

COMPAK

BUSINESS MANAGEMENT UNITS 3 AND 4

Business Management Units 3 and 4 practice exam and suggested answers

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The following practice exam for VCE Business Management Units 3 and 4 consists of two sections. Section A has short-answer and extended-answer questions, including questions with multiple parts. One of the extended-answer questions is worth 10 marks. This section is worth a total of 50 marks. Section B consists of short-answer and extended-answer questions based on a case study. This section is worth a total of 25 marks. Suggested answers to this practice exam follow the question and answer book.

All 15 questions are compulsory. The command/task words in each question, the corresponding number of marks allocated and the number of lines provided after each question give a guide to the appropriate length of responses. Additional space is provided at the end of the question and answer book.

Please note that the questions and answers have no official status. Teachers are advised to preview and evaluate all practice exam material before distributing it to students.

Name: _____ Teacher: _____

BUSINESS MANAGEMENT UNITS 3 AND 4

Practice written examination 2017

Reading time: 15 minutes

Writing time: 2 hours

QUESTION AND ANSWER BOOK

Structure of book

<i>Section</i>	<i>Number of questions</i>	<i>Number of questions to be answered</i>	<i>Number of marks</i>
A	10	10	50
B	5	5	25
			Total 75

- Students are to write in blue or black pen.
- Students are permitted to bring into the examination room: pens, pencils, highlighters, erasers, sharpeners and rulers.
- Students are NOT permitted to bring into the examination room: blank sheets of paper and/or white-out liquid/tape.
- No calculator is allowed in this examination.

Materials supplied

- Question and answer book.
- Additional space is available at the end of the book if you need extra paper to complete an answer. Clearly label all answers with the appropriate question number.

Instructions

- Write your name and your teacher's name in the spaces provided above on this page.
- All written responses must be in English.

Students are NOT permitted to bring mobile phones and/or any other unauthorised electronic devices into the examination room.

SECTION A

Instructions for Section A

Answer **all** questions in the spaces provided.

Question 1 (2 marks)

Outline **one** advantage of a business operating as a private limited company and **one** advantage of a business operating as a partnership.

Question 2 (4 marks)

Using a business case study from the past four years, explain a potential conflict that might exist between **one** stakeholder from within the business and **one** stakeholder from outside the business.

Question 3 (2 marks)

- a. Describe the role of a human resource manager in the workplace. 1 mark

- b. Describe the role of employer associations in the workplace. 1 mark

Question 4 (4 marks)

- a. Using Porter's Generic Strategies (1985), describe the key characteristics of the differentiation approach as a strategy to position a business for the future. 2 marks

- b. Outline how a business you have studied this year has successfully adopted **one** of Porter's approaches (including differentiation) to position the business for the future. 2 marks

Question 5 (10 marks)

Read the following information and use it to answer the questions below.

Orchid Centre is a business that provides customers with alternative health services. Shannon is the owner of Orchid Centre and she is a chiropractor.

Shannon earns revenue from two sources—from working in her chiropractic practice and from renting out space in the building to the other health practitioners. She also provides the other health practitioners with administrative support that includes reception services and financial record keeping, in return for a monthly fee. Other than sharing receptionists and administrative support, each health practitioner's business operates independently.

Over a six-month period, Shannon has noticed that her afternoon shifts on Wednesdays and Thursdays have fewer patient bookings compared to the afternoon shifts on Mondays and Tuesdays. She is confused about this as many of her patients have reported feeling frustrated that they have not able to get a booking between 5.00 pm and 7.00 pm on Wednesday and Thursday afternoons. The naturopath, George, who works at Orchid Centre, has also received similar complaints from his patients, who are told by a receptionist that late afternoon bookings on these days are not available. As a result, George has lost several patients to another naturopath who works extended hours. Shannon is concerned that George might not renew his rental contract, which is due expire in two months, as a result of dissatisfaction with the receptionist service.

All health practitioners work five-hour shifts from 2.00 pm to 7.00 pm on Monday to Thursday. On Fridays the centre closes at 5.30 pm. Shannon suspects that the receptionists who work the Wednesday and Thursday afternoon shifts want to finish promptly at 7.00 pm, so they avoid booking people for appointments later in the day.

A survey of clients has shown that the customer service provided by the receptionists is seen as poor. Shannon has received complaints that the receptionists are rude, unhelpful and slow.

TABLE 1: AVERAGE NUMBER OF PATIENT APPOINTMENTS PER PRACTITIONER (AFTERNOON SHIFT)

Practitioner	Monday	Tuesday	Wednesday	Thursday	Friday
Chiropractor (Shannon)	32	33	25	26	15
Naturopath (George)	8	9	6	6	3
Other practitioners	10	8	18	15	5

a. Define the term 'performance management'.

1 mark

b. Identify and justify **one** appropriate key performance indicator (KPI) that Shannon could use to measure the quality of customer service.

2 marks

c. Propose and justify **one** performance management strategy Shannon could implement to improve the performance of the receptionists who work on Wednesday and Thursday afternoons.

3 marks

- d. Explain how Shannon could apply **one** of the following motivation theories to encourage her receptionists to improve the quality of their services.

Indicate with a tick (✓) the motivation theory to be considered in your response:

- ☐ Hierarchy of Needs (Maslow)
- ☐ Goal Setting Theory (Locke and Latham). 4 marks

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Question 6 (3 marks)

Explain the role of the Fair Work Commission in resolving workplace disputes.

[illegible]

Question 7 (6 marks)

With reference to Lawrence and Nohria's Four Drive Theory, analyse **two** motivation strategies a manager could apply to decrease rates of staff absenteeism and levels of staff turnover, and increase the productivity of a business.

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. There are no margins, text, or other markings on the paper.

Question 8 (6 marks)

Minh manages a team of employees at a holiday resort. He has established an objective to improve staff productivity by 15% within 12 months. The staff are generally very experienced, with most having been in their role for many years.

Recommend and justify the most appropriate management style Minh could adopt to improve staff performance and productivity.

[illegible]

Question 9 (3 marks)

Identify **one** of Senge's Learning Organisation principles (disciplines) and explain how the application of that principle (discipline) can assist a business to implement a change.

[illegible]

Question 10 (10 marks)

With reference to a business case study from the past four years, outline the driving and restraining forces for change in that business and explain how the business has used Lewin's Three Step Change Model to plan for new business opportunities in domestic or global markets.

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SECTION B: CASE STUDY

Instructions for Section B

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

Answer **all** questions in the spaces provided.

Read the following case study, including Table 2 on page 14, and answer the questions below.

Arrow is one of Australia's most profitable discount department stores. Of Arrow's 25 000 employees, 700 work in the national office in Melbourne and the rest are employed in the business's 100 retail outlets. Arrow's vision is to provide customers with the highest quality products at the most competitive prices. The business has adopted the strategy of offering lower prices than its competitors, to gain a competitive advantage.

To achieve its vision, Arrow endeavours to improve efficiency in its operations, increase the number of sales and cultivate a corporate culture of valuing key stakeholders (employees, customers and partners). The business recognises that customers look for the best possible products at the lowest prices. Customer surveys show that more people compare prices and shop online rather than shop at the bricks-and-mortar business in person.

During the past 18 months, two large international discount department stores, Lola and Q&T have entered the market as competitors to Arrow. Potentially this competition could affect Arrow's ability to maintain its current market share over the next five years. Other Australian-owned competitors in the market are also concerned about the effect Lola and Q&T will have on the discount department store market. Arrow management recognises a need to improve the competitiveness of its business.

Arrow manufactures several home-brand products, including clothes, furniture and sporting equipment, and has recently shifted its manufacturing plant from China to Indonesia in order to maximise operational efficiency and continue reducing prices. This change will reduce shipping costs and shipping times as Indonesia is geographically closer to Australia than China. In addition, Indonesia has the advantage of paying lower minimum wages than China, manufacturing processes are of a higher standard in Indonesia than China, and deliveries can be made directly from factories to stores, cutting out the cost of an intermediary.

Arrow is also implementing a range of other strategies to improve competitiveness. These include laser cutting of clothing and furniture fabrics to minimise waste, price tagging of products in the factory, rigorous testing of products to minimise the return of faulty products and the use of computer-aided design software to streamline the design and manufacturing processes of its products. The business is also committed to investing in its ecommerce capabilities to better meet customer demand, including online shopping and 'click-and-collect' services.

Arrow is dedicated to protecting the health and wellbeing of its workers in Indonesia and has demonstrated this commitment by paying workers above the minimum wage and providing free meals during working hours.

Question 1 (2 marks)

Describe the relationship between operations management and Arrow's business objectives.

Question 2 (3 marks)

Describe the key elements of the operations system at Arrow. Provide **one** specific example of each element.

Question 3 (4 marks)

Explain **two** strategies that Arrow could implement to improve the efficiency and effectiveness of its operations.

Question 4 (10 marks)

Examine the following table.

**TABLE 2: PERFORMANCE OF SELECTED DISCOUNT DEPARTMENT STORES
(1 APRIL 2016–31 MARCH 2017)**

Store	Market share (%)	Sales turnover (\$AUD)	Growth (%)
Arrow	13.34	1 100 000 000	13
Big D	9.94	820 000 000	-15.8
DisCo	7.80	643 000 000	-25.7
Fat Henry's	3.06	252 000 000	1.1
Lola	27.90	2 300 500 000	23
Q&T	37.96	3 130 000 000	25
Overall	100.00	8 245 500 000	20.6

- a. Key performance indicators (KPIs) provide data to analyse the performance of a business. Using key performance indicators, analyse how Arrow's focus on Porter's (1985) lower cost approach to strategic management has affected the business's ability to maintain a competitive advantage over its competitors. 6 marks

- b. Propose and justify **two** KPIs that could be used to measure Arrow's commitment to its stakeholders.** 4 marks

[illegible]

Question 5 (6 marks)

- a.** Businesses should consider their corporate social responsibility when implementing change. Describe a corporate social responsibility issue that Arrow should have addressed when making decisions about moving its manufacturing operations from China to Indonesia.
- 2 marks

- b.** Discuss the implications of Arrow's decision to change the location of its manufacturing operations from China to Indonesia. 4 marks

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END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space

[illegible]

Suggested answers

SECTION A

Question 1 (2 marks)

Outline one advantage of a business operating as a private limited company and one advantage of a business operating as a partnership.

Note: The following answer is one of a number of possible answers to this question.

One advantage of a business operating as a private limited company is that the business is a separate legal entity; therefore, the owners (shareholders) have limited liability to the value of their shareholding.

An advantage of a partnership is that it is less expensive and simple to set up, with minimal government regulation.

Marking guide:

1 mark for outlining an advantage of a private limited company

1 mark for outlining an advantage of a partnership

Question 2 (4 marks)

Using a business case study from the past four years, explain a potential conflict that might exist between one stakeholder from within the business and one stakeholder from outside the business.

Note: The following answer is one of a number of possible answers to this question.

In the hospitality, retail and fast-food industries recent changes to the penalty rate law has the potential to cause conflict between the owners/managers of a business and unions (stakeholders outside the business).

For the owners, reduced penalty rates means lower wage costs on a Sunday, which will decrease the cost of trading on that day and increase the profitability of a business. It might also mean the business could employ more workers, resulting in increased customer satisfaction.

In contrast, the unions, which advocate the protection of employee rights, pay rates and working conditions, would not want any employees to receive pay cuts. Employees will be negatively affected by a reduction in the hourly rate they receive in exchange for their labour on a Sunday. This could mean that some employees have to work longer hours to cover their living expenses or have to seek alternative employment.

As the laws have already been changed, the union's priority is to minimise the financial impact on its employee members during the transition period.

Marking guide:

1 mark for identifying a relevant business case study

1 mark for describing how the stakeholder within the business will be affected

1 mark for describing how the stakeholder external to the business will be affected

1 mark for stating why the conflict exists

Question 3 (2 marks)

- a. Describe the role of a human resource manager in the workplace. **1 mark**

Note: The following answer is one of a number of possible answers to this question.

Human resource managers are crucial in workplace relations as they liaise with other departments to create a productive and harmonious workplace. Their role includes day-to-day administration of wages and entitlements, negotiation with employees/unions around workplace issues and participation in the dispute resolution process.

Marking guide:

1 mark for providing the key characteristics and features of a human resource manager

- b. Describe the role of employer associations in the workplace. **1 mark**

Note: The following answer is one of a number of possible answers to this question.

Employer associations are groups of employers who come together to promote a common interest in workplace relations issues and support employers through sharing information and providing support. Employer associations may represent employers during collective bargaining procedures, advise employers of their rights and obligations and act as their advocates.

Marking guide:

1 mark for providing the key characteristics and features of an employer association

Question 4 (4 marks)

- a. Using Porter's Generic Strategies (1985), describe the key characteristics of the differentiation approach as a strategy to position a business for the future. **2 marks**

Note: The following answer is one of a number of possible answers to this question.

If a business adopts the differentiation approach as its strategy to gain a competitive advantage it is aiming to be unique in its industry; therefore, becoming valued by the customers. To differentiate itself the business would need to use high-quality materials, adopt a pricing strategy aimed at skimming the market, ensure it is innovative in product design, distribute through select channels and provide customer service by trained professionals.

Marking guide:

1 mark for describing the key characteristics of the differentiation approach

1 mark for describing why this approach can assist a business position its future

- b. Outline how a business you have studied this year has successfully adopted one of Porter's approaches (including differentiation) to position the business for the future.**

2 marks

Note: The following answer is one of two possible answers to this question, with the other being the differentiation approach.

Porter believed that businesses are subjected to competitive forces not only from their existing competitors but also from other businesses, such as their buyers and sellers, and that businesses can be threatened by the introduction of substituted products or a new competitor. By adopting the lower cost approach as the business strategy, a business needs to become a lower cost producer relative to its competitors. This can be achieved through practices, such as economies of scale, implementing appropriate technology, determining the best access to raw materials and adopting lean production techniques. A business that has successfully adopted this approach is Ikea. It offers stylish furniture, cheaper than most of its competitors, sources its products from countries that pay lower wages than Australia and requires the purchaser to construct products from a flat pack, which enables the company to keep its prices low.

Marking guide:

1 mark for outlining the key characteristics and features of an approach

1 mark for outlining how a specific business has adopted this approach to gain a competitive edge

Question 5 (10 marks)

- a. Define the term 'performance management'.**

1 mark

Note: The following answer is one of a number of possible answers to this question.

Performance management is the practice of strategically linking the performance of an individual employee with the objectives and tasks related to their job and the overall objectives of the business.

Marking guide:

1 mark for stating the meaning and essential qualities of performance management

- b. Identify and justify one appropriate key performance indicator (KPI) that Shannon could use to measure the quality of customer service.**

2 marks

Note: The following answer is one of a number of possible answers to this question.

The number of customer complaints is a KPI that Shannon could use to measure the quality of customer service, as it is an indicator of how customers view the quality of the service they have received. An increase in customer complaints might indicate that there is a need for change in the training and development of staff or the processes, whereas a decrease in the number of customer complaints can be interpreted as a positive outcome.

Marking guide:

1 mark for identifying an appropriate KPI

1 mark for providing a valid reason for the choice of the KPI

- c. Discuss *one* performance management strategy Shannon could implement to improve the performance of the receptionists who work on Wednesday and Thursday afternoons. **3 marks**

Note: The following answer is one of a number of possible answers to this question.

One performance management strategy Shannon could use with reception staff is to introduce a system of performance appraisals. Performance appraisals would give Shannon the opportunity to appraise the performance of individual receptionists in terms of how well jobs are being carried out. It would also provide opportunities for open and honest feedback about individual performances and for collaboratively establishing plans to improve performance. Appraisals can be conducted on a formal basis, annually, or informally, taking place when a specific activity or task has been completed.

The advantage of conducting performance appraisals in this case study is the systematic approach to review and support. However, both formal and informal performance appraisals can be time-consuming and challenging for Shannon. She needs to conduct ongoing appraisals to determine if the training and development programs offered to the receptionists and her ongoing support of receptionists will lead to a cultural change regarding patient care.

Marking guide:

1 mark for proposing an appropriate performance management strategy

2 marks for providing valid reasons for the choice of the performance management strategy

- d. Explain how Shannon could apply *one* of the following motivation theories to encourage her receptionists to improve the quality of their services. **4 marks**

Note: The following answer focuses on Locke and Latham's Goal Setting Theory.

The Goal Setting Theory (Locke and Latham) focuses on the process of setting and achieving goals as a means of increasing individual's motivation, effort, task focus and persistence. This theory would be particularly useful for Shannon to apply for several reasons. Locke and Latham's theory would complement the use of performance appraisals. It would lend itself to using key performance indicators (KPIs), such as the number of patients treated per shift to quantify the performance of the receptionists. In addition, the theory would facilitate ongoing discussions between Shannon and the employees around individual and business goals.

The goal setting cycle has five stages—collaborative setting goals, employees undertaking the job/tasks, periodic feedback from the manager, end-of-period evaluation, and the outcomes.

An example of a goal is using KPIs to measure the number of patients treated per shift. If Shannon and the receptionists set the KPI targets together, with the benchmark being the number of patients treated on a Monday and Tuesday, and Shannon provides periodic feedback, then both parties should be able to identify the reasons for the problem and assist in determining a remedy.

It is possible that there are other reasons why patient bookings on a Wednesday and Thursday afternoons are low—not just that the receptionists want to finish on time. The other practitioners see more patients on Wednesday and Thursday afternoons than earlier in the week, so the receptionists might be busy dealing with these patients and taking reception time away from Shannon's and George's patients.

This goal-setting process should help Shannon identify training and development needs for the receptionists, such as, training focused on the computer booking system or end-of-shift procedures. In addition, it could identify the need for additional staff to work on Wednesday and Thursday afternoons to meet Orchid Centre's demands.

Marking guide (global):

1 mark for describing the key characteristics and features of selected relevant motivation theory

1–3 marks for explaining how this theory will help to overcome the problem. More complex answers will refer to the trends in KPIs presented in the case study.

Question 6 (3 marks)

Explain the role of the Fair Work Commission in resolving workplace disputes.

Note: The following answer is one of a number of possible answers to this question.

The Fair Work Commission (FWC) is responsible for providing assistance to resolve workplace disputes. When a workplace dispute has not been resolved through mediation, one of the parties can apply to the FWC to handle the dispute. Initially, the FWC will appoint a conciliator to undertake the conciliation process, which involves the parties meeting to attempt to resolve the issue. If the conciliation process fails, the matter is referred to arbitration. An arbitration hearing is similar to a court case in that the FWC acts as an independent third party, listening to the parties make their case. Once a decision is made about how the dispute will be resolved, it becomes legally binding.

Marking guide:

1 mark for identifying how the FWC is brought into the dispute by one party

1 mark for describing the features of conciliation

1 mark for describing the features of arbitration

Question 7 (6 marks)

With reference to Lawrence and Nohria's Four Drive Theory, analyse two motivation strategies a manager could apply to decrease rates of staff absenteeism and levels of staff turnover, and increase the productivity of a business.

Note: This suggested answer focuses on two motivation strategies, namely career advancement and investment in training. Other accepted strategies are performance-related pay and support and sanction. The sample answer focuses on one drive per strategy; however, responses could discuss multiple drives per strategy, within the context of the analysis.

Investment in training and career advancement are two motivation strategies that could be used to decrease rates of staff absenteeism and levels of staff turnover, and increase the rate of productivity growth. When a business invests in the training and development of the employees, it is drawing on a principle of Lawrence and Nohria's Four Drive Theory that employees are driven or motivated by a desire to comprehend (learn). Training builds the capacity of employees and can increase employee satisfaction because they feel more motivated and energised when they are working in a stimulating environment. Training will also provide employees with additional skills and expertise to perform their jobs more efficiently and effectively, thus increasing productivity. Staff absenteeism and high staff turnover often occurs when workers feel undervalued and are given limited or no career advancement opportunities.

A manager needs to match the training with the specific task needs of each employee. The training should challenge employees, motivating them to apply newly acquired skills and practices to their work. Monotonous and unstimulating work can increase job dissatisfaction and decrease productivity.

Career advancement refers to the promotion of employees into more challenging and higher level positions within a business. It is a long-term motivation strategy and is most closely linked to Lawrence and Nohria's Four Drive Theory that employees are driven or motivated by a desire to acquire. Career advancement is recognised as a strategy to increase employee satisfaction as it offers employees the opportunity to acquire higher levels of status, accomplishments and/or power within a business. Incentives include increased wages/salary, new opportunities to gain experience and increased levels of authority.

Career advancement also offers employees the opportunity to contribute to the business in a more productive manner through job enlargement (making a job bigger), job enrichment (more challenging) or job rotation (moving between roles). However, productivity might decrease in the short-term as employees build their knowledge and experience in their new roles. Managers should also be mindful that the drive to acquire might be extremely strong in some employees, resulting in excessive competitiveness within teams and a perception that career advancement processes are not fair and equitable. This can lead to a decrease in job satisfaction and productivity for some employees, who might feel overlooked in the career advancement process.

Marking guide (global):

1 mark for identifying each motivation strategy and linking it to the Four Drive Theory (x two = 2 marks)

1-2 marks for explaining how the strategy might increase employee satisfaction

1-2 marks for explaining how the strategy might increase productivity

Question 8 (6 marks)

Minh manages a team of employees at a holiday resort. He has established an objective to improve staff productivity by 15% within 12 months. The staff are generally very experienced, with most having been in their role for many years.

Recommend and justify the most appropriate management style Minh could adopt to improve staff performance and productivity.

Note: The following answer is one of a number of possible answers to this question.

The participative management style would be an appropriate management style for Minh to adopt to improve staff performance and productivity.

This style is characterised by decentralised control, authority and decision-making. The participative manager is focused on working with staff as a team and is people-oriented; therefore, central to the participative management style is the belief that satisfied and motivated employees perform more effectively and are more productive. Control and authority still ultimately lies with the participative manager; however, the participative manager highly values the input and contributions of employees, which is different to the consultative, persuasive and autocratic approaches.

Minh's staff are highly experienced in their roles and have been with the business for many years, therefore they would have a deep understanding of the business. By seeking input from employees about how they can improve their productivity, Minh would gain valuable insights into how each role can be performed more efficiently and effectively. In contrast, more task-oriented styles, like the autocratic or persuasive approach to introducing changes relating to productivity, would be less inclined to seek input from experienced employees. It is likely that these types of managers would assume that they have a better understanding of what is required to improve productivity.

Other benefits of the participative management style are that it cultivates and values shared visions and directions so that the managers and employees are working together to achieve the productivity objectives. It lends itself to the adoption of a coaching model of employee development and it creates good employee relations.

Some limitations that Minh will need to consider are that some employees might seek to have their increase in productivity to be rewarded financially rather than through an increase in satisfaction. It can be time-consuming to have employees involved in decision-making and consultation, and when there are differing viewpoints or beliefs about the changes that need to be made, there is a potential for conflict to arise between people that can affect staff performance and productivity.

Marking guide:

1 mark for identifying an appropriate management style from the study design

1 mark for identifying characteristics of the chosen style

2 marks for explaining how this management style can improve staff performance and productivity

1 mark for explaining the limitations of this style

1 mark for contrasting this style with other management styles to justify why it is the most appropriate

Question 9 (3 marks)

Identify one of Senge's Learning Organisation principles (disciplines) and explain how the application of that principle (discipline) can assist a business to implement a change.

Note: The following answer is one of a number of possible answers to this question.

Building a shared vision is one of the principles (disciplines) identified in Senge's Learning Organisation. A shared vision of the future is part of encouraging and inspiring all of the people within a business to innovate, create and drive business change and transformation. When people feel enthusiasm for the goals and direction of a business, the vision is reinforced and encourages a deeper level of commitment to the change that is being implemented.

Marking guide:

1 mark for identifying one of the five principles (disciplines) of Senge's Learning Organisation

1 mark for outlining the principle (discipline)

1 mark for explaining how this principle (discipline) can be applied to implement change

Question 10 (10 marks)

With reference to a business case study from the past four years, outline the driving and restraining forces for change in that business and explain how the business has used Lewin's Three Step Change Model to plan for new business opportunities in domestic or global markets.

Note: The following answer is one of a number of possible answers to this question.

Lewin's Three Step Change Model involves three key steps or principles for leading and implementing change. Step one involves unfreezing the current situation, step two involves moving from the current situation to the new situation and step three involves refreezing the new situation.

In 2008, the volume of letters being sent through Australia Post's mail system reached an all-time peak; however, by 2016 the delivery of addressed letters had decreased significantly. Australia Post knew it had to change. For 200 years, Australia Post operated as a monopoly in the area of domestic letter delivery. However, to remain competitive in a rapidly changing market, the business has had to shift into an already competitive market for the delivery of parcels and ecommerce solutions. It was crucial for Australia Post's survival to shift from their original core business of letter delivery to ecommerce, involving digital communication and transactions.

There were a number of forces that were driving Australia Post's need for change. In terms of Lewin's model, this meant that Australia Post had to unfreeze from being a domestic business focusing on letter delivery. Some driving forces included increasing globalisation of the economy, new technologies, innovation and changing societal attitudes. Globalisation meant Australia Post had to compete in an international market and it had to harness the capabilities of new technologies that supported ecommerce. The business needed to adopt new ways of operating in a technology-rich economy and it had to recognise a shift in the way that consumers purchased goods and services.

Given the rapid rate of decline of letter deliveries, it was essential that Australia Post managed effectively the restraining forces of time and organisation inertia. Moving from the current situation to the new situation involved putting the customer and customer experience at the centre of Australia Post's plans for change and innovation. This included the creation of a new position of Chief Customer Officer, responsible for customer advocacy, and creating customer-led services and developing a more customer-centric culture. Shifting to the new situation also involved providing safe online shopping experiences for customers, supporting small businesses to grow online, powering ecommerce for all businesses and assisting corporations and governments to digitise their services. The Australian Government supported reforms to letter service delivery, including an increase in the price of regular stamps and changes to delivery time to ensure that letter delivery by Australia Post is sustainable in the long-term.

Australia Post articulates how it intends to refreeze the new situation in its 2016 annual report, *Part of tomorrow*. The report outlines the business's strategy to help Australians prosper in the 21st century. The strategy explains what Australia Post wants to achieve and how this will happen. It wants to ensure that change is embedded into the business culture and it will advance its purpose by providing customers with experiences they value, by differentiating its products and services from its competitors, by changing the expectations of its stakeholders, both within and external to the business, and by considering the importance of global issues, such as climate change.

Marking guide (global):

1 mark for outlining the driving forces

1 mark for outlining the restraining forces

2 marks for explaining the new business opportunities

1 mark for describing each of the three steps in Lewin's model (x three = 3 marks)

1-3 marks for illustrating how Lewin's model relates to the selected case study

SECTION B: CASE STUDY

Question 1 (2 marks)

Describe the relationship between operations management and Arrow's business objectives.

***Note:** The following answer is one of a number of possible answers to this question.*

Businesses endeavour to achieve their business objectives through the management of their operations system. In Arrow's case the aim is to provide its customers with high-quality products at the lowest possible price with the objectives of making a profit and increasing market share. Arrow maximises the competitiveness in its operations systems through producing maximum quantities at a minimum cost, maintaining high levels of quality, meeting customer demand through the speed of production, ensuring that its products are reliable, and by being flexible and responsive to changes in consumer demands and technology.

Marking guide:

1 mark for stating the relationship between the operations system and business objectives

1 mark for providing specific examples to illustrate the relationship

Question 2 (3 marks)

Describe the key elements of the operations system at Arrow. Provide one specific example of each element.

***Note:** Multiple examples have been provided for each element of the operations system at Arrow. Students only have to provide one example for each element.*

The key elements of Arrow's operations system are inputs, processes/transformation and outputs. Inputs are resources that are put into Arrow's operations system to obtain their planned products. Examples of inputs in Arrow's operations system include raw materials (such as cotton to make fabrics), component parts (such as threads), human resources (such as designers and machinists), capital resources (such as the manufacturing plant, equipment and robotics), entrepreneurial skills (such as leadership), and time.

Processes are the operations and actions used by Arrow to transform or convert their inputs into outputs. Examples of Arrow's processes include computer-aided design, laser-cutting of fabrics to minimise waste, testing for quality control and quality assurance, and ecommerce platforms to make it easier for customers to make purchases.

Outputs are finished products in the form of goods ready for sale to customers. They are the result of inputs being processed. Examples of products produced by Arrow include clothing, sporting equipment and homewares.

Marking guide:

1 mark for describing the input element and providing a specific example

1 mark for describing the process element and providing a specific example

1 mark for describing the output element and providing a specific example

Question 3 (4 marks)

Explain two strategies that Arrow could implement to improve the efficiency and effectiveness of its operations.

Note: Various strategies can be used to improve efficiency and effectiveness. This sample answer focuses on the strategies of technology developments and waste minimisation. Other acceptable strategies include materials management and quality management.

Arrow could incorporate more robotics into the operations system as a strategy to improve efficiency and effectiveness. The use of computer-aided design and laser-cutting technology indicates that Arrow has incorporated some automation and robotics technology into their operations system; however, further cost savings could be achieved through robotic technology being used in its warehouse. Robots could be used to select, load and transport stock around the warehouse, ready for shipment to Australia. Robotics might improve efficiency by increasing the speed of production, reducing the cost of labour and freeing up employees to take on other responsibilities. Robotics might improve effectiveness by decreasing potential occupational health and safety hazards for employees on the warehouse floor and improving the quality of the products, as robots minimise the possibility of human error.

Another strategy that could improve efficiency and effectiveness in Arrow's operations is to adopt the Just in Time (JIT) inventory management system. JIT aims to avoid holding stock at any point in the supply chain to decrease inventory costs, with the objective of having the right quantity of products needed, at the right time, at every stage of the production process. This would ensure that finished products are ready for immediate dispatch to customers, which would maximise efficiency. If Arrow wants to achieve its objectives of providing high-quality products at the lowest prices, it must ensure that it has efficient and effective inventory management practices. This means reducing costs by minimising inventory levels, meeting immediate requirements and avoiding stockpiling of products that might go out of fashion quickly.

Marking guide:

1 mark for explaining how each chosen strategy will improve efficiency (x two = 2 marks)

1 mark for explaining how each chosen strategy will improve effectiveness (x two = 2 marks)

Question 4 (10 marks)

- a. Key performance indicators (KPIs) provide data to analyse the performance of a business.**

Using key performance indicators, analyse how Arrow's focus on Porter's (1985) lower cost approach to strategic management has affected the business's ability to maintain a competitive advantage over its competitors. **6 marks**

Note: The following answer is one of a number of possible answers to this question.

Competitive advantage refers to the point of difference a business has over competitors. Arrow's competitive advantage over its Australian-owned competitors is that it has focused on a lower cost approach, rather than a differentiation approach to strategic management. Adoption of Porter's lower cost approach means that Arrow is focused on being a low-cost producer and adopting a no frills approach to appeal to price-conscious consumers. Arrow achieves its cost advantage through charging lower prices. It achieves this by reducing costs and expenses. Examples of cost and expense reduction include moving its offshore manufacturing to a cheaper location, employing waste minimisation practices and using technology to streamline the operations system.

Arrow's approach has proven to be effective. It has successfully managed the introduction of two international competitors, Lola and Q&T, into the Australian discount department store market. While the key performance indicators of percentage market share and level of sales show that Lola and Q&T both dominate the market, Arrow is the top-performing Australian-owned company. Arrow has the highest percentage of market share and level of sales turnover of the Australian-owned businesses, and is the only business to experience significant growth in the one-year period.

The entry of Lola and Q&T into the Australian market in late 2015 has significantly affected the performance of two of Arrow's competitors, Big D and DisCo, as evidenced by their negative growths of 15.8% and 25.7%, respectively. In contrast, Arrow experienced a 13% growth in the same period, indicating that its focus on a lower cost approach and providing its customers with high-quality products at the lowest price is currently an effective strategy in spite of the new entrants into the market.

The percentage of market share indicator demonstrates that Arrow has maintained a competitive advantage over its Australian-owned competitors, Big D, DisCo and Fat Henry's. Arguably, this lower cost approach might have been the reason why it held the largest percentage of market share of the Australian-owned stores, with continued percentage growth. Arrow also has the highest level of sales turnover of the Australian-owned stores, having achieved \$1.1 billion in sales turnover during the period, demonstrating that it is shifting far greater quantities of products than their Australian competitors.

Ultimately, Arrow is proving to be more resilient in the market than its Australian-owned competitors; however, it will need to continue to pursue its lower cost approach in order to ensure that it can maintain growth, continue to increase sales turnover and increase its percentage of market share into the future.

Marking guide (global):

1 mark for defining competitive advantage

1 mark for describing Porter's Generic Strategy approach of lower cost

1–3 marks for explaining the relationship of a relevant KPI to the lower cost approach to gaining a competitive advantage. **Note:** There are three relevant KPIs

1 mark for distinguishing between Arrow's performance and its Australian competitors and international competitors

b. Propose and justify two KPIs that could be used to measure Arrow's commitment to its stakeholders. 4 marks

Note: The following answer is one of a number of possible answers to this question.

Two key performance indicators (KPIs) that could be used to measure Arrow's commitment to its employees are rates of staff absenteeism and level of staff turnover.

Rates of staff absenteeism is expressed as a percentage and indicates the number of work days lost due to unscheduled absences during a certain period of time, such as illness, personal leave or employees not turning up to work due to work dissatisfaction. There is a time element to a KPI—to be measured it would be days lost in a year, which could then be compared with the next year. Employee absences represent a large cost to a business, as it still usually has to pay wages while an employee is on sick leave or personal leave, and there is also lost productivity. This indicator can measure a business's commitment to employees, because motivated and committed employees feel supported in their work and are generally less likely to take days because they feel overwhelmed, stressed or unsupported in the workplace. Businesses that are committed to their employees will use a range of strategies to reduce staff absenteeism, including employee-wellness programs and flexible working hours.

The level of staff turnover is another KPI that Arrow could use as it measures the rate at which employees permanently leave a business in a given period of time. It is expressed as a percentage of the total number of employees. In other words, this KPI is expressed as the number of employees who left divided by the average number of employees for a particular period, such as a year. High levels of staff turnover might indicate high levels of staff dissatisfaction in the workplace, so this KPI could be used by Arrow to measure its commitment to employees. When employees feel dissatisfied generally because they, it is feel unsupported, stressed, unmotivated or overwhelmed, are poorly paid or their work is not recognised, prompting them to seek other employment opportunities. It is important for Arrow to nurture their employees' skills and attributes, provide opportunities for training and development, consider their wellbeing, as illustrated by Arrow's provision of free meals, and choose skilled managers to communicate the vision, goals and priorities of the business. This should demonstrate Arrow's commitment to its employees and in turn result in low levels of staff turnover.

Marking guide:

1 mark for identifying each KPI (x two = 2 marks)

1 mark for supporting the selection of each KPI (x two = 2 marks)

Question 5 (6 marks)

- a. **Businesses should consider their corporate social responsibility when implementing change.**

Describe a corporate social responsibility issue that Arrow should have addressed when making decisions about moving its manufacturing operations from China to Indonesia. **2 marks**

Note: The following answer is one of a number of possible answers to this question.

When Arrow decided to move its operations from China to Indonesia, it had a corporate social responsibility to consider the impact on the people who were going to be affected by the change. This included the employees in the Chinese plant who would be losing their jobs, and the broader effect on the community following the loss of so many jobs after the operations shut down. Similarly, Arrow had a corporate social responsibility to its new employees and the wider community in Indonesia. The business needed to ensure that the stakeholders would benefit from the creation of new jobs by paying above the minimum wage rates and providing free meals during working hours.

Marking guide:

1 mark for identifying a corporate social responsibility

1 mark for describing some likely impacts of shifting Arrow's manufacturing plant

- b. **Discuss the implications of Arrow's decision to change the location of its manufacturing operations from China to Indonesia.** **4 marks**

Note: The following answer is one of a number of possible answers to this question.

To maintain its competitive advantage as a cost leader in the Australian market, Arrow decided it was necessary to shift its manufacturing operations from China to Indonesia. This change offered Arrow a number of advantages. As Indonesia is significantly closer to Australia than China, shipping costs and travel times are lower. Deliveries are direct from the factory to the stores in Australia, cutting out the involvement of an intermediary, hence reducing costs. Indonesia has lower minimum wages than China, and despite the fact that Arrow is going to pay above the minimum wage, its labour costs are still lower. In addition, Indonesia's high-standard manufacturing practices produce high-quality output (product), leading to increased customer satisfaction.

However, these advantages need to be weighed against the disadvantages associated with implementing the significant change in Arrow's operations system. A change like this would be expensive to initiate and execute. Typical costs associated with such a shift include redundancy payments to employees as well as costs incurred in shutting down the plant, such as terminating leases or selling properties. Other significant costs included transporting the machinery, equipment, furniture and other assets from China to Indonesia. In addition, the new plant in Indonesia was equipped with new technology, such as computer-aided design software and laser-cutting machines. This would amount to a significant investment in the new capital items.

Marking guide:

2 marks for explaining the advantages of shifting Arrow's manufacturing operations

2 marks for explaining the disadvantages of shifting Arrow's manufacturing operations

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