work
- an overview of the dispute resolution process including grievance procedures, mediation and arbitration

AREA OF STUDY 3: Operations Management

This area of study looks at how a business can effectively and efficiently produce goods and/or services. Transforming inputs into outputs is a core activity of businesses and it is vital to maximise efficiency and effectiveness while meeting the needs of key stakeholders. Students examine operations management and consider the best and most responsible use of resources for producing quality goods or services in a global environment.

Outcome 3

On completion of this unit the student should be able to analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

Key knowledge

- the relationship between operations management and business objectives
- key elements of an operations system: inputs, processes and outputs
- characteristics of operations management within both manufacturing and service businesses
- strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development
- strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time
- strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management
- strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management
- corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs
- global considerations in operations management, including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management.

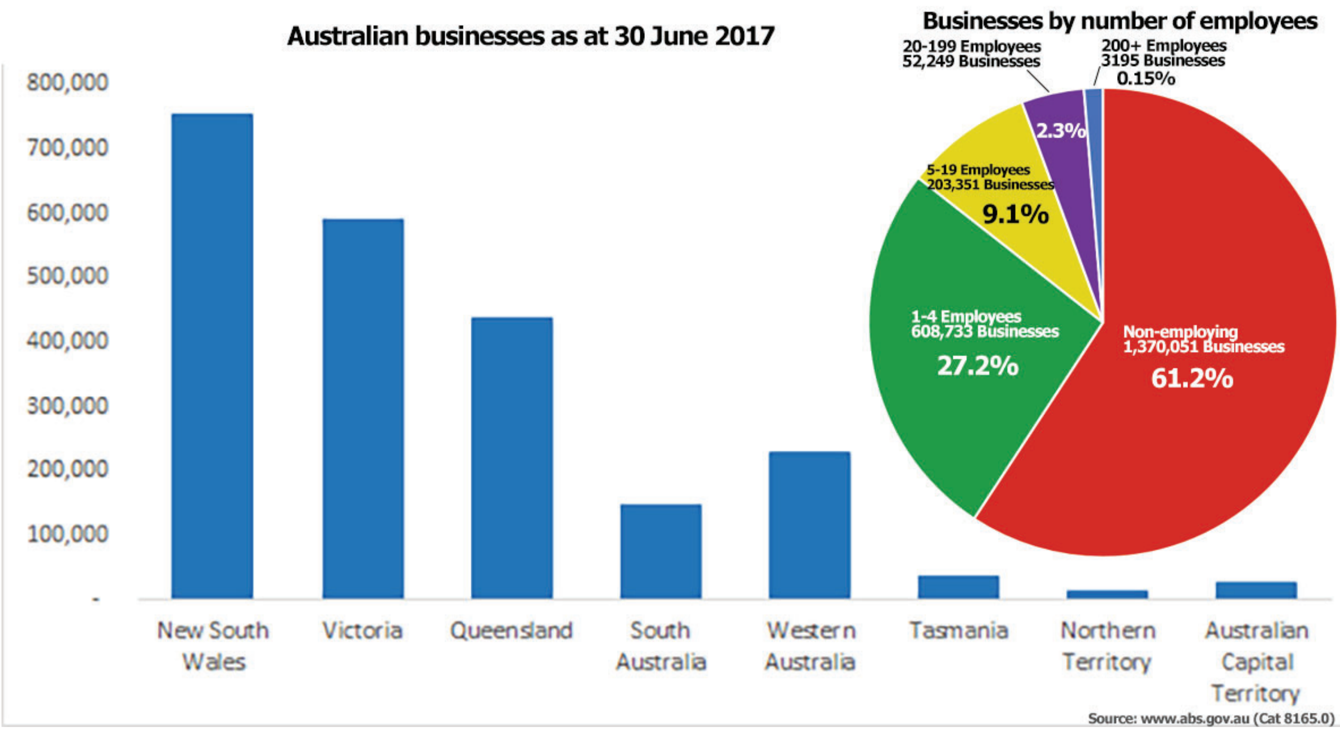
CHAPTER 1: BUSINESS FOUNDATIONS

A business is a type of organisation that is involved in the provision of goods and/or services. While businesses have many varying objectives, they share a common goal, which is to make a profit. Businesses in Australia vary in size, ranging from micro-businesses with one employee all the way to large businesses such as Wesfarmers, which is one of Australia's largest employers with over 220,000 employees. Businesses play a major role in the economy and help to improve our standard of living. There are currently over 2.6 million businesses registered in Australia with many of them having a significant contribution to employment and income generation.

Exam Tip: The VCE Business Management study design does not require students to distinguish between small, medium and large businesses and therefore cannot be assessed. However, it is likely that students will study a variety of businesses throughout the year and these businesses may come in a variety of sizes, from small one person businesses to large multinational corporations.

Small businesses are those that employ 20 people or less. This also includes those businesses where only the owner works in the business. These small organisations are often referred to non-employing businesses. **Medium-sized businesses** employ more than 20 employees, yet have less than 200 employees. **Large businesses** employ more than 200 employees and will likely have more than $200 million in assets. It is normally the case that smaller businesses will earn less revenue (money generated from sales) than the larger businesses and also own fewer assets.

The bar chart below left highlights that the NSW and Victoria have the largest number of businesses in operation, accounting for approximately 60% of 2.1 million businesses in Australia. The adjacent pie chart highlights that the vast majority of Australian businesses are relatively small, with 61.2% (i.e. 1.37 million businesses) having no employees. It is only a small minority of businesses (2.3% or 52,249 businesses) that are classed as medium-sized with more than 20 employees. While only 0.15% of businesses are large and employ more than 200 employees.



Businesses operate in one of two key sectors: the private or public sector. The **private sector** is where individuals, groups or institutions own a business, usually with the purpose of making a profit. The common types of business legal structures that operate in the private sector include sole traders, partnerships and companies (both private and public companies). The **public sector** comprises those businesses that are owned by the government, most notably Government Business Enterprises (GBEs).

There are different types of businesses that we address in this course: sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises. We will now examine each of these different forms of business ownership.

Types of Businesses

Sole Trader

A **sole trader** (also known as a **sole proprietor**) is a business with one person who owns and runs the business. It may have more than one employee however the sole owner provides the finance and makes the decisions on the direction of the business. The sole trader is the most common type of business due to the ease of establishment. A sole trader will require an Australian Business Number (ABN) and will need to register a business name with the Australian Securities & Investments Commission (ASIC) if the business's name is different to that of the owner. A sole trader has the same legal entity as its owner. The owner is legally responsible for all aspects of the business including **unlimited liability**. Unlimited liability means that the owner of the business is personally responsible for any of the debts incurred by the business. If the business is unable to pay its debts, the owner may have to sell his/her personal assets such as properties or motor vehicles to raise enough money to pay off the liability.

SOLE TRADER	
Advantages	**Disadvantages**
Inexpensive to set up	Unlimited liability (personal assets at risk)
Owner has complete control	Business often relies heavily on owner, resulting in long hours
Owner can keep all the profits	Work/life balance may be affected (less holidays etc.)
No partner conflict	Owner usually puts up capital (financial risk)
Business can be sold without consent from partners	Capacity to raise capital is difficult

Exam Tip: In the 2017 exam, students where asked to define a sole trader. While many students wrote about unlimited liability and many other factors relating to a sole trader, some did not mention that a sole trader is a business that is owned by one person. In order to obtain full marks, students needed to address the concept of ownership.

Partnership

A **partnership** is a business that is owned by between 2 and 20 people. Just like a sole trader, a partnership has the same legal entity to the owners and therefore has unlimited liability. There are some businesses that are permitted to have more than the typical 20 partners (e.g. accountants and solicitors are able to have more than the maximum 20 partners) and there are two types of partnerships, general and limited.

A **general partnership** is where the partners have unlimited liability. The general partners will often be involved in the day-to-day operations of the business.

A **limited partnership** is where the liability for one or more of the partners for the debts of the business is limited (limited liability). A limited partnership will have one or more general partners (whom have unlimited liability) and one or more limited partners whose liability is limited to the proportion of their investment. There is no limit to the number of limited partners a business can have.

A partnership can help a business access larger amounts of capital as all partners can pool their funds together. It can also be beneficial if the partners have varying expertise. This can help provide the business with a range of skills and experiences that can contribute to the success of the business. As well as sharing in the liabilities of the business, the partners share in any profits the business generates. The amount each partner receives is proportionate to the percentage of the business the partner owns. For example, if a business has three partners, Sally, Eugene and Cassandra, where Sally owns 50% of the business while Eugene and Cassandra have 25% each, the profits paid to the partners will reflect those percentages.

While a sole trader often needs to carry the burden of most of the work in a business, a partnership can allow the partners to share the workload. This can relieve some of the daily pressure that the owners face, as each partner can be responsible for their own area of the business.

When starting a partnership, there should be a partnership agreement set out so that each partner knows their clearly defined role in the business. Although this is not a legal obligation, it can help prevent conflict down the track as each partner will know their roles and responsibilities in the business. Some businesses will have a **silent partner**. A silent partner is one that has a financial stake in the business yet has no role in the day to day operations of the business.

PARTNERSHIP	
Advantages	**Disadvantages**
Inexpensive to set up	Unlimited liability (personal assets at risk)
Workload is shared among partners	Profits are shared among partners
Debts and obligations are shared among partners	It can be difficult to find suitable partners
Easier to raise more capital (pooled funds from the partners)	Potential for disagreements over key decisions (resulting in slow decision making)
Different skills and experience brought to the business	All partners are liable for the actions of each individual partner
If a partner leaves the business, it can continue to operate	
Often easier to take time off sick or for holidays	

Exam Tip: When describing a partnership it is important that you refrain rom talking about shareholders. The owners of a partnership are simply owners, not shareholders. Shareholders are the owners of companies.

Exam Tip: In the 2018 exam, students were asked to define a partnership. It is important to state the amount of owners that a partnership has. While there are some situations where a partnership can have more than 20 partners (such as solicitors and accountants), the best responses will be those that state a partnership is typically a business that is owned by between 2 and 20 owners.

Company

A **company** is an independent legal entity that is able to conduct business in its own right. A company has members that own the company. These owners are referred to as shareholders. These shareholders are entitled to share in the profits of the business (through dividends). Shareholders elect company directors to manage and run the company.

The process of establishing a company is known as **incorporation**. The company will be registered with the Australian Investments and Securities Commission (ASIC) and will establish its own legal identity, almost like a new person. Like a person, this new company is able to incur debt, sue or be sued, and can continue beyond the life of its owners. The company must keep financial records of its business dealings and must also lodge a tax return with the Australian Tax Office.

Companies have **limited liability**, meaning the shareholders legal liability is limited to the extent of the value of their shareholding. This is very different to the sole trader and partnership businesses given that the limited liability protects the personal assets of the shareholders in the event that the company is unable to pay off its debts. Despite this limited liability, directors of the company can be personally liable if found to be fraudulent, negligent or reckless.

It is more expensive to set up a company structure and the company must provide financial reports to its shareholders and ASIC. There are two forms of a company structure: private limited companies and public listed companies.

Private Limited Company

A **private limited company** (also known as proprietary limited company) is an incorporated business that is owned by up to 50 shareholders. A private limited company can have a minimum of one shareholder and a maximum of 50 shareholders. Shares are sold privately and not open to being freely traded to the public, and only the other directors can approve a new shareholder. A private limited company must have at least one shareholder, one director and one secretary. These can be the same person. While private limited companies are often small or medium sized businesses, some large businesses use this structure. For example, Visy, which employs over 9,000 people, is one of Australia's largest private limited companies. A private limited company will have the letters 'Pty Ltd' after its name, meaning 'Proprietary Limited'.

PRIVATE LIMITED COMPANY	
Advantages	**Disadvantages**
Limited liability – separate legal entity	More expensive to set up
Capital can be raised by offering more shares to investors	More reporting requirements to shareholders and ASIC
Legacy of the company can carry on long after owners or directors are gone (perpetuity)	Restricted number of shareholders
Pay company tax rate rather than income tax rate on profits	Shares cannot be traded freely

Public Listed Company

The other form of company structure is a **public listed company**. This means the company is listed on an exchange such as the Australian Securities Exchange (ASX) and its shares can be traded (bought and sold) by the general public. Companies are able to raise money by offering shares to the public in exchange for money. The company decides how to use the money to improve the business and aims to make a return for the shareholders. In exchange, the shareholder owns part of the company and gets to share in any profits through dividends and any capital gains in share price. There is no limit to the amount of shareholders a public company can have.

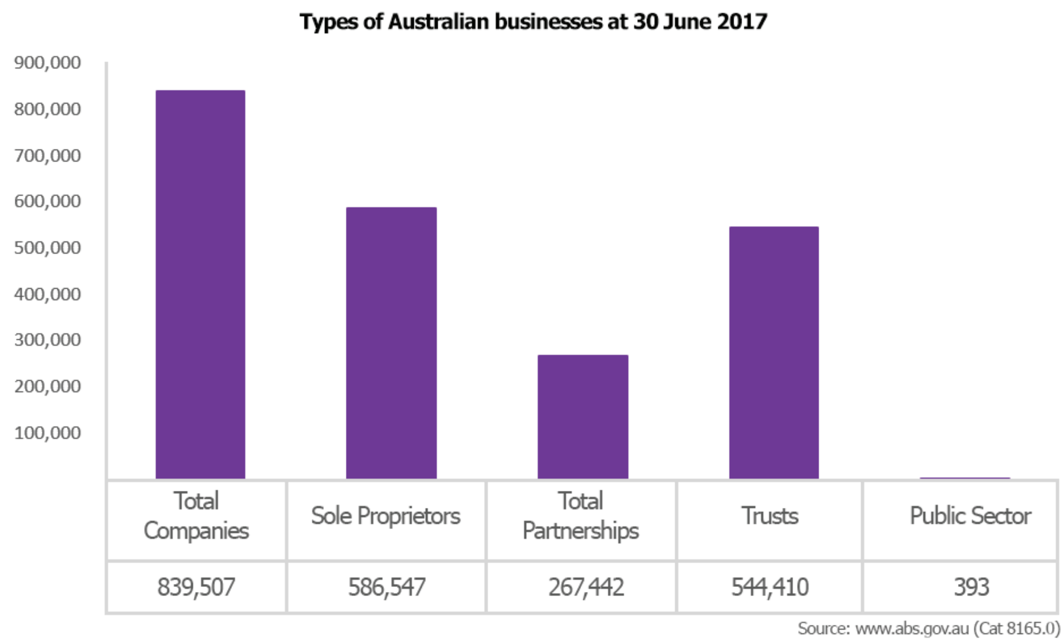
Creating a public listed company is far more complex than any other structure. The process of listing on an exchange is both time consuming and costly and should be considered carefully. Because the public can purchase shares, the business's performance is open for public scrutiny and all audited financial reports must be available for the public to view. Unlike a private limited company, the directors have no say in who owns shares in a public listed company.

Public companies are legally obliged to report on their activities so the market is aware of anything that may affect the company's share price positively or negatively. The word 'Limited or Ltd' is at the end of the company's name which means the shareholder's liability is limited by the value of their shares.

PUBLIC LISTED COMPANY	
Advantages	**Disadvantages**
Greater ability to raise large amounts of capital through share offers	Complex and expensive to establish
Limited liability – separate legal entity	No longer have full control over who is on the board of directors as shareholder vote in the directors

Legacy of the company can carry on long after owners or directors are gone	Large reporting requirements
Pay company tax rate rather than income tax rate on profits	Loss of control over who owns shares in the company
	Financial performance is open for public scrutiny

The chart below highlights the different types of Australian businesses in terms of legal structure or organisation. Companies and Sole proprietors make up the majority of Australian businesses, with GBEs (or public sector businesses) making a very small proportion of the total 2.2 million businesses operating as at 30 June 2017.



Exam Tip: Trusts can be complex legal structures and come in various forms. In simple terms, a trust is a legal structure allowing a person(s) to carry out business on behalf of the beneficiaries of the trust. Trusts are not listed as required knowledge in the study design.

Social Enterprise

A **social enterprise** is a business that exists primarily to fulfil a vision that benefits the public or community rather than shareholders. They are commercially viable businesses that have a vision for an outcome that has a positive social impact on the community and they trade to fulfil that vision.

Many businesses consider themselves to have social objectives and work to benefit the community, however these objectives are ultimately designed to improve the business' bottom line. So while a business can behave in a socially responsible manner, this alone does not make it a social enterprise. To be deemed a social enterprise, the business must be selling goods and/or services to the marketplace with the primary purpose to use any profits (or surplus) to fulfil a vision that benefits the community.

Exam Tip: It is useful to remember that a social enterprise is not necessarily a charity. It is common for students to think of a social enterprise as a non-profit organisation. A social enterprise aims to make a profit through the selling of goods and/or services. What sets it apart from other businesses is that the primary aim of the business is to benefit it's social cause. This may mean that a large percentage of these profits go towards helping the chosen social cause.

Some examples of the types of causes that social enterprises may look to impact positively:

- Businesses that operate to benefit the community or social cause
- Businesses developed to employ people with disabilities and unable to work in mainstream businesses
- Businesses that are committed to fair trade and exist to benefit producers in developing countries

- Businesses that aim to train, support and employ disadvantaged job seekers and then transition them into mainstream employment
- Financial institutions that provide products and services to individuals, communities and organisations that have difficulty accessing finance from mainstream institutions
- Businesses that are set up to benefit the community in which they are primarily located

Case study

STREAT was establised in 2009 by Rebecca Scott and Kate Barelle. STREAT is a social enterprise that runs a series of cafe's, catering and coffee roasting businesses. The primary aim of the business is to provide homeless youths a pathway to a sustainable livlihood, allowing them to escape homelessness and get their lives back on track. Through the sale of goods and services at their various business locations, STREAT provides training, counselling services, and work experience to help their member find employment and a home to live in.

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Government Business Enterprise

A **Government Business Enterprise** (GBE) is a business that undertakes a commercial activity on behalf of the Government. There are GBEs at both Federal and State levels of government. Although GBEs are owned by the government, they are run just like any other corporation. An example of a GBE is the Australian Postal Corporation. Like other businesses, this GBE has a board of directors, has a CEO and has an aim to make a profit.

The government is not normally involved in the day-to-day operations of the GBE but are involved through the shareholder ministers who represent the government. The shareholder ministers that are involved in the running of a GBE are the Finance Minister and the portfolio Minister. The Finance minister takes a lead role in GBE financial matters, with the portfolio Minister focusing on the operational issues. These shareholder Ministers represent the government and are responsible for areas such as:

- Providing GBEs with their objectives
- Proposing changes to GBE corporate objectives if necessary
- Selecting and removing GBE directors
- Assessing the financial performance of GBEs

In recent times, many GBEs have been privatised. This means the government has sold the GBE to shareholders in the private sector. Because the objectives are often set by the minister who is a member of the government, the direction of a GBE can sometimes change if a new political party is elected into government or if the political objectives of the government change.

Exam Tip: Students often forget that a GBE still aims to make a profit. Although it is owned by the government, it is different to a government department. GBEs have similar aims to other businesses. They aim to make a profit and increase market share.

Exam Tip: When defining or describing these business types, it is important to address the concept of ownership and where relevant, the number of owners. As mentioned earlier, in the 2017 exam, students needed to address that a sole trader had **one owner**. Similarly, in the 2018 exam, it was expected that students addressed that a partnership has between **2 and 20 owners**.

Exam Tip: It is important that students are prepared for 'higher order' questions. You could be asked to evaluate, discuss, analyse or compare these types of businesses. It is important that you are comfortable with any of these instructions in the examination.

Exam Tip: Ensure you are practising with different types of case studies. You never know what the case material will be in the exam. The case may or may not specify the type of business it is so you had best be prepared. The business in the case material could be a sole trader, partnership, private company etc. Ensure you have practised all types of scenarios. In the 2018 exam, the larger case study in Section B was on a socail enterprise. This altered students responses slightly and many students did not cope with this well. While knowing each business type is important, it is also advisable that you think about each of these business types throughout the rest of the course.

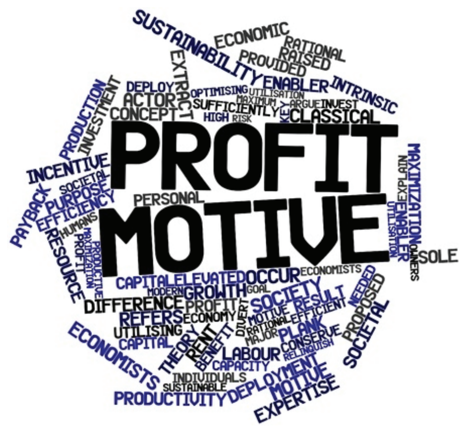
Business Objectives

Business objectives are the stated goals a business is aiming to achieve in the future. Objectives help give the business and its employees direction. The types of objectives businesses have will vary, depending on the time frame. They can be long, medium or short-term objectives and it is important that they are specific and measurable so the business knows if they are being achieved.

It is important for businesses to set some kind of purpose so that the key stakeholders such as owners, directors, managers and employees know what the business is aiming to achieve in the long term. This type of objective can be set with a **vision statement** or a **mission statement**. A vision statement is a broad objective that states the overall aspirations of the business in the future. A mission statement is a little more specific than the vision statement. A mission statement is an objective that states a business's purpose and the way it will aim to achieve that purpose.

While not all businesses will have a vision and/or mission statement, they can help provide the people within the business direction and get them working for a common cause. By providing this direction, it can also help managers with their decision making, as the decisions that are made should have the vision and mission in mind.

Other common objectives set by businesses include:



To Make a Profit

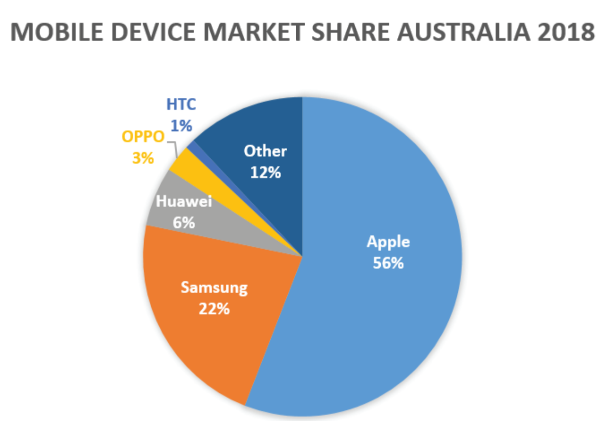
Profit is the amount of money left over once expenses have been paid (revenue – expenses = profit). It is important for a business to remain profitable if it is going to survive long term. Businesses can boost profitability by:

- increasing revenue (e.g. the money they bring into the business through sales of goods and/or services); and
- minimising their expenses (e.g. the money spent on wages, materials, energy and other inputs).

Making a profit consistently allows the business to grow and expand. It also gives the employees within the business some form of job security as they know the business is more likely to survive long term if it is profitable.

Increase Market Share

Market share is the portion of the total sales the business has in an industry for a particular good or service, expressed as a percentage. For example, the pie chart to the right highlights that Apple has 56% share of the mobile phone devices sold in Australian markets, with Samsung controlling 22% of the market, while Huawei (6%) and OPPO (3%) hold a smaller share of the market.



Businesses often have the objective to increase their market share. Businesses will compete against each other to increase their market share. How they will do this can vary greatly. Some strategies include, aggressive marketing, opening up more stores or implementing technology. If a business is able to increase their market share it means that other businesses are losing market share. For example, in 2014, Apple had approximately 38 per cent market share in Australia, while Samsung had 40 per cent. Both businesses, along with other competitors will work hard to introduce new and improved products with the aim of attracting more customers and increasing market share.

To Fulfil a Market

Consumers always have wants and needs. If enough people have the similar wants and needs it creates a market that a business can try to satisfy or fulfil. Businesses can set themselves the objective to satisfy the needs of that market. For example, a particular location may have a population of young families move into the area of time. This particular market may have a need for childcare facilities for these young families. A childcare business may be able to enter the area and meet the need of this particular market. This is beneficial to both the market and the business.

To Fulfil a Social Need

Businesses can also fulfil social needs. This is typically the primary aim of a social enterprise. There may be a need within society where a business can help make the world a better place. Although businesses aim to generate income, many have a primary focus to improve the conditions of the world in which we live. Some businesses may look to improve the state of the environment, improve the living conditions of those less fortunate or provide employment to those in the local community that are unemployed.

Meet Shareholder Expectations

Shareholders are the people who own a company, which will mean they have the expectation to make a return on their investment. Companies will often have the objective to meet these expectations which can influence the decisions and strategies that a manager uses. If the business is able to achieve this objective, and meet the expectations of shareholders, it may attract investment from other potential shareholders. The money generated from new investment can then be used to help grow the business. However, if the business does not meet the expectations of shareholders, they can sometimes sell their investment and invest their money elsewhere. This is often the case with public listed companies.

Other Common Business Objectives

While the above objectives are part of the Business Management study design, businesses can have a range of other objectives. Some common objectives that a business may have include:

- Increase productivity growth
- Reduce the level of customer complaints
- Improve the level of workplace safety
- Increase employee retention and reduce the level of staff turnover

Once a business objective has been set, managers will decide on the best strategies to implement so the business objective can be achieved. A strategy is a specific action that a business implements to achieve business objectives. For example, a business that sets the objective to increase market share, may decide to implement the strategy of a new national advertising campaign.

Once the strategy has been implemented the manager needs to determine if the set objective has been achieved. It was mentioned earlier that an objective should be a measurable so that it can be determined if it has been achieved or not. Businesses will often use key performance indicators to assess if a business objective has been achieved. A key performance indicator (KPI) is a specific criterion or tool that can be used by a manager to measure if the business has achieved its set objectives. For example, if we look at the business that has set the objective to increase market share, the manager could use the KPI of percentage of market share to determine if the objective has been achieved. Alternatively, a business that is aiming to improve its customer satisfaction levels, may look at the number of customers complaints KPI to determine if the set objective has been achieved.

Note: Key performance indicators are not part of this area of study however, hopefully you can see their relationship to business objectives. We will address KPIs in more depth in Unit 4.

Exam Tip: The business objectives listed in the study design are to make a profit, increase market share, fulfil a market need, filfil social need, and meet shareholder expectations. This means that they can be directly assessed and specifically included in a question. There are, however, other objectives that students can use in answers where appropriate such, as the ones used in this section (improve productivity growth, reducing staff turnover etc). If you are going to use a different business objective that is not in the study design, ensure that it is an objective that is **measureable**. Objectives that are not measureable are less likely to be accepted.

Exam Tip: Be prepared to link these objectives to other sections of the course. For example, students could be asked a question such as: 'Describe two motivation strategies and explain how they can help a business to achieve their objective to increase market share'. This type of question requires students to link business objectives (Area of Study 1) with motivation strategies (Area of Study 2).

Characteristics of Stakeholders

Stakeholders are those that have a vested interest in a particular business. All businesses have stakeholders and the decisions that are made by managers within a business can affect stakeholders in different ways. Stakeholders have differing interests in the business and a manager needs to consider these interests when making decisions. Stakeholders can come from the internal environment (from within the business) or from the external environment (outside of the business). For the VCE Business Management course, students need to know:

- who the key stakeholders are
- their interests that the stakeholders have in the business
- the corporate social responsibility considerations when businesses are dealing with these stakeholders
- the conflicts between the interest of differing stakeholders

This requires the need to address the concept of **corporate social responsibility (CSR)**. Although there is no universally accepted definition of corporate social responsibility, here is a common definition used:

> *Corporate social responsibility is the continuing commitment of a business to go above and beyond its legal obligation to operate in an economically, socially and environmentally sustainable manner.*

CSR is about a business going above and beyond their legal obligations to operate in a way that benefits the three key areas (economic, social and environmental). These three areas are often known as the **'triple-bottom line'** where the business can evaluate how well it has performed economically, socially with its employees, customers and the community, as well as its impact on the environment. CSR should be a part of every function within a business. Although a business will have an objective to make a profit it needs to do so with CSR in mind. If not, it may make questionable decisions that have negative impacts on others (employees, community, customers or environment), which ultimately has the potential to reduce profitability in the long term. Research shows that many customers now consider CSR when making purchasing decisions. It is therefore important that businesses consider these issues when dealing with different stakeholders. We will examine some of the key business stakeholders.

Exam Tip: One of the biggest mistakes that students make with CSR is by writing about strategies that are legal obligations. For example, students often write about ensuring the safety of employees. This is not considered to be socially responsible because ensuring employee safety is a legal obligation for businesses. Some businesses will go far beyond their legal obligation in this area which can be deemed as a CSR issue. If asked about CSR, students need to ensure they are writing about strategies or issues that are about a business going above their legal obligations.

Stakeholders from the Internal Environment

Owners/Shareholders

Owners or shareholders (depending on the business type) are those that have invested money into the business and own a portion of the business. Depending on the size of the business, they may or may not be involved in the day to day operations of the business. Because of their financial investment, they are looking for a return on their investment. As they are whole or partial owners of the business, shareholders are entitled to share in the businesses profits through dividends. They also look to gain a return on their investment through capital gains. This means the value of the shareholders' ownership has increased. Shareholders often place pressure on the managers of a business to continually improve profits and make decisions that will benefit the return for shareholders. With their ownership comes voting rights. This is where the shareholder is able to vote on important business matters at the annual general meeting.

Shareholders rely heavily on the information they are provided by senior managers about the future outlook of the business. It is important that honest information about the future of the company is reported to current and potential shareholders. It is also important that decisions made by management demonstrate corporate social responsibility so that no harm comes to the business's image as this could harm profits.

Directors

Directors are the key senior personnel in a company who, collectively, are responsible for managing the company's business activities. Directors ordinarily meet once a month (at company board meetings) and are expected to be involved in setting the strategic direction of the business and to be remunerated fairly for their service. One corporate social responsibility consideration for directors is the need to consider the impact of their decisions on key stakeholders and the environment. Although directors are accountable to the shareholders, they need to consider other stakeholders when making tough decisions. In many businesses, the directors will be major shareholders in a company and they should be considering the impact of their decisions on employees, the community and the environment, rather than simply considering company profits.

Managers

Managers are those that are responsible for overseeing different areas of the business and making decisions to ensure the business is achieving its set objectives. Managers are put in place to make decisions and lead employees towards the achievement of business goals and objectives. Once objectives have been set, the managers will implement the best strategies to achieve them and measure their success with the use of key performance indicators. The interest of a manager is to be involved in the decision making of the business and to receive fair remuneration and benefits.

As for directors, managers need to consider the impact of their decisions on all stakeholders, which can be a difficult task as often a decision will affect differing stakeholders in unique ways. Many managers understand the importance of implementing corporate social responsibility practices into their processes. Although one of their main aims is to improve profits of the business, they often aim to do so while also considering the impact each decision has on society and the environment. Many managers understand that corporate social responsibility practices can lead to improved image and increased sales. For example, by implementing processes that aim to reduce waste and/or minimise impact on the environment, it can ultimately lead to lower production costs, which improves profitability.

Employees

Employees are those that complete work within the business in exchange for a wage or salary. They are the ones that carry out tasks for the achievement of business objectives and they are primarily concerned about fair pay, good working conditions and ongoing employment. It is important that the business values the employees because happy and motivated employees are likely to work hard and be productive. The business needs to consider the impact that decisions will have on the employees and aim to be socially responsible when dealing with employees. For example, the implementation of new technology that will improve productivity may cause concern or anxiety amongst employees. They may fear they don't have the skills to use the new technology or even question their job security. The managers need to be open and honest about the impact the new technology will have on the employees. This might include support in the form of training to ensure they have the skills to use the technology. Other considerations include working hard to help the employees feel a sense of job security by offering ongoing training or even promotion opportunities.

Stakeholders from the External Environment

Customers

Customers are those that purchase goods or services from a business. The interest of the customers is they expect good quality products at fair prices. It is important that the business meets or exceeds the expectations of customers so that it can gain a customer for life – ones that will come back again and again. It is important to generate this 'goodwill', as it is usually cheaper to get a satisfied customer to purchase again than it is to attract new customers.

Customers are becoming more aware of businesses that implement corporate social responsibility practices and research shows that many customers factor this into their purchasing decisions. This is just one customer trend and it is important that businesses are keeping up to date with any changes in customer tastes or preferences. This helps to ensure that the business is staying current or even driving consumer preferences, which then helps to maintain a competitive advantage for the business. Businesses can also go above and beyond their legal obligations in delivering value for money to their customers. For example, a business can check the quality of its products regularly to ensure that only the products that meet a high quality standard make it to the end consumer.

Lenders

Lenders are those parties who have loaned money to a business with the expectation that this money will be paid back (often with interest). They are typically financial institutions, such as banks, but can include family members or friends who may have provided loans to a sole trader or partnership during the start-up (or other) phase of the business.

Like shareholders, lenders have a vested interest in ensuring that the business remains viable and is able to meet its commitment to both repay the debt (the principal amount of the loan) as well as any interest on the loan. In this respect, lenders (like shareholders) are interested in the rate of return on their 'investment'. While lenders can and do influence the decision making of businesses, particularly when the business' debt levels are relatively high, they do not own a share of the business (unlike shareholders) and therefore have no 'voting rights' at annual general meetings.

Lenders will exert pressure on the managers of a business to make financially prudent decisions that do not expose the lender to excessive risk. Like shareholders, the lenders will tend to rely heavily on the information they are provided by senior managers about the future outlook of the business.

Competitors

Competitors are rival businesses that sell similar products in the same market. Competitors are constantly fighting to increase market share and become more competitive. It is important that the managers of the business are able to gain a competitive advantage to ensure the long term success and viability of the business. Keeping a close eye on what competitors are doing is important, as well as continuing to build on the business' strengths in the market. Competitors may bring out new products, open up a new location, improve their customer service, offer discounts or promotions, or even find a way to reduce production costs. It is important that a business is able to react quickly to competitors so that they can maintain their market share.

Smaller businesses will face tough competition from larger businesses. The larger businesses are often able to produce their goods and services cheaper than smaller businesses because they can produce on a large scale. This is known as reaping the benefits of 'economies of large scale production' (or 'economies of scale'). Smaller businesses will therefore need to find a unique way to compete, such as offering superior customer experience for their clients.

Most businesses expect fair competition within the market. Dealings with competitors should be fierce yet ethical, which can inspire innovation in both new products and improved production methods. While rival business expect tough competition in the market, they also expect that competition to be fair. While a business will compete hard to attract customers, they need to behave ethically so they do not deliberately harm another business, which therefore reduces the competition in the marketplace.

Suppliers

Suppliers are the organisations that provide resources to a business. These resources will be used to run the business and many will be required for the production of the good or service. The quality of the resources provided to the business can have a significant impact on the quality of the final product delivered to the end consumer. Although quality resources can be costly, poorer quality resources may result in higher costs due to increased wastage or faulty products. It is important that a business has a strong relationship with its suppliers so that supplies are delivered on time, in the right quantities and at the right cost. Resources that do not arrive on time can slow or halt production, which can greatly affect productivity and ultimately the satisfaction of customers. For example: a car manufacturer will need to stop production if their supplier has not delivered enough nuts and bolts in time for production. Also, a local book retailer will upset customers if they are sold out of the latest best seller due to their supplier not delivering on time. To avoid issues with delayed deliveries, businesses often have a variety of suppliers they can use where possible.

It is important that a business has fair dealings with their suppliers. Suppliers expect to be paid on time and have fair dealings with the business. The supplier want the business to thrive and increase sales so they can they themselves can increase sales by supplying more to the business. Businesses also expect their suppliers to use corporate social responsibility practices as any that are deemed to be unethical will reflect poorly on both the supplier and the business. Many larger businesses will conduct audits of their suppliers to ensure they are meeting corporate social responsibility standards.

Trade Unions

A trade union is a group that represents and protects the rights of workers in Australia. Employees can become a union member by paying a membership fee. This membership allows them to call on the union if needed in a situation, such as a dispute regarding pay or working conditions. The union expects that their members are treated fairly within the workplace. They also expect that during times of negotiation with the employer about wages and conditions, that there is bargaining in good faith, meaning that the employer will listen to the union's concerns and seriously consider their point of view. They also expect to be informed if there are issues that are affecting the quality of the employee's work environment or job security.

Community

The community is the group of people that live in the same areas in which the business operates. Members of the community typically expect the business to treat its location with respect and understand its impact on the environment. Many members of the community may be happy that a business is located near them as it not only allows them access to the goods and services they provide but also provides employment for the local area. However, the business should also understand that any business operations can have negative effects on the area such as pollution. The business should be considering the local community when it makes decisions. For example: how it removes wastage, whether it gives back to the community or understanding the impact if it considers moving locations, especially overseas.

The table below is a summary of the key stakeholders, their interest and example of corporate social responsibility considerations.

KEY BUSINESS STAKEHOLDERS			
Stakeholder	**Definition**	**Interest**	**CSR Consideration Examples**
Owners / Shareholders	People that have invested money into the business and own a share in that business	To get a return on their investment through dividends and capital gains	The business should demonstrate CSR to ensure the shareholder's investment is safe. The business needs to keep all shareholders informed about business operations and prospects, whether they be positive or negative
Directors	The senior people in the business who responsible for managing the company's business activities	Expect to be involved in setting the strategic direction of the business and to be remunerated fairly for their service	Including CSR into the future direction of the business. Not just focusing on profits.
Managers	Those that are responsible for overseeing different areas of the business and making decisions to ensure the business is achieving its set objectives	To be involved in setting objectives and ensuring the business is achieving these objectives	Managers need to make decisions that both demonstrate CSR and help the organisation achieve its long term objectives
Employees	People that work in the business in exchange for remuneration (e.g. wages)	To earn fair pay, have good working conditions and ongoing employment	Ensure that workers are paid fairly. Ensure employee's safety (beyond legal obligations). Being open and honest regarding job security
Customers	Those that purchase goods and/or services from a business	To receive good quality products at fair prices	Ensure products are of the highest quality, are value for money. This may mean slowing production to ensure product meets high quality standards
Lenders	Parties (typically banks or other financial institutions) who provide funds (via loans) to allow the business to operate or expand	To get a return on their investment through the payment of interest on the loans	The business should demonstrate CSR to ensure the lender's investment is safe. The business needs to keep lenders informed about business operations and prospects, whether they be positive or negative

Competitors	Rival businesses that sell similar products in the same market	Competitors want to gain a competitive advantage and have healthy competition	Fair and honest competition that doesn't undermine ethical practices
Suppliers	Businesses that provide resources to another business	They want to see the business they are supplying increase sales so they can sell more supplies to that business, and also be paid on time	Procurement: ensuring that suppliers implement CSR into their practices. Using local suppliers
Trade Unions	Group that represents and protects the rights of workers in a particular industry	To see workers are treated fairly within a business and see them receive fair wages and good working conditions	Bargain in good faith and keep the union informed of anything that could affect the job security of employees
Community	A group of people that live in the same place in which the businesses operates in	To see a business thrive to ensure it continues to employ local residents and sell good products at fair prices	Give back to the community by supporting local programs. Minimise waste and ensure it is disposed in a way that has minimal impact on the environment

Conflicts between stakeholders

Although all stakeholders have a vested interest in the business, their interests are often quite distinct. These varying interests can be conflicting and it is important that managers take this into consideration when making decisions. An example of this could be a local retail store, where the employees have been asking for improved working conditions and higher wages. The manager may want to reward the employees for their hard work and offer a combination of higher wages and reduced hours. However, by deciding to do this, it may cause prices to increase or profits to fall, which conflicts with the interests of both customers (who are after lower prices) and shareholders (who are after higher profits). In this situation, the manager needs to make a decision that considers all stakeholders. The manager may be able to implement the higher wages while keeping prices the same, resulting in both stakeholders being satisfied. However, now that wage costs have increased the shareholders of the business may be dissatisfied as their dividends may be reduced.

Managers are faced with these types of situations regularly and it is important they are able to make decisions that take all stakeholders into consideration. This doesn't mean that they will be able to keep all stakeholders happy with every decision. In these situations, the manager will need to make a decision about which stakeholders will be the major beneficiaries of the decision, and then aim to minimise the impact on those that are dissatisfied with the decision.

In contrast, managers may be faced with the owners of the business that place pressure on them to make decisions that maximise the profits of the business, which can sometimes be to the detriment of other stakeholders. A manager may need to consider **corporate social responsibility** when making decisions, with a focus on the triple bottom line, rather than simply the economic impact of decisions. Trying to manage the conflicts between the interests of stakeholders can also be done while taking into consideration corporate social responsibility. For example, a manager might decide to improve the working conditions of employees to allow them a better work-life balance, which might negatively impact on the short term profits of the business. However, the hope would be that by providing better conditions, employees will be more satisfied with their workplace, work harder and be more productive. This will then help to maintain downward pressure on costs and improve profitability.

Exam Tip: In examinations and assessment tasks, students often describe particular stakeholders well yet fail to explain their interest in the business. For example, the 2018 exam asked students to 'iOutline the interests of two stakheholders at Ocean Skate Hub...' Many students could identify and describe the stakeholder e.g. "One stakeholder is customers. Customers are those that purchase goods and/or services from the business." However, this type of response does not fully answer the question. The response needed to be supplemented with something like: "The interest of customers is that they want to purchase good quality products at fair prices."

Exam Tip: Students should be prepared to demonstrate an understanding of the conflicts that can exist between stakeholders. For example, in the 2018 exam, students were asked the following question, "Outline the interests of two relevant stakeholders of Ocean Skate Hub. Explain how these interests may be in conflict". Many students found it difficult to clearly explain the conflicts between two stakeholders. It is important that students are prepared for a range of stakeholder conflict examples. While this section looked at an example between shareholders and employees, are you able to explain the conflict between customers and employees for example?

Exam Tip: When responding to a case study referring to stakeholders, it is important to think about the relevant stakeholders for that scenario. If you are given a case study of a sole trader or a partnership, it would not be acceptable to write about shareholders, because these business types are not owned by shareholders. In this situation, it would be more appropriate to write about owners.

Areas of Management Responsibility

A manager is a person who is responsible for a particular area of a business. They will be involved in setting the objectives for their particular area, organising resources, motivating and inspiring employees to achieve the set objectives and monitoring the processes and results. Each area within a business contributes positively or negatively to the overall achievement of a business's objectives. It is therefore important that the manager responsible for each area makes good decisions to ensure their area of responsibility is achieving its set objectives in the most efficient manner possible. Depending on the size of the business, these areas may be the responsibility of the owner or there could be specific managers that undertake each role specifically.

The following section describes the key areas of responsibility and the roles they play in helping a business achieve its overall objectives.

Operations

Operations is the area of the business that produces the goods and services. The manager responsible for operations overlooks the operations system. The operations system has three main parts:

1. **Inputs**: these are the resources used to create a good or service. Resources include raw materials, facilities & equipment, human resources, time, and information.
2. **Processes**: these are the activities that convert or transform the inputs into the final product.
3. **Outputs**: these are the final goods or services produced, ready to be sold to consumers.

It stands to reason that a business will find it difficult to achieve objectives without a good or service to sell to the consumers. Managers will therefore need to ensure that the operations system (inputs, processes & outputs) is running effectively and efficiently such that quality products are available to consumers at the right price. This will assist the business in achieving its objectives. For example, a business that has an objective to deliver a high quality product to its consumers, needs the operations area to be able to do this. The manager overseeing the operations system needs to ensure there are high quality inputs such as raw materials and human resources. The manager then needs to ensure it has the correct processes in place, such as checking for defects at regular intervals and fixing them where required. Finally, the manager needs to ensure that the outputs consistently meet the standards expected by customers. All of this helps the business achieve its objectives of delivering a high quality product to consumers. We go into more depth in this area in Chapter 3.

Finance

The area of finance is one that encompasses a range of activities revolving around the management of money and other assets. Keeping financial records is a key to the success of a business no matter what the size. The manager responsible for a business's finances aims to provide information to senior managers to help them make informed decisions, reduce costs and budget effectively for the future. Finance is a key for any business so it can buy stock, pay its employees, advertise, develop products and grow. This area of responsibility can help a business achieve all of these objectives by ensuring the business has money available to do all of the things mentioned.

Controlling the finances in a business will help it to achieve objectives related to profitability. However, the finance area can also assist with the achievement of other objectives. For example, finance can assist a business that is aiming at reducing its carbon footprint by introducing renewable energy. The finance manager will set the budgets to ensure that money is available to invest in renewable energy. It would also perform costings and feasibility studies to ensure that the business can afford to pay for it at the present time, or determine when the right time is to make such an investment.

Some of the key tasks of the finance area of responsibility include:

- **Budgeting and Forecasting**: This is where the manager responsible uses all available financial information to set a budget for other departments and forecasts future revenues and expenses. This information can help a business foresee any future opportunities or threats they may face.
- **Bookkeeping**: Keeping records of a business's financial affairs in order. This can help during times of tax or when a manager wants to create or assess the financial reports of the business
- **Reporting**: Creating both internal and external reports that show the financial situation of the business.
- **Payables and Receivables**: The area of finance also keeps track of cash flow (money flowing in and out of the business) to ensure all expenses are paid on time and to chase any money that is owed to the business.

Human Resources

Human resources is the area of the business that manages the relationship between the employees and the business. The manager responsible for this area is involved in bringing quality people into the business, ensuring they are well trained, motivated and performing at a high level. The manager will also be involved in dealing with the termination process, where employees leave the business. Here are some of the responsibilities involved in the area of human resources:

- **Recruitment & selection**: attracting and hiring the best employees for the business.
- **Training & development:** working on improving the skills and abilities of the employees within the business.
- **Motivation:** attempting to help motivate employees so they perform at their best on a consistent basis.
- **Rewards & recognition:** positively reinforcing the desirable behaviours in the business.
- **Workplace relations:** Maintaining positive relationships with employees when issues or conflicts arise. This area is also involved in the development of agreements that outline the wages and working conditions (such as holiday leave, sick leave etc).
- **Termination:** Overseeing process of employees leaving the business either voluntarily or involuntarily.

Given that employees are typically the ones that carry out the day-to-day activities that enable the business to function, the human resources area plays a major part in a business achieving its objectives. Being able to employ/retain the best employees, and continuing to develop their skills/keep them motivated will ensure that employees are performing at a high level, which assists with the achievement of business objectives. For example, a business that wants to increase its number of sales will require high performing sales employees. The manager responsible for human resources might therefore decide to implement a quality training program that allows the sales staff to improve their customer service skills. To the extent that this program leads to higher quality sales staff, it should result in the achievement of the business' objective to increases sales/profitability.

Sales and Marketing

Marketing refers to the actions taken to promote a business and/or its products with the aim to increase sales. The sales and marketing manager will decide on the best course of action for promotion. This could include advertising, social media campaigns, promotional offers, direct selling and many more strategies.

We have stated earlier that some common objectives for businesses are to make a profit, increase sales and to increase market share. Marketing plays a vital role in achieving these objectives. A business can have a wonderful product to provide consumers, but if the consumer is unaware of the product or its benefits, it will then be difficult to attract sales. Marketing alerts and attracts consumers to purchase the goods or services, which assists the business in achieving its set objectives.

Technological Support

Businesses rely on technology for fast communications, market intelligence and storing and processing of data. This kind of support is vital for a business to be able to improve processes and reduce costs. We often take technology for granted, but the way it enables employees to communicate with each other has helped improve productivity in most businesses. Due to technology support, employees are able to be out of the office and still complete their work.

Technology support works to ensure the technologies used by a business are maintained so that work can be completed and objectives achieved. This area will also investigate ways to implement technologies that will improve the performance of a business.

Technology has helped businesses to expand across borders due to the development of web technologies and e-commerce. These advances help businesses achieve their objectives by improving processes, improving products and reducing costs.

For example: banks have been able to improve the service they provide to their customers by making online banking available. No longer does a person need to conduct their banking between the hours of 9am-4pm. They are able to conveniently use the banks' technology at any time of the day. This helps banks to serve more customers per day while reducing their costs.

Exam Tip: Many students refer to "technology" as an area of responsibility. However, in past exams this has not always been an acceptable response. It is expected that students refer to "technology support" as the area of management responsibility.

Exam Tip: It is important that students develop a sound understanding of these areas of responsibility. There may be a question where the student can select which area to use in a response to a question. However, there could also be a question that specifies the area of responsibility that students must respond to. Accordingly, you should ensure that you can apply all of them well.

Exam Tip: It is common for students to forget what these areas of management responsibility are. Many students refer to concepts such as corporate social responsibility as an area of management responsibility. It is unlikely that this will be accepted as a response by examiners. It is advisable to use the areas mentioned in the study design.

Management Styles

A management style is the way in which a manager makes decisions and communicates with employees. Managers will differ in how they do this. The 5 main management styles are autocratic, persuasive, consultative, participative and laissez-faire. The style a manager uses may come down to a number of factors such as:

- The personality of the manager
- The skills and experience of the employees
- The nature of the tasks that need to be performed
- The time available to make decisions

Many leaders will use a variety of styles depending on the situation they are faced with. For example, a manager that has been informed that one of the business's products is faulty and has the potential to harm customers may use a very direct autocratic style where decisions can be made quickly. However, if the same leader is faced with a situation where they have more time and feel employee input would be beneficial, they may use a more participative management style. The 5 management styles can be placed on a continuum from styles that are more task-centred (the manager focuses on the tasks that need to be performed) to styles that are more employee-centred (employees take an active role in the business which helps develop them for the future).

Exam Tip: The study design specifies that students must know when each management style is appropriate in relations to: the nature of the task, time, experience of employees, and manager preference. Students need to ensure they are prepared to answer questions in relation to this with EACH management style. For each management style in this section, we will look at how each could be appropriate to the above factors.

Autocratic Management Style

The autocratic management style is where the manager makes the decisions and tells the employees what tasks to perform. The manager prefers to have full control of their area of responsibility, without any employee input into the tasks that need to be performed. The autocratic management style is very task-oriented, where the manager tells the employees what tasks they need to complete and when they need to be completed, without the input from employees. The manager may even monitor the work closely while it is being performed by the employees. The directions provided to the employee are clear, which ensures they understand exactly what needs to be done. The making of decisions in isolation, without input from other parties, is often referred as *'centralised decision making'*. Centralised decision making allows decision to be made quickly as there is no time spent consulting employees. However, because the manager does not seek feedback from others, it may prevent new ideas from being explored.

Its key characteristics of this management style are:

- Manager makes the decisions alone without input from employees (also known as centralised decision making)
- One-way communication (top-down)
- Managers place little importance on employee involvement in the direction of the business
- Manager places importance on completing tasks

Autocratic Management Style **Advantages**	**Disadvantages**
Decisions are made quickly	No opportunity for input from employees
Clear communication to employees	May result in lower morale or poor motivation
Employees know exactly what their tasks are	Smaller pool of ideas
Decisions are made by an experienced manager	Very task focused with lack of employee development

When is it best used?

The autocratic management style is often best used when time is a significant factor because decisions are made quickly without consultation. It can also be an effective style to use when the employees lack skill and experience. In this situation the manager may rely on their own experience to make good decisions.

Nature of the task: The autocratic management style is often appropriate when the tasks are simple or lack complexity. This allows the manager to simply tell the employees what to do without the need for other considerations.
Time: Due to the speed of the decision-making, the autocratic management style can be appropriate when there is a lack of time available to make decisions.
Employee experience: The autocratic style is often appropriate when the employees are inexperienced. In these cases, it can be best to direct the employees as they lack the experience to put forward ideas.
Manager preference: Some managers prefer to have complete control over the decision making so would use an autocratic style.

Persuasive Management Style

The persuasive management style is where the manager makes the decisions and then explains to employees why the decision has been made. This style is very similar to the autocratic management style in that the decisions are centralised (made by the manager). However, the key difference is that when a decision is made the manager tries to convince the employees as to why it is the best decision in the circumstances. Therefore, more information is provided to the employees about why the decision has been made. The persuasive management style uses one-way communication (top-down), however more information about the decision is provided to the employee. It is again a task orientated style, where the employees are told what tasks they need to be performed and why. Using the persuasive management style can help make the employee feel more valued because the manager is providing more information. It can also help gain support for decisions if the employee is told why decisions are being made. However, the employees are still not involved in decision making which can result in poor job satisfaction. The key characteristics of a persuasive management style are:

- Manager makes decisions alone, but gives explanations as to why a decision has been made
- One-way communication (top-down)
- Manager places importance on completing tasks
- There is some importance on employee involvement yet employees still have no involvement in decisions

Persuasive Management Style	
Advantages	**Disadvantages**
Decisions are made quickly	No opportunity for input from employees
Clear communication to employees	Workers can still have low morale/motivation due to lack of input
Decisions may be supported by employees as they are more informed	Small pool of ideas due to no consultation
Employees are clear about what it is they need to achieve	Task focused with lack of employee development

When is it best used? Like the autocratic style, the persuasive style is best used when time is a significant factor. It can suit situations where decisions need to be made by senior management. For example: if a business is going to close down a particular department, senior management would make the decision, inform employees the reasons for the decision but not involve employees in the decision making. It can also be an effective style to use when employees lack skills, knowledge and experience.

Nature of the task: Similar to the autocratic style, the persuasive style is often appropriate when the tasks are simple or lack complexity.
Time: While the persuasive style may take slightly more time than an autocratic style due to more information being provided to the employees, decision-making is still fast and can therefore be appropriate when time is lacking.
Employee experience: The persuasive style is often appropriate when the employees are inexperienced.
Manager preference: Some managers prefer to have complete control over the decision making but feel the best way to gain employee support is to convince them of their decisions.

Consultative Management Style

The consultative management style is where the manager seeks the ideas and opinions of employees before they make a final decision themselves. This management style understands that employees and other stakeholders have important ideas and uses two-way communication to allow them to share their ideas. This can improve the relationships between employees and management, which may improve the morale and culture of the workplace. While the employees are more involved in the decisions that are made, the decision-making is still centralised. After consulting with employees, the manager will consider all options and then make a final decision. The employees will then be informed about the decision that has been made.

This style of management may cause some employees to become upset or angry if the ideas they put forward have not been included in the final decision. Despite this, the consultative management style is seen to be a more positive as it is more employee centred rather than simply task orientated. The autocratic and persuasive management styles demonstrated fast decision making, as the manager did not need to consult with employees before making a decision. However, with the consultative management style, the manager is spending time seeking out the opinions of employees before making a decision. This will increase the time it takes to come to a final decision.

The key characteristics of a consultative style include:

- Manager consults with employees before making decisions
- Two-way communication
- Centralised decision making
- Importance is placed on employee involvement yet management still maintains control

Consultative Management Style	
Advantages	**Disadvantages**
Larger pool of ideas to choose from	More time consuming to make decisions
Increased motivation as employees are more involved	Some employees may feel undervalued if their ideas are overlooked
Employees more likely to take ownership due to involvement in decision making	Some employees may not want to be consulted regularly

When is it best used?

The consultative management style is best used when the employees have a degree of skill and experience that a manager can use to gain knowledge before decisions are made. The extra information and ideas may help the manager get a better perspective on the elements of the issue. It can also be a positive style to use when there is enough time to consult with employees. When a business is going through change, the consultative style can help the business manage the change. Asking employees for their ideas regarding changes can help them take ownership of the change rather than resisting it.

Nature of the task: The consultative style may be appropriate where the tasks are more complex. This will allow more ideas to be generated from employees so that the most appropriate decision can be made.
Time: Because of the increased time of consulting employees, the consultative style can be appropriate when there is more time available.
Employee experience: The consultative style is often best when the employees have a higher level of experience which allows them to put forward strong ideas based on knowledge and experience.
Manager preference: A consultative manager is one that prefers to include the employees in the process of making decisions. Although the manager makes the final decision, this type of manager is one that values the input of employees.

Participative Management Style

The participative management style is where the manager and employees join together to make decisions as a team. This style is highly employee centred and the manager empowers employees to make decisions. We call this *'decentralised decision making'*. The manager understands that the employees are often in contact more often with customers so their ideas and decisions are an important element of a business' success. There is also an understanding that employee motivation can be increased if the employees have more of a say in what happens within the business. The participative management style uses two-way communication and encourages employees to give feedback and share ideas. This can help the employees to take ownership over decisions because of their heavy involvement in decision-making. Like the consultative management style, this style can be time consuming as ideas are discussed before a final decision is made. However, the benefits of team work and sharing ideas can help improve the morale and culture of the business. The key characteristics of the participative management style include:

- Decision making and authority being decentralised because managers and employees work in a team to make decisions together
- Two-way communication
- Employee-centred which can help develop employee skills, knowledge and experience
- Importance is placed on the idea that employees contribute significantly to the success of the business

Participative Management Style	
Advantages	**Disadvantages**
Employees feel trusted and valued	It can be very time consuming as decisions are often discussed and debated
Improved morale and motivation due to involvement	Conflict may arise between workers if there are disagreements about decisions
Often there are better decisions made as more experience is pooled together	Some employees may not want to be involved in decision making
Employees gain experience in decision making which can help with career development	

When is it best used?

The participative management style is often best used when there is an issue that will directly impact the employees. Allowing them to be involved in the decision being made can help reduce conflict or resistance to the final decision. It can also be a good style to use when the employees are highly skilled and experienced. Being able to draw on that experience can help the team to make a highly effective decision. It is important that there is ample time for ideas to be discussed and debated before the final decision is made. The participative style is also effective during times of change as it allows employees to have involvement in the change. If the employees have had involvement in the decisions regarding the change, they are more likely to accept it.

Nature of the task: The participative style may again be appropriate where the tasks are more complex. Including the employees in decision-making can allow decisions to be discussed and debated before the most appropriate decision is made.
Time: Decisions can often take a long period of time due to the level of discussion and debates that can occur. Because of this, it is often appropriate when there is ample time available.
Employee experience: The participative style is often appropriate when the employees have a high level of experience.
Manager preference: A participative manager is one that prefers to include employees in the decision-making. They often prefer to create an environment of collaboration and they value the skills and ideas of their employees.

Laissez-faire Management Style

The laissez-faire management style is where the manager leaves the majority of the decision making and authority with employees. The manager may provide some initial boundaries such as budget and timelines, and then leaves employees alone for them to achieve the objectives. This means that the day-to-day running of the business is left largely to the employees. This is the most employee-centred style meaning it is very decentralised. To use this management style, it is likely that the employees are highly skilled and knowledgeable. Examples of businesses that may use this style could be advertising agencies or website development companies. The web designer or advertising expert would work with the client and make decisions on the best way to move forward. The key characteristics of the laissez-faire management style include:

- Employees being left alone to make their own decisions
- Authority and decision making is decentralised
- Communication is more often two-way as the initial objectives and constraints are set, however then there is normally only horizontal communication between employees in the team

Laissez-faire Management Style	
Advantages	**Disadvantages**
Employees have a great deal of control which can help improve morale and motivation to achieve outcomes	Employees are not monitored regularly which can lead to a loss of management control
Encourages team work and creativity	There may be misuse of company resources
Communication is improved due to a team setting where ideas are constantly discussed	Increased freedom may lead to some employees being less productive

When is it best used?

The laissez-faire management style is often best used where a high level of creativity is important to the business. If employees are highly skilled and experienced, the creative freedom can lead to outstanding outcomes.

Nature of the task: The nature of the tasks can vary from simple tasks where the employees do not need supervision to more complex tasks where the employees have the skills and experience to perform their work and make decisions without input from management.
Time: While the time can vary, the laissez-faire style is often more appropriate when there is more time available.
Employee experience: Because employees are empowered to make their own decisions, it is often more appropriate if they have a high level of experience.
Manager preference: Some managers may prefer to empower their employees completely and allow them to solve their own problems.

Exam Tip: The 2016 exam asked students to "justify an appropriate management style" for the given scenario. In the event that a similar question is asked in the this year's exam, it is useful to remember that, although the question does not ask students to describe the chosen management style, it would be useful to do so at the start of one's response. This is because it is difficult to justify an appropriate management style without describing it first. The same advice applies more broadly when being asked to justify the use of a theory, skill, strategy, etc.

Exam Tip: In examinations, it is common to ask students to discuss an appropriate management style given the specific scenario provided in the stimulus material at the beginning of a question. In past exams , students have been given some flexibility with the style that could be selected. However, often not **all** styles are accepted for a given scenario. Be sure you know all the styles well so you can select the most appropriate and be prepared to justify your selection where necessary.

Exam Tip: Students often mix up the name of the style and characteristics. For example, they may identify a persuasive style yet describe a participative style. In most instances, whichever style is identifed, it will be assumed that this is the one you are talking about. Ensure you have studied hard and know the correct characteristics for each style.

Exam Tip: It is very common for students to say that the consultative managment style uses decentalised decision-making. Although the manager consults with employees, the manager still makes the final decision (centralised decision-making)

Exam Tip: When asked to 'discuss' the use of a management style, ensure you look at both sides (benefits & limitations). It is very common for students to talk about the benefits of the style in the given situation. However, to maximise your chances of achieving full marks, it is necessary to mention the limitations.

Exam Tip: Throughout the year, you may come acorss the concept of a 'situational approach'. This is where a manager will change their management style depending on the situation they are faced with. For example, if time is lacking they may use an autocratic style. However, if a task is more complex, they may change to a participative style. The situational approach is also known as contingency theory.The situational approach is NOT a management style. It is an approach to different situations. The study design states that students must know the appropriateness of management styles in relation to nature of task, time, employee experience and manager preferenece. This can help you when selecting a management style for a given case study in the exam. However, **do not** select or justify a contingency approach or situational approach as a management style that can be used.

Management Skills

An effective leader will have a wide array of skills to draw upon in varying situations. While businesses are able to create vision/mission statements, little can be achieved unless the manager is able to get things done with the assistance of employees. The type of skills a manager possesses will heavily influence the extent to which they are able to get things done. Managers of all levels (senior, middle or front-line) will use a series of skills to try and achieve business objectives. Management skills include communication, delegation, planning, leading, decision making and interpersonal. Each of these will be examined below.

Communication

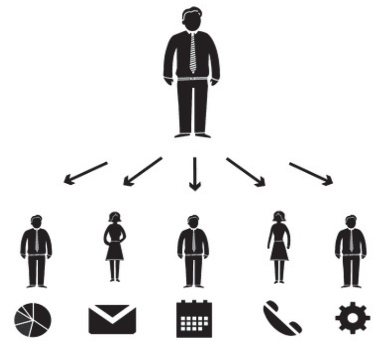
Communication is the transfer of information from a sender to receiver and the ability to listen to feedback. Communication can be used both internally and externally. Internally, communication helps a manager to inform employees of the business' objectives, which then helps to provide employees with greater direction. The manager can encourage two-way communication to gather information from employees to help make more informed decisions.

External communication can be used to inform other key stakeholders about important information. For example, a senior manager in a company will need to communicate with shareholders about the performance of the business and its ability to deliver a return on investment in the future.

Managers who are able to communicate well with stakeholders increase their chances of successfully achieving business objectives. Effective communication is typically **two-way communication** where the manager is able to listen and respond to feedback. Two-way communication can improve morale within a business because employees feel valued as they are able to put their ideas forward. Managers need to be able to give concise directions and clearly articulate expectations and policies.

Communication can be **verbal** (written or spoken) or **non-verbal** (body language, visual). It is important that the correct method of communication is chosen for the scenario that faces the manager. For example, if a business has made the decision to downsize in order to cut costs, an email is not the most appropriate form of communication as the employees will likely have many fears and questions they need answered. Instead, a face to face meeting would be more appropriate so that the employees are able to have these concerns addressed directly.

Delegation



Delegation is the passing of authority and responsibility from a manager to employee to achieve tasks. Delegation can help free up a manager's time so they can focus on their own (higher order) tasks. It helps to spread the load of work so that more can be achieved in the same period of time.

Some benefits of delegation include:

- The manager has more time to focus on longer term planning
- More can be achieved in less time by spreading the workload
- Employees are able to gain more experience and develop their skills by tasks being delegated to them
- Improved job satisfaction as the employees are trusted and relied upon to perform tasks

Managers need to be aware of the tasks they are delegating to employees. High risk decisions, confidential matters and strategic planning are not well suited to delegation as they can heavily impact the business if not done well. Tasks where delegation works well include interesting tasks, time-consuming tasks, routine tasks and tasks that will enhance the employee's skills and experience.

Tasks can be delegated to employees in three main ways:

1. To an employee that has the skills and experience to complete the task successfully. This will ensure the task is completed well.
2. To a group of employees. This allows the manager to set a challenge for a team where they can use each other's varying skills to complete the set task/project.
3. To an employee without the skills or experience to complete the task and provide support and mentorship to the employee. This can help the employee to develop their skills and experience for the future. If they are ever in need of advice they will have the support around them to ensure the task is completed successfully.

Planning

Planning is the ability to set objectives and determine the strategies to achieve them. Planning is an important skill for all managers, whether it be a manager at a large multi-national corporation or a small business about to launch a new product. Planning helps provide guidance to the business and its employees. Planning ensures that employees understand what the business is aiming to achieve and the steps that will be carried out to achieve it.

Planning can be time consuming which can cause it to be neglected, especially by small businesses. However, the direction it provides both the owners and the employees of the business far outweigh the time it takes to conduct. Without planning it is like setting off for a journey without a destination - you could end up in the wrong place! In the case of a business, this translates into a higher chance of making losses (or smaller profits) in the absence of planning.

There are three key levels of planning:

***Strategic Planning*:** is long-term planning. It is the 'big picture' planning that looks to the future about where the business wants to be in the next 2-5 years. An example of strategic planning is developing a mission statement that the business wants to achieve.

***Tactical Planning*:** is medium-term planning. These are medium term goals that help the business achieve its strategic plans. Tactical plans are set for a time frame of approximately 1-2 years. An example of a medium term plan is to develop and implement a new training program to improve customer service skills for all employees within the next 12 months.

Operational planning: is short term planning such as day-to-day or monthly planning. Operational plans should be in place to help the business achieve its medium term plans. A common example of a short term plan is the setting of a daily, weekly or monthly sales budget.

It is important that the strategic, tactical and operational plans are aligned. This will ensure the entire business is heading in the one direction. It can also be good practice to notify all employees of the strategic plans so they understand the reasons as to why they are working on achieving short term operational goals.

Planning Process

When a manager conducts planning they will follow a logical process. Sometimes, with a strategic plan, this process may be quite formal, while at other times very informal. Yet no matter what level of planning is being conducted, the manager will go through a set of steps in order to set the plan.

The common steps in a planning process are as follows:

1. **Set the objective:** Here the manager considers the outcome or goal the business is trying to achieve.
2. **Analyse the environment:** the manager will gather information to help them make an informed decision. For longer term plans, this may involve the manager conducting a SWOT analysis. SWOT stand for Strengths, Weaknesses, Opportunities and Threats. Here the manager may consider the strengths and weaknesses of the organisation. This information can help them make decisions that will utilise the business' strengths and not expose their weaknesses. Then the manager can assess any opportunities the business can take advantage of that may help them achieve their set objective and any threats that they need to avoid.
3. **Develop alternatives:** Armed with information gathered in step 2, the manager is now able to develop some alternatives that will help the business achieve its objectives. Each alternative should be analysed and then the most appropriate one selected.
4. **Implement the plan:** Once the most appropriate alternative has been selected it is time to put it into place. The manager should communicate with key stakeholders to help provide direction. Resources need to be allocated to the right areas of the business so that the plan can be implemented effectively. For example, a clothing retail business that has the objective to expand and decides to open a 2nd retail store in Melbourne's CBD, would be unsuccessful if it didn't have employees and stock in place.
5. **Monitor and evaluate:** now that the plan has been put into action, it is important to monitor and determine if the set objective has been achieved. If the objectives are not met, the manager can look to take corrective action.

Exam Tip: The planning process listed here has been a common one used in past exams, however there is no specific planning process listed in the study design. That means it is fine to use a different planning process you have learned.

Exam Tip: If you need to apply a planning process it is important that you provide both theory and application. Students often give good theory with very little application, while others only apply and provide no theory. A typical question would be: *"Explain each of the steps in a planning process that James could use to help the success of his new venture".* In this example, it would be expected that students provide theory on each of the steps in a planning process. Because the question refers to James, and the success of the new venture, it is critical that you apply each step to this also. For example: *"The second step in the planning process is to analyse the current environment. This may involve conducting a SWOT analysis that looks at the strengths, weaknesses, opportunities & threats to the business. James would need to conduct this SWOT analysis to ensure he is well informed on where the business currently sits. He would need to gather information on the internal strengths and weaknesses of his business. He could then look for any possible opportunities he can take advantage of that will assist him to achieve his set objective. He would also look for any threats he needed to avoid. By analysing the current environment, it will provide James with information to helpmake a successful plan when implementing his new venture."*

Leading

Leading is the ability of a manager to motivate and inspire employees to achieve business objectives. Effective leadership is vital to a business successfully achieving its objectives. Planning provides the direction for the business and its employees, but it is leading that outlines 'why' the plan is important. This provides the motivation for employees to work hard towards the objective. Without strong and effective leadership it is difficult for a business to achieve its objectives as employees (and other stakeholders) may not see or accept the reasons for why they should be achieved.

Leaders are invaluable when it comes to communicating strategic direction of a business. Not only do they communicate the direction a business is heading, but they provide the motivation for accepting the importance of the direction. This helps to ensure that all employees are 'on the same page' - working in the same direction and towards a common cause.

An effective leader is one that makes a commitment to the mission of the business and takes responsibility for their role in achieving the mission. Leaders are able to communicate well, provide direction when the business 'gets off track' and make tough decisions for the greater cause of achieving the mission.

Good leaders are able to communicate well to a team and show support for those that are struggling to work towards the objectives. Leadership is an important skill in all aspects of the business. Simple things like leading by example and demonstrating the desired values can help inspire others to follow suit. Giving employees time to adapt to change and supporting them through changes is all part of being an effective leader.

Leaders aim to get the best out of their employees and research show that transformational leaders can be highly effective. Transformational leaders are those that value the abilities of employees and provide them with opportunities to demonstrate their ability to perform outstanding work. Showing this type of value to employees can create a positive culture where the employees are highly engaged and enjoy the challenges they face while at work. Showing trust in the employees can then lead to improved productivity and the achievement of business goals.

Decision-making

Decision making is the ability to make a choice on a course of action from a range of alternatives. Decision-making is an important skill for managers at all levels. It is important for managers to make informed decisions so that the impact on the business is positive. Managers will need to make decisions each day with some having a significant impact on the business's future. Managers need to be able to assess available information and make a conclusion as to the best course of action. How decisions are made will greatly reflect the management style used at the time. Some managers will like to gather data and make decisions themselves without any employee input, while others would prefer to involve the employees in the decision making process.

To make strong decisions the manager can use a 6-step decision-making process:

1. **Identify the problem:** In order to make a decision, the manager needs to understand what they are trying to solve or work towards.
2. **Gather information:** for the manager to make informed decisions they need to gather information. This would include investigating the reasons an issue has arisen or gathering information on the business' finances so that a decision isn't made that could jeopardise the business' future.
3. **Develop alternatives:** now that the manager has gathered enough information they can create some alternatives that will help him or her to solve the problem or issue identified in step 1.
4. **Analyse the alternatives:** Each alternative should be analysed for its strengths and weaknesses in achieving the set objective.
5. **Choose an alternative and implement:** Once the alternatives have been analysed, the most appropriate is chosen and put into action. The decisions should be clearly communicated with key stakeholders so that relationships remain positive and they are clear on where the business is heading and the role they play in helping it get there.

6. **Evaluate:** Getting feedback on the decision to ensure it has been a successful decision and making any necessary adjustments

> **Exam Tip:** The decision-making process listed here has been a common one used in past exams, however there is no specific decision-making process listed in the study design. That means it is fine to use a different decision-making process you have learned.

Interpersonal

Interpersonal skills relate to the ability of a manager to communicate with a range of people while building strong relationships. Using interpersonal skills is important for a manager to use when forming relationships. It shows a level of understanding and allows managers to communicate accurately and honestly with employees without jeopardising the relationship.

Communication is about delivering a message from sender to receiver and the development of good interpersonal skills allows the relationship between the parties to be supported or even enhanced while the message is being delivered. Research has shown that businesses that have managers with good interpersonal skills and foster positive relationships benefit from higher productivity, enhanced problem solving, fewer conflicts and higher quality outputs. Interpersonal skills are not just a 'nice-person' attitude. The manager is still able to address any incompetency an employee is displaying. However, if there are positive relationships between the manager and employee there is likely to be a better outcome. The way the message is delivered is important, as is the accuracy of the information so that a positive or constructive relationship is maintained. If effective interpersonal skills are not used, then employees can become defensive or display discomfort and resentment when problems with their performance are being addressed.

It is important that any issues that do arise need to be problem-oriented rather than person-oriented. This means that 'the issue' is being addressed, rather than any personality attributes. Problem-oriented communication focuses on the problems and solutions rather than on personal traits. This helps maintain or improve the relationship as the employee realises the manager is working to improve the situation.

> **Exam Tip:** The skills listed above are the ones students must know and are directly examinable. However you are welcome to learn other management skills (such as negotiation and time management skills referred to below) and use them in examination responses where appropriate.

Negotiation

Negotiation is where two or more parties come to an agreement through discussion. The outcome should be 'win/win' where all parties are satisfied with the outcome. There may be times where the parties need to compromise to come to an agreement. However, it will be more satisfying if the parties reach a solution where they all get what they want. This may require each party to think 'outside the box' so they can come up with an amicable solution.

Negotiation is an important skill in many situations. Businesses that are working on a deal with suppliers, vendors or unions use negotiation to ensure they get the best deal. For example, during a negotiation between an employer and employees about a wage increase, it is important that both parties win in this instance. If the business wins by not paying the employees what they want, the employees may be resentful. However, if the employees get what they want it could place the business under financial stress. This demonstrates why it is important that both parties are happy with the outcome. When negotiating it is important to:

- ***Establish shared goals*** so that the negotiating parties can establish what they have in common and work towards a solution that both is happy with
- ***Separate the people from the problem*** so that the issue is being negotiated rather than personalities. It is common for negotiations to break down due to personality clashes which can cloud a foreseeable solution

- *Listen actively* so that it is understood what the desires are of the other parties. It also helps if the manager is listening when something has been decided!
- *Create options for mutual gains* so that the manager is not only thinking from their own point of view. This may mean that some unusual solutions arise, however it can often result in a breakthrough.
- *Be clear on the outcome* so that there is no confusion as to what the terms of the agreement are. The final solution should be in writing and signed by all parties, with each taking a copy of the final agreement. This avoids any confusion and conflict down the track.

Time Management

Time management is the ability to organise and plan tasks to make the best use of available time. Part of time management is the ability to set deadlines and work to meet those deadlines in the most effective way possible. Managers in businesses of all sizes will have lots of tasks they need to perform. Time management allows them to achieve those tasks. Some managers will delegate tasks to other employees to help them leverage their time. Having poor time management skills can cause the manager stress and therefore negatively impact on their effectiveness.

Managing time effectively can improve the productivity of the business as more is achieved in the same amount of time. It can also improve the work-life balance of the manager as they are able to complete their tasks and still have enough personal time outside of work.

Many sole traders can have battles with time management as they often have small budgets and look to complete most tasks themselves to save on costs. Time management skills can therefore be a crucial skill that enables them to not only complete the tasks of running the day-to-day operations of the business, but also to work on expanding or growing the business.

Effective time managers are able to write down all of their tasks and make distinctions between those that are important to the business and those that are less important. They are then able to prioritise those tasks in order of importance and set time frames in which they will be completed. They are also able to use leverage to delegate those tasks to other employees, which can help to improve their management of time.

Exam Tip: Although each of the skills listed above are unique, often it is difficult to apply them differently when responding to examination questions. For example, in the 2013 exam, students were asked to describe two skills and apply them to the case material. Many students selected communication and negotiation. While these are both acceptable skills to use in the scenario, many students failed to differentiate them. Many wrote that managers needed to communicate with employees in order to negotiate with them. The application for each was therefore deemed to only apply one skill, making it difficult for students to receive full marks. While this doesn't mean students can't use these two skills together, it does mean that if students are asked to apply two or more skills to case material, it is necessary to clearly differentiate the skills when applying them to the case material.

Relationship Between Management Styles & Management Skills

All managers have a particular style when making decisions and communicating with employees. In addition, all managers have a series of skills they use to get the job done. So what is the relationship?

The type of management style a manager decides to use will determine both the skills they rely upon and how these skills will be employed in any given situation. For example, all managers will make use of communication skills, however, the type of communication used will vary depending on the management style.

An autocratic manager will use one-way communication while a participative manager will use two-way communication. All management styles will use delegation to some degree also. The management styles that have centralised decision making will delegate tasks to employees while the styles that have decentralised decision making not only delegate tasks but also delegate decision making and responsibility to employees.

A manager can alter their style depending on the situation they face. However, those managers possessing strong communication and interpersonal skills will find it easier to use a consultative or participative style. In contrast, those managers with less developed communication and interpersonal skills (and/or those who like to take control of planning and decision-making) are more likely to use the autocratic or persuasive styles.

Corporate Culture

Corporate culture is the shared values and beliefs of the people within a business. All businesses have a culture no matter what their size. Each business has its own way of doing things which works towards creating its corporate culture. There are two types of culture within a business:

The official corporate culture: this is what the business wants the culture to be and can be seen in the business's official documents such as the mission statement, stated values, written policies, slogans and objectives of the business.

The real corporate culture: this refers to the underlying values and beliefs and behaviours of the people within the business. It can be seen in how managers communicate with staff, the standard of the employee's dress and how they relate to one another at the workplace. Just because a business makes official statements about what its values are, does not mean the people within the business put them into practice. Successful businesses will work hard at developing their culture as they know that having a group of people with similar values will work well together in order to achieve a common goal. Some benefits of having a positive culture, where the employees share similar values are as follows:

- Reduced staff turnover
- Employer of choice which allows the business to select the best employees
- Improved productivity
- Higher morale within the workplace

Elements of Corporate Culture

Listed below are some of the elements of a business's corporate culture. These elements could be used to indicate they type of culture a business has:

1. **Core Values:** these are what the business values most and will not change even when the business changes. They provide direction for the way the business operates. Core values act as guideposts that all employees should be aware of. Below is an example of the core values at Zappos (an online retailer).

Zappos core values

2. **Rituals & celebrations:** rituals are those things that occur regularly within a business. This could include a regular social gathering to enhance camaraderie or an annual awards ceremony to celebrate high achieving employees.
3. **Communication**: How management communicate with their subordinates and how employees communicate with each other is another element of culture. Businesses that have open two-way communication with managers and employees demonstrate they value relationships.
4. **Heroes**: heroes are those that the business 'looks up to' due to the way they demonstrate the business' desired values. This could be the founder of the business or an employee of the month. These heroes act as a person to look up to for others within the business.

5. **Physical environment**: the space in which employees work is another element of the corporate culture. Businesses that value team work are more likely to have a more open space, where teams could easily meet and interact with each other.

Developing Corporate Culture

For a business to develop an ideal corporate culture, it must work on it continually. If this does not happen there will likely be a difference between the official corporate culture (the ideal culture of the business) and the real corporate culture (the actual culture within the business). Businesses that have a positive culture, where the employees share the same values and work towards a common goal, are more likely to succeed. Some means by which a business can develop its culture include the following points.

- **Communicate**: communicating the desired values and behaviours plays an important role in developing culture. The employees need to be aware of the expectations placed upon them. This helps to give them direction so they can embrace the desired values and beliefs of the business.
- **Leading by example**: it is important for managers to demonstrate the desired values within the business. A business that values teamwork and open communication should have managers that are using two-way communication and working in teams. Leading by example encourages others to follow in the same manner.
- **Training**: training is where employees learn new skills and knowledge to help them perform more effectively in their job. Businesses should ensure that desired values of the business are implemented into the training program. For example, a business that values a high level of customer service should conduct ongoing customer service training.
- **Reward & recognition**: providing employees with recognition or rewards for demonstrating the correct behaviours in the business can help provide positive reinforcement for the employees. This not only increases the likelihood of the employee continuing to demonstrate the correct behaviours, but also encourages other employees to embrace the values.
- **Working on the elements**: in the previous section we spoke about different elements of a business's corporate culture. One way to develop the corporate culture is to work on establishing these elements. For example: a manager may work with employees to develop a set of core values/value statement. This would help to provide direction for employees on what the business values most. Another way could be to implement a specific management style. If the business values employee empowerment, it may look to introduce managers that have a participative management style.

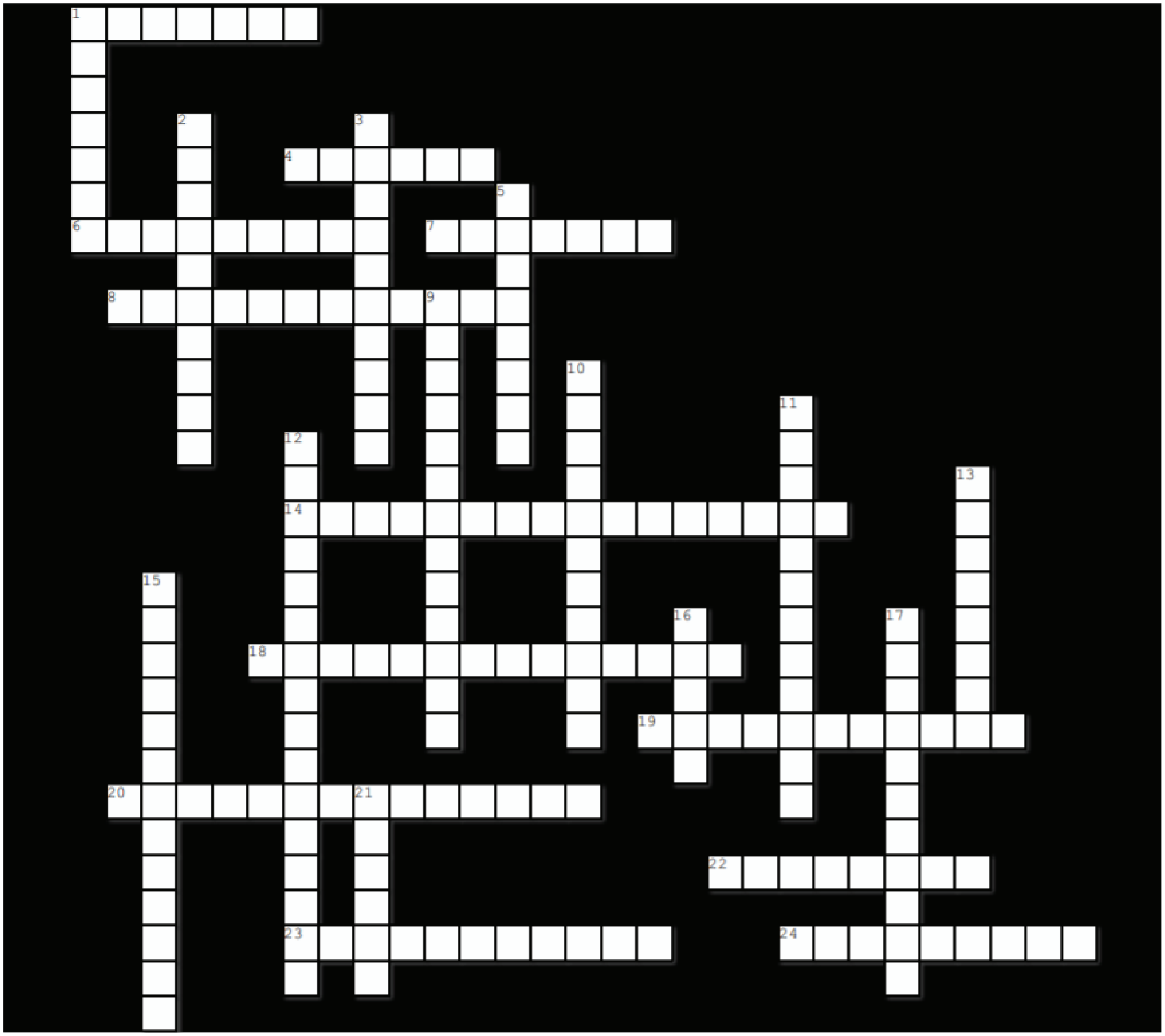
Exam Tip: Don't use "working on the elements" as a specific strategy to develop the corporate culture. If you wish to use anything from this area, it is advisable to use a specific strategy such as "develop a set of core values" or "change the management style to…." Working on the elements is too general on its own.

REVIEW QUESTIONS 1 – Business Foundations

1. *Outline 3 types of businesses*
2. *Explain the role of a Government Business Enterprise*
3. *Outline one reason why a business owner would implement a private limited company over a sole trader*
4. *Lucy is a sole trader that owns a local sporting goods store. She is considering bringing in partners to the business. Discuss the use of a partnership for Lucy*
5. *List 3 advantages of a business of becoming a publicly listed company*
6. *Distinguish between a private company and a sole trader*
7. *Outline 3 common business objectives*
8. *Define a 'mission statement' and explain the role it has in a business*
9. *Explain the interest of 2 stakeholders*
10. *Describe the conflict of interest between two key stakeholders*
11. *Identify 2 stakeholders and explain one corporate social responsibility issue a business needs to consider for each*
12. *Explain how the finance area of responsibility can help a business to increase its profits*
13. *Outline how human resources can help a business increase market share*
14. *Explain how operations can help a business improve customer satisfaction*
15. *Describe technology support and explain how this area can help a business improve its productivity*
16. *Outline how the sales and marketing area can help a business meet shareholder expectations*
17. *An advertising agency has a 2 week deadline to come up with a new advertising campaign for an important client. Evaluate 2 management styles that the team leader could use to ensure a successful campaign is produced by the deadline*
18. *'Get Your Sparkle On' is a car detailing business. Recently, there has been a sharp rise in the number of customer complaints. Discuss an appropriate management style to overcome the rise in customer complaints.*
19. *Define leading*
20. *Distinguish between communication and interpersonal skills*
21. *Describe 3 management skills and explain their importance in assisting managers to achieve business objectives*

22. *Damien is a local pizza shop owner. He is looking to expand the business and open another store in a new location. Justify two management skills Damien would need to use in this situation*
23. *Outline a decision-making process a manager can use to make effective decisions*
24. *Explain the relationship between communication and a participative management style*
25. *Define corporate culture*
26. *Outline 3 elements of corporate culture*
27. *Distinguish between 'official' and 'real' corporate culture*
28. *"The real corporate culture does not always reflect the official corporate culture." Analyse this statement*
29. *A clothing retailer that employs 50 people across 4 stores in Victoria wants to be known for having the best customer service in the retail industry. Explain 3 ways the managers can develop a culture that values customer service*

Quick revision crossword No 1: Business Fundamentals



Across

1. Ability to influence and motivate others to achieve objectives
4. Typically the maximum number of owners for a partnership
6. Responsible for the overall direction of the business
7. Manages money and budgets
8. Two-way communication & Centralised decision-making
14. Shared values and beliefs of the people in the business
18. Selecting a solution from a range of alternatives
19. Rival businesses
20. Area of the business responsible for employees
22. Policies & mission statements help determine this type of culture
23. A person with a vested interest in a business
24. Desired business goal or outcome

Down

1. Type of liability for companies
2. _____________ Business Enterprise
3. Management style that convinces employees
5. Fair pay, good working conditions is a stakeholder __________
9. Process of forming a company
10. A business objective, to increase _______________
11. Owners of a company
12. Business that aims to help a social cause
13. They provide resources to businesses
15. Strengths Weaknesses ____________ Threats
16. Type of interest group
17. Type of decision making in an autocratic style
21. Corporate _____________ Responsibility

MINI EXAM NO 1: UNIT 3 AREA OF STUDY 1 (40 MARKS)

CASE MATERIAL: Heart Property

Amelda Hart was a real estate agent in the surf coast area for 8 years. Two years ago she decided to leave her employer and start up her own real estate business in Torquay, named Heart Property. Due to the booming property market in the surf coast area, Amelda now has 15 full time and 8 part-time employees. She set the business up as a private company where she is the major shareholder with 70% ownership. There are two other shareholders with 15% equity each, but they have no active role in the company. Recently, Amelda noticed both a drop in profits and a 30% decrease in the number of houses listed for sale over the past 3 months. She feels that the experienced real estate agents working for Heart Property have become complacent and are not working hard enough to attract new business.

STRUCTURED QUESTIONS

1. **Describe two stakeholders and explain a conflict of interest they may have in relation to Heart Property.**
(4 marks)
2. **Discuss an appropriate management style Amelda could use to improve the profits of the business.**
(4 marks)
3. **Outline the relationship between an employee's experience and the autocratic management style.**
(3 marks)
4. **Amelda is looking to expand and open up a new office in the fast growing town of Ocean Grove. Describe and justify two management skills Amelda would need to use when establishing this new office.**
(4 marks)
5. **Amelda understands the importance of a positive culture. In the new Ocean Grove office, she wants to develop a positive culture where employees value their clients and strive to deliver exceptional customer service. Distinguish between real and official corporate culture.**
(2 marks)

6. **Identify and explain two strategies that Amelda could use to develop a positive culture at the Ocean Grove office.**
(4 marks)

7. **Define the following terms** **(3 marks)**
   a) **Sole trader**
   b) **Decision-making**
   c) **Corporate Culture**

8. **Outline the relationship between the management skill of communication and the consultative management style.**
(3 marks)

9. **Explain the relationship between finance and a business such as Heart Property achieving the business objective of meeting shareholder expectations.**
(3 marks)

10. **Amelda is looking to appoint a new manager at the Ocean Grove office. She has gone through a tough selection process and narrowed it down to two possible candidates, Steve and Helen. Steve uses a persuasive management style while Helen uses a participative management style.**

    Evaluate the key aspects of each of these styles, recommend which candidate Amelda should appoint and justify your choice. Analyse the impact this management style will have on the culture at Heart Property. **(10 marks)**

YOU BE THE ASSESSOR: UNIT 3 AOS 1

In this section, you are required to assess the responses presented for each of the questions. You should award the responses a score and justify your decision. Once complete, compare your assessment to that of the author [provided at the rear of the Study Guide].

Question 1

Outline one reason why a business may choose to operate as a private limited company rather than a sole trader. **2 marks**

Sample answer 1

One reason is because a private limited company would allow the owner to have limited liability whereas the sole trader has unlimited liability. Limited liability is where the owner's liability is limited by the amount of their investment. This would give them some legal protection for their personal assets which they would not receive if they were a sole trader.

Score out of 2 ______

Justification____

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Sample answer 2

A private limited company is an incorporated business where the owner has limited liability. A sole trader is a business where there is one owner. A business may choose to become a private limited company because it gives the owner limited liability and they are allowed to have more than one owner. This will allow them to gather investment from others and possibly even share the workload between the owners which will make the daily running of the business much easier.

Score out of 2 ______

Justification____

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Question 2

Sleep Well Doggy is a partnership between Jane, Alex and Miriam. The business offers overnight accommodation for dogs when their owners are away and unable to look after them for a period of time. Sleep Well Doggy employs 20 staff and works hard to ensure they feel valued in the business.

Explain the interests of two stakeholders at Sleep Well Doggy and outline how these interests may conflict **5 marks**

Sample answer 1

A stakeholder is a person with a vested interest in the business. One stakeholder of Sleep Well Doggy are the shareholders (Jane, Alex & Martin). Shareholders are those that own the shares in a business for which they have paid. They have unlimited liability which means they are personally responsible for any debts incurred by the business which can place their personal assets at risk if the business is unable to pay its liabilities.

Another stakeholder is the customers. Customers are those that purchase goods and services from the business. In the scenario of Sleep Well Doggy, the customers are those that bring their dogs into the business to look after.

These two stakeholders can conflict because the customers want to bring the prices down for the service, but the shareholders want to force the price up.

Score out of 5 ______

Justification____

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Sample answer 2

One stakeholder is the owners (Jane, Alex and Miriam). The owners are the ones that have invested their money into the business and expect to make a return on their investment. They expect the business to make profits so they can share in these profits.

Another stakeholder is the twenty employees that work for Sleep Well Doggy. Employees are those that work for the business in exchange for a wage. The employees are interested in receiving fair pay, good working conditions and ongoing employment.

These two stakeholders can conflict because if the employees demand higher wages or improved working conditions, it can increase the costs of the business. This may result in less profits for the business which conflicts with the interest of the owners who want higher profits.

Score out of 5 ______

Justification____

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Question 3

Swanston Airlines is a large-scale organisation providing flights to all capital cities in Australia. Swanston Airlines recently suffered a technology breakdown in its computerised ticketing system that led to customers not being able to book tickets, get seat allocations or board flights for 24 hours. This resulted in very unhappy customers who missed flights, were angry and argued with staff, and demanded refunds. The CEO of Swanston Airlines has called a meeting of senior management to review current policies and procedures in order to develop a new policy to better deal with customer relations in the future.

Source: VCAA 2015 Examination

Justify a management style that would be appropriate for the management of Swanston Airlines to use when implementing its new policy. **4 marks**

Sample answer 1

One management style that Swanston Airlines could use is an autocratic style. This is where the manager makes the decisions on their own and then notifies the employees. This management style involves one-way communication (top-down) and centralised decision making, where the manager makes the decisions. The autocratic management style would be best when implementing the new policy at Swanston Airlines as the employees would be clear about what is expected of them. The autocratic management style is time efficient which is important in this situation as the customers would want immediate action. By making quick decisions on how the policy should be implemented will demonstrate to employees and customers that the breakdown is being taken seriously.

Score out of 4 _____

Justification____

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Sample answer 2

The best management style for Swanston Airlines would be the consultative style. This would be good for Swanston Airlines because it helps improve the morale of staff as they are consulted before decisions are made. This makes them feel a part of the workplace and helps build a good culture where employee ideas are valued. Getting ideas from employees helps the manager gain a larger pool of ideas to select from which may assist them in making a better decision in the scenario. Because the employees feel valued, they are more likely to work harder which improves productivity in the business.

Score out of 4 _____

Justification____

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Question 4

Mindy's Curtains & Blinds is a private limited company that sells and installs curtains & blinds to residential customers. The business has grown into a leader in the south eastern areas of Melbourne. It is known for having the most comprehensive range of furnishings along with outstanding customer service. Majority shareholder, Mindy, believes in hiring the best staff available to ensure the company's standards continue to exceed the rest of the market. However recently, Mindy has seen a rise in the number of customer complaints.

Justify an appropriate management style that Mindy could use to overcome the rise in customer complaints at the company (4 marks)

Sample answer 1

Mindy should use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the final decision themselves. This style is characterised by two-way communication and centralised decision-making. The employees at Mindy's Curtains & Blinds (MCB) are highly skilled and knowledgeable which would provide a great opportunity for Mindy to seek feedback from them. These employees may have information on why the customer complaints have been rising and may even come up with new ideas on how to overcome them. This would allow Mindy to make a more informed decision as she will have the required details. With the employees making suggestions on how to overcome the customer complaints, Mindy will receive a larger pool of ideas which will help her make a stronger decision, helping MCB overcome the rise in customer complaints.

Score out of 4 _____

Justification

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Sample answer 2

Mindy could use the consultative management style. The consultative style is where the manager seeks feedback from employees before making the decision themselves. This is characterised by two-way communication and centralised decision-making. The consultative style will help Mindy because it uses two-way communication. This allows employees to put forward their ideas which makes them feel more valued. Using two-way communication encourages teamwork amongst the employees which improves morale and will help build a strong culture at Mindy's Curtains & Blinds.

One issue with the consultative style is that it is more time consuming to seek feedback from all employees. Despite this drawback, the consultative style will help Mindy as she will be able to gather a larger pool of ideas which can help her make a more informed decision.

Score out of 4 _____

Justification

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Question 5

Many businesses are committed to environmentally sustainable practices as they look to be good corporate citizens.

Identify one area of management responsibility and explain how this area can help a business deliver in its commitment to environmentally sustainable. 3 marks

Sample answer 1

One area of responsibility is corporate social responsibility. Corporate social responsibility is a business's commitment to go above and beyond their legal obligations to operate in an economically, socially and environmentally sustainable manner. A business that implements corporate social responsibility will go above and beyond their legal obligations to find new environmentally sustainable practices. This may occur by bringing in materials that are environmentally friendly or using renewable energy such as solar power to power the business's facilities. This will help them deliver in their commitment to be environmentally sustainable.

Score out of 3 _____

Justification____

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Sample answer 2

An area of responsibility is the finance area. Finance is the area that manages the money and the budgets within the business. The finance manager will need to set budgets for the business that allow it to purchase environmentally sustainable equipment. For example, if the business is looking to implement solar power to provide energy to the facility, the finance manager needs to allocate funds to enable this to be purchased and installed, allowing the business to deliver in their commitment to environmental sustainability.

Score out of 3 _____

Justification____

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Question 6

Frank Byrne owns a personal training studio in Wodonga that has been in operation for 12 months. Frank employs 15 personal trainers along with 20 other staff. Frank has recently attended a leadership summit where he learned about the importance of developing a strong corporate culture. After some thought, Frank wants to develop a culture based around exceptional customer service and collaboration.

Identify two strategies to develop corporate culture and describe how Frank could use these to develop his desired corporate culture **6 marks**

Sample answer 1

One strategy that Frank could use is training in line with the desired culture. Training is the process of improving the skills and knowledge of individuals so they can perform their job to a higher level. Training can come in two main forms, on-the-job and off-the-job. It would be best for Frank to use on-the-job training, where he trains his staff in the workplace. Frank would implement customer service training and collaboration exercises to ensure the employees had these skills.

Another strategy would be to use communication to communicate the desired values of the personal training studio. Communication is the ability to transfer information from sender to receiver and the ability to listen to feedback. Frank could use communication to communicate the desired values of customer service and collaboration to his employees to ensure they are aware of the expectations when working in the business.

Score out of 6 _____

Justification____

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Sample answer 2

One strategy is to develop a set of core values. Frank could work with his team to write up a core value statement that clearly outlines the values that Frank wants displayed in the business. This value statement would include exceptional customer service and collaboration, along with any other values the employees believe to be vital to the business. By involving employees in the process, it will help get buy-in from them which will help them work towards developing these behaviours. It also ensures that all employees are aware of the desired values which helps ensure they demonstrate these values in their work.

Another strategy is to train employees in line with the desired culture. Frank can train his staff in the core values that he wants displayed in the business. This would include customer service training so that employees develop the skills to deliver exceptional customer service. Providing employees with the skills they require to carry out the desired values, helps develop Franks desired culture. This also helps to reinforce the values that Frank desires which will help develop the behaviours that he wants displayed in his studio.

Score out of 6 _____

Justification____

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