

# **THE CPAP STUDY GUIDE TO VCE BUSINESS MANAGEMENT**



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## 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 of 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 Hierarchy 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.

## CPAP QUARTERLY SUBJECT UPDATES 2022

- Quarterly publication released each term in 2022
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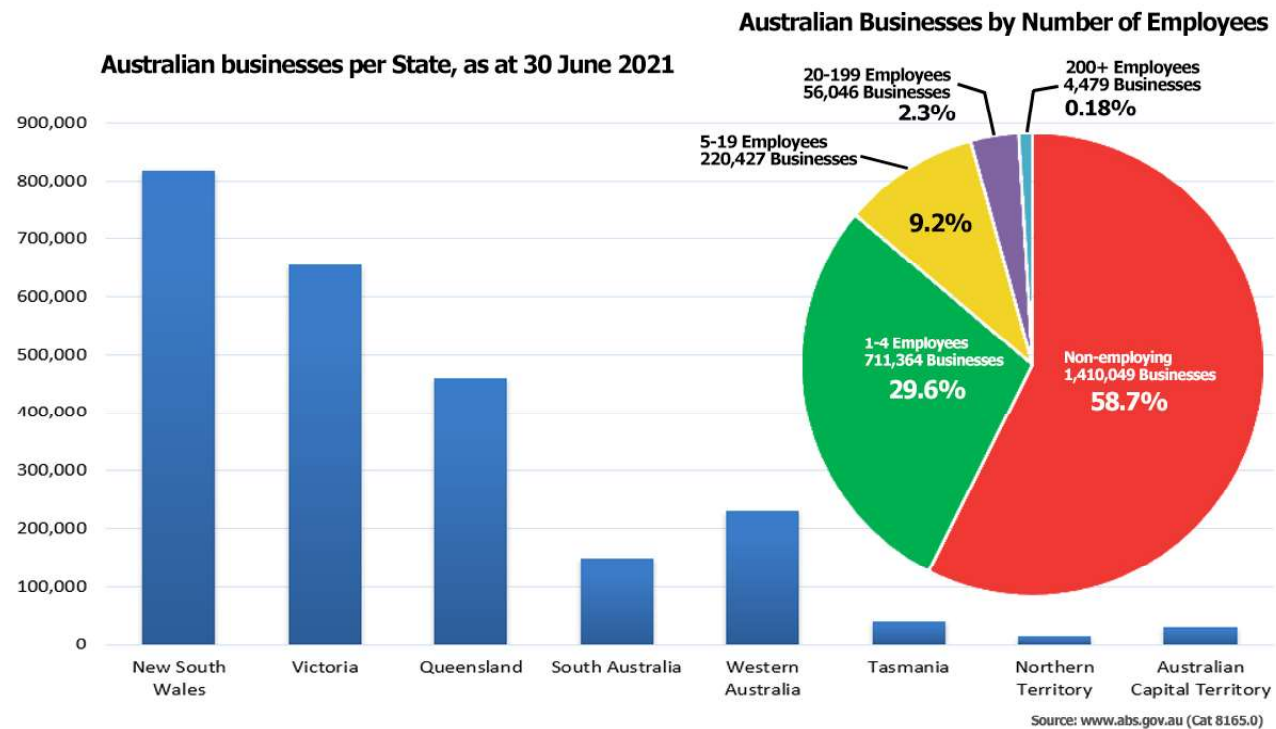
# CHAPTER 1: BUSINESS FOUNDATIONS

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 110,000 employees. Businesses play a major role in the economy and help to improve our standard of living. There are currently over 2.4 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 this concept 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 as non-emplying 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 millions of dollars 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 2.4 million businesses in Australia. The adjacent pie chart highlights that the vast majority of Australian businesses are relatively small, with approximately 88% (i.e. 2.12 million businesses) having less than 5 employees. It is only a small minority of businesses (2.3% or 56,046 businesses) that are classed as medium-sized with 20 employees or more. While only 0.18% of businesses in Australia 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 an unincorporated business that is owned by one person. It may have more than one employee working in the business, 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 their 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 over decisions and direction of the business	Business often relies heavily on the owner, resulting in long hours
Owner can keep all the profits themselves	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 can be difficult

**Exam Tip:** In the 2017 exam, students were 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). However, the majority of partnerships have between 2 and 20 owners.

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	Potential for disagreements over key decisions (resulting in slow decision making). It can also be difficult to find suitable partners
Easier to raise more capital compared to a sole trader (pooled funds from the partners)	Can be difficult to remove a partner
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 sole trader or a partnership, it is important that you refrain from 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 the 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 between 1 and 50 shareholders. Shares are sold privately and not open to being freely traded to the public, and only the other directors of the company 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, hence the requirement for only one owner. While private limited companies are often small or medium sized businesses, some large businesses use this structure. For example, Visy, which employs over 7,000 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**. A public listed company is an incorporated business that is owned by a minimum of 1 public shareholder. There is no limit to the amount of shareholders a public listed company can have. A public listed 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.



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.

While other business types are able to raise capital through investors, public listed companies often have a greater ability to do this, and they can then use this capital to maintain or improve the business. For example, during the COVID-19 pandemic, Flight Centre went to the market to raise \$700 million in order to help them survive during the lockdown periods.

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

**Exam Tip:** In the 2020 exam, students needed to read a case study and express the type of business that was the subject in the case material. At no stage did the case material state the business was a public listed company. However, students needed to show evidence that the business was in fact a public listed company. To answer this correctly, students needed to understand the characteristics of different businesses. For example, students that scored poorly, stated that the business was a public listed company because it had a large number of employees. However, all business types can have a large number of employees. Those that scored highly, stated that the business was a public listed company because it trades its shares on the Australian Securities Exchange. Ensure you know the key characteristics of ALL business types.

## 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. Therefore, 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 fulfil a vision that benefits the community. While a social enterprise will often have an objective to make a profit, their primary objective is not to make a profit so they can return it to shareholders. Their primary objective is to benefit their community/social cause.

**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 its 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 that are 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 established 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 livelihood, 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 members find employment and a home to live in. You can find out more about **STREAT** by going to [www.streat.com.au/about](http://www.streat.com.au/about)

## Government Business Enterprise

A **Government Business Enterprise (GBE)** is a business that is owned by the Government and operates commercially with the aim of making a profit. 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. Being owned by the government, the GBE will also have the objective to help satisfy the objectives of the government.

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 the 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, or analyse 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 social 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 a specified period of time. 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 deducted from the revenue earned (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:

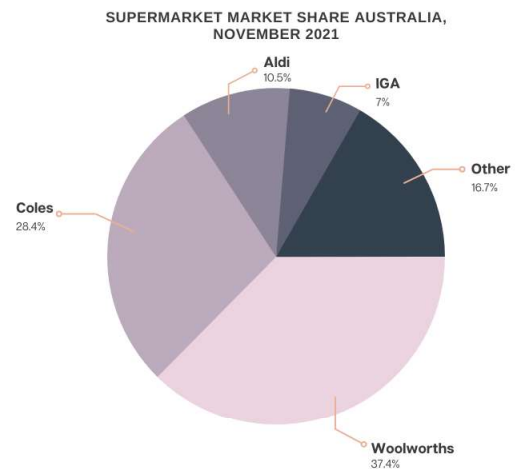
- increasing revenue (e.g. the money they bring into the business through sales of goods and/or services); and
- minimising their expenses (e.g. the money spent on wages, materials, energy and other inputs).

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 compared to the total sales for that industry, or compared to the total sales for a particular good or service, expressed as a percentage. For example, the pie chart to the right highlights that Woolworths has 37.4% share of grocery sales within Australian markets, with Coles having 28.4% of the market, while Aldi (10.5%) and IGA (7%) 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 must be losing market share. For example, in 2014, according to statcounter.com, Woolworths had 39 per cent market share in Australia, while Coles had approximately 34 per cent, which means that both companies lost market share to their rivals in that particular market. Interestingly, in 2014 Aldi and IGA had similar market share to what they do today. However, there has been a significant increase in the 'Other' category. This demonstrates the growing number of Australians that are shopping at local independent stores, along with the increased numbers shopping at online stores such as Amazon. All competitors will typically work hard to introduce new and improved products with the aim of attracting more customers and increasing market share.



## To Fulfil a Market

Within society there are groups of people that will share similar interests and have similar needs and/or wants. If enough people have the similar wants and needs it creates a market that a business can try to satisfy or fulfil. If these needs and wants are not being satisfied, a business can look to satisfy the needs of that market. For example, a particular location may have a population of young families move into the area. This particular market may have a need for childcare facilities for these young families. A childcare business may identify this gap in the market and meet the need of this particular market by opening up a childcare facility. This is beneficial to both the market and the business.

## To Fulfil a Social Need

Businesses can also look to fulfil social needs to improve the wellbeing of the community, which is typically the primary aim of a social enterprise. There may be a need within society where a business can work towards improving, and 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 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 customer 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, fulfil a 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 **measurable**. Objectives that are not measurable 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 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
- the interests that each stakeholder has 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 obligations 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 now 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 socially responsible. If asked about CSR, students need to ensure they are writing about considerations or issues that are about a business going above their legal obligations.



**Exam Tip:** When defining or describing CSR, it is vital to address the concept of going above legal obligations along with the concept of morals. In the 2019 exam, students were asked to define CSR. Students that performed well were able to address a business going 'above their legal obligations' along with it being around some kind of moral standard e.g. in the economic, social and environmental areas.

## 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, their interest in the business is to seek a return on their investment. As they are whole or partial owners of the business, shareholders are entitled to share in the business's 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 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 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. Managers will often understand that corporate social responsibility practices can lead to improved business 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 stakeholder that carry out tasks for the achievement of business objectives and are primarily interested in 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 to improve productivity may cause concern or anxiety amongst employees. Employees may fear they don't have the skills to use the new technology or even question their job security. The managers can be open and honest about the impact the new technology will have on the employees. This could 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. Generating repeat customers through customer satisfaction is often cheaper than attracting 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 therefore 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 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 often face tough competition from larger businesses. The larger businesses are usually 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 other ways to compete against these large competitors, 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 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. The interest of suppliers is to have a strong relationship with the business, to receive ongoing business and to be paid on time. 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 engine parts 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 wants the business to thrive and increase sales so they 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. Other CSR considerations is that a business may look to use local suppliers rather than those overseas. This will help support the local economy by indirectly promoting employment opportunities for Australians.

## 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
<b>Owners / Shareholders</b>	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
<b>Directors</b>	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.
<b>Managers</b>	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
<b>Employees</b>	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
<b>Customers</b>	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
<b>Lenders</b>	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.
<b>Competitors</b>	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
<b>Suppliers</b>	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
<b>Trade Unions</b>	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
<b>Community</b>	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.



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, promote the business, 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.

Managing 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 the financial reports of the business and assess its current financial position.
- **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 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 increase 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: businesses have been able to take advantage of cloud computing, allowing employees to work more collaboratively. Cloud computing has also allowed employees to work remotely when needed. This technology has improved efficiencies as many businesses no longer need to hold and maintain their own computer servers. Instead, they are able to make use of the servers of companies such as Amazon Web Services. This has resulted in great savings for many businesses. It also allows customers and employees to access the business outside of the normal working hours.

**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.

**Exam Tip:** Students need to be able to explain how each of the areas of management responsibility can help a business achieve their objectives. For example, in the 2021 exam, students were asked to identify an area of management responsibility and explain how this area could help a business achieve its stated objectives. Students that performed poorly were often able to give excellent explanations about the area of management responsibility but failed to link to the achievement of business objectives. Those that scored highly could give clear links to how their chosen area could lead to the achievement of the stated business objectives. Students should be able to demonstrate an understanding of how each of the areas of management responsibility in the study design are able to help in the achievement of a range of different objectives.

## 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 uses one-way communication to tell 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 decisions 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.

The 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, often leading to improved task completion and/or improved productivity	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 aiming to convince employees as to its appropriateness. 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 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. The persuasive style may also help develop the knowledge of employees as they learn why certain decisions are 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 employees being valued 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 (yet possibility for more employee development than the autocratic style)

**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 in the decision-making process	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 be involved in decision-making. This is known as **'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 identified, 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 management style uses decentralised 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:** It is common that exam questions regarding management styles are applied to case material. For example, in Question 1 of the 2020 exam, students were provided a small case study where the manager was using an autocratic management style. Students were then asked to evaluate the appropriateness of this management style for the business achieving the objectives identified in the case material. While most students are able to look at both sides (advantages and disadvantages) of the autocratic management style in a question such as this, many will fail to apply their response to the case material.

While it is important for students to learn the possible advantages and disadvantages (along with other key content) regarding the styles, it is important that students can apply this content to scenarios provided in the exam.

## 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:

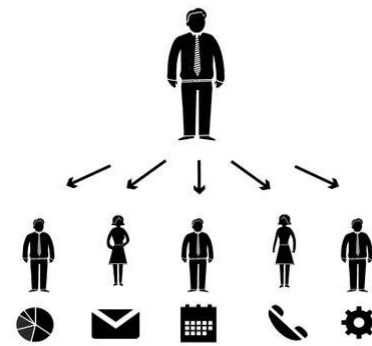
- The manager has more time to focus on longer term planning
- More can be achieved in less time by spreading the workload
- Employees are able to gain more experience and develop their skills by tasks being delegated to them
- Improved job satisfaction as the employees are trusted and relied upon to 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 business. 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 2<sup>nd</sup> 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. A common acronym to remember the above process is SADIM

## 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 able to learn other management skills if you feel necessary. Negotiation and time management (listed below) are other examples. You are welcome to ignore these if you desire, however ensure you know all of the skills listed in the study design (communication, delegation, planning, leading, decision-making and interpersonal)

**Exam Tip:** When asked to apply how a manager will use certain skills, it is important you can differentiate between the skills. For example, in the 2019 exam, students were asked to explain two skills that the Human Resource Manager would require in the given situation. Many students used communication and interpersonal skills. Both skills were fantastic skills to use in the scenario as the HRM was involved in the process of closing down multiple retail stores. However, using both of these skills together created some problems for some students. They found it difficult to differentiate between the two skills and ended up writing about communication for both skills. This is common between communication and interpersonal, as they are both very reliant on effective communication. Be sure you can differentiate the skills you use in your responses.

## 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.



## 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 shared values and beliefs of the people in the business to be. This 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:

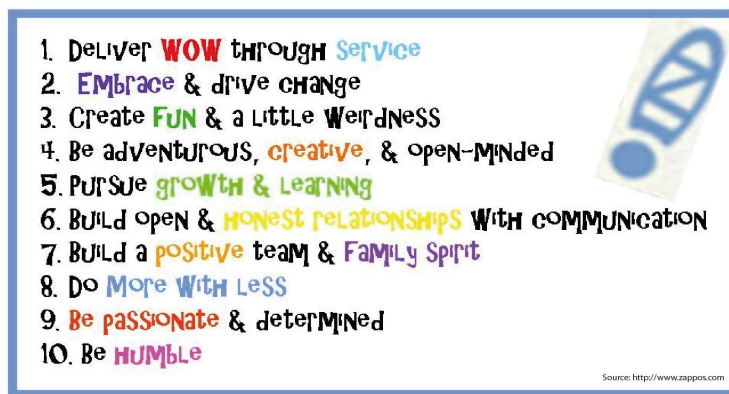
- Reduced staff turnover
- Employer of choice which allows the business to select the best employees
- Improved productivity
- Higher morale within the workplace

## Elements of Corporate Culture

Listed below are some of the elements of a business's corporate culture. These elements could be used to indicate the 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. The values should also be communicated regularly to help reinforce the expectations of employees.
- **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.



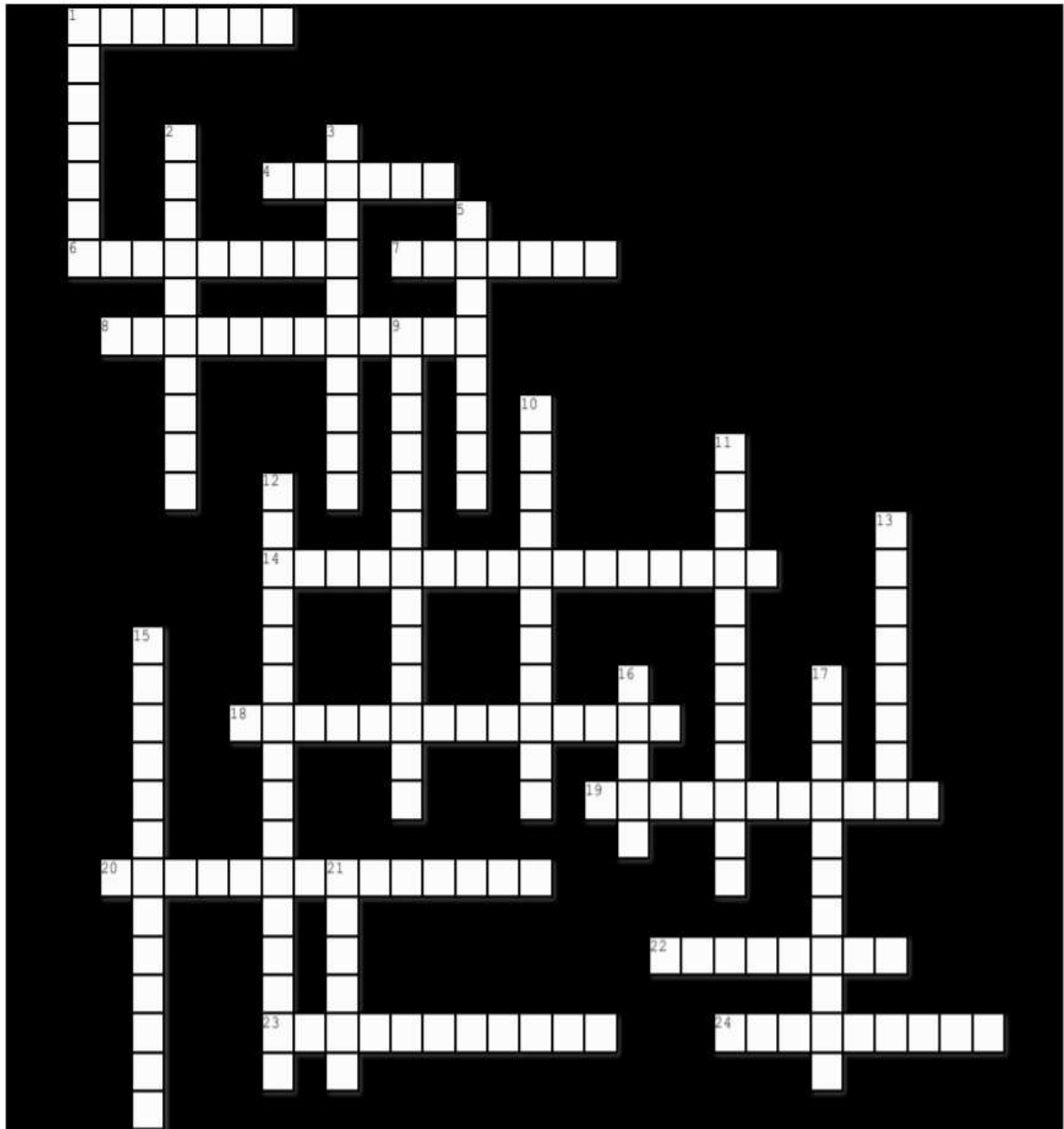
**Exam Tip:** Don't use "working on the elements" as a specific strategy to develop the corporate culture. If you wish to use anything from this area, it is advisable to use a specific strategy such as "develop a set of core values" or "change the management style to..." Working on the elements is too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

**Exam Tip:** It is important that students are able to distinguish or explain the differences between the real corporate culture and the official corporate culture. The 2021 exam asked students to explain the differences and many erred by simply describing the two types of culture. To receive full marks, the differences between the types of culture need to be made clear to the examiners.

## REVIEW QUESTIONS 1 – Business Foundations

1. Outline 3 types of businesses
2. Explain the primary objectives of a social enterprise
3. Outline two characteristics of a public listed company
4. Outline one reason why a business owner would implement a private limited company over a sole trader
5. 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
6. List 3 advantages of a business becoming a publicly listed company
7. Distinguish between a private company and a sole trader
8. Define 'business objectives'
9. Outline 3 common business objectives
10. Define a 'mission statement' and explain the role it has in a business
11. Explain the interest of 2 stakeholders
12. Describe the possible conflicts between the interests of two key stakeholders
13. Identify 2 stakeholders and explain one corporate social responsibility issue a business needs to consider for each
14. Explain how the finance area of responsibility can help a business to increase its profits
15. Outline how human resources can help a business increase market share
16. Explain how operations can help a business become more environmentally sustainable
17. Describe technology support and explain how this area can help a business improve its productivity
18. Outline how the sales and marketing area can help a business meet shareholder expectations
19. 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
20. '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.
21. Compare the autocratic management style with one other management style
22. Define leading
23. Distinguish between communication and interpersonal skills
24. Describe 3 management skills and explain their importance in assisting managers to achieve business objectives
25. Damien is a local pizza shop owner. He is looking to expand the business by opening another store in a new location. Justify two management skills Damien would need to use in this situation
26. Outline a decision-making process a manager can use to make effective decisions
27. Explain the relationship between communication and a participative management style
28. Define corporate culture
29. Outline 3 elements of corporate culture
30. Distinguish between 'official' and 'real' corporate culture
31. "The real corporate culture does not always reflect the official corporate culture." Analyse this statement
32. 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)

### STRUCTURED QUESTIONS

1. Define the following terms (6 marks)
  - a. Partnership
  - b. Business objective
  - c. Real corporate culture.
2. Sebastian is the operations manager of Baker Plus, a commercial bakery in Epping. More than 65% of the operations team have been with the business for more than 7 years. Sebastian has just been instructed by senior leadership to reduce the level of wastage produced during production.
  - a. Discuss the most appropriate management style for Sebastian to use to achieve the set objective. (6 Marks)
  - b. Explain the impact the management style used in Question 2a can have on the real corporate culture at Baker Plus. (4 marks)
3. Distinguish between real corporate culture and official corporate culture (3 marks)
4. Other than making a profit, outline one objective of a Government Business Enterprise. (1 mark)
5. Luggage manufacturer and retailer, Adventurer, has performed poorly over the past two years. Sales have declined by over 20% in this time. CEO, Amanda Kiss, has decided to close down all but two of the retail outlets with the aim of selling the luggage products in major department stores such as Myer and Target.
  - a. Justify two skills that Amanda will require when implementing this change. (6 marks)
  - b. Identify two areas of management responsibility. Explain how each area can be used to help Adventurer in their current situation. (8 marks)
  - c. Outline the interest of one of Adventurer's stakeholders. Explain one corporate social responsibility consideration in relation to the interest of this stakeholder. (3 marks)
6. Outline the relationship between the management skill of communication and the consultative management style (3 marks)

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## 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 \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

#### **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 \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### 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 \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**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**

Mrs T is a cereal manufacturer with factories in Victoria, Queensland and Perth. The company produces 12 different varieties of cereals and sells in the major supermarkets. Due to increased competition for supermarket shelf space, Mrs T has just been informed that one major supermarket will be dropping 5 of their cereal varieties. As a result, CEO, Jenny Harvard has decided to close down the Perth manufacturing facility and produce all of the cereals in the Victoria and Queensland factories.

**Explain two skills that Jenny will require during the closure of the Perth facility**

**4 marks**

**Sample answer 1**

One skill is communication which is the transfer of information from a sender to receiver with the ability to listen to feedback. Communication can be either one-way or two-way. Jenny will need use communication with the employees in the Perth factory as they will likely be losing their jobs. Jenny will need to be clear in when the closure will take place and any support that is available to the employees as they look for new employment opportunities. Jenny will also need to use planning, which is the ability of a manager to set objectives and detail the ways to achieve them. In terms of the closure of the Perth factory, Jenny would be involved in both short-term and medium-term planning. This type of planning will be important for Jenny to set deadlines as to when the Perth closure will take place. She will then need to implement a plan on how to close the factory in a timely manner. Jenny would also need to set out a plan on how the business will be able to consolidate the manufacturing of all the business's cereals into only two factories.

Score out of 4 \_\_\_\_\_

Justification \_\_\_\_\_

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**Sample answer 2**

Jenny could use two-way communication with her employees from the Perth factory. This will allow Jenny to not only provide the information about the closure of the Perth factory to employees, but it will also allow Jenny to listen to the concerns of the employees. This will help demonstrate that Jenny values the employees despite the closure of the factory.

Jenny will also need to use delegation. Delegation is where the manager hands over authority of tasks to an employee. Jenny can delegate many of her normal daily tasks to another senior manager to allow her to focus on the closure. This will give Jenny the time she needs to support staff and manage the closure of the factory without being interrupted with her normal tasks. This will help the factory close successfully.

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**

Cathy Byrne owns a financial services company that specialises in offering financial advice for people with young families. Cathy has 12 employees and is looking to develop the corporate culture of the company. One of her objectives for the next 12 months is to improve the company's customer satisfaction levels.

**Justify one strategy that Cathy can use to develop a corporate culture that promotes the achievement of her stated business objective.** **3 marks**

**Sample answer 1**

One strategy that Cathy could use is to train her employees in line with the desired values of the business. This is where employees are provided opportunities to improve their skills and knowledge. This can be completed as on-the-job training or off-the-job training. On-the-job training is where the employees learn at their place of work, often while performing their day-to-day tasks. While off-the-job training is where the employees learn new skills and knowledge away from the workplace. This will ensure that all employees share in the same values and have the skills to deliver them. This can help develop the corporate culture at Cathy's financial services business as the employees will have the skills to carry out the desired values of the company. It also shows that the Cathy values her employees as she is willing to invest in their development which creates a positive environment at the company, enhancing the corporate culture.

Score out of 3 \_\_\_\_\_

Justification \_\_\_\_\_

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**Sample answer 2**

One strategy that Cathy could use is to train her employees in line with the desired values of the business. If one of the values of the company is to deliver a high level of customer service, then the employees should be trained in how to deliver a high level of customer service. This will ensure that all employees value customers to a high level. Getting all employees to believe in the same values, as well as having the skills to deliver on this, will ensure that the customer service levels of Cathy's company improves in the next 12 months.

Score out of 3 \_\_\_\_\_

Justification \_\_\_\_\_

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## CHAPTER 2: MANAGING EMPLOYEES

A business can have the same products, the same amount of money, the same type of equipment and raw materials but it can't have the same employees. Many business owners say that it is hard to find good employees, therefore once a business finds good employees it is crucial they get the best out of them and work hard to keep them. While not all businesses have employees, those that do need to ensure they are managing their employees well so that the business is achieving its objectives. Medium and large sized businesses may have a dedicated human resource manager or team that looks after the overall management of employees. However, many small businesses will not have this luxury and it will be left up to a manager or owner to take on this responsibility.

### Managing Employees and Business Objectives

Business objectives are the set goals a business is aiming to achieve in the future. Employees are the ones that carry out the tasks that result in business objectives being achieved. Therefore, there is a strong relationship between the effective management of employees and the achievement of business objectives. Without the input of employees, a business will find it difficult to achieve objectives. For example, a business that has the objective to increase sales by 10% over the next 18 months needs the marketing employees to create promotional material and sales employees to work to improve their sales.

Businesses will work hard to enhance the job satisfaction and motivation of their employees so they are happy and willing to contribute to the achievement of the business's objectives. This will often involve *investment* in the development of employee skills via training and/or education programs over time. While the expenditure on skills development will cost the business money in the short term, it should help to generate a *return on the investment* in terms of greater job satisfaction, improved productivity and larger profits – which is the ultimate objective for most businesses.

The effective management of employees can be a major contributor to the success of a business because employees are in a key position to affect customers, business results and ultimately shareholder/owner value. The overall management of employees is more than a set of activities that coordinate the human resources. The aim should be to strategically integrate or align the interests of the business (its objectives) and the employees.

Because there are employees involved in all the aspects of a business, the manager responsible for managing employees will need to communicate closely with all other areas of the business. For example, the marketing department will require employees to carry out tasks that promote the business and its products. It is important that the human resource manager (or the manager responsible for employees) communicates with the marketing manager to determine their needs. It may be that the marketing team requires ongoing training to keep up to date with new techniques, product knowledge or technologies involved in the marketing mix. The human resource manager would then be responsible for putting together training programs that will allow the employees to improve their skills and knowledge. This will therefore help the marketing team achieve their objectives.



*“If you're trying to sneak out of work, you should at least get your coordinates right.”*

**Exam Tip:** Although it has not come up in an exam, it is a common SAC question to ask about the relationship between the effective management of employees and business objectives. 'Relationship' questions are often handled poorly by students in assessments. Students often simply describe the two terms. This can be good practice, however you must also express the relationship between them. Ask yourself, 'How do employees help businesses achieve objectives and how can the effective management of employees assist?' When we think of managing employees, it refers to concepts such as ensuring employees are motivated, are well trained or provided with effective feedback. These concepts can improve the performance of employees and can help them work towards the achievement of business objectives.