

Marking Guide for the 'Check Your Understanding' activities

These are suggested responses only, and should form the basis for further classroom discussion.

UNIT 1: SECTION A: ENVIRONMENTS

CHAPTER 1: Business opportunities

Business opportunities

1. Outline three reasons for starting a small business.

Explanations based on – wealth creation, employment options, community, innovation, financial security.

2. What are some of the risks of starting a small business?

- personal and business financial risk
- risk of failure
- loss of personal assets to business debts

3. Explain why a business should make a contribution to the local community.

If a business makes a contribution to the local community around it, it will enhance goodwill towards the business and its public image. Employees may be more motivated because they know their employer is supporting the community in which they live.

4. What are two ways by which a business can contribute to the community?

- Sponsorship of community events
- Donations of equipment, products and materials
- Contributions of time and expertise
- Community services
- Training and employment initiatives
- Purchasing policies
- Fundraising

5. What is goodwill?

The established reputation of a business regarded as an asset and included in the dollar value of the business. A business may generate friendly, helpful, or cooperative feelings from others by the way they operate.



6. How does dropshipping work?

The business advertises a product, a customer buys it and the order goes to the wholesaler who delivers the product. The seller earns the profit margin between the cost of the product and the selling price.

7. Why is dropshipping a good option to start a small business?

Low cost start up, don't have to purchase and maintain stock levels, proven products, there may be product awareness already, just a shop front - don't have to organise or bear the costs of delivery

Innovation and growth

1. Define 'entrepreneurship'

Entrepreneurs build products and services from ideas and the systems (production, people, payments, delivery) needed to sell to people who will pay for them. Entrepreneurs lead people to make decisions about setting goals, targeting markets, raising capital, building teams and adapting to change. Because innovations are new untested concepts it takes leadership, confidence and tolerance for risk to get the resources and support to make innovations real. These qualities are those associated with entrepreneurship which results in the creation of jobs, competition and the provision of goods and services that people need.

2. Explain four ways business can improve our standard of living?

Providing goods and services, providing employment, money earned by the business is spent in the community creating jobs and opportunities

3. Discuss the difference between the two types of innovation.

- Incremental – Focuses on making improvements to existing processes, products or services to prolong product life cycle or maintain competitive advantage
- Disruptive – Creating a new process, service or product in response to a market need or opportunity or to create a new market

4. Describe three ways innovation can help a business grow.

Finding better and cheaper ways to produce, sell and deliver goods and services reduces costs. Businesses will have more money to spend on advertising, staff, stock and product development. Innovation may cost money in the short term but it can lead to long term profit.

If a business invents a new product or service they can create a new market. By using e-commerce and digital distribution they may be able to sell to customers in other states and overseas.

Protecting an innovation is important. Patenting an innovation can help a business prevent others from copying their product.

Products have a life cycle. They often get to a point where sales fall and customers move on to another product or brand. Innovations can keep customers interested and wanting your product or service. Increased quality, limited editions, personalised options, more features or added value will maintain sales.

CHAPTER 2: The business environment

Business opportunities

1. Explain how the internal culture can influence the success of a business.

Strengths include skilled, motivated and loyal staff, new technologies and efficient processes. Weakness are when these are absent. Strengths can be used to start and grow a business and strategies must be used to overcome the weaknesses.

2. What is your definition of a 'stakeholder'?

A person or group having an interest in, and affected by, the activities and performance of a business or project.

Stakeholders include people who have a direct relationship with the business such as the owners and shareholders, employees, customers and suppliers. Stakeholders can also include community groups, local councils, state and federal governments (the laws and regulations that have direct impact on a business) and local residents.

3. Why can it be said that a business only has real control over the internal environment and not over the external environment?

Internal factors are under the direct control of the business owner and manager and their decisions. External factors are based on the decisions and actions of people that may have no direct relationship with the business and are making independent decisions.

4. What is the internal environment?

This is what happens inside the business; the business culture, employees, management styles and business form.

5. What is the operating environment?

The operating environment includes competitors, customers, suppliers and the local community. In the operating environment are stakeholders that deal with the business directly on a daily basis. A business owner must negotiate and work with stakeholders to achieve business goals and to give stakeholders what they want so they will continue to support the business.

6. What is the macro environment?

This is the influences from the external environment that the business does not have direct control over. Influences include laws and regulations, government policies, technologies that are new and changing, demographics, social and cultural trends and economic issues such as consumer spending, growth, interest rates and inflation.

7. *How can the internal environment impact on a business?*
8. *How can the operating environment impact on a business?*
9. *How can the macro environment impact on a business?*

Macro	Operating	Internal
<p>High interest rates and petrol prices can cut into spare money and customers may not spend as much on fast food and entertainment.</p>	<p>A shortage of people with the skills needed in an industry can stop new businesses starting. Businesses that have the demand may not be able to expand because of the lack of skilled workers.</p>	<p>Skills shortages means that the workers a business does have may be overworked and stressed. This may lead to mistakes and bad customer service.</p>
<p>A TV repair business operator will have to be trained in repairing LCD and plasma TVs or they may go out of business due to changes in technology. A film developing shop will be struggle to survive because of digital photography.</p>	<p>A greengrocer will have to decide between supporting local fruit and vegetable growers or switch to cheaper imported suppliers.</p>	<p>A new technology may mean savings in time and money but before it can be used employees have to be trained and capable of using it.</p>
<p>A social and lifestyle change to people using home theatres instead of going to the cinema. In Perth a large multiscreen cinema complex recently closed.</p>	<p>A business operator may not want to work on Sundays or week nights but knows that their competitors will.</p>	<p>A supermarket owner may want to take advantage of Sunday trading but staff do not like the idea of working on Sundays. Will any increase in business cover the increased payroll costs of staying open?</p>
<p>The State government changes laws to allow extended trading hours.</p>	<p>A café owner does not want to open every week night but the shopping centre management makes it compulsory.</p>	<p>A fast food owner wants to take some time off and have a break but because all staff are juniors there may not be a senior employee to take over day to day management.</p>

Business ethics

1. What are ethics?

A system of conduct or behaviour, moral principles that govern the behaviour of a person or a group.

2. Explain the purpose of a code of conduct.

- assist staff in dealing with ethical issues in ways that reflect the businesses values and standards
- promote professionalism and excellence
- express shared assumptions, beliefs and values
- provide staff with guidance in ethically ambiguous situations
- communicate the businesses standards
- detail the businesses social responsibilities
- motivate staff to do the right thing
- provide a statement on public accountability and corporate governance
- assist staff to meet the minimum standards of conduct and integrity described in Code of Ethics.

3. How can business dilemmas impact on business operations?

A business dilemma exists when a business operator faces a choice that will have impacts on profits and competitiveness and stakeholders. There are situations where business owners have to decide what is the right or best thing to do. It can be difficult when the right action will result in bad consequences such as a colleague getting fired, a project being delayed or a decrease in profits.

4. Completed sentences:

- Ethics is not a set of rules or **laws** but a code of **conduct**, a generally **accepted** way of behaving.
- Business must aim to work **fairly**, **honestly**, care for **stakeholders** and make **courageous** decisions.
- Many businesses encounter **dilemmas** when deciding between their **self** interest, their **obligations** to shareholders and their **duty** to the **environment**; for example, to employees, suppliers, local residents and the **community**.

CHAPTER 3: The legal framework of business

The legal framework of business

1. *Explain 2 aspects of business to consider when making decisions about the form or organisation to use.*

- Tax – which form will minimise the tax burden
- Ownership – how best to share business ownership
- Liability – how best to protect owners and investors from being personally liable for business debts
- Succession – to set up the ownership and control of the business for the future (very important with family businesses)
- Sources of finance – consider the capital needed to start the business

2. *What are some differences between a sole trader and a partnership?*

Sole – one owner, no sharing of profit or decisions, no need for an agreement

Partnership – governed by an Act and agreement, involves multiple owners and sharing of profits and decisions.

3. *What forms of business protect owners from personal liability for business debts?*

Private company, incorporated organisation.

4. *Why is a sole trader risky for a business owner?*

Everything is in the name of the owner so business failure will mean personal loss. Personal assets can be taken to cover business debts.

5. *What are the advantages of a private company?*

The company is a separate legal entity and owns assets and debts. Shareholders personal finances are protected from business failure.

6. *When should a business register for the GST?*

Register for GST when expected turnover is \$75,000 or more.

7. *How are rules set for how partnerships are run?*

Either by the Partnership Act or a Partnership Agreement.

8. *Discuss which business form is best for taxation purposes?*

Partnership because of income splitting or private company because of company tax.

9. *Why is a domain name important for a business?*

A domain name is the main part of a website address and can be part of a business email address eg. www.ontimelectrical.com.au and jsmith@ontimelectrical.com.au

10. *What is a limited partnership?*

Some partners are involved in running the business with unlimited liability and some partners with limited liability are not involved in running the business.

Environments crossword

Across

1. sole trader
4. partnership
8. ethics
9. macro
10. entrepreneur

Down

2. disruptive
3. private company
5. franchise
6. innovation
7. culture

SECTION B: MANAGEMENT

CHAPTER 4: The marketing mix

Potential customers and competitors

1. What does it mean for a business to have a 'customer focus'?

If staff are focused 'outwards', they prioritise the needs of customers, suppliers and other stakeholders. They do not become too focused internally on the business and should not end up losing sight of customer needs.

If a staff member is focused on customers, they are always interested in finding out about the needs of that individual. When those needs are identified, the staff member can move on to possible solutions. Ensuring that a 'win-win' solution is aimed for will result in both the business and the stakeholder coming out of the transaction happy. By focusing on the needs of the customer the business does not get lost in marketing its product nor does it prioritise this over the actual wishes of the customer. The business instead focuses on adapting its product to ensure the best possible benefit is delivered.

2. Summarise a simple process to follow when a customer makes a complaint.

- Have a clear complaints resolution policy.
- Get background information about the complaint. Ask staff who were involved for their understanding of the situation.
- Interview customer. Record details of the problem.
- Summarise the problem, and check the customer has the same understanding.
- Ensure one person manages the problem until it is resolved. Keep the customer informed of progress.
- Call the customer to check everything is resolved. If they are satisfied, the problem is solved.
- If the customer is not satisfied, the process may start again.

3. Outline the purpose of market research.

The business needs to conduct market research in order to know the consumer, and to know the business competitors. This market information enables the business to identify the target market of potential customers for the business. Market information is also important because the business can develop a plan for the business, ensuring that the marketing mix is correct.

4. Explain the difference between primary and secondary market research, using examples.

- Primary data is collected from the original source, usually from the customer. The organisation might conduct the collection of primary information itself. For example: interacting directly with customers by interviewing, surveying, observation or test marketing.
- Secondary data has already been collected by another organisation, such as the government or another market researcher. For example: journals, government reports, industry association information and other publicly available locations. Secondary data can also be generated within the business. For example: reports from other areas such as operations, finance and divisional offices.

5. *Give examples of each of the following forms of primary research:*

- A. Interview: Focus group with customers
- B. Survey: Telephone questionnaire
- C. Observation: Watching customers while shopping
- D. Test marketing: Giving the customer a sample of the product.

6. *Why does a business define its target market?*

To identify potential customers and market segments.

7. *Describe four ways for a business to segment the market.*

Geographic	by region, post code, city, or other location
Demographic	by income, sex, age, ethnic background
Behavioral	attitude, use of product
Lifestyle	interests, beliefs, opinions

8. *What questions would be researched about potential business competitors?*

- Who are the top three direct competitors?
- Are there any indirect competitors
- What are the strengths and weaknesses of the
- What is the market's opinion of these competitors?
- What are the goals of the competitors?

9. *Describe the purpose of a competitor breakdown.*

To compare the business with its main competitors along a range of elements.

10. *Summarise the main headings found in a competitor breakdown.*

- Location
- Opening hours
- Interior
- Exterior
- Perceived quality
- Customer capacity
- Promotions
- Street advertising
- Product
- Prices
- Staffing
- Service
- Licenses required

The marketing mix

1. *What are the five main areas of branding strategy?*

- Brand creation: What do customers like about the business? What are the strengths?
- Customer values: What priorities do customers have and how does the business meet these?
- Brand establishment: Are the strengths of the business reflected everywhere – such as in the product name, logo, jingle, website, shop signage, uniforms, customer service area, packaging, distribution, stationery?
- Advertising budget: What is most appropriate and likely to reach customers?
- Feedback: What do customers and employees say about the brand? What do potential customers think?

2. *What are the most popular types of packaging?*

The major packaging materials used in Australia are glass, metal (aluminum and steel), paper (cartons and corrugated), and plastics (PET, PVC, polypropylene and polystyrene). Paper is about 36% of the total Australian packaging market. Plastics is the second largest sector at 30%, a large increase from the early 1960s when plastics had less than 10% of the packaging market. Metal packaging has lost market share but still accounts for 20%, with glass at 10%.

3. *What is the purpose of product differentiation and how does it apply to branding?*

- Convenience
- Labelling information
- Quality service/warranties
- Better features
- Environmental features
- Value for money
- Improved results

4. *What are the main purposes of a label?*

Two main functions. One is the marketing of the brand and the other is to inform the consumer.

5. *What is a consumer likely to think if a price is too high or too low?*

If the price is too high, the consumer may decide the product is not of high enough quality, or does not offer enough customer service, to justify the higher price.

If the price is too low, the consumer may believe the product is too cheap and poor quality. The reputation of the business might be adversely affected.

6. *Compare and contrast 'skim pricing' and 'penetration pricing'.*

1. Skim pricing: A high price is set, because customers are happy to pay more. Generally this can occur when a new product is launched, because consumers who are early adopters of new products or new technology are unconcerned about paying a premium price in order to get hold of the product first. The business can build a particular image for the product if it is able to demand a relatively higher price.
2. Penetration pricing: A low price is set, because customers will respond by purchasing more and new customers will start to purchase the product or service. The product needs to be relatively popular, alternatively this pricing strategy may be used because of competitors moving into the same market segment. A business might be able to afford low pricing when the accessories that come with the main item are sold for a higher mark up.

7. *What is price leadership and which type of business is likely to be able to use this?*

The owner may wish the business to be seen as the first to introduce any price changes, and in doing so would set the precedent in pricing for other business entities to follow. Usually only a large business can set prices for the rest of the entities in the industry to follow.

8. *Summarise four pricing methods that a business might choose between.*

- Target: a price is set so that particular profit goals can be reached.
- Value based: a price is set based on the value the consumer places on the product or service, compared to the competitors.
- Absorption: a price is set that covers all the variable costs, and a proportion of the fixed costs.
- Cost plus: the price covers all costs, plus a mark up amount above the costs.

9. *Summarise Figure 4.7: Pricing methods.*

- Target: a price is set so that particular profit goals can be reached.
- Value based: a price is set based on the value the consumer places on the product or service, compared to the competitors.
- Absorption: a price is set that covers all the variable costs, and a proportion of the fixed costs.
- Cost plus: the price covers all costs, plus a mark up amount above the costs.

10. *Why is packaging an important aspect of advertising?*

Packaging can make the product appealing to the consumer, and improve the appearance of quality. The package used can distinguish items from other brands, make the product more easily identifiable for the customer, and be eye-catching and therefore more recognisable to consumers.

11. *Describe three different forms of advertising media.*

- Internet search engines/ website banners/ online shopping portals
- direct mail/ print media
- shopping centres/ cinemas
- radio/ television/ mobile phone text and video messages

12. Compare 'push' and 'pull' promotional strategies.

- A 'push' promotional strategy attempts to create demand from customers for the product. Information about the product is disseminated through the distribution chain of wholesalers and retailers who advocate its benefits. When a 'push' strategy is used, the customer is directly advertised to, and the distribution chain is flooded with the product.
- A 'pull' promotional strategy involves a lot of spending on advertising before the release of a product or service, to create demand from customers for the product or service. When it is released, consumers will request it from retailers and wholesalers.

13. Summarise the following promotional methods, giving one example of each:

- A. Advertising: Using advertising media. For example: television.
- B. Sales incentives: Inducements. For example: customer discounts.
- C. Personal selling: one on one discussion. For example: sales people.
- D. Publicity: media stories that are not directly paid for. For example: online news article.

14. List some possible distribution strategies.

The use of the internet has changed distribution networks significantly for small businesses, and manufacturers can often access consumers directly. Distribution can occur either directly to the consumer or indirectly through intermediaries such as wholesalers and retailers.

15. Show a simple distribution network diagram, and define each part.



Manufacturer = Individual or business that makes goods for sale

Wholesaler = Intermediary that buys goods in bulk then onells these to retailers

Retailer = Sells directly to the customer, Customer = Individual or business that purchases goods and services.

16. How does the distribution network change for a business that uses the internet as its main source of orders?

No intermediaries - direct contact with customers.

17. How can a business identify distribution opportunities?

Surveying customers and using advertising media.

CHAPTER 5: Business planning

Planning business activities

1. Define a business plan.

When developing a business idea, the owner/s will need to establish the goals of the business, find financing, and create a simple business plan for their new business idea. Business plans set the direction and enable the planning, coordination and control of the business. With the focus provided by a good business plan, the owner can set their strategy through a targeted mission statement.

2. Explain the purpose of setting goals.

To give detailed focus on how the business can achieve its mission.

3. Clearly explain how planning is linked to organisational goal setting.

Business owners and managers want business to run smoothly and careful planning should enable this, ensuring coordination and control as the business plan can be used to guide operations. If there is no planning, then the business will not have any direction and will not know how to prioritise activities through its goal setting. Strategic planning and the creation of a business plan and goals is important to the business because it gives focus.

4. Define the following terms:

- A. Mission statement: The main overarching purpose of the business.
- B. Goals: Specific targets and outcomes for the business to achieve. Goals should be SMART – specific, measurable, attainable, realistic and time-bound.
- C. Objectives: Detailed plans that respond to internal and external factors.

Features of business plans

1. Explain the purpose of a Mission Statement.

The mission statement and business goals are the first section of the business plan. This is because of their importance in setting the scene for the rest of the information, and because they give a focus for all other elements of the plan.

The philosophy behind the proposed new start-up business should be clear in this section.

2. What is a 'start up business'?

A business in the first stages of commencement.

3. Compare goal setting and goal ownership.

Goal setting can be allocated to staff within the business (depending on the actual structure). If employees set their own objectives, keeping in mind the overall restrictions, then they are more likely to have ownership of the goals.

4. Summarise the main steps in goal setting.

- Decide on types of objectives
- Analyse resources available
- Allocate within business
- Set goals
- Develop and implement action plans
- Periodic review

5. What is the function of a business plan?

To provide a detailed outline of goals and how future operations, financing, management and marketing will assist in achieving those aims. Often prepared when a new business is being set up. It might also be required when further finance is being sought, or if the business owners require detailed information about the future strategic direction of the business.

6. Outline the main sections of the business profile part of a business plan.

- **Business ownership**
 - legal structure of the business – sole trader, partnership or company.
 - profile of each owner, including their previous business experience and education
- **Business status**
 - how the business will be set up and the amount of capital required
 - main activity of the business and the product (good or service) to be sold
 - the competitive advantage of this product
- **Competitor outline**
 - summary of the industry that the business is working within
 - location of the business
 - competitor breakdown
- **Customers and advisors**
 - details of any major clients or advisors

7. What is the purpose of the marketing plan?

The marketing plan outlines the target market as well as details of product, price, promotion and place.

8. How is the operational plan for a trading business different to that for a manufacturing business? Why does a retail business not include this section in their business plan?

A trading/retailing business would require a summary of inventory needs. This includes main suppliers, plans for the storage and display of stock, and any distribution needs. Decisions need to be made about turnover targets and reordering of stock.

A manufacturing business would require more specific information, such as production process requirements, process diagrams, production schedules, building capacity, inventory details for raw materials and finished goods, and details of manufacturing equipment required.

A retail business does not require details of inventory needs or production process, however would still include other information which all businesses include in this section. For example: capital funds management, supply and distribution networks, location, pricing strategies, internal controls over assets, and risk management strategies.

9. Define each of the following sections of the financial plan:

- A. Start up expenses: costs to set up the business
- B. Breakdown of the capitalisation of the business: The sources of funds and other assets being invested in the business.
- C. Sales and purchases forecasts: Predicted income and expenses from sales of goods and services.
- D. Projected Income Statement and expected returns: Budgeted profit and loss for the business.
- E. Monthly cash flow: Budgeted cash inflow and cash outflows on a monthly basis for the upcoming financial year.
- F. Break even analysis: A calculation involving the fixed and variable costs involved in production of one unit of the product. Used to adjust the selling price and calculate expected profits.

10. Is any part of a business plan more important than the others? Why or why not?

Dependent on the main mission and goals of the business – what outcomes does the business owner want to measure: financial? social? environmental?

CHAPTER 6: Operating a successful business

Business success and failure

1. Compare the meaning of the terms 'success' and 'failure' for a small business.

Area	Success	Failure
Finance	Having enough cash to ensure positive cash flow, and being able to make a profit. The business owner must budget carefully.	Not enough reserves of cash, or a misunderstanding of the business' likely cash flow. A business requires enough cash back up to be able to get through issues such poor creditor repayments and seasonal changes in sales.
Planning	Time for business planning and reflecting on the achievement of goals. It may be difficult for the owner of a Small to Medium business, as they can often feel overwhelmed by the day to day running of their business.	Poor business planning. The business needs a clear plan for the future, and systematic ways of reviewing if this has been achieved. This will allow the owner to make changes when needed.
Skills	Using outside expertise and mentors. The owner should be able to employ other people for advice in areas that are not their strength.	Knowing strengths and being able to trust other people to assist in areas of weakness. The business should not be over reliant on any one individual.
Marketing	Collecting useful, timely and relevant market research information that can be used by the business to meet customer needs is important. This research should be regularly reviewed.	Poor market research. Before commencing a business, the owner needs to know their customer and to be able to describe their needs. They need to establish that the product or service is likely to be profitable.

2. Summarise the main reasons why a business should avoid over-extending their financing.

Often business expansion can occur quickly and the owner may not have planned for this. This could result in the owner being overwhelmed by the technical, legal and management aspects of expansion and not having the time to focus on important cash flow issues. Business growth must be sustainable. If the business becomes very popular, the owner needs to be cautious that they do not exhaust all their cash and reduce profitability. If the owner over extends financially, then they are gambling with the future, and may not have the cash flow required to pay back loans.

3. What is a small-medium enterprise (SME)?

An independent business, generally managed by its owners and employing up to 200 people.

4. List and describe key personal habits which lead to success.

Visualise	The successful achievement of the goal that has been set.
Challenge	Be on the lookout for positive experiences, helpful people and opportunities that will be of support in achieving business goals.
Responsible	Have ownership of life and of decisions made, do not blame events on other people in an overly focused manner as this is sidetracking.
Believe	Have self belief and use positive self talk. Be realistic but not overly negative about potential.
Listen	Communicate with others carefully and listen carefully.
Plan	Approach each business goal in an active manner, recording in some way the steps required to achieve it.
Enable	Work with others not against them.
Flexible	Be able to adapt and change business path in response to new challenges.

5. Why is it beneficial to the business owner if employees develop good workplace habits?

Flexibility, learn from mistakes, achievement of personal goals, overall more positive workplace.

6. Explain the usefulness of each of the following personal time management tips:

- A. Competing tasks in order of priority: important items are completed
- B. Having active breaks: time to stretch physically and to walk
- C. Ensuring workspace is clear and filing up to date: being organised and completing work on time
- D. Handling each piece of paper once: not procrastinating
- E. Only checking email a couple of times in the day: saves time because the flow of work is not broken up
- F. Working on creative tasks early in the day: able to focus more

Finance and the business

1. Complete a table showing the following for each different source of finance:

DEFINITION	ADVANTAGES	DISADVANTAGES
Short term finance must be repaid within the next one month to two years.	Available quickly Flexibility	High interest rates Usually only for a small amount of funds
Medium term finance must be repaid within the next two to five years.	A lower rate of interest is usually charged Multiple possible sources, including government	More difficult application processes
Long term finance must be repaid within a term that will be longer than five years.	Low interest rates Needed for large acquisitions	Regular repayments over a long period of time

2. Classify each source of finance from this chapter into internal or external types of financing.

External

- Overdraft
- Converting assets into cash
- Bridging finance
- Trade credit
- Loan from family or friends
- Hire purchase
- Debt financing/ Loan
- Mortgage
- Government loan/ Grant
- Venture capital
- Lease
- Debentures

Internal

- Shares/Owner's investment
- Retained profits

3. Explain the following terms for a business owner who is considering different sources of finance:

- Interest: the payment made to a lender for borrowing money
- Repayments: paying money owed back to a lender
- Loan conditions: requirements such as repayment schedules, insurance, collateral for the loan.

4. Compare short, medium and long term finance. Give two examples of each type.

Short term finance must be repaid within the next one month to two years. For example: overdraft, trade credit.

Medium term finance must be repaid within the next two to five years. For example: Venture capital, hire purchase.

Long term finance must be repaid within a term that will be longer than five years. For example: Mortgage, long term loan.

5. Define 'gearing.'

Gearing is the relationship between the debt and the equity of a business. If a business has high gearing, there is a high level of borrowed external funds compared to internal equity. A low gearing means that there is a low portion of external debt compared to internally generated equity.

6. Compare and contrast internal and external sources of finance.

- Internal financing is money supplied to the business by the owner, earned from trading, or from selling assets for cash. Capital is not required to be repaid to the owner. It is a type of EQUITY.
- External financing is sourced from a loan provider who is paid interest, or a trade creditor who supplies products before being paid. A loan must be repaid with interest by a due date. It is a type of DEBT.

7. What is the purpose of a monthly cash budget?

This is part of planning for future operations, and can be useful to show to a lender such as a financial institution. The Cash Budget provides information that enables the business owner to predict any changes in the cash inflows and cash outflows of a business, change the financial structure (including liquidity and solvency) and plan for the business to adapt to changing circumstances and opportunities

8. Outline how collateral and a business' credit rating are relevant when applying for funds.

The lender will require some form of collateral, or security, for the loan. This might include an asset such as property or equipment. If no collateral exists, then the business could find someone who is willing to act as the guarantor for the loan.

The lender will also consider the credit rating of the business owner, which is their record of previous debt repayments. They will then look at the capacity the business has to repay the loan, such as any other debts and the ability to make regular cash repayments.

9. Summarise the elements of a risky business investment.

- No collateral available
- A competitive or low-profit industry sector
- Seasonality
- Poor business history
- Bad personal credit rating
- Low projected cash flow
- Lack of financial or market knowledge

Management crossword

Across

- 5. Place
- 6. Retailer
- 11. Secondary data
- 12. Brand
- 13. Mortgage
- 14. Loan
- 16. Target market
- 17. Primary data
- 18. Success
- 19. Product
- 20. Publicity
- 21. Dividend

Down

- 1. Plan
- 2. Mission
- 3. Design
- 4. Overdraft
- 5. Profitability
- 7. Resources
- 8. Price
- 9. Market research
- 10. Mass market
- 15. Segmentation

SECTION C: PEOPLE

CHAPTER 7: The role of human resource management

Value of people in business and HRM

1. *Define the term 'human resources'.*

The people of an organisation including their knowledge, skills and abilities

2. *What are the four areas of HRM that are explored in this chapter?*

- What HRM is
- Role
- Process
- Guidelines

3. *What are the three key elements of human capital that affect the business?*

- Knowledge
- Skill
- Attitude

Role of HRM in small business

1. What human resource roles does the small business manager assume?

HR Manager, HR Supervisor, Interviewer, Workplace trainer, Performance assessor, Workplace mediator, OHS & ER Officer

2. List six HRM duties of the small business owner and explain each of those.

Duty	Explanation
Overall management and control of staff	<ul style="list-style-type: none">• Manage the welfare of employees.• Guide employees towards achievement of organisational goals.
Job designing and job planning	<ul style="list-style-type: none">• Identify the duties of a job.• Identify skills and knowledge needed to complete those duties.• Match skills and knowledge requirements to the job.
Recruitment and selection	<ul style="list-style-type: none">• Identify suitable applicants.
Training and development	<ul style="list-style-type: none">• Provide required training and development for the employee to complete his or her job effectively.
Performance appraisal	<ul style="list-style-type: none">• Review employee performance to monitor performance level.• Review the job to identify changes and highlight training needs.
Management of reward systems	<ul style="list-style-type: none">• Identify effective rewards and compensation methods to suit the particular job.
Occupational Health and Safety (OHS)	<ul style="list-style-type: none">• Identification, implementation and evaluation of OHS practices.
Industrial Relations (IR)	<ul style="list-style-type: none">• Provide consultation on IR issues.

HRM guidelines

1. What are human resources guidelines?

A set of rules and expectations that assist in helping employees understand their obligations and provide a clear avenue for the small business owner to communicate their expectations

2. What are the three key features of human resource guidelines?

Up-to-date, clearly communicated and accessible.

3. Give five benefits of having HR guidelines in place.

- Clear work expectations and obligations
- Reduce confusion and conflict
- Provide a legally binding platform of work conditions
- Communicate business goals
- Provide employee motivation.

4. What does 'employee workplace rules and procedures' mean?

Employee Workplace procedures are a set of quick reference guides that the workplace uses to provide information to employees.

5. List seven workplace rules and procedures commonly found in workplaces.

- Dress code
- Behaviour and language
- Daily startup and close down
- Leave procedures
- Cash handling
- Stock rotation and ordering

Human resource management process

1. What is meant by the 'human resource management process'?

Human Resource Management (HRM) is the process of attaining, managing, developing and evaluating a business's human resources for the purpose of achieving business goals and objectives.

2. What is entailed in the four sub-processes of the HR process?

- Attaining = recruitment and selection
- Managing = rewards, compensation and industrial relations
- Developing = induction and training
- Evaluating = performance appraisal

3. What are the three steps in managing employees?

- Communicate business goals and expectations clearly.
- Understand employees' own needs and expectations.
- Provide work conditions suited for the job.

4. List seven important aspects to understanding employees.

- Know employee as an individual.
- Identify personal values and morals.
- Identify role and / or position description.
- Identify job-oriented values.
- Identify needs and requirements.
- Personalise the response strategy to suit the employee.
- Implement response strategy.
- Review the progress of the situation.

5. *List three elements of developing HR.*

- Orientation
- On the job training
- External training

6. *Explain what the following terms mean:*

Orientation: When a new employee is hired by a business, small business owner provides them with an overview of the business operations, the new employee's job role and introduction to other employees and their roles.

On the job training: On the job training is where a new employee is given training on their duties while they are employed and performing some duties.

External training: Small businesses embrace external job training opportunities for their employees, in areas where the business does not have adequate resources to provide such training.

7. *What are three benefits of orientation?*

- Learn in detail about the job role and duties
- Awareness of the workplace procedures
- Become informed of the HR guidelines and work conditions
- Other benefits and rewards of the job
- Opportunity to raise concerns
- Request needed training and guidance

8. *What is 'performance management'?*

A process of reviewing an employees' performance over a period of time and giving feedback.

9. *List and explain the 'performance review' process.*

- Review the work performance of the employee.
- Review the job description and the duties to identify any changes to the job role.
- Receive and provide formal feedback to and from both the employer and the employee.
- Identify training and development needs.

10. *What are the reasons for performance review?*

- An opportunity to give feedback and reward employee
- An opportunity to identify areas that need improvement and implement measures to improve
- Formal record of employee's performance
- Identify the changes in the job
- Identify training and development required
- Can be used as a basis for negotiating new remuneration packages.

CHAPTER 8: Recruitment

Job identification, job roles, job descriptions and job evaluations

1. List the four steps of recruitment.

Job identification

Job market

Interviews

Recruitment

2. What are the three stages of job identification?

Recognising a particular job role, its duties and responsibilities, how the job is conducted, the working environment and conditions, and the skill and knowledge requirements.

3. What is a job analysis?

Job analysis involves identifying and describing what is happening on the job.

4. What information is identified through a job analysis?

- Required tasks within a job.
- Knowledge and skills required.
- Working conditions needed to complete the job.

5. What is compensation?

To ensure employees are paid fairly they must be compensated appropriately. Identification of the tasks that form a job will provide information on the level of commitment and effort, knowledge and skills required.

6. What is a job description?

A job description is a detailed outline of work involved in a particular position within the business.

7. What information is mainly found in a job description?

A job description includes information such as duties, responsibilities, level of authority and position within the business hierarchy. It consists of statements which identify and describe the scope and contents of a job. It does not describe all the details but is an outline of the essential functions and major duties of a particular job.

8. What is the purpose of a job description?

Every business should have a job description for each position to ensure that each employee is fully aware of their role and responsibilities when recruiting new staff the recruiter is able to refer to role description to match the skills of the applicant to the requirements of the job role. During employment trainers are able to use this document.

9. What is job evaluation?

A job evaluation is a methodology used to evaluate and rank jobs within a business to assign it hierarchy and value.

10. What is job structure?

Job structure is the way in which a set of tasks form one particular position and is the end product of the job identification process.

Job markets

1. *What is an online job market?*

An online marketplace where employers search for employees and employees search for jobs.

2. *Give three handy hints for recruiting top applicants through these online job markets.*

- Be on the lookout for high performers and be able to hire quickly when someone is found
- Decide in advance what needs to happen to assure that good offers can be extended to talented applicants
- Get the business name in front of the targeted applicants

3. *Give three examples of online job markets.*

- Careerone
- Seek
- Downunder

4. *What is the role of social media in selecting employees?*

Social networking sites provide both a personal and professional insight to the potential employees' values, interests, life style. They also reveal past and present aspects of their life, allowing the employer to grasp a deeper understanding of the employee, than what a traditional reference check would provide.

Job interviews

1. *What is a job interview?*

The interview is usually a personal meeting between the applicant, or interviewee, and the recruitment officer or interviewer. During an interview session the interviewer finds out about the interviewee by asking relevant questions.

2. *Why conduct a job interview?*

To provide an opportunity to both employer and applicant to identify whether the job role/applicant suits expectations.

3. *Differentiate between the interviewer and interviewee.*

Interviewer: The recruiter conducting the interview.

Interviewee: The person being interviewed. An applicant who has expressed their interest in fulfilling the job requirements.

4. *What are three vital interview questions?*

- What do you know about the business or the job?
- What interests you about this job?
- Why did you leave your last role?

5. *Define the following three types of job interviews*

- **Face to face interview:** the interviewer, ie. the business owner and interviewee, (the future employee) meet with each other in person in a professional location.
- **Panel interview:** a group of individuals assume the role of interviewer. They all pose questions to the interviewee.
- **Online interview:** interviews take place via an internet connected devices such as teleconferencing or video conferencing.

6. *Give three reasons for performing a background check on an applicant.*

- Police clearance
- Appropriate qualifications
- Feedback from previous employer

Recruitment

1. *Define recruitment.*

Recruitment involves advertising positions, attracting applicants and conducting interviews to select the most suitable employee out of the interested applicants.

2. *What is a resumé?*

A source of information for recruiters. A resume contains vital information about the applicant.

3. *What are the key features of a resumé?*

Personal details (some are not legally required), career objectives, academic qualifications, work experience, skills, extra curricular and achievements.

4. *What is the purpose of a resumé for the recruiter and the applicant?*

The primary information source about the personality, capabilities and strengths of the applicant.

5. *What is an employment contract?*

A legally binding contract between the employer and employee at the time of recruitment that states the nature of their business relationship, responsibility to each other. Includes the remuneration the employee will receive in exchange for specific work performed.

CHAPTER 9: Employer and legal obligations

Employee rights and obligations

1. *What is an employee right?*

An employee's moral or legal entitlement to be treated in a fair and just manner in the workplace.

2. *List four employee rights in the workplace.*

- Safety
- Respect
- Remuneration
- Training and development

3. *How are these rights enforced?*

These rights are a result of various laws and industrial tribunal decisions. They are enforced by federal and industrial relations laws.

4. *What is an employee obligation?*

An act or course of action to which an employee is morally or legally bound during their employment.

5. *List six employee obligations.*

- Punctuality
- Perform duties
- Abide by workplace regulations
- Work ethically
- Follow OHS standards
- Anti discrimination

6. *Define 'duty of care'.*

The responsibility or the legal obligation of an employee or a business to ensure the safety or well-being of others.

Employer rights and obligations

1. *What is meant by the term 'rights of an employer'?*

An employer's moral or legal entitlement to expect their employees to perform and behave in a manner appropriate for the workplace.

2. *List four rights of an employer.*

- Job performance
- Compliant clothing
- Follow workplace rules
- Report hazards
- Punctuality

3. *What is an employer obligation?*

An act or course of action expected of the employer toward their employees according to moral and legal codes of practice.

4. *List six employer obligations.*

- Insurance
- Superannuation
- Health and safety
- Taxation
- Leave
- Record keeping

5. *List five influencing factors that have shaped employer obligations in small business operations.*

- National laws
- State and territory laws
- Industrial awards and agreements
- Industrial tribunal decisions
- Contracts of employment.

6. *What are the legal obligations of a small business owner? List at least five obligations.*

- paying correct wages
- reimbursing employees for work-related expenses
- ensuring a safe working environment
- not acting in a way that may seriously damage an employee's reputation or cause mental distress or humiliation
- not providing a false or misleading reference
- forwarding PAYE tax instalments to the Taxation Office
- making appropriate payment under the Superannuation Guarantee legislation.

7. *What five areas are essential for the record keeping obligations of a small business?*

- Superannuation
- Tax file number
- Wage payment
- Fringe benefits tax
- Pay as you go summaries

8. *List the four **employee related** taxation obligations of a small business.*

- Payroll tax
- Superannuation
- PAYG withholding
- Fringe benefits tax

Payroll obligations

1. *What is payroll tax?*

Payroll tax is a state government tax paid by employers when their annual payroll bill exceeds relevant thresholds.

2. *Who pays payroll tax?*

Employer/Small business owner.

3. *What is the payroll tax threshold in Western Australia?*

Annual payroll exceeding \$750,000.

4. *What does the acronym PAYG stand for?*

Pay As You Go

5. *What is PAYG?*

A tax withholding system where the small business owner withholds a certain amount of the taxation contribution on behalf of the employee.

6. *How can a small business attain PAYG status?*

Through application to the Australian Taxation Department.

7. *What is the benefit to small business in attaining PAYG status?*

In theory to assist the employee and the small business meet end of year taxation liabilities.

8. *What does the acronym FBT spell out?*

Fringe Benefits Tax

9. *What is FBT?*

This is a tax on payments made to an employee, that the small business owner makes, other than salary or wages. These payments can be viewed as extra benefits or rewards for serving as an employee of the business.

10. *Give four examples where FBT applies.*

Access to work car, personal loans, recreational expenses being paid, clothing being provided for personal use.

Superannuation obligations

1. *Define 'superannuation'.*

Superannuation guarantee is a major taxation obligation of the small business owner. Superannuation is a system where money is placed in a fund to provide for a person's retirement.

2. *How much superannuation must the business pay, according to the Superannuation Guarantee obligation?*

The business is liable to pay 9.5% of the employees wages as superannuation.

3. *Who is eligible for superannuation?*

Every employee earning more than \$450.00 per month.

4. Who can choose to pay superannuation and who must pay superannuation?

Contributions to fund can be made by both employer and employee. It is mandatory for an employer to contribute for every employee earning more than \$450.00 per month.

5. Where does the employer pay superannuation contributions?

Eligible superannuation management fund or employee nominated superfund.

6. Who regulates superfund managers?

Superannuation fund managers are regulated by the Australian Prudential Regulation Authority (APRA).

7. What is the impact of the Australian government's introduction of 'SuperChoice'?

Employees are able to choose which superannuation fund their money is paid into by their employer.

8. Does a person who is self-employed have to make superannuation contributions to themselves?

There is no legal requirement for a person who is self-employed, to contribute money to a super fund. However, there are a number of good reasons to do so.

9. List the benefits of making a super contribution by an individual who is self-employed.

- Businesses treat superannuation as an operating cost, so it can be claimed as a business expense.
- The lower tax rates on superfunds result in potential tax savings.
- Superannuation funds are not able to be accessed by creditors. This allows asset protection in case of bankruptcy.
- Moving part of the business profits into superannuation allows the owner to realise the asset.

10. What is a self-managed superfund?

Small business owners or an employee who chooses to manage their own superannuation fund, rather than nominating an existing superfund service provider.

Leave entitlements

1. What is personal leave?

Personal leave is a type of leave entitlement where the employee is eligible to be absent from work while being paid, when he/she or an immediate family member or household member is sick, injured or has an emergency.

2. Who is entitled to personal leave?

All employees except casual employees.

3. What other types of leave come under the personal leave criteria?

Personal leave can be obtained in the form of sick leave, carer's leave or compassionate leave.

4. How much personal leave is an employee entitled to annually?

Ten days.

5. Define 'sick leave'.

When an employee is absent from work due to illness.

6. *Explain carer's leave.*

Leave that is available to an employee for the care or support of an ill family or household member, or if an unexpected emergency affects a family or household member.

7. *What circumstances entitle an employee to compassionate leave?*

This is paid leave taken by an employee to spend time with a family member or member of the employee's household. Circumstances include a personal illness, injury, or the death of a family member or member of the household.

8. *Define 'annual leave' and state the entitlement.*

All employees are entitled to a set amount of days as annual leave per year, except employees hired on a casual basis. The entitlement is 4 weeks annual leave for each 12 months of service; or 5 weeks annual leave for some shift workers for each 12 months of service.

9. *Define the long service leave entitlement.*

Long service leave is generally approximately 8 weeks of paid leave for an employee after 10 years' continuous service working in the same business. For every five years of continuous employment after this initial 10 years, an employee is entitled to further paid long service leave.

The National Employment Standards set out the entitlement to long service leave. This entitlement is a transitional entitlement pending the development of a uniform national long service standard.

10. *What is the paid parental leave scheme?*

All employees are eligible for paid parental leave when a new child is either born or adopted, including small business employees, under this scheme.

People crossword

Across	Down
2. Superannuation	1. Obligation
7. Human capital	3. Analysis
10. FBT	4. Skill
11. Recruitment	5. Interview
13. Legislation	6. Duties
14. Human resource	8. Procedures
16. Resume	9. Structure
18. Attitude	12. Payroll tax
19. Knowledge	15. Employee
20. Right	17. Employer