

BUSINESS MANAGEMENT
UNITS 3&4
2020 Trial Examination

Reading time: 15 minutes

Writing time: 2 hours

SOLUTIONS

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EXTRA 2020 Business Management Units 3&4 Trial Exam: Solutions

Section A (50 marks)

Question 1 (11 marks)

a) *Suggested Solution:*

Porter's Generic Strategies can be used to help a business gain a competitive advantage. The lower cost strategy is where a business sets out to minimise production costs in order to compete against rivals on price. If Cathy can lower the production costs of her cleaning services, for example, by sourcing cheaper cleaning products, she could offer cheaper cleaning services compared to the new rival business, thereby attracting more price-sensitive customers. This would decrease expenses and increase revenue by generating more sales, thus increasing Cathy's profit.

The differentiation strategy involves making the product/service uniquely desirable and more appealing to customers. Cathy's Cleaners could apply this strategy to offer a unique service such as deep carpet cleaning, helping to attract customers who desire this unique service that rival businesses may not offer. This would enable Cathy to offer the unique cleaning service to customers who aren't price sensitive, allowing her to charge a higher price for a premium service, thus increasing revenue to increase profit.

6 marks

Marking guide:

- 2 marks for appropriately explaining each generic strategy
- 2 marks for linking each strategy to Cathy's Cleaners
- 2 marks for linking each strategy to increasing profit

b) *Suggested Solution:*

A partnership is where 2-20 partners own and operate a business; they are all subject to unlimited liability, meaning that they are all liable for the debts of the business. If Cathy were to expand Cathy's Cleaners into a partnership by including one or several new owners as partners, she would have access to more capital as there would be more owners available to contribute financial resources toward the business. This, for example, could provide the funds to purchase new equipment like the carpet cleaner. Having partners could also allow Cathy to grow her business and offer a wider range of cleaning services, such as deep carpet cleaning or window cleaning, as she could include partners with experience in different areas of cleaning; this would allow her to increase sales by accessing new customers who require these diversified services, increasing revenue and thus increasing profits.

3 marks

Marking guide:

- Partnership/private/public are acceptable answers; NOT sole trader, social enterprise or global business enterprise.
- 1 mark for defining an appropriate business structure
- 2 marks for appropriate justification for Cathy's Cleaners
- -1 mark if no link to case study

c) *Suggested solution:*

A sole trader is a business owned and operated by one person. The owner is subject to unlimited liability, meaning they are personally responsible for the debts of the business.

2 marks

Marking guide:

- Two marks can be awarded for a definition in a complete sentence (i.e. not just listing a feature of sole traders such as 'operated by one person').
- Providing a feature of sole traders can be awarded 1 mark.

Question 2 (6 marks)

Suggested solution:

One motivational strategy is performance related pay, which involves providing a financial reward to employees whose work has reached or exceeded a set standard. Using performance related pay would act to increase employee motivation, as they must work harder to achieve financial rewards or bonuses. Furthermore, this could concurrently increase corporate culture as employees feel recognized by the business for their achievements, fostering a positive working environment as employees are satisfied with their jobs.

However, performance related pay could also create a competitive culture within the business, encouraging employees to compete against one another rather than work together to achieve common goals. This could compromise a business' corporate culture as employees may become disenchanted and unhappy working in an environment where they must continually compete with their coworkers.

6 marks

Marking guide:

- 2 marks for briefly outlining a relevant motivational strategy
- 1 mark for explaining a benefit of the motivation strategy
- 1 mark for linking this benefit to a positive impact on corporate culture
- 1 mark for explaining a limitation of the motivation strategy
- 1 mark for linking this limitation to a negative impact on corporate culture

Question 3 (4 marks)

Suggested solution:

Business objectives are the desired goals that a business wishes to achieve within a set time period. Employees, who provide their labour in exchange for a fair wage or salary, are the greatest assets to a business; they are a vital part of initiating business growth, as they are the ones who will perform processes and strategies, and enact the business' production of their product or service. Amazon Prime recently launched in Australia, offering two-day delivery on all online purchases; this was done partly in an effort to increase market share—the percentage of control that Amazon has within the online retail industry compared to competitors—by becoming a more innovative business providing a higher quality service, therefore attracting more time-conscious and innovation-seeking customers. Managing employees was important in this process, as IT and warehouse employees would have required effective communication and training so that the website facilities could be updated and orders could be processed more efficiently, allowing Amazon to continue working to achieve increased market share.

4 marks

Marking guide:

- 1 mark for explaining the role of employees
- 1 mark for providing a business objective in a contemporary business case study
- 1 mark for linking the importance of managing employees to achieving a business objective
- 1 mark for explaining how managing employees helped achieve the business objective in the chosen business case study

Question 4 (7 marks)

a) *Suggested solution:*

Lewin's force field analysis is the process of identifying and analysing the forces that will drive and those that will resist a proposed change.

The first step in a force field analysis is to identify the driving forces which will push RH towards expanding, and the restraining forces which will hinder RH from expanding into Europe. Driving forces for RH may include pursuit of profit, as they will be able to access a larger customer base and increase revenue through increased sales; restraining forces may include financial considerations, as expanding the consulting services overseas could be expensive, requiring additional consultants and office space.

The second step is to rank the driving and restraining forces according to their weight, which for RH may include financial as well as time factors. The expansion is only likely to be successful if driving forces outweigh restraining forces.

Finally, if driving forces do outweigh restraining forces, Rebecca must implement strategies to support driving forces and overcome restraining forces, in order for RH's expansion into European to be successful. For example, she may develop a training program for new consultants to replicate the successful sales tactics of the Melbourne firm in another continent.

4 marks

Marking guide:

- 1 mark for outlining force field analysis theory
- 3 mark for explaining each step of force field analysis, linked to RH
- -1 mark if no link to case study

b) *Suggested solution:*

Communication involves the ability to transfer information from a sender to a receiver, and to listen to feedback. Rebecca would need to use communication when implementing the European expansion to ensure that all of her employees are aware of the changing situation and understand their roles in the expansion, so that they can continue working effectively to achieve business objectives and ensure that the expansion is successful.

The benefit of using effective communication is that Rebecca will be able to manage the growth in employees more effectively, as she may be required to confer with managers in Europe with different working cultures that will impact the delivery of consulting services. Communication skills will also enable Rebecca to listen to any feedback from employees along the way, ensuring she can adjust strategy accordingly and retain her quality staff.

3 marks

Marking guide:

- 1 mark for outlining one management skill
- 2 marks for appropriately justifying the skill to expanding the managing consulting firm
- -2 marks if justification is not feasible/ appropriate e.g. refers to motivating employees to produce a material good more efficiently (consulting is a service)

Question 5 (12 marks)

a) *Suggested solution:*

Alex is using an autocratic management style, which is where communication is one-way from the manager down, authority lies with the manager, all decisions are made solely by the manager and the level of employee involvement is low. It is evident that Alex is using an autocratic style as she is the one who has decided to outsource the customer complaints department, and there is no indication that employees had any say in this matter. While using an autocratic style may help Alex make further high-risk decisions in the future to keep the business performing optimally in times of crisis, it may negatively impact the business culture. For example, employee morale may be damaged by the loss of positive working relationships with the terminated customer complaints employees. Furthermore, employees may feel unsettled in their positions if they do not have a say in important decisions, negatively impacting performance.

3 marks

Marking guide:

- 1 mark for identifying management style as autocratic
- 2 marks for outline possible future impacts of an autocratic style on Alex Macaulay's business

b) *Suggested solution:*

Redundancy is a form of termination which occurs when an employee's job no longer exists, for example, as a result of technological change or poor financial performance. By deciding to outsource customer complaints, Alex has removed the positions of the five employees from the local office. A redundancy process could involve Alex ensuring that these employees have access to outplacement services, such as counselling or resume-writing assistance, to help make their transition into a new job elsewhere as smooth as possible.

3 marks

Marking guide:

- Marked globally, based on depth provided.
- Must explain one method of termination and apply to case study: redundancy (most appropriate), dismissal (if any employees are demonstrating poor performance or breach contract at the time) or retirement (could be negotiated with employees nearing retirement).

c) *Suggested solution:*

On the job training is training that is completed at the workplace, where new skills are acquired during the course of a normal work day as part of daily work activities.

One benefit of Alex using on the job training to train the new outsourced customer service department is that these employees would be able to gain an explicit understanding of the specific internet services which Alex's business is selling, allowing them to effectively help customers with their complaints.

However, on the job training would be time consuming and costly for Alex, as she would have to take time out of her usual daily roles to conduct the training through video conference, or send another experienced local

employee overseas to conduct the training. Video conferencing, however, may reduce the deliverance quality of the training, and hence the handling of internet service enquiries, which could further increase customer complaints and potentially damage the reputation of Alex's internet services.

4 marks

Marking guide:

- 1 mark outline a training strategy
- 1 mark for discussing a benefit of chosen strategy
- 1 mark for discussing a limitation of chosen strategy
- 1 mark for linking the benefit and limitation to the internet provider business

d) Suggested solution:

Alex could assess the success of training through the number of customer complaints, which is a key performance indicator (KPI) that measures the number of negative written comments made by purchasers of the internet service to indicate their dissatisfaction with the business' performance, or quality of the service. If the training of the new outsourced customer complaints department has been successful at improving their communication skills, then customers will be more able to rectify their issues with the help of the complaints handling service, reducing the need to call again in the future.

2 marks

Marking guide:

- 1 mark for describing a key performance indicator or performance management strategy
- 1 mark for applying chosen measure/ method of assessment to the case study

Question 6 (10 marks)

Suggested solution:

It is important that a business continually measures and evaluates the performance of both employees and the business to improve, but there can be drawbacks to frequent change.

Key Performance Indicators (KPIs), which are specific criteria used to measure the extent to which a business has achieved its objectives, can provide specific performance data on performance. Recently, Woolworths made the decision to abolish single-use plastic bags in its supermarkets, in order to increase its presence as a sustainable supermarket in Australia and increase its percentage of market share. One strength of using KPIs to evaluate performance is that they are specific, providing data that can be easily compared over periods of time, thus reflecting changes in performance. For example, Woolworths' marketing team may have been tasked with communicating the plastic changes on social media to make customers aware of the change. An increase in the percentage of market share could therefore reflect positive performance from the marketing team, suggesting that they had shown improvement. However, a weakness of using KPIs to evaluate performance is that mistakes or human error can be encountered during the process of recording data. As such, Woolworths management may introduce strategies to improve market share that may fail or increase costs, reducing the rate of improvement.

Senge's Learning Organisation poses that in situations of rapid change, only the businesses that are flexible, adaptable and productive will be successful. One principle of the Learning Organisation is building a shared vision, where leaders foster the ideas of others, facilitate opportunities for employee input and support genuine ownership of objectives, rather than imposing specific goals on different people. During their change, Woolworths established a long term vision for reducing plastic that included other measures, such as removing plastic packaging on fruits and vegetables. A strength of providing a shared vision is that any changes made by Woolworths could be understood by

employees, making them more likely to accept the efforts required to help the business improve. This is important as Woolworths sought to improve their plastic processes continuously. However, a weakness is that building a shared vision could have become costly for Woolworths, as the development of new policies and procedures requires time and money. Therefore, a business that updates its processes too frequently may not improve financially.

Communication is a low risk strategy that involves the ability to transfer information from a sender to a receiver, and to listen to feedback. A strength of communication is that if employee knowledge of the plastic related changes was continuously updated through conversations with management, then they would have been better able to service customer queries about the new procedures, and felt a greater sense of empowerment over their role in the change. The effectiveness of communication could have been measured through the number of customer complaints, with a reduction in complaints reflecting effective communication from the marketing team and frontline staff to customers of the benefits of the changes. However, a weakness is that increasing communication takes further time out of management to focus on other areas of the business; employee efficiency may also decrease during the change, as more time would have been used on meetings to produce less of an output such as customer service, therefore decreasing business performance.

Overall, although measuring and reporting employee performance can sometimes be ineffective, expensive and time consuming, it is usually an effective way to accelerate the rate of improvement of a business such as Woolworths during their abolition of plastics.

10 marks

Marking guide:

- Marked globally
- Strong responses will include references to the contemporary business example throughout.
- 'Evaluate' requires students to weigh up ways in which the statement is true and false (referring to strengths and weaknesses).
- An 'overall' statement should be applied to summarise the evaluation.
- Measures and reporting of performance must relate to employees. However, 'rate of improvement' in the statement can refer to either improving employee performance or business performance generally.

Section B (25 marks)

Question 1 (2 marks)

Suggested Solution:

Lean management is a process which involves eliminating waste by using employee input to identify and remove all activities and processes that do not add value to a product as it is being produced, optimising the use of the fewest possible resources.

2 marks

Marking guide:

- Two marks can be awarded for a definition in a complete sentence (i.e. not just listing a feature such as 'eliminating waste' or 'optimising available resources').
- Providing a feature of lean management can be awarded 1 mark.

Question 2 (4 marks)

Suggested Solution:

Inputs are the resources used in the production of the business' good or service. At Candlelit Dreams, inputs used in the production of their personalised candles which would include wax to make the candles, locally-sourced vanilla or lavender to produce the personalised scents, and employee labour to produce the candles.

Processes are the transformation of inputs into outputs. Candlelit Dreams' processes would include mixing the wax and scents to create the candles, and attaching labels to the candles.

Outputs are the final good or service delivered to the customer. The output of Candlelit Dreams is the finished, personalised candle ready to be delivered to the customer.

4 marks

Marking guide:

- 3 marks for explaining operations elements
- 1 mark for linking elements to Candlelit Dreams

Question 3 (8 marks)

a) *Suggested solution:*

One stakeholder is employees, who provide their labour in exchange for a fair wage or salary; they are responsible for producing the candles at Candlelit Dreams. Another stakeholder at Candlelit Dreams is the managers, who provide leadership, communication and control over the planning and direction of the business, such as Paul Rhyen. A major interest for employees at Candlelit Dreams is to be paid a fair and high wage or salary, whereas a major interest for managers such as Paul is to decrease expenses and increase revenue to maximise profit. This could cause conflict because in order to maintain relatively low expenses, Paul may not be able to raise his employees' wages to a level they are satisfied with.

4 marks

Marking guide:

- 2 marks for describing two stakeholders; students should identify the role of these stakeholders for CandleLit Dreams
- 2 marks for outlining the competing interests of the two stakeholders

b) *Suggested solution:*

Paul must ensure that in his effort to speed up production and decrease the business' unfavourable projected increase to a 15% level of wastage by 2021, he does not compromise the business's social responsibility with dangerous production methods that can negatively impact the environment. This is important considering the customer expectations from the social media campaign. By pursuing a socially responsible business strategy and gaining an improved business reputation in the eyes of the community, Paul may benefit from increased sales. Equally however, it may be expensive to implement these measures, so the impact on management's net profit objectives may be unclear.

This could also impact employees because in order to harbour the cost of socially responsible production, Paul may have to decrease their wages or make some jobs redundant, which conflicts with employees' interests to maintain a high wage. Employees may also have to be trained to adopt new social responsibility strategies and

production methods, which benefits them for helping them acquire new skills, and possibly increasing their motivation and future job prospects.

4 marks

Marking guide:

- 2 marks for the impact on first stakeholder
- 2 marks for the impact on second stakeholder

Question 4 (6 marks)

Suggested solution:

An automated production line involves equipment and machinery arranged in a sequence and controlled by computers to perform tasks mechanically.

Efficiency is a measure of using minimal inputs to produce maximum output—by reducing production costs. Paul could use an automated production line to improve efficiency, as it would mean less human labour is required for the manufacturing of the candles. Consequently, Paul could reduce his expenses related to employee wages and re-invest this money elsewhere (such as in waste reduction techniques like quality assurance or control), further increasing efficiency as more candles are produced using less financial and physical resources. However, an automated production line could be expensive to install and maintain, which could decrease Paul's efficiency if a greater amount of financial input is used to implement the technology.

Effectiveness is a measure of how well a business is able to reach its objectives, and is achieved by Paul when the production of his candles meets his customers' needs. An automated production line could improve Paul's effectiveness as the use of automation improves the precision of production by reducing human error and variation; this would result in candles that have a more consistent length of wick, candle size and wax quality, thus more effectively meeting customers expectations of high quality candles. However, if the automated production line were to malfunction or break down, it could damage the quality of many candles; this could decrease effectiveness compared to production by hand, meaning that he would not be able to meet the "increasing customer demand" for his personalised candles. As a result, if customers are not receiving their orders online on time, this could also damage Candlelit Dreams' reputation.

6 marks

Marking guide:

- 1 mark for outlining a technological development strategy (Not applicable are Automated Production Line, Computer Aided Manufacturing; could NOT use website development if arguing that CandlelitDreams should establish a website (they already have one); Computer Aided Design is also less applicable)
- 1 mark for defining efficiency and effectiveness
- 1 mark for how efficiency could be improved (e.g. decreased need for human labour = less wage costs)
- 1 mark for how efficiency could be limited (e.g. expensive to install/maintain = more money spent)
- 1 mark for how effectiveness could be improved (e.g. less human error = increased quality; will allow their productivity to keep growing)
- 1 mark for how effectiveness could be limited (e.g. mechanical issues = damaged stock; orders will not be met on time)
- Maximum score of 3 with no reference to Candlelit Dreams

Question 5 (5 marks)

Suggested solution:

Locke and Latham's goal-setting theory is the process of developing, negotiating & formalising the objectives that a person is responsible for accomplishing. Paul must ensure that goals set are clear and challenging; he must also encourage commitment by employees towards their goals, and give them appropriate and continuous feedback.

The benefit for Paul is that he will be able to ensure that his employees know exactly what they are doing, giving them clear instructions specifically tailored to their roles. For example, he may set the operations team a goal of increasing production by 5% per month, improving their motivation as they will have targets to work towards achieving. Additionally, if the goals set are challenging enough, Paul's employees will be more motivated as they will have to work hard to achieve the goals; for example, Paul may also set specific goals for each of his employees related to minimising Candlelit Dreams' wastage of production materials such as candle scents or wax, which adds a further challenge to their everyday roles, motivating them to work harder than usual to help minimise waste and achieve their goals.

5 marks

Marking guide:

- 2 marks for detailed description of Locke and Latham's goal setting theory.
- 2 marks for justification of reasons why motivation would be improved (e.g. increased communication through goal-setting fosters a positive working culture)
- 1 mark for appropriate link to case study
- Maximum score of 3 with no reference to Candlelit Dreams