



VCE BUSINESS MANAGEMENT

Unit 3 examination 2019

SUGGESTED RESPONSES AND MARKING SCHEME

Section A

Question 1 (2 marks)

Using examples, define the term 'area of management responsibility'.

- 1 mark for a precise definition of 'area of management responsibility' (not just repeating the term or providing a general/ vague idea of the term)
- 1 mark for the use of example(s)

***Sample Answer:** Area of management responsibility refers to the part of a business, or a department of a business, where similar activities, or employees who work on similar activities, are grouped together. For example, operations is the area responsible for all the activities that relate to the production of a business's product, while the human resources area is responsible for all the activities involved from acquiring to terminating employees of the business.*

Question 2 (4 marks)

Describe how each of the following performance management strategies can achieve both business and employee objectives:

Management by objectives

- 1 mark for outlining management by objectives
- 1 mark for describing how management by objectives can achieve both business and employee objectives

***Sample Answer:** Management by objectives is a process by which management and employees agree on a set of goals for each employee, with these goals all contributing to the objectives of the business as a whole. Progression towards business objectives is monitored and feedback is provided whilst goals are being achieved and once goals are achieved. As part of the process, each employee should be aware of the objectives of the business, as well as their own responsibilities in achieving those objectives. Therefore, the negotiation of individual employee objectives should result in goals that support the business in achieving its objectives.*

Appraisals

- 1 mark for outlining appraisals
- 1 mark for describing how appraisals can achieve both business and employee objectives

***Sample Answer:** Appraisals refer to formal assessments of how efficiently and effectively employees are performing their roles in a business over a set period of time. An appraisal will often include an initial meeting and the arrangement of regular reviews between an employee and a manager. This will allow discussion regarding the determination of standards of performance required by the employee, or the objectives that the employee is trying to achieve. Performance feedback is vital so that the employee can achieve their personal objectives as well as support the business in achieving its objectives.*

Question 3 (22 marks)

Social Mission Enterprises is a social enterprise that provides employment and training opportunities for homeless people. Its values are 'one team, one community', opportunity, quality and celebration. As part of its planning, the business has decided to embark on a growth strategy focussed on tripling the number of people helped each year. As a consequence, **Social Mission Enterprises** will increase the numbers of staff that it employs, both voluntary and paid. However, Marion, the human resource manager, is concerned about poor staff morale and is worried that existing staff are not motivated. She will work with a team of other managers to oversee the changes.

a. Explain how planning and one other management skill are necessary for successful business management at Social Mission Enterprises. 4 marks

- 1 mark for outlining what planning is
- 1 mark for explaining how planning will be necessary for successful business management at Social Mission Enterprises
- 1 mark for outlining one other management skill
- 1 mark for explaining how the other management skill will be necessary for successful business management at Social Mission Enterprises

***Sample Answer:** Planning is the ability to set objectives and decide methods or strategies that will be used to achieve those objectives. This management skill is necessary for successful business management at Social Mission Enterprises as evidenced by the growth strategy which has just been introduced. The planning process (define the objective, analyse the environment, develop alternative strategies, implement an alternative, monitor and seek feedback on the implemented strategy) would have been used to develop the growth strategy, ensuring that the business had purpose and direction, and that risks and threats were recognised before action was taken.*

Another management skill that will be necessary for successful business management at Social Mission Enterprises is communicating. This is the ability to transfer information from a sender to a receiver, and to listen to feedback. This skill will support the business in achieving its growth strategy as management's vision will be clearly outlined and the strategies for achieving Social Mission Enterprises' objectives will be well explained. Employees will understand what is required as they work towards achieving the growth strategy. This will ensure that the growth strategy is enacted, and that the business achieves its objectives.

Other accepted management skills: *delegating, leading, decision-making, interpersonal.*

b. Identify and describe the most appropriate management style for Marion to use as she introduces the changes at Social Mission Enterprises. Justify the use of this style. 4 marks

- 1 mark for identifying an appropriate management style for Marion to use as she introduces the changes at Social Mission Enterprises
- 1 mark for describing the management style
- 2 marks for justifying the management style

***Sample Answer:** An appropriate management style for Marion to use as she introduces the changes at Social Mission Enterprises would be the participative style. This style involves the manager uniting with staff to share decision-making power. There is a high level of trust, and managers recognise the strengths and abilities of employees, so therefore actively involve them in the decision-making process. The*

contribution of employees is valued and, in return, employees often display a greater commitment to the business's objectives. Communication is two-way, flowing up from employees to managers.

The participative management style is appropriate for the situation involving the implementation of the growth strategy at Social Mission Enterprises because Marion is working with a team of other managers to introduce the changes. It might be assumed that there is time to implement the changes and that it would be worthwhile seeking input from all staff in relation to how best to implement the growth strategy. The participative style is an appropriate one to use during times of change because of the range of opinions and ideas that can be generated, leading to better decisions being made. The involvement of staff is likely to improve their morale as they would appreciate being considered and included in the decision making process.

Other accepted management styles: *consultative*

c. Analyse how the management style and management skills used at Social Mission Enterprises may influence its corporate culture. 5 marks

Note: The use of the task word 'analyse' in the context of this question requires students to select and briefly explain a specific management style, provide examples of management skills, and then highlight the relationship between this style, the skills, and corporate culture at Social Mission Enterprises.

- 1 mark for explaining a specific management style that might be used at Social Mission Enterprises
- 1 mark for explaining management skills that might be used at Social Mission Enterprises
- 1 mark for explaining Social Mission Enterprises' corporate culture
- 2 marks for explaining the relationship between the management style and management skills specified and the corporate culture at Social Mission Enterprises

Sample Answer: *A management style is the way in which a manager does things when making decisions, implementing plans and motivating staff. This very much relates to the personality, experience, values and beliefs of the manager. A management style that may be used at Social Mission Enterprises is the consultative style. This is where management considers the opinions of employees before making decisions. Management at Social Mission Enterprises would maintain control and authority, however, there is a two-way communication process, with employees sharing their ideas with managers who are willing to listen.*

Management skills are the abilities or competencies that managers use to complete tasks effectively. For example, interpersonal skills is the ability to deal with or liaise with people and build positive relationships with staff. Another management skill is delegating, which refers to the transfer of authority and responsibility from a manager to an employee to carry out specific activities. Interpersonal skills might be used to inspire and influence staff, creating a workplace at Social Mission Enterprises where people respect each other and work well together. The use of delegation would demonstrate confidence in staff and would allow them to learn new skills. Both of these skills would be demonstrated if a consultative management style was used at the business.

Corporate culture refers to the shared values, ideas, expectations and beliefs held by managers and staff of a business. Social Mission Enterprises' corporate culture is reflected officially in its values: 'one team, one community', opportunity, quality and celebration. The use of the consultative management style at Social Mission Enterprises would emphasise the importance that management places on the contribution of its employees and the confidence it has in their abilities. Managers making use of this style, including Marion, are likely to believe that employees can be motivated through their greater involvement in decision-making. The use of the consultative style, as well as the use of skills such as delegation and

interpersonal skills, will lead to the reinforcement of a positive corporate culture at Social Mission Enterprises, that promotes opportunity and celebration, as well as the idea that the company is operating as 'one team' and 'one community'.

Other accepted management styles: *participative*

Other accepted management skills: *communicating, planning, leading, decision-making*

d. Lawrence and Nohria's Four Drive Theory has been recommended to Marion as an appropriate motivational theory.

Explain how Marion could apply this theory of motivation to manage employees effectively at Social Mission Enterprises. 5 marks

- 1 mark for outlining or defining Lawrence and Nohria's Four Drive Theory
- 2 marks for outlining the key principles of the Four Drive Theory
- 2 marks for explaining how Lawrence and Nohria's Four Drive Theory might be applied to Social Mission Enterprises

Sample Answer: *Lawrence and Nohria believed that their four drives (the drives to 'acquire', to 'bond', to 'learn' and to 'defend') shape the way in which all humans think and behave – they provide motivation for our behaviour.*

The drive to acquire involves the desire to own material goods, achieve results, as well as the desire for status, power and influence. Despite the organisation being a social enterprise, the theory can still be applied to the workplace at Social Mission Enterprises by linking monetary (or other) rewards to improvements in employee performance. Such a reward system would recognise the outstanding achievements of top performers and offer them conditions that are above industry standards. This would improve the morale of those employees who are motivated by the drive to acquire.

The drive to bond involves the need for humans to form long-term relationships with other individuals and groups as well as the need 'to belong'. This can easily be applied to the workplace at Social Mission Enterprises by encouraging the development of personal friendships between employees. As employees feel supported, included and 'bonded' in their quest to help others, it is likely that workplace performance will be enhanced.

The drive to learn involves our desire to satisfy curiosity to comprehend information and to explore the world around us. This can also be applied to the workplace at Social Mission Enterprises by providing employees with a variety of different and challenging tasks. Social Mission Enterprises might provide opportunities for job sharing or job rotation that would allow employees to enjoy new challenges and access training opportunities. In this way, employees would have access to new skills and knowledge, providing them with the opportunity to grow and become better operators for the business. This would improve the morale of those employees who are motivated by the drive to learn.

The drive to defend involves the desire to remove threats to our safety and security and protect what we regard as 'ours'. This can be applied to the workplace at Social Mission Enterprises by management ensuring that the work environment is safe and non-threatening. Motivation will come from removing any fears and insecurities that may be afflicting staff. Employees who work in a safe and non-threatening environment are therefore likely to improve their performance.

e. Social Mission Enterprises might use performance related pay and investment in training to motivate its employees.

Compare performance related pay and investment in training.

4 marks

- 2 marks for outlining similarities between performance related pay and investment in training
- 2 marks for outlining differences between performance related pay and investment in training

***Sample Answer:** Both performance related pay and investment in training are strategies that aim to improve motivation, that is, ensuring that the individual, internal processes that direct, energise and sustain a person's willingness to expend energy and effort in their job are maximised. Both strategies involve the business directing finance or other resources into the motivation of individuals. In the case of performance related pay, money or other financial benefits are directed into employees' remuneration, such as pay increases, bonuses, sales commissions, product discounts, use of holiday accommodation and/or other incentives. Investment in training involves finances being directed into the teaching of skills.*

However, these two motivation strategies do have differences. Performance related pay is a strategy where all or some of the remuneration given to employees is provided relative to how their performance is assessed according to set standards, whereas investment in training is not about rewarding good performance, but improving employee skills. Often, performance related pay motivates employees by rewarding good performance through the provision of direct financial compensation. In contrast, investment in training improves motivation by indicating that the business values the contribution of employees enough to invest in their development. Furthermore, investment in training provides employees with additional skills, which further helps to raise job satisfaction and boost motivation.

Question 4 (6 marks)

Referring to a contemporary business case study, explain the roles of two participants in workplace relations.

- 1 mark for identifying a participant in workplace relations
- 1 mark for explaining the role of the participant
- 1 mark for referring to an appropriate contemporary business case study
- Repeat for a second participant

***Sample Answer:** One participant in workplace relations is employees. These are the people who are paid a wage or salary in return for their work. The role of employees in the Chemist Warehouse dispute was to vote to back industrial action over a claim for a 25 to 30 per cent pay rise and increased job security. Workers at Chemist Warehouse's Preston and Somerton warehouses said that the vast majority of workers on site were employed as casuals and labour hire. They wanted more workers to become permanent. Approximately 800 workers at three of Chemist Warehouse's major distribution centres in Victoria and Queensland refused to return to work until their demands were met.*

Another participant in workplace relations is trade unions. These are groups of employees, usually from the same industry, who combine to protect their common interests. The role of trade unions in the Chemist Warehouse dispute was to represent their members in the development of the new agreement, with the aim of achieving the best possible deal for the employees. After a 16-day strike, the National Union of Workers (NUW) and Chemist Warehouse reached an understanding on new enterprise agreements for the business's distribution centre workers across Victoria and Queensland. The union negotiated and bargained with management at Chemist Warehouse on the behalf of employees during the enterprise bargaining process.

Other accepted participants in the workplace: *human resource managers, employer associations, Fair Work Commission*

Question 5 (6 marks)

National Telecommunication Corporation (NTC) recently announced that it would be simplifying its operations and reducing costs. Unfortunately, the change will involve up to 1000 job losses. More than a third of the company's staff will lose their jobs and a layer of management will be removed as middle-management roles are made redundant.

Describe an appropriate process for NTC to follow in managing the termination of its employees. In your answer, refer to:

- **Redundancy as a form of termination**
- **Entitlement and transition issues**
- 2 marks for explaining how redundancy is a form of termination
- 1 mark for demonstrating an understanding of entitlement issues
- 1 mark for demonstrating an understanding of transition issues
- 2 marks for describing an appropriate process for NTC to follow in managing the termination of its employees

Sample Answer: *Termination refers to the ending of the employment of an employee. Redundancy is a form of termination occurring when a business no longer has a need to employ a person as their job has ceased to exist, usually due to technological changes, a business restructure or a merger or acquisition. As the business simplifies its operations and reduces costs, this is the situation facing approximately 1000 people working at NTC.*

A process that NTC should follow in managing the termination of its employees begins with, firstly, notifying the employees and their unions of the situation, the timing and the reasons for the redundancies. The company could make use of voluntary and involuntary redundancy to maintain the motivation and trust of employees. Voluntary redundancy occurs when employees are informed of the need to reduce the size of the business's workforce and then are provided with the opportunity to nominate themselves for voluntary redundancy. This will give employees the opportunity to leave NTC of their own will and may lead to employees feeling somewhat valued. Involuntary redundancy occurs when employees are asked to leave the business. In this case, the employees will not be at fault in any way (and this will need to be communicated to staff).

There are also entitlement issues that must be considered. These are the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis. Entitlement issues can include any wages or salary owing, as well as leave entitlements such as accrued annual leave and long-service leave. A redundancy payment may also be included in the employees' entitlements. Transitions issues should also be considered. This refers to the process or period of changing from one job to another, or from one set of circumstances to another. As part of the transition process, NTC may offer employees workshops on resume writing, or skills workshops, to assist them to find jobs when their employment ceases. Although the business is not required to do this by law, it could be beneficial as it creates good-will over the time that is remaining.

Question 6 (10 marks)

Riel Resources is an ASX-listed mining exploration company, focused on creating shareholder value through the development of quality mining assets. The CEO wants the business to be seen as socially responsible. To meet this goal, she is reviewing the key elements of the company's operations system.

Outline one corporate social responsibility consideration that the CEO may address from each of the three elements of the operations system. Discuss how each consideration might affect the objectives of the company.

Note: Answers must be coherent and flow. Responses should be written in paragraphs that clearly consider all parts of the question, and bring everything together.

The response to this question should be marked globally. However, below is a breakdown of how the marks could be applied when assessing this answer:

- 1 mark for outlining each element of an operations system (inputs, processes and outputs)
- 1 mark for outlining how a corporate social responsibility consideration could affect inputs
- 1 mark for outlining how a corporate social responsibility consideration could affect processes
- 1 mark for outlining how a corporate social responsibility consideration could affect outputs
- 1 mark for a description of the positive aspects of a corporate social responsibility consideration in relation to inputs
- 1 mark for a description of the negative aspects of a corporate social responsibility consideration in relation to inputs
- 1 mark for a description of the positive aspects of a corporate social responsibility consideration in relation to processes
- 1 mark for a description of the negative aspects of a corporate social responsibility consideration in relation to processes
- 1 mark for a description of the positive aspects of a corporate social responsibility consideration in relation to outputs
- 1 mark for a description of the negative aspects of a corporate social responsibility consideration in relation to outputs

Sample Answer: *Inputs refer to the resources used in production, such as materials, capital equipment, labour, time and information. A corporate social responsibility consideration that could affect this element is the environmental sustainability of inputs. Environmental sustainability refers to a business making decisions that will allow it, and the rest of society, to continue to interact with the environment in a way that does not diminish the use and/or enjoyment of the environment for future generations. To ensure that its inputs are environmentally sustainable, Riel Resources might work with suppliers to guarantee that they follow guidelines on sustainable behaviour. For example, Riel Resources could require that suppliers provide materials that are sourced sustainably and with the longer-term outlook of the environment in mind. This will obviously benefit the environment. Furthermore, as Riel Resources' suppliers prove their corporate social responsibility credentials, Riel Resources will continue to deal with them, meaning that the suppliers will maintain their business. On the other hand, ensuring that their practices and procedures are socially responsible will be time consuming and expensive for suppliers. Producing policies that reflect corporate social responsibility, working on codes of conduct and creating social reports, can all divert resources from otherwise important tasks. Suppliers who are not able to maintain socially responsible standards may lose their business with Riel Resources.*

Processes refer to the activities undertaken in converting inputs into outputs. A corporate social responsibility consideration that could affect this element is the amount of waste generated from Riel Resources' processes. The business could reduce waste by recycling materials or making use of recycled materials, changing the way that it disposes of waste or by attempting to reduce the amount of pollution in its processes. By reducing waste and carbon emissions, it is possible that Riel Resources will be able to improve its reputation and increase sales. As customers, and the public in general, discover that Riel Resources is acting in a socially responsible manner, the company's reputation may improve as a result. This may ultimately result in more people, groups or businesses being willing to deal with Riel Resources, which has the potential to raise sales and profits. However, a negative aspect of this consideration is the financial cost. Introducing socially responsible practices, such as solar panels to reduce the impact on the environment, can cost the business a great deal of money in the short term, adding to expenses and threatening short term profitability.

Outputs refer to the end result of a business's efforts – the good or service that is delivered or provided to the consumer. Being socially responsible with outputs requires Riel Resources to ensure that the resources it sells to customers are high-quality, fit for their stated purpose and benefit society in some way, without causing harm to customers. A positive aspect of this is a positive relationship with customers. Customers might then be expected to reward the company with their loyalty. This can lead to increased sales and better financial performance. A negative aspect of this consideration relates to the perception that many people in the public have about the mining industry – that the activities pursued by mining businesses invariably result in damage to the environment. Riel Resources' reputation is unlikely to improve if consumers believe that the company is 'greenwashing'. This refers to promoting Riel Resources' socially responsible practices without actually changing how the company conducts its business. Customers may be less likely to purchase resources from the business if they believe that its products harm customers or the environment.

Other accepted corporate social responsibility considerations in relation to inputs: fair dealing with suppliers (for example, prompt payments), minimising the use of energy as an input, using local suppliers rather than overseas suppliers, ensuring inputs are environmentally sustainable (for example, recyclable materials could be used).

Other accepted corporate social responsibility considerations in relation to processes: facilities and technology used that contributes to the health and welfare of staff (above and beyond what is required by legislation), conducting production locally, providing ongoing training to employees.

Other accepted corporate social responsibility considerations in relation to outputs: honest marketing, sensitivity to community values.

Section B – Case Study

Case Study

Knytin Pty Ltd is a manufacturer of knitted garments. The business manufactures corporate uniforms, school uniforms, industrial workwear as well as custom designs. Knytin's production process begins with premium Australian merino wool which is knitted to produce products that are exceptionally warm, comfortable and durable.

The company began in 1962 as a small knitwear business located in Bendigo. It has now grown to be a preferred knitwear supplier to many large brands around the world. The business employs 50 workers who have a large experience in textiles.

Knytin opened a shop-front two years ago, as part of a move to transform the business from 'wholesale only' to 'direct to the public'. This change had a positive impact on sales. However, the CEO of Knytin is concerned about a recent decline in the performance of the business. The company's recent performance is summarised in the table below.

	2016	2017	2018
Profit	↑ 5%	↑ 10%	↓ 6%
Market share	↑ 1%	↑ 3%	↓ 1%
Productivity	↑ 3%	↑ 2%	↓ 2%

Costs have become a major issue for the business. As the company has grown, its costs of production have blown out. The business has also found that at times it has too much inventory, and not enough at other times. This has occasionally resulted in production problems. There have also been an increasing number of complaints about the quality of Knytin's knitted garments.

In response, the CEO intends to action the following responses:

- introduce computer-aided manufacturing techniques
- investigate the feasibility of either forecasting or materials requirement planning
- implement quality assurance

Question 1 (2 marks)

Describe one feature of a private limited company like Knytin.

Note: There must be some application to the Knytin case study for full marks.

- 1 mark for identifying a feature of a private limited company
- 1 mark for elaborating on that feature, using Knytin as an example

Sample Answer: One feature of a private limited company is that it must have the words 'Proprietary Limited', abbreviated to 'Pty Ltd', after its name. Knytin is a private limited company – it has the abbreviations 'Pty Ltd' after its name.

Other accepted features of private limited companies: *incorporated businesses with a minimum of one shareholder and a maximum of 50 non-employee shareholders, shares are offered only to those people whom the businesses wish to have as part owners*

Question 2 (2 marks)

Explain one business objective that is relevant to Knytin.

Note: There must be some application to the Knytin case study for full marks.

- 1 mark for demonstrating an understanding of a business objective relevant to Knytin
- 1 mark for an explanation of why the business objective is relevant to Knytin

Sample Answer: *One business objective relevant to Knytin is 'to make a profit' which relates to ensuring that revenue is greater than expenses. Making a profit is relevant to a business such as Knytin because doing so indicates that the business is performing successfully. If Knytin is not able to make a profit is unlikely that it will continue to trade in the longer-term. Further, a focus for Knytin is the size of its profit; according to the summary of performance it clearly does not only want to make a profit, the company wants to maximise its profit and avoid it from falling over time.*

Other accepted business objectives: *to increase market share, to fulfil a market need, to meet shareholder expectations.*

Question 3 (6 marks)

Distinguish between the operations management within a service business and the operations management within a manufacturing business, such as Knytin. In your response, refer to Knytin and a service business that you have studied this year.

Note: There must be some application to the Knytin case study for full marks.

- 1 mark for outlining a clear difference between the operations management of manufacturing businesses and service businesses
- 1 mark for referring appropriately to Knytin and a service business
- Repeat for a second and third difference (and examples)

Sample Answer: *One difference between the operations management within manufacturing businesses and service businesses is seen in the nature of the product that both types of businesses produce. Knytin is a manufacturing business that transforms inputs into physical goods, or tangibles, that can be handled and stored before they are sold to the consumer. Specifically, its knitted garments can be stored and handled before being used. In contrast, a service business transforms inputs into services, or intangibles, which means that they cannot be touched or stored. For example, as a service business, Commonwealth Bank produces financial services that cannot be touched, handled or stored.*

Another difference is the level of customer interaction. A manufacturing business like Knytin will have little to no interaction with the final consumer as consumption of its knitted garments occurs after production. Customers will purchase its knitted garments after they have gone through the production process. On the other hand, for a service business, there will be high levels of customer interaction as consumption usually occurs while the service is being produced. For example, there will be high levels of customer interaction when Commonwealth Bank produces its services (such as the provision of financial advice). This will often involve customers physically attending a bank, or interacting with an employee of the bank using a telephone.

Another difference is that manufactured goods tend to be homogenous. This means that Knytin's knitted garments are basically all the same for each customer purchasing a particular garment. In contrast, services tend to be differentiated – they are provided to individual customers and are modified to suit each customer. For example, the Commonwealth Bank offers a range of products, many of which can be tailored to suit an individual customer (such as providing two separate customers distinct financial advice).

Other accepted differences between the operations management within a manufacturing businesses and a service businesses: *production and consumption occur separately in manufacturing but occur simultaneously in service businesses, manufactured goods can be stored whereas services are not able to be stored.*

Question 4 (3 marks)

Describe how Knytin could use computer-aided manufacturing techniques to improve the efficiency and effectiveness of its operations.

Note 1: There must be some application to the Knytin case study for full marks.

Note 2: For full marks, a response should refer to how the strategy will address both efficiency and effectiveness

- 1 mark for demonstrating an understanding of computer-aided manufacturing techniques
- 1 mark for an explanation of how Knytin could use computer-aided manufacturing techniques to improve the efficiency of its operations
- 1 mark for an explanation of how Knytin could use computer-aided manufacturing techniques to improve the effectiveness of its operations

Sample Answer: *Computer-aided manufacturing (CAM) refers to software used to allow the manufacturing process to become computer-directed by controlling the process. CAM involves machinery or equipment being programmed by an operator and then performing the instructions with speed and precision. Doing so should reduce waste, increase production, and improve quality.*

Knytin should therefore find that the use of CAM techniques in its knitwear operations will improve efficiency (how well a business uses resources to achieve objectives). As the costs associated with waste and defects are reduced, efficiency should increase. As CAM reduces energy and resource consumption, minimises delays, and increases work productivity, efficiency should also improve. The use of CAM techniques will allow Knytin to use its resources more efficiently.

Using CAM techniques would also improve effectiveness (the degree to which a business accomplishes the objectives it set out to achieve). This is because the strategy eliminates waste, thereby reducing costs. As costs are reduced, the likelihood of Knytin making a profit increases. Furthermore, CAM can improve quality in the company's knitted products, which should lead to increased customer satisfaction over time, more sales and, subsequently, an improvement in profit. Given that one of Knytin's objectives is to make profit, if profits have increased as a consequence of implementing the CAM techniques (reducing costs or improving sales), then the strategy would be effective.

Question 5 (7 marks)

Explain forecasting and materials requirement planning as strategies to improve operations in relation to materials. Recommend and justify which strategy Knytin should adopt.

Note: There must be some application to the Knytin case study for full marks.

- 1 mark for demonstrating an understanding of forecasting
- 1 mark for further detail explaining forecasting
- 1 mark for demonstrating an understanding of materials requirement planning
- 1 mark for further detail explaining materials requirement planning
- 1 mark for recommending which strategy Knytin should adopt
- 2 marks for justifying why Knytin should adopt the selected strategy

Sample Answer: *Forecasting is a materials planning tool that relies on data from the past and present, as well as the analysis of trends to attempt to determine future events. By forecasting the quantity and timing of demand for its good or service, Knytin can estimate or predict what materials are needed, and in what quantities. It will also enable Knytin to forecast the costs of materials and transportation.*

Materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified order. It is a strategy that considers lead times required by suppliers, the exact number of inputs to complete the task, the amount of stock (inventory) on hand, and purchasing procedures (for example, bulk purchasing discounts offered by suppliers).

Knytin should adopt forecasting as it will enable it to ensure that it maintains an appropriate level of materials for its operations system without overproduction occurring (which would result in the business carrying too much inventory, representing a cost to the business). Materials and stock remaining idle are prone to theft, damage or spoilage, which may reduce efficiency. Furthermore, forecasting will allow Knytin to ensure that it has enough inventory for the operations to function – if there is not enough inventory, the business may struggle to produce its knitted garments. Under producing is likely to result in shortages of its products.

Question 6 (5 marks)

Evaluate the implementation of quality assurance at Knytin.

Note 1: There must be some application to the Knytin case study for full marks.

Note 2: Full marks cannot be awarded to a response that only addresses strengths/benefits or weaknesses/limitations. Both strengths/benefits and weaknesses/limitations must be discussed to achieve full marks.

Note 3: Students are not necessarily required to provide two benefits/strengths and two limitations/weaknesses of quality assurance in order to receive full marks. A sufficiently thorough and accurate evaluation of one benefit/strength and one limitation/weakness can be awarded full marks. Likewise, arguments for one side could be countered by two arguments supporting the other side.

Note 4: In the case of a student simply describing the features of quality assurance, one mark may be awarded.

- 2 marks for an explanation of benefits or strengths of quality assurance
- 2 marks for an explanation of limitations or weaknesses of quality assurance
- 1 mark for an overall conclusion or judgement based on the arguments related to the use of quality assurance at Knytin

Sample Answer: *Quality assurance is the use of a system for ensuring that a business achieves certified standards in production, assuring customers that the products of the business are fit for purpose. Knytin may decide to make use of an external organisation to audit the operations of the business against national and international standards. One example of this is the ISO 9000 set of international standards.*

Quality assurance would benefit Knytin by improving the efficiency and effectiveness of its operations. Because the use of quality assurance will allow Knytin to achieve set standards throughout the production process, it should prevent quality issues before they occur. As the costs associated with waste and defects are reduced, efficiency should increase – this should lead to the business becoming more competitive. In ensuring that set standards are achieved, the use of this strategy will assure Knytin's customers that its products are fit for purpose. This should lead to an improvement in customer satisfaction, and sales would be expected to increase. This will have a positive impact on effectiveness. Further, as costs are reduced, the likelihood of the business making a profit increases; in this way quality should also impact positively on the effectiveness of Knytin's operations.

However, introducing a quality assurance system can be expensive. There is also likely to be a heavy emphasis on documentation, making the process of implementation a time consuming one. Large contributions could possibly be required from those employees who are involved in introducing and maintaining the standards.

Overall, quality assurance would be appropriate for improving Knytin's operations. Despite the expense and time-consuming nature of the strategy, the use of quality assurance should lead to improved product quality and competitiveness. A reduction in defects should lead to a reduction in costs and waste, thereby contributing to an improvement in Knytin's efficiency and effectiveness.