

KEY CONCEPTS in VCE  
**BUSINESS  
MANAGEMENT**

UNITS 3 & 4 | FOURTH EDITION





KEY CONCEPTS in VCE  
**BUSINESS  
MANAGEMENT**

UNITS 3 & 4 | FOURTH EDITION

Matt RICHARDSON

Graeme SMITHIES

Simon PHELAN

Stephen CHAPMAN

Fourth edition published 2017 by  
John Wiley & Sons Australia, Ltd  
42 McDougall Street, Milton, Qld 4064

Third edition published 2015

Second edition published 2011

First edition published 2010

Typeset in 10.5/12 pt Berkeley Oldstyle

© Steve Chapman, 2010, 2011, 2015, 2017

The moral rights of the authors have been asserted.

National Library of Australia  
Cataloguing-in-publication data

---

Creator:	Chapman, Stephen (Stephen John), author.
Title:	Key concepts VCE business management. Units 3 & 4 / Stephen Chapman, Simon Phelan, Matt Richardson, Graeme Smithies.
Edition:	4th ed.
ISBN:	978 0 7303 3144 5 (set) 978 0 7303 3145 2 (pbk.) 978 0 7303 3148 3 (eBook) 978 0 7303 3104 9 (studyON)
Notes:	Includes index.
Target audience:	For secondary school age.
Subjects:	Industrial management – Textbooks. Victorian Certificate of Education examination.
Other creators/contributors:	Phelan, Simon, author. Richardson, Matt, author. Smithies, Graeme, author.
Dewey number:	658

---

#### **Reproduction and communication for educational purposes**

The Australian *Copyright Act 1968* (the Act) allows a maximum of one chapter or 10% of the pages of this work, whichever is the greater, to be reproduced and/or communicated by any educational institution for its educational purposes provided that the educational institution (or the body that administers it) has given a remuneration notice to Copyright Agency Limited (CAL).

#### **Reproduction and communication for other purposes**

Except as permitted under the Act (for example, a fair dealing for the purposes of study, research, criticism or review), no part of this book may be reproduced, stored in a retrieval system, communicated or transmitted in any form or by any means without prior written permission. All inquiries should be made to the publisher.

#### **Trademarks**

Jacaranda, the JacPLUS logo, the learnON, assessON and studyON logos, Wiley and the Wiley logo, and any related trade dress are trademarks or registered trademarks of John Wiley & Sons Inc. and/or its affiliates in the United States, Australia and in other countries, and may not be used without written permission. All other trademarks are the property of their respective owners.

Front cover image: © Digital Genetics / Shutterstock

Illustrated by various artists, diacriTech and Wiley Composition Services

Typeset in India by diacriTech

Printed in Singapore by  
C.O.S. Printers Pte Ltd

10 9 8 7 6 5 4 3 2 1

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

# CONTENTS

<i>How to use this resource suite</i>	<i>vi</i>
<i>About eBookPLUS and studyON</i>	<i>viii</i>
<i>About the authors</i>	<i>ix</i>
<i>Acknowledgements</i>	<i>x</i>

## UNIT 3 MANAGING A BUSINESS 1

<b>CHAPTER 1</b>	<b>The nature of business</b>	<b>2</b>
1.1	Types of businesses — small, medium-sized and large businesses	4
1.2	Types of businesses — sole traders and partnerships	8
1.3	Types of businesses — private limited companies and public listed companies	10
1.4	Types of businesses — social enterprises and government business enterprises	12
1.5	Business objectives	15
	<b>Apply your skills:</b> Business objectives and KPIs	19
1.6	Business stakeholders in the internal environment	21
1.7	Business stakeholders in the external environment	24
1.8	Potential conflicts between stakeholders and corporate social responsibility considerations	27
	<b>Extend your knowledge:</b> Stakeholders and corporate social responsibility	30
	<b>CHAPTER REVIEW</b>	<b>33</b>
<b>CHAPTER 2</b>	<b>The nature of management</b>	<b>36</b>
2.1	Management responsibilities	38
2.2	Management styles — autocratic and persuasive	41
2.3	Management styles — consultative and participative	43
2.4	The laissez-faire management style and situational management approach	45
	<b>Apply your skills:</b> Management styles	47
2.5	Management skills — communicating, delegating and planning	49
2.6	Management skills — leading, decision making and interpersonal	53
2.7	Corporate culture and its development	56
	<b>Apply your skills:</b> Styles, skills and corporate culture	58
	<b>Extend your knowledge:</b> The relationship between corporate culture, management styles and management skills	62
	<b>CHAPTER REVIEW</b>	<b>64</b>
<b>CHAPTER 3</b>	<b>Human resource management — motivating employees</b>	<b>68</b>
3.1	The relationship between managing employees and business objectives	70
3.2	An introduction to motivation and Maslow's hierarchy of needs	73
3.3	Motivational theories: goal-setting theory	75
3.4	Motivation theories: four drives theory	78
	<b>Apply your skills:</b> Motivation theories — do they work?	81
3.5	Motivation strategies — financial	83
3.6	Motivation strategies — non-financial	86
	<b>Extend your knowledge:</b> Financial and non-financial motivation	89
	<b>CHAPTER REVIEW</b>	<b>91</b>

<b>CHAPTER 4</b>	<b>Human resource management — managing employees and workplace relations</b>	<b>94</b>
4.1	The employment cycle	96
4.2	Training and development of employees	99
4.3	Performance management strategies	103
4.4	Termination of employment: retirement, resignation and redundancy	107
4.5	Termination of employment: dismissal, entitlement and transition issues	110
4.6	Workplace relations: participants in the internal environment	112
4.7	Workplace relations: participants in the external environment	115
4.8	Awards and agreements	118
4.9	Disputes in workplace relations	122
4.10	Resolution of disputes	125
	<b>Apply your skills:</b> Workplace-level disputes	128
	<b>Extend your knowledge:</b> Management skills in employee relations	130
	<b>CHAPTER REVIEW</b>	<b>132</b>
<b>CHAPTER 5</b>	<b>Operations management</b>	<b>136</b>
5.1	The relationship between operations management and business objectives	138
5.2	Key elements of an operations system	142
5.3	Technological developments	146
5.4	Materials management	150
5.5	The management of quality	154
5.6	Waste minimisation	158
	<b>Apply your skills:</b> Managing materials, quality and waste minimisation	162
5.7	Corporate social responsibility considerations in an operations system	165
	<b>Extend your knowledge:</b> Socially responsible operations management	167
5.8	Global issues in operations management	169
	<b>CHAPTER REVIEW</b>	<b>173</b>
<b>UNIT 4 TRANSFORMING A BUSINESS</b>		<b>177</b>
<b>CHAPTER 6</b>	<b>Reviewing performance — the need for change</b>	<b>178</b>
6.1	The concept of business change	180
6.2	Key performance indicators as sources of data to evaluate the performance of businesses	182
6.3	Key principles of the Force Field Analysis theory (Lewin)	187
6.4	Driving forces for change in business	190
6.5	Restraining forces in business	195
6.6	The two key approaches — lower cost and differentiation — to strategic management by Porter's Generic Strategies (1985)	198
	<b>Apply your skills:</b> Forces affecting change	201
	<b>Extend your knowledge:</b> Using data to drive change	204
	<b>CHAPTER REVIEW</b>	<b>206</b>

<b>CHAPTER 7</b>	<b>Implementing change</b>	<b>210</b>
7.1	The importance of leadership in change management	212
7.2	Management strategies to respond to key performance indicators	214
7.3	Management strategies to seek new business opportunities both domestically and globally	219
7.4	The principles of the Learning Organisation (Senge)	222
7.5	Low-risk strategies to overcome employee resistance	225
7.6	High-risk strategies to overcome employee resistance	228
7.7	Key principles of the Three Step Change Model (Lewin)	230
7.8	The effect of change on stakeholders including managers, employees, customers, suppliers and the general community	232
7.9	Corporate social responsibility considerations when implementing change	234
	<b>Apply your skills:</b> Sources of change	236
	<b>Extend your knowledge:</b> The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation	237
	<b>CHAPTER REVIEW</b>	<b>240</b>
	<i>Glossary</i>	244
	<i>Index</i>	248

# HOW TO USE THIS RESOURCE SUITE

At Jacaranda, we are deeply committed to the ideal that learning brings life-changing benefits to all students. By continuing to provide resources of exceptional and proven quality, we ensure that all VCE Business Management students have the best opportunity to excel and to realise their full potential. *Key Concepts in VCE Business Management Units 3 & 4, Fourth Edition* comprehensively covers the requirements of the revised study design 2017–2021.

The eBookPLUS, an electronic version of the text and complimentary set of targeted digital resources, is available for students and teachers, and contains:

- the full text online in HTML format, including PDFs of all topics
- eLessons featuring video interviews with industry professionals that help students apply key concepts to real-world business scenarios
- a glossary, crossword and missing word glossary quiz for each chapter
- school-assessed coursework designed in Microsoft Word for easy customisation
- weblinks to key business bodies and up-to-date data and statistics
- links to studyON.

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

The **key knowledge and key skills** from the VCAA VCE Business Management study design are included, together with a real world case study that helps students understand Business Management theory.

## CHAPTER 2

### The nature of management

**WHY IT IS IMPORTANT**  
What is management? Many business writers have asked this question and many different theories have been proposed on this topic. You might believe that a manager is the boss or the person in charge of a business. It is widely accepted that management is the process of efficiently and effectively coordinating all the efforts of people and other available resources to achieve business objectives. There is no doubt that management has a significant role to play in the success of a business. In this chapter, you will be studying areas of management responsibility, how managers use a range of styles and skills when managing a business, corporate culture and the relationship between each of these.

**WHAT YOU WILL LEARN**  
**Key knowledge**  
Use each of the points below from the Business Management study design as a heading in your summary notes.

- The areas of management responsibility including operations, finance, human resources, sales and marketing, and technology support, and how each contributes to the achievement of business objectives.
- Corporate culture both official and real, and strategies for its development.
- The relationship between management styles and management skills.
- Management skills including communicating, planning, delegating, leading, decision making and interpersonal.

**Key skills**  
These are the skills you need to demonstrate. Can you demonstrate these skills?  
• **analyse, describe and apply relevant business management concepts and terms**  
• **analyse case studies and contemporary examples of business management in context, discuss and evaluate business information and ideas**  
• **apply business management knowledge in practical and/or simulated business situations**  
• **analyse and discuss management decisions necessary for successful business management**  
• **evaluate management styles and management skills and their appropriateness for a range of business situations**  
• **propose and justify management strategies for developing corporate culture.**

**Management at Morgan Stanley**  
Morgan Stanley is a global company that provides financial services to other corporations, governments, financial institutions and individual customers. The financial services that the company provides are numerous, but to give just one example, Morgan Stanley provides a financial advisory service regarding corporate lending. The company has its headquarters in New York City, but it started operations in Australia more than 50 years ago. It currently has over 300 employees located in its offices in Sydney, Melbourne, Adelaide, Brisbane and Perth. Morgan Stanley operates in 40 countries around the world, with over 1000 offices and more than 50 000 employees globally. It has relatively low levels of management with a strong focus on teamwork, making use of employee-focused management styles and management skills.  
The company has created a positive corporate culture. Morgan Stanley's chairman and CEO, James Gorman, has noted that 'culture matters more than anything'. Its culture is based on diversity (recognising individual differences and inclusion — developed by bringing together and valuing staff with diverse backgrounds, talents, perspectives, cultural identities and experiences). Morgan Stanley's culture can also be seen in its principle of 'keep your business'. The company encourages staff to enjoy a life outside of work, and realises the importance of personal events in its employees' lives.

## 1.2 Types of businesses — sole traders and partnerships

**KEY CONCEPT** There are a number of types of businesses, including sole traders and partnerships. Each type of business has certain advantages and disadvantages.

**DID YOU KNOW?**  
The outcome Area of Study 1 in Unit 3 states that you need to 'be able to discuss the key characteristics of businesses'. This suggests that you should know the advantages and disadvantages of each type of business.

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are sole traders, whereby an individual runs a business on their own; partnerships, whereby a group of people will run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public limited companies in the next section. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in section 1.4.

### Sole trader

A sole trader business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.  
This type of business is easy to establish, as the only legal requirement specific to a sole trader is that the name of the business must be registered with the Australian Securities and Investments Commission (ASIC), but only if it is different from the name of the owner. A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, then the owner has the financial problems and is personally responsible for any business debts. This responsibility is known as **unlimited liability**, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

**Advantages**

- Low cost of entry
- Unlimited liability
- Complete control
- Easy to start
- No partner disputes
- Owner's right to keep all profits
- No need for government registration
- No need for profits, only on personal income

**Disadvantages**

- Personal (unlimited) liability to business debts
- Difficult to spread if sick
- Hard to carry on business
- Hard to raise finance
- Hard to persuade wide range of banks
- Difficulty in raising finance for expansion

### Partnership

A partnership is a business owned by two or more people. Most partnerships require a maximum of 20 partners. There are exceptions to this number, including medical practitioners and accountants (allowed up to 30 partners), veterinarians, architects and chemists (allowed up to 100 partners), and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate

legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.  
A partnership can be made orally or in writing, or by implication (that is, if two people set up a business together without a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see below).

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

**Advantages**

- Low startup costs
- Easy to start
- Shared responsibility and workload
- Shared funds and talent
- Shared government responsibilities
- No taxes on business profits, only on personal income
- On death one partner's business can take over

**Disadvantages**

- Personal (unlimited) liability
- Liability for all debts, including partner's debts, once the partnership has begun
- Possibility of disputes
- Difficulty in finding a suitable partner
- Divided loyalty and authority

The advantages and disadvantages of a partnership  
While a sole trader pays tax using his or her personal tax file number, a partnership has its own tax file number — separate from those of each of the partners — and lodges its own tax returns. Once the ATO has assessed the partnership's tax return and all taxes have been paid, the profits are divided among the partners according to the partnership agreement. Each partner then adds their share of the profit (or loss) to their personal income to be assessed by the ATO.

### TEST your understanding

- Define the following terms in your own words: (a) unlimited liability (b) shareholders.
- Explain the difference between a sole trader and a partnership.
- Under what circumstances will a sole trader not need to register a business name?
- Identify three advantages and three disadvantages in setting up a business as a sole trader. For each advantage and disadvantage, explain why you believe it is an advantage or a disadvantage.
- Outline the advantages and disadvantages of a partnership.

### studyON

- Unit 3
- Partnerships
- Assess 1
- Summary questions and practice questions
- Assess 2
- Concept 1

A silent or sleeping partner contributes financially to the business but takes no part in the running of the partnership.

**DID YOU KNOW?**  
A partnership agreement contains many points including:  
• How long the partnership will last  
• The amount of money that each partner contributes  
• How the profits and losses will be shared  
• The duties of each partner  
• Methods for the activity of the partners  
• How the partnership may be dissolved  
• Methods of resolving disputes.

### APPLY your understanding

- Using the internet, find:  
(a) the names of sole traders or partnerships that would not have to register their business name.  
(b) the names of businesses that would have to register their name.
- Adam operates a pizza and pasta shop as a sole trader and the employees here cook, one full time and one part time. He decides to offer the full time cook a 40 per cent partnership in the business.  
(a) What advantages will the owner gain from this arrangement that does not have as a sole trader?  
(b) What disadvantages could the owner experience from the partnership arrangement?  
(c) Explain the advantages and disadvantages to the cook of entering into the partnership.  
(d) Prepare a list of questions the cook should ask the owner before entering into the partnership.

All key knowledge points from the VCAA VCE study design are broken down into key concepts — highly visual, digestible, lesson-based sections.

Link to **studyON**, an interactive and highly visible study, revision and exam practice tool for instant feedback and on-demand progress reports.

Two levels of questions, **Test your Understanding** and **Apply your Understanding**, encourage students to practise and apply the concepts they are studying.

**eBookPLUS** references link out to targeted digital resources including weblinks and eLessons.



## APPLY YOUR SKILLS Managing materials, quality and waste minimisation

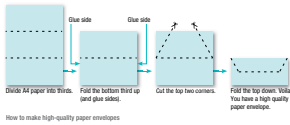
### High-quality paper envelopes business

Ask your teacher if you can complete this activity during class. The aim of this activity is to put your theoretical understanding of business management into practical use, as you solve problems and make operations management decisions.

#### Instructions

- 1 Arrange your class into groups of three or four. Each of these teams will become a business.
- 2 Your business has 10 minutes to produce as many high-quality paper envelopes as possible. The following diagram shows you how to construct a simple envelope from A4 paper. You are welcome to develop your own design, add colour or individual flair, but remember... time is crucial.
- 3 Before you begin, allocate responsibilities to the members in your team/business. It might be good if someone becomes the CEO. You might also need a quality manager and a materials manager. Make sure each team member's role is clear.
- 4 Start producing the envelopes. Hurry, you have only 10 minutes.
- 5 The winner is the business with the most envelopes. Alternatively, the winner could be the team with the highest quality envelopes. After finishing the activity, complete the questions.

**Materials required**  
A4 paper  
scissors  
glue



#### TEST your understanding

- 1 List the elements of your operations system.
- 2 Was your business offering a service or manufacturing a product?
- 3 What responsibility did each team member have in your group/branch?
- 4 How did your group manage the materials required?
- 5 How did your group make sure that quality was maintained in each envelope produced?
- 6 (a) What were the objectives for your business?  
(b) Did you achieve those objectives? How can you tell?

#### APPLY your understanding

- 7 Your business probably produced a lot of waste. Identify some waste minimisation strategies that you could implement in order to reduce production costs and operate in a sustainable manner.
- 8 To improve the efficiency and effectiveness of your operations, one strategy you could introduce would be the use of technology. What types of technology could you use in your business?  
(a) Can you think of any other ways to improve the operations of your business? How can you make improvements to productivity?

**Extend your Knowledge** sections challenge and extend student understanding using real-life case studies of today's business people. Review questions follow each case study.

Dedicated **Apply your Skills** sections give students practice in acquiring the key skills from the study design. Real-life Australian case studies allow students to contextualise their understanding.

## EXTEND YOUR KNOWLEDGE The relationship between corporate culture, management styles and management skills

**KEY CONCEPT** The use of employee-centred management styles and related skills can develop a positive corporate culture.

One of the best ways to improve a business's productivity is to give employees some input into the decision-making process. Most people care about what they are directly involved in, so employees who have an input in the decision-making process of their business tend to be more committed, productive and creative. Inclusive and democratic management practices (management practices that include employees) are often talked about, but rarely practised — this process is more difficult and takes longer than traditional management techniques.

Another trend is to structure businesses around the needs of the employees. This may mean allowing flexible working hours, or encouraging employees to work in teams and set their own goals. Senco is a company that has led the world with its commitment to participate work practices.

### Senco — workplace participation in action

**A leader who falls more than twice to meet the standards expected of them by employees will be sacked.**

Senco Partners, based in Streat, South Australia, is a meat animal business as a result of its absolute commitment to workplace participation. It has had a noteworthy history, changing to grow when whole industries collapsed, and an international reputation for its democratic employment practices. Today Senco is active in managing portfolios for a variety of corporations doing business in Brazil.

Senco actually began life in the 1970s as a company manufacturing centrifuges for the supply of industry in centrifuges. A plant of 100 employees was established in Streat, South Australia, on a central site to support regional wine and a management team of 10 people. In the 1980s, Senco became a traditional financial business, characterised by many layers. After having six layers, a staff of 200 employees reacted to a subsequent management change. Changes began in the mid 1980s that have continued to the present day.

Richard Senko, the founder's son, took over as CEO of Senco and had 60 per cent of the top managers in his first year. In the 1980s, Senco was heavily involved in manufacturing parts and other components for the food industry. Senco realised that the company could be rescued by diversifying into other industries. Senco introduced a new management structure, but this did not deliver the improvements that Senco wanted. After Senco then developed the idea of stability units (strategic business units) to diversify new businesses and product lines.

Richard Senko announced staff at Senco and three out of the employment desk.

This provided greater freedom as well as more responsibility for managers and staff. Senco is now completely based on the concept of employee ownership. Full employee participation flexibility goes beyond the traditional model. Employees design their own schedules, set their own hours and share information. At Senco, there are no managers. There are team leaders, but authority depends on the team being approved that subordinates conduct every six months. A leader who falls more than twice to meet the standards expected of them by employees will be sacked.

There is an emphasis on ownership and decision — all issues are dealt with the performance of the business, and each primary stage is published on team leaders are allowed not to be carrying out fully. Staff are given information about how much they could make if they worked for another business using their skills. Each employee has been trained in accounting so they can understand the business's earnings and how their work affects the business. An illustration of Senco's commitment to flexibility is the way in which it is structured, which has a flat 'vertical' line. The diagram, this programme arose when employees led Senco to demand that they be kept. The business was set up to be kept. The business was set up to be kept. The business was set up to be kept. The business was set up to be kept.



#### TEST your understanding

- 1 Identify the principles or values that are important to Senco.
- 2 Suggest how requiring team leaders to be appointed by subordinates every six months can benefit Senco.
- 3 Why would Senco train each employee in accounting?
- 4 What would it be like to work at Senco (in other words, describe the corporate culture of Senco)?
- 5 Describe how Senco's business is structured.

#### EXTEND your understanding

- 6 What lessons can modern managers learn from Senco?
- 7 Explain how Senco deals with some of the aspects of management that have been covered so far in this chapter, by completing the following table.

Issue	The Senco idea
Decision making	Staff participate in decision making
Communication	
Leadership	
Values	

#### TEST your understanding

- 1 Identify the principles or values that are important to Senco.
- 2 Suggest how requiring team leaders to be appointed by subordinates every six months can benefit Senco.
- 3 Why would Senco train each employee in accounting?
- 4 What would it be like to work at Senco (in other words, describe the corporate culture of Senco)?
- 5 Describe how Senco's business is structured.

#### EXTEND your understanding

- 6 What lessons can modern managers learn from Senco?
- 7 Explain how Senco deals with some of the aspects of management that have been covered so far in this chapter, by completing the following table.

Issue	The Senco idea
Decision making	Staff participate in decision making
Communication	
Leadership	
Values	

## CHAPTER 6 REVIEW

### eBook PLUS

Digital documents  
Glossary  
Download a glossary of key terms from this chapter.  
Searchlight ID: doc-10090

### SUMMARY

**The concept of business change**  
All businesses need to undergo change to remain competitive.  
Managers and management can be proactive in managing change or reactive.  
All management skills need to be utilised to effectively manage change.

**Key performance indicators as sources of data to evaluate the performance of a business**  
All businesses measure their performance.  
Businesses seek to improve their efficiency and effectiveness.  
Performance is assessed using key performance indicators:  
— percentage of market share  
— net profit figures  
— rates of productivity growth  
— number of sales  
— rates of staff absenteeism  
— level of staff turnover  
— level of wastage  
— number of customer complaints  
— number of workplace accidents.  
A business may benchmark its performance against the performance of a business recognised as a market leader.

**Key principles of the Force Field Analysis theory**  
Kurt Lewin developed a theory of change management based on a Force Field Analysis.  
A Force Field Analysis examines the driving and restraining forces for change.  
A Force Field Analysis requires an action plan.

**Driving forces for change in business**  
Driving forces are those forces that initiate, encourage and support the change.  
The main driving forces for change include:  
— managers (lead the business to remain profitable and competitive)  
— employees (working in a supportive and innovative environment are free to suggest ideas)  
— competitors (fear of loss as a result of the changes are encouraged)  
— legislation (changes to the law that impact operational practices)  
— survival of profit (the greater the profit the greater the rewards for business owners)  
— reduction of costs (financial cost of operating a business can affect profit)  
— globalisation (the need to compete with overseas businesses)  
— technology (stay up-to-date or risk falling behind)  
— innovation (the drive and desire to be a market leader)  
— societal attitudes (the need to reflect what society values).

**Restraining forces in business**  
Restraining forces work against the change.  
The main reasons for resistance to change include:  
— managers (due to either poor decision making or fear of loss of control or power)  
— employees (fearful of changes that threaten job security or require new work practices)  
— time (either poor timing, or lack of time)  
— organisational inertia (preference to stay with the safe and predictable status quo)  
— legislative restrictions (placed on certain operational practices)  
— financial considerations (financial cost of implementing major changes can be substantial).

### The key principles of the Generic Strategies approach to strategic management

Michael Porter developed a Generic Strategies approach to strategic management.  
Porter identified five competitive forces:  
— the entry of new competitors  
— the threat of substitutes  
— the bargaining power of buyers  
— the bargaining power of suppliers  
— the rivalry among existing competitors.  
Change can be managed utilising generic strategies:  
— cost leadership strategies  
— differentiation strategies.

### TEST your understanding

- 1 What is meant by the term 'transforming a business'?
- 2 Distinguish between a proactive and a reactive manager when dealing with change.
- 3 Outline how a manager should utilise when managing change.
- 4 Define the term 'key performance indicators'.
- 5 List and briefly outline three of each of the following:  
(a) driving forces for change  
(b) restraining forces for change.
- 6 Distinguish, using an example, the difference between driving and restraining forces.
- 7 Outline why resistance to change in management and employees is common.
- 8 Distinguish between efficiency and effectiveness.
- 9 List the key performance indicators that may lead to change.
- 10 Explain why resistance to change in management and employees is common.
- 11 Explain why setting achievable goals can help managers implement change more successfully.
- 12 Explain what is meant by a Force Field Analysis.
- 13 Outline the benefits of preparing an action plan as part of a Force Field Analysis.
- 14 List the 5 steps in a Force Field Analysis.
- 15 Outline how to use a Force Field Analysis.
- 16 Outline three of the five competitive forces.
- 17 Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

### APPLY your understanding

- 18 Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.  
(a) Identify the main reasons for employee resistance to change.  
(b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
- 19 In response to data collected through key performance indicators businesses are constantly changing.  
(a) Describe the key performance indicators that cause businesses to change.  
(b) Using a current example, describe and explain the responses of that businesses management to those KPIs.

### eBook PLUS

Digital documents  
Missing word glossary quiz  
Test your knowledge of key terms from this chapter.  
Searchlight ID: doc-10091

### Crossword

Check your understanding by completing this crossword on key concepts from this chapter.  
Searchlight ID: doc-10092

### studyON

Use VCAA exam

Each **chapter review** contains a summary and review questions, as well as school-assessed coursework tasks

A glossary, crossword and missing word quiz activity for each chapter, are available in the **eBookPLUS**.

The **studyON Sit Exams** provide the past three official VCE exams in an online format. Previous exam questions are also linked to specific concepts throughout the product.

## eGuideplus

The eGuidePLUS is available for teachers and contains:

- the full eBookPLUS
- a work program to assist with planning and preparation
- school-assessed coursework — application task, and modelling and problem-solving tasks, including fully worked solutions
- two tests per topic with fully worked solutions.

# About eBookPLUS and studyON

Access your online Jacaranda resources anywhere, anytime, from any device in three easy steps:

**STEP 1** Go to [www.jacplus.com.au](http://www.jacplus.com.au) and create a user account.

**STEP 2** Enter your registration code.

**STEP 3** Instant access!

## eBookplus



## studyon



**eBookPLUS** is an electronic version of the textbook, together with a targeted range of supporting multimedia resources.

#### eBookPLUS features:

- **eBook** — the entire textbook in electronic format
- **Digital documents** designed for easy customisation and editing
- **Interactivities** to reinforce and enhance students' learning
- **eLessons** — engaging video clips and supporting material
- **Weblinks** to relevant support material on the internet

**eGuidePLUS** features assessment and curriculum material to support teachers.



**studyON** is an interactive and highly visual online study, revision and exam practice tool designed to help students and teachers maximise exam results.

#### studyON features:

- **Concept summary screens** provide concise explanations of key concepts, with relevant examples.
- **Access 1000+ past VCAA questions** or custom-authored practice questions at a concept, topic or entire course level, and receive immediate feedback.
- **Sit past VCAA exams** (Units 3 & 4) or **topic tests** (Units 1 & 2) in exam-like situations.
- **Video animations and interactivities** demonstrate concepts to provide a deep understanding (Units 3 & 4 only).
- **All results and performance in practice and sit questions** are tracked to a concept level to pinpoint strengths and weaknesses.



**NEED HELP?** Go to [www.jacplus.com.au](http://www.jacplus.com.au) and select the Help link.

- Visit the JacarandaPLUS Support Centre at <http://jacplus.desk.com> to access a range of step-by-step user guides, ask questions or search for information.
- **Contact** John Wiley & Sons Australia, Ltd.  
**Email:** [support@jacplus.com.au](mailto:support@jacplus.com.au)  
**Phone:** 1800 JAC PLUS (1800 522 7587)

#### Minimum requirements

JacarandaPLUS requires you to use a supported internet browser and version, otherwise you will not be able to access your resources or view all features and upgrades. Please view the complete list of JacPLUS minimum system requirements at <http://jacplus.desk.com>.

# ABOUT THE AUTHORS



## **Matt Richardson**

**Matt Richardson** is an experienced teacher of Business Management and an examination assessor. Currently the Humanities Leader at Ballarat High School, he has over 20 years' experience teaching Business Management, Legal Studies, Economics, History and English. Matt has held positions of responsibility with the Victorian Curriculum and Assessment Authority (VCAA) as a review panel member on the Business Management study design and as an examination vetter on the Business Management exam panel. Matt is the co-author of several Jacaranda textbooks in the areas of Business Management, Legal Studies, Economics and Business and Civics and Citizenship. He has presented professional development sessions for Victorian Commerce Teachers Association (VCTA) for Business Management teachers and has contributed articles to the VCTA journal *Compak*. Matt facilitates student revision and exam preparation lectures and is a prolific writer of assessment materials for Business Management.



## **Graeme Smithies**

**Graeme Smithies** has over 40 years' experience in secondary education in Victoria. During that time he has taught Legal Studies, Business Management, Economics, English, History and a variety of other Humanities and Commerce subjects. He spent over 19 years in assistant principal and principal positions in government secondary schools. He has created a range of educational resources for VCE Commerce subjects, as well as the Years 7–10 National Curriculum learning areas of Civics and Citizenship, Economics and Business, and History.



## **Simon Phelan**

**Simon Phelan** has worked at a number of government and independent schools over the past 30 years. He is currently the Senior School Leader and a senior Accounting/Business Management/Legal Studies teacher at Rosehill Secondary. He has taught VCE Business Management/Accounting/Economics/Legal Studies for 30 years and has been involved in a number of Study Design Review Panels, including the most recent panel that developed the Study Design for 2017–22. Simon is an experienced VCAA examination assessor and has served as Chief Assessor in both Accounting and Business Management. He has presented professional development sessions for teachers at Comview, the annual VCTA conference, and has contributed articles to the VCTA journal *Compak*. He has co-authored other textbooks, including *Key Concepts in VCE legal Studies*.



## **Stephen Chapman**

**Stephen Chapman** is an active teacher, author, external examination marker and consultant, with over 28 years' experience in high schools as a classroom teacher and coordinator. He has authored/co-authored 27 textbooks in the areas of Commerce, VELS Economics, Business Management and Economics. He has won awards for teaching excellence and pedagogical writings as well as a Commonwealth Parliamentary Teaching Fellowship. As a consultant, he works with schools in developing teaching programs and educational resources.

# ACKNOWLEDGEMENTS

The authors would like to thank those people who have played a key role in the production of this text. Their families and friends were always patient and supportive, especially when deadlines were imminent.

Stephen Chapman wishes to acknowledge his late father Jack, late mother Lorna, mother-in-law Thelo and late father-in-law Rae, who have encouraged him as a student, educator and writer for many years — and a special thanks to Wendy and Max.

Matt Richardson wishes to acknowledge his late mother Jan and his father Kevin for inspiring in him a love of learning and teaching, as well as common sense. Matt is especially thankful for the patience of Eve, Gemma, Charlie and Bridie.

Simon Phelan wishes to acknowledge his family for their support, patience and encouragement during this project – Paula, Kate & Matt, Luke & Emily and Mark.

The publisher acknowledges Carmel Taylor for her contribution to this text.

Mention also needs to be made to those businesspeople who gave of their time and expertise: Guy Bartlett, Andrew Curry, Harriet Michaels, Mick McGrath, Simone McGrath, Michael Prevedello and Beau Wilkes.

The staff of Wiley are also deserving of the highest praise.

Evan Curnow, Publisher;

Kevin Young, Project Editor;

Catherine Spedding, Copyeditor;

Renee Bryon and Brian Mooney, Copyright and Image Researchers;

Jo Hawthorne, Senior Production Controller;

Siale Gilmour, Art Coordinator; and

Delia Sala, Graphic Designer.

Their professionalism and expertise are greatly admired and appreciated. We build on each other's work.

The authors and publisher would like to thank the following copyright holders, organisations and individuals for their permission to reproduce copyright material in this book.

---

## Images and text:

• © AAP Newswire: 13/NBN / AAP; 25/Newzulu / AAP; 53(b); 62/AAP; 69/AP Photo / Jae C. Hong; 156/Brambles Ltd; 162/TARONGA ZOO; 191/Dave Hunt; 211/JULIAN SMITH / AAP • © Alamy: 193(a)/© SOTK2011; 193(c)/© Alex Segre; 198; 230/© INTERFOTO • © Alamy Australia Pty Ltd: 46/Hero Images Inc.; 84/AXINITE; 109/Erik Reis • Austrade: 221/© Australian Trade and Investment Commission • © Australia Post: 138/Quote taken from Australia Post publication • © Australian Council of Trade Unions: 116/© Australian Council of Trade Unions • © Australian Retailers Association: 115/© Australian Retailers Association • © CEB: 58–59/CEB, Turnaround Challenge, 2016, <http://www.ceoforum.com.au/article-detail.cfm?cid=15926&t=/Andrew-Reeves-George-Weston-Foods/Turnaround-challenge> • © Change Factory: 227(a)/© Change Factory. Dwyer, Kevin. • © Creative Commons: 7/Table 1, businesses by industry division from ABS 81650, counts of Australian businesses, including entries and exits, June 2011 to June 2015; 123/Data derived from Australian Bureau of Statistics, Australian labourmarket statistics, cat. no. 6105.0.; 134/Adapted from Business Victoria 2005, 'Gippsland Water', Workplace Excellence Awards fact sheet • © Digital Vision: 238/Digital Vision • © Evan Curnow, Tim McDonald: 90/Evan Curnow • © Fancy: 51 • © FareShare: 19/Rebecca Newman / FareShare • © Fonda Restaurants: 90/FONDA MEXICAN • © Getty Images Australia: 3(b)/Ian Waldie / Bloomberg via Getty Images; 57/Bloomberg / Contributor; 61/George Doyle; 136–137/PATRICK HERTZOG/AFP; 151/Ibrahim Yozoglu/Anadolu Agency; 160/Hulton Archive; 160/Science Photo Library; 166/PETER PARKS/AFP; 168/© Matt Cardy/ Stringer; 185/Vasko; 239/monkeybusinessimages/iStock / Getty Images Plus • © John Wiley: 213(a) • © John Wiley & Sons: 176/© John Wiley & Sons Australia, Photo taken by Chris Harrison • © John Wiley & Sons Australia: 9/© John Wiley & Sons Australia/ Photo by Renee Bryon • Kathryn MacMillan : 203, 203/Kathryn MacMillan • © M&J Chickens: 140 • © Master Builders Australia: 115/Master Builders Association • © Nett: 202–203/© NETT. nett.com.au • © Newspix: 1/© Jon Hargest/ Newspix / News Ltd / 3rd Party Managed Reproduction & Supply Rights; 3/Newspix / Lyndon Mechielsen; 12/Trevor Pinder; 24/Kym Smith; 28/Andrew Batsch; 29/David Hill; 30/Ian Munro; 31/Sam Mooy; 49/Peter Brennan; 53(a/



Adam Ward; 124/Jason Sammon; 137/News Ltd; 167/Kim Eiszele; 234/Steve Tanner • © Nik Scott Illustrations: 120/© Nik Scott Illustrations • © Photodisc: 20, 47, 134, 155, 227, 238, 238/ Photodisc • © Pro Bono Australia: 103–104/by Lali Wiratunga, National Manager, Davidson Institute & Social Sector Segment, Westpac; first published online at [probonoaustralia.com.au](http://probonoaustralia.com.au) • © Qantas: 179/Qantas Annual Report 2015 • © Royal Australian Navy: 94–95/© Commonwealth of Australia 2015 • © Shutterstock: 3(a)/mangostock ; 3(c), 220/Nils Verseemann ; 3(d)/mavo; 4 (top left)/Sunflowerey; 4 (top right), 177, 191/TK Kurikawa; 4 (bottom)/Greg Epperson; 6/Gilles Paire; 11/DavidEwingPhotography; 13/Nikitina Olga; 14/Grimgram; 15/Jacqui Martin; 21/dizain; 22/garagestock; 27/Glowonconcept; 36–37, 127/Robert Kneschke; 37/Ken Wolter38/06photo; 39, 232/Goodluz; 39/Africa Studio; 39/Pavel L Photo and Video; 40/Mark Agnor; 41/Hugo Felix; 42, 141, 141/racorn; 43/BlueSkyImage; 44, 97, 195/Pressmaster; 45/Perspectives - Jeff Smith; 54/Asif Islam; 55/Rawpixel.com; 56, 74/wavebreakmedia; 58/Konstantin Shevtsov; 68–69/Ollyy; 70/Steve Lovegrove; 72/Rawpixel.com; 75/Dragon Images; 77, 108, 153, 226/Monkey Business Images; 78/ Pablo Calvog; 79, 114, 128/wavebreakmedia; 80/Phovoir; 81/Konstantin Chagin; 83/kurhan; 86/ Peggy Blume; 87/Andrey\_Popov; 89, 150/bikeriderlondon; 95/alexjey; 99, 104/Monkey Business Images; 100/beerhoff; 102/imtmphoto; 103/Michael D Brown; 105, 156/Andrey\_Popov; 106/ madpixblue; 79, 114, 128/wavebreakmedia; 120/Yuriy Rudy; 122, 131, 212/Pressmaster; 125/ Marcin Balcerzak; 129/ProStockStudio; 138/dotshock; 142/Zurijeta; 143/Maurizio Milanesio; 144/ Rawpixel; 147/angellodeco; 148/Rainer Plendl; 149/Kotsovolos Panagiotis; 154/Nils Verseemann; 157/Kristin Speed; 158/Anne Greenwood; 161/wavebreakmedia; 161/Yuganov Konstantin; 163/ foto infot; 165/dotshock; 169/Frame China; 169/Tashatuvango; 170/Dmitry Kalinovsky; 171/ Sergey Nivens; 178–179/Peterfz30; 180/Caroonresource; 181/TK Kurikawa; 182/garagestock; 184/Dong liu; 185/Fotos593; 192/Phillip Minnis; 193(b)/Bluskystudio; 193/LDprod; 194/Stephen Denness; 196/Elnur; 202/Dmitry Kalinovsky; 205/Anan Kaewkhammul; 208/Perfect Gui; 210–211/ Robert Mandel; 213/kovacs; 214/Bikeworldtravel; 215/TijanaM; 216/SpeedKingz; 217/dizain; 219/Niloo; 228/Andrey Burmakin; 229/Photographie.eu; 232/Andresr; 233/FiledIMAGE; 235/ Aysezgicmeli; 237/Volodymyr Krasnyuk; 237/TaraPatta • © The Society for Organizational Learning: 222/The Society for Organizational Learning • © Top Employers Institute: 72/Top Employers Institute • © VACC: 115/VACC • Selected extracts from the VCE Business Management Study Design (2017-2021) are copyright Victorian Curriculum and Assessment Authority (VCAA), reproduced by permission. VCE® is a registered trademark of the VCAA. The VCAA does not endorse this product and makes no warranties regarding the correctness or accuracy of its content. To the extent permitted by law, the VCAA excludes all liability for any loss or damage suffered or incurred as a result of accessing, using or relying on the content. Current VCE Study Designs and related content can be accessed directly at [www.vcaa.vic.edu.au](http://www.vcaa.vic.edu.au). Teachers are advised to check the VCAA Bulletin for updates.

Every effort has been made to trace the ownership of copyright material. Information that will enable the publisher to rectify any error or omission in subsequent reprints will be welcome. In such cases, please contact the Permissions Section of John Wiley & Sons Australia, Ltd.



# UNIT 3

# MANAGING A BUSINESS

## Introducing a corporate manager

Naomi Milgrom (pictured below) is the chief executive officer (CEO) of ARJ Group Holdings Pty Ltd. While you may not have heard of this privately owned company, you may know the retail chains that it operates: Sussan, Sportsgirl and Suzanne Grae. The ARJ Group employs almost 4000 staff and sells a wide range of women's wear to women of all ages. In 2015, the company earned revenue of over \$475 million. Milgrom, widely recognised for her contributions to the fashion and retail industries, has steered the company through good times and bad.

Milgrom is an experienced manager and business woman. In 1999, she bought the then ailing retail chain Sportsgirl — which had been losing money for five years — and transformed it into a profitable business by the year 2000, and then to the lucrative business it is today. Milgrom believes the secret to running a successful business is the people within the business — the employees. She has been quoted as saying, 'talented people in the right culture, with the right coaching and development, can provide a competitive edge that an organisation is looking for'. She also believes that an autocratic

management style is no longer appropriate and managers who are focused on, and exclusively concerned with, cost and profit (the bottom line) are ineffective. Employees are important to Milgrom's business, as is adapting to changes in the economy and consumer trends to keep the business flourishing.



AREA OF STUDY	OUTCOME
<b>1 Business foundations</b>	Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills
<b>2 Managing employees</b>	Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees
<b>3 Operations management</b>	Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations

# CHAPTER 1

## The nature of business

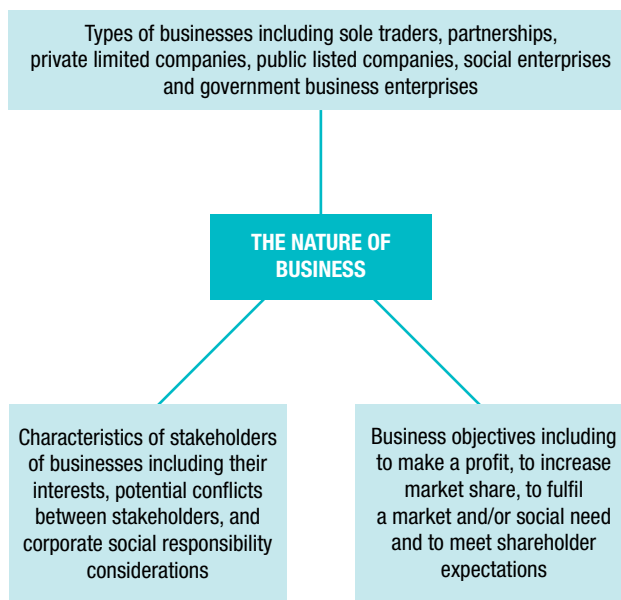
### WHY IT IS IMPORTANT

There are approximately 2.1 million businesses in Australia. Of these, the vast majority are sole traders and partnerships. If you look around your local area you will see plenty of examples of businesses. Some are considered small because they have fewer than 20 employees. They might be sole traders and partnerships. There are also companies, social enterprises and government business enterprises. Have you ever heard of Wesfarmers? It is one of Australia's largest companies and any one of its 210 000 employees might work for Coles, Bunnings, Officeworks, Target, Kmart or one of Wesfarmers' coal, energy, fertiliser or insurance interests. All of these different types of businesses have some things in common. They have objectives and all have stakeholders with vested interests in the business. In this chapter, you will be studying the types of businesses as well as the various objectives and stakeholders they have.

### WHAT YOU WILL LEARN

#### Key knowledge

Use each of the points below from the Business Management study design as a heading in your summary notes.

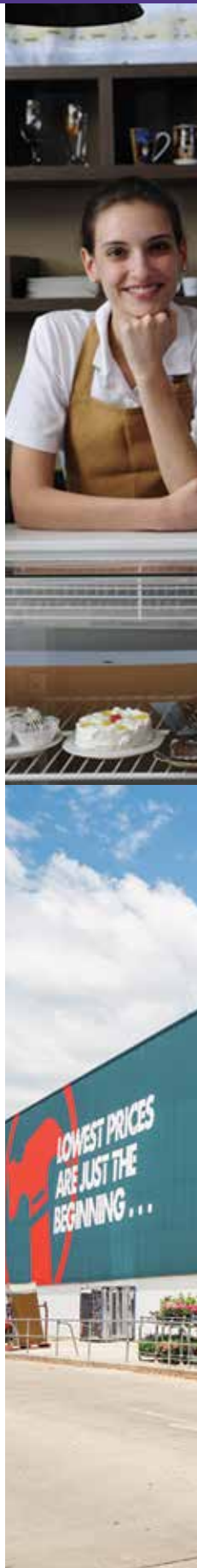


#### Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- define, describe and apply relevant business management concepts and terms
- analyse case studies and contemporary examples of business management
- interpret, discuss and evaluate business information and ideas
- apply business management knowledge to practical and/or simulated business situations.

VCE Business Management Study Design extracts © VCAA; reproduced by permission.







## NBN Co Limited — a government business enterprise

Many of Australia's businesses are household names. You may have heard of the National Broadband Network in the media. What you may not know is that NBN Co Limited, a company established by the government, was created in 2009 to design, build and operate the infrastructure (basic facilities, services and installations) that will enable advanced digital services to be provided to Australians.

NBN Co is a government business enterprise (GBE). This means that it is owned by the Federal Government. Currently, NBN Co employs over 3000 people and has estimated that thousands of local jobs will be created as they continue to build the \$38 billion network.

The National Broadband Network is the largest infrastructure project in Australia's history to date. It has to be carefully designed and executed to ensure it delivers maximum value to customers. When the National Broadband Network is finally completed, it will allow people and businesses to access high-speed broadband services all across Australia.



The National Broadband Network, managed by a government business enterprise, will benefit all Australians.

# 1.1 Types of businesses — small, medium-sized and large businesses



**KEY CONCEPT** Businesses come in many different sizes — small, medium, large or somewhere in between.



Just like soft drinks, businesses come in three different sizes: small, medium and large. They also come in different flavours; that is, they can be classified according to the different parts of the economy that they operate in as well as to the particular good or service that they produce.



What size shoe do you wear? Businesses, like shoe sizes, often cannot be categorised simply as small, medium or large.

**Shareholders** (or members) are the owners of a company.

**Revenue** is the income that a business earns from the sale of goods and services to customers.

**Assets** are items of value owned by a business.

**Market share** is the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time.

## Small, medium or large?

While there is no one universally accepted definition of a small, medium or large business, a number of measurements can be used to determine the size of a business, including:

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as ‘non-employing’. A small business is defined by the ABS as one that employs fewer than 20 people. A medium business is considered to be one that employs 20 or more people, but fewer than 200 people; a large business is considered to be one that employs 200 or more people.
- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or **shareholders**).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of **revenue** earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than \$2 million in annual turnover (the money received from sales).
- the amount of **assets** owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than \$200 million
- **market share** (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.



We've looked at a number of measurements for distinguishing the size of a business, but there are many other factors that can help us to make a final judgement about the size of a business, such as:

- who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- how much of the market does the market control? — a small business will most likely have little control within the market. Smaller businesses do not usually have a large share of the total market sales and therefore have less control over such things as price. If, for example, a business has a monopoly it means they are the only seller of that product and will be able to dictate price because there are no cheaper alternatives. It is more likely that larger businesses will find themselves in this situation.
- is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of your local hamburger shop will run the business, and will not answer to a larger business such as McDonald's.
- how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

The table below summarises the features, and distinctions between, the different sized businesses.

Distinctions between small, medium-sized and large businesses

Characteristics	Small	Medium-sized	Large
Business type	Corner store Local mechanic Hairdressing salon	Services club Motel/hotel Engineering factory	Woolworths Qantas National Australia Bank
Number of employees according to the ABS business register definition	Fewer than 20 employees	20–199 employees	200 or more employees
Type of ownership	Independently owned and operated by usually one or two people	Owned and operated by a few people and/or private shareholders	Owned usually by thousands of public shareholders
Most common legal structure	Sole trader Partnership	Partnership Private company	Public company (numerous)
Decision making	Owner responsible for majority of decisions; simple and quick implementation of decisions	Owner basically responsible for majority of decisions; more complicated decision making with slower implementation, due to influence of directors	Complex decision making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management

(continued)

### DID YOU KNOW?

In June 2015 there were more than 2.0 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as a micro business. Further to this, 1.3 million of these businesses are non-employing — they have no employees.

# 1.1 Types of businesses — small, medium-sized and large businesses

Distinctions between small, medium-sized and large businesses (continued)

Characteristics	Small	Medium-sized	Large
Sources of finance	Owner (usually from own savings or a loan); difficulty in accessing loans	Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans	Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions
Market share	Small, usually local area; not dominant in the industry	Medium-sized, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries



Australia Post is a large business because it employs more than 36 000 employees and earned revenue of \$6.4 billion in 2014–15. As of June 2015, the business owned assets of more than \$5 billion. Australia Post is also a government business enterprise as the Commonwealth Government of Australia is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.

**Industry** is the classification of groups of businesses related to the particular good or service they produce.

## Public or private sector

According to the ABS, just over 2 million businesses were operating in the private sector in June 2015. The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. In 2015 it estimated that there were only 500 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

## Business activity

Businesses can also be classified under the **industry** sector in which they operate. These sectors are known as primary, secondary and tertiary, and are determined by the good or service that businesses produce. Large businesses such as OZ Minerals Ltd are involved in primary industry (farming, mining, forestry). These are industries concerned with extracting resources directly from nature. Manufacturers such as Kellogg (Aust.) Pty Ltd operate in the secondary industry (where raw materials are turned into finished or semi-finished products). The secondary industry takes raw materials from the primary sector and adds value to them, by processing or manufacturing materials, or through assembly and construction. The third category is the tertiary industry, which involves the provision of services. For example, businesses in the tertiary industry will operate in wholesaling, retailing and transport. Optus is a large company that works in the tertiary industry. The tertiary sector can be further divided into the quaternary sector, which involves the provision of information in areas such as the media, computing, finance, property and education, and the quinary sector, which involves paid and voluntary domestic services.

Australian businesses can also be categorised by the individual industries that they operate in. When it gathers data, the ABS will typically group businesses that provide a particular good or service into 19 industries. These are made up of, for example, mining, manufacturing, retail, construction, education and health. The table below shows these industries and the number of businesses operating within each industry in Australia.

## Number of businesses by industry in Australia, 2014–15

Industry division	Number of businesses operating June 2015	Industry division	Number of businesses operating June 2015
Agriculture, forestry and fishing	179 549	Financial and insurance services	184 183
Mining	8 067	Rental, hiring and real estate services	234 228
Manufacturing	83 489	Professional, scientific and technical services	255 064
Electricity, gas, water and waste services	6 063	Administrative and support services	79 751
Construction	345 479	Public administration and safety	7 274
Wholesale trade	76 659	Education and training	27 275
Retail trade	132 382	Health care and social assistance	117 915
Accommodation and food services	87 555	Arts and recreation services	26 127
Transport, postal and warehousing	127 069	Other services	89 341
Information media and telecommunications	19 481	Currently unknown <sup>(a)</sup>	34 284
		<b>All industries</b>	<b>2 121 235</b>

<sup>(a)</sup> This category consists of those businesses that are yet to be coded by the ATO to an industry.

**Source:** Table 1, businesses by industry division from ABS 81 650, counts of Australian businesses, including entries and exits, June 2011 to June 2015.



### TEST your understanding

- Distinguish between revenue and assets.
- State whether the following businesses are small, medium or large, and the reason for your decision.
  - Qantas employs approximately 33 000 people.
  - National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.
  - Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
  - Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
- Are the following statements true or false?
  - Large businesses employ a small number of people.
  - Small businesses do not usually have a large share of a particular market.
  - In small businesses, decisions are usually made by the owners of the business.
  - A partnership is a business owned by a husband and wife.
- Explain the difference between the private sector and public sector.

- Outline the key characteristics of the primary, secondary and tertiary industries.

### APPLY your understanding

- Prepare a database of 10–15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions. One example has been entered for you.
  - What percentage of the businesses in your database are small? What percentages are medium-sized and large?
  - How do the percentages compare with the figures for Australia?
  - Provide two reasons for the differences/similarities between the figures.
- Look for articles about small, medium-sized and large businesses that interest you on the Internet or in newspapers. Start a file of news clippings or printouts and write an information page to attach to each article. Include on the information page the following:
  - what the article is about
  - background information about the business
  - the section of the VCE Business Management course to which the article relates, e.g. Area of study 1, Outcome 1.

Business name	Business activity	No. of employees	Small business	Medium-sized business	Large business	Industry sector	Industry division
1 Redbank Café	Food and drink	4	✓			Tertiary	Retail trade

# 1.2 Types of businesses — sole traders and partnerships



**KEY CONCEPT** There are a number of types of businesses, including sole traders and partnerships. Each type of business has certain advantages and disadvantages.

## DID YOU KNOW?

The outcome for Area of Study 1 in Unit 3 states that you need to 'be able to discuss the key characteristics of businesses'. This suggests that you should know the advantages and disadvantages of each type of business.

A **sole trader** business is a business owned and operated by one person.

### study on

Unit 3 **Sole traders**

AOS 1 Summary screen and practice questions

Topic 1

Concept 1

**Unlimited liability** means the business owner is personally responsible for all the debts of his or her business.

### eBook plus

#### eLesson A family business — Fleming's Nurseries

Watch this video featuring Fleming's Nurseries and complete the attached worksheet.

**Searchlight ID: eles-1063**

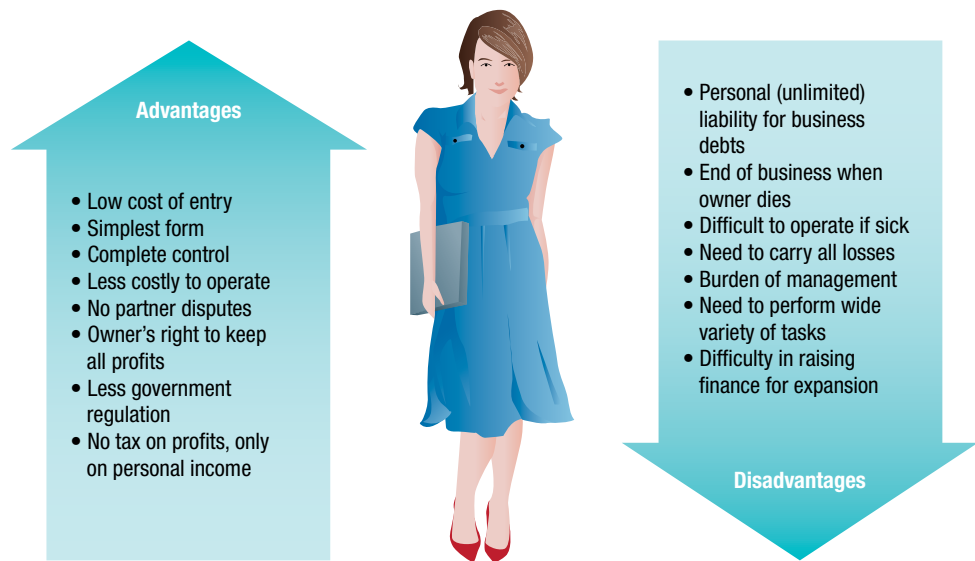
A **partnership** is a business owned by a minimum of two and a maximum of 20 people.

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are sole traders, whereby an individual runs a business on their own; partnerships, whereby a group of people will run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public listed companies in the next section. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in section 1.4.

## Sole trader

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

This type of business is easy to establish, as the only legal requirement specific to a sole trader is that the name of the business must be registered with the Australian Securities and Investments Commission (ASIC), but only if it is different from the name of the owner. A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, then the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as **unlimited liability**, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.



The advantages and disadvantages of being a sole trader

## Partnership

A **partnership** is a business owned by two or more people. Most partnerships require a maximum of 20 partners. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate

legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, the partners in a business are also subject to unlimited liability, and so may be personally responsible for the debts of the business.

A partnership can be made orally or in writing, or by implication (that is, if two people set up a business together *without* a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see below).

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

## study on

### Unit 3 Partnerships

AOS 1 Summary screen and practice questions

### Topic 1

### Concept 2

A **silent** or **sleeping partner** contributes financially to the business but takes no part in the running of the partnership.



The advantages and disadvantages of a partnership

While a sole trader pays tax using his or her personal tax file number, a partnership has its own tax file number — separate from those of each of the partners — and lodges its own tax return. Once the ATO has assessed the partnership's tax return and all taxes have been paid, the profits are divided among the partners according to the partnership agreement. Each partner then adds their share of the profit (or loss) to their personal income to be assessed by the ATO.

### ! DID YOU KNOW?

A partnership agreement contains many points including:

- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- methods of resolving disputes.



### TEST your understanding

- 1 Define the following terms in your own words:
  - (a) unlimited liability
  - (b) shareholders.
- 2 Explain the difference between a sole trader and a partnership.
- 3 Under what circumstances will a sole trader not need to register a business name?
- 4 Identify three advantages and three disadvantages in setting up a business as a sole trader. For each advantage and disadvantage, explain why you believe it is an advantage or a disadvantage.
- 5 Outline the advantages and disadvantages of a partnership.

### APPLY your understanding

- 6 Using the internet, find:
  - (a) five examples of sole traders or partnerships that would not have to register their business name
  - (b) five examples of businesses that would have to register their name.
- 7 Adam operates a pizza and pasta shop as a sole trader and he employs two cooks, one full time and one part time. He decides to offer the full-time cook a 40 per cent partnership in the business.
  - (a) What advantages will the owner gain from this arrangement that he does not have as a sole trader?
  - (b) What disadvantages could the owner experience from the partnership arrangement?
  - (c) Explain the advantages and disadvantages to the cook of entering into the partnership.
  - (d) Prepare a list of questions the cook should ask the owner before entering into the partnership.