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VCE BUSINESS MANAGEMENT UNITS 3 AND 4

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Science Press

Unit 3 Managing a Business

Unit 4 Transforming a Business

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Unit 3

Managing a Business

3.1.1 Types of businesses.

Type of businesses

Sole trader	Partnership	Private limited company	Public listed company	Social enterprise	Government business enterprise
	Unincorporated – unlimited liability		Unincorporated – limited liability		Other goals: to benefit social causes and improve quality of life
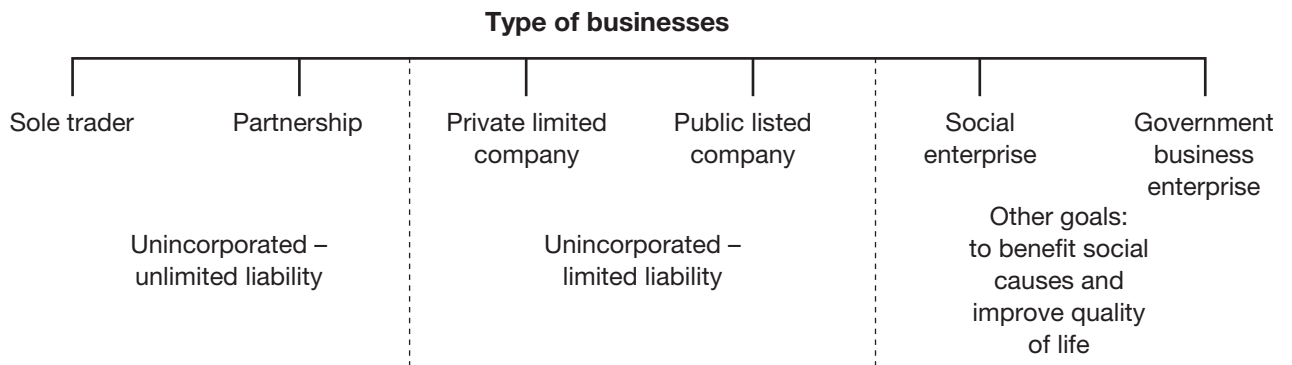
3.1.1.1 Describe a sole tradership.

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3.1.1.2 Discuss the advantages and disadvantages of a sole tradership.

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3.1.1.3 Describe a partnership.

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3.1.1.4 Discuss the advantages and disadvantages of a partnership.

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3.1.1.5 Differentiate between a private limited company and a public listed company.

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3.1.1.14 Use the following information to answer this question.

> ### Case Study: Medibank Private Limited
>
> Below is an extract from an article published in the Parliament of Australia about the privatisation of Medibank Private Limited (MPL).
>
> 'One of the main arguments used in support of a sale is that selling MPL will improve its efficiency by lowering management costs and facilitating expansion into new business areas. This would in turn support greater competition in the private health insurance sector, ultimately benefiting consumers.
>
> […]
>
> Finally, there are concerns that selling MPL would raise premiums. The Australian Medical Association (AMA) has argued in a Senate submission that a sale must lift premiums. This is because a buyer would seek to maximise their returns by optimising premium revenue.'
>
> Biggs, A, 2014. Sale of Medibank Private. [online] Aph.gov.au. Available at: <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2014/April/Sale_of_Medibank_Private>

Discuss the privatisation of Medibank Private Limited.

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3.1.2 Business objectives.

Meet shareholder expectations

Profit

Fulfil social needs

Business objectives

Market share

Fulfil market needs

Effectiveness
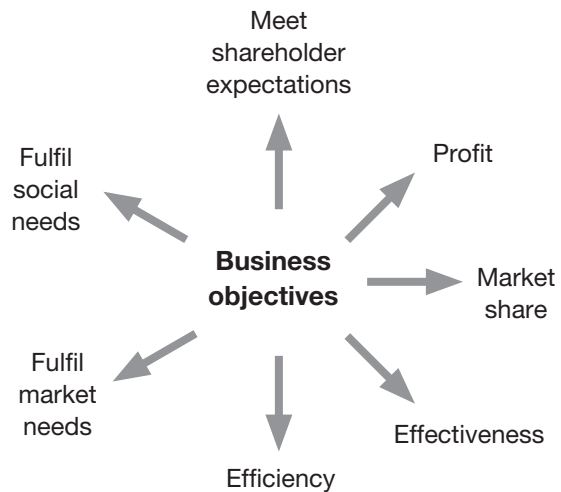
Efficiency

3.1.2.1 Define profit.

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3.1.2.2 Identify the formula to calculate profit.

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3.1.2.3 Identify two ways to increase profit.

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3.1.2.4 Define market share.

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3.1.2.5 Differentiate between effectiveness and efficiency.

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3.1.2.6 Outline the steps a business may take to identify market needs.

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3.1.5   Management styles.

Leadership styles
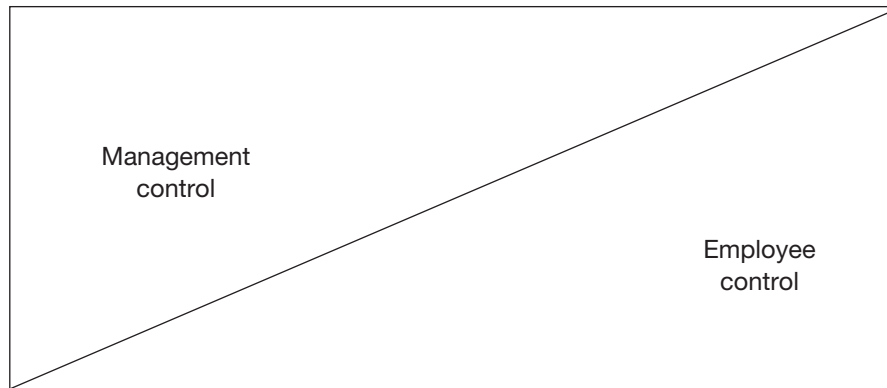
Autocratic   Persuasive   Consultative   Participative   Laissez-faire

3.1.5.1   Complete the following table to describe the different management styles.

Management style	Features and characteristics	Advantages	Disadvantages
Autocratic			
Persuasive			
Consultative			
Participative			
Laissez-faire			

Area Of Study 2 Human Resource Management.

3.2.1 **Relationship between human resource management and business objectives.**

3.2.1.1 Describe the role of human resource management.

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3.2.1.2 Analyse how effective human resource management can help a business achieve its objectives.

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3.2.2 **Theories of motivation.**

3.2.2.1 Use the following diagram to answer this question.

Maslow's hierarchy of needs

Strategies:

Strategies:

Strategies:

Strategies:

Strategies:
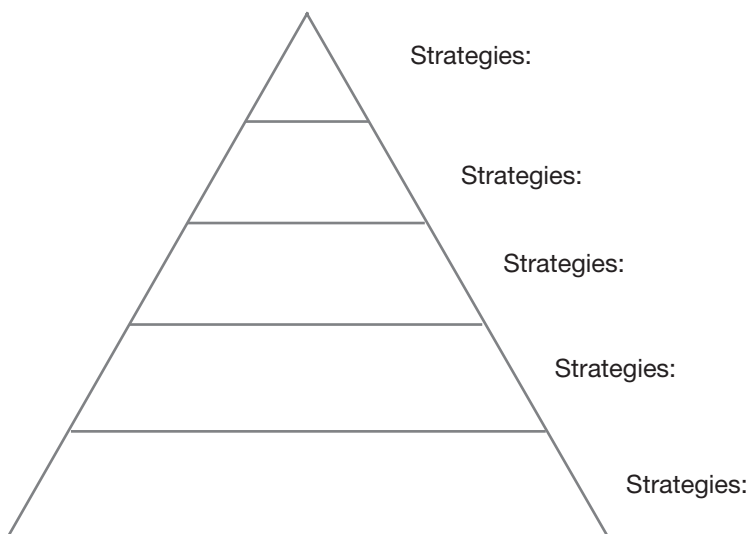
Complete the above diagram by identifying the five human needs as outlined in Maslow's hierarchy of needs. Identify one strategy that a manager could use to satisfy employee motivation at each level.

3.2.2.2 Differentiate between the lower order needs and the higher order needs on Maslow's hierarchy of needs.

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3.2.5.6 Use the following information to answer this question.

Case Study: Facebook

Facebook conducts performance reviews every six months to formally collect insights from an employee's managers and closest colleagues.

[…]

At Facebook, these reviews are checkpoints rather than investigative, revealing evaluations. 'We do it twice a year because the business moves very quickly and our product moves very quickly, and if you wait a whole year, a lot of things have changed,' Goler said.

These evaluations can be used to determine new responsibilities for an exceptional employee, which can then lead to a subsequent compensation discussion. But they aren't used to decide that an underperforming employee should be fired, Goler said, since managers would ideally not allow poor performance to persist until a formal meeting.

[…]

All of the feedback collected in this system is fair game for the biannual performance review, and managers also send analysis requests to three to five of the team members that work most closely with an employee to see how they behave as teammates. (Goler noted that it works both ways – each of a manager's direct reports are asked to give feedback on their boss's performance, too.)

An average of three to five peer reviews are considered for an individual, Goler explained, because Facebook has found that you start seeing the same insights after five of them. 'Trying to be efficient about the way it's done is important,' she said.

Employees are also asked to evaluate themselves, to complete the holistic nature of the review.

After collecting insight on their employees, managers of teams that work together will meet and discuss their findings, to validate information as well as get an idea of where everyone stands.

Feloni, R, 2016. Facebook's HR chief explains how the company does performance reviews. [online] Business Insider. Available at: <https://www.businessinsider.com/facebook-hr-chief-explains-its-performance-reviews-2016-2>

Analyse the different performance management strategies used by Facebook.

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3.2.6.14 Use the following information to answer this question.

> **Dismissal**
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> Cathy is eight months pregnant and works as a waitress at a popular restaurant. She has been feeling ill from her pregnancy, frequenting the toilets during service time. Her service is also slower than normal due to her pregnancy. During a busy dinner shift, a customer became impatient with Cathy and loudly complained to her manager, causing a scene which embarrassed the manager. After the shift was done, Cathy was handed a letter terminating her employment immediately.

Explain why Cathy's dismissal may be considered unlawful.

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3.2.7　Participants in the workplace.

Workplace participants
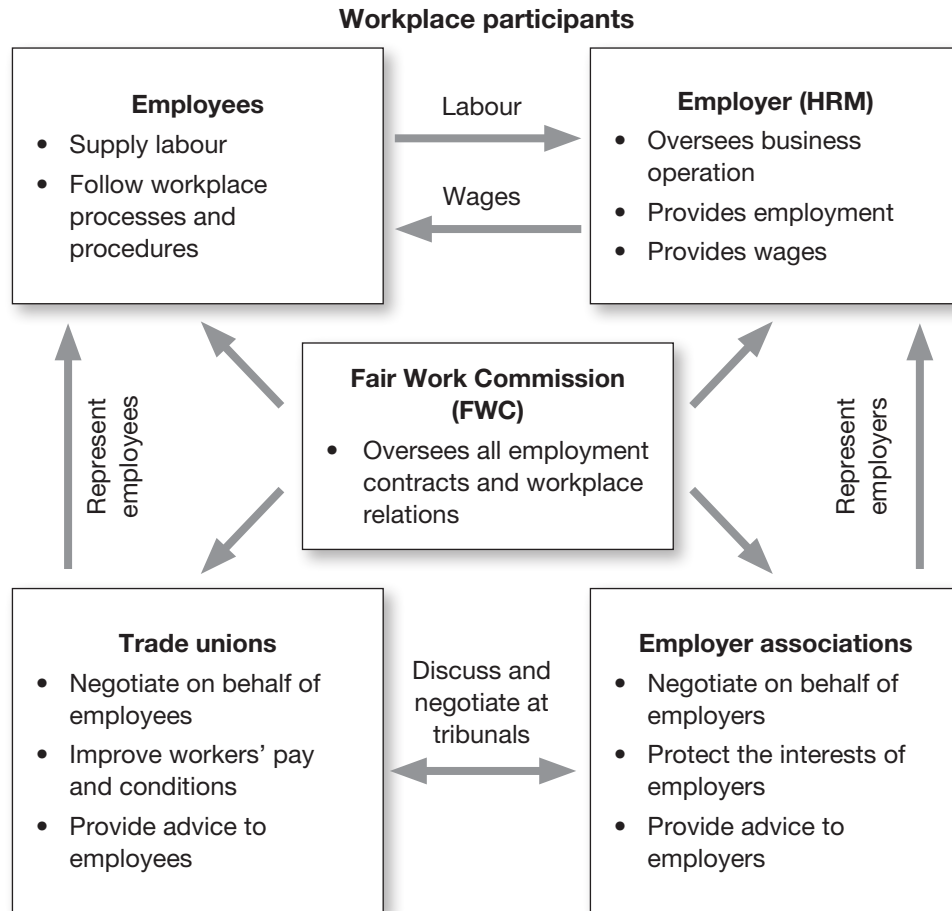
3.2.7.1　Define workplace relations.

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3.2.7.2　Describe the roles of human resource managers in the workplace in regards to workplace relations.

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3.2.7.3　Describe the roles of employees in the workplace in regards to workplace relations.

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3.2.7.4　Compare and contrast the roles of an employer association and a union.

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Answers

Unit 3 Managing a Business

3.1.1   **Types of businesses.**

3.1.1.1   A sole trader is a person who owns, starts, and operates a business alone. A sole trader invests their own money into their business, and risks losing their personal assets if their business fails.

3.1.1.2   Some advantages of sole tradership are that the owner has full control over business decisions. The sole trader can choose their own working hours, and they can keep all the profits made from the business. Sole tradership is also the cheapest business structure to establish. Some disadvantages are that the sole trader will have no one else to consult with. This means that they have limited skills and experience to pull from. A sole trader will be the only person responsible for the business and will need to shoulder all business costs alone. Sole tradership also has unlimited liability, which means that the owner will be liable for all the business's taxation responsibilities and business debt. The sole trader can be forced to use their personal assets to repay their business creditors.

3.1.1.3   A partnership consists of two to 20 partners who own and operate a private sector business. Partners share business costs, profits, and the responsibility of running the business. Partnerships have unlimited liability, which means the partners who own the business will be liable for the business's tax and debt responsibilities.

3.1.1.4   Some advantages of a partnership are that there are multiple owners to share the responsibility of running the business, including the cost of running a business. The owners can share ideas and expertise with one another to increase the chance of business success. In a partnership, the business can continue to exist and succeed even if one owner is sick, away, or dead. Some disadvantages include potential internal disputes, as different owners may have different objectives for the business. The partnership structure also has unlimited liability, which means the owners will be liable for all the business's taxation responsibilities and business debt and can be forced to use their personal assets to repay their business creditors.

3.1.1.5   A private limited company is an incorporated business that is owned by one to 50 private shareholders. A private limited company is not listed publicly, that is, its shares cannot be traded on the stock exchange. Shareholders can invest in a private limited company through invitation only. On the other hand, the shares of a public listed company are traded publicly through the stock exchange. A public listed company is an incorporated business that is owned by general public shareholders with shares listed on the Australian Securities Exchange (ASX). Other shareholders of a public listed company cannot limit the sale or purchase of shares of the business.

3.1.1.6   Incorporation is the process that turns an unincorporated business into an incorporated business. An unincorporated business has unlimited liability, meaning that the owner or owners of the business can be personally liable for its business's liabilities. On the other hand, an incorporated business is a separate legal entity to its owners and will be liable for its own obligations. An incorporated business 'takes on a life of its own' and can continue to exist even after its owners leave or die.

3.1.1.7   A business may choose to undertake the incorporation process to separate itself from its owners. Becoming a separate legal entity allows for business continuity, which means the business can continue to exist outside of its owners. The business owners can also limit their personal liabilities, distancing themselves from the business's decisions and debts. An incorporated business also has greater access to capital through the selling of business shares or business loans.

3.1.1.8   A social enterprise is an organisation that functions like a business to improve social and environmental wellbeing. Social enterprises aim to maximise profits that they will then invest in improving societal issues such as justice and equality or environmental issues such as climate change.

3.1.1.9   The objectives of a social enterprise and a public/private company differ greatly. While its core business activities may seem similar (making profit), a social enterprise will focus on using its profits to advance the causes it cares about. Public/private companies may engage in socially responsible activities, but the main goal of the business is to make profit for its owners.

3.1.1.10   Government business enterprises are businesses that are owned by the government (public) with the purpose of making profits while providing important services to the community.

3.1.1.11   Three characteristics of government business enterprises are (1) they exist to engage in commercial activities in the private sector, (2) it is controlled by government, and (3) it has a separate legal existence from the government.

3.1.1.12   Private enterprises are privately owned while government business enterprises (GBEs) are owned by the government (public). Private enterprises aim to improve efficiency in order to increase profit, while GBEs tend to be less efficient due to the high amounts of bureaucratic 'red tape'. GBEs exist in order to deliver important services to communities at a lower price than what their private counterparts may charge. An example of a GBE is Australia Post. If privatised, some communities may not be able to afford pricier postal services. In addition, remote and rural communities may not be able to access these services as private businesses may choose not to service these areas due to the high costs involved.

3.1.1.13   Privatisation refers to the transfer of ownership of a government business enterprise (GBE) from the government (public) to private owners. Governments may choose to sell GBEs as a way to raise revenue from the sale of the business, as well as create a business that is more efficient in its processes. A privatised business will focus on making profit, and will thus find ways to eliminate unnecessary costs, lessen bureaucracy, improve efficiency and increase productivity.

3.1.5 Management styles.

3.1.5.1

Management style	Features and characteristics	Advantages	Disadvantages
Autocratic	• Centralised control with a single source of authority. • Top-down communication channel. • Rigid hierarchy structure. • Motivation through rewards and punishment.	• Valuable in times of crisis or when decisions are time sensitive.	• Creates a 'them-versus-us' mentality between management and employees. • Creates a need for constant supervision. • Inefficiency caused by bureaucracy.
Persuasive	• Similar to autocratic style but some discussions will be had with the employees after a decision has been made.	• Employees may feel that their insights are valued. • Employees are encouraged to do the task through persuasive techniques rather than through rewards and punishments.	• Management will continually need to find new persuasive techniques to encourage employees.
Consultative	• Decision making still falls on management but employees are consulted before decisions are made. • Encouraging two-way communication channels.	• Encourages employee participation.	• Costly. • Delays decision making processes.
Participative	• Authority and power is spread throughout the business. • Flat hierarchical structure. • Two-way communication. • Employees are actively involved in decision making processes.	• Empowers employees. • Employees are responsible for their decisions and performance. • Employees are intrinsically motivated. • High employee satisfaction.	• May cause internal disputes.
Laissez-faire	• The management is not responsible for the direction of the business, rather, it is shared among all employees.	• Employees take responsibility for making business decisions.	• Lose track of business goals and direction. • May cause internal disputes.

3.1.6 The appropriateness of management styles.

3.1.6.1 An autocratic management style is the most suitable style of management during times of crisis, where decisions must be made in a timely manner. The team leader must be able to give instructions knowing that the team will follow them exactly with no questions asked. An example of a situation where an autocratic style is most appropriate is in the army. Soldiers are expected to follow the commands of their superiors, or they will be punished.

3.1.6.2 A participative management style is most suitable for businesses with highly skilled, highly experienced, and highly motivated staff. The employees are entrusted with the responsibility of managing their own tasks and are not micromanaged. This will lead to high employee satisfaction. Business owners and managers will also benefit from the experiences of the employees by including them in the decision making process.

3.1.6.3   (a)   Persuasive.

           (b)   Consultative.

           (c)   Laissez-faire.

3.2.2 Theories of motivation.

3.2.2.1

Maslow's hierarchy of needs

Self-actualisation — Strategies: appropriately challenging job, opportunity to set individual work goals, self-directed work

Self-esteem — Strategies: job title, promotions

Love and belonging — Strategies: work relations, social events

Safety — Strategies: job security, WHS

Physiological needs — Strategies: adequate pay, lunch breaks
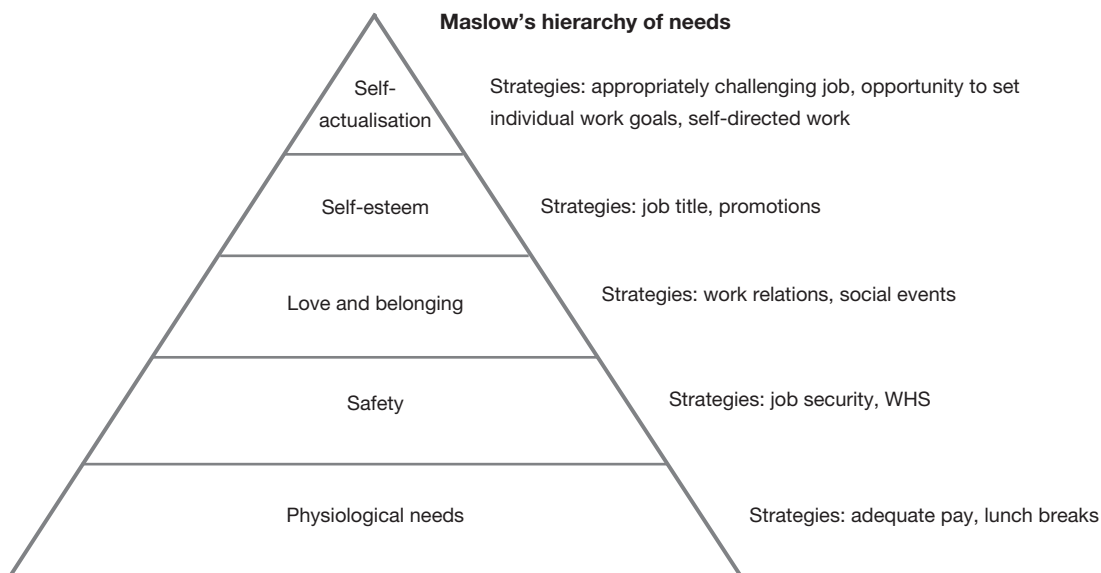
3.2.2.2 Needs lower down on Maslow's hierarchy of needs are known as lower order needs, and these are the basic needs an individual needs in order to survive, such as their physiological needs and the need for safety. On the other hand, needs that are higher up on the hierarchy, known as higher order needs, such as the need for belonging, their esteem needs, and self-actualisation, are what an individual needs in order to thrive. The lower order needs must be satisfied before an individual can tend to their higher order needs.

3.2.2.3 Maslow's hierarchy of needs provide a framework for human resource managers (HRM) in motivating their employees. It is important to recognise that a lower level need is a motivating factor until it is satisfied, and then the HRM must consider other strategies at the higher level in order to continue motivating their employees. At the base level, providing employees with a liveable wage ensures that their physiological needs, or their short term survival needs, are being met. The next level of the hierarchy of needs is the need for safety and security, which are their mid term survival needs. HRM can motivate their employees by providing them with safe working conditions or with longer term work contracts. When that need is fulfilled, HRM can consider motivating employees by fulfilling their social needs, such as by organising social events to further encourage employees. The next level, self-esteem and recognition, is focused on external rewards and may be described as extrinsic motivation. At the top of the hierarchy is an individual's self-actualisation. This is the need for value, meaning and purpose and can be described as intrinsic motivation. HRM must consider Maslow's hierarchy of needs and provide a range of strategies for the different stages of the hierarchy that their employees are at.

3.2.2.4 Locke and Latham's goal setting theory (GST) shows the relationship between appropriate goal setting and motivation. The GST can be used in the workplace environment between managers and employees. The theory is set around five goal setting principles: clarity, challenge, commitment, feedback and task complexity. Goals can be a great motivator if the goals are clear and concise. Managers must ensure that when setting goals with their employees, that the employee understands the goals they are tasked with achieving. Goals should also be appropriately challenging. The employee must feel like achieving their goals are a genuine achievement for the goal to motivate them. Commitment focuses on the ownership of the goal. Employees will be more motivated if they accept the goals and are able to define the goals themselves rather than if they were just tasked with achieving them. In practice, this means that managers should consult employees through the goal setting process. Feedback is also important to employees as a motivating factor, as they need to know how they are progressing in relation to the goals. Lastly, the complexity of the goals is also important. Managers should use multiple goals for complex objectives, breaking down a large task to small, achievable goals. This way, employees will be motivated to achieve these goals rather than feel overwhelmed by one large goal.

3.2.2.5 Lawrence and Nohria's four drive theory is a theory of motivate in the workplace that breaks down the factors that drive and motivate people into four categories: acquire, bond, learn and defend. The drive to acquire is linked to the an individual's drive to gather material goods and their drive to acquire status and power. The drive to bond and belong describes an individual's need for strong work relationships. The bond to learn states that people (employees) have an innate drive to satisfy their curiosity and to develop understandings of their environment. The last drive, the drive to defend, describes how people are driven to defend themselves, their loved ones, belongings or accomplishments. Understanding the four drives that motivate people can be helpful for HRM in creating a work environment that supports an employee's personal and professional growth which will motivate employees to strive for higher performance.

4.1.3.2

KPI	Define/Describe	Significance
Percentage of market share	The proportion of a market or industry controlled by a business or its products.	A business with high market share indicates that it has high competitiveness. This can lead to high profitability for the business.
Net profit	Net profit is what is left over of a business's revenue after its expenses have been paid for.	Net profit, also known as the bottom line, is what a business's owners and potential investors are interested in.
Rate of productivity growth	The amount of outputs produced compared to the inputs used and the rate in which it increases over time.	Rate of productivity growth measures the efficiency of a business. A business's efficiency should improve over time as it improves its processes.
Number of sales	The revenue made from selling a business's products.	Number of sales is directly linked to a business's gross profit and net profit. Sales is a better indication of the popularity of a business's products than profit.
Rate of staff absenteeism	The total number of days where employees are absent from work.	Staff absenteeism may indicate a toxic workplace culture and environment. High rates of absenteeism will impact productivity negatively.
Level of staff turnover	Refers to the rate at which businesses replace employees who leave a business.	Staff turnover rates only measure the positions that need replacement (does not include retrenchments). High staff turnover rates indicate toxic work culture.
Level of wastage	The amount of resources that are underutilised or discarded during the production process.	High levels of wastage implies that a business's production process is inefficient, which will lead to high business costs.
Number of customer complaints	The number of customers who have notified the business of their dissatisfaction with the business's products.	High customer complaints will lead to a business having a bad reputation. This will decrease business sales and thus impact on its net profit and market share negatively.
Number of website hits	This shows the number of pages viewed on a business's website.	High number of website hits indicates that a business has effective marketing strategies. Customers are attracted to the business and are browsing different products on their website.
Number of workplace accidents	The amount of unplanned and uncontrolled events that result in personal injury or damage to property at a workplace.	High levels of workplace accidents will lead to poor morale, increase the rates of staff absenteeism and staff turnover. High levels of accidents also indicates that a business's processes are ineffective.

4.1.3.3 Benchmarking refers to the process of comparing a business's actual results against another measure. Typically, a business will benchmark its KPI results against its historical results or to the industry standards. Benchmarking provides a criteria for a business to evaluate its outcomes against, and creates a meaningful analysis of a business's quantitative data. This analysis will allow a business to implement effective and targeted strategies to improve its performance.

4.1.3.4 Qantas is an Australian airline company that offers both domestic and international flights. While it is one of Australia's largest businesses, it has recently suffered as a result of pandemic-induced travel restrictions. Borders all over the world were shut and people were unable to travel, triggering a three-year-long downward spiral for the airline company. While it still holds *60% of market share* in the Australian aviation industry, Qantas' performance continues to decline. The business made a *loss of $1.9 billion* from 2021 to 2022, citing the population's reluctance to travel long-distance as the cause. Qantas' *revenue has fallen* drastically from when the pandemic first began in 2020, turning over net sales of $14.26 billion that year. In 2021, its revenue fell to $5.93 billion (Statista.com). Many expected revenues to rise again post-covid recovery, but Qantas continued to struggle to make sales. As a result, it started cutting costs to maintain its profit margins. The cost-cutting measures has led to disruption in the workflow for aircraft engineers in Qantas, causing staff morale to fall. This is reflected in its *high staff absenteeism rates* of 83% and *high staff turnover rates* of 30% (Bloomberg.com), creating further disruptions in the business's operations as *productivity in aircraft maintenance falls*. These human resources issues translate to poor customer outcomes, and flight delays and cancellations have caused *high level of customer complaints*. The services offered by Qantas may be deemed unsafe or unreliable, and even the most loyal customers may start seeking alternative travel arrangements. Qantas must implement strategies to improve its KPIs or it may lose its position in the market as Australia's most popular airline.

4.2.1.3 Change can be daunting as a business transitions from its current state into the unknown. It is important that a business has strong leadership to build momentum towards the change, acting as a strong driving force towards the new direction. An effective leader will set strong, clear goals while communicating the importance of the change to their team, explaining the benefits that the new direction will bring. This can reduce some fear among the stakeholders, strengthening the driving forces for change. An effective leader will also seek ways to support the stakeholders proactively, such as providing counselling or mentoring services for the affected employees. Supporting stakeholders through these transitions can also reduce the restraining forces against change. The increased strength of the driving forces for change led by effective leaders coupled with the weakening restraining forces will ultimately propel a business forwards towards its proposed changes. The continual support provided by the leaders will also help the team navigate their roles post-change, ensuring the business continues to operate effectively and efficiently.

4.2.2 **Management strategies.**

4.2.2.1 KPIs are used to evaluate a business's performance in a quantifiable manner. A business's KPIs will be measured against a set of intended targets known as benchmarks. A business that consistently fails to meet its targets may mean that their current business strategies are ineffective and may signify that a change is necessary for the business's survival. Any proposed changes should be linked to specific KPI outcomes to help define a clear vision and goals for the business change.

4.2.2.2 KPIs: market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints, number of website hits and number of workplace accidents.

4.2.2.3

Strategies	Description	Impact on KPI
Staff training	Training is the process of teaching and learning new skills and knowledge required for an employee to complete their tasks at work.	Improve productivity, increase sales, decrease staff turnover and absenteeism, less workplace accidents.
Staff motivation	Motivated staff will work harder to achieve business objectives.	Improve productivity, decrease staff turnover and absenteeism, reduce customer complaints.
Change in management style or skills	The style of management will influence the culture in the corporate and hence the business performance.	Improve productivity, lower rates of staff absenteeism and turnover (increase worker satisfaction).
Increase investment in technology	Technology can improve a business's effectiveness and efficiency. It can be implemented into all areas of a business.	Improve productivity, reduce wastage, increase net profit.
Improving quality in production	Improving the quality of the production process will ultimately improve the quality of the end product that reaches the customers.	Increase market share, increase sales, lower customer complaints.
Cost cutting	Reducing the costs of a business will ultimately increase a business's net profit. A business can also gain competitive advantage as a cost leader if it passes on cost savings to its consumers.	Increase market share, increase net profit, increase sales, improve productivity.
Initiating lean production techniques	Lean production is about minimising the waste produced during the production process of a business while improving the value to the consumer.	Increase sales, market share and net profit, improve productivity, reduce waste.
Redeployment of resources	Redeployment of resources refers to the transfer of resources from one aspect of a business to another. This includes moving inefficient use of human resources, capital resources and natural resources to parts of the business that needs it more.	Improve productivity, reduce staff turnover, reduce waste.
Innovation	Innovation involves bringing new ideas into the production of a good or a service. It focuses on making new products or finding new ways to improve on an existing product, method, or idea.	Increase sales and market share, improve productivity, reduce waste.
Global sourcing of inputs	Global sourcing of inputs involves building a global supply chain of suppliers to provide the resources needed for a business's operations.	Increase net profit (from reducing costs of inputs), reduce waste, increase sales and reduce customer complaints (if the quality of inputs sourced are high).
Overseas manufacture	Overseas manufacturing refers to the relocation of a business's production to another country separate from the country of the business's headquarters.	Increase sales, market share and net profit (from reducing costs of operations), reduce waste, increase sales and reduce customer complaints (if the quality of operations are high).
Global outsourcing	Global outsourcing refers to the transfer of a business's function to be performed by a party outside of the country of the business's headquarters.	Increase net profit, improve productivity, reduce wastage.

Index