

JACARANDA KEY CONCEPTS IN VCE
BUSINESS MANAGEMENT
UNITS 3 & 4 | FIFTH EDITION

Book 1
Business Management



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HOW TO USE THIS RESOURCE

At Jacaranda, we are deeply committed to the ideal that learning brings life-changing benefits to 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. *Jacaranda Key Concepts in VCE Business Management Units 3 & 4 Fifth Edition* comprehensively covers the requirements of the 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 chapters
- eLesson videos featuring explanations of the key concepts and 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, an online study, revision and exam practice tool, available in digital format and included free with the student text.

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

CHAPTER 5
Operations management

5.1 Overview
5.1.1 Why it is important
An operation system is used to transform inputs into outputs. In a chocolate factory, this means using labour and raw resources, such as cocoa beans, to make chocolate. The Mars chocolate factory in Ballarat manufacturers well-known brands including Mars and Bonbon. Mars and M&M's, and the plant has the capacity to produce 1 million Mars bars just from Mars. Most chocolate resources in cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate-making is automated (done by machinery) — just picture large vans of molting chocolate and caramel with lots of workers in white coats. When you learn about operations management in this chapter, you will be studying how business usually make their goods or services as well as how they maximise the efficiency and effectiveness of their production processes and meet the needs of stakeholders.

TOYOTA'S OPERATIONS SYSTEM
Operations that result in business goals are the jobs done. At Toyota, that means producing about 2 million vehicles each year, of which approximately 14000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is an intricate process, such as those used in manufacturing. The next step is to transform those raw resources into useful, finished products of value. The operations used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel parts that are welded, painted and undergo a multitude of processes to finally reach the assembly line.
Operations is not just about making goods or producing services through. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this.

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5.1.2 What you will learn
Key knowledge
The each of the points below from the VCE Business Management Study Design as a heading in your summary notes.

- Global considerations in operations management including global regions, business structures, global sourcing and operations of supply chain management.
- Operational and supply chain management in an operation system, including the effectiveness of operations, the effectiveness of operations through supply chain management, and the effectiveness of operations through supply chain management.
- Strategies to improve the efficiency and effectiveness of operations through supply chain management, including the effectiveness of operations through supply chain management.
- Strategies to improve the efficiency and effectiveness of operations through supply chain management, including the effectiveness of operations through supply chain management.

Key skills
These are the skills you need to demonstrate. Can you demonstrate these skills?
• Define, describe and apply relevant business management concepts
• Research and analyse case studies and contemporary examples of management applicable to managing production in a business
• Interpret, discuss and evaluate business information and ideas
• Apply operations management knowledge to practical and/or simulated business situations
• Compare and evaluate strategies used in operations management
• Propose and justify strategies for improving the efficiency and effectiveness of operations

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Resources
Digital doc: Key terms glossary (200-2046)

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The key knowledge and key skills from the VCAA VCE Business Management Study Design (2017–21) are included, together with a real-world case study that helps students understand Business Management theory.

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

3.2 The relationship between managing employees and business objectives
KEY CONCEPT Effective management of people (human resource management) is likely to result in a business achieving success and fulfilling its objectives.

3.2.1 Human resource management
Bika Resources Limited is a great place to work. Staff at the Australian mining company (that explores and processes titanium-based products and zircon) are treated fairly and honestly. Positive work relationships between management and staff are considered vital to the company's success. Bika provides a fitness-for-work program for employees, supports flexible work arrangements, including part-time, working from home and modified start and finish times, and invests in the development of employees.
Bika prides itself on looking after the 9000 people employed across its operations. This is what human resource management is all about.

Resources
Address: Human resource manager — Career Council (200-1051)

3.2.2 Relationship to business objectives
Businesses such as Bika are successful in achieving their objectives by balancing the need for profitability (and satisfying shareholders) with regard for the wellbeing of employees. Human resource management focuses on positive work and employment relationships. Good HR leads to a motivated staff, increased productivity and, consequently, the achievement of business objectives.
A large-scale business will usually establish a human resources function or department (sometimes simply referred to as HR) that is responsible for all aspects of staff (not the organisational structure diagram on the next page). The human resources manager will be involved in defining business objectives, along with the other senior managers. The human resources manager will also need to ensure that the strategies used by the HR department align with the objectives and strategies of the entire business.

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eBookPLUS references link to targeted digital resources including eLesson videos and weblinks.

Strength and weaknesses of Lawrence and Nohria's Four Drive Theory

Strengths
The drive work independently, allowing management and employees to be flexible in the behaviour or strategies selected or implemented.
Four Drive Theory is very applicable to complicated or intricate environments or situations.
The four drives will convert into effort that is directed at improving behaviour, thereby improving business performance and achieving objectives.

Weaknesses
Other drives besides the four outlined by Lawrence and Nohria may exist — these don't necessarily explain all the critical characteristics that may motivate a person.
Some of the workplace applications involve competition between employees, which can have detrimental effects, for example, a workplace may suffer from a lack of cooperation or a lack of information sharing.
The four drives will convert into effort that is directed at improving behaviour, thereby improving business performance and achieving objectives.

studyON
Units 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100

3.5 Activities
TEST your understanding
1. What are the 'four drives' identified by Lawrence and Nohria, which they believe provide motivation for all human behaviour?
2. Explain how each of the four drives can be leveraged to motivate employees in a workplace.
3. How can the drive to bond be used to motivate employees?
4. In what ways does the drive to bond usually drive bond to human behaviour? How can employees make use of this drive to improve work performance?
5. Outline how each of the four drives can provide a workplace that satisfies the drive to defend.

APPLY your understanding
6. Create five checklists, one under the heading 'Things to do', and one under the heading 'Things NOT to do'.
a) Under the first heading, provide a list of at least eight actions that a manager could use to ensure (he or she is making use of the Four Drive Theory to improve employee motivation.
b) Under the second heading, develop a list of at least eight actions that a manager should NOT do if he or she wishes to maximise employee motivation using the Four Drive Theory.

EXAM practice
7. Describe the differences between Locke and Latham's and Lawrence and Nohria's theories of motivation. (4 marks)
8. Describe an IT consultancy business that is expanding rapidly. It has four new computer science graduates at the beginning of the year, but now all of them have indicated that they wish to leave because of low job satisfaction.
Examine how 'bonded' could make use of Lawrence and Nohria's Four Drive Theory to improve the motivation of the employees. (4 marks)
9. Outline the strengths and weaknesses/limitations of Lawrence and Nohria's Four Drive Theory. (4 marks)

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

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

Dedicated Apply your Skills subtopics give students practice in acquiring the key skills from the Study Design. Real-life Australian case studies allow students to contextualise their understanding.

16. Put your subtopic skills to manage the experienced employees of the case. This is the management plan to be completed using the template to be used for your case. Refer to the list below indicating the appropriate management styles, justify the use of Paul's use of the subtopic skills. (10 marks)

2.7 APPLY YOUR SKILLS Management styles

PRACTISE YOUR 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 information to practical and/or simulated business situations
- Analyse and discuss management styles necessary for successful business management
- Evaluate management styles and their appropriateness for a range of business situations

AN EXPERIENCED MANAGER

Peter Anderson, a Production Manager at Motor Pty Ltd, is manufacturing cars. He is a manufacturing manager who manages assembly plants in various production environments.

The difficult aspect of Peter's job is reporting to the demand to maintain adequate stock levels to service the vehicle companies. Peter's management experience comes from working in the industry for 20 years. He has extensive knowledge of equipment and production, and has had a reputation for being a hard worker. He is a very experienced manager who is able to identify and solve problems that the manufacturing process may encounter. He is able to make decisions on the basis of the information available to him and to make requests for new stock requirements.

Marketing Manager Kim Laffin has been asked to provide parts for a variety of models and makes from different vehicle companies. However, she does not always communicate the data to Peter. As a result, production staff often struggle because of stock shortages. Peter's production change required. Having stock managers to help with equipment and stock on a daily basis, including for time and part-time workers. Having a regular meeting with the production manager and prepare stock schedules to ensure stock levels place consistently between shifts.

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5.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

KEY CONCEPTS

- Efficiency and effectiveness work together to enable a business to achieve objectives.
- All operations strategies are used to improve the efficiency and effectiveness of operations.

It is vital that you understand the concepts of efficiency and effectiveness as you examine operations management. As you consider each operations management strategy, make sure that you can relate it back to how it affects efficiency and effectiveness.

A business must monitor and evaluate its operations systems. A business should be constantly asking whether or not the operations strategies that have been implemented are an attempt to be implemented improve the effectiveness of the production process (achieving stated objectives). Likewise, a business should also be asking whether or not operations strategies are improving the efficiency of the production process (how well the business has used resources in achieving objectives).

EFFECTIVENESS — 'DOING THE RIGHT THINGS'

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is doing the right things. For example, it might be asked, 'Did the business make a profit, or did the business not make a profit?' If a business objective is to make profit, and it did so, then we would say it has been effective in achieving its objectives.

Operations strategies should support the business in achieving objectives such as to make a profit. For example, one materials strategy is 'Just in Time'. By ensuring that the right amount of materials arrives at the factory as needed for storage costs are reduced and the risk of waste occurs (just-in-time inventory control). Theoretical costs (based on perfect production) is defined as what remains after business expenses have been deducted from revenue. Further, the right materials arriving in the right quantities and at the appropriate time is a business production process of goods or services. Effective operations will contribute to the success of business objectives such as profit.

Another example of an operations strategy being used to improve effectiveness relates to technological development. New technologies, such as robotics, can reduce time and waste development, can be incorporated into the production process of a business. Technology can be used to increase production and improve the quality of the product, or used to reduce input and waste — thereby reducing costs. In this way, technological developments are able to support the business in achieving its objectives, such as making a profit, increasing sales and increasing market share.

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

indicate the labor required to perform a task and assess output in a strategy used in every business. The use of robots in car manufacturing plants is now commonplace.

Reporting on the situation on efficiency operations strategies should support the business in using resources efficiently in achieving objectives. Just in Time can be used by a business to improve efficiency by ensuring that the right amount of materials arrive as they are needed for production. The business does not need to maintain inventory. This reduces the risk of stocks becoming damaged, lost or pilfered, or near-use, thereby increasing waste. Because the business does not need an inventory of materials, the actual amount of inputs used can be reduced, improving productivity. Just in Time ensures that the operation process is always 'just in time', which is needed, and in the quantity required at the right time.

Technological developments, such as robotics, can reduce time and waste development, can be incorporated into the production process of a business to improve efficiency. Technology allows the operations process to occur faster, increasing the output of a business. Furthermore, costs are reduced as technology reduces waste. In addition, the use of technology reduces waste.

It is important to note that efficiency and effectiveness work together to enable a business to achieve objectives. It is difficult for a business to be effective if it is not being efficient. For example, a business that improves productivity (efficiency) is able to reduce the risk of profit improvements (effectiveness) as the reduced costs associated with productivity improvements reduce expenses.

However, for any given time period, it is possible for a business to have been effective (that is, it has achieved its objectives) with a profit yet not been efficient (for example, productivity may have declined over the same period). Nevertheless, efficiency and effectiveness will usually mean in the same direction.

Businesses that improve effectiveness and efficiency are likely to be more competitive, because they are able to produce more outputs at lower cost, provide higher quality products to customers and attract them without delay.

The relationship between efficiency and effectiveness

	Use of resources — efficiency	
	Inefficient	Efficient
Point of objectives — effectiveness	<ul style="list-style-type: none"> Effective but inefficient costs are high Doing the right things in the wrong way 	<ul style="list-style-type: none"> Effective and efficient Doing the right things and doing them right
	<ul style="list-style-type: none"> Ineffective and inefficient cost producing enough at high cost Doing the wrong things in the wrong way 	<ul style="list-style-type: none"> Efficient but ineffective cost producing enough but at low cost Doing things right but doing it wrong way

5.3 Activities

TEST your understanding

- Identify three ways in which a manufacturing business could improve productivity.
- Explain the difference between efficiency and effectiveness of operations.
- Outline how a business can use one operations strategy to improve effectiveness.
- Describe one operations strategy that a business can use to improve efficiency.

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Key performance indicators — specific criteria used to measure the efficiency and effectiveness of the business's performance. The amount of converted or reusable material collected by the production process of a business.

Figure 5.3.10: The number of converted or reusable material collected by the production process of a business. The number of converted or reusable material collected by the production process of a business. The number of converted or reusable material collected by the production process of a business. The number of converted or reusable material collected by the production process of a business.

6.13.3 Review questions

TEST your understanding

- What is meant by the term 'benchmarking a business'?
- Describe how a business can use a benchmarking strategy to improve its performance.
- Outline how a business can use a benchmarking strategy to improve its performance.
- Define the term 'key performance indicators'.
- List and briefly explain three of the following:
 - driving forces for change
 - restraining forces for change
 - enabling forces for change
- Describe, using an example, the difference between driving and restraining forces.
- Outline the relationship between efficiency and effectiveness in a business.
- Describe how a business can use a benchmarking strategy to improve its performance.
- List the key performance indicators that may lead to change.
- Explain why setting achievable goals can help managers implement change more successfully.
- Explain what is meant by a Force Field Analysis.
- Outline the benefits of preparing an action plan as part of a Force Field Analysis.
- List the steps in a Force Field Analysis.
- Outline three of Peter's five competitive forces.

CHAPTER 6 Benchmarking — the need for change 433

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

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

3. Given the performance of Bunnings in the United Kingdom, it would appear that Bunnings did not do that well in terms of sales in the United Kingdom. What do you think the other 'restraint' factors were? How do you think the other 'restraint' factors were? How do you think the other 'restraint' factors were?

EXTEND your understanding

- The case study refers to the effectiveness strategy of Bunnings not being successful. Explain the effectiveness strategy proposed by Peter.
- Outline the other strategy suggested by Peter.
- Suggest one restraining force that Bunnings has had to overcome.

6.13 Summary

6.13.1 Review

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 in effectively managing change.

Analysis of business performance

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance.
- The performance of a business can be analysed using the following key performance indicators as sources of data:
 - percentage of market share
 - net profit figures
 - rate of productivity growth
 - number of sales
 - ratio of staff allowances
 - 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 (Lewin)

- 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 (want the business to remain profitable and competitive)
 - employees (working in a supportive and innovative environment are free to suggest ideas)

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Resources

Digital doc: Money word glossary doc (30-2545)

Digital doc: Crossword (30-2546)

studyON

12 page VCAA exam

6.13.4 School-assessed coursework

OUTCOME 1

Explain how business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.

ASSESSMENT task — structured questions

Time allowed: 40 minutes

Marking allocation: 20 marks (The marks for each question are indicated at the end of each question.)

Goal: 100% (Based on 20 marks or 100% may be used when completing the task.)

The cost of change

Operating an airline the Airlines is an expensive business. The cost of planes, fuel, staff and landing fees are high and very time-consuming. Customers are almost impossible to convert flight and a lot of money goes to the source of fuel revenue.

Factors such as inflation, rising fuel costs, increased competition from low-cost competitors and general consumer regarding international travel can all have an impact on the success of an airline.

The cost of a plane alone can be substantial, let alone the other associated costs.

CHAPTER 6 Benchmarking — the need for change 432

The studyON exams provide the past three official VCE exams in an online and offline format. Previous exam questions are mapped to specific concepts throughout the product.

The eGuidePLUS is available for teachers and contains:

- the full eBookPLUS
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- additional case studies with solutions and sample responses
- two tests per topic with solutions and sample responses.

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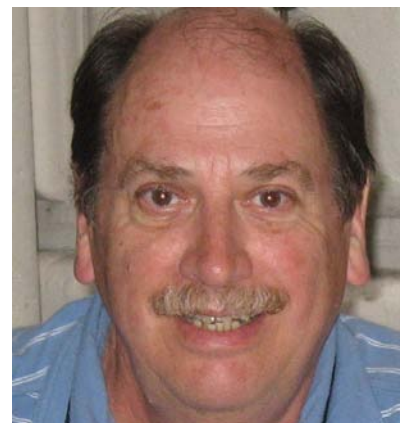
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UNIT 3

MANAGING A BUSINESS

Introducing a corporate manager

Naomi Milgrom (pictured) 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 a business 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	CHAPTER
1 Business foundations	Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills	1 The nature of business
		2 The nature of management
2 Managing employees	Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees	3 Human resource management — motivating employees
		4 Human resource management — managing employees and workplace relations
3 Operations management	Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations	5 Operations management

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CHAPTER 1

The nature of business

1.1 Overview

1.1.1 Why it is important

There are approximately 2.2 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 100 000 employees might work for 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 all have objectives and stakeholders with vested interests in the business. In this chapter, you will be studying the different types of businesses and the various objectives and stakeholders they have.



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 6000 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.

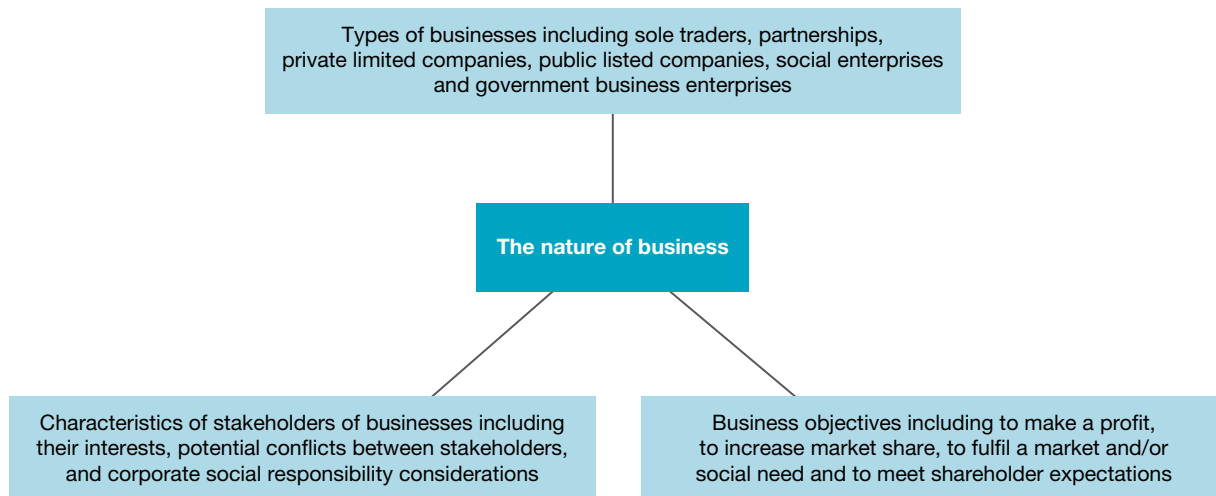
The National Broadband Network, managed by a government business enterprise, will benefit all Australians.



1.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE 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

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Resources

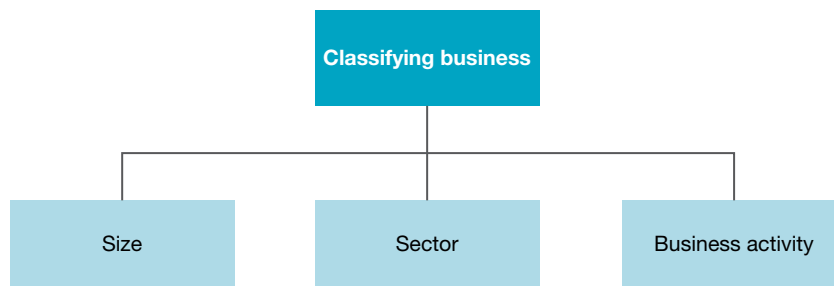
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1.2 BACKGROUND KNOWLEDGE Introduction to business

BACKGROUND INFORMATION

Businesses can be categorised by size, sector and the industry in which they operate.

A **business** is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making **profit**. As well as making profit for owners, businesses make important contributions to the economic and social wellbeing of our nation. As you study this subject you should realise that businesses can be classified in a variety of ways. Just like soft drinks, businesses come in different sizes. They also come in different flavours; that is, they can be classified by the part of the economy that they operate in and also according to the particular good or service that they produce.



Businesses can be categorised by size, as well as the sector and industry in which they operate. Myer, Australia's largest department store group by revenue and store count, is a privately owned retailer, employing over 14 000 people.



1.2.1 Business size

While there is no single 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'. In the past, a small business has been defined by the ABS as one that employs fewer than 20 people. Many people continue to use this definition. However, the Fair Work Commission defines a small business as one that has less than 15 employees. Historically, the ABS has defined a medium business as one that employs 20 or more people, but fewer than 200 people; a large business has been 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 \$10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above \$250 million.
- 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.
- 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 a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company's strategic goals.
- 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 of, and distinctions between, the different sized businesses.

DID YOU KNOW?

In June 2017 there were more than 2 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 micro businesses. Almost 1.4 million of these businesses are non-employed — they have no employees.

Common classification of businesses based on size

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	20–199	200 or more

Characteristics	Small	Medium-sized	Large
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
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 34 000 people and earned revenue of \$6.8 billion in 2016–17. As of June 2015, the business owned assets of more than \$5.5 billion. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.



1.2.2 Public or private sector

According to the ABS, just over 2.2 million businesses were operating in the private sector in June 2017. 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. It estimated that in 2016–17, there were only 393 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.

The top five public listed companies in Australia in relation to total revenue in 2017 were Wesfarmers (including Bunnings, Target and Kmart), Woolworths, Commonwealth Bank of Australia, BHP and Westpac Banking Corporation.



1.2.3 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. 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 in which they operate. 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, 2016–17

Industry division	Number of businesses operating June 2017	Industry division	Number of businesses operating June 2017
Agriculture, forestry and fishing	176 140	Financial and insurance services	202 110
Mining	7853	Rental, hiring and real estate services	246 664

Industry division	Number of businesses operating June 2017	Industry division	Number of businesses operating June 2017
Manufacturing	83 789	Professional, scientific and technical services	270 654
Electricity, gas, water and waste services	6 591	Administrative and support services	85 760
Construction	371 599	Public administration and safety	7 427
Wholesale trade	78 989	Education and training	29 724
Retail trade	130 387	Health care and social assistance	128 543
Accommodation and food services	92 757	Arts and recreation services	27 248
Transport, postal and warehousing	149 544	Other services	94 220
Information media and telecommunications	21 017	Currently unknown ^(a)	27 283
All industries			2 238 299

^(a)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 8165.0, *Counts of Australian businesses, including entries and exits, June 2013–June 2017*.

The industry sector in which a business operates is determined by the goods or services it produces. Arnott's is Australia's largest producer of biscuits (secondary sector), while Optus is Australia's second-largest telecommunications company (tertiary sector).



1.2 Activities

TEST your understanding

1. Distinguish between revenue and assets.
2. State whether the following businesses are small, medium or large, and the reason for your decision.
 - (a) Qantas employs approximately 27 000 people.
 - (b) National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.

