

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 10 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 2019

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	5	5	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 (10 marks)

All That Shines is a cleaning business owned by Kate and operates as a private limited company. It provides domestic and commercial cleaning services and currently employs 10 full-time staff and 18 part-time staff. One of the Team Leaders, Susan, has recently resigned from All That Shines and has opened her own cleaning business. She has undercut Kate's prices by 10% and has approached a number of Kate's employees to come and work for her. Kate is concerned that she will potentially lose clients and employees to Susan.

a. Define the term 'private limited company' as a type of business.

2 marks

b. Distinguish between the managers and competitors of All That Shines and outline how their interests might be in conflict.

4 marks

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- b.** Explain how **two** of Senge's principles could be used by a business. In your response, refer to a contemporary business case study. 5 marks

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Question 3 (18 marks)

Hudson was recently on holiday in the Philippines, where he purchased a solar-powered charging port for a mobile device. His preliminary investigations reveal that a charging port like this is not currently available in Australia. He has found a manufacturer in the Philippines, DevCo, which is able to produce the charging port device to meet Australian Standards. He has done a tour of the factory and is pleased with the quality of the products and manufacturing processes, in particular, the use of robotics and a focus on innovation.

Hudson has been working as a team manager at a large telecommunications company but has little practical experience in operations, sales or finance. Before he takes the steps necessary to establish a business, Hudson is seeking clarification about some terms and issues he is unsure about.

- a. Define the term 'computer-aided manufacturing techniques'. 2 marks

- b. DevCo states that it uses a master production schedule strategy to manage materials.**

Explain how this strategy is used to improve the efficiency and effectiveness of operations.

4 marks

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When Hudson was touring the factory, the guide kept talking about two key performance indicators (KPIs) DevCo has been focusing on recently—rate of productivity growth and level of wastage. He said both have improved in the last three years since the new Head of Operations was appointed and introduced a number of strategies.

- c. Describe how DevCo might have improved its rate of productivity growth and decreased wastage through the use of the following management strategies:

- initiating lean production techniques
- staff training.

8 marks

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- d.** The tour guide kept emphasising that DevCo's supply chain was a key competitive advantage. For example, it sources the highest quality solar panels from a Canadian company, which manufactures its solar panels in China.

Discuss DevCo's use of overseas manufacture within its supply chain.

4 marks

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Question 4 (6 marks)

'If all you're trying to do is essentially the same thing as your rivals, then it's unlikely that you'll be very successful.'

Source: Michael Porter, <https://www.toolshero.com/toolsheroes/michael-porter/>

Evaluate the use of differentiation as a key approach to strategic management.

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Question 5 (10 marks)

Clothes to Wear is a retailer that manufactures and sells clothing, shoes and accessories for women, men and children. The products are designed in Australia and manufactured in a large factory in Indonesia. The business has recently diversified and introduced a homewares line in an attempt to compete with larger, low-cost retailers, but business performance has steadily declined over the past five years.

The owner engaged the services of a consultant, Mr Green, to investigate the situation. Mr Green has identified the following problems.

- Customers are disappointed with the quality of products and believe the designs are outdated.
- Since 2016:
 - market share has decreased from 12% to 7%
 - net profit has decreased by 60%
 - rate of productivity growth has decreased by 2%
 - level of staff turnover has increased by 16%.
- Employee morale is very low following a change from an agreement to the award for pay and conditions. Employees feel that this change was managed poorly and they were not consulted enough during the process.
- There is no structured approach to performance management.

Other than staff training, propose and justify **two** strategies Clothes to Wear can implement to improve its business performance. For each strategy, analyse the potential effects the change will have on:

- employees
- customers.

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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 1 on page 13, and answer the questions that follow.

THE POINT

The Point is a large licensed venue, located inside an industrial estate of a coastal town. The venue opened in January 2016. The venue was originally a factory; however, the three owners, David, Oscar and Sam, spent \$1 million transforming the main building into a restaurant, function centre and art gallery, with two outdoor seating areas and a conference room. They worked hard to minimise its environmental footprint when fitting out the venue, preferring to retain many of the original features of the building, using recycled materials where possible and investing in alternative energy sources. The owners installed the region's largest solar farm on the roof of the factory.

The Point's philosophy is grounded in the belief that if you support others in the local community and take care of the environment, then the business will grow and profits will be made. The business has grown quickly, as shown by a summary of the key performance indicators (KPIs) in Table 1, on page 13.

The Point is in high demand as a venue. However, despite it being large enough to accommodate 500 people, the current site license only allows for a maximum of 250 people in the venue at one time due to limited car park availability. A recent application to increase the site license has been denied. From Thursday to Sunday, the venue is very busy and usually booked to capacity. The owners have high expectations of their staff, including excellent levels of customer service at all times. However, for some employees this high-pressured environment is quite overwhelming.

The owners have realised that The Point's future growth is limited by the site license and are considering the following two expansion options:

- establishing a cheese-making factory onsite so they can manufacture their own gourmet cheese range using local dairy products. This would supply The Point's restaurant as well as selling the cheese wholesale to other retailers. David and Sam prefer this option.
- opening a second venue instead. Oscar is not convinced that there is sufficient demand for locally made cheese.

A large garage is attached to the venue and is currently used for storage. It would be the ideal space for manufacturing a new line of products. It was decided to move forward with the cheese-making factory, and plans are in place to commence the installation of equipment in February 2020.

Question 2 (6 marks)

David, Oscar and Sam are concerned about recent employee performance.

Propose and justify an appropriate motivational theory the owners can use to manage their employees more effectively.

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Question 3 (6 marks)

Explain how The Point could apply the Three Step Change Model (Lewin) to plan the implementation of the expansion plans for the cheese-making factory.

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Question 4 (6 marks)

- a. Identify **one** relevant driving force and **one** relevant restraining force for change at The Point.
2 marks

- b.** With reference to the key performance indicators (KPIs) presented in Table 1 on page 13, analyse the impact that the driving force and restraining force identified in **part a.** could have on the expansion plans. 4 marks

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 5 (4 marks)

Describe the potential effect of The Point's plans to establish a cheese-making factory on:

- corporate culture
- the business objective of increasing net profit.

[illegible]

END OF QUESTION AND ANSWER BOOK

Extra space for responses

Clearly number all responses in this space

[illegible]

Suggested answers

Note: When making judgements about the quality of student answers to questions, teachers could be guided by some or all of the following factors (depending on the question): accuracy, relevance, completeness, breadth/depth of treatment, logic of connections, clarity, substantiation of claims, level of coherence. These factors are particularly useful to consider when marking questions that require a global marking approach. These types of questions are multifaceted as they involve the application of a marking range that considers different aspects of a question. The factors listed above will provide useful reference points for discrimination within a marking range.

Question 1 (10 marks)

a. Define the term ‘private limited company’ as a type of business. 2 marks

A private limited company is a company that has between 2 and 50 shareholders. Its shares can only be bought or traded with the approval of other shareholders. Shares are not available via the Australian Securities Exchange. This type of business also has the words ‘Proprietary Limited’ or Pty Ltd in its name.

This form of business is often used by a person or group who might have started as a sole trader or partnership and wishes to expand further. The business is a separate legal entity and there is limited liability for the shareholders.

Marking guide:

1 mark for stating the feature of size as it relates to a private limited company

1 mark for stating the ownership feature of a private limited company

b. Distinguish between the managers and competitors of All That Shines and outline how their interests might be in conflict. 4 marks

Managers and competitors are both stakeholders of All That Shines although they have different interests. Managers are involved in setting business goals and objectives, as well as having a vested interest in the success of the business as they wish to secure their positions, further develop their careers and perhaps be rewarded by pay rises, bonuses or improved conditions if the business is successful. Competitors, on the other hand, are stakeholders that would prefer All That Shines to not be successful. Competitors operate in the same market or sector and the success of All That Shines might be to the detriment of their business success.

A distinguishing feature is that while managers and competitors are both stakeholders they have different interests and motivations and this can directly cause conflict between them.

Marking guide:

1 mark for providing the meaning of managers as a stakeholder

1 mark for providing the meaning of competitors as a stakeholder

1 mark for making clear the difference between the two stakeholders

1 mark for stating the nature of the conflict between the stakeholders

c. Examine the relationship between managing employees and achieving business objectives at All That Shines. 4 marks

There is a relationship between managing employees and achieving business objectives. Objectives state the desired achievement of a business, which provides a direction for business activity. Objectives can take a number of forms and include financial objectives, marketing objectives and social objectives. The relative importance each of these objectives is often dependent on the nature of the business. Managing employees involves applying strategies and skills to direct and motivate staff so that business plans are implemented. Managers use different styles or approaches to succeed in achieving business objectives.

The relationship between objectives and employees is a direct and strong one. If a business wishes to achieve its business objectives, such as increasing sales or improving its customer service, then employees will have a direct impact on this. Often an employee is the difference between one business and another, and can give a business a competitive edge. Therefore, it is important that a business works towards recruiting and retaining good employees who assist in achieving its objectives. At All That Shines there is a need to ensure that it retains productive employees, as a former employee, Susan, has left and is setting up a business in competition. In addition, a number of employees might also leave the business, which might mean it is not as competitive and might not be able to achieve its business objectives.

Marking guide:

1 mark for providing key characteristics or features of the act of managing employees

1 mark for providing key characteristics or features of the nature of business objectives

1 mark for making a valid connection between managing employees and the achievement of business objectives

1 mark for applying the examination of the relationship to the scenario

Question 2 (6 marks)

a. State the purpose of Senge's Learning Organisation. 1 mark

The purpose of Senge's Learning Organisation is to provide businesses and other organisations with a framework or method to ensure that change can be implemented successfully. The focus of Senge's theory is to highlight the need for organisations to be flexible and adaptive during periods of change and to focus on building the capacity of everyone in the organisation. This allows the business to be able to adapt to change and also allow it to innovate.

Marking guide:

1 mark for stating correctly the intention or aim of Senge's Learning Organisation—note that students should not be awarded marks for describing the theory

- b. Explain how *two* of Senge's principles could be used by a business. In your response, refer to a contemporary business case study. 5 marks**

There are five key principles in Senge's Learning Organisation, two of which are personal mastery and shared vision. Personal mastery means that as individuals learn, the business learns as well and continues to focus on improvement. Providing employees with the skills and knowledge to continually reflect and look at ways of improving a business or organisation, supports its long-term success. It also means that employees are more engaged with any changes or adaptations the business might need to make and therefore less likely to challenge or resist change.

The other principle is building a shared vision. This is important as all people within a business need to have a common vision and understanding of where the business is heading. This usually means people are more committed as they understand the nature of the business objectives, hence where the business is headed.

One business that has used Senge's Learning Organisation principles is IBM. It has focused on recruiting and retaining employees by developing their skills and capacity (personal mastery). It is also focused on ensuring that all employees and managers have a work-life balance and has provided ways for employees to provide feedback to managers—they can contribute their own ideas to management and feel part of the future direction of the business.

Marking guide:

1 mark for summarising a key principle of Senge's Learning Organisation (**x two = 2 marks**)

1 mark for showing how a principle can be used (cause) to achieve a business outcome (effect) (**x two = 2 marks**)

1 mark for referring to a relevant contemporary business example

Question 3 (18 marks)

- a. Define the term 'computer-aided manufacturing techniques'. 2 marks**

Computer-aided manufacturing (CAM) techniques refer to the use of computer-controlled machinery tools and equipment in a business's operations system to improve efficiency and effectiveness. CAM, through its programmed instructions, allows manufacturing processes to be automated, resulting in greater precision and fewer errors. This usually saves a business time and money, as the system is quicker (efficient) and more accurate (effective).

Marking guide:

1 mark for stating briefly the meaning of the term

1 mark for indicating that CAM is a technological development

b. DevCo states that it uses a master production schedule strategy to manage materials.

Explain how this strategy is used to improve the efficiency and effectiveness of operations.

4 marks

A master production schedule (MPS) refers to a business producing a timeline or schedule that involves setting out its production requirements and breaking the requirements into stages. The MPS outlines when a product will be produced and the time frame associated with this. It also outlines the expected delivery dates and when contracts need to be met. It allows the operations manager to analyse production capacity requirements ahead of time and to allocate additional resources, if they are needed. The MPS also sets out the quantities and types of production over different periods of time and the inputs required to ensure items are produced in the time frame.

A master production schedule will assist a business to improve the efficiency and effectiveness of its operations system as it allows for the correct amount of inputs and materials to be ordered. This will ensure that inputs are there when required and will mean that inputs will not be stockpiled or become obsolete. Production timelines and a schedule will also ensure that the production line is set up for the correct products and items and that all inputs, such as materials and labour, are available when needed.

Marking guide:

2 marks for outlining the suitability of this strategy to managing materials

2 marks for linking a principle or component of the strategy (cause) with specific improvements in efficiency and effectiveness (effect)

c. Describe how DevCo might have improved its rate of productivity growth and decreased wastage through the use of the following management strategies:

- **initiating lean production techniques**
- **staff training.**

8 marks

The Head of Operations at DevCo could have used one or more lean production techniques to achieve improvements in the level of wastage and the rate of productivity growth. There are some guiding principles associated with lean production techniques, including minimising inventory (and associated costs) and empowering and skilling employees. The Head of Operations could have used the 5s or continuous flow techniques for eliminating waste and the data from a bottleneck analysis to improve the rate of productivity growth, as this technique helps identify areas of weakness in a manufacturing process, such as the production of the charging port devices. Alternatively, the Head of Operations could have used the technique of Kanban (also known as pull system), which employs technology to indicate required levels of supply, hence eliminating waste. In most instances the implementation of appropriate lean production techniques will have a significant and positive impact on the rate of productivity growth and the level of wastage.

As a management strategy, staff training could have provided DevCo employees with the opportunity to improve their skills and capacity with respect to manufacturing processes and ways of minimising waste. Improving staff capacity usually reduces staff turnover and absenteeism, as employees are motivated and productive and enjoy being at work. The type of training determined by DevCo must have been appropriate because its employees are performing their duties at a higher level of efficiency (reducing costs), hence they are using less human input to generate output. Similarly, staff training could have provided employees with the skills and confidence to develop and apply innovative ways of recycling and reusing materials to reduce wastage.

Marking guide:

Lean management techniques:

1 mark for describing the lean management techniques strategy

2 marks for providing the key features of the strategy as it applies to both KPIs

1 mark for referring to the scenario

Staff training:

1 mark for describing staff training as a strategy

2 marks for providing the key features of the strategy as it applies to both KPIs

1 mark for referring to the scenario

- d. The tour guide kept emphasising that DevCo's supply chain was a key competitive advantage. For example, it sources the highest quality solar panels from a Canadian company, which manufactures its solar panels in China.

Discuss DevCo's use of overseas manufacture within its supply chain. 4 marks

Supply chain refers to a system involved in moving a product or service from suppliers to manufacturers and then on to consumers and customers. The supply chain is part of the operations system where inputs are processed and transformed into outputs or finished products. Many businesses source their inputs from other regions and countries. A business such as DevCo needs to ensure that it has optimised its supply chain as it will be importing and sourcing components from other countries. There are a number of advantages in sourcing goods and inputs globally. Usually inputs from other countries are cheaper due to cheaper labour and production costs, or a business might specialise in particular parts or components often leading to efficient operations, hence its production costs are lower than some other businesses. This allows businesses such as DevCo to access these products.

A business such as DevCo also needs to consider the implications of relying on other businesses for inputs. For example, DevCo might lose some of its bargaining power as it is reliant on another business or supplier to meet its deadlines. It should also try to ensure that its inputs are sustainable and are ethically sourced; however, this might be out of the control of a business such as DevCo.

Marking guide (global):

1 mark for providing the meaning of supply chain, taking into account its accuracy

1–3 marks for considering different viewpoints regarding DevCo's supply chain, taking into account the depth/breadth of discussion and relevance of opinions to the scenario

Question 4 (6 marks)

'If all you're trying to do is essentially the same thing as your rivals, then it's unlikely that you'll be very successful.'

Source: Michael Porter, <https://www.toolshero.com/toolsheroes/michael-porter/>

Evaluate the use of differentiation as a key approach to strategic management.

Two approaches to strategic management proposed by Michael Porter are lower cost and differentiation. Businesses using the differentiation approach focus on creating and promoting a product or service that is perceived to be unique throughout an industry, as reflected in the quotation by Porter.

When a business strives to establish its relative position in a market through differentiation, it selects one or more attributes or features of its product that customers will consider important and focuses on building its brand from there. Differentiation can be based on factors or features such as reliability, quality, customer service and brand image. One advantage of using the differentiation approach is customer loyalty—belonging to a niche group of consumers is important for some people, and they are likely to stay loyal to the brand, regardless of the cost of the product or service. This gives the business a relatively stable customer base. Another advantage of establishing a unique position through differentiation is that it allows premium prices to be charged, again benefitting a business. Businesses such as BMW, Porsche and Nike have been able to grow their businesses following a differentiation strategy as they offer a point of difference between their product and their competitors.

Differentiation can be a successful strategy for a business to follow when it wishes to expand; however, there are risks. For differentiation to work it needs to be in a market that is not price sensitive and there needs to be something special or unique about the product or service. The sustainability of the brand's uniqueness could also be in doubt as competitors might imitate the product or service. Sustained differentiation is reliant on flair, research capability, strong marketing and high-quality products, and these can be expensive and time-consuming to sustain.

In conclusion, I believe that the benefits of differentiation outweigh the disadvantages. The existence of successful long-term businesses such as BMW, indicates that differentiation can be a very successful management strategy despite some risks. Its success rests with constantly ensuring that the business supplies its loyal customers with products and services that are different to its competitors.

Marking guide (global):

1 mark for stating the meaning of differentiation, taking into account its accuracy

1–4 marks for judging the strengths and weaknesses of the differentiation approach, taking into account depth/breadth of treatment and accuracy of content

1 mark for drawing a conclusion, taking into account its consistency with the evidence

Question 5 (10 marks)

Other than staff training, propose and justify two strategies Clothes to Wear can implement to improve its business performance. For each strategy, analyse the potential effects the change will have on:

- **employees**
- **customers.**

Note: The following answer is one of a number of possible answers to this question. Other possible strategies include, but not limited to:

- introducing motivation strategies, such as support or career advancement
- implementing strategies to improve corporate culture
- adopting a performance management strategy, such as management by objectives
- changing the management style and/or skills
- reviewing the global supply chain
- conducting a force field analysis
- redeploying resources.

There are a number of strategies that Clothes to Wear can implement to try to improve the performance of the business and address some of the issues and concerns that have been identified by the consultant. One is using low-risk strategies to overcome employee resistance and the other is a quality operations strategy. Both of these strategies will have an impact on employees and customers by both improving the current position and the long-term growth of Clothes to Wear.

Clothes to Wear could use low-risk strategies to overcome employee resistance during this period of change. Change is difficult to manage, particularly when the employees experience low morale or feel neglected in the process. In this case, low morale is evident by the increase in staff turnover and the high levels of dissatisfaction with the way the restructuring of pay and conditions was managed. Adopting low-risk strategies, such as communication and empowerment, to overcome resistance to change is an effective way to manage change. They promote a more positive and supportive environment, where employees are more likely to feel valued and supported.

This new strategy should have a positive impact on employees. Being more transparent and open with communication practices helps to build trust between employees and managers, and facilitates more effective sharing of information and feedback. By empowering employees to participate in the change process, it encourages them to take greater ownership of the change being implemented. Empowerment is an effective way to provide employees with the opportunity to contribute to decision-making, act as change agents or work together in teams. This strategy should also have a positive impact on the quality of the service provided, which might improve sales and also reduce staff turnover, as employees feel more valued, appreciated and involved in the business.

Customers should also benefit, although more indirectly, from this strategy. More motivated, engaged and empowered employees should improve the service and products available from Clothes to Wear and this in turn should make the business more competitive and improve customer satisfaction and retention.

A second strategy Clothes to Wear could implement is a quality operations strategy. The quality of the products sold by the business and outdated designs have meant that customers are unhappy and sales have been decreasing. This has been identified as a significant issue by the consultant. One strategy that could improve quality in the business is the introduction of Total Quality Management (TQM), which is a holistic approach to quality where all members of an organisation aim to participate in looking at ways to improve the business. This is an ongoing process and continues to look at ways to improve the organisation or business incrementally. It is management-led and involves all employees and managers, and also has a customer focus. TQM would assist Clothes to Wear as it would allow everyone in the business to work towards developing processes and ideas to improve all aspects of the business. Focusing on quality should assist the business to overcome customer complaints and concerns about the current quality of the products.

This strategy would have an impact on employees. Employees have been dissatisfied with the way they have been managed and how change has been implemented in the business. By allowing employees to have input into how their jobs could be improved and how their expertise and knowledge could be better used in these these jobs, should lead to improvements and provide greater opportunities for employees to engage in decision-making. This should improve their job satisfaction and consequently their productivity and also reduce staff turnover.

TQM will also impact on customers, although more indirectly. By focusing on the quality of processes and procedures, then Clothes to Wear's products and its customer services should improve. This could result in more customers either staying with the business or being attracted to it.

Marking guide (global):

1–2 marks for proposing two strategies, taking into account their relevance to employees and customers

1–8 marks for supporting the proposed strategies with evidence of their effects on employees and customers, taking into account the level of coherence between features of the strategies and their specific impact on employees and customers and the breadth/depth of treatment

SECTION B: CASE STUDY

Question 1 (4 marks)

Describe the characteristics of the operations system for The Point.

The operations system for The Point produces a combination of products and services, for example, serving food and beverages, providing customers with live music and hosting functions in the function centre.

While not necessarily a traditional manufacturing business, The Point does produce goods, for example, food and beverages, which are tangible and might be stored for later use. The presence of a menu indicates a degree of standardisation in the goods produced in the kitchen, and the production and consumption of food and beverages in a restaurant does not occur simultaneously, as the customer is not typically present in the kitchen when the chefs are making the food.

The Point also provides services to customers such as live music, a function centre and an art gallery. Service businesses generally produce services that are intangible and cannot be stored for use later. Individual customers are very important in a service business because they are usually present and involved in the production process of a service, as production and consumption generally occur simultaneously. Businesses usually tailor services to meet the needs of individual customers.

Marking guide:

2 marks for stating the characteristics of a service business

2 marks for stating the characteristics of a manufacturing business. Answers must relate specifically to The Point to be awarded marks

Question 2 (6 marks)

David, Oscar and Sam are concerned about recent employee performance.

Propose and justify an appropriate motivational theory the owners can use to manage their employees more effectively.

Note: Other relevant motivational theories include Maslow's Hierarchy of Needs and Lawrence and Nohria's Four Drive Theory

One motivational theory the owners of The Point could use is Locke and Latham's Goal Setting Theory. This theory sets out the importance of goal setting as a means to motivate employees. It is based on a number of principles including setting clear goals, setting goals that are challenging but also possible for employees to achieve, securing a commitment and agreement to the goals by the employee, providing feedback on work performance and also designing tasks that are 'just right'—not too easy and not too hard as to overwhelm the employees.

In addition to employees feeling overwhelmed, two key performance indicators, namely staff absenteeism and customer complaints, indicate that there are some staffing problems. Customer complaints have more than doubled in three years and the rate of staff absenteeism has increased by approximately 60% over the same period.

David, Oscar and Sam should provide employees with regular feedback, recognising achievements and modifying expectations, where appropriate, in order for employees to progress towards their goals. This could reduce the rate of absenteeism as employees are being recognised for their contribution to the business and are not feeling overwhelmed by the high expectations placed upon them. This could also assist in establishing better relationships with customers, which in turn could decrease the number of complaints.

An important component of this theory is the quality and nature of discussions between management and employees. The Point's owners must jointly set goals with employees and determine how progress towards these will be measured and recognised. Setting goals focuses attention on goal-relevant activities and can have the effect of energising employees. It also fosters a greater commitment to the goals, often achieved through persistence. If the owners and employees take a team approach to goal-setting it should improve employee motivation and productivity, and bring rewards to everyone.

Locke and Latham's focus on setting employee goals that are relevant, achievable and measurable is very relevant to The Point's current situation, as indicated by the poor results of KPIs relating to employees. The Point's planned expansion to the business will also bring challenges, so setting clear goals and securing employee commitment will also allow this process to be more efficient as there will be an accountability and recognition of the work employees are doing.

Marking guide (global):

1–2 marks for proposing and outlining the essential features of a motivation theory, taking into account its relevance to the case study and accuracy of content

1–4 marks for supporting the proposal with reasons or evidence, taking into account the depth/breadth of treatment, substantiation of claims and relevance to the case study

Question 3 (6 marks)

Explain how The Point could apply the Three Step Change Model (Lewin) to plan the implementation of the expansion plans for the cheese-making factory.

Lewin's Three Step Change Model focuses on behaviour modification of people/employees, which is very appropriate for The Point given its poor key performance indicators related to employees. There are three steps or stages in the model—'unfreeze', 'move' and 'refreeze'. The owners should carefully plan how each of these stages will play out when they establish the cheese-making factory.

Step 1 is to 'unfreeze' the current situation (status quo), preparing for the desired change. This means trying to stop current practices and processes and determining what needs to be changed. For the owners this can be done through analysing and reflecting on how employees are working and what needs to change. For employees, it involves 'unlearning' their current behaviour, habits and ways of thinking, and this could be challenging at The Point because employee KPIs are not encouraging and there could be some resistance to change. Unlearning prepares employees for the next step and provides opportunities for developing new ways of working. Employees should be informed of why the expansion is taking place and be encouraged to take a constructive approach to the change process, indicating their acceptance of change. This empowerment will help employees feel confident and comfortable with the proposed change.

The second step in the model is moving from the current position to the new position wanted by the business owners (implementation). Moving does not mean that the change will be successful in the long-term. It involves dealing with complex issues and considering the ideas and attitudes of staff. Some employees will feel unsettled, as they need to learn new procedures and task, while others will feel empowered and confident with a new skill-set. The Point's owners should plan to communicate regularly with employees about progress, as this will encourage employee feedback and provide opportunities to clarify any uncertainties. The owners could be advised to move quickly in this stage, as some employees could revert to the status quo.

The last step in Lewin's model is 'refreezing'. This means that the desired practices and behaviours need to be reinforced or 'frozen' into place. If this is not done properly then it is unlikely that the changes will be successful. If the refreeze does not occur, then employees will go back to the way they did things before. The Point's owners should embed processes, such as reward, training and feedback, to support the sustainability of the planned expansion and celebrate its success.

Marking guide (global):

1–3 marks for describing the key characteristics of each step, taking into account accuracy of content and completeness of steps

1–3 marks for applying aspects of each step to The Point's expansion plans, taking into account the logic of the connections, relevance of examples and depth of treatment

Question 4 (6 marks)

a. Identify *one* relevant driving force and *one* relevant restraining force for change at The Point. **2 marks**

One driving force that might have an impact on The Point is the managers. A restraining force on The Point is legislation (or regulations).

Marking guide:

1 mark for identifying a driving force that is relevant to the case

1 mark for identifying a restraining force that is relevant to the case

- b. With reference to the key performance indicators (KPIs) presented in Table 1 on page 13, analyse the impact that the driving force and restraining force identified in part a. could have on the expansion plans. 4 marks**

Driving and restraining forces are those forces that can either push a change to occur or if it is a restraining force, it can block or hinder the change and prevent it from occurring.

The ability of the managers to drive change is demonstrated through the KPIs of net profit and level of wastage. The managers' strategies and skills are reflected in the significant growth of net profit (difference between revenue and expenses) over the three years of operation. This indicates an understanding of strategies to improve efficiency and effectiveness, resulting in increasing net profits. It also could indicate efficiency gains through careful waste management procedures. Their commitment to minimising waste is reflected in the decreasing level of wastage indicator and illustrated through their use of recycled materials and alternative energy sources in the main restaurant. The managers should be able to transfer these skills and practices to the cheese-factory expansion.

A restraining force on The Point is legislation (or regulations). The owners want to be able to grow the business; however, this is not possible as the laws around licencing and site licences restrict the size of the business and the number of customers that can be served onsite. Therefore this restraining force must be taken into account; however, it is outside the control of the business and it must adhere to the regulations.

Marking guide:

2 marks for interpreting the stimulus material, including relevant key performance indicators, to identify an impact of a driving force on the expansion plans

2 marks for interpreting the stimulus material, including relevant key performance indicators, to identify an impact of a restraining force on the expansion plans

Question 5 (4 marks)

Describe the potential effect of The Point's plans to establish a cheese-making factory on:

- **corporate culture**
- **the business objective of increasing net profit.**

Corporate culture refers to the shared values, attitudes and beliefs of those in the business. It is often intangible—more like a 'feel' about the business, nevertheless, it is important for businesses to consider. If the expansion is going to be successful then it is important for The Point to introduce practices and ideas that will assist employees to feel part of the business and be valued. Currently the key performance indicators of rates of staff absenteeism and the number of customer complaints indicate some staffing problems, such as feeling overwhelmed with their responsibilities. This can have a negative impact on employee confidence and their attitude towards the business. The Point needs to ensure that staff are well-trained, have a shared understanding of the vision of the expansion and that their work is appreciated. This team approach is important, otherwise, a deteriorating corporate culture will exert a negative impact on the expansion plans.

The Point has had a significant increase in profit over the past three years. This is usually an indication of increased sales or revenue and an ability to keep expenses and costs down. If this continues and the business can build on its success when it expands, then it is likely the business can continue to increase profit. It appears that David and Sam perceive the introduction of gourmet cheese as an opportunity to generate more revenue by manufacturing a new product in unused space, and increase profit without needing to increase the site license. However, these expansion plans might distract the owners from focusing on other areas of performance and this might have a detrimental effect on their reputation and net profit. For example, the business needs to address the large increase in customer complaints that has occurred. If the complaints continue then it might find that its reputation is potentially damaged, leading to reduced sales and a decline in net profit. This expansion also brings challenges for net profit. Set-up costs could be high and there is no guarantee of the size of its customer base (other businesses and guests at The Point), so this could affect market share.

Marking guide:

2 marks for stating the key characteristics of corporate culture and indicating the potential effect of The Point's expansion plans on corporate culture

2 marks for stating the key characteristics of net profit and indicating the potential effect of The Point's expansion plans on net profit

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